

1994 Annual Report



BAKER HUGHES INCORPORATED



The Technology Leader - Then and Now



As an industry leader, Baker Hughes showcases its new technology for the oil and gas industry in exhibitions around the world. (Above) A 1994 trade show is contrasted with (below) an exhibit from 1957.



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Baker Hughes Incorporated provides products and services to the petroleum and continuous process industries. The Company is structured with five oilfield divisions and three process equipment divisions. There are over 14,700 employees worldwide working together to provide our customers the best products, services and solutions for their particular needs.

Selected Financial Highlights

Baker Hughes Incorporated

Years Ended September 30,
(In thousands, except per share amounts)

	1994	1993
Total revenues	\$ 2,504,758	\$ 2,701,697
Operating income	185,884	158,914
Income before extraordinary loss and cumulative effect of accounting changes	131,142	58,856
Net income	42,657	58,856
Income per share before extraordinary loss and cumulative effect of accounting changes	.85	.34
Net income per share	.22	.34
Working capital	855,421	920,969
Total assets	2,999,682	3,143,340
Long-term debt	637,972	935,846
Stockholders' equity	1,638,472	1,610,648
Debt/equity ratio	.399	.586
Number of shares:		
Outstanding at year end	140,889	140,437
Average during year	140,532	139,321
Number of employees	14.7	18.4

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About the Cover: Our cover provides a view of current technology in the form of the NaviGator™ integrated motor/MWD system from Baker Hughes INTEQ. This combination significantly enhances reservoir navigation and maximizes pay footage. A Hughes Christensen PDC bit completes the package. The old photo shows early drillers lowering an Eastman survey tool into the wellbore to determine the bit's direction of deviation from vertical. In this annual report we will profile today's leading edge technology while looking back at some significant early generation products.

To Our **I** Stockholders

In the face of an oilfield market that was below expectations, 1994 was a year in which we successfully completed a number of strategic actions designed to enhance future performance.

Our initial outlook for the 1994 fiscal year commenced on a positive note due to strong natural gas prices in the U.S. and a strengthening in global oil prices. However, an early end to winter and a moderate summer led to a midyear softening in gas prices. An increase in North Sea oil production coupled with continuing concern over Iraq's re-entry into the oil markets caused oil prices to decline \$4 per barrel between January and March. These combined forces caused a flattening of gas driven U.S. rig activity.

Outside of North America, rig counts fell to levels not experienced since 1975. For fiscal 1994, worldwide rig activity averaged 1,777 compared to 1,699 in 1993, a 4.6% increase. In this environment, our oilfield revenues increased 3.3% to \$2.1 billion. Our consolidated pretax operational income, excluding non-recurring items, was up strongly to \$155.7 million, a 9.6% increase. The adoption of a new accounting standard in 1994 related to income tax accounting had the effect of increasing our effective tax rate from 29% in 1993 to 42% in 1994. Due to this tax effect, operational net income, excluding extraordinary and non-recurring items, declined 10.4% in 1994 to \$90.3 million and per share amounts fell from 64¢ to 56¢ cents. During the year, however, our quarter to prior year quarter comparative results for profit before tax improved in each quarter, and in the



A handwritten signature in dark ink, appearing to read "J.D. Woods".

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

fourth quarter ended September 30, 1994, our pretax income was up 23% over the prior year giving us positive momentum going into fiscal 1995.

Strategically, we completed an aggressive plan begun in 1992 to refocus on core competencies and improve the capital structure of the Company. Among the more important actions taken in 1994 were the following:

- Completed the sale of EnviroTech Measurement & Controls operations in March for \$134 million, realizing an \$9 million pretax gain on the sale.
- Completed the sale of our EnviroTech Pumpsystems

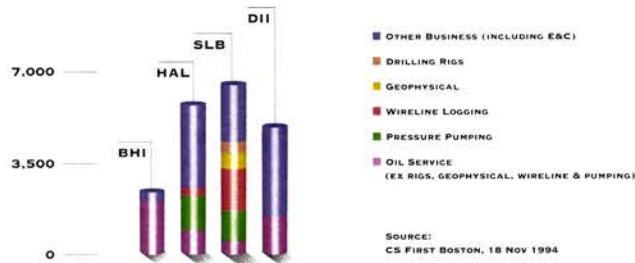
operations in September for \$210 million, realizing a \$101 million pretax gain on the sale.

- Using a portion of the proceeds from these sales, we repurchased and/or defeased all of the outstanding 6% debentures due 2002 which had an effective interest cost of 14.66%. The repayment resulted in a pretax loss of \$68.3 million that was more than offset by the divestiture gains. The repurchase will result in a 25% reduction in our annual interest expense and lowers our weighted average cost of debt to 6%.

- In the September quarter, after eighteen months of operating experience with our Baker Hughes INTEQ division, we completed a streamlining of the organization that reduced geographic operating business units from five to three, merged four technology groups into one cohesive unit and put in place

1994 TYPE OF REVENUE

MILLIONS OF U.S. DOLLARS



a new MIS system that will greatly enhance productivity and market support. To implement this improved organizational structure, we took a \$51.1 million charge in the fourth quarter which will have a positive impact on operating results in 1995 and beyond. INTEQ has increased pretax income in each quarter since its formation and integrated service revenue has more than doubled each year. We are pleased with INTEQ's progress and anticipate a double-digit operating margin before the end of fiscal 1995.

