

Company registered number SC224905

Baker RDS Limited

Annual Report and Financial Statements

For the year ended 31 December 2012

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Directors' report

Registered number SC224905

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

Principal activities

The principal activity of the company during the year was the provision of sub-surface consultancy and operations management expertise to the oil and gas industry.

Review of developments and future prospects

Baker RDS is a high quality provider of well and subsurface consultancy services in the upstream oil and gas production industry. With offices in Aberdeen, London, Kuala Lumpur, Malaysia and Perth, Australia, our services help our clients to better understand and hence optimise the value they derive from their subsurface assets. The company objectives are to create value for its shareholder by growing a profitable and sustainable business.

Revenue for 2012 fell slightly from 2011 and the results for the year were negatively impacted by the cost of expertise being driven up by shortages of appropriately skilled staff. The loss for the year is lower than 2011 but the previous year included an impairment provision against the carrying value of the goodwill held in the balance sheet of the company which contributed £1,613,000 to the losses in the year. The directors will continue to focus on revenue growth and cost control to improve the financial position of the company.

Principal risks and uncertainty

The key external risk facing the company is associated with the recruitment and retention of experienced, knowledgeable staff who are fundamental to the success of any consulting company. In times of high oil price and hence high activity levels, oil and gas producing companies aggressively recruit these types of staff which provides us with our most serious challenge and risk to our continued success. A wide range of people centric policies and strategies are in place to mitigate as best we can against this risk.

Internal risks can be categorised into three main areas – Technical, Contract and Financial.

Technical risks are identified and assessed through a rigorous peer review and project management programme and control measures are applied to reduce those risks to as low as reasonably practicable. The company continually reviews standards, policies and operating practices to reduce risks further.

Contract risk is mitigated through negotiation against company standards for risk levels which are defined from industry best practice and many years of contracting experience. A formal internal process exists where only the senior management in the parent Group has the right to authorise a departure from those standards.

Financial risk is monitored through comprehensive accounting practices and cash management and through implementation of a structured empowerment matrix detailing the levels of authority within the tiers of the Group organisation. This and the processes which the company operates are comprehensively reviewed each year by competent internal and external specialists.

Future developments

The company intends to build on its current position as one of the world's leading providers of well and subsurface consultancy services in the upstream oil and gas production industry through the continued development of its expertise across all disciplines.

Results and dividends

The loss on ordinary activity after taxation for the year is £3,512,000 (2011: loss of £6,356,000). The holder of the preference shares irrevocably waived its entitlement to preference dividends in 2011 and subsequent financial years.

Directors' report (continued)

Directors

The directors, who held office during the year, and up to the date of this report, were as follows:

J Harris
C Asquith
E Mays (resigned 17 July 2012)
O Onabolu (appointed 17 July 2012)

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Going concern

The company has recorded losses in the last four years and had net liabilities of £9,860,000 as at 31 December 2012 (after the preference share capital of £4,192,000 is presented as a liability in accordance with Accounting Standards). The directors have, however, received a letter of support from the directors of its ultimate parent company, Baker Hughes Incorporated, confirming that Baker Hughes Incorporated will provide financial support to the company for a period of at least the next 12 months from the date of this report so as to allow the company to meet its obligations as they fall due.

After making enquiries the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditor

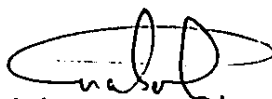
Each of the persons who is a director at the date of approval of this report confirms that:

- 1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- 2) the director has taken all the steps that he/she ought to have taken as a company director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

On behalf of the board



O Onabolu
Director
31 July 2013

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they give a true and fair view of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Independent Auditor's report to the members of Baker RDS Limited

We have audited the financial statements of Baker RDS Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Graham Hollis ACA, Senior Statutory Auditor
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Aberdeen, United Kingdom
31 July 2013

Profit and loss account
for the year ended 31 December 2012

	<i>Note</i>	2012 £000	2011 £000
Turnover	2	12,822	14,340
Cost of sales		(12,140)	(13,027)
Gross profit		682	1,313
Administrative expenses		(4,179)	(4,986)
Exceptional costs	8	-	(1,613)
Operating loss	3	(3,497)	(5,286)
Interest payable and similar charges	6	(8)	(8)
Loss on ordinary activities before taxation		(3,505)	(5,294)
Tax charge on loss on ordinary activities	7	(7)	(1,062)
Loss on ordinary activities after taxation for the year	17	(3,512)	(6,356)

All figures relate to continuing operations.

