



## Environmental Objectives

Baker Hughes Incorporated recognizes its responsibility to maintain the compatibility of its operations with the environment while supplying high quality products and services to the customers it serves. The Company firmly and seriously accepts its social responsibility to work with the public, the government and others to develop and to use natural resources in an environmentally sound manner while protecting the health and safety of our employees and the public. To meet these responsibilities, the Company and its subsidiaries commit to the following operational principals: To recognize community concerns about the methods in which we use our raw materials, products and operations; To make safety, health and environmental considerations a priority in our planning and development of new products and processes; To operate our plants and facilities and to handle our raw materials and products in a manner which is consistent with prudent environmental, health and safety practice; To commit to reduce over-all emission and waste generation; and To participate with government and others in creating responsible laws, regulations and standards to safeguard the community, work place and environment.

## Corporate Profile

Baker Hughes Incorporated provides products and services to the petroleum and continuous process industries. Twenty-four divisions operate through three major groups: Baker Hughes Production Tools, Baker Hughes Drilling Equipment and Baker Hughes Process Technologies.

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## On the Cover

*Craig Nivens, Baker Oil Tools at the Houston Training Center where a simulated field environment including a 3400 foot well allows hands on training of field service personnel.*



## Summary of Selected Financial Data

Years Ended September 30,

(In thousands of dollars, except per share amounts)

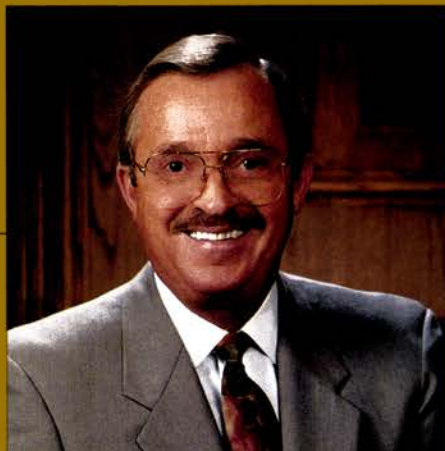
1991

1990

Sales	\$1,989,336	\$ 1,859,393
Services and rentals	839,021	754,864
Total revenues	2,828,357	2,614,257
Net income	173,458	142,177
Net income per share	1.26	1.06
Working capital	652,404	676,383
Total assets	2,905,602	2,783,944
Net property, plant and equipment	642,729	652,281
Capital expenditures	161,203	132,784
Depreciation and amortization	153,285	125,149
Long-term debt	545,242	611,501
Stockholders' equity	1,545,361	1,424,285
Cash dividends per share of common stock	.46	.46
Number of shares (000)		
Average during year	137,817	128,319
Outstanding at end of year	138,396	137,457
Number of employees	21,300	20,900



Fiscal year 1991 demonstrated once again the volatility of the worldwide oil and gas markets. An all out war in the Middle East caused a significant, but temporary, upward spike in the price of oil. Oil prices then fell and remained remarkably stable in the post-war period. At the same time, expectations were for a continuing gradual improvement in U.S. natural gas prices, but another abnormally warm North American winter, a decrease in industrial gas demand and gas on gas competition led to a collapse in gas prices. These unexpected developments have led to



an unusual environment for the oilfield service industry. Outside of the U.S., the predominantly oil-driven markets continue to grow. Within the U.S., activity is depressed as evidenced by operator and service company lay-offs and consolidations. Our Process Technologies group experienced significant year-to-year revenue growth as a result of the acquisition of the instrumentation units of Tracor Holdings in the prior year, but profitability was impacted by the recessionary conditions in the global economy. Against this backdrop, Baker Hughes generated revenues in

fiscal year 1991 of \$2.83 billion, an 8% increase from 1990. Net income rose to \$173.5 million, a 22% increase, and earnings per share improved from \$1.06 to \$1.26, a 19% increase.

Given an overall decline in the average worldwide rig count of 3%, from 2,029 in fiscal year 1990 to 1,974 in fiscal year 1991, our improved operating performance demonstrates our success in identifying and exploiting profitable product and market niches. This contributed to growth and margin enhancement opportunities in an overall activity environment that has been flat to down over the past several years.

In fiscal year 1991, we again made a number of acquisitions and divestitures designed to further strengthen our array of products and services in the

oilfield and process industries. Having accomplished many of our major acquisition objectives in prior years, opportunities to enhance our oilfield operations further will likely be on a smaller scale as the entire service industry continues the consolidation process begun in earnest in 1987. Smaller, strategic acquisitions can and will have a meaningful impact as we go forward.

In October of 1990, we completed the acquisition of ChemLink for \$136 million in cash. By combining ChemLink with Baker Performance Chemicals, we now are the largest U.S. oilfield chemical company and rank second on a worldwide basis. We also completed several relatively small acquisitions during the year to strengthen our product lines.

On the divestiture side, we sold the balance of our holdings in BJ Services for \$95 million, sold our TOTCO division to Varco International Inc. for \$40 million in cash and stock and, in October of 1991, sold our Vetco Services subsidiary to Tuboscope for \$75 million in cash and stock.

Within Baker Hughes, several strategic decisions were implemented during fiscal year 1991 that will positively impact future results. In February we announced the formation of Baker Hughes Integrated Engineering Services (IES). IES provides a vehicle for the Baker Hughes companies to pursue the developing market for the delivery of an integrated suite of products and services to the operator on a performance or incentive basis working toward mutually determined goals.

The market leading Baker Hughes companies are unsurpassed in the industry in their ability to offer a complete performance drilling package virtually anywhere in the world.

In 1991, we also began a major effort to develop a modular state of the art MWD system that will set the industry standard for reliability. We currently occupy a small but important position in this market; the product delivery capability inherent in Eastman Christensen and Exlog for the full range of MWD services however are the best in the business. We strongly believe that our efforts in this area will be rewarded and will allow us to increase market share in a segment that is among the fastest growing in the oilfield service business.

Our Process Technology companies had a challenging year in 1991 with several major customer projects being delayed as a result of worldwide economic conditions and the Middle East war. As the recovery from the recession progresses and our markets in the rapidly growing environmental businesses increase, we should see improved results in fiscal 1992, particularly in the latter half of the year.

The progress we have made in our operating performance has also been matched with improvements in our balance sheet and leverage ratios. In fiscal year 1991, total debt increased only slightly to \$646.9 million from \$640.2 million, and we ended the year with a

debt to equity ratio of .419, the lowest level since the merger of Baker and Hughes. In recognition of this performance, Moody's and Duff & Phelps both saw fit to raise our senior debt ratings to an A- level. BHI was one of the few industrial companies to receive a ratings upgrade in the face of a worldwide recessionary environment.

#### Outlook

The fundamental forces for a less volatile marketplace based on stable to improving prices for oil and gas are slowly but surely moving into place. The oil side of the equation appears firm from a supply and demand standpoint and we anticipate that oil prices

will likely improve by at least the rate of inflation in coming years. Natural gas prices in North America may have passed their low point but will require time to achieve a level that is conducive to increased drilling activity. With our Process Technologies business likely to improve in the coming year, we are confident that we can produce operating results which will generate a performance ranking competitive within our peer group.

#### Focus on People

Any corporation's rise or fall is largely based on its ability to manage three basic variables—strategies, technologies and people. In past letters and in last year's annual report we devoted considerable time in describing BHI's strategic objectives and its approach to technologies through the research and development process. In the remainder of this Annual Report, we feature what is Baker Hughes' single most valuable asset—its people. The past decade has been a time of considerable adversity for the industries we serve. Baker Hughes has emerged from that decade of adversity in a position clearly superior in virtually all respects to where it was a decade ago. Our ability to be in that enviable position is attributable to the years of hard work and dedicated effort by the remarkable people—21,000 strong—of Baker Hughes. I sincerely thank them and I am pleased to share a brief cross-section of their talents with you. Additionally, I must regretfully announce the retirement of our director, Robert H. Quenon. We thank Bob Quenon for his many years of guidance and advice.



J. D. Woods  
Chairman, President and  
Chief Executive Officer

## The People of Baker Hughes

Baker Hughes' mission is to generate increasing value for its stockholders, customers and employees through its role as a leading worldwide supplier of quality goods and services. The primary strategy for our employees is to provide a challenging and rewarding environment that creates an opportunity to realize their full potential while contributing to the Company and their community.

At September 30, 1991, Baker Hughes employed 21,300 people, 11,200 in the United States and 10,100 in over 50 other countries. A large majority of our non-U.S. work force is comprised of citizens of these countries.

The Company recognizes the value of its diverse work force and endeavors to provide an environment where the employees can achieve optimal productivity. In addition to modern, well-equipped facilities, the Company provides established policies and programs and an environment in which our employees can satisfy individual goals, while collectively meeting the Company's objectives.

In all aspects of our business, whether in the design and manufacture of products or the delivery of services, people are considered to be our most valued resource. Much of our success in hiring, motivating and retaining our employees is related to a belief in participative management and team building. Also, the organizational structure of Baker Hughes, with its highly autonomous divisions organized along product lines, recognizes the entrepreneurial value of individual initiative and performance.

*Cheryl Hood, Environmental Biologist at Milpark, evaluating toxicity of drilling fluid components. These tests are standardized using a specific shrimp species found in U.S. coastal regions.*





Our educational and training programs are designed to reinforce these key features of the Baker Hughes culture. The cornerstone of the Company's educational and training programs is its "Management Growth Institute" (MGI). This week long intensive training session is held three times a year and focuses on management skills and techniques. Employees attending MGI have been nominated and selected by divisional and corporate management based on several factors, including level of responsibility and management potential. Instructors for the sessions include outside professionals and Company executives. Since 1971, numerous division presidents and a significant number of division executives have been included in this highly successful program.

In 1990, the Company began its "Management Training Institute" (MTI) for beginning level managers. To date, MTI's have been held in Houston, Midland, Bakersfield, Lafayette, Tulsa, Oklahoma City and Salt Lake City. Outside of the United States, MTI's have been held in Jakarta, Singapore, Perth, The Hague, Aberdeen, Buenos Aires, Maracaibo, Santiago and Calgary. This program, which emphasizes team building, problem solving and individual development has also been immensely successful. The associations developed by the participants in this program formally enhance the Company's coverage of our customer needs and encourage mutual support among the employees.

These programs are designed specifically for the Company and cover accepted management principles tailored to Baker Hughes' policies, practices and culture. Skills developed in these and

*Librado Medino, a Welder/  
Mechanic at Bird Machine  
repairing and rebuilding  
machine parts used in Bird  
equipment in a variety of  
industrial applications.*





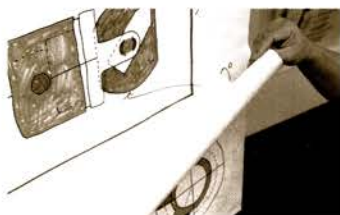
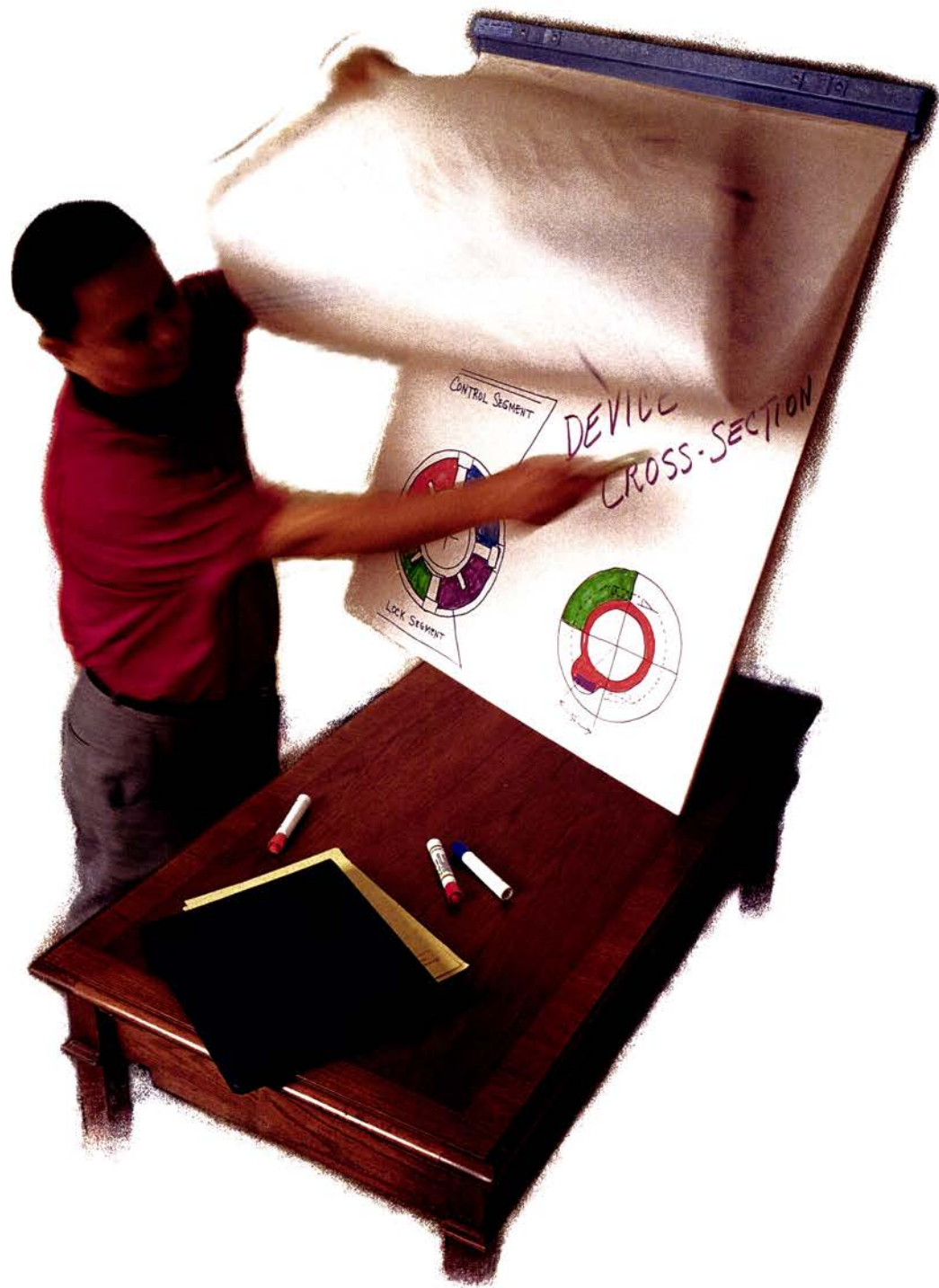
other programs generate favorable results for many years. One of the key benefits of these programs is to build relationships among our division employees. The teamwork and trust that develop work to serve the customer. One of the keys to the continued success of these programs is the participation of top corporate and division management. The development of exceptional management talent is one of the Company's strengths and remains one of its highest priorities.

