

**BAKER PETROLITE LIMITED (formerly
PETROLITE LIMITED)**

Report and Financial Statements

30 September 1998

**Deloitte & Touche
Martin's Building
4 Water Street
Liverpool
L2 8UY**



BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

REPORT AND FINANCIAL STATEMENTS 1998

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BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Reekie
P J Woolley

SECRETARY

Jeremy Aron (resigned 20 August 1998)
Gavin Sinclair (appointed 20 August 1998)

REGISTERED OFFICE

455 London Road
Isleworth
Middlesex
TW7 5AA

AUDITORS

Deloitte & Touche
Martin's Buildings
4 Water Street
Liverpool
L2 8UY

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 1998.

REVIEW OF THE BUSINESS

On 1 October 1997 Petrolite Limited was acquired by Baker Hughes (UK) Limited, and, with the exception of cash and bank balances, the assets and liabilities of the company were transferred to Baker Hughes (UK) Limited. The only transactions in the year were the subsequent transfer of all bank balances to Baker Hughes (UK) Limited and the receipt of interest earned on them up to that date. Its principal activities had previously been the production and sale of chemicals for the treatment of petroleum products or by-products. The company is now dormant.

On 15 April 1998, the company changed its name to Baker Petrolite Limited.

DIRECTORS AND THEIR INTERESTS

The following served as directors during the year:

S Monro	(resigned 23 March 1998)
R B Berriman	(resigned 23 March 1998)
R J Churchill	(resigned 24 June 1998)
T R Graves	(resigned 24 June 1998)
G Reekie	(appointed 23 March 1998)
P H Woolley	(appointed 23 March 1998)

At 30 September 1997 S Monro held one "A" Ordinary share in trust for the parent company. No other director holds any shares in the company and no director has or had any beneficial interest in the company's share capital.

YEAR 2000

The directors have recognised the potential issues arising from the Year 2000 but as the company is now dormant believe that no action is necessary.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary

A large, stylized handwritten signature in black ink, likely belonging to the Secretary, positioned to the right of the 'Secretary' label.

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, 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;
- prepare the financial statements 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 financial statements comply with the Companies Act. 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.



Chartered Accountants

Deloitte & Touche
Martins Building
4 Water Street
Liverpool L2 8UY

Telephone: National 0151 236 0941
International + 44 151 236 0941
Fax (Gp. 3): 0151 236 2877

AUDITORS' REPORT TO THE MEMBERS OF

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

30 July 1999

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

PROFIT AND LOSS ACCOUNT Year ended 30 September 1998

	Note	£'000	Year ended 30 September 1998 £'000	11 months ended 30 September 1997 £'000
TURNOVER	1		-	44,168
Cost of sales			-	(24,567)
			<hr/>	<hr/>
Gross profit			-	19,601
			<hr/>	<hr/>
Distribution costs		-		3,831
Administrative expenses		-		14,430
			<hr/>	<hr/>
			-	(18,261)
			<hr/>	<hr/>
OPERATING PROFIT	2		-	1,340
Interest receivable			11	-
Interest payable	4		-	(190)
			<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			11	1,150
Tax on profit on ordinary activities	6		(3)	(481)
			<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR			8	669
Dividends			-	(1,800)
			<hr/>	<hr/>
Amount added to/(deducted from) retained profit			8	(1,131)
Balance brought forward from previous year			14,589	15,720
			<hr/>	<hr/>
Balance carried forward			14,597	14,589
			<hr/>	<hr/>

All operations have been discontinued.

There are no recognised gains or losses or movements in shareholders' funds except for the profit for the year and the prior period.

