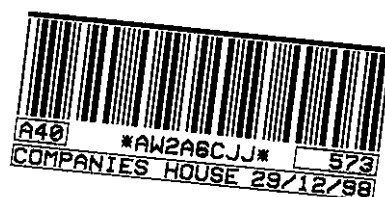


**Drilex (UK) Limited
and its subsidiary companies**

**Annual report
for the year ended 31 December 1997**

Registered no: 1522006



Drilex (UK) Limited and its subsidiary companies

Annual report for the year ended 31 December 1997

	Pages
Directors and advisers	1
Directors' report	2 - 3
Report of the auditors	4
Consolidated profit and loss account	5
Statement of total recognised gains and losses	6
Balance sheet	7
Notes to the financial statements	8 - 18

Drilex (UK) Limited and its subsidiary companies

1

Directors and advisers

Executive directors

Mr P J Woolley
Mr G Reekie

Secretary

Miss A J Mathews
Baker Hughes
Orion House
5 Upper St Martins Lane
LONDON
WC2H 9EH

Registered Office

Orion House
5 Upper St Martin's Lane
LONDON
WC2H 9EH

Auditors

Coopers & Lybrand
32 Albyn Place
ABERDEEN
AB10 1YL

Solicitors

Iain Smith & Company
18 Queen's Road
ABERDEEN
AB1 4ZT

**Report of the directors
for the year ended 31 December 1997**

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The profit and loss account for the period is set out on page 5.

The principal activities of the group are the sale and hire of equipment and tools, and the hire of downhole positive displacement motors for use in the oil industry.

Review of business and future developments

Both the level of business and year end financial position were satisfactory.

On 14 July 1997, the whole of the issued share capital of the ultimate parent company, Drilex International Inc was acquired by Baker Hughes Inc. From 1 October 1997 the trade and assets of Drilex Systems Limited were transferred to Baker Hughes Limited and since this date the group has ceased to trade.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the company at 31 December 1997, or during the year were:-

B Broussard	(resigned 27 January 1998)
J Forrest	(resigned 23 March 1998)
G Reekie	(appointed 23 March 1998)
P J Woolley	(appointed 23 March 1998)

Directors' interests in shares of the company

No director held beneficial interests in the shares of the company at 31 December 1997, or at any time during the year.

**Report of the directors (continued)
for the year ended 31 December 1997**

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that year.

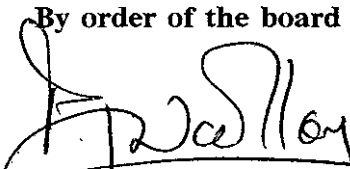
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the annual general meeting.

By order of the board


~~Miss A J Mathews~~ PETER J. WOOLLEY
Secretary DIRECTOR

Report of the auditors to the members of Drilex (UK) Limited and its subsidiary companies

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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.

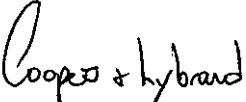
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Basis of preparation

We draw your attention to the review of business and future developments within the directors' report, which explains that the company is dormant. Adjustments have been made in these financial statements where necessary to reduce assets to their realisable value and to provide for liabilities arising from the decision. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers & Lybrand

Chartered Accountants and Registered Auditors
Aberdeen,

23 December 1998

Consolidated profit and loss account for the period ended 31 December 1997

	Notes	Year to 31 December 1997 £	9 months ended 31 December 1996 £
Turnover	2	1,529,769	2,530,748
Cost of sales		1,136,383	1,716,033
Gross profit		393,386	814,715
Administrative expenses		450,072	720,579
Operating (loss)/profit	3	(56,686)	94,136
Net interest receivable		2,476	5,890
(Loss)/profit on ordinary activities before taxation		(54,210)	100,026
Tax on (loss)/profit on ordinary activities	6	160,545	(19,345)
Retained profit for the year	7	106,335	80,681
Statement of retained profits			
Profits at 1 January 1997		1,018,394	937,713
Profit for period		106,335	80,681
Retained profits at 31 December 1997		1,124,729	1,018,394

All items dealt with in arriving at the results for 1997 and 1996 relate to discontinued operations.

There is no difference between the loss on ordinary activities before taxation and the retained profit for the period stated above, and their historical cost equivalents.