We take great pride in our highly skilled field service force. The Company has its own field service training center to ensure that our employees are trained in the latest products, services, technologies and modern management techniques. Service personnel are provided classroom and hands-on instruction, including on-site, real-time situations where appropriate. In addition to providing the invaluable benefit of a realistic field environment, the center is also used for customer training and product exposure.

The Company's large international presence requires field service personnel from a variety of cultures and backgrounds. Programs to provide proper training are worldwide, with a recent emphasis on cross training to broaden skills and provide knowledgeable people able to cover a larger base of products and services. Building upon the diversity of our products and services and the strengths and multiple skills of our work force, the Company recently introduced its Integrated

*Greg Paladio, Property Administrator for Milpark in a Management Training Institute session. These worldwide programs developed by the Corporation develop self reliance and team building skills for middle managers.*





Engineering Services (IES) concept. This concept coordinates our divisions' various technologies in both the planning and execution phases of drilling oil and gas wells. IES is designed to reduce the cost of finding and producing hydrocarbons. It brings to the customer our specialists in drilling bits, drilling fluids, directional drilling and other disciplines necessary to provide an integrated and efficient approach to drilling and well completion.

Our field service as well as our manufacturing employees are also trained in the total quality concept which is a hallmark of Baker Hughes.

Total quality, a term applied to formal and informal programs many of our customers are practicing, is an effort to eliminate product and service failures in the process of drilling for and producing oil and gas. Meeting our customers' requirements in this area requires the commitment of all of our employees. The training programs offered to our field service and manufacturing employees are an integral part of achieving low product failure rates, but design quality is of equal importance. The hiring and development of engineers and scientists is also an important aspect of the Company's dedication to total quality and lowering our customers' cost of doing business. Baker Hughes' investment in research and engineering has risen faster than revenues in recent years as the technological leadership for which the Company is noted has been expanded.

The continuing strategic focus of the Company concentrates

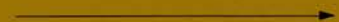
*Curtis Sammuels, Class A  
inspector at Baker Service  
Tools. The business climate con-  
tinues to increase emphasis on  
total quality programs to reduce  
casualty time in the oil fields.*



on our markets, our products and services, our financial strength and our human resource assets. Adapting our strategy to local geographic conditions is a continuing challenge. Accomplishing financial goals while at the same time being a force for social improvement is one of the Company's successes. As a large employer in many areas of the world beset by economic and social unrest, the Company's open, unbiased employment policies meet the highest standards. Baker Hughes has operations in some very difficult and challenging locations. Bringing our standards and programs to some of these remote areas has had significant positive impact. The Company provides educational assistance and employee benefits in many areas of the world, which are of immense value to the local populations.

The Company takes pride in the diversity of its people and their various contributions to its success. Achieving maximum financial return for our stockholders requires the contributions of a productive work force. Providing an environment in which people like to work and in which their contributions are visible, recognized and rewarded is the means by which that productivity is achieved. At Baker Hughes, the goal is for everyone to have a positive and challenging work place; feel that what they do makes a real difference; think for themselves; and work as partners with management in pursuing common goals. Although difficult to achieve, this goal remains the guiding principle in the Company's human resource management.

*Ron Divine, Drilling Engineering Coordinator for IES Western Hemisphere, developing a well plan for customer presentation. Total drilling performance is a growing market for the Company's products and services.*









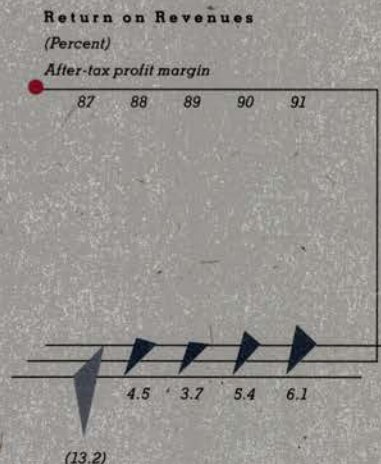
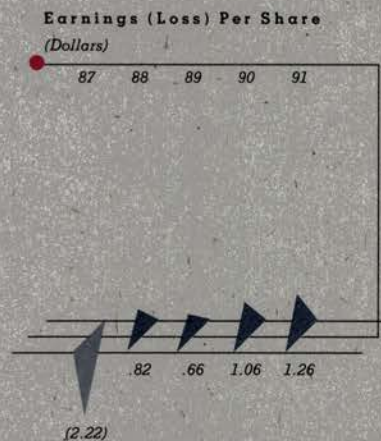
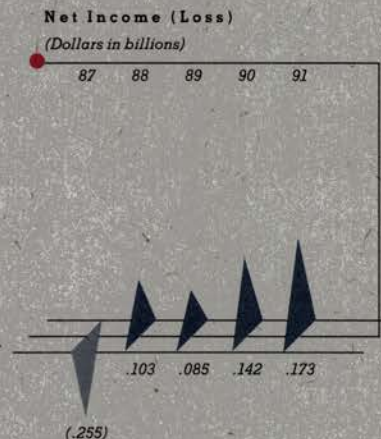
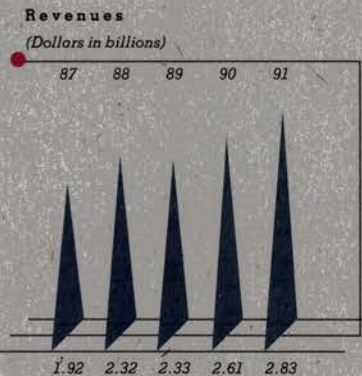
## Financial and Organizational Review

### Financial Review

Baker Hughes Incorporated's revenues in 1991 were \$2.83 billion, up 8.2% from 1990. The increase in revenues results from relatively strong United States oilfield activity in the first half of the fiscal year and strong international oilfield activity throughout the fiscal year. Increased revenues from the mid-1990 acquisitions of Eastman Christensen and the instrumentation units of Tracor Holdings and the 1991 acquisition of ChemLink were virtually offset by the impact of the 1990 disposition of 71% of BJ Services. Prior year consolidated results include \$286.2 million of revenue from BJ Services. The Company's foreign revenues accounted for 61.3% of total revenues in 1991 as compared to 56.8% in 1990.

Operating income for 1991 was \$232.5 million, an increase of \$55.9 million or 31.6% from last year's \$176.6 million. This improvement results from the revenue increase and an improved quality of revenue mix resulting from the Company's recent acquisitions and divestitures and its strong presence in significant product line and geographic markets. Total costs and expenses increased by \$158.2 million, or 6.5%, from the prior year, which is less than the 8.2% increase in revenues, reflective of continuing cost control programs and the improved revenue mix. Total costs and expenses include unusual charges—net of \$62.9 million in 1991 and \$66.8 million in 1990. Major items included in the 1991 unusual charges-net are a gain of \$17.6 million from the sale of the net assets of the TOTCO division, a \$19.4 million charge for litigation and insurance claims and a \$52.2 million charge for the restructuring of the Hughes Tool Company division. In 1990, the major items included in unusual charges-net were \$33.1 million for litigation and product liability claims and \$22.6 million for geographic and product line restructurings.

Results for 1990 and 1991 include the net gains arising from the sale of the Company's interests in BJ Services. In 1990, the Company sold 71% of its holdings in BJ Services through an initial public offering and in 1991, the Company sold its remaining 29% interest in an underwritten public offering.



**Financial and Organizational Review (Continued)**

Interest expense increased by \$6.1 million or 7.9% to \$83.6 million. The increase results from higher average debt outstanding during 1991, primarily as a result of the ChemLink acquisition at the beginning of the year. Interest income declined by \$7.8 million reflecting higher average cash and short-term investment balances in 1990 as cash and short-term investments were accumulated in the first half and again near the end of 1990 to fund major acquisitions. Net income increased 22.0% to \$173.5 million. The increase results from improved operating results and a lower effective tax rate. The major reason for the lower tax rate was a tax law change in Norway which benefited the Company by \$5.3 million in the fourth quarter.

Earnings per share of \$1.26 is \$.20, or 18.9%, higher than the prior year.

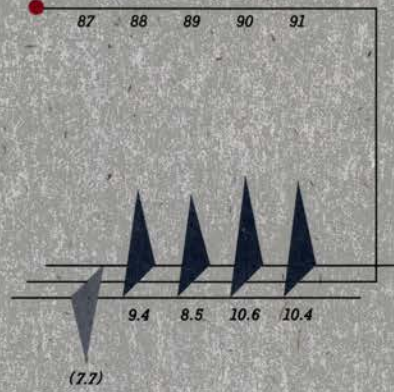
*Capital Resources and Liquidity*

At year-end, the Company had \$51.7 million of cash and cash equivalents as compared to \$124.6 million at the end of 1990. This decrease reflects the accumulation of cash primarily from the Company's July 1990 sale of its 71% interest in BJ Services at the end of last year to partially fund the ChemLink acquisition which closed in October 1990. The current ratio was 1.93 at the end of this year as compared to 2.07 at the end of last year. The decrease results primarily from the year-to-year decrease in cash and cash equivalents and the \$73.4 million reclassification from long-term debt to short-term debt of the Company's zero coupon notes that mature in February of 1992. Total debt outstanding increased slightly to \$646.9 million from \$640.2 million at the end of 1990. The debt to equity ratio improved from .450 last year to .419 at the end of this year.

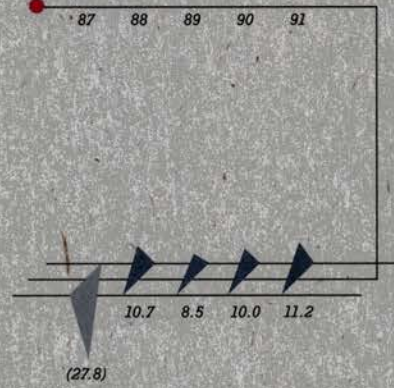
Dividends on common stock amounted to \$63.4 million in 1991. Dividends on common and preferred stock totalled \$58.4 million and \$6.2 million, respectively, in 1990. The Company redeemed all of the preferred stock in August 1990 in exchange for 3.9 million shares of the Company's common stock.

Capital additions of \$161.2 million were put in place during 1991, up \$28.4 million from \$132.8 million last year. The bulk of the Company's capital

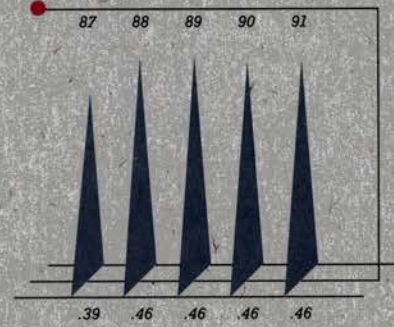
**Earnings on Assets**  
(Percent)  
Based on average total assets and income before gross interest expense and taxes



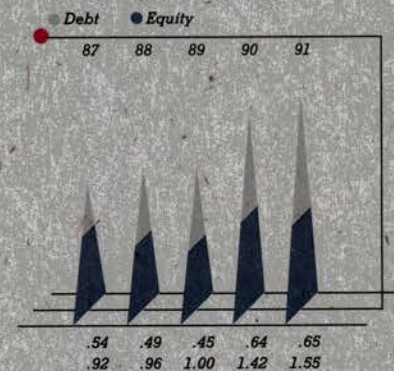
**Return on Equity**  
(Percent)  
Based on year-end stockholders' equity



**Common Stock Dividends Paid**  
(Per share)



**Stockholders' Equity and Debt**  
(Dollars in billions)  
Includes long and short-term debt



expenditures continue to address productivity, modernization and technology. Excess costs arising from acquisitions increased by \$90.8 million to \$666.1 million at the end of 1991. The increase results from the ChemLink and other acquisitions offset by amortization during the year.

Subsequent to year-end the Company sold the Eastern Hemisphere operations of its Baker Hughes Tubular Services ("BHTS") division to Tuboscope Corporation for \$50 million in cash, 1.7 million shares of common stock and \$10 million of preferred stock of Tuboscope Corporation. The Company also intends to sell the Western Hemisphere operations of BHTS. Accordingly, the net assets relating to all of the operations of BHTS have been classified as other current assets or other long-term assets in the accompanying consolidated financial statements in relation to the consideration received and the timing of the anticipated sale of the remaining operations.