In our other oilfield operations, Hughes Christensen had an outstanding 1994 with a 13.6% revenue increase and meaningful increases in market share in both the tricone and fixed-cutter segments of the bit market. Much of the impetus for these improvements came from our 1991 strategic decision to build a state-of-the-art bit plant in The Woodlands, Texas. Hughes Christensen is now realizing both the manufacturing and marketing benefits from this low cost, market responsive facility. Baker Oil Tools and Centrilift each had successful years and continue to generate margins and returns on capital that rank at the very upper end of the entire oilfield service industry. Baker Performance Chemicals Inc., capitalizing on market share gains and an intensified focus on international markets, realized a double-digit improvement in pretax margins during the year.

Baker Hughes Process Equipment Operations, our remaining non-oilfield business, had a solid performance in 1994. In June, Bird Machine Company received the single largest order in its history, \$21 million, from Southern California Edison for 38 centrifuges at its Mojave power station. Additionally, EIMCO Process Equipment Company and Baker Hughes Process Systems are each well positioned to capitalize on a number of opportunities that should lead to better results in 1995.

Geographically, Baker Hughes has continued to exploit the emerging markets of Russia (CIS), China and Vietnam. Despite a more difficult CIS financial environment in 1994, our revenues in the CIS were approximately \$80 million, about equal to 1993, which enabled Baker Hughes to continue to be the leading western supplier of oilfield products and services to the CIS.

Outlook

The current softness in oil and gas prices will likely lead to a modest decline in drilling activity in fiscal 1995. However, we continue to believe that long-term fundamental economic factors and market forces are positive and could pave the way for heightened drilling activity by the end of 1995. Regardless of our current market activity outlook, we believe Baker Hughes will be able to perform at satisfactory profit levels. The Company is in a very strong operational and financial position and is fully prepared to be opportunistic regarding the continuing consolidation of the oilfield service industry.

Acknowledgments

After 28 years with Baker Hughes Process Equipment Operations, Ray Aldrich has retired from the Company. Throughout his tenure, Ray provided a stable hand and sound judgment to produce superior returns and profitability regardless of the economic environment. We will miss him and wish him all the very best. Tim Probert, a veteran of several senior management positions on the oilfield side of Baker Hughes is the new President and will bring a broad operational and international perspective to the Process Equipment operations.

As always my thanks go to the employees of Baker Hughes and their families, who have the unique ability to embrace change, a rare characteristic. Through their continuing efforts we are moving Baker Hughes forward while enhancing our leadership role in the markets we serve.

More than half a century ago, the five companies that today comprise Baker Hughes Oilfield Operations were some 64 distinct organizations. The evolution of these organizations is a continuous improvement process that allows our focus to remain the same: Provide our customers with the best products, services and solutions in the drilling, completion and production of oil and gas wells.

Each of our Baker Hughes Oilfield Operations companies has a rich history and a valuable industry reputation on its own. And each has a promising future. Working collectively as Baker Hughes, we are stronger, more resourceful and more dynamic than individually. As you read through the operations section of this report, we will acquaint you with a brief history of each company. Following the history is a profile of selected technology and market strategy which will allow us to continue setting standards for product development and performance as we move forward to the 21st Century.

Baker Oil Tools

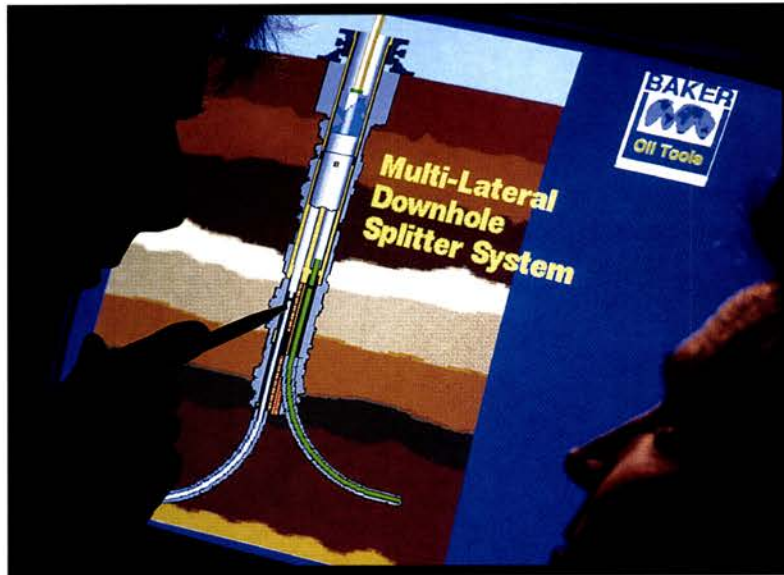
The Baker Casing Shoe, a 1907 invention of Mr. R. C. Baker, sparked the beginning of an exciting and unprecedented journey for Mr. Baker through the turmoil of an emerging U.S. energy industry. Baker's casing shoe revolutionized the driving of cable tool casing by helping drillers guide the casing into the hole. The Baker Casing Shoe Company was established in 1913, and later became Baker Oil Tools. Soon after, the company developed a

Cement Retainer tool, and thus began a string of inventions that revolutionized oilfield completion technology.

In the 40's, Baker Oil Tools introduced the Model D™ Retainer Production Packer, which was the only permanent packer at the time that could effectively hold pressure from either direction. The Model D opened the door for multi-completion installations, and today as then, Baker Oil Tools packers are the standard of the industry. Especially important in the packer's success is Baker's seal technology which prevents leaks in the wellbore.

Baker Oil Tools also pioneered the development of Thru-Tubing inflatable packers and the elements that comprise them. The Thru-Tubing concept is based on the ability to perform certain applications through the existing completion system without having to pull the production string. Thru-Tubing operations eliminate the need to "kill" the well and the work can be done "live". This procedure is faster, and prevents possible costly formation damage.