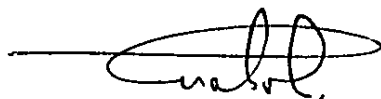
There were no other gains or losses for the year other than the loss shown above, accordingly no statement of total recognised gains or losses is presented.

Balance sheet

at 31 December 2012

	<i>Note</i>	2012 £000	2011 £000
Fixed assets			
Intangible assets	8	-	-
Tangible assets	9	77	190
Investments	10	-	-
		<u>77</u>	<u>190</u>
Current assets			
Debtors	11	5,287	5,093
Cash at bank and in hand		1,721	2,075
		<u>7,008</u>	<u>7,168</u>
Creditors: amounts falling due within one year	12	(12,551)	(9,215)
Net current liabilities		<u>(5,543)</u>	<u>(2,047)</u>
Total assets less current liabilities		<u>(5,466)</u>	<u>(1,857)</u>
Creditors: amounts falling due after more than one year	13	(4,192)	(4,192)
Provision for liabilities	14	(202)	(194)
Net liabilities		<u>(9,860)</u>	<u>(6,243)</u>
Capital and reserves			
Called up share capital	15	-	-
Capital contribution	16	419	419
Profit and loss account	16	(10,566)	(7,054)
Share based payment reserve	16	287	392
Shareholders' deficit	17	<u>(9,860)</u>	<u>(6,243)</u>

These financial statements of Baker RDS Limited, company number SC224905, were approved by the board of directors on 31 July 2013 and were signed on its behalf by:



O Onabolu
Director

Notes (forming part of the financial statements)

1. Accounting policies

The following accounting policies have been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of developments and future prospects on page 1. The financial position of the company is also described in the Directors' report.

In addition the Directors' report includes the company's financial risk management objectives and its exposures to credit risk and liquidity risk. The directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The company has recorded losses in the last four years and had net liabilities of £9,860,000 as at 31 December 2012 (after the preference share capital of £4,192,000 is presented as a liability in accordance with Accounting Standards). The directors have, however, received a letter of support from the directors of its ultimate parent company, Baker Hughes Incorporated, confirming that Baker Hughes Incorporated will provide financial support to the company for a period of at least the next 12 months from the date of this report so as to allow the company to meet its obligations as they fall due.

After making enquiries the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Consolidation

The company has taken advantage of the exemption conferred by s401 of the Companies Act 2006 not to prepare consolidated accounts. The company is a wholly owned subsidiary undertaking of Baker Hughes Incorporated, which is incorporated in the USA. The company and its subsidiary undertaking are included in the Baker Hughes Incorporated consolidated accounts which are prepared in accordance with US GAAP and are drawn up to 31 December 2012 and are publicly available (note 22).

These financial statements therefore present information about the company as an individual undertaking and not as a group.

Cash flow statement

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements (note 22).

Revenue recognition

Revenue from the provision of consultancy services are derived from contracts that are typically of a short duration. These contracts contain either lump sum provision or provisions for specific time, software and third party charges, which are billed in accordance with the terms of such contracts. Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is amortised to nil by equal annual instalments over a period of 20 years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment.

Depreciation is charged on a straight line basis allocating the cost less estimated residual values of the tangible fixed assets over their expected useful lives.

Leasehold improvements	Over the lease term
Office equipment	3 - 15 years
Computer equipment	3 - 15 years

Notes (continued)

1. Accounting policies (continued)

Investments

Fixed and current asset investments are included in the balance sheet of the company at cost less provision for any impairment in value.

Development expenditure

Software development costs have been capitalised in accordance with Statement of Standard Accounting Practice 13 – Accounting for Research & Development, and will be amortised over the duration of the contracts on which the software will be used. Provision is made for any impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Taxation

Current tax including United Kingdom corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Leases

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease.

Notes (continued)

1. Accounting policies (continued)

Share-based payments

The company's ultimate parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The company also provides employees with the ability to purchase the ultimate parent's ordinary shares at 85 per cent of the lower of the market value as at 1 January and the market value at 31 December in any particular year. The company records an expense based on the fair value of the benefit derived by the employees.

Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Analysis of turnover

	2012 £000	2011 £000
<i>By geographical market</i>		
UK	7,135	7,716
Europe	2,415	2,124
Rest of World	3,272	4,500
	<u>12,822</u>	<u>14,340</u>

Turnover represents the amounts (excluding value added tax) derived from the provision of oil and gas consultancy services to customers.