#### Organization

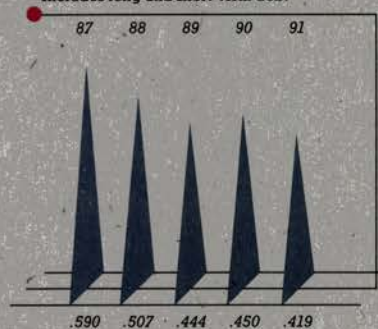
In November 1990, the Company acquired Elder Oil Tools which is now part of the Baker Oil Tools division. Subsequent to year-end, the Tri-State Oil Tools division was transferred from the Baker Hughes Drilling Equipment group to the Baker Hughes Production Tools group and was merged into the Baker Service Tools division. Edwin C. Howell continues as president of Baker Service Tools.

Also subsequent to year-end, the Develco division was transferred from the Baker Hughes Production Tools group to the Baker Hughes Drilling Equipment group and the Baker Hughes MWD division was merged into Develco. R. Patrick Herbert, formerly the president of Baker Hughes MWD, was named president of Develco.

The Baker Hughes Process Technologies Europe division was merged into the appropriate operating divisions of the technology groups within the Baker Hughes Process Technologies group. In March 1991, GEHO Pumps, a Netherlands based company, was acquired and became part of the Baker Hughes Pump Group.

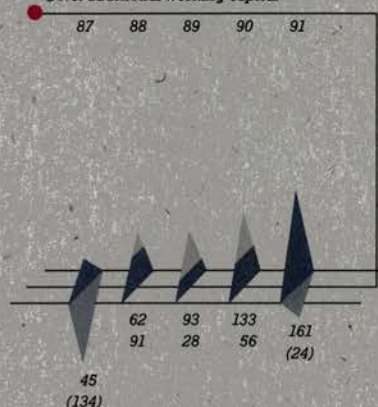
#### Debt/Equity Ratio

Includes long and short-term debt



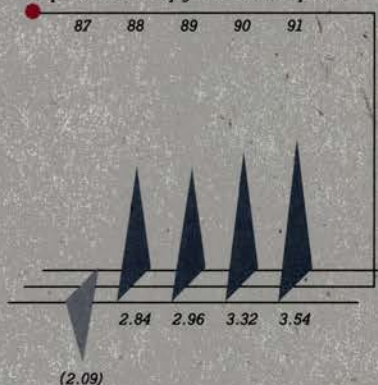
#### Incremental Asset Investment (Dollars in millions)

Capital expenditures  
Net additional working capital

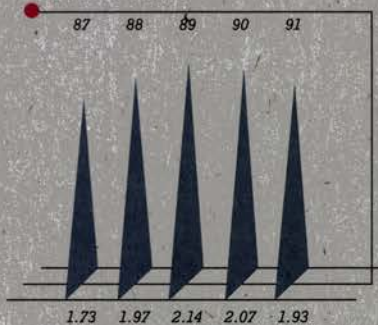


#### Interest Coverage

Pretax income plus gross interest expense divided by gross interest expense

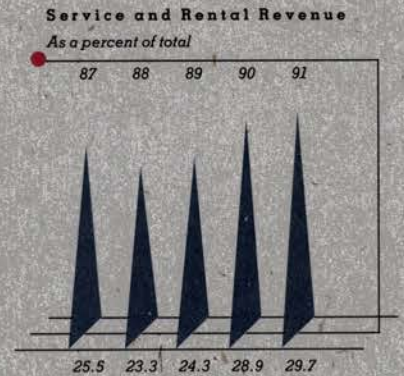
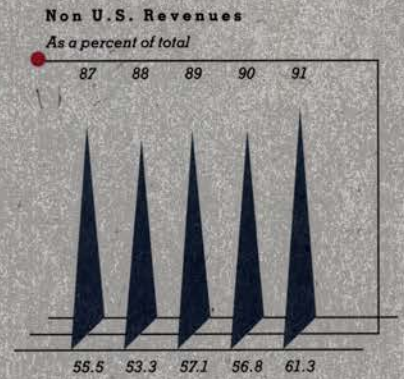


#### Current Ratio



Outlook

Market indicators for our businesses are somewhat mixed as we enter fiscal 1992. Relatively low oilfield activity in the United States is countered to a large degree by strong international activity in selected regions. The lingering recessionary environment will continue to make it difficult to forecast activity levels for our Process Technologies group as well as for our oilfield operations. Expectations for 1992 call for oil prices to remain relatively stable with natural gas prices being a variable that likely has more upside than downside potential. Worldwide economic recovery, although somewhat hesitant, is expected to trend upward during the year. The Company's focus on its core businesses, technology and the recent acquisitions and divestitures have positioned the Company to take advantage of available market opportunities. Our customers' desire for high quality, environmentally safe and price competitive products and services causes us to believe that Baker Hughes will perform well in this somewhat uncertain market environment.



## Management Report of Financial Responsibilities

The management of Baker Hughes Incorporated is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's informed judgments and estimates.

In fulfilling its responsibilities for the integrity of financial information, management maintains and relies on the Company's system of internal control. This system includes written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operational reviews by a professional staff of corporate auditors and the independent public accountants. The system is designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements. Management believes that, as of September 30, 1991, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's Code of Ethical Conduct which is distributed throughout the Company. Management maintains a systematic program to assess compliance with the policies included in the code.

The Board of Directors, through its Audit/Ethics Committee composed solely of non-employee directors, reviews the Company's financial reporting, accounting and ethical practices. The Audit/Ethics Committee recommends to the Board of Directors the selection of independent public accountants and reviews their fee arrangements. It meets periodically with the independent public accountants, management and the corporate auditors to review the work of each and the propriety of the discharge of their responsibilities. The independent public accountants and the corporate auditors have full and free access to the Audit/Ethics Committee, without management present, to discuss auditing and financial reporting matters.



J. D. Woods  
Chairman, President  
and Chief Executive Officer



G. S. Finley  
Vice President and  
Controller

## Independent Auditors' Report

Stockholders of Baker Hughes Incorporated:

We have audited the consolidated statements of financial position of Baker Hughes Incorporated and its subsidiaries as of September 30, 1991 and 1990, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and its subsidiaries at September 30, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 1 to consolidated financial statements, the Company changed its method of accounting for income taxes in 1990.

*Deloitte & Touche*

Houston, Texas

November 13, 1991

## Consolidated Statements of Operations

Years ended September 30,

(In thousands of dollars, except per share amounts)

1991

1990

1989

<i>Revenues:</i>			
Sales	\$1,989,336	\$1,859,393	\$1,763,329
Services and rentals	839,021	754,864	564,666
Total	<u>2,828,357</u>	<u>2,614,257</u>	<u>2,327,995</u>
<i>Costs and Expenses:</i>			
Cost of sales	1,160,915	1,100,762	1,066,835
Cost of services and rentals	402,365	452,209	376,090
Research and engineering	102,558	82,790	70,449
Marketing and field service	617,226	502,720	431,368
General and administrative	221,907	217,827	208,773
Amortization of goodwill and other intangibles	27,926	14,476	5,663
Unusual charges—net	62,946	66,846	
	<u>2,595,843</u>	<u>2,437,630</u>	<u>2,159,178</u>
Operating income	232,514	176,627	168,817
Gain on sale of subsidiary stock	(56,103)	(65,721)	
Interest expense	83,561	77,465	60,037
Interest income	(7,295)	(15,132)	(8,808)
Income before income taxes and extraordinary item	212,351	180,015	117,588
Income taxes	38,893	37,838	34,837
Income before extraordinary item	<u>173,458</u>	<u>142,177</u>	<u>82,751</u>
Extraordinary item:			
Reduction of income taxes arising from carry-forward of prior years' U.S. operating losses			2,272
Net income	<u>\$ 173,458</u>	<u>\$ 142,177</u>	<u>\$ 85,023</u>
<i>Income Per Share of Common Stock:</i>			
Income before extraordinary item	\$1.26	\$1.06	\$.64
Extraordinary item			.02
Net income	<u>\$1.26</u>	<u>\$1.06</u>	<u>\$.66</u>

See Notes to Consolidated Financial Statements

# Consolidated Statements of Financial Position

September 30,  
(In thousands of dollars)

1991

1990

*Current Assets:*

Cash and short-term investments, at cost, which approximates market value	\$ 51,709	\$ 124,585
Receivables—less allowance for doubtful accounts: 1991, \$33,446; 1990, \$35,220	606,130	551,258
Inventories:		
Finished goods	442,864	389,303
Work in process	80,069	78,933
Raw materials	113,024	125,502
Total inventories	635,957	593,738
Prepaid expenses and other current assets	63,880	36,416
Total current assets	1,357,676	1,305,997
Property:		
Land	41,651	45,673
Buildings	304,178	309,279
Machinery and equipment	718,936	750,833
Rental tools and equipment	420,620	383,257
Total property	1,485,385	1,489,042
Accumulated depreciation	(842,656)	(836,761)
Property—net	642,729	652,281
Other assets:		
Property held for disposal	66,796	73,135
Investments	90,415	84,532
Long-term notes receivable	23,413	27,726
Other assets	58,426	64,879
Excess costs arising from acquisitions—less accumulated amortization: 1991, \$44,304; 1990, \$22,551	666,147	575,394
Total other assets	905,197	825,666
<b>Total</b>	<b>\$2,905,602</b>	<b>\$2,783,944</b>

See Notes to Consolidated Financial Statements



September 30,  
(In thousands of dollars)

1991

1990

*Current Liabilities:*

Accounts payable-trade	\$ 260,711	\$ 266,498
Short-term borrowings	25,657	26,075
Current portion of long-term debt	75,962	2,673
Accrued employee compensation and benefits	134,123	126,951
Income taxes payable	39,835	30,379
Accruals relating to unusual charges	36,252	29,542
Taxes other than income	21,027	17,949
Accrued insurance	25,346	23,941
Accrued interest	19,772	26,116
Other accrued liabilities	66,587	79,490
<b>Total current liabilities</b>	<b>705,272</b>	<b>629,614</b>
Long-term debt	545,242	611,501
Deferred income taxes	61,039	68,570
Other long-term liabilities	44,980	41,129
Minority interest	3,708	8,845
Commitments and contingencies		

*Stockholders' Equity:*

Common stock, \$1 par value (authorized 400,000,000 shares; outstanding 138,396,000 shares in 1991, and 137,457,000 shares in 1990)	138,396	137,457
Capital in excess of par value	1,256,325	1,240,657
Retained earnings	239,610	129,557
Cumulative foreign currency translation adjustment	(88,970)	(83,386)
<b>Total stockholders' equity</b>	<b>1,545,361</b>	<b>1,424,285</b>
<b>Total</b>	<b>\$2,905,602</b>	<b>\$2,783,944</b>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Stockholders' Equity

For the three years ended September 30, 1991 (In thousands of dollars)	\$3.50 Convertible Exchangeable Preferred Stock (\$1 Par Value)	Common Stock (\$1 Par Value)	Capital In Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Total
<i>Balance, September 30, 1988</i>	\$2,000	\$118,419	\$895,758	\$28,761	\$(83,450)	\$961,488
Net income				85,023		85,023
Cash and accrued dividends on \$3.50 convertible exchangeable preferred stock (\$3.50 per share)				(7,000)		(7,000)
Cash dividends on common stock (\$ .46 per share)				(54,784)		(54,784)
Foreign currency translation adjustment					(5,648)	(5,648)
Stock issued pursuant to employee stock plans		1,857	20,544			22,401
Other	(1)	159	1,742			1,900
<i>Balance, September 30, 1989</i>	1,999	120,435	918,044	52,000	(89,098)	1,003,380
Net income				142,177		142,177
Cash and accrued dividends on \$3.50 convertible exchangeable preferred stock (\$3.50 per share)				(6,245)		(6,245)
Cash dividends on common stock (\$ .46 per share)				(58,375)		(58,375)
Foreign currency translation adjustment					5,712	5,712
Stock issued pursuant to employee stock plans		2,486	30,385			32,871
Redemption of \$3.50 convertible exchangeable preferred stock	(1,999)	3,920	(1,921)			
Issuance of common stock warrants			36,800			36,800
Issuance of common stock		10,350	254,036			264,386
Other		266	3,313			3,579
<i>Balance, September 30, 1990</i>		137,457	1,240,657	129,557	(83,386)	1,424,285
Net income				173,458		173,458
Cash dividends on common stock (\$ .46 per share)				(63,405)		(63,405)
Foreign currency translation adjustment					(5,584)	(5,584)
Stock issued pursuant to employee stock plans		910	15,243			16,153
Other		29	425			454
<i>Balance, September 30, 1991</i>		\$138,396	\$1,256,325	\$239,610	\$(88,970)	\$1,545,361

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows

Years ended September 30,  
(In thousands of dollars)

	1991	1990	1989
<i>Cash flows from operating activities:</i>			
Net income	\$ 173,458	\$ 142,177	\$ 85,023
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	110,996	98,086	92,951
Other assets and debt discount	42,289	27,063	17,393
Unusual charges-net	62,946	66,846	
Gain on sale of subsidiary stock	(56,103)	(65,721)	
Gain on disposal of assets	(9,151)	(3,742)	(8,559)
Change in receivables	(45,765)	(55,906)	(18,880)
Change in inventories	(36,660)	(19,335)	7,486
Change in accounts payable-trade	(12,509)	40,510	15,007
Changes in other current assets and liabilities	(86,860)	(71,173)	(29,694)
Changes in other noncurrent assets and liabilities	(21,312)	(20,560)	27
Foreign currency translation loss-net	2,402	5,776	17,442
Net cash flows from operating activities	123,731	144,021	178,196
<i>Cash flows from investing activities:</i>			
Property additions	(161,203)	(132,784)	(92,702)
Proceeds from disposal of assets	40,642	35,274	44,200
Proceeds from sale of subsidiary stock	94,975	198,797	
Proceeds from disposition of businesses	20,000	14,000	114,905
Acquisition of equity securities	(4,000)		
Acquisitions of businesses, net of cash acquired	(136,103)	(674,562)	(95,159)
Net cash flows from investing activities	(145,689)	(559,275)	(28,756)
<i>Cash flows from financing activities:</i>			
Proceeds from issuance of common stock		264,386	
Proceeds from borrowings	95,305	325,241	44,888
Reduction of borrowings	(101,238)	(143,090)	(99,302)
Proceeds from exercise of stock options and stock purchase grants	16,153	32,871	22,401
Cash dividends	(63,405)	(64,620)	(61,784)
Net cash flows from financing activities	(53,185)	414,788	(93,797)
Effect of exchange rate changes on cash	2,267	9,365	(7,780)
(Decrease) increase in cash and short-term investments	(72,876)	8,899	47,863
Cash and short-term investments, beginning of year	124,585	115,686	67,823
Cash and short-term investments, end of year	\$ 51,709	\$ 124,585	\$115,686

See Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements

### Note 1 *Summary of Significant Accounting Policies:*

**Principles of consolidation:** The consolidated financial statements include the accounts of Baker Hughes Incorporated and all majority-owned subsidiaries and partnerships (the "Company"). Investments in which ownership interest ranges from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for using the equity method. Other investments are accounted for using the cost method. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to conform prior years' data to the current presentation.

