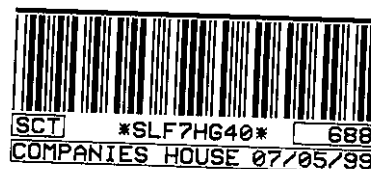


HUNTING OILFIELD SERVICES LIMITED
(Registered Number 1674180)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998



HUNTING OILFIELD SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The directors present their report and audited financial statements of the company for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The company supplies products and services to the oil and gas industry. During the year world oil and gas prices fell significantly, which led to a significant reduction in activity within the global oilfield services market. The company continues to be well placed to take advantage of any upturn.

RESULT AND DIVIDEND

The loss for the financial year amounted to £148,000 (1997- profit, £46,000). The directors do not propose the payment of a final dividend (1997 - £Nil). The balance has been transferred from reserves.

RESEARCH AND DEVELOPMENT

A continuing programme of research and development is carried on by the company where it is appropriate.

EMPLOYEE POLICY

Full and fair consideration is given to applications for employment for disabled persons and in their training, career development and promotion. Every effort is made to retain in employment those who become disabled.

The employment policies, degree of involvement by employees and the provision of information to them will vary. A common awareness of the financial and economic factors affecting the performance is encouraged by open management.

THE ENVIRONMENT

Hunting plc, the ultimate parent company, has established an environmental policy which is appropriate to the number of different markets and countries in which group companies operate. This is subject to regular review and incorporates new objectives as appropriate. In all group companies, there is a common awareness of the need to protect the environment by controlling emissions and waste. As a responsible employer, the company is conscious of its position and role within the community and is committed to continuously improving its environmental performance and providing working environments which meet the requirements of the Health and Safety at Work Act 1974.

HUNTING OILFIELD SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

THE MILLENNIUM

A review of the company's systems to identify Year 2000 issues has been carried out. This review involved the preparation and management of a compliance programme against which performance is monitored.

Necessary modifications identified have been or are in the course of implementation and during the remainder of 1999 modifications and new systems will be completed and tested for compliance.

The cost of the changes necessary were not material in 1998 and should not give rise to a significant additional revenue cost to the company in 1999.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

J A McColl	(Chairman)
S Greig	(Resigned 14 September 1998)
R J Davie	(Appointed 14 September 1998)

DIRECTORS' INTERESTS

None of the directors had any interest in the shares of the company during the year.

The following director holds options to subscribe for ordinary shares pursuant to the rules of Hunting plc's savings related share option scheme.

Savings Related Share Option Scheme

	Subscription Price p	Option period expires in	Options at 31 December 1998	Options at date of appointment
R J Davie	<u>148.00</u>	<u>2002</u>	<u>3,310</u>	<u>3,310</u>

No options lapsed, were granted or exercised during the year.

The market price of ordinary shares at 31 December 1998 was 123.5p and the range during the year was 116.5p to 275p.

Between 31 December 1998 and the date of this report there were no changes in the interest of the directors in the shares of Hunting plc.

The interests of the other director in the shares of Hunting plc are disclosed in the 1998 financial statements of Hunting Oilfield Services (International) Limited, the immediate parent undertaking.

HUNTING OILFIELD SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for maintaining proper accounting records to enable them to prepare financial statements, as required by the Companies Act 1985, which give a true and fair view of the state of affairs of the company and of the profit or loss for the company.

The directors confirm that the financial statements, using applicable accounting standards, have been prepared on a going concern basis using suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The directors are also responsible for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

AUDITORS

Following the merger of Price Waterhouse and Coopers and Lybrand from 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers. The directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

A resolution to reappoint them will be proposed at the Annual General meeting.

By Order of the Board



R J Davie
DIRECTOR

9 April 1999

PricewaterhouseCoopers
Kings Close
62 Huntly Street
Aberdeen AB10 1RS
Telephone +44 (0) 1224 636940
Facsimile +44 (0) 1224 634105

**AUDITORS' REPORT TO THE SHAREHOLDER OF
HUNTING OILFIELD SERVICES LIMITED**

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and financial statements as described on page 3. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 is not disclosed.

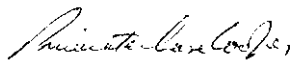
Basis of audit opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

9 April 1999

HUNTING OILFIELD SERVICES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £'000	1997 £'000
TURNOVER (Note 2)	9,448	4,110
Cost of sales	<u>(8,278)</u>	<u>(3,537)</u>
GROSS PROFIT	1,170	573
Administration expenses	<u>(859)</u>	<u>(87)</u>
OPERATING PROFIT	311	486
Interest payable (Note 4)	<u>(465)</u>	<u>(206)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 5)	(154)	280
Taxation on results of ordinary activities (Note 6)	<u>6</u>	<u>(234)</u>
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR (Note 14)	<u>(148)</u>	<u>46</u>

