

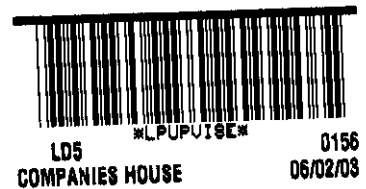
2756750

HYDRA RIG UK LIMITED

Report and Accounts

31 December 2001

 ERNST & YOUNG



Hydra Rig UK Limited

Registered No. 2756750

DIRECTORS

P J Stuart
R J Millett
T D Boyle

SECRETARIES

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

AUDITORS

Ernst & Young LLP
50 Huntly Street
Aberdeen
AB10 1ZN

BANKERS

Barclays Bank Plc
1 Rubislaw Terrace
Aberdeen
AB10 1BE

SOLICITORS

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

REGISTERED OFFICE

5A Furze Hill
Purley
Surrey
CR8 3LB

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2001.

RESULTS AND DIVIDENDS

The profit for the financial year after tax amounted to £458,379 (2000 - £285,991).

PRINCIPAL ACTIVITY

The principal activity of the company is the sale of goods and supply of services to the petrochemical industry.

DIRECTORS AND THEIR INTERESTS

The directors as at 31 December 2001 were as follows:

P J Stuart
R J Millett
T D Boyle

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

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

6 February 2003

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 period. 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; and
- 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
HYDRA RIG UK LIMITED**

We have audited the company's financial statements for the year ended 31 December 2001 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 18. 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HYDRA RIG UK LIMITED (continued)**

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 2001 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

6 February 2003

Hydra Rig UK Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2001

	Notes	2001 £	2000 £
TURNOVER	2	4,249,128	3,437,326
Cost of sales		(3,264,400)	(2,723,095)
GROSS PROFIT		984,728	714,231
Administrative expenses		(318,286)	(301,414)
OPERATING PROFIT	3	666,442	412,817
Interest receivable	5	-	14
Interest payable and similar charges	6	-	(3)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		666,442	412,828
Tax charge on profit on ordinary activities	7	(208,063)	(126,837)
PROFIT RETAINED FOR THE FINANCIAL YEAR	14	458,379	285,991

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2001

There are no recognised gains or losses for the year other than the profit of £458,379 for the year ended 31 December 2001 (2000 – profit £285,991).

Hydra Rig UK Limited

BALANCE SHEET

at 31 December 2001

	Notes	2001 £	2000 £
FIXED ASSETS			
Tangible assets	8	72,913	36,210
CURRENT ASSETS			
Stocks	9	826,807	724,427
Debtors	10	1,670,563	1,459,997
Cash at bank and in hand		313,897	269
		2,811,267	2,184,693
CREDITORS: amounts falling due within one year	11	(1,718,192)	(1,513,294)
NET CURRENT ASSETS		1,093,075	671,399
TOTAL ASSETS LESS CURRENT LIABILITIES		1,165,988	707,609
CAPITAL AND RESERVES			
Called up share capital	13	96	96
Capital redemption reserve	14	16	16
Profit and loss account	14	1,165,876	707,497
TOTAL SHAREHOLDERS' FUNDS		1,165,988	707,609

Tom Boyle

Tom Boyle
Director

6 February 2003

NOTES TO THE ACCOUNTS

at 31 December 2001

1. ACCOUNTING POLICIES

Accounting convention

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

Cash flow statement

The company has taken advantage of exemptions available within FRS 1 and has not produced a cash flow statement on the grounds that the ultimate parent consolidated financial statements are publicly available.

Depreciation

Tangible fixed assets are written off over their estimated useful lives on a straight line basis at the following annual rates:

Office equipment	20%
Plant and machinery	25%

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis and includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price allowing for all further costs of completion and disposal.

Deferred Taxation

Provision is made for deferred tax using the liability method to the extent that it is probable that a liability will crystallise.

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.

Pension Contributions

The company operates a defined contribution pension scheme. Costs are charged to the profit and loss account as incurred.