**Inventories:** Inventories are stated primarily at the lower of average cost or market.

**Property:** Property is stated principally at cost less accumulated depreciation, which is generally provided by using the straight-line method over the estimated useful lives of individual items. The Company manufactures a substantial portion of its rental tools and equipment, and the cost of these items includes direct and indirect manufacturing costs.

**Property held for disposal:** Property held for disposal is stated at the lower of cost or estimated net realizable value.

**Excess costs arising from acquisitions:** Excess costs arising from acquisitions of businesses are amortized on the straight-line method over the lesser of expected useful life or forty years.

**Foreign currency translation:** Gains and losses resulting from balance sheet translation of foreign operations where a foreign currency is the functional currency are included as a separate component of stockholders' equity. Gains and losses resulting from balance sheet translation of foreign operations where the U.S. dollar is the functional currency are included in the consolidated statements of operations.

**Income taxes:** Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes," which changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the statement of financial position. Deferred income tax assets and liabilities arise from differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. Deferred tax balances are calculated by using the tax rate as enacted to determine the amount of taxes payable or refundable in future years. Under the provisions of SFAS No. 96, the Company elected not to restate prior years' consolidated financial statements and has determined that the cumulative effect of the change in accounting for income taxes was insignificant. In prior years, the Company accounted for income taxes using Accounting Principles Board Opinion No. 11 ("APB No. 11").

**Income per share:** Income per share amounts are based on the weighted average number of shares outstanding during the respective years (137,817,000 in 1991, 128,319,000 in 1990, and 119,091,000 in 1989) and excludes the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income is adjusted for dividends on preferred stock in 1990 and 1989.

**Statement of cash flows:** The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Note 2 Acquisitions and Dispositions:**

On October 18, 1990, the Company acquired all of the outstanding shares of the ChemLink Group, Inc. ("ChemLink"), a privately held company, for \$136,103,000. The purchase price was funded with \$32,603,000 in available cash and \$103,500,000 of proceeds from short-term borrowings. ChemLink is a leading supplier of specialty chemical products and services for oil production, petroleum pipelines and industrial processes. Proforma results of operations as if ChemLink had been acquired at the beginning of fiscal 1991 have not been presented as the effect of the acquisition on the Company's consolidated results of operations is not materially different than those presented.

On November 28, 1990, the Company completed the disposition of the assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company, to Varco International, Inc. ("Varco") for 2,346,041 shares of Varco common stock and approximately \$20,000,000 in cash. As a result of this transaction, the Company recognized a gain of \$17,575,000 with no provision for income taxes due to the Company's U.S. operating loss carryforwards. The TOTCO division manufactures, sells and rents a variety of instrumentation and analytical equipment utilized on drilling rigs and certain other oilfield and industrial applications. Prior to the disposition of TOTCO, the Company owned 3,000,000 shares of Varco's outstanding common stock and an option to acquire an additional 1,000,000 shares. As a result of the disposition of TOTCO and exercise of the warrant, the Company owns 6,346,041 shares, or approximately 20%, of Varco's outstanding common stock and began accounting for its investment using the equity method. The Company also holds a long-term note receivable from Varco of \$4,400,000.

In July 1990, BJ Services Company ("BJ Services"), a wholly owned subsidiary of the Company, completed an initial public offering of its common stock, after which the Company's investment in BJ Services decreased to approximately 29%. BJ Services participates in the pumping services segment of the oilfield service market and is primarily involved in the cementing, fracturing and acidizing of oil and gas wells. The Company received \$198,797,000 in cash and recognized a gain of \$65,721,000 with no provision for income taxes due to the Company's capital loss and U.S. operating loss carryforwards. On March 7, 1991, the Company sold its remaining 29% interest in BJ Services in an underwritten public offering of common stock. Net cash proceeds from the March sale were \$94,975,000, resulting in a gain of \$56,103,000 also with no provision for income taxes due to the Company's capital loss and U.S. operating loss carryforwards. As a result of these sales, the Company is no longer a stockholder of BJ Services. The Company accounted for its investment in BJ Services using the equity method of accounting from the date of the initial public offering until the sale of its remaining shares of BJ Services' common stock was completed (see Note 4 below).

On April 11, 1990, the Company acquired Eastman Christensen Company ("ECC") from Norton Company. ECC is the leading worldwide provider of directional and horizontal drilling systems and is also a leading manufacturer of diamond drill bits. Total consideration for the acquisition was \$561,500,000 in cash and warrants for the purchase of up to eight million shares of the Company's common stock at a purchase price of \$36.75 per share. The warrants expire on March 31, 1995. The total cost, including acquisition costs and valuation of the common stock warrants, was \$602,300,000. In addition to using available cash, the Company funded the cash portion of the purchase price by issuing common stock and borrowings from banks. In February 1990, the Company completed a public offering of 10,350,000 shares of its common stock at a price of \$26.375 per share resulting in net proceeds of \$264,386,000. Long-term bank borrowings of \$231,500,000 provided the remainder of the financing.

On May 25, 1990, the Company purchased the Instruments Group ("Instruments") from Tracor Holdings, Inc. for \$93,700,000 in cash. Instruments designs, develops, manufactures and markets a broad range of analytical and other instruments for laboratory, medical and worldwide industrial markets. The purchase price was funded from the issuance of commercial paper and bank borrowings.

The above acquisitions have been accounted for using the purchase method of accounting and accordingly, the costs of the acquisitions have been allocated to assets acquired and liabilities assumed based on their estimated fair market values at the dates of acquisition. The operating results are included in the consolidated statements of operations from the respective acquisition dates.

During each of the three years in the period ended September 30, 1991, the Company acquired and disposed of several additional businesses, none of which, individually or in the aggregate, had a significant effect on the Company's consolidated results of operations for any of the periods presented.

Subsequent to year-end, the Company sold the Eastern Hemisphere operations of Baker Hughes Tubular Services ("BHTS"), a wholly owned subsidiary of the Company, to Tuboscope Corporation ("Tuboscope") for total consideration of \$74,964,000. The consideration consisted of \$50,000,000 in cash, 1,686,047 shares of Tuboscope common stock and \$10,000,000 of Tuboscope convertible preferred stock. The gain on the sale of approximately \$30,000,000 will be recognized in the first quarter of fiscal 1992. The Company also intends to sell the remaining Western Hemisphere operations of BHTS. Accordingly, the net assets of the BHTS operations have been classified as other current assets and noncurrent assets at September 30, 1991 in relation to the consideration received and the timing of the anticipated sale.

The Company closed on the sale of five of the six business units comprising its Mining Equipment group, which manufactures and services underground mining equipment, on July 31, 1989 and received approximately \$115,000,000 in cash. At that time, an agreement was also reached for the sale of the one remaining business unit. During 1990, the Company received \$15,000,000 in cash plus interest when sale of the remaining unit was completed. Revenues of the Mining Equipment group for the ten months ended July 31, 1989 are included in the Company's 1989 consolidated statement of operations and amounted to \$192,000,000. The loss recognized on disposition was not significant.

**Note 3 Unusual Charges—net:**

During 1991, the Company recognized net unusual charges consisting of the following items (in thousands):

Gain on disposition of TOTCO net assets	\$(17,575)
Litigation and insurance claims	19,408
Hughes Tool Company restructuring	52,200
Product line restructurings	4,100
Other	4,813
	\$ 62,946

As described in Note 2, in November 1990, the Company recognized a gain from the disposition of the net assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company.

With regard to the judgment against the Company and its former subsidiary, BJ Services, as discussed in Note 12, in the first quarter of 1991 the Company revised its estimate of the ultimate cost for the disposition of this suit through appeal or settlement. Based upon additional complexities of the suit and the expected longevity of the appeals process, the Company anticipates that the ultimate cost will be greater than previously expected. Accordingly, an additional amount was accrued corresponding to this revised estimate. In addition, the Company accrued charges for the settlement of insurance and litigation claims relating to certain disposed businesses and other items.

During the second quarter of 1991, the Company recognized a \$52,200,000 unusual charge which relates primarily to a restructuring of the domestic rockbit manufacturing operations of Hughes Tool Company, a wholly owned subsidiary of the Company. The restructuring includes a writedown of nonproductive facilities and machinery and provision for other costs.

During the fourth quarter of 1991, the Company determined that the restructuring of several product lines was necessary. Of the \$4,100,000 accrued for these restructurings, the majority of the charge relates to the closure of two manufacturing facilities and the relocation of certain employees.

In the fourth quarter of 1990, the Company recognized \$66,846,000 of unusual charges consisting of the following items (in thousands):

Litigation and product liability claims	\$33,100
Geographic and product line restructurings	22,646
Impairment of assets relating to Iraq and Kuwait	4,600
Settlement of warrant obligation	4,500
Other	2,000
	\$66,846

As discussed in Note 12, the Company recorded a charge with regard to the judgment rendered against it and its former subsidiary, BJ Services to accrue the Company's estimate of the ultimate cost for the disposition of this suit through appeal or settlement. In addition, the Company accrued a warranty settlement related to a product line disposed of in 1988.

During the fourth quarter of 1990, the Company determined that the geographic or product line restructuring of several businesses was necessary. Of the \$22,646,000 accrued for these restructurings, the most significant charge relates to the Company's withdrawal from substantially all oilfield operations in Brazil.

Iraq's invasion of Kuwait in 1990 and the resulting government actions by the United States and certain other countries blocking property of and prohibiting transactions with Iraq and Kuwait created uncertainty as to certain assets relating to these two countries. As a result, the Company wrote these assets down to their estimated net realizable value.

In July 1990, the Company reached an understanding with Asea Brown Boveri ("ABB") to exchange 150,000 shares of the Company's common stock and its 10% investment in Vetco Gray, Inc. ("V-G") for release from a warrant issued by the Company pursuant to which shares of common stock of V-G are exchangeable for up to 1,146,823 shares of the Company's common stock. In the third quarter of 1991, the Company was able to settle this exchange agreement with ABB with a cash payment of \$4,311,000 instead of issuing 150,000 shares of the Company's common stock.

Notes to Consolidated Financial Statements (Continued)

**Note 4** *Gain on Sale of Subsidiary Stock:*

As described in Note 2, in July 1990, BJ Services, a wholly owned subsidiary of the Company, completed an initial public offering of its common stock, after which the Company's investment in BJ Services decreased to approximately 29%. The Company recognized a gain of \$65,721,000 as a result of this transaction. In March 1991, the Company recognized a gain of \$56,103,000 on the sale of its remaining shares of BJ Services' common stock.

**Note 5** *Indebtedness:*

Long-term debt at September 30, 1991 and 1990 consisted of the following:

(In thousands) 1991 1990

Zero Coupon Guaranteed Notes due 1992 with an effective interest rate of 14.48%, net of unamortized discount of \$4,405 (\$13,988 in 1990)	\$ 73,430	\$ 63,847
6% Debentures due 2002 with an effective interest rate of 14.66%, net of unamortized discount of \$103,255 (\$107,307 in 1990)	121,745	117,693
4.125% Swiss Franc 200 million Bonds due 1996 (principal and interest payments hedged through a currency swap at an effective interest rate of 7.82%)	105,199	104,525
Revolving Credit Facilities due through 1995 with an average interest rate of 9.97% at September 30, 1991	172,674	182,778
9% Debentures due November 1, 2008	18,042	18,033
9.5% Convertible Subordinated Debentures due December 15, 2006 convertible into common stock at \$58.91 per share	98,332	98,289
Convertible Subordinated Debentures due through 2001 with an interest rate at September 30, 1991 of 6.42%	17,218	12,550
Other indebtedness with an average interest rate of 7.91% at September 30, 1991	14,564	16,459
<b>Total</b>	<b>621,204</b>	<b>614,174</b>
Less current maturities	75,962	2,673
<b>Total long-term debt</b>	<b>\$545,242</b>	<b>\$611,501</b>

At September 30, 1991, the Company had \$555,200,000 of revolving credit facilities with commercial banks, of which \$515,200,000 is committed. Included in this total are revolving credit agreements signed in



July 1989 aggregating \$300,000,000 with twenty foreign and domestic banks which have maturity dates of July 17, 1994. The rate of interest on borrowings under these arrangements is 3/8% in excess of the London Interbank Offered Rate (LIBOR) for U.S. dollar deposits with a commitment fee of 1/8% per annum on the unused portion. At September 30, 1991, there was \$20,742,000 outstanding under these agreements. Revolving credit agreements aggregating \$255,200,000 with nine foreign banks are also included in the revolving credit facilities. These agreements provide foreign subsidiaries of the Company with local currency and U.S. dollar borrowings at short-term rates of interest. At September 30, 1991, there was \$151,932,000 outstanding under certain of these agreements whose maturity dates range through March 1995. Commitment fees related to these facilities are not significant.