All results relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £'000	1997 £'000
(Loss)/profit for the financial year	(148)	46
Other movements - exchange	<u>(2)</u>	<u>(5)</u>
Total (loss)/profit recognised since last annual report	<u>(150)</u>	<u>41</u>

HUNTING OILFIELD SERVICES LIMITED

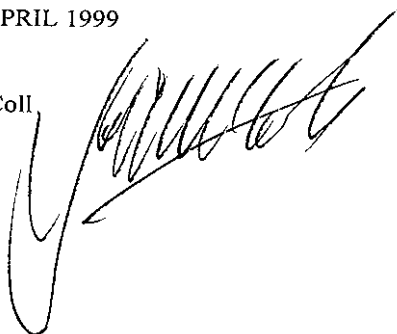
BALANCE SHEET - 31 DECEMBER 1998

	1998 £'000	1997 £'000
FIXED ASSETS		
Tangible assets (Note 7)	787	685
CURRENT ASSETS		
Stocks (Note 8)	7,650	7,193
Debtors (Note 9)	6,387	6,936
Cash at bank and in hand	<u>78</u>	<u>204</u>
	14,115	14,333
CREDITORS - Amounts falling due within one year (Note 10)	(13,401)	(13,768)
NET CURRENT ASSETS	<u>714</u>	<u>565</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	1,501	1,250
CREDITORS - Amounts falling due after more than one year (Note 11)	(1,600)	(1,199)
	<u>(99)</u>	<u>51</u>
CAPITAL AND RESERVES		
Called up share capital (Note 13)	-	-
Profit and loss account - accumulated (deficit)/surplus (Note 14)	(99)	<u>51</u>
SHAREHOLDERS' FUNDS (DEFICIT)/SURPLUS (Note 15)	<u>(99)</u>	<u>51</u>

All the shareholders' funds are attributable to equity interests.

APPROVED BY THE BOARD
ON 9 APRIL 1999

J A McColl



HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998

1 ACCOUNTING POLICIES

(1) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The company has not presented a cash flow statement as its cash flows are included in the cash flow statement prepared by its ultimate parent company, Hunting plc. The financial statements have been prepared on the going concern basis as the directors have obtained assurances from the immediate parent undertaking that it will continue to provide financial support to the company for the foreseeable future.

(2) Tangible assets and depreciation

Tangible assets are stated at cost and depreciation is provided in equal annual instalments over their estimated useful lives by using the following rates:

Plant and equipment	20-33%
Assets in course of construction	Nil

(3) Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

(4) Foreign currencies

Trading activities denominated in foreign currency are translated at the average rate for the year. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

(5) Deferred taxation

Provision is made for deferred taxation using the liability method except where there is reasonable probability that a liability will not arise in the foreseeable future.

(6) Stocks

Stocks including work in progress, are stated at the lower of cost and net realisable value. The cost of work in progress includes direct labour and material costs, production overheads and a proportion of administrative overheads. For long term contract work in progress for contracts where the supply of goods and services or construction of an asset falls into more than one year, a due proportion of the estimated sales revenue, costs and attributable profit is included in each year's result. Profits on other contracts are taken on completion. If it appears likely that a contract will prove unprofitable, full provision is made for the anticipated loss.

(7) Research and development

Research and development expenditure is written off as incurred.

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(8) Pensions

Contributions to the Hunting plc Group Schemes are assessed by a qualified actuary. Costs are not determined for each individual company hence contributions are charged to the profit and loss account for the period in which they become payable.

(9) Related party transactions

The company has taken advantage of the 90% owned subsidiary exemption not to disclose related party transactions with members of the group.

2 TURNOVER

Turnover represents the total amount receivable in the ordinary course of business for services provided and for goods sold, net of value added tax. The geographical analysis of turnover by origin is as follows:

	1998 £'000	1997 £'000
United States of America	6,307	2,430
United Kingdom	2,806	1,678
Europe	<u>335</u>	<u>2</u>
	<u>9,448</u>	<u>4,110</u>

And by destination is as follows:

	1998 £'000	1997 £'000
United States of America	6,344	2,057
Europe	2,909	1,914
United Kingdom	-	139
Middle East	182	-
Singapore	<u>13</u>	<u>-</u>
	<u>9,448</u>	<u>4,110</u>

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

3 EMPLOYEES

Employee costs, including directors, is analysed as follows:

	1998	1997
	£'000	£'000
Wages and salaries	342	99
Social security costs	29	9
Other pension costs	—	—
	<u>371</u>	<u>108</u>

The average number of persons, including directors, employed during the year was 16 (1997 - 6).

Directors

The directors did not receive any emoluments for services provided to the company (1997 - £Nil).

