

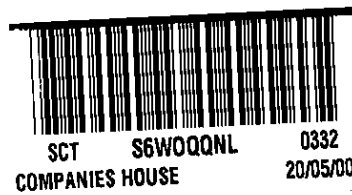


ARTHURANDERSEN

3D Stabilisers Limited

Accounts for the year ended 31 December 1999 together
with directors' and auditors' reports

Registered number: 135878



I AM

Directors' report

For the year ended 31 December 1999

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 1999.

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 or prior year. Consequently no profit and loss account is presented.

No dividends were paid or proposed (1998 - £nil).

Directors and their interests

The directors who served during the year were as follows:

D W Webster	(resigned 2 July 1999)
M T Steinkamp	(resigned 2 July 1999)
M C Leys	
H Keir	

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

	At 31 December 1999	At 31 December 1998
H Keir	55	5
D W Webster	-	55

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 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

7 April 2000

To the Shareholders of 3D Stabilisers Limited:

We have audited the accounts on pages 4 to 6 which have been prepared under the historical cost convention and the accounting policy set out on page 5.

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 in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

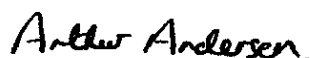
Basis of opinion

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 1999 and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

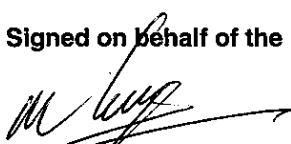
18 Charlotte Square
Edinburgh
EH2 4DF

7 April 2000

Balance sheet
31 December 1999

	Notes	1999 £	1998 £
Current assets			
Cash at bank and in hand		<u>100</u>	<u>100</u>
Net assets		<u>100</u>	<u>100</u>
Capital and reserves			
Called-up equity share capital	3	<u>100</u>	<u>100</u>

Signed on behalf of the Board



M E Leys

Director

7 April 2000

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

Notes to the accounts

For the year ended 31 December 1999

1 Accounting policy

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

a) Basis of accounting

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

2 Staff costs and numbers

The directors were the only employees of the company during the year and the preceding year. In both years the directors' remuneration was borne by a fellow group undertaking.

3 Called-up equity share capital

	1999 £	1998 £
<i>Authorised, allotted, called-up and fully paid:</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

Share capital consists entirely of equity shares.

4 Contingent liability

The company has entered into an agreement whereby research and development is being undertaken on its behalf by its immediate parent company. Such costs are estimated to amount to not more than £873,000 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 1999.

5 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, as described in note 4 to the accounts.

6 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 by Smith International Inc., a company incorporated in the State of Delaware, USA.

Notes to the accounts (continued)

6 Ultimate parent company (continued)

Copies of the group accounts are available from:

Smith International Inc.

PO Box 60068

Houston

Texas

77205 – 0068

USA