Additional bank lines of credit at September 30, 1991 include \$87,000,000 of short-term money market lines available on an as-offered basis. There are no requirements for commitment fees or compensating balances in connection with these agreements. At September 30, 1991, there was \$5,000,000 outstanding under these agreements. The Company maintains, at all times, unused committed bank lines of credit at least equal to the principal amount of its outstanding commercial paper and money market borrowings.

Redemption of the Zero Coupon Notes due 1992 and the 6% Debentures due 2002 may be made at the option of the Company, in whole or in part, at any time at par plus accrued interest. Furthermore, in the event of certain changes affecting United States or Netherlands Antilles taxation, the Zero Coupon Notes due 1992 may be redeemed prior to maturity at 86.95% (expressed as a percentage of principal amount), together with accrued amortization of original issue discount.

The 9% Debentures due November 1, 2008 have a \$2,400,000 per annum sinking fund requirement which has been satisfied through 2005. These debentures may be redeemed by paying a premium which decreases proportionally from 3.84% at November 1, 1991 until it is eliminated in 2003. The 9.5% Debentures due December 15, 2006 have a \$5,000,000 per annum sinking fund requirement beginning December 15, 1992 and may be redeemed by paying a premium which decreases proportionally from 0.86% at December 15, 1991 until it is eliminated in 1992. Optional payments, not to exceed the amounts of the mandatory sinking funds requirements, may be made in addition to the mandatory payments.

The provisions of the bonds and unsecured credit agreements have an effect on the ability of the Company to, among other things, incur borrowings, sell certain assets, pay cash dividends, acquire other businesses and purchase the Company's capital stock. At September 30, 1991, the Company could pay dividends and purchase the Company's common stock up to an amount not exceeding \$495,680,000.

At September 30, 1991, long-term debt was due in aggregate annual installments of \$75,962,000; \$19,390,000; \$49,999,000; \$126,995,000; and \$112,233,000 in each of the five years in the period ending September 30, 1996.

During the three years ended September 30, 1991, the maximum aggregate short-term borrowings outstanding at any month-end were \$40,703,000, \$29,840,000 and \$55,469,000, respectively; the average aggregate short-term borrowings outstanding based on quarter-end balances were \$26,182,000, \$20,157,000 and \$39,974,000, respectively; and the weighted average interest rates were 15.4%, 16.6% and 18.8%, respectively. The average interest rates on short-term borrowings outstanding at September 30, 1991, 1990 and 1989 were 17.5%, 13.1% and 20.9%, respectively. Throughout the year ended September 30, 1991, substantially all of the Company's short-term borrowings were outside of the United States and denominated in currencies other than the U.S. dollar. A significant portion of such borrowings were in high inflation rate countries in Latin America. These borrowings are used primarily as a means of hedging the Company's exposure to fluctuations in these countries' currencies.

**Note 6** *\$3.50 Convertible Exchangeable Preferred Stock:*

In June 1987, the Company issued 2,000,000 shares of \$3.50 convertible exchangeable preferred stock (\$1 par value per share and \$50 liquidation preference per share). On August 31, 1990, the Company exercised its option and redeemed all of the convertible exchangeable preferred stock in exchange for 3,920,000 shares of the Company's common stock.

**Note 7** *Employee Stock Plans:*

The Company has stock option plans which provide for granting of options for the purchase of common stock to directors, officers and other key employees. Such stock options may be granted subject to terms ranging from one to ten years at a price equal to the fair market value of the stock at the date of grant.

The stock option activity for the Company during 1991, 1990 and 1989 was as follows:

<i>Number of Shares (In thousands)</i>	1991	1990	1989
Stock options outstanding, beginning of year	2,184	3,602	4,469
Changes during the year:			
Granted (per share):			
1991, \$28.50	606		
1990, \$21.95 to \$25.88		696	
1989, \$12.88 to \$15.00			1,092
Exercised (per share):			
1991, \$10.25 to \$28.50	(550)		
1990, \$10.25 to \$25.78		(2,004)	
1989, \$10.25 to \$21.88			(1,283)
Expired	(119)	(110)	(676)
Stock options outstanding, end of year (per share: \$10.25 to \$28.50 at September 30, 1991)	2,121	2,184	3,602

At September 30, 1991, options were exercisable for 1,652,000 shares, and 3,474,000 shares were available for future option grants.

Additionally, the Company has a plan which provides for the sale of convertible debentures to certain officers and key employees. An aggregate of \$30,000,000 principal amount of debentures may be issued under the plan which are convertible into shares of common stock after one year. At September 30, 1991, a total of \$17,218,000 principal amount of debentures are outstanding and convertible into 1,079,000 shares of common stock at \$10.25 to \$28.50 per share.

The Company also has an Employee Stock Purchase Plan (the "Plan") under which there remain authorized and available for sale to employees an aggregate of 1,852,000 shares of the Company's common stock. The maximum number of shares subject to purchase under the Plan is determined on the date of grant and equals the sum of the payroll deductions authorized by each participating employee (up to 10% of regular pay) divided by 85% of the fair market value of a share of common stock at the date of grant. Based on the market price of common stock on the date of grant, the Company estimates that approximately 538,000 shares will be purchased under the Plan on July 31, 1992, at \$22.21 per share. Under the plan, 358,000, 479,000 and 573,000 shares were issued at \$22.31, \$17.00 and \$13.18 per share during 1991, 1990 and 1989, respectively.

**Note 8** *Income Taxes:*

The geographical sources of income before income taxes and extraordinary item for the three years ended September 30, 1991 were as follows:

<i>(In thousands of dollars)</i>	1991	1990	1989
United States	\$ 98,141	\$ 79,696	\$ (7,133)
Foreign	114,210	100,319	124,721
Total income before income taxes and extraordinary item	<u>\$212,351</u>	<u>\$180,015</u>	<u>\$117,588</u>

The provisions (credits) for income taxes for the three years ended September 30, 1991 are summarized as follows:

<i>(In thousands of dollars)</i>	1991	1990	1989
Currently payable:			
United States	\$ 3,003	\$ 721	\$ 245
Foreign	44,401	41,018	32,268
Total currently payable	47,404	41,739	32,513
Deferred—foreign	(8,511)	(3,901)	52
Utilization of prior years' U.S. operating losses			2,272
Total provision for income taxes	<u>\$38,893</u>	<u>\$37,838</u>	<u>\$34,837</u>

Notes to Consolidated Financial Statements (Continued)

In accordance with SFAS No. 96, the Company reported the tax benefit of the utilization of operating loss carryforwards in the provision for income taxes for 1991 and 1990. In 1989, the tax benefit of the utilization of net operating loss carryforwards is reflected as an extraordinary item in accordance with APB No. 11.

The consolidated effective income tax rates for the three years ended September 30, 1991 varied from the United States statutory income tax rate for the reasons set forth below:

<i>% of Income Before Taxes</i>	1991	1990	1989
Statutory income tax rate	34.0	34.0	34.0
Goodwill amortization	2.8	1.5	.4
Utilization of operating loss carryforward	(18.5)	(15.8)	
Utilization of capital loss carryforward	(8.4)		
Gain on sale of subsidiary stock		(6.6)	
State taxes based on income—net of United States income tax benefit	.7	.3	.1
Foreign earnings at varying tax rates	6.9	6.4	(5.6)
Other—net	.8	1.2	.7
Effective income tax rate	18.3	21.0	29.6

The sources and amounts of deferred taxes for the three years ended September 30, 1991 were as follows:

<i>(In thousands of dollars)</i>	1991	1990	1989
Depreciation expense	\$ 8,651	\$(2,608)	\$(2,047)
Inventory valuations—net	(5,232)	(3,216)	(3,036)
Unusual charges	(3,320)	(359)	3,248
Foreign exchange effect on historical assets	(7,879)	(3,079)	
Zero coupon bonds	(5,895)	508	1,886
Other—net	5,164	4,853	1
Total deferred tax provision	\$ (8,511)	\$(3,901)	\$ 52

Deferred income tax assets and liabilities relate primarily to basis differences in property, inventory, accruals for unusual charges and foreign exchange effect on historical assets.

In 1991 and 1990, the Company utilized approximately \$115,441,000 and \$83,872,000, respectively of U.S. operating loss carryforwards for financial reporting purposes. The related tax benefits of \$39,250,000 and \$28,517,000 for 1991 and 1990, respectively have been reflected in the provision for income taxes. At September 30, 1991, the Company had approximately \$112,103,000 of U.S. operating loss carryforwards remaining for financial reporting purposes, which expire in varying amounts between 2001 and 2009. For federal income tax purposes, the Company utilized all of its remaining net operating loss carryforwards in 1991.

In 1991, the Company utilized approximately \$52,412,000 of U.S. capital loss carryforwards for financial reporting purposes and the related tax benefit of \$17,820,000 has been reflected in the provision for income tax.

At September 30, 1991, the Company had approximately \$16,506,000 of investment tax credits and \$8,100,000 of alternative minimum tax credits available to offset future payments of federal income taxes. The investment tax credits expire in varying amounts between 1994 and 2001. The investment tax credit and alternative minimum tax credit carryforwards have not been recognized for financial reporting purposes. The Company had approximately \$31,956,000 of foreign tax credits available to offset future payments of federal income taxes at September 30, 1991. If not used, the foreign tax credits expire in varying amounts between 1992 and 1996. The foreign tax credit carryforwards have not been recognized for financial reporting purposes.

At September 30, 1991, the Company had realized for tax purposes approximately \$53,866,000 in deductions relating primarily to the exercise of employee stock options. The related tax benefit of \$18,314,000 will be included as an increase to capital in excess of par value upon the final realization of the U.S. operating loss and tax credit carryforwards.

The Company has not provided deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings of approximately \$383,919,000 at September 30, 1991, if remitted, would not result in any additional U.S. income taxes.

**Note 9** *Industry Segment and Geographic Information:*

The Company currently operates principally in three industry segments, two of which provide equipment and services to the petroleum industry.

**Drilling Products and Services:** Manufacture and sale of equipment and provision of services used in the drilling of oil and gas wells.

**Production Products and Services:** Manufacture and sale of equipment and provision of services used after oil and gas wells are drilled to achieve safety and long-term productivity, provide structural integrity to protect against pressure and corrosion damage and to stimulate or rework wells during their productive lives by chemical, mechanical or other stimulation means.

**Process Products and Services:** Manufacture and sale of process equipment for pumping, separating and treating liquids, solids and slurries for environmental and other process industries and electronic control and analytical instrumentation products.

**Disposed Businesses:** The disposed businesses segment information includes the results of significant operations that were sold during the three years presented. As discussed in Note 2, in November 1990, the Company sold the assets of the TOTCO division and accordingly, the 1991 segment information includes two months of TOTCO's operations as well as the gain realized on the sale. Also discussed in Note 2, in July 1990, the Company sold 71% of its investment in BJ Services and accordingly, the 1990 segment information includes ten months of pumping services operations. The segment information for 1991 and 1990 includes the charges to operations for the lawsuit against BJ Services (see Note 12). In July 1989, the Company sold its mining operations and accordingly, the 1989 segment information includes ten months of mining operations. The loss recognized on disposition of the Mining Equipment group was not significant. In addition, the Company disposed of several other businesses which are included herein.

The Company maintains worldwide manufacturing plants and service locations to serve these industry segments.