Exciting new developments from Baker Oil Tools today come in the form of their Multi-Lateral technology. This

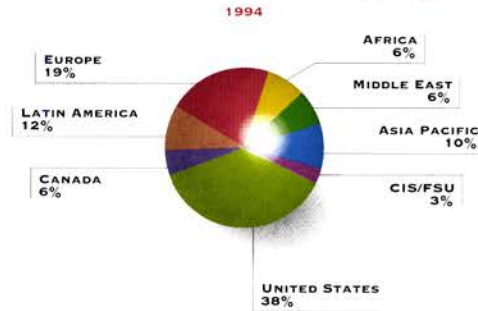


Baker Oil Tools leads in Multi-Lateral technology such as the Downhole Splitter™ System, which can split a single wellbore into two independently drilled, cased and completed wells.

This Baker Oil Tools Retrievable Cementer, set at 21,470 feet, was set in the deepest well in the world, photo circa 1957.



CONSOLIDATED REVENUE BY SOURCE



technology involves drilling and completing multiple lateral sections from a common wellbore. It yields a number of advantages, including reduced drilling time and costs, increased production potential, possible doubling of the number of wells drilled from a single offshore platform and potential reduction in the size of offshore platforms.

The Downhole Splitter™, designed by Baker Oil Tools in association with Marathon Oil Company and Kvaerner National, is the first system capable of splitting a single wellbore into two independently drilled, cased and completed wells with separate access.

Multi-Lateral completions will no doubt be another technical milestone for Baker Oil Tools, known as the leading provider of completion, workover and fishing equipment and services to the oil and gas industry. Baker Oil Tools is headquartered in Houston, Texas and has nearly 4,100 employees worldwide.

Hughes Christensen Company

The names Howard R. Hughes, Sr. and Frank Christensen are recognized as pioneers in the extraction of oil and gas, particularly in the development of drill bits. The merger of the former Hughes Tool Company (founded in 1909), and Eastman Christensen Company (founded in 1944) created

what is unquestionably the industry leader in the design and manufacture of Tricone® and Diamond drill bits.

It was Hughes Tool Company who gave the industry the first two-cone rolling cutter bit, replacing the ineffective fishtail drag type bits used until shortly after the turn of the century. That innovation was followed by the first three-cone (tricone) bit in the 1930's, which remains the standard configuration for roller cone bits today. The 1951 introduction of the first Tungsten Carbide Insert (TCI) bit, which utilized carbide compacts pressed into the cone instead of milled steel teeth, brought a significant improvement in drilling in very hard formations.

The original Christensen Diamond Products was responsible for introducing diamond drill bits to the petroleum industry. From the development of a reliable bit using processed diamonds, to the design and remarkably successful application of the industry's first polycrystalline diamond compact (PDC) bits, the former Eastman Christensen Company set the benchmark for other manufacturers to follow.

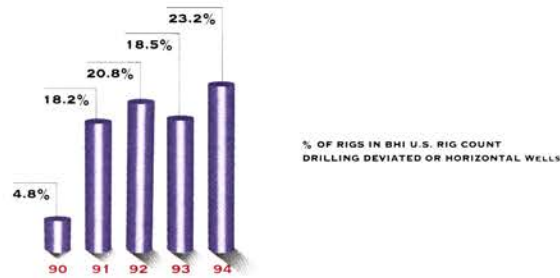
Hughes and Christensen have separately, and now jointly, introduced more "standards" in bit design and drill bit technology than any other company. In 1994,

Continuous refinements of product design and innovative technology result in longer bit life and lower cost-per-foot drilling. The new GT drill bits from Hughes Christensen represent a new generation of highly efficient drill bit components.



The two-cone rolling cutter bit, along with the original drawings, that fueled the Hughes Christensen legacy.

U.S. DIRECTIONAL DRILLING



the company was presented the “Meritorious Award for Engineering Innovation” by Petroleum Engineer International for its revolutionary AR-Series anti-whirl PDC bit. The AR-Series consistently drills formations once considered too tough for PDC bits.

Also in 1994, Hughes Christensen introduced GT Technology to its Tricone drill bit line. Encompassing the latest developments in cutter geometry, carbide grades, tooth spacing and design, these bits are proving to be highly efficient, reliable and cost effective. With the increased efficiency comes greater drilling penetration rates and longer tooth life.

With its commitment to continuous improvement, Hughes Christensen Company in 1995 will further expand GT Technology across the company’s Tricone bit lines. Diamond bit researchers will be focused on an expansive materials strategy that promises to increase life and performance of polycrystalline diamond bits. Hughes Christensen is headquartered in The Woodlands, Texas, close to Houston, and has nearly 1,600 employees worldwide.

Baker Hughes INTEQ

Formed in 1993, Baker Hughes INTEQ is the youngest member of the oilfield companies. It was created in

response to customer requirements for Integrated Solutions to their drilling and completion processes. Faced with unfavorable market and economic conditions, our customers expressed a need for a service company that would act as their partner, and work with them to accomplish their goals economically and efficiently.

Today’s operators are seeking breakthrough efficiencies by forming partnerships and longer term relationships with their suppliers. This approach makes the service company part of the project team and provides incentive payments when performance goals are exceeded.