Drilex (UK) Limited and its subsidiary companies

6

Statement of total recognised gains and losses

	Notes	Year to 31 December 1997 £	9 months ended 31 December 1996 £
Profit for the financial period		106,335	80,681
Currency translation differences on foreign currency net investments	18	1,463	(5,851)
Total recognised gains since last annual report		<u>107,798</u>	<u>74,830</u>

Drilex (UK) Limited and its subsidiary companies

7

Balance sheet as at 31 December 1997

	Notes	Group		Company	
		Year to 31 December 1997 £	31 December 1996 £	Year to 31 December 1997 £	31 December 1996 £
Fixed assets					
Intangible assets	8	-	51,426	-	-
Tangible assets	9	-	137,838	-	-
Investments	10	-	-	348,652	348,652
		<u>-</u>	<u>189,264</u>	<u>348,652</u>	<u>348,652</u>
Current assets					
Stocks and work in progress	11	-	1,718,413	-	-
Debtors	12	1,220,094	444,259	-	464
Cash at bank and in hand		-	63,759	-	-
		<u>1,220,094</u>	<u>2,226,431</u>	<u>-</u>	<u>464</u>
Creditors: amounts falling due within one year	13	-	232,019	1,064,849	27,350
Net current assets/(liabilities)		<u>-</u>	<u>1,994,412</u>	<u>(1,064,849)</u>	<u>(26,886)</u>
Total assets less current liabilities		<u>1,220,094</u>	<u>2,183,676</u>	<u>(716,197)</u>	<u>321,766</u>
Creditors: amounts falling due after more than one year	14	-	1,062,499	-	1,062,499
Provisions for liabilities and charges	15	-	8,881	-	-
		<u>1,220,094</u>	<u>1,112,296</u>	<u>(716,197)</u>	<u>(740,733)</u>
Capital and reserves					
Called up share capital	16	5,100	5,100	5,100	5,100
Other reserves	17	90,265	88,802	-	-
Profit and loss account		<u>1,124,729</u>	<u>1,018,394</u>	<u>(721,297)</u>	<u>(745,833)</u>
Equity shareholders' funds	18	<u>1,220,094</u>	<u>1,112,296</u>	<u>(716,197)</u>	<u>(740,733)</u>

Approved by the board on 18/12/98

Director :

George Purdie

Drilex (UK) Limited and its subsidiary companies

8

Notes to the financial statements for the year ended 31 December 1997

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared on the net realisable value basis.

Basis of consolidation

The consolidated financial statements include the company and all its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated fully on consolidation.

Cash flow statement

The company and all its subsidiary undertakings are wholly owned by Drilex International Inc, the intermediate parent company. The cash flow of the company and its subsidiary undertakings are included in the consolidated group cash flow statement. Consequently the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

Fixed assets

The cost of other tangible and intangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets and intangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Plant and machinery	10 - 33
Motor vehicles	16 - 33
Leasehold improvements	10 - 50
Patents	7 - 10

Drilex (UK) Limited and its subsidiary companies

9

Notes to the financial statements for the year ended 31 December 1997

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Provision is made where necessary for obsolete, slow moving and defective stocks.

Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses arising upon translation of long term loans are included in the profit and loss account. Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to other reserves.

Deferred tax

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension scheme arrangements

The group contributes to personal pension plans, whereby the pension costs are charged against profits as they are incurred. The total pension charge for the group for the year was £15,073 (1996 : £23,032).

Drilex (UK) Limited and its subsidiary companies 10

Notes to the financial statements for the year ended 31 December 1997

2 Turnover

The geographical analysis of turnover is set out below:

	12 months ended 31 December 1997 £	9 months ended 31 December 1996 £
United Kingdom, Europe	1,212,232	1,440,236
North America	124,514	840,854
Africa/Middle East	126,134	227,752
Far East	66,889	21,906
	<u>1,529,769</u>	<u>2,530,748</u>

Turnover consists of the invoiced value, net of value added tax, of sales of motors and components and rental tool income. Rental tool income consists of amounts invoiced plus income earned but not billed at the year end.

