

Company Registration No. 02533968

**SMITH INTERNATIONAL (NORTH SEA)
LIMITED**

Report and Financial Statements

31 December 2012

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SMITH INTERNATIONAL (NORTH SEA) LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

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SMITH INTERNATIONAL (NORTH SEA) LIMITED

REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R J Bruce
L R Barr
G Johnston

SECRETARY

P Droy

REGISTERED OFFICE

Schlumberger Oilfield UK Plc
Victory House
Churchill Court
Manor Royal
Crawley
West Sussex
RH10 9LU

BANKERS

Royal Bank of Scotland plc
Corporate & Commercial Banking
1 Albyn Place
Aberdeen
AB10 1BR

SOLICITORS

Pinsent Masons LLP
13 Queens Road
Aberdeen
AB15 4YL

INDEPENDENT AUDITOR

Deloitte LLP
Aberdeen

SMITH INTERNATIONAL (NORTH SEA) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

The principal activity of the Company continues to be the provision of specialised services and the sale, rental, repair and testing of equipment in connection with drilling, exploration and development work for the oil and gas industry

In the year, the Company continued to operate branches in Kazakhstan and South Africa. The Company has ceased the activities of its Angolan branch which was not a material component of operations

Review of the business

The results of the Company are shown on page 6. The results show a profit on ordinary activities after taxation during the year of £2 million (2011: £1.6 million), which has been transferred to reserves

The Company considers turnover and gross profit percentage to be key indicators of financial performance

Turnover increased to £78.2 million (2011: £60.5 million) year on year. The increase reflects higher activity in the UK and in overseas branches. A particular feature has been an increase in trading with other Schlumberger entities as the broader activities of Smith International are integrated

The gross profit decreased to 22.6% (2011: 26.5%) due to changes in the mix of products in addition to an increase in the level of intercompany trading

The Company's net assets increased to £43.5 million (2011: £41.8 million)

The directors remain confident of the prospects for the company, and of its ability to compete effectively

Dividends

No dividends were paid or proposed during 2012 (2011: nil)

Principal risks and uncertainties

The principal risks and uncertainties are considered to be consistent and integrated with those of the Schlumberger Limited group and are not managed separately. The principal risks and uncertainties of the Schlumberger Limited group, which include those of the Company, are disclosed in the consolidated financial statements of Schlumberger Limited (the ultimate parent company)

Going concern

Intra group funding and a bank overdraft facility are available to fund working capital for ongoing operations and future developments. Having considered the prospects for the Company, the directors are confident that it has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found at Note 1 to the financial statements

Financial risk management

The Company's activities expose it primarily to the financial risks of change in foreign currency exchange rates. This risk is managed and hedged at a group level

The Company is exposed to credit risk regarding its trade receivables balances. There is no undue concentration of credit risk across the customer base. The Company monitors customer credit levels and the ageing of receivables on an ongoing basis

Policy for quality, health, safety and environment

It is the Company's policy to ensure that quality, health, safety and environmental considerations are a top priority for management and employees. Prevention of accidental risk and loss from process failure is an integral part of the Company's continuous improvement culture

SMITH INTERNATIONAL (NORTH SEA) LIMITED

DIRECTORS' REPORT (continued)

Policy for employment of disabled persons

It is the Company's policy to give full and fair consideration to suitable applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be trained for other positions in the Company.

Employee participation

Employees are regularly provided with information on matters of concern to them as employees of the Schlumberger group. They are further encouraged to be involved in performance by being eligible to purchase stock of the ultimate parent company, Schlumberger Limited, at a discounted rate through a savings scheme.

The Company endeavours to achieve a common awareness of all employees in relation to the financial and economic factors that affect the performance of the Company and the broader Schlumberger group.

Qualifying third-party indemnity provisions

The Company maintains liability insurance for its directors and officers. The Company also provides an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Supplier statement policy

Company policy is to agree payment terms with suppliers when establishing the terms of each transaction and to abide by these agreements. The Company's trade creditors at 31 December 2012 were equivalent to 26 (2011: 31) days' purchases, based on the count back method.

Share based payments

Details of the Schlumberger Limited Group Discounted Stock Purchase Plan ("DSPP") and the Share Option Schemes can be found in note 9 to these financial statements.

Political contributions and charitable donations

No political contributions or charitable donations were made during the year (2011: nil).