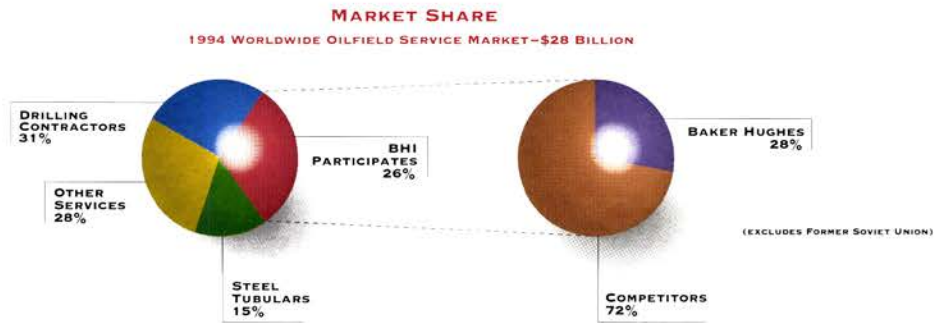
From its inception, Baker Hughes INTEQ has been committed to forming mutually-beneficial alliances with its customers, and is the industry leader in this new way of doing business. These alliances support some very significant projects. Baker Hughes INTEQ was named the lead well services contractor for Shell Expro’s Brent Field Unit in the UK sector of the North Sea. In this well servicing role, Baker Hughes INTEQ is the process innovator and technology provider for Shell Expro for the life of the field. Also in the UK, Baker Hughes INTEQ was selected as an alliance partner in wellbore construction for the British Petroleum Forties Field.

**The NaviGator™ tool—shown here at
Baker Hughes INTEQ's formation
laboratory—combines advanced drilling
motor and MWD technology to provide
unprecedented geosteering control.**



*Directional drillers from the Eastman Oil
Well Survey Company prepare to leave the
Houston district office for a job location in
April 1952. Their trailer carries a
whipstock, which was used to deflect the
drill bit in the desired direction.*





Synergies within Baker Hughes INTEQ have resulted in significant technological advances. For example, the NaviGator™ reservoir navigation system integrates the field-proven Navi-Drill™ steerable drilling motor with qualitative resistivity MWD measurements near the bit. The NaviGator system embodies the company's expertise in directional drilling, formation evaluation and MWD to provide operators the geosteering control needed to keep long horizontal sections within tight target zones.

Another example of new technology derived from a multi-disciplined approach is the PERFFLOW® drill-in and completion fluid. PERFFLOW fluid replaces standard drilling fluid when the bit enters the productive reservoir, protecting the formation from the damaging infiltration caused by conventional fluids. PERFFLOW drilling fluid has helped operators exceed anticipated initial production by up to 50% on horizontal wells with long sections in the productive interval.

In 1995, Baker Hughes INTEQ will continue to develop engineering processes and new technology based on its expertise in wellbore construction and maintenance. Baker Hughes INTEQ is headquartered in Houston, Texas and has nearly 4,900 employees worldwide.

Baker Performance Chemicals Incorporated

Baker Performance Chemicals Incorporated (BPCI) was formed in 1951 in Brea, California, and was originally known as Magna Corporation. Initial activities were confined to corrosion control treatment of oil wells in the Los Angeles Basin. As the company grew, it added more and more oilfield specialty chemicals to its product line, and two major acquisitions broadened its capabilities and opened new markets. Aquaness Chemical, purchased in 1972, and The ChemLink Group, formerly a division of ARCO Chemical Company, added in 1990, brought a significant industrial chemical operation to BPCI.

Today, BPCI offers a broad spectrum of chemicals to treat fluid related problems encountered in production, refining and petrochemical operations, such as acid gas corrosion, mineral scale deposition and the growth of harmful bacteria. The company is the industry leader in crude oil emulsion treatment. Corrosion control is still an important technology for BPCI, and ChemLink scientists have recently developed a new, more efficient method to inhibit acid gas corrosion in refinery condensing systems.

In 1994, BPCI opened a new office in Seoul, South Korea; formed a new joint venture in Indonesia; formed

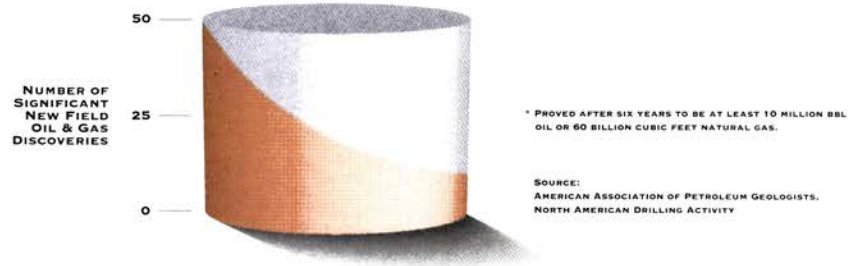
Products from Baker Performance Chemicals Inc.

**are now delivered in portable, returnable
stainless steel or polyethylene tanks. BPCI offers
customers an environmentally sensible bulk
container program at less expense.**



*The familiar 55-gallon drums are the traditional
way to deliver BPCI products.*

SIGNIFICANT* U.S. OIL AND GAS DISCOVERIES
FROM 1947 TO 1982



their third company in Latin American (Peru) and won their first major account in the Former Soviet Union.

Future opportunities for Baker Performance Chemicals Inc. include continued growth outside the United States, and the development of new technologies to treat hydrogen sulfide gas (oil production and refining market) and to eliminate static electricity when transferring fine particulates (industrial market). BPCI is headquartered in Houston, Texas and has nearly 1,100 employees worldwide.

Centrilift

Oilfield electrical submersible pumps (ESP) were developed in the late 1920's for high volume applications. With the advent of water flooding in the 1940's, the demand for ESP increased. The Centrilift we know today began as a product line of Byron Jackson Pumps, a division of Borg-Warner Corporation in 1957. By 1980 Centrilift had established itself as the technological leader in the ESP industry.