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	12 months ended 31 December 1997 £	9 months ended 31 December 1996 £
Gain on disposal of fixed assets	4,541	-
Depreciation of fixed assets:		
Tangible	17,250	28,083
Intangible	2,707	3,609
Auditor's remuneration (company nil; 1996 nil)	10,500	10,000
Operating lease costs:		
Land and buildings	101,700	130,850
Plant and equipment	<u>7,646</u>	<u>11,024</u>

Remuneration of the company's auditors for provision of non audit services to the company amounted to £5,125 (1996 : £15,000).

**Notes to the financial statements
for the year ended 31 December 1997**

4 Directors' emoluments

The directors are remunerated by the parent company for their services to the organisation as a whole and they receive no emoluments specifically for their services to this group.

5 Employee information

The average weekly number of persons employed by the group including executive directors during the period is analysed below:

	12 months ended 31 December 1997	9 months ended 31 December 1996
Production	-	1
Selling and distribution	12	15
Administration	2	2
	<u>14</u>	<u>18</u>

Employment costs - all employees including executive directors:-

	12 months ended 31 December 1997	9 months ended 31 December 1996
Wages and salaries	214,360	388,234
Social security costs	32,360	45,701
Other pension costs	15,073	23,032
Total direct costs of employment	<u>261,793</u>	<u>456,967</u>

Drilex (UK) Limited and its subsidiary companies

12

Notes to the financial statements for the year ended 31 December 1997

6 Taxation

	12 months ended 31 December 1997	9 months ended 31 December 1997
		£
United Kingdom corporation tax at 33% (1996 : 33%)		
Current	-	10,464
Deferred	(24,718)	8,881
	<u>(24,718)</u>	<u>19,345</u>
Under/(over) provision in respect of prior years:		
Current	(132,597)	-
Deferred	(3,230)	-
	<u>(160,545)</u>	<u>19,345</u>

7 Profit for the financial period

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial period is made up as follows:

	12 months ended 31 December 1997	9 months ended 31 December 1996
	£	£
Dealt with in the accounts of the holding company	25,997	-
Retained by subsidiary companies	80,338	80,681
	<u>106,335</u>	<u>80,681</u>

Drilex (UK) Limited and its subsidiary companies

13

Notes to the financial statements for the year ended 31 December 1997

8 Intangible fixed assets

Group	Patents and know-how £
Cost	
At 1 January 1997	61,350
Disposals	(61,650)
At 31 December 1997	-
Depreciation	
At 1 January 1997	9,924
Disposals	(12,631)
Charge for period	2,707
At 31 December 1997	-
Net book value	
At 31 December 1997	-
Net book value	
At 31 December 1996	51,426

9 Tangible fixed assets

Group	Plant and machinery £	Motor vehicles £	Leasehold improve- ments £	Total £
Cost				
At 1 January 1997	271,801	5,939	41,180	318,920
Additions	13,313	-	-	13,313
Disposals	(285,114)	(5,939)	(41,180)	(332,233)
At 31 December 1997	-	-	-	-
Depreciation				
At 1 January 1997	138,030	5,939	37,113	181,082
Charge for period	14,199	-	3,051	17,250
	(152,229)	(5,939)	(40,164)	(198,332)
At 31 December 1997	-	-	-	-
Net book value				
At 31 December 1997	-	-	-	-
At 31 December 1996	133,771	-	4,067	137,838

Drilex (UK) Limited and its subsidiary companies

14

Notes to the financial statements for the year ended 31 December 1997

10 Investments

	£
Cost	
At 1 January 1997 and 31 December 1997	1,195,050
Provisions	
At 1 January 1997 and 31 December 1997	846,398
	<hr/>
Net book value	
At 1 January 1997 and 31 December 1997	<u>348,652</u>

Interests in group undertakings

Interests in group undertakings comprise the cost of investments in subsidiary undertakings.

Details of subsidiary undertakings are as follows:

Name of company and country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares held	Principal activity
Drilex Systems Limited (incorporated in the UK)	Ordinary	100%	Manufacture and rental of downhole motors
Drilex Overseas Corporation (incorporated in the Bahamas)	Ordinary	100%	Dormant

11 Stocks and work in progress

The amounts attributable to different categories are as follows:

	Group		Company	
	12 months ended	9 months ended	12 months ended	9 months ended
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£	£	£	£
Finished goods for resale	-	1,718,413	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the financial statements for the year ended 31 December 1997