Directors

The present membership of the board is set out on page 1. The directors who served during the year and to the date of this report were:

L R Barr

R J Bruce

G Johnston (appointed 1 September 2012)

E G Hendry (resigned 1 September 2012)

Auditor

Each of the persons who are a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office and appropriate arrangements have been put in place for them to be deemed re-appointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

L R Barr
Director

26 November 2013

SMITH INTERNATIONAL (NORTH SEA) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 AUDITOR'S REPORT TO THE MEMBERS OF SMITH INTERNATIONAL (NORTH SEA) LIMITED

We have audited the financial statements of Smith International (North Sea) Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Basis of audit opinion

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Graeme Sheils CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
26 November 2013

SMITH INTERNATIONAL (NORTH SEA) LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
TURNOVER	2	78,159	60,486
Cost of sales		(60,484)	(44,466)
GROSS PROFIT		17,675	16,020
Operating expenses – recurring expenses	3	(13,641)	(12,335)
- exceptional income/(expense)	3	545	(2,544)
Total operating expenses		(13,096)	(14,879)
OPERATING PROFIT	5	4,579	1,141
Gain on sale of tangible fixed assets		196	678
Income from share in subsidiary undertakings		419	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		5,194	1,819
Interest receivable	6	4	3
Interest payable	7	(14)	(19)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,184	1,803
Tax on profit on ordinary activities	8	(3,113)	(181)
PROFIT FOR THE FINANCIAL YEAR	18	2,071	1,622

All of the results for the current and prior year relate to continuing operations

SMITH INTERNATIONAL (NORTH SEA) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2012

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year	18	2,071	1,622
(Loss)/gain on foreign currency translation of branches		(330)	19
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		1,741	1,641


SMITH INTERNATIONAL (NORTH SEA) LIMITED

BALANCE SHEET As at 31 December 2012

	Note	2012 £'000	2011 £'000
FIXED ASSETS			
Tangible assets	10	16,855	10,815
Investments	11	5,313	5,359
		<u>22,168</u>	<u>16,174</u>
CURRENT ASSETS			
Stocks	12	22,995	19,514
Debtors	13	45,334	40,077
Cash at bank in hand		5,512	4,228
		<u>73,841</u>	<u>63,819</u>
CREDITORS: amounts falling due within one year	14	(51,978)	(36,823)
NET CURRENT ASSETS		<u>21,863</u>	<u>26,996</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		44,031	43,170
CREDITORS: amounts falling due after more than one year	15	-	(318)
PROVISIONS FOR LIABILITIES	16	(495)	(1,057)
NET ASSETS		<u>43,536</u>	<u>41,795</u>
CAPITAL AND RESERVES			
Called up share capital	17	1,251	1,251
Capital reserve	18	900	900
Capital contribution	18	7,199	7,199
Share premium	18	5,612	5,612
Profit and loss account	18	28,574	26,833
SHAREHOLDER'S FUNDS	19	<u>43,536</u>	<u>41,795</u>

These financial statements of Smith International (North Sea) Limited, registered number 02533968 were approved by the Board of Directors on 26 November 2013

Signed on behalf of the Board of Directors



L R Barr
Director

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies adopted are described below. These have been applied consistently throughout the current and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

Under the provisions of section 400(1)a of the Companies Act 2006 and in accordance with paragraphs 21b and 21c of Financial Reporting Standard 2, the company is exempt from preparing consolidated financial statements by virtue of the fact that it is a wholly owned subsidiary undertaking of Schlumberger Limited, (note 23) who prepare consolidated financial statements that are publicly available. The financial statements therefore present information about the company as an individual undertaking and not as a group.

Going Concern

The financial statements are prepared on a going concern basis.

The financial position of the company at 31 December 2012 is set out in the balance sheet on page 8. The company meets its day-to-day working capital requirements through expected positive cash flows on its own account. When required, the company also has access to financial resources provided through group funding arrangements and bank overdraft facility. Having considered the company's financial position and future trading prospects, the directors have a reasonable expectation that the company has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 to dispense with the requirement to include a cash flow statement in its financial statements, as its financial statements are incorporated into those of Schlumberger Limited, which are publicly available (note 23).