Centrilift pioneered the use of advanced power electronic control equipment for variable speed operation of electrical submersible pumps. Early control equipment protected the submersible equipment with electromagnetic

relays and provided only fixed speed, on/off control. The advanced control equipment offered today uses power semiconductors controlled by solid state microcontrollers to provide variable frequency power for flexible operation of electrical submersible pumps. This capability dramatically broadens the operating range of a downhole pump by controlling the speed at which the pump turns, therefore providing a means to compensate for changes in well conditions.

The versatility of the variable speed submersible pumping systems has made it the artificial lift method of choice for many remote and difficult applications. Most new offshore production platforms utilizing ESP pumps provide for variable speed operation.

Two other important developments, the Horizontal Injection Pump and Centrilift downhole electrical cable, opened new, successful markets for Centrilift in the 1980's.

Centrilift is a major supplier of pumping systems for the Former Soviet Union, which currently has the largest ESP market in the world.

Centrilift is headquartered in Claremore, Oklahoma, close to Tulsa, and has nearly 1,500 employees worldwide.

A technician assembles the Centrilift

Electrospeed® ICS Variable Speed Controller.

**The leading variable speed controller in the
oilfield market, the Electrospeed has industrial
and commercial applications as well.**



*A 50-year-old pole mounted
Centrilift controller is part
of a still reliable, artificial
lift system.*

Process Equipment Operations

The three companies of Baker Hughes Process Equipment Operations serve a broad range of process industries. They are recognized throughout the world as leaders in filtration, sedimentation, centrifugation and flotation processes for the separation of solids from liquids, and liquids from liquids.

EIMCO Process Equipment Company

EIMCO Process Equipment Company originated in the late nineteenth century as a repair facility for equipment used in the mining industry. As the company grew, it specialized in the field of liquid/solid separation equipment for the mining and allied industries.

Recognizing the need for separation process equipment in other markets, EIMCO developed separation technology to serve the oil and gas, chemicals, pulp and paper, and industrial and municipal water and wastewater treatment industries.

EIMCO's strong technology base in flotation, sedimentation, and filtration, and its associated engineering process skills allow the company to supply both equipment and complete system solutions to their customers.

Greenfield developments in emerging markets continue to offer excellent opportunities for growth in EIMCO's key process industries. EIMCO is also a prominent supplier to the environmental market in North America. As the world continues to become more environmentally sensitive, EIMCO is well positioned to offer the most economic solutions for water and wastewater treatment.

EIMCO is headquartered in Salt Lake City, Utah and has nearly 1,000 employees worldwide.

Bird Machine Company, Inc.

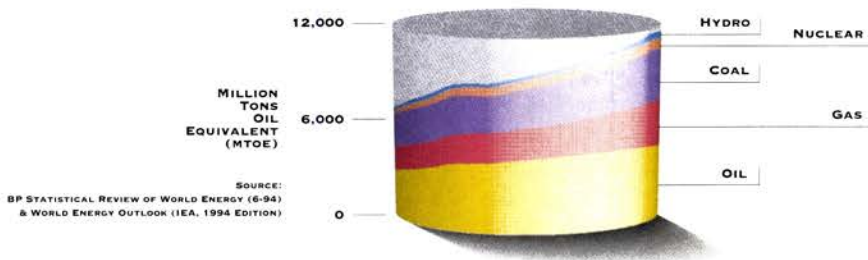
Bird Machine Company can trace its history back to the early 1900's, when founder Charles S. Bird established a partnership to manufacture paper making equipment. Today, Bird is recognized as a world leader in the design and manufacture of centrifugal and filtration equipment

The Bird Solid Bowl Centrifuge has become a standard in process industries by continually providing innovative technological advancements in solid/liquid separation applications worldwide.



The rugged reliability of Bird Centrifuges allows years of low-maintenance continuous service, even in the most abrasive environments. This centrifuge has been in use since 1952.

WORLDWIDE PRIMARY ENERGY CONSUMPTION (MTOE)
FROM 1983 TO 2010



for solid/liquid separation, particularly in minerals, chemical and industrial waste processes. They are headquartered in South Walpole, Massachusetts, near Boston, and have nearly 400 employees worldwide.

After extensive testing against its competitors, Bird was recently awarded an order for 38 screen bowl centrifuges to dewater pipeline coal slurry at Southern California Edison's Mohave generating station. At \$21 million plus, the Mohave project is the largest single order ever received by Bird.

The developing chemical markets in Asia Pacific represent a major opportunity for Bird, where investments are being made to support their activities there.

Baker Hughes Process Systems

Baker Hughes Process Systems (BHPS) was formed in December, 1991, with the combination of an established

British company, Metrol, and WEMCO oil/water separation products. Based in Rugby, England, with nearly 100 employees worldwide, the company's skilled project management teams specialize primarily in the design and supply of processing systems for water injection, and oil/water separation in produced water and refinery applications.

Responding to customers' requests to minimize equipment weight, BHPS recently developed new filtration technologies that offer weight reduction of up to 50% over conventional dual media technology and a footprint savings of up to 20%. The WEMCO Silverband Oil Water Filter and the Metrol Sea Screen Coarse Water Strainer also represent new, more efficient filtration technologies from BHPS.