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

BALANCE SHEET

30 September 1998

	Note	£'000	1998 £'000	1997 £'000
FIXED ASSETS				
Tangible assets	7	-	15,843	
Investments in subsidiary undertakings	8	-	29	
			<hr/>	
			-	15,872
CURRENT ASSETS				
Stocks	9	-	4,680	
Debtors	10	17,875	12,293	
Cash at bank and in hand		-	168	
		<hr/>	<hr/>	
		17,875	17,141	
CREDITORS: amounts falling due within one year	11	-	(13,567)	
		<hr/>	<hr/>	
NET CURRENT ASSETS			17,875	3,574
			<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			17,875	19,446
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred taxation	12	-	-	(1,579)
			<hr/>	<hr/>
			17,875	17,867
			<hr/>	<hr/>
CAPITAL AND RESERVES				
Called up share capital	13		3,192	3,192
Share premium account			81	81
Capital redemption reserve			5	5
Profit and loss account			14,597	14,589
			<hr/>	<hr/>
Equity shareholders' funds			17,875	17,867

These financial statements were approved by the Board of Directors on

30 July 1999

Signed on behalf of the Board of Directors

George Rubie

Director

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Turnover

Turnover represents amounts billed to customers for chemicals despatched and technical service and includes freight billed. With respect to billings in foreign currency, turnover is the sterling equivalent of the amount billed translated at the average exchange rate in the months of despatch. The directors consider the whole of the activities of the company to relate to one class of business. No geographical split has been provided as, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interests of the company.

Group accounts

Group accounts have not been prepared as the company is itself a wholly owned subsidiary.

Stocks

Stocks are stated at the lower of cost, including the appropriate proportion of manufacturing overheads, and net realisable value.

Fixed assets and depreciation

Fixed assets are stated at cost, less government grants. Freehold land is not depreciated. Long leasehold land is written off over the period of the lease. Long leasehold buildings are written off over the lower of the period of the lease or 40 years. Depreciation on other fixed assets is charged on a straight line basis at rates which will fully depreciate such fixed assets by the end of their estimated useful lives as follows:

Plant and machinery	10 – 20 years
Motor vehicles	5 years

Foreign currencies

Exchange differences arising on the conversion or translation of foreign currencies are taken into account in arriving at operating profit. Assets and liabilities in foreign currencies have been expressed at exchange rates ruling at the year end.

Deferred taxation

Provision for deferred taxation has been made under the liability method in respect of all timing differences to the extent that it is considered probable that a liability will crystallise in the future.

Pension costs

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from the employees' services.

Research and development expenditure

Research and development expenditure is charged to the profit and loss account in the year it is incurred.

Cashflow statement

Advantage has been taken of the exemption contained in FRS1 (Revised) – Cashflow statements as the parent company has included a consolidated cashflow statement in the group financial statements. Therefore no cashflow statement has been presented.

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

2. OPERATING PROFIT

	Year ended 30 September 1998 £'000	11 months ended 30 September 1997 £'000
Operating profit is after charging:		
Depreciation	-	1,645
Auditors' remuneration - audit fees	-	26
- other services	-	3
Exchange (gains)/losses	-	221
Profit on sale of fixed assets	-	(50)
Research and development	-	384
	<u> </u>	<u> </u>

3. DIRECTORS AND EMPLOYEES

The emoluments of the directors were as follows:

	Year ended 30 September 1998 No	11 months ended 30 September 1997 No
Emoluments	-	512
Highest paid director	-	432
Number of directors accruing benefits under a defined benefit pension scheme	-	2

At 30 September 1998, the highest paid director had an accrued pension of £nil (1997 £37,000) under the defined benefit pension scheme.

One director, the highest paid director, exercised share options in the parent company during the previous period.

The average number of employees during the year (excluding directors) was:

	Year ended 30 September 1998 £'000	11 months ended 30 September 1997 £'000
Office and management	-	29
Chemical production	-	197
	<u> </u>	<u> </u>
	-	226
Employee costs during the year (excluding directors):		
Wages and salaries	-	5,924
Social security costs	-	521
Pension costs (note 5)	-	187
	<u> </u>	<u> </u>
	-	6,632

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

4. INTEREST PAYABLE

All interest payable was in respect of bank overdrafts.

5. PENSION COSTS

The company previously participated in a pension scheme providing defined benefits based on final pensionable salary. The scheme is contracted out of SERPS. The assets of the scheme are held separately from those of the company in a tax approved trust and contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent completed valuation of the scheme was at 1 February 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments (9.75% pa), the rate of increase in salaries (6.5% pa) and the increase in discretionary pensions above guaranteed minimum pensions (4.5%). The market value of the scheme's assets at 1 February 1996 was £6,989,000. At the valuation date the funding level of the plan was 113%.