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follows:

Plant and machinery	Over 3-10 years
Leasehold buildings	Over a period not exceeding the lease term
Rental tools	Over 3-8 years

Investments

Fixed asset investments are shown at cost, less amounts written off and any provision for impairment.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials and consumables	Purchase cost on a first-in, first-out basis
Work in progress and finished goods	Cost of direct materials and labour plus a proportion of manufacturing overheads based on normal level of activity

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax 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 tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Share-based payment

The company's ultimate parent company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest and adjusted for the non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised on acquisition and depreciated over the shorter of the lease term and their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension costs

The company operates a defined contribution scheme. Contributions to the scheme are charged to the profit and loss account when payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of opening net assets and the results of operations are reported in the statement of total recognised gains and losses.

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

Research and development

Research and development expenditure is written off to the profit and loss account as incurred

2. TURNOVER

Turnover represents the value of goods and services provided in the normal course of business, net of trade discounts, VAT and other related services. Turnover is recognised on the supply of particular goods or service. Turnover relating to rental tools is recognised over the hire period.

Further analysis of turnover and profit before taxation has been omitted on the grounds that disclosure of such information could be prejudicial to the commercial interests of the company.

3. OTHER OPERATING EXPENSES

	2012 £'000	2011 £'000
Administrative expenses	2,782	6,552
Selling and marketing expenses	7,080	7,879
Other operating expenses	3,234	448
	<u>13,096</u>	<u>14,879</u>

Operating expenses include exceptional income of £545,000 (2011: exceptional cost of £2,544,000). The exceptional income relates to a reduction in an estimated provision against certain overseas receivables, that was recognised as an exceptional cost in 2011.

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £'000	2011 £'000
Staff costs during the year (including directors)		
Wages and salaries	18,481	15,501
Social security costs	2,343	2,170
Pension costs (note 20)	809	880
	<u>21,633</u>	<u>18,551</u>

The average monthly number of persons (including directors) employed during the year was as follows:

	2012 Number	2011 Number
Production	247	214
Administration and management	93	99
	<u>340</u>	<u>313</u>

Directors' remuneration:

The employee costs shown above include the following remuneration in respect of directors of the company:

	2012 £'000	2011 £'000
Emoluments	489	643
Company contributions to money purchase schemes	27	22
	<u>516</u>	<u>665</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

Directors' remuneration (continued)

3 directors (2011: 3) accrued retirement benefits in respect of money purchase schemes during the year

Highest paid director

Directors' remuneration includes the following in respect of the highest paid director

	2012 £'000	2011 £'000
Emoluments	195	345
Company contributions to money purchase schemes	10	12
	<u>205</u>	<u>357</u>

5. OPERATING PROFIT

	2012 £'000	2011 £'000
Operating profit is stated after charging:		
Depreciation		
Owned assets	4 165	2 332
Finance leases	-	9
Research and development	29	32
Operating lease payments		
Plant and machinery	90	90
Other	1,632	1,615
Auditor's remuneration	110	110
Loss on foreign currency translation	601	110
	<u> </u>	<u> </u>

6. INTEREST RECEIVABLE

	2012 £'000	2011 £'000
Bank interest receivable	<u>4</u>	<u>3</u>

7. INTEREST PAYABLE

	2012 £'000	2011 £'000
Bank interest	<u>14</u>	<u>19</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
Current tax		
UK corporation tax	1,157	626
Foreign tax	1,378	639
Foreign tax credit relief	(492)	(528)
	<u>2,043</u>	<u>737</u>
Adjustment in respect of prior years		
- UK corporation tax	352	(307)
- Foreign tax	718	(249)
	<u>3,113</u>	<u>181</u>
Total current tax		
Deferred tax		
- Origination and reversal of timing differences	-	-
- Adjustment in respect of prior years	-	-
	<u>3 113</u>	<u>181</u>
Tax on profit on ordinary activities		

The standard rate of current tax for the year based on the UK standard rate of corporation tax was 24.5% (2011: 26.5%). The actual rate for the current year and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	<u>5 184</u>	<u>1,803</u>
Tax on profit on ordinary activities at standard rate of 24.5% (2011: 26.5%)	1,270	478
Factors affecting charge for the period		
Capital allowances in excess of depreciation	169	(105)
Expenses not deductible for tax purposes	(208)	104
Other timing differences	(148)	104
Share options	-	(78)
Effect of gains	74	91
Unrelieved foreign taxes	886	111
Adjustment in respect of prior years	1 070	(556)
Rate differences	-	32
	<u>3 113</u>	<u>181</u>

A deferred tax asset of £158,000 (2011: £444,000) has not been recognised due to the uncertainty of this asset reversing in the short term future.