12 Debtors

	Group		Company	
	12 months ended 31 December 1997	9 months ended 31 December 1996	12 months ended 31 December 1997	9 months ended 31 December 1996
	£	£	£	£
Amounts falling due within on year:				
Trade debtors	-	362,189	-	-
Amounts owed by group undertakings	1,220,094	7,619	-	-
Prepayments and accrued income	-	28,196	-	-
Other debtors	-	46,255	-	464
	<u>1,220,094</u>	<u>444,259</u>	<u>-</u>	<u>464</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	12 months ended 31 December 1997	9 months ended 31 December 1996	12 months ended 31 December 1997	9 months ended 31 December 1996
	£	£	£	£
Trade creditors	-	62,602	-	-
Amounts owed to group undertakings	-	-	1,064,849	2,350
Taxation and Social security costs	-	140,750	-	25,000
Accruals and deferred income	-	28,667	-	-
	<u>-</u>	<u>232,019</u>	<u>1,064,849</u>	<u>27,350</u>

Taxation and social security is made up as follows:

	Group		Company	
	12 months ended 31 December 1997	9 months ended 31 December 1996	12 months ended 31 December 1997	9 months ended 31 December 1996
	£	£	£	£
United Kingdom corporation tax payable	-	125,467	-	25,000
PAYE and Social security	-	15,283	-	-
	<u>-</u>	<u>140,750</u>	<u>-</u>	<u>25,000</u>

**Notes to the financial statements
for the year ended 31 December 1997**

14 Creditors: amounts falling due after more than one year

	Group		Company	
	12 months ended	9 months ended	12 months ended	9 months ended
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£	£	£	£
Amounts due to group companies:-				
Immediate parent	-	1,062,499	-	1,062,499

15 Deferred taxation

Analysis of provision and potential liability:

	Amount provided		Full potential liability	
	Year to	Year to	Year to	Year to
	31 December 1997	31 December 1996	31 December 1997	31 December 1996
	£	£	£	£
Group				
Accelerated capital allowances	-	19,005	-	19,005
Other timing differences	-	(10,124)	-	(10,124)
	-	8,881	-	8,881

Movements on the provision for deferred taxation are as follows:-

	£
At 1 January 1997	8,881
Transferred to profit and loss account	(27,948)
Transferred to amounts owed by parent undertaking	19,067
At 31 December 1997	-

Drilex (UK) Limited and its subsidiary companies

17

Notes to the financial statements for the year ended 31 December 1997

16 Called up share capital

	Ordinary shares of £1 each Year to 31 December 1997 1997 £	31 December 1996 £
Authorised		
5,100 ordinary shares of £1 each	<u>5,100</u>	<u>5,100</u>
Allotted, called up and fully paid		
5,100 ordinary shares of £1 each	<u>5,100</u>	<u>5,100</u>

17 Other reserves

	Group £
Group	
At 1 January 1997	88,802
Movement during period	<u>1,463</u>
At 31 December 1997	<u>90,265</u>

18 Reconciliation of movements in shareholders' funds

	31 December 1997 £	31 December 1996 £
Profit for the financial period	106,335	80,681
Other recognised (losses)/gains relating to the period	<u>1,463</u>	<u>(5,851)</u>
Net addition to shareholders' funds	107,798	74,830
Opening shareholders' funds	<u>1,112,296</u>	<u>1,037,466</u>
Closing shareholders' funds	<u>1,220,094</u>	<u>1,112,296</u>

**Notes to the financial statements
for the year ended 31 December 1997****19 Contingent liabilities and financial commitments****Lease commitments**

The group has financial commitments in respect of non-cancellable operating leases of land and buildings, plant and machinery and motor vehicles. The rentals payable under these leases in the next year are as follows:

	31 December 1997		31 December 1996	
	Land and Buildings £	Other £	Land and Buildings £	Other £
Operating leases which expire:-				
Within one period	-	-	-	-
In second to fifth periods inclusive	-	-	21,600	8,253
After five periods	-	-	114,000	-
	<u>-</u>	<u>-</u>	<u>135,600</u>	<u>8,253</u>

20 Ultimate and immediate parent company

The company's immediate holding company is Drilex International Inc., a company registered in the United States of America. The directors regard Baker Hughes Inc, a company registered in the United States of America, as the ultimate parent company. Copies of the accounts of Baker Hughes Inc can be obtained from 6 Rubislaw Place, Aberdeen, AB10 1XN.