3. Operating Loss

	2012 £000	2011 £000
<i>This is stated after charging/(crediting)</i>		
Auditor's remuneration:		
Fees payable to the company's auditor for the audit of the company's annual financial statements	30	33
Tax services	-	20
Depreciation and other amounts written off tangible fixed assets	113	136
Amortisation of goodwill	-	158
Goodwill impairment provision	-	1,613
Operating lease charges:		
Land and buildings	168	161
Plant and machinery	14	25
Exchange gain	<u>(181)</u>	<u>(105)</u>

Notes (continued)

4. Remuneration of directors

Directors' remuneration and remuneration of highest paid director	2012 £000	2011 £000
Directors' emoluments (excluding pension contributions and shares and share options under long-term incentive schemes)	312	317
Directors' pension contributions	23	22
	2012 No.	2011 No.
Number of directors who:		
- are members of a defined contribution pension scheme	1	1
- exercised options over shares in the ultimate parent company	1	1

The highest paid director did not exercise any share options in the year.

In the current year certain directors were paid by Baker Hughes Limited, an intermediate parent company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow companies.

5. Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2012 No.	2011 No.
Management	8	7
Engineers	47	64
Finance and administration	14	13
	69	84

The aggregate payroll costs of these persons were as follows:

	2012 £000	2011 £000
Wages and salaries	7,245	7,496
Social security costs	798	979
Pension costs (note 19)	481	579
	8,524	9,054

Notes (continued)

6. Interest payable and similar charges

	2012 £000	2011 £000
Unwinding of discount on dilapidation provision (note 14)	8	8

The holder of the preference share waived its entitlement to dividends for the current financial year and subsequent years.

7. Taxation

Analysis of charge in the year

	2012 £000	2011 £000
<i>UK corporation tax</i>		
Foreign tax	6	154
Adjustment in respect of prior year	1	(1)
Total current tax (see below)	7	153
Deferred tax		
Origination of timing differences : current year	-	340
: prior period	-	569
Tax charge on loss on ordinary activities	7	1,062

Factors affecting the total current tax charge

The current tax charge for the year differs from that obtained by applying the standard rate of corporation tax in the UK 24.5% (2011:26.5%) to the loss before tax. The differences are explained below.

	2012 £000	2011 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(3,505)	(5,294)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(859)	(1,403)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	79	488
Research and Development tax credit	(244)	(333)
Depreciation in excess of capital allowances for period	12	13
Movement in short term timing differences	(55)	3
Adjustment to tax charge in respect of previous periods	1	-
Irrecoverable element of withholding tax	5	113
Unrelieved tax losses carried forward	1,068	1,272
Total current tax charge (see above)	7	153

Notes (continued)

7. Taxation (continued)

Deferred taxation asset

The deferred tax asset of £1,332,000 (2011: £1,542,000) has not been recognised in respect of tax losses carried forward. In the opinion of the directors it is uncertain whether there will be suitable taxable profits available in the foreseeable future against which it would be recovered.

The Finance Act 2012 announced a reduction in the main rate of corporation tax for the financial year beginning 1 April 2012 from 26% to 24%. The tax law was substantively enacted in the House of Commons on 26 March 2012. A further reduction in the corporation tax rate to 23% from 1 April 2013 was also announced in the Finance Act 2012 and was substantively enacted at the balance sheet date.

On 20 March 2013, the Finance Act 2013 announced that the corporation tax rate from 1 April 2015 would be 20%, however as this change in rate was not substantively enacted at the balance sheet date, this change in rate has not been reflected in these financial statements.

8. Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
At beginning and end of year	3,160
	<hr/>
<i>Amortisation</i>	
At beginning and end of year	3,160
	<hr/>
<i>Net book value</i>	
At 31 December 2011 and at 31 December 2012	-
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In view of the losses incurred by the company in the previous financial years, the directors undertook a review of the carrying value of the remaining unamortised goodwill which arose on the acquisition of the trade and assets of the consultancy division of Brovig RDS Limited in the preceding year. The assessment was determined by value-in-use calculations using the cash flow projections for the company's latest approved budget for 2012, extrapolated over 10 years with assumptions based on revenue and costs. To arrive at a net present value, the cash flows are discounted at rates of 10.5% and 13.5% based on the weighted average cost of capital. The value-in-use is estimated by calculating a terminal value and adding this to the net present value of the cash flows.