The pension charge for the period was £Nil (1997 - £220,000) in accordance with the provisions of Statement of Standard Accounting Practice Number 24. Contributions paid by the company during the period were £Nil (1997 - £364,000). During the year all contributions were paid over by Baker Hughes (UK) Limited until 1 July 1998 whereupon they ceased with all subsequent contributions being paid over into the Baker Hughes scheme. Currently transfer values are being calculated for all existing members.

The total pension provisions held in the balance sheet at 30 September 1998 amounted to £Nil (1997 - £647,000).

6. TAXATION

	Year ended 30 September 1998 £'000	11 months ended 30 September 1997 £'000
Corporation tax charge on the profit for the period at 33%	3	811
Under provision for corporation tax in previous years	-	2
	3	813
Deferred tax (note 12)	-	(332)
	3	481

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

7. FIXED ASSETS

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 November 1997	910	8,792	20,830	1,794	32,326
Transferred to group company	(910)	(8,792)	(20,830)	(1,794)	(32,326)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 1998	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 November 1997	75	1,884	13,371	1,153	16,483
Transferred to group company	(75)	(1,884)	(13,371)	(1,153)	(16,483)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount					
At 30 September 1998	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 1997	835	6,908	7,459	641	15,843
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	1998 £'000
Petrolite Handelsgesellschaft GmbH (a company incorporated in Austria)	
Balance at 1 October 1997	29
Transferred to group company	(29)
	<hr/>
Balance at 30 September 1998	-
	<hr/>

The investments in Petrolite Italiana Sp and Petrolite Nederland BV had been written off in previous years.

9. STOCKS

	1998 £'000	1997 £'000
Raw materials and consumables	-	1,442
Intermediate goods	-	973
Finished goods	-	2,265
	<hr/>	<hr/>
	-	4,680
	<hr/>	<hr/>

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

10. DEBTORS

	1998 £'000	1997 £'000
Trade debtors	-	6,711
Amounts owed by group undertakings	17,875	4,524
Other debtors	-	338
Prepayments	-	270
ACT recoverable	-	450
	<u>17,875</u>	<u>12,293</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Bank loans and overdrafts	-	5,016
Trade creditors	-	2,276
Amounts owed to group undertakings	-	985
Corporation tax	-	827
Other creditors	-	118
Taxation and social security	-	279
Pension provision	-	647
Accruals and deferred income	-	3,419
	<u>-</u>	<u>13,567</u>

The bank loans and overdrafts were guaranteed by the parent undertaking. The guarantee was construed under the laws of the State of New York, USA.

12. DEFERRED TAXATION

	£'000
Balance at 1 October 1997	332
Transferred to group company	(332)
Balance at 30 September 1998	<u>-</u>

	1998 £'000	1997 £'000
The amount of deferred tax provided for was:		
Capital allowances in excess of depreciation	-	2,040
Other short term timing differences	-	(461)
	<u>-</u>	<u>1,579</u>

BAKER PETROLITE LIMITED (formerly PETROLITE LIMITED)

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

13. SHARE CAPITAL

	1998	1997
	£'000	£'000
Authorised		
"A" ordinary shares of £1 each (3,490,000)	3,490	3,490
"B" ordinary shares of 5p each (100,000)	5	5
Redeemable preference shares of 5p each (100,000)	5	5
	<hr/>	<hr/>
	3,500	3,500
	<hr/>	<hr/>
Issued and fully paid		
"A" ordinary shares of £1 each (3,187,289)	3,188	3,188
"B" ordinary shares of 5p each (85,000)	4	4
	<hr/>	<hr/>
	3,192	3,192
	<hr/>	<hr/>

14. CONTINGENT LIABILITIES

The company had no contingent liabilities as at 30 September 1998 (1997 There were performance guarantees in the normal course of business amounting to £763,000).

15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under Financial Reporting Standard No. 8 Related Party Disclosures not to disclose transactions with other Group companies.

16. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Baker Hughes Inc, a company incorporated in the United States of America.

Copies of the group financial statements can be obtained from the Company Secretary at 455 London Road, Isleworth, Middlesex TW7 5AA.