Notes To Consolidated Financial Statements (Continued)

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1991, 1990, and 1989 and for each of the years then ended is shown in the following tables:

<i>(In thousands of dollars)</i>	<i>Drilling</i>	<i>Production</i>	<i>Total Petroleum</i>	<i>Process</i>	<i>Disposed Businesses</i>	<i>Eliminations</i>	<i>Total</i>
<i>Operations by</i>							
<i>Industry Segment:</i>							
<i>1991</i>							
Revenues from unaffiliated customers:							
Sales	\$ 629,272	\$754,943	\$1,384,215	\$603,552	\$ 1,569		\$1,989,336
Services and rentals	599,324	192,572	791,896	43,390	3,735		839,021
Intersegment sales	2,565	12,962	15,527	5,455	15	\$(20,997)	
Total revenues	<u>\$1,231,161</u>	<u>\$960,477</u>	<u>\$2,191,638</u>	<u>\$652,397</u>	<u>\$ 5,319</u>	<u>\$(20,997)</u>	<u>\$2,828,357</u>
Operating profit	\$ 57,083	\$147,359	\$ 204,442	\$ 52,040	\$ 7,516		\$ 263,998
Identifiable assets	\$1,423,339	\$811,163	\$2,234,502	\$420,852	\$ 518	\$( 5,231)	\$2,650,641
Capital expenditures	\$ 93,130	\$ 46,875	\$ 140,005	\$ 19,629	\$ 213	\$ 1,356	\$ 161,203
Depreciation and amortization	\$ 79,221	\$ 37,438	\$ 116,659	\$ 20,657	\$ 395	\$ 1,211	\$ 138,922
<i>1990</i>							
Revenues from unaffiliated customers:							
Sales	\$ 557,446	\$583,788	\$1,141,234	\$517,374	\$200,785		\$1,859,393
Services and rentals	415,853	163,019	578,872	25,910	150,082		754,864
Intersegment sales	3,146	9,689	12,835	3,044	563	\$(16,442)	
Total revenues	<u>\$ 976,445</u>	<u>\$756,496</u>	<u>\$1,732,941</u>	<u>\$546,328</u>	<u>\$351,430</u>	<u>\$(16,442)</u>	<u>\$2,614,257</u>
Operating profit	\$ 51,207	\$ 97,665	\$ 148,872	\$ 53,561	\$ 12,506		\$ 214,939
Identifiable assets	\$1,439,348	\$587,821	\$2,027,169	\$394,060	\$ 46,810	\$( 4,712)	\$2,463,327
Capital expenditures	\$ 64,812	\$ 32,290	\$ 97,102	\$ 15,388	\$ 17,094	\$ 3,200	\$ 132,784
Depreciation and amortization	\$ 64,567	\$ 28,485	\$ 93,052	\$ 13,350	\$ 5,389	\$ 503	\$ 112,294
<i>1989</i>							
Revenues from unaffiliated customers:							
Sales	\$ 473,737	\$519,281	\$ 993,018	\$383,039	\$387,272		\$1,763,329
Services and rentals	223,653	143,382	367,035	18,801	178,830		564,666
Intersegment sales	3,692	10,732	14,424	2,523	654	\$(17,601)	
Total revenues	<u>\$ 701,082</u>	<u>\$673,395</u>	<u>\$1,374,477</u>	<u>\$404,363</u>	<u>\$566,756</u>	<u>\$(17,601)</u>	<u>\$2,327,995</u>
Operating profit	\$ 48,679	\$ 83,320	\$ 131,999	\$ 38,922	\$ 35,807		\$ 206,728
Identifiable assets	\$ 708,195	\$545,804	\$1,253,999	\$243,723	\$316,012	\$( 6,962)	\$1,806,772
Capital expenditures	\$ 39,637	\$ 24,117	\$ 63,754	\$ 10,512	\$ 16,909	\$ 1,527	\$ 92,702
Depreciation and amortization	\$ 41,285	\$ 29,128	\$ 70,413	\$ 8,405	\$ 17,974	\$ 1,822	\$ 98,614

(In thousands of dollars)	Western Hemisphere		Eastern Hemisphere		Eliminations	Total
	United States	Other	Europe	Other		
<i>Operations by Geographic Area:</i>						
1991						
Revenues from unaffiliated customers:						
Sales	\$1,023,918	\$294,544	\$369,960	\$300,914		\$1,989,336
Services and rentals	365,383	74,129	266,986	132,523		839,021
Transfers between geographic areas	162,063	17,785	44,047	9,041	\$ (232,936)	
Total revenues	<u>\$1,551,364</u>	<u>\$386,458</u>	<u>\$680,993</u>	<u>\$442,478</u>	<u>\$ (232,936)</u>	<u>\$2,828,357</u>
Operating profit	<u>\$ 67,359</u>	<u>\$ 52,047</u>	<u>\$ 66,178</u>	<u>\$ 78,414</u>		<u>\$ 263,998</u>
Identifiable assets	<u>\$1,725,265</u>	<u>\$217,823</u>	<u>\$584,051</u>	<u>\$259,806</u>	<u>\$ (136,304)</u>	<u>\$2,650,641</u>
Export sales of U.S. companies		<u>\$101,941</u>	<u>\$ 57,527</u>	<u>\$135,221</u>		<u>\$ 294,689</u>
1990						
Revenues and unaffiliated customers:						
Sales	\$ 980,374	\$269,819	\$313,866	\$295,334		\$1,859,393
Services and rentals	368,080	76,284	190,755	119,745		754,864
Transfers between geographic areas	122,301	14,931	23,495	4,980	\$ (165,707)	
Total revenues	<u>\$1,470,755</u>	<u>\$361,034</u>	<u>\$528,116</u>	<u>\$420,059</u>	<u>\$ (165,707)</u>	<u>\$2,614,257</u>
Operating profit	<u>\$ 29,457</u>	<u>\$ 37,148</u>	<u>\$ 73,849</u>	<u>\$ 74,485</u>		<u>\$ 214,939</u>
Identifiable assets	<u>\$1,564,022</u>	<u>\$271,462</u>	<u>\$520,702</u>	<u>\$253,540</u>	<u>\$ (146,399)</u>	<u>\$2,463,327</u>
Export sales of U.S. companies		<u>\$ 68,881</u>	<u>\$ 19,990</u>	<u>\$130,631</u>		<u>\$ 219,502</u>
1989						
Revenues and unaffiliated customers:						
Sales	\$ 899,694	\$296,855	\$291,182	\$275,598		\$1,763,329
Services and rentals	274,069	75,027	124,701	90,869		564,666
Transfers between geographic areas	98,252	3,767	3,237	7,069	\$ (112,325)	
Total revenues	<u>\$1,272,015</u>	<u>\$375,649</u>	<u>\$419,120</u>	<u>\$373,536</u>	<u>\$ (112,325)</u>	<u>\$2,327,995</u>
Operating profit	<u>\$ 40,357</u>	<u>\$ 37,443</u>	<u>\$ 65,735</u>	<u>\$ 63,193</u>		<u>\$ 206,728</u>
Identifiable assets	<u>\$1,241,781</u>	<u>\$244,297</u>	<u>\$284,376</u>	<u>\$173,258</u>	<u>\$ (136,940)</u>	<u>\$1,806,772</u>
Export sales of U.S. companies		<u>\$ 64,227</u>	<u>\$ 15,924</u>	<u>\$ 95,617</u>		<u>\$ 175,768</u>

Intersegment sales and transfers between geographic areas are priced at the estimated fair value of the products or services negotiated between the selling and receiving units. Operating profit is total revenues less costs and expenses (including unusual charges-net) but before deduction of general corporate expenses totalling \$31,484,000, \$38,312,000 and \$37,911,000 in 1991, 1990 and 1989, respectively. Identifiable assets are those assets that are used by the Company's operations in each industry segment or are identified with the Company's operations in each geographic area. Corporate assets consist principally of cash, assets held for disposal, investments and notes receivable which amount to \$254,961,000, \$320,617,000 and \$259,148,000 at September 30, 1991, 1990 and 1989, respectively.

**Note 10** *Employee Benefit Plans:*

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was \$1,028,000, \$1,231,000 and \$1,150,000 for 1991, 1990 and 1989, respectively. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements. Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" for its foreign defined benefit plans. The effect of this change on pension expense was not significant.

The net pension expense for 1991, 1990 and 1989 included the following components (in thousands):

	1991	1990	1989
Service cost—benefits earned during the period	\$ 3,427	\$ 2,978	\$ 544
Interest cost on projected benefit obligation	5,642	4,980	1,682
Actual return on assets	(2,179)	(4,859)	(1,176)
Net amortization and deferral	(5,862)	(1,868)	100
Net pension expense	<u>\$ 1,028</u>	<u>\$ 1,231</u>	<u>\$ 1,150</u>

The weighted average assumptions used in the accounting for the defined benefit plans were:

	1991	1990	1989
Discount rate	9.5%	9.0%	9.5%
Rates of increase in compensation levels	5.5%	6.0%	5.0%
Expected long-term rate of return on assets	9.5%	9.0%	9.0%



The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1991 and 1990 (in thousands):

September 30, Actuarial present value of benefit obligations:	1991		1990	
	Overfunded Plans	Underfunded Plans	Overfunded Plans	Underfunded Plans
Vested benefit obligation	\$ 25,553	\$ 15,040	\$32,659	\$ 16,964
Accumulated benefit obligation	\$ 27,264	\$ 15,658	\$32,688	\$ 18,063
Projected benefit obligation	\$ 46,144	\$ 22,056	\$40,570	\$ 27,209
Plan assets at fair value	65,961	9,532	67,868	7,485
Projected benefit obligation (in excess of) less than plan assets	19,817	(12,524)	27,298	(19,724)
Unrecognized prior service cost		66		161
Unrecognized net (gain) loss	7,091	2,244	314	1,860
Unrecognized net (asset) liability at transition	(17,936)	(53)	(20,099)	2,545
Prepaid pension cost (pension liability)	\$ 8,972	\$(10,267)	\$ 7,513	\$(15,158)

Pension plan assets are primarily mortgages, private placements, bonds and common stocks.

Additionally, virtually all employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 10% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of \$.50 per \$1.00 up to 6% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year. Company contributions become fully vested to the employee after five years of employment. Supplemental employee contributions are allowed. The Company's contributions to defined contribution plans including the Thrift Plan amounted to \$20,826,000, \$17,902,000 and \$16,080,000 in 1991, 1990 and 1989, respectively.

The Company also provides certain health care (primarily in the U.S.) and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Company. Costs related to benefits provided for retired employees are expensed as incurred, and for 1991, 1990 and 1989 totalled \$8,934,000, \$9,458,000 and \$6,675,000, respectively.

Statement of Financial Accounting Standards No. 106 ("SFAS No. 106"), "Employers' Accounting for Post-retirement Benefits Other Than Pensions," was issued by the Financial Accounting Standards Board in December 1990. The statement requires accrual basis accounting for such benefits as opposed to the Company's current method of cash basis accounting. Adoption is not required by the Company until fiscal 1994. The Company has reviewed alternatives with respect to retiree health care benefits in an effort to reduce this liability prior to the required implementation of the new statement and has had an actuarial valuation performed to estimate its liability under the statement. The valuation indicates an estimated accumulated postretirement benefit obligation at September 30, 1991 of approximately \$141,000,000.

**Note 11** *Stockholder Rights Agreement and Other Matters:*

In 1988, the Company adopted a Stockholder Rights Agreement to protect against coercive takeover tactics. Pursuant to the agreement, the Company distributed to its stockholders one Right for each outstanding

share of common stock. Each Right entitles the holder to purchase from the Company .01 of a share of the Series One Junior Participating Preferred Stock and, under certain circumstances, securities of the Company or an acquiring entity at 1/2 market value. The Rights are exercisable only if a person or group either acquires 20% or more of the Company's outstanding common stock or makes a tender offer for 30% or more of the Company's common stock. The Rights may be redeemed by the Company at a price of \$.03 per Right at any time prior to a person or group acquiring 20% or more of the Company's common stock. The Rights will expire on March 23, 1998.

Supplemental statement of operations information is as follows (in thousands):

	1991	1990	1989
Maintenance and repairs	\$108,680	\$91,462	\$60,410
Operating leases (generally transportation equipment and warehouse facilities)	42,368	38,885	39,077
Research and development	51,074	38,492	30,140
Taxes other than payroll and income tax	23,446	28,454	26,549
Income taxes paid	31,694	43,091	36,522
Interest paid	75,892	54,605	54,961
Net foreign exchange translation losses	2,402	5,776	17,442

**Note 12** *Litigation:*

On March 7, 1991, a U.S. District Court in Midland, Texas reduced a previously awarded judgment from \$124 million to \$117 million in both actual and punitive damages against the Company, a former subsidiary, BJ Services Company USA, Inc. ("BJ"), and affiliated parties. The judgment arose from allegations involving intentional product delivery or service variances on a number of well stimulation projects in West Texas for Parker & Parsley Petroleum Co. and certain related parties. The Company has also agreed, in connection with the initial public offering by BJ, to indemnify it for damages, if any, and costs of litigation arising out of said allegations or similar claims from any other customers prior to the date of the initial public offering.

The Company believes that the judgment is grossly in excess of actual damages, if any, and is vigorously appealing it in the U.S. Court of Appeals, Fifth Circuit. The Company believes that the ultimate liability, if any, may be covered by insurance and claims against other parties. The Company has filed suit against co-defendants for damages caused by this suit and related matters. The Company is also in litigation with its insurance carriers seeking coverage of the damages in this matter.

In December 1990, the Company was notified of another claim alleging intentional product delivery or service variances for a small number of wells similar to the allegation made in the Parker & Parsley litigation. The Company believes that this claim is without merit and will not result in any material adverse effect on the Company's consolidated financial position.

On February 15, 1991, Glyn Snell, et. al. filed a class action suit on behalf of royalty interest owners in State District Court in Midland County, Texas, implicating Dresser Industries, Inc., BJ, the Company and affiliates in damages to the same wells included in the Parker & Parsley litigation. The plaintiffs seek an undisclosed amount of additional actual and punitive damages. The Company has denied the allegations and is appealing the Court's certification of a class of plaintiffs to the Texas Court of Appeals in El Paso, Texas. The Company believes that this claim is without merit and will not result in any material adverse effect on the Company's consolidated financial position.

On January 2, 1991, the Company and its subsidiary, Hughes Tool Company, received a U.S. Federal grand jury subpoena requesting documents relating to the marketing of tricone rock bits. Six other manufacturers of tricone rock bits also received subpoenas with respect to the same investigation, which is being conducted by the U.S. Department of Justice. The Company is cooperating with the Department of Justice and has complied with the subpoena. Subsequent to the receipt of the subpoena, the Company and other major producers of tricone rock bits were sued civilly by several litigants including Red Eagle Resources Corporation, Inc. alleging unspecified damages and claiming to represent a class of plaintiffs which allegedly have been damaged as a result of a violation of the U.S. antitrust laws. The suits have been consolidated in single action in the Southern District of Texas. The Company has filed an answer denying the allegations made by the plaintiffs.