Condensed Comparative Consolidated Financial Information

Baker Hughes Incorporated

(In thousands, except per share amounts)	1994	1993	1992	1991	1990
Total revenues	\$2,504,758	\$2,701,697	\$2,538,515	\$2,828,357	\$2,614,257
Costs and expenses:					
Costs and expenses applicable to revenues	2,082,745	2,262,545	2,132,928	2,283,064	2,138,481
General and administrative	214,788	238,238	232,407	249,833	232,303
Unusual charges - net	31,829	42,000	79,190	62,946	66,846
Operating income of business sold	(10,488)				
Total	2,318,874	2,542,783	2,444,525	2,595,843	2,437,630
Operating income	185,884	158,914	93,990	232,514	176,627
Gain on sale of Pumpsystems	101,000				
Gain on sale of subsidiary stock				56,103	65,721
Interest expense	(63,835)	(64,703)	(68,112)	(83,561)	(77,465)
Interest income	3,067	5,840	6,078	7,295	15,132
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	226,116	100,051	31,956	212,351	180,015
Income taxes	(94,974)	(41,195)	(26,925)	(38,893)	(37,838)
Income before extraordinary loss and cumulative effect of accounting changes	131,142	58,856	5,031	173,458	142,177
Extraordinary loss	(44,320)				
Cumulative effect of accounting changes	(44,165)				
Net income	\$ 42,657	\$ 58,856	\$ 5,031	\$ 173,458	\$ 142,177
Per share of common stock:					
Income before extraordinary loss and cumulative effect of accounting changes	\$.85	\$.34	\$.00	\$ 1.26	\$ 1.06
Net income	.22	.34	.00	1.26	1.06
Dividends	.46	.46	.46	.46	.46
Financial position:					
Cash and cash equivalents	\$ 69,179	\$ 6,992	\$ 6,692	\$ 51,709	\$ 124,585
Working capital	855,421	920,969	715,472	652,404	676,383
Total assets	2,999,682	3,143,340	3,212,938	2,905,602	2,783,944
Long-term debt	637,972	935,846	812,465	545,242	611,501
Stockholders' equity	1,638,472	1,610,648	1,645,522	1,545,361	1,424,285

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the adoption of new accounting standards in 1994.

In addition to the significant acquisitions and dispositions discussed in Note 2 of Notes to Consolidated Financial Statements, the Company acquired ChemLink Group, Inc. in 1991, Eastman Christensen Company and the Instrument Group in 1990. The Company also sold 71% of BJ Services Company ("BJ") in 1990 and the TOTCO division of Exlog, Inc. and the remaining 29% of BJ in 1991.

See Note 3 of Notes to Consolidated Financial Statements for a description of the unusual charges - net in 1994, 1993 and 1992. The unusual charges-net in 1991 consisted primarily of the restructuring of Hughes Christensen Company and litigation and insurance claims offset by the gain on the disposition of TOTCO. The unusual charges-net in 1990 consisted primarily of litigation and product liability claims and geographic and product line restructurings.

See Note 4 of Notes to Consolidated Financial Statements for a description of the extraordinary loss in 1994.

Management Report of Financial Responsibilities

Baker Hughes Incorporated

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. 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, 1994, 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 Standards of Conduct which is distributed throughout the Company. Management maintains a systematic program to assess compliance with the policies included in the code.

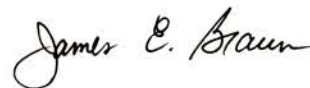
The Board of Directors, through its Audit/Ethics Committee composed solely of nonemployee directors, reviews the Company's financial reporting, accounting and ethical practices. The Audit/Ethics Committee recommends to the Board of Directors the selection of independent public accountants and reviews 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.



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



Eric L. Mattson
*Senior Vice President
and Chief Financial Officer*



James E. Braun
Controller

Business Environment

Oilfield Operations companies manufacture, sell and provide services used in the drilling, completion and maintenance of oil and gas wells. The business environment of the Company is significantly affected by worldwide expenditures of the petroleum industry. Important factors establishing the levels of these expenditures include world economic conditions, crude oil and natural gas supply and demand balances, the legislative environment in the United States and other major countries and developments in the Middle East and other major petroleum producing regions.

Activity Indicators

Crude oil and natural gas prices are a major determinant of exploration and development expenditures. (The amounts in the table below are annual averages.)

Fiscal Year	1994	1993	1992
WTI (\$/Bbl)	16.87	19.49	20.88
U.S. Spot Natural Gas (\$/mcf)	1.88	2.04	1.53

Oil prices weakened in 1994 and 1993 falling \$2.62/Bbl or 13.4% and \$1.39/Bbl or 6.7%, respectively. The Company expects prices to trend upwards in 1995 and 1996 while remaining susceptible to short-term price fluctuations. U.S. natural gas prices weakened in 1994, decreasing 7.8%. Prices in 1993 were up 33.3% from 1992 prices. Prices are expected to be soft in 1995 and strengthen in 1996 with demand for natural gas expected to grow 2% to 3% per year. The Company believes that higher natural gas prices and a tightening market would stimulate exploration and development drilling directed towards natural gas.

A more direct indicator of expenditures and drilling activity is the Baker Hughes rotary rig count. Workover activity, as measured by the U.S. workover rig count, is also an indicator of expenditure activity. (The amounts in the following table are annual averages.)

Fiscal Year	1994	1993	1992
North American	1,030	918	788
Non-North American	747	781	885
Total Rig Count	1,777	1,699	1,673
U.S. Workover Rig Count	1,336	1,379	1,260

North American Activity

The North American rig count was up 12.2% from 1993 and 1993 was up 16.5% from 1992. Activity increases in the Gulf of Mexico drove an increase in the average offshore rig count from 71 to 101 rigs — up 42.3% from 1993 and from 51 to 71 rigs — up 39.2% from 1992. The Company benefits from offshore drilling, more so than land drilling, as this type of activity requires the premium products and services offered by the Company. The Canadian operations were also favorably impacted by the increase in natural gas drilling as Canadian rig activity was up 53.5% and 82.8% in 1994 and 1993, respectively. U.S. workover activity was down 3.1% from 1993 levels and 1993 activity was up 9.4% from 1992.