The UK Government announced on 21 March 2012 that the main rate of corporation tax would reduce to 24% from 1 April 2012 and on 5 December 2012 announced it will reduce to 21% from 1 April 2014 but this rate has not yet been enacted. These rate changes will affect the size of the deferred tax assets and liabilities (recognised or unrecognised) in the future.

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

9. SHARE-BASED PAYMENTS

Schlumberger Limited, the ultimate parent company, operates employee share schemes including stock options and discounted stock purchase plan. There were no other share-based transactions during the year. The company recognised an expense of £136,000 (2011: £227,000) relating to equity-settled share based payment transactions in the year.

Stock options

Key employees are granted stock options under Schlumberger stock option plans. For all of the stock options granted, the exercise price equals the average of the high and low sales prices of Schlumberger stock on the date of grant, an option's maximum term is ten years and options generally vest in increments over four or five years.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions and resulting weighted-average fair value per share:

	2012	2011
Expected option life in years	3.8	5
Weighted-average fair value per share	£52.33	£50.64

The following table summarises information concerning options outstanding exercisable by five ranges of exercise prices as of December 31, 2012.

Exercise prices range	Options outstanding			(Shares stated in thousands)	
	Options Outstanding	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Options exercisable	Weighted-average exercise price
\$67.655 - \$90.065	22,554	3.8	£52.33	22,554	£52.33
	22,554	3.8	£52.33	22,554	£52.33

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

9 SHARE-BASED PAYMENTS (CONTINUED)

The weighted average remaining contractual life of stock options exercisable as of December 31, 2012 was 3.8 years. The following table summarises stock option activity during the year ended December 31, 2012.

	2012		2011	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
At beginning of year	6,250	£50.64	-	-
Granted	17,000	£52.99	6,250	£50.64
Forfeited	(696)	£53.05	-	-
Outstanding at year end	22,554	£52.33	6,250	£50.64

Discounted Stock Purchase Plan

Under the terms of the DSPP, employees can choose to have a portion of their earnings withheld, subject to certain restrictions, to purchase Schlumberger common stock. The purchase price of the stock is 92.5% of the lower of the stock price at the beginning or end of the plan period at six-month intervals.

The fair value of the employees' purchase rights under the DSPP was estimated using the Black-Scholes model with the following assumptions and resulting weighted average fair value per share:

	2012	2011
Dividend yield	1.6%	1.2%
Expected volatility	41%	28%
Risk free interest rate	0.2%	0.2%
Weighted-average fair value per share	£5.07	£8.10

Total Stock-based Compensation Expense

The following summarises stock-based compensation expense recognised in employee costs:

	2012 £'000	2011 £'000
Stock options	127	9
DSPP	247	128
	<u>374</u>	<u>227</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

10. TANGIBLE FIXED ASSETS

	Leasehold buildings £'000	Plant and machinery £'000	Rental tools £'000	Total £'000
Cost				
At 1 January 2012	1,748	4 681	16,501	22,930
Additions	-	667	11,936	12,603
Disposals	(1)	(331)	(3,655)	(3,987)
Exchange movement	-	(37)	(162)	(199)
At 31 December 2012	1,747	4,980	24,620	31,347
Accumulated depreciation				
At 1 January 2012	1,004	2,872	8 239	12 115
Charge for the year	76	550	3,539	4,165
Disposals	(1)	(209)	(1,467)	(1,677)
Exchange movement	-	(52)	(59)	(111)
At 31 December 2012	1,079	3,161	10,252	14,492
Net book value				
At 31 December 2012	668	1,819	14 368	16 855
At 31 December 2011	744	1,809	8,262	10,815

11. INVESTMENTS

	Shares in subsidiary undertaking £000	Associates £000	Other investment £000	Joint venture undertakings £000	Total £000
Cost					
At 1 January 2012	4	42	633	4,680	5,359
Disposals	(4)	-	-	-	(4)
Impairment	-	(42)	-	-	(42)
Net book value					
As at 31 December 2012	-	-	633	4,680	5 313
As at 31 December 2011	4	42	633	4,680	5,359

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

11 INVESTMENTS (CONTINUED)

The company holds investments in the following undertakings

	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Holding</i>	<i>%</i>
Associates				
Neyfor UAE LLC	Dubai	Oil & gas services	Ordinary shares	49%
Other				
S I Nederland BV	Netherlands	Oil & gas services	Preferred class A shares	11%
Joint venture undertakings				
Smith International Manufacturing Limited	Dubai	Oil & gas services	Ordinary shares	49%

