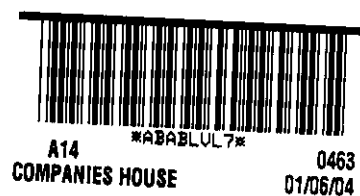


Hydra Rig UK Limited

Report and Financial Statements

31 December 2003

 ERNST & YOUNG



Hydra Rig UK Limited

Registered No: 2756750

Directors

T D Boyle
R J Millett
P J Stuart

Secretary and Solicitors

Paull & Williamsons
Investment House
6 Union Row
Aberdeen
AB10 1DQ

Auditors

Ernst & Young LLP
50 Huntly Street
Aberdeen
AB10 1ZN

Registered Office

Dewey Ballantine
1 Undershaft
London
EC3A 8LP

 **ERNST & YOUNG**

Directors' report

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

Results and dividends

The profit for the financial year, after tax, amounted to £Nil (2002 - £120,658).

Principal activity

The company did not trade during the year.

Directors and their interests

The directors as at 31 December 2003 were as follows:

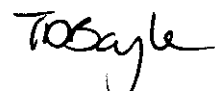
T D Boyle
R J Millett
P J Stuart

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

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



Tom Boyle
Director

30 April 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 Hydra Rig UK Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 8. 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 in Respect of the Financial Statements the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

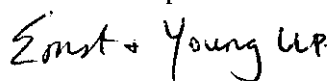
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Aberdeen

30 April 2004

Profit and loss account

for the year ended 31 December 2003

	<i>Notes</i>	<i>2003</i> £	<i>2002</i> £
Turnover	2	-	1,347,363
Cost of sales		-	1,098,008
Gross profit		-	249,355
Administrative expenses		-	74,531
Operating profit	3	-	174,824
Tax on profit on ordinary activities	5	-	54,166
Profit for the financial year		-	120,658
Dividend paid		-	1,286,534
Loss retained for the financial year	7	-	(1,165,876)

There are no recognised gains and losses other than the profit attributable to shareholders of the company of £Nil for the year ended 31 December 2003 and the loss of £120,658 for the year ended 31 December 2002.

Balance sheet

at 31 December 2003

	Notes	2003 £	2002 £
Current assets			
Debtors – amounts owed by group undertakings		112	112
Capital and reserves			
Called up share capital	7	96	96
Capital redemption reserve	7	16	16
Shareholders' funds	7	112	112

Tom Boyle

Tom Boyle
Director

30 April 2004

Notes to the financial statements

at 31 December 2003

1. Accounting policies

Basis of preparation

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

Operating leases

Leasing charges in respect of operating leases are recognised in the profit and loss account over the lives of the lease agreements as incurred.

Foreign currency

Transactions expressed in foreign currencies are translated into sterling and recorded at rates of exchange ruling at the date of the transactions.

Monetary assets and liabilities are translated at rates ruling at the balance sheet date.

Exchange differences are included in operating profit.

2. Turnover

Turnover represents sales less value added tax. An analysis of turnover by market is given below:

	2003	2002
	£	£
United Kingdom	-	745,827
Rest of Europe	-	94,276
USA/Canada	-	162,219
Asia	-	206,200
Africa/Middle East	-	138,841
	-	1,347,363

3. Operating profit

This is stated after charging:

	2003	2002
	£	£
Depreciation of owned fixed assets	-	3,143
Operating lease payments – land and buildings	-	28,953
Pension costs	-	12,263
Exchange loss	-	2,135

Notes to the financial statements

at 31 December 2003

4. Staff costs

	2003	2002
	£	£
Wages and salaries	-	219,346
Social security costs	-	24,369
Other pension costs	-	12,263
	<u>-</u>	<u>255,978</u>

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

	2003	2002
	No.	No.
Administration	-	5
Manufacturing	-	32
	<u>-</u>	<u>37</u>

5. Tax on profit on ordinary activities

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows:

	2003	2002
	£	£
UK corporation tax	-	54,166

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are reconciled below:

	2003	2002
	£	£
Profit on ordinary activities before tax	-	174,824
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	-	52,447
Effect of:		
Expenses not deductible for tax purposes	-	136
Movement on unprovided deferred taxation asset	-	1,583
	<u>-</u>	<u>54,166</u>

Notes to the financial statements

at 31 December 2003

6. Called up share capital

	<i>Authorised</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Ordinary "A" shares of £0.01 each	100	100
Ordinary "B" shares of £0.01 each	900	900
	<u>1,000</u>	<u>1,000</u>

	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>No.</i>	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary "A" shares of £0.01 each allocated, Called up and fully paid (voting rights)	4,800	4,800	48	48
Ordinary "B" shares of £0.01 each allocated Called up and fully paid (no voting rights)	4,800	4,800	48	48
	<u>9,600</u>	<u>9,600</u>	<u>96</u>	<u>96</u>

7. Reconciliation of shareholders' funds and movements reserves

	<i>Share capital</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders funds</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
At 1 January 2002	96	16	1,165,876	1,165,988
Profit for the year	-	-	120,658	120,658
Dividend	-	-	(1,286,534)	(1,286,534)
At 31 December 2002 and 31 December 2003	<u>96</u>	<u>16</u>	<u>-</u>	<u>112</u>

8. 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 Acquisitions 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 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.