The Company is cautiously optimistic that drilling activity will remain strong in North America in 1995. The Company anticipates that reduced gas prices and high pipeline utilization will take the edge off Canada's drilling boom. In the U.S., the Company is expecting a modest decrease in gas-directed drilling to be offset by a modest increase in oil-directed drilling. The average U.S. workover rig count is expected to remain flat over the next year.

Non-North American Activity

Outside North America, activity continued to fall. The average rig count was down 4.4% from 1993 and 1993 was 11.8% lower than 1992. The fall was widespread throughout the Eastern Hemisphere as most regions showed a decrease in activity. The 1994 decline was offset somewhat by Latin America activity which was up 9.0%. Two areas of particular importance to the Company that were down significantly were Italy and Nigeria where political and social issues affected drilling activity. The Company expects little change in activity in the Eastern Hemisphere over the near term as political issues and volatility in crude oil prices will continue to create uncertainty. In Latin America, the Company expects to see continued growth in drilling activity in 1995 led by Venezuela, Argentina and Colombia.

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

Baker Hughes Incorporated

Acquisitions and Dispositions

1994

The Company sold the EnviroTech Pumpsystems ("Pumpsystems") group of companies and the EnviroTech Measurements & Controls ("EM&C") group of companies in September and March 1994, respectively. The decision to divest Pumpsystems and EM&C was part of a continuing review of the Company's core product and service competencies. The Pumpsystems sale provided approximately \$210.0 million in proceeds and resulted in a gain of \$101.0 million while the EM&C sale provided \$134.0 million in proceeds and resulted in a gain of \$8.6 million.

1992

In October 1991, the Company sold the Eastern Hemisphere operations of its Baker Hughes Tubular Services ("BHTS") subsidiary to Tuboscope Corporation, now known as Tuboscope Vetco International Corporation, for total consideration of \$75.7 million. In September 1992, the Company sold the Western Hemisphere operations of BHTS to ICO, Inc. for total consideration of \$11.3 million.

In April 1992, the Company acquired Teleco Oilfield Services Inc. ("Teleco") from Sonat Inc. for \$349.4 million. Teleco is a leading provider of both directional and formation evaluation measurement-while-drilling services.

In August 1992, the Company purchased from Borg-Warner Corporation ("B-W") a subsidiary of B-W, whose only asset was 8.3 million shares of the Company's common stock. Total consideration paid to B-W was \$168.8 million. All of the funds for the purchase were raised through a public offering by the Company of 7.6 million shares of its common stock at a price of \$22.25 per share. Net proceeds from the offering were \$168.9 million. The Company does not intend to reissue any of the shares purchased in this transaction and accordingly, the 8.3 million shares have been treated as having been constructively retired for financial reporting purposes.

Results of Operations

The following table summarizes the impact of the 1994 dispositions mentioned above on consolidated revenues.

(In millions)	1994	1993	1992
Consolidated Revenues:			
Sales	\$1,727.7	\$1,945.8	\$1,839.8
Services and rentals	777.0	755.9	698.7
Total	<u>2,504.7</u>	<u>2,701.7</u>	<u>2,538.5</u>
Less Pumpsystems and EM&C			
Operations:			
Sales	96.5	334.5	347.3
Services and rentals		15.7	21.3
Total	<u>96.5</u>	<u>350.2</u>	<u>368.6</u>
Revenues from Ongoing			
Operations:			
Sales	1,631.2	1,611.3	1,492.5
Services and rentals	777.0	740.2	677.4
Total	<u>\$2,408.2</u>	<u>\$2,351.5</u>	<u>\$2,169.9</u>

Consolidated revenues for 1994 decreased 7.3% from 1993. Consolidated revenues for 1993 increased 6.4% from 1992. Consolidated revenues were impacted in 1994 and 1993 by the revenues of disposed businesses. EM&C was sold in March 1994 and Pumpsystems was sold in September 1994. The results of Pumpsystems and EM&C have been reported in a manner similar to discontinued operations since March 1994 and June 1993, respectively, which represents the date at which the decisions to divest the businesses were made. As such, consolidated results of operations for 1994 include six months of Pumpsystems' revenues and expenses. The last six months of Pumpsystems' net operating results are reflected as a separate line in the Company's consolidated statement of operations. Nine months of EM&C revenues and expenses are included in the consolidated results for 1993. There are no EM&C revenues and expenses included in the consolidated results for 1994. EM&C operated near break even levels from July 1993 to March 1994 with a small net operating loss offsetting the gain on the sale.

Revenues from ongoing operations were up 2.4% from 1993 and 8.4% from 1992. Oilfield Operations currently

represent approximately 88% of consolidated revenues (\$2.1 billion) with the remaining 12% represented by the Process Equipment Operations (formerly EnviroTech Process Equipment).

Oilfield Operations' sales revenue was up 2.6% and services and rentals revenue was up 4.7% in 1994. Much of the improvement in Oilfield Operations sales, services and rentals revenue is attributable to increased drilling activity in the Western Hemisphere, fueled in large part by natural gas drilling. Offsetting this trend was a decline in the average number of workover rigs running in the U.S. However, much of the improvement in the Western Hemisphere was offset by declines in the European and West Africa markets, most notably in geographic areas where Oilfield Operations enjoys significant revenue on a per rig basis.