This overall value was compared to the carrying value of the goodwill, and based on this a provision against the remaining goodwill of £1,613,000 was made in the preceding year. In view of the nature and significance of this, the directors disclosed this as an exceptional charge in the preceding year's profit and loss account.

Notes (continued)

9. Tangible fixed assets

	Computer Equipment £000	Office Equipment £000	Total £000
<i>Cost</i>			
At 1 January 2012 and at 31 December 2012	824	138	962
<i>Depreciation</i>			
At 1 January 2012	634	138	772
Charge for the year	113	-	113
At 31 December 2012	747	138	885
<i>Net book value</i>			
At 31 December 2012	77	-	77
At 31 December 2011	190	-	190

10. Investments

	Group Undertakings £000
<i>Cost</i>	
At 1 January 2012 and at 31 December 2012	-

The undertaking in which the company's interest at the yearend of more than 20% is as follows:

	Country of Incorporation	Principal Activity	% Share Held
Baker RDS Pty Ltd	Australia	Consultancy Services	100

Notes (continued)

11. Debtors

	2012	2011
	£000	£000
Trade debtors	1,331	1,716
Amounts owed by group undertakings	2,751	2,312
Other debtors	279	41
Prepayments and accrued income	646	743
Corporation tax	280	281
	<hr/> 5,287 <hr/>	<hr/> 5,093 <hr/>

All debtors are recoverable within one year.

12. Creditors: amounts falling due within one year

	2012	2011
	£000	£000
Trade creditors	187	50
Amounts owed to group undertakings	10,231	6,949
Taxation and social security	372	575
Other creditors	58	-
Accruals and deferred income	1,703	1,641
	<hr/> 12,551 <hr/>	<hr/> 9,215 <hr/>

13. Creditors: amounts falling due after more than one year

	2012	2011
	£000	£000
10% preference shares classified as liabilities	4,192	4,192
	<hr/> 4,192 <hr/>	<hr/> 4,192 <hr/>

The preference shares carry a fixed cumulative preference dividend of 10% per annum. The holders of the preference shares are not entitled to attend or vote at any general meeting of the company. The holders of the preference shares have waived their entitlement to dividends for the current and future years.

The preference shareholders rank before the ordinary shareholders for dividends and on a wind up of the company. On a winding up, of the company, the preference shares are entitled to £1 per share together with any arrears of preference dividends.

Notes (continued)

14. Provision for liabilities

	Dilapidation cost £000
At 1 January 2012	194
Unwinding of discount (note 6)	8
	<hr/>
At 31 December 2012	202
	<hr/>

Dilapidation cost

A dilapidations provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as renewals or terminations. Key uncertainties are the estimates of amounts due. Sensitivity to this uncertainty is not expected to be material to the provision in total. The provision is expected to be utilised in 2017 on completion of the leasehold property agreement.

15. Called up share capital

	2012 £000	2011 £000
<i>Authorised</i>		
10,000 Ordinary shares of £1 each	10	10
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	-	-
	<hr/>	<hr/>

16. Reserves

	Profit and loss account £000	Capital contribution £000	Share-based payment reserve £000
At beginning of year	(7,054)	419	392
Loss for year	(3,512)	-	-
Capital contribution in respect of share-based payments (note 20)	-	-	394
Charge for share-based payment expense	-	-	(499)
	<hr/>	<hr/>	<hr/>
At end of year	(10,566)	419	287
	<hr/>	<hr/>	<hr/>

17. Reconciliation of movement in shareholders' deficit

	2012 £000	2011 £000
Loss for the financial year	(3,512)	(6,356)
Capital contribution in respect of share-based payments (note 20)	394	285
Charge for share-based payment expense	(499)	-
	<hr/>	<hr/>
Net increase in shareholders' deficit	(3,617)	(6,071)
Opening shareholders' deficit	(6,243)	(172)
	<hr/>	<hr/>
Closing shareholders' deficit	(9,860)	(6,243)
	<hr/>	<hr/>

Notes (continued)

18. Commitments

Annual commitments as at the balance sheet date under non-cancellable operating leases are as follows:

	Land and buildings 2012 £000	Other 2012 £000	Land and buildings 2011 £000	Other 2011 £000
Operating leases which expire:				
Within one year	-	-	-	16
Within one to two years	-	-	-	-
In the second to fifth years inclusive	-	-	-	-
After five years	161	-	161	-
	<hr/> 161 <hr/>	<hr/> - <hr/>	<hr/> 161 <hr/>	<hr/> 16 <hr/>

19. Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £481,000 (2011: £579,000). At the year end, £58,000 (2011: £nil) remained payable to the scheme and is included in creditors.