2. TURNOVER

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

	2001 £	2000 £
United Kingdom	1,939,203	971,674
Rest of Europe	565,838	514,525
USA/Canada	1,279,411	1,331,413
Asia	103,228	170,524
South America	18,465	-
Africa/Middle East	342,983	449,190
	<u>4,249,128</u>	<u>3,437,326</u>

Hydra Rig UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

3. OPERATING PROFIT

This is stated after charging/(crediting):

	2001	2000
	£	£
Depreciation of owned fixed assets	15,568	15,704
Auditors remuneration – audit fee	6,000	5,000
Operating lease payments – land and buildings	43,212	43,212
Pension costs	42,162	30,885
Exchange rate differences	(11,746)	32,590

4. STAFF COSTS

	2001	2000
	£	£
Wages and salaries	886,087	857,366
Social security costs	87,294	86,204
Other pension costs	42,162	30,886
	1,015,543	974,456

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

	2001	2000
	No.	No.
Administration	5	5
Manufacturing	34	27
	39	32

5. INTEREST RECEIVABLE

	2001	2000
	£	£
Interest on taxes receivable	-	14

6. INTEREST PAYABLE

	2001	2000
	£	£
Overdraft interest	-	3

Hydra Rig UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
UK corporation tax	208,063	125,187
	<u>208,063</u>	<u>125,187</u>
Corporation tax under provided in previous years	-	1,650
	<u>208,063</u>	<u>126,837</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.

8. TANGIBLE FIXED ASSETS

	<i>Leasehold property</i> £	<i>Office equipment</i> £	<i>Plant & machinery</i> £	<i>Total</i> £
Cost:				
As at 1 January 2001	-	14,854	169,716	184,570
Additions	48,003	-	4,268	52,271
	<u>48,003</u>	<u>14,854</u>	<u>173,984</u>	<u>236,841</u>
As at 31 December 2001				
Accumulated Depreciation:				
As at 1 January 2001	-	8,893	139,467	148,360
Charge for year	-	2,470	13,098	15,568
	<u>-</u>	<u>11,363</u>	<u>152,565</u>	<u>163,928</u>
As at 31 December 2001				
Net book value:				
As at 31 December 2000	-	5,961	30,249	36,210
	<u>-</u>	<u>5,961</u>	<u>30,249</u>	<u>36,210</u>
As at 31 December 2001	48,003	3,491	21,419	72,913
	<u>48,003</u>	<u>3,491</u>	<u>21,419</u>	<u>72,913</u>

9. STOCKS

	2001 £	2000 £
Raw materials and consumables	418,023	353,644
Work in progress	408,784	370,783
	<u>826,807</u>	<u>724,427</u>

Hydra Rig UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

10. DEBTORS

	2001 £	2000 £
Trade debtors	457,799	956,209
Amounts owed by group undertakings	1,146,074	344,842
Other debtors	-	20,333
VAT recoverable	58,410	135,657
Prepayments	8,280	2,956
	<u>1,670,563</u>	<u>1,459,997</u>

11. CREDITORS: amounts falling due within one year

	2001 £	2000 £
Trade creditors	72,122	275,480
Amounts owed to group undertakings	1,116,956	505,373
Corporation tax	420,048	211,985
Accruals	109,066	163,489
Bank overdraft	-	356,698
	<u>1,718,192</u>	<u>1,513,025</u>

12. DEFERRED TAXATION

Deferred taxation provided in the financial statements and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not Provided</i>	
	2001 £	2000 £	2001 £	2000 £
Capital allowances in excess of depreciation	-	-	(7,898)	(6,348)
Other timing differences	-	-	(6,562)	-
	<u>-</u>	<u>-</u>	<u>(14,460)</u>	<u>(6,348)</u>

Hydra Rig UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

13. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	
	<i>2001</i>	<i>2000</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>Allotted, called up and fully paid</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</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>

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON 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 2000	96	16	421,506	421,618
Profit for the year	-	-	285,991	285,991
At 1 January 2001	96	16	707,497	707,609
Profit for the year	-	-	458,379	458,379
At 31 December 2001	<u>96</u>	<u>16</u>	<u>1,165,876</u>	<u>1,165,988</u>

15. POST BALANCE SHEET EVENTS

On 31 March 2002, as part of a Varco UK Entities reorganisation, the trade, assets and liabilities of Hydra Rig UK Limited were transferred to Varco Limited. The business now trades as Hydra Rig UK, a division of Varco Limited.

16. PENSION COSTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. There were no contributions outstanding at the year end.

Hydra Rig UK Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

17. OPERATING LEASE COMMITMENTS

At 31 December the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2001</i>	<i>2000</i>
	<i>£</i>	<i>£</i>
Operating leases which expire:		
Within one year	-	7,141
In two and five years	-	4,632
	-	11,773

18. RELATED PARTIES

The company's ultimate parent undertaking is Varco International 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 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, 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.