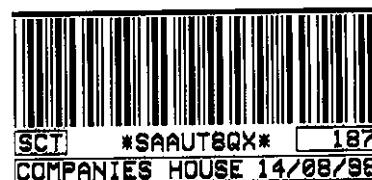


3D Stabilisers Limited

Accounts - 31 December 1997  
together with directors' and auditors' reports

Registered number: 135878



## Directors' report

For the year ended 31 December 1997

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1997.

### Principal activities

The principal activity of the company is to develop and manufacture steerable downhole stabilisers.

### Results and dividends

The company did not trade during the current year.

No dividends were paid or proposed (1996 - £nil).

### Directors and their interests

The directors who served during the year were as follows:

D W Webster  
W B Lau  
M T Steinkamp  
M C Leys  
H Keir

The directors had the following interests in the ordinary shares of the company:

	At beginning and end of year
D W Webster	55
H Keir	5

None of the other directors who held office at the end of the year had any disclosable interest in the shares of the company.

## Directors' report (continued)

### Directors' responsibilities

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

### Auditors

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

1 Golden Square  
Aberdeen  
AB9 1HA

By order of the Board,



Ledingham Chalmers  
Secretaries

31 July 1998

## Auditors' report

Edinburgh

### To the Shareholders of 3D Stabilisers Limited:

We have audited the accounts on pages 4 to 7 which have been prepared under the historical cost convention and the accounting policy set out on page 6.

### Respective responsibilities of directors and auditors

As described in the directors' report on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

### Opinion

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



Arthur Andersen

Chartered Accountants and Registered Auditors

18 Charlotte Square  
Edinburgh  
EH2 4DF

31 July 1998

## Profit and loss account

For the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover	2	-	57,900
Cost of sales	3	-	(57,900)
<b>Retained profit for the year</b>		<u>-</u>	<u>-</u>

There are no recognised gains or losses in either year.

The accompanying notes are an integral part of this profit and loss account.

## Balance sheet

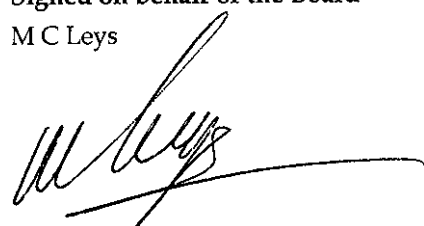
31 December 1997

	Notes	1997 £	1996 £
<b>Current assets</b>			
Cash at bank and in hand		100	100
<b>Net assets</b>		100	100
<b>Capital and reserves</b>			
Called-up equity share capital	5	100	100

Signed on behalf of the Board

M C Leys

Director



31 July 1998

The accompanying notes are an integral part of this balance sheet.

# Notes to the accounts

For the year ended 31 December 1997

## 1 Accounting policy

The following accounting policy has been applied consistently throughout the year and with the preceding year.

### a) Basis of accounting

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

## 2 Turnover

Turnover comprises the value of sales (excluding VAT) of goods and services in the normal course of business.

	1997 £	1996 £
By geographical area:		
United Kingdom	-	57,900

The directors consider that the company has only one class of business.

## 3 Cost of sales

Cost of sales of £nil (1996 - £57,900) represent costs incurred by a fellow group undertaking which have been charged to the company in accordance with an agreement between the two companies. Details of a contingent liability arising from this agreement are given in note 6.

## 4 Staff costs and numbers

The directors were the only employees of the company during the year. The directors' remuneration for the year was borne by a fellow group undertaking.

## 5 Called-up equity share capital

	1997 £	1996 £
<i>Authorised, allotted, called-up and fully paid:</i>		
100 ordinary shares of £1 each	100	100

Share capital consists entirely of equity shares.

## 6 Contingent liability

The company has entered into an agreement whereby research and development is being undertaken on its behalf by another group undertaking. Such costs are estimated to amount to not more than £585,000 approximately, and will only be payable by the company in the event and to the extent that profits before tax are earned in the future as a result of the research undertaken. Accordingly, no provision for these costs has been made as at 31 December 1997.

## Notes to the accounts (continued)

### **7 Guarantees and other financial commitments**

#### *a) Capital commitments*

At 31 December 1997 there were no capital commitments (1996 - £nil).

#### *b) Lease commitments*

At 31 December 1996 there were no lease commitments (1996 - £nil).

### **8 Cash flow statement**

A cash flow statement has not been prepared, as the company had no cash flows during the year. All cash flows relating to the company's activities were dealt with by a fellow group company, and therefore accounted for through the intercompany account.

### **9 Ultimate parent company**

40% of the company's share capital is held by Smith International (North Sea) Limited, however the company is considered to be a subsidiary undertaking of this company due to the control exercised by its board of directors over the company's activities. Accordingly, the smallest group in which the results of the company are consolidated is that headed by the immediate parent company of Smith International (North Sea) Limited, namely The Red Baron (Oil Tools Rental) Limited, which is incorporated in Scotland.

The largest group in which the results of the company are consolidated is that headed Smith International Inc., a company incorporated in the State of Delaware, USA.