20. Share-based payments

Baker Hughes Incorporated, the ultimate parent of the company, operates employee share schemes including Stock Options, Restricted Stock Units ("RSU") and an Employee Stock Purchase Plan ("ESPP"). There were no other share-based payment transactions during either year.

The company recognised an expense of £394,000 (2011: £285,000) relating to equity-settled share-based payment transactions in the year.

Stock options

Key employees are granted stock options under the Baker Hughes Incorporated Stock Option Plan. Options are exercisable in three equal annual instalments, beginning a year from the date of grant and generally expire ten years from date of grant. The exercise price is the fair market value of the stock at the date of grant.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The following table presents the weighted average assumptions used in the option pricing model for options granted.

	2012	2011
Expected life (years)	5.40	5.00
Interest rate	0.9%	1.8%
Expected volatility	41.4%	40.8%
Expected dividend yield	1.4%	0.9%
Weighted average fair value per share	£8.97	£15.69

Notes (continued)

20. Share based payments (continued)

The following table summarises stock option activity during the year:

	2012		2011	
	No.	Weighted average exercise price £	No.	Weighted average exercise price £
Outstanding at start of year	16,630	38.80	6,350	31.44
Granted	24,061	28.13	10,280	43.34
Forfeited	(2,047)	36.79	-	-
Outstanding at end of year	38,644	32.26	16,630	38.80
Exercisable at end of year	7,656	36.77	2,116	31.44

For options outstanding at the end of the year, the range of exercise prices and the average remaining life was as follows:

2012				2011		
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life (years)	Weighted average exercise price	Number of shares	Average remaining contractual life (years)
£28.71 - £47.89	£32.26	38,644	8.3	£38.80	16,630	8.8

Restricted Stock Units

In addition to stock options, key employees may be granted restricted stock units, where each unit represents the right to receive at the end of a stipulated period, generally over three to five years, one unrestricted share of stock of Baker Hughes Incorporated with no exercise price. The fair value of restricted stock units is based on the market price of Baker Hughes Incorporated common stock on the date of grant.

	2012		2011	
	Number of units	Weighted average fair value at grant date £	Number of units	Weighted average fair value at grant date £
Non-vested balance at 1 January	13,532	33.14	8,600	30.60
Granted	12,062	30.45	6,965	35.42
Vested	(5,005)	(32.65)	(2,033)	(30.22)
Non-vested balance at 31 December	20,589	31.68	13,532	33.14

Notes (continued)

20. Share based payments (continued)

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") provides for eligible employees to purchase shares on an after-tax basis: (i) on June 30 of each year at a 15% discount of the fair market value of our common stock on January 1 or June 30, whichever is lower, and (ii) on December 31 of each year at a 15% discount of fair market value of our common stock on July 1 or December 31, whichever is lower. An employee may not purchase more than \$5,000 in either of the six-month measurement periods described above or \$10,000 annually. The fair value was estimated using the Black-Scholes model with the following assumptions:

	2012	2011
Expected life (years)	0.5	1.0
Interest rate	0.1%	0.1%
Expected volatility	44.1%	36.6%
Expected dividend yield	1.3%	1.0%
Weighted average fair value per share at grant date	£7.53	£10.45

Total share-based payment compensation expense

	2012	2011
	£000	£000
Stock options	114	68
Employee Stock Purchase Plan	273	194
Restricted Stock Units	7	23
	<u>394</u>	<u>285</u>

21. Related party transactions

The company has taken advantage of paragraph 3(c) of FRS 8 (Related Party Disclosures) and hence has not disclosed details of transactions with other group companies in which Baker Hughes Incorporated ultimately owns 100% of the share capital.

22. Immediate and ultimate parent company

At the end of the year the intermediate parent company was Baker Energy Limited, a company incorporated in the United Kingdom.

The company's ultimate parent company is Baker Hughes Incorporated, which is incorporated in the USA and is the largest and smallest entity consolidating the results of this company. Copies of the financial statements of both companies may be requested from the Company Secretary at 3rd Floor Building 5, Chiswick Park, 566 Chiswick High Road, Chiswick, London, W4 5YF.