4 INTEREST PAYABLE AND SIMILAR CHARGES

	1998	1997
	£'000	£'000
Group balances	(465)	(193)
Other interest payable	—	(13)
	<u>(465)</u>	<u>(206)</u>

5 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The (loss)/profit on ordinary activities before taxation is stated after charging:

	1998	1997
	£'000	£'000
Depreciation	179	-
Operating lease rentals	62	-
Auditors' remuneration:		
- audit fees	7	2
- other professional services	<u>9</u>	<u>—</u>

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

6 TAXATION ON RESULTS ON ORDINARY ACTIVITIES

The credit/(charge) for taxation is analysed as follows:

	1998 £'000	1997 £'000
Current year:		
- corporation tax	23	(9)
- deferred tax	(15)	(74)
Prior year:		
- corporation tax	-	11
- deferred tax	(2)	(12)
- overseas tax	-	(150)
	<u>6</u>	<u>(234)</u>

7 TANGIBLE ASSETS

	Plant and equipment £'000
Cost	
1 January 1998	685
Additions	<u>281</u>
31 December 1998	<u>966</u>
Depreciation	
1 January 1998	-
Charge for year	<u>179</u>
31 December 1998	<u>179</u>
Net book amount	
31 December 1998	<u>787</u>
31 December 1997	<u>685</u>

8 STOCKS

	1998 £'000	1997 £'000
Raw materials	1,090	68
Work in progress	33	-
Finished goods	<u>6,527</u>	<u>7,125</u>
	<u>7,650</u>	<u>7,193</u>

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

9 DEBTORS

	1998 £'000	1997 £'000
Amounts owed by parent undertaking	5,012	4,419
Amounts owed by fellow subsidiaries	24	-
Trade debtors	1,091	2,168
Other debtors	206	265
Deferred tax asset (Note 12)	35	52
Prepayments and accrued income	<u>19</u>	<u>32</u>
	<u>6,387</u>	<u>6,936</u>

10 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Amounts owed to parent undertaking	4,886	8,068
Amounts owed to fellow subsidiaries	3,750	-
Trade creditors	4,160	4,270
Other creditors	324	1,090
Accruals and deferred income	172	209
Corporation tax	<u>109</u>	<u>131</u>
	<u>13,401</u>	<u>13,768</u>

11 CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £'000	1997 £'000
Loans from parent undertaking	<u>1,600</u>	<u>1,199</u>

There are no set repayment terms for the loans owed to the parent undertaking, which are unsecured and interest free.

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

12 DEFERRED TAXATION

	1998 £'000	1997 £'000
Accelerated capital allowances	35	29
Other timing differences	(70)	(81)
	<u>(35)</u>	<u>(52)</u>

The full amount of the deferred tax asset has been recognised in the financial statements (Note 9).

An analysis of the movement on deferred tax is as follows:

	£'000
1 January 1998	(52)
Transferred to the profit and loss account (Note 6)	<u>17</u>
31 December 1998	<u>(35)</u>

13 CALLED UP SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, issued and fully paid:		
2 ordinary shares of £1 each	<u>-</u>	<u>-</u>

14 PROFIT AND LOSS ACCOUNT

	£'000
1 January 1998 - surplus	51
Loss for the financial year	(148)
Other movements – exchange	<u>(2)</u>
31 December 1998 – accumulated deficit	<u>(99)</u>

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	1998 £'000	1997 £'000
(Loss)/profit for the financial year	(148)	46
Other recognised losses relating to the year	<u>(2)</u>	<u>(5)</u>
Net (decrease)/increase to shareholder's funds	(150)	41
Opening shareholder's funds	<u>51</u>	<u>10</u>
Closing shareholder's funds – (deficit)/surplus	<u>(99)</u>	<u>51</u>

16 BANKING ARRANGEMENTS

The company is party to a group set-off arrangement with Barclays Bank plc.

17 PENSION ARRANGEMENTS

Pension arrangements exist for employees. Under these arrangements, which apply to the majority of employees, the Company makes contributions based on actuarial advice to funded pension schemes. The total cost of contributions made by the Company during the year was £Nil (1997 £Nil).

One employee of the Company is a member of the Hunting plc Scheme, contributions to which are determined by the aggregate membership and funding of the scheme. On the basis of the latest actuarial valuation as at 5 April 1998, the value of the assets was in excess of the value of the benefits that has accrued to members after allowing for expected future increases in pensionable salaries, and for increases to pension payments. Further details of the scheme are contained within the financial statements of Hunting plc, the ultimate parent company.

18 OPERATING LEASE COMMITMENTS

	Land & Buildings £'000	Other £'000
Annual commitments under operating leases which expire between one and five years	<u>59</u>	<u>3</u>

19 CONTINGENT LIABILITIES

There are no contingent liabilities of the company at 31 December 1998 (1997 - £Nil).

HUNTING OILFIELD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1998 (CONTINUED)

20

PARENT COMPANIES

Hunting Oilfield Services (International) Limited, is the parent undertaking of the smallest group to consolidate the financial statements of the company.

Hunting plc is the parent undertaking of the largest group to consolidate these financial statements, and is also the ultimate parent company.

Copies of the financial statements of Hunting plc may be obtained from the Company Secretary, Hunting plc, 3 Cockspur Street, London SW1Y 5BQ.