The Company is sometimes named as a defendant in litigation relating to the products and services it provides. The Company insures against these risks to the extent deemed prudent by its management, but no assurance can be given that the nature and amount of such insurance will in every case fully indemnify the Company against liabilities arising out of pending and future legal proceedings relating to its ordinary business activities. However, the Company is not a party to any litigation the probable outcome of which, in the opinion of the Company's management, would have a material adverse effect on the consolidated financial condition of the Company.

**Note 13** *Commitments and Contingencies:*

At September 30, 1991, the Company had long-term operating leases covering certain facilities and equipment on which minimum annual rental commitments for each of the five years in the period ending September 30, 1996 were \$35,307,000, \$24,995,000, \$18,856,000, \$13,589,000 and \$11,252,000, respectively, and \$81,421,000 in the aggregate thereafter. The Company has not entered into any significant capital leases.

**Note 14** *Quarterly Data (Unaudited):*

Summarized quarterly financial data for the years ended September 30, 1991 and 1990 are shown in the table below:

<i>(In thousands of dollars, except per share amounts)</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Fiscal Year Total</i>
<i>Fiscal Year 1991:*</i>					
Revenues	\$683,833	\$705,884	\$708,862	\$729,778	\$2,828,357
Gross Profit**	127,059	134,399	134,156	149,679	545,293
Income before income tax	46,363	51,574	56,110	58,304	212,351
Net income	36,296	40,382	45,113	51,667	173,458
Net income per share	.26	.29	.33	.38	1.26
Dividends per share	.115	.115	.115	.115	.46
<i>Fiscal Year 1990:*</i>					
Revenues	\$578,908	\$600,879	\$711,634	\$722,836	\$2,614,257
Gross Profit**	96,846	102,210	131,824	144,896	475,776
Income before income tax	34,811	38,511	45,990	60,703	180,015
Net income	25,412	30,303	37,970	48,492	142,177
Net income per share	.20	.23	.28	.35	1.06
Dividends per share	.115	.115	.115	.115	.46

\*See Notes 1, 3 and 8 for information regarding change in method of accounting for income taxes and unusual charges—net.

\*\*Represents revenues less (i) cost of sales, (ii) cost of services and rentals, (iii) research and engineering expense, and (iv) marketing and field service expense.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*Fiscal 1991 Compared to Fiscal 1990*

**Acquisitions and Dispositions.** On October 18, 1990, the Company acquired all of the outstanding shares of the ChemLink Group, Inc. ("ChemLink"), a privately held company, for \$136.1 million. The purchase price was funded with \$32.6 million in available cash and \$103.5 million of proceeds from short-term borrowings. ChemLink is a leading supplier of specialty chemical products and services for oil production, petroleum pipelines and industrial processes.

On November 28, 1990, the Company completed the disposition of the assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company, to Varco International, Inc. ("Varco") for 2,346,041 shares of Varco common stock and approximately \$20.0 million in cash. As a result of this transaction, the Company recognized a gain of \$17.6 million with no provision for income taxes due to the Company's U.S. operating loss carryforwards. The TOTCO division manufactures, sells and rents a variety of instrumentation and analytical equipment utilized on drilling rigs and certain other oilfield and industrial applications. Prior to the disposition of TOTCO, the Company owned 3,000,000 shares of Varco's outstanding common stock and an option to acquire an additional 1,000,000 shares. As a result of the disposition of TOTCO and exercise of the warrant, the Company owns 6,346,041 shares, or approximately 20%, of Varco's outstanding common stock.

In July 1990, BJ Services Company ("BJ Services"), a wholly owned subsidiary of the Company, completed an initial public offering of its common stock, after which the Company's investment in BJ Services decreased to approximately 29%. On March 7, 1991, the Company sold its remaining 29% interest in BJ Services in an underwritten public offering of common stock. Net cash proceeds from the March sale were \$95.0 million, resulting in a gain of \$56.1 million with no provision for income taxes due to the Company's capital loss and U.S. operating loss carryforwards. As a result of these sales, the Company is no longer a stockholder of BJ Services.

Subsequent to the end of the year, the Company sold the Eastern Hemisphere operations of Baker Hughes Tubular Services ("BHTS"), a wholly owned subsidiary of the Company, to Tuboscope Corporation ("Tuboscope") for total consideration of \$75.0 million. The consideration consisted of \$50.0 million in cash, 1.7 million shares of Tuboscope common stock and \$10.0 million of Tuboscope convertible preferred stock. The gain on the sale of approximately \$30.0 million will be recognized in the first quarter of fiscal 1992. The Company also plans to sell the Western Hemisphere operations of BHTS and is actively marketing the sale of this unit. For the year ended September 30, 1991, the Eastern and Western Hemisphere operations of BHTS had revenues of approximately \$58.6 million and \$37.2 million, respectively.

**Revenues.** Revenues in 1991 were \$2.83 billion, up \$214.1 million or 8.2% from 1990. Benefits from acquisitions were virtually offset by the impact of the disposition of BJ Services in 1990 and a decline in U.S. drilling activity during the last half of 1991. Revenues from the Drilling Equipment group increased \$254.7 million, or 26.1% to \$1.23 billion for 1991. Most of the revenue improvement is due to the April 1990 acquisition of Eastman Christensen Company ("ECC"). The Production Tools group's revenues of \$960.5 million in 1991 were up from last year by \$204.0 million, or 27.0%. The acquisition of ChemLink in October 1990 contributed significantly to the group's revenue improvement. The Process Technologies group had revenues of \$652.4 million in 1991, an improvement of \$106.1 million, or 19.4% from 1990. The acquisition in May 1990 of the Instruments Group ("Instruments") from Tracor Holdings, Inc. accounted for a significant amount of the increased revenues. The Company's foreign revenues accounted for 61.3% of revenues in 1991, as compared to 56.8% in 1990.

**Operating Income.** The Company's operating income increased \$55.9 million, or 31.6%, to \$232.5 million in 1991. Results for the year include the impact of \$62.9 million of net unusual charges which are described in Note 3 of the Notes to Consolidated Financial Statements. Last year's results include operating income of \$30.5 million from BJ Services and the impact of \$66.8 million of unusual charges. During the last six months of 1990 and the first quarter of 1991, the Company completed several acquisitions which more than replaced BJ Services' revenues and operating income. Also, the Company's two oilfield service groups benefited from a trend toward more complex drilling applications, which provides an opportunity to sell higher margin products and services. The Drilling Equipment group's operating income, which includes \$56.3 million and \$13.8 million of unusual charges in 1991 and 1990, respectively, increased \$5.9 million, or 11.5% as compared to 1990. Excluding the impact of the unusual charges operating income increased \$48.4 million and was provided primarily by ECC. Operating income at the Production Tools group, which includes a \$3.1 million unusual charge in 1991 and \$10.2 million of unusual charges in 1990, increased \$49.7 million over last year. The ChemLink acquisition contributed significantly to the growth in operating income. The Process Technologies group's operating income decreased \$1.5 million from 1990. Expenses related to the amortization of intangible assets arising from the Instruments acquisition and changes in the group's geographic and product sales mix resulted in a lower margin on incremental revenues.

**Interest Expense.** Interest expense increased \$6.1 million as compared to 1990. The increase in interest expense is attributable to higher average debt levels during 1991 as compared to a year ago.

**Interest Income.** Interest income for 1991 decreased \$7.8 million from a year ago. The average cash and short-term investment levels were higher in 1990 due to the accumulation of cash in anticipation of the ECC and Instruments acquisitions and due to the sale of BJ Services in July 1990.

**Income Taxes.** The effective tax rate for 1991 is 18.3% as compared to 21.0% in 1990. The reduction in the effective tax rate for the year is primarily due to a \$5.3 million tax benefit in the fourth quarter of 1991 as a result of changes in Norwegian tax law. For federal income tax purposes, the Company utilized all of its remaining net operating loss carryforwards in 1991.

**General Outlook.** The acquisition of ECC has significantly enhanced the Company's position in directional and horizontal integrated drilling systems, which currently generate attractive operating margins. The Company believes that the utilization of horizontal and directional drilling techniques will continue to increase significantly in the future, which is expected to result in a positive impact to the Company's results.

The acquisition of ChemLink was an important strategic addition to allow the Company's chemicals business to be a prominent participant in a growing market segment. This acquisition also represents an important enhancement for penetration into markets for industrial and environmental products and services.

The Company believes the acquisition of Instruments provides a strong addition to the instrumentation segment of its Process Technologies business. Instruments provides technical, product and market strengths in analytical instrumentation and broadens the Company's high return process instrumentation business with unique capabilities in imaging software and detectors. Instruments' technology also adds to the Company's high growth environmental market and offers some unique synergistic opportunities to the Company's process and oilfield operations.

Worldwide rig activity declined 2.7% during 1991 as compared to 1990. The decline is predominantly in the U.S. where the average rig count was down 4.6% from last year. However, worldwide drilling activity, only recently having stabilized, was 9.8% lower in the Company's fourth fiscal quarter as compared to the fourth quarter of 1990. Further, the majority of the decline in activity is related to a lack of drilling for natural gas which typically generates substantial revenues for the Company. U.S. offshore drilling activity, another area which generates substantial revenues for the Company, was also 32.0% lower in the Company's fourth fiscal

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

quarter when compared to 1990. The decline in U.S. drilling activity will likely have a negative impact on the Company's domestic oilfield operations and, therefore, on the Company's future results. Management believes that the Company's worldwide market positioning and value added product lines should somewhat lessen the negative impact on its consolidated results. The Company expects drilling activity to improve modestly in the U.S. and worldwide as the year progresses.

The Process Technologies business continues to be negatively affected by worldwide recessionary conditions and a cautious attitude toward capital spending in the aftermath of the Gulf War. Management believes these conditions will persist through the remainder of the calendar year but that economic improvement should lead to improved activity in the future.

The Company's acquisition and divestiture activity over the last several years has further enhanced its ability to take advantage of the opportunities in the markets it serves.

*Capital Generation and Liquidity:*

At September 30, 1991, the Company had cash and short-term investments of \$51.7 million, a decrease of \$72.9 million from September 30, 1990. The Company used available cash plus cash from the proceeds of commercial paper offerings and bank borrowings to acquire businesses, purchase property, retire debt and pay dividends. The ChemLink acquisition required commercial paper and bank borrowings totalling \$103.5 million and \$32.6 million of available cash. Upon the disposition of TOTCO, the Company received \$20.0 million in cash, of which a portion was used to exercise a warrant to acquire one million shares of Varco's common stock. The Company received \$95.0 million in cash from the sale of the remaining shares of BJ Services' common stock. A portion of these proceeds was used to pay down commercial paper and bank borrowings.

Total debt outstanding at September 30, 1991 was \$646.9 million, an increase of \$6.6 million from September 30, 1990. The debt to equity ratio was .419 compared to .450 at September 30, 1990. The increase in total debt outstanding is a result of the remaining additional outstanding debt from the ChemLink acquisition. On March 28, 1991, the Company filed a Registration Statement with the Securities and Exchange Commission to register unsecured debt securities consisting of notes, debentures or other evidences of indebtedness at an aggregate initial offering price of not more than \$200.0 million. No offerings of debt securities under this registration are currently planned.

The Company has revolving credit lines with commercial banks aggregating \$555.2 million which begin to expire in 1992. Of these lines, \$515.2 million are committed facilities. Additionally, the Company has \$87.0 million of uncommitted short-term money market lines of credit. At September 30, 1991, there were \$177.7 million of borrowings against these agreements.

The Company maintains a continuous process of evaluating acquisition and disposition candidates to further enhance stockholder value. Bank credit lines are available to provide funding for potential acquisitions as well as to increase capital investment.

Capital expenditures were \$161.2 million for 1991 compared to \$132.8 million and \$92.7 million in 1990 and 1989, respectively. The ratio of capital expenditures to depreciation was 145.2% in 1991 as compared to 135.4% in 1990 and 99.7% in 1989. The increase in capital spending is in line with the Company's goal of continuing to improve productivity, modernization and technology. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements.

Working capital at September 30, 1991 was \$652.4 million, as compared to \$676.4 million at September 30, 1990. The decrease in working capital is primarily due to the reduction of cash and short-term investments and

the reclassification from long-term debt to short-term debt of \$73.4 million of debt due in February 1992 offset partially by increases in receivables and inventories and increased prepaids and other current assets due to the reclassification of the BHTS Eastern and Western Hemisphere net assets to assets held for sale (See Note 2 of the Notes to Consolidated Financial Statements). The Company plans to repay the debt with available cash and credit lines. In the Company's opinion the current ratio of 1.93 indicates an acceptable level of liquidity.

*Fiscal 1990 Compared to Fiscal 1989*

**Acquisitions and Dispositions.** On April 11, 1990, the Company acquired ECC from Norton Company. ECC is the leading worldwide provider of directional and horizontal drilling systems and is also a leading manufacturer of diamond drill bits. Total consideration for the acquisition was \$561.5 million in cash and warrants for the purchase of up to eight million shares of the Company's common stock at a purchase price of \$36.75 per share. The warrants expire on March 31, 1995. The total cost, including acquisition costs and valuation of the common stock warrants, was \$602.3 million. In addition to using available cash, the Company funded the cash portion of the purchase price by issuing common stock and borrowings from banks. In February 1990, the Company completed a public offering of 10,350,000 shares of its common stock at a price of \$26.375 per share resulting in net proceeds of \$264.4 million. Long-term bank borrowings of \$231.5 million provided the remainder of the financing.

In May 1990, the Company purchased Instruments from Tracor Holdings, Inc. The purchase price of \$93.7 million was funded entirely from the issuance of commercial paper and bank borrowings. Instruments designs, develops, manufactures and markets a broad range of analytical and other instruments for laboratory, medical and worldwide industrial markets.