The Red Baron (Oil Tools Rentals) Norge AS, a 100% subsidiary was dissolved in October 2012

The Investment in Neyfor UAE LLC has been impaired during the year as the company is being wound down

12. STOCKS

	2012 £'000	2011 £'000
Raw materials	1,396	3,422
Work-in-progress	1 802	1 415
Finished goods	19 797	14,677
	<u>22,995</u>	<u>19,514</u>

13 DEBTORS

	2012 £'000	2011 £'000
Trade debtors	6,722	5,999
Amounts owed by group undertakings	32,584	30,293
Other debtors	5,593	2 381
Prepayments and accrued income	435	598
Corporation tax	-	806
	<u>45,334</u>	<u>40,077</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'000	2011 £'000
Bank loans and overdrafts	-	358
Trade creditors	3,441	3,458
Amounts owed to group undertakings	40,263	27,243
Other taxes and social security	1,126	929
Corporation tax	1,548	-
Accruals and deferred income	4,249	4,396
Foreign taxes	1,298	202
Other creditors	53	237
	<u>51,978</u>	<u>36,823</u>

15 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £'000	2011 £'000
Amounts owed to group undertakings	<u>-</u>	<u>318</u>

16. PROVISIONS FOR LIABILITIES AND CHARGES

Dilapidation cost

	Dilapidation cost £'000
At 1 January 2012	1,057
Decrease in provision	<u>(562)</u>
At 31 December 2012	<u>495</u>

A dilapidation provision is recognised for future obligations relating to the maintenance of leasehold properties and is expected to crystallise in more than five years

17. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Called up, allotted and fully paid 1,250,843 ordinary shares of £1 each	<u>1,251</u>	<u>1,251</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

18. RESERVES

	Capital reserve £'000	Capital contribution reserve £'000	Share Premium account / reserve £'000	Profit & loss account £'000	Total £'000
At 1 January 2012	900	7 199	5,612	26,833	40,544
Profit for the year	-	-	-	2,071	2,071
Other recognised losses	-	-	-	(330)	(330)
At 31 December 2012	<u>900</u>	<u>7 199</u>	<u>5,612</u>	<u>28,574</u>	<u>42,285</u>

The capital contribution is non distributable

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2012 £'000	2011 £'000
Profit for the financial year	2 071	1,622
Other recognised (losses)/gains relating to the year	(330)	19
Net addition to shareholder's funds	<u>1,741</u>	<u>1,641</u>
Opening shareholder's funds	<u>41 795</u>	<u>40,154</u>
Closing shareholder's funds	<u>43 536</u>	<u>41,795</u>

20 FINANCIAL COMMITMENTS

Pension commitments

The company contributes to a defined contribution pension scheme

The total pension cost which is charged against profits represents contributions payable by the company in the year and amounted to £809,000 (2011 £880,000) At 31 December 2012 contributions of £93,000 (2010 £89,000) were outstanding

Lease commitments

The minimum commitment falling due in the next twelve months, under non cancellable operating leases are as follows

	2012		2011	
	Land & buildings £'000	Plant & machinery £'000	Land & buildings £'000	Plant & machinery £'000
Expiry date.				
- within one year	-	32	-	33
- within 2-5 years	-	34	88	44
- after 5 years	1 286	-	1,203	-
	<u>1,286</u>	<u>66</u>	<u>1 291</u>	<u>77</u>

SMITH INTERNATIONAL (NORTH SEA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

21. CONTINGENT LIABILITIES

The company provides performance guarantees to third parties in the normal course of business. At 31 December 2012 no guarantees were outstanding (2011 nil).

22. RELATED PARTY TRANSACTIONS

The company is exempt from the requirement of FRS8 to include details of transactions with other group companies which are wholly owned within the group. There are no other related party transactions.

23. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is The Red Baron (Oil Tools Rental) Limited, a company registered in the United Kingdom.

The ultimate parent undertaking is Schlumberger Limited, a company incorporated in Curacao and whose share capital is listed on the NYSE.

The smallest and largest group in which the results of the company are consolidated is that headed by Schlumberger Limited. Copies of the group accounts may be obtained from Schlumberger Limited, 55 San Felipe Houston Texas 77056 USA.