On June 1, 1990, BJ Services, formerly a wholly owned subsidiary of the Company, filed a Registration Statement with the Securities and Exchange Commission to register its common stock for sale to the public. The offering was consummated on July 27, 1990. The net proceeds of the offering of \$173.8 million, together with \$25.0 million of borrowed funds, were distributed to the Company. As a result of the disposition, the Company recognized a gain of \$65.7 million in the quarter ended September 30, 1990. Subsequent to the initial public offering, the Company owned approximately 29% of BJ Services. BJ Services had revenues of approximately \$286.2 million for the ten months ended July 31, 1990.

**Revenues.** Revenues in 1990 totalled \$2.61 billion, representing a 12.3% increase from the \$2.33 billion reported in 1989. Benefits derived from acquisitions and increased market activity caused the increase in revenues. The improvement in revenues was generated by all of the Company's oilfield service operations as well as the Process Technologies group. Acquisitions added \$242 million of revenues during 1990 while the dispositions of the Mining Equipment group in the fourth quarter of 1989 and BJ Services in the fourth quarter of 1990 resulted in a decrease in revenues of \$223 million from 1989. Excluding the impact of acquisitions, revenues from the Drilling Equipment group improved \$127.9 million or 18% over last year. The increase is attributable to improved drilling activity as evidenced by a 5.6% increase in the worldwide active rig count from 1989 to 1990. The Production Tools group's revenues increased \$83.1 million as a result of strong demand for the group's workover and completion products and services as U.S. drilling activity and the remedial and stimulation markets improved. The Process Technologies group's revenues increased \$142.0 million from last year as a result of acquisitions and improved market activity. The acquisition of Bird Machine Company in June 1989 and Instruments in May 1990 provided \$89.1 million of the improvement with the remaining increase being a result of the general strength in the mineral, industrial continuous process industries and waste water treatment markets which the group's businesses serve.

**Operating Income.** The Company's operating income increased \$7.8 million to \$176.6 million compared to 1989. The prior year's results included low operating margins from the Mining Equipment group, which was

Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)

sold in the last quarter of 1989. The Company replaced the Mining Equipment group's revenues by completing several acquisitions of businesses with higher operating margins. The Company's oilfield service groups also benefitted from a trend toward more complex offshore and gas drilling, which provides an opportunity to sell products and services with higher profit margins. The increase in operating income was partially offset by \$66.8 million of unusual charges in the fourth quarter of 1990. This amount includes liabilities for litigation and product liability claims, certain geographic and product line restructurings, settlement of a common stock warrant and a writedown of net assets relating to Iraq and Kuwait.

**Gain on sale of subsidiary stock.** During the fourth quarter of 1990, the Company recognized a \$65.7 million gain on disposition of its majority ownership of BJ Services.

**Interest Expense.** Interest expense increased \$17.4 million to \$77.5 million, up 29% from last year. The increase is due primarily to the borrowings incurred in connection with the acquisition of businesses.

**Interest Income.** Interest income increased \$6.3 million to \$15.1 million from 1989. The increase is due primarily to the interest earned on increased levels of cash and short-term investment balances during 1990 as compared to 1989. The increased levels of cash and short-term investments resulted from the cash proceeds received from the sale of the Mining Equipment group in July 1989, the proceeds received from the common stock offering in February 1990 and the BJ Services disposition in July 1990. The Company used approximately \$78 million of the proceeds received from the BJ Services disposition to pay down debt incurred to acquire Instruments.

**Income Taxes.** Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes." In accordance with SFAS No. 96, the tax benefit resulting from the utilization of net operating loss ("NOL") carryforwards in fiscal 1990 of \$28.5 million is included in the provision for income taxes. The effective tax rate for fiscal 1990 was 21.0%, as compared with 29.6% for fiscal 1989. In 1989, the Company recorded an extraordinary item of \$2.3 million relating to the reduction of income taxes arising from carryforward of prior years' U.S. operating losses. Had the reduction of income taxes arising from the carryforward of prior years' U.S. operating losses not been afforded extraordinary item treatment, the effective tax rate would have been 27.7% for 1989. The reduction in the comparable effective tax rate from 27.7% to 21.0% is due to a shift in the Company's profitability from foreign locations to the United States where, due to NOL carryforwards, no taxes are currently provided.

*Stock Prices by Quarter*

The following table sets forth the quarterly high and low sales price per share of the Company's common stock on the New York Stock Exchange Composite Tape:

		<i>Baker Hughes Incorporated Common Stock</i>	
<i>Quarter Ended</i>		<i>High</i>	<i>Low</i>
1990	12-31-89	\$27.63	\$19.88
	3-31-90	28.75	21.75
	6-30-90	29.75	25.25
	9-30-90	34.75	26.00
1991	12-31-90	\$29.88	\$24.13
	3-31-91	31.00	20.75
	6-30-91	30.25	22.13
	9-30-91	27.50	22.25



Condensed Comparative Consolidated Financial Information

(In thousands of dollars,  
except per share amounts)

	1991	1990	1989	1988	1987
<i>Summary of operations:</i>					
Total revenues	\$2,828,357	\$2,614,257	\$2,327,995	\$2,316,151	\$1,923,598
Cost and expenses:					
Cost and expenses					
applicable to revenues	2,283,064	2,138,481	1,944,742	1,964,180	1,793,451
General and					
administrative	249,833	232,303	214,436	213,358	190,450
Unusual charges (credits)					
—net	62,946	66,846		(47,475)	
Combination and					
divestiture costs					140,000
Loss in Vetco Gray Inc.					68,223
	2,595,843	2,437,630	2,159,178	2,130,063	2,192,124
Operating income (loss)	232,514	176,627	168,817	186,088	(268,526)
Gain on sale of subsidiary					
stock	(56,103)	(65,721)			
Interest expense	83,561	77,465	60,037	71,024	87,139
Interest income	(7,295)	(15,132)	(8,808)	(9,562)	(9,978)
Pension gains—net				(6,000)	(76,765)
Income (loss) before income					
taxes and extraordinary					
item	212,351	180,015	117,588	130,626	(268,922)
Income taxes	38,893	37,838	34,837	71,235	(14,100)
Income (loss) before					
extraordinary item	173,458	142,177	82,751	59,391	(254,822)
Extraordinary item			2,272	43,856	
Net income (loss)	\$ 173,458	\$ 142,177	\$ 85,023	\$ 103,247	\$ (254,822)
Income (loss) per share					
before extraordinary item	\$ 1.26	\$ 1.06	\$ .64	\$ .45	\$ (2.22)
Dividends per share of					
common stock	\$ .46	\$ .46	\$ .46	\$ .46	\$ .39
<i>Financial position:</i>					
Cash and short-term					
investments	\$ 51,709	\$ 124,585	\$ 115,686	\$ 67,823	\$ 11,361
Working capital	\$ 652,404	\$ 676,383	\$ 620,017	\$ 592,134	\$ 500,755
Total assets	\$2,905,602	\$2,783,944	\$2,065,920	\$2,117,526	\$2,188,632
Long-term debt	\$ 545,242	\$ 611,501	\$ 417,045	\$ 440,007	\$ 460,767
Stockholders' equity	\$1,545,361	\$1,424,285	\$1,003,380	\$ 961,488	\$ 915,520

See Note 1 of Notes to Consolidated Financial Statements for the Company's change in its method of accounting for income taxes in 1990.

## Corporate Organization

Baker Hughes Drilling  
Equipment  
*Joel V. Staff, President*

### Divisions

Develco  
Houston, Texas  
*R. Patrick Herbert, President*

Baker Hughes Mining Tools  
Grand Prairie, Texas  
*John A. Alich, Jr., President*

Baker Hughes Tubular Services  
Houston, Texas  
*David L. Daniel, President*

Eastman Christensen  
Houston, Texas  
*Tim J. Probert, President*

EXLOG, Inc.  
Houston, Texas  
*J. Will Honeybourne, President*

Hughes Tool Company  
Houston, Texas  
*Andrew J. Szescila, President*

Milpark Drilling Fluids  
Houston, Texas  
*John F. Lauletta, President*

Baker Hughes Production Tools  
*Max L. Lukens, President*

### Divisions

Baker CAC  
Houston, Texas  
*Chris K. Moncuni, President*

Baker Oil Tools  
Houston, Texas  
*A. G. Avant, President*

Baker Performance Chemicals  
Houston, Texas  
*M. Glen Bassett, President*

Baker Sand Control  
Houston, Texas  
*Jay P. Trahan, President*

Baker Service Tools  
Houston, Texas  
*Edwin C. Howell, President*

Centrilift  
Claremore, Oklahoma  
*Joseph F. Brady, President*

Baker Hughes Process  
Technologies  
*Stephen T. Harcrow, President*

### Divisions

Baker Hughes Pump Group  
*Edward deBoer, President*

BGA International  
Salt Lake City, Utah  
*Donald H. Blohm, President*

Chas. S. Lewis & Company  
St. Louis, Missouri  
*William M. Stuart, President*

Wemco Pumps  
Sacramento, California  
*James V. Mangano, President*

Baker Hughes Process  
Equipment Group  
*Raymond H. Aldrich, President*

Bird Machine Company  
South Walpole, Massachusetts  
*Tim L. Davis, President*

EIMCO Process  
Equipment Company  
Salt Lake City, Utah  
*Dean J. Smith, President*

Baker Hughes  
Instrumentation Group  
*Donald L. Babbitt, President*

Houston Atlas  
Houston, Texas  
*Chris L. Kimbell, President*

NORAN Inc.  
Middleton, Wisconsin  
*Stephen M. Dillard, President*

Ramsey Technology, Inc.  
St. Paul, Minnesota  
*Lewis J. Ribich, President*

TN Technologies, Inc.  
Round Rock, Texas  
*Dr. John B. Nelson, President*

Tremetrics, Inc.  
Austin, Texas  
*Graham G. Midgley, President*

Westronics  
Fort Worth, Texas  
*Donald L. Clarke, President*



Left to Right: Max Lukens,  
Steve Harcrow, Phil Rice,  
Franklin Myers, Joel Staff,  
Eric Mattson, Steve Finley.

## Corporate Organization

### Officers

James D. Woods  
*Chairman, President and  
Chief Executive Officer*

Stephen T. Harcrow  
*Senior Vice President and  
President of Baker Hughes  
Process Technologies*

Max L. Lukens  
*Senior Vice President and  
President of Baker Hughes  
Production Tools*

Joel V. Staff  
*Senior Vice President and  
President of Baker Hughes  
Drilling Equipment*

G. S. Finley  
*Vice President and Controller*

Isaac C. Kerridge, Jr.  
*Vice President*

Eric L. Mattson  
*Vice President and Treasurer*

Franklin Myers  
*Vice President, Secretary  
and General Counsel*

Phillip A. Rice  
*Vice President, Human  
Resources*

Ronald G. Turner  
*Vice President*

### Board of Directors

Lester M. Alberthal, Jr.  
*Chairman, President and  
Chief Executive Officer of  
EDS (Electronics)*

Gordon M. Anderson  
*Executive Vice President  
and Chief Operating  
Officer of Santa Fe  
International (Oil Service)*

Jack S. Blanton\*  
*President of Eddy  
Refining Company  
(Petroleum Products)*

Richard M. Bressler  
*Chairman of the Board,  
El Paso Natural  
Gas Company  
(Diversified Energy)*

Harry M. Conger\*  
*Chairman of the Board and  
Chief Executive Officer  
of Homestake Mining  
Company (Precious Metals  
Mining)*

Eunice M. Filter\*\*  
*Vice President, Secretary  
and Treasurer of  
Xerox Corporation  
(Office Equipment)*

Joe B. Foster  
*Chairman of the Board and  
Chief Executive Officer of  
Newfield Exploration Company  
(Oil & Gas)*

Kenneth L. Lay\*  
*Chairman and  
Chief Executive Officer of  
Enron Corp.  
(Diversified Energy)*

John F. Maher\*  
*President and Chief  
Operating Officer of  
Great Western Financial  
Corporation  
(Financial Services)*

David D. Lybarger  
*Petroleum Consultant*

Donald C. Trauscht  
*Vice President-  
Finance and Strategy of  
Borg-Warner Corporation  
(Diversified Products  
and Services)*

James D. Woods  
*Chairman, President and  
Chief Executive Officer of  
Baker Hughes Incorporated*

\*Nominee to be presented to  
*Annual Meeting of Stockholders,  
January 22, 1992*

\*\*Nominee to fill vacancy in  
*Class III directors*

### Corporate Information

Transfer Agent and Registrar:  
*First Chicago Trust Company  
of New York, New York*

Stock Exchange Listings:  
*Ticker Symbol "BHI"  
New York Stock Exchange,  
Pacific Stock Exchange,  
The Swiss Stock Exchanges*

Independent Accountants:  
*Deloitte & Touche  
Houston, Texas*

Form 10-K:  
*A copy of the Company's  
Annual Report to the  
Securities and Exchange  
Commission (Form 10-K) is  
available by writing to:  
Ronald G. Turner, Vice  
President, Baker Hughes  
Incorporated, P.O. Box  
4740, Houston, Texas  
77210-4740*

Annual Meeting:  
*The Company's Annual  
Meeting of Stockholders  
will be held at 2 p.m.  
on January 22, 1992 at  
The Doubletree Hotel  
at Post Oak  
2001 Post Oak Boulevard  
Houston, Texas*

Baker Hughes Incorporated  
Corporate Office Location:  
*3900 Essex Lane  
Houston, Texas 77027*

Corporate Offices  
Mailing Address:  
*P.O. Box 4740  
Houston, Texas 77210-4740  
Telephone: (713) 439-8600*