Oilfield Operations reported revenues of \$2.0 billion in 1993, up 8.1% from 1992. Sales revenue was up 7.6% and services and rentals revenue was up 9.1%. The acquisition of Teleco in April 1992 provided approximately \$75.0 million of additional revenue for 1993 when compared to the prior year. A significant increase in gas related drilling in the Gulf of Mexico, fueled by increased natural gas prices, increases in Canadian activity and export sales to the former Soviet Union also contributed to the sales, services and rentals revenue improvement. The improvement in the North American market was offset by a decline in drilling rig activity outside of North America, most notably, the North Sea and West Africa regions.

Process Equipment Operations sales, services and rentals revenue reported a decline of 3.4% from 1993. General weakness in the worldwide economy and project deferrals due to financing delays resulted in the revenue decline. In 1993, sales, services and rentals revenue increased 10.3% from 1992. Improved order bookings resulting from improved economic activity drove the revenue favorability.

Operating Income

The following table summarizes the effect of the dispositions and the net unusual charges on consolidated operating income.

(In millions)	1994	1993	1992
Consolidated Operating Income	\$ 185.9	\$ 158.9	\$ 94.0
Plus Unusual Charges-net	31.8	42.0	79.2
Less Operating Income of			
Pumpsystems and EM&C	(17.9)	(23.1)	(25.2)
Operating Income from Ongoing Operations	<u>\$ 199.8</u>	<u>\$ 177.8</u>	<u>\$ 148.0</u>

Consolidated operating income in 1994 increased 17.0% from 1993 levels and in 1993 increased 69.0% from 1992 levels. Operating income from ongoing operations, which excludes the net unusual charges and operating income of Pumpsystems and EM&C, increased 12.4% in 1994 and 20.1% in 1993 from the respective prior year. The increases year over year result from improved revenues and cost containment measures, including the benefits from the consolidation of several divisions.

Costs and Expenses

Operating expenses, excluding unusual charges, typically fluctuate within a narrow band as a percentage of consolidated revenues as the Company manages expenses both in absolute terms and as a function of revenues.

Cost of sales, cost of services and rentals, research and engineering expenses and marketing and field service expenses decreased in 1994 in line with the revenue decreases associated with the dispositions of EM&C and Pumpsystems in 1994, and increased in 1993 in line with the increase in revenues associated with the acquisition of Teleco in 1992. General and administrative expenses, which are less sensitive to changes in revenue, decreased \$17.3 million or 8.6% in 1994 and remained virtually unchanged when comparing 1993 to 1992. The decrease in 1994 is reflective of the impact of the disposed businesses. Amortization of goodwill and other intangibles has decreased in 1994 because of the sale of EM&C and Pumpsystems. In 1993, amortization increased over 1992 because of the Teleco acquisition in April 1992.

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

Baker Hughes Incorporated

Unusual Charges-net

1994

During the fourth quarter of 1994, the Company recorded a \$32.4 million unusual charge related to the restructuring and reorganization of certain divisions, primarily Baker Hughes INTEQ, in Oilfield Operations as part of a continuing effort to maintain a cost structure appropriate for current and future market conditions. Noncash provisions of the charge totalled \$16.3 million and consist primarily of the write-down of excess facilities to net realizable value. The remaining \$16.1 million of the charge represents future cash expenditures related to severance under existing benefit arrangements, the relocation of people, equipment and inventory and abandoned leases. The Company spent \$3.1 million of the cash in 1994 and expects to spend substantially all of the remaining \$13.0 million in 1995. Such expenditures relate to specific plans with clearly defined actions and will be funded from operations and available credit facilities. The actions taken will favorably impact future operating results and liquidity as the reduction of headcount and the consolidation of facilities will reduce future operating costs without significantly impacting the pricing of products and services and market share. Annual cost savings are expected to be between \$10.0 million and \$15.0 million. In addition, an MWD (measurement-while-drilling) product line was discontinued when it was decided to market and support more viable MWD products resulting in the write-off of property and inventory of \$15.0 million. Offsetting these charges was an unusual gain of \$19.3 million related to the May 1994 cash settlement of a suit against certain insurance carriers in the Parker & Parsley litigation discussed below.

1993

During the first quarter of 1993, the Company recognized a charge of \$17.5 million relating to an agreement for the settlement of the civil antitrust litigation involving the marketing of tricone rockbits. During the second quarter of 1993, the Company, along with Dresser Industries and Parker & Parsley Petroleum Development Incorporated, entered into a Memorandum of Understanding covering the settlement of all outstanding litigation among the parties. In recognition of the settlement, the Company recorded an unusual charge of \$24.5 million. Cash payments totalling \$75.0 million were made during the third quarter of 1993.

1992

During the first quarter of 1992, the Company sold the Eastern Hemisphere operations of BHTS and recognized a gain of \$31.9 million. In addition, noncash unusual charges totalling \$31.8 million for the restructuring of the Western Hemisphere operations of BHTS and the discontinuance of the Hughes Christensen Company Argentina operations were recorded. During the third quarter of 1992, in response to the structural changes in the U.S. oilfield and as a result of the Teleco acquisition, the Company recognized an unusual charge totalling \$79.3 million. Costs associated with the integration of the Teleco operations account for \$25.3 million of the charge. This charge included future cash outlays of \$7.3 million of which approximately one-third was spent in 1992 and the remaining amount in 1993. Changes in market conditions led the Company to implement several operational restructurings and combinations representing \$30.1 million of the charge. This charge included future cash outlays of \$12.3 million, the majority of such amounts were spent in 1993. In addition, the Company accrued charges for the TRW Inc. litigation and certain other asset impairments.

Interest Expense

Offsetting interest expense in 1993 and 1992 is \$3.6 million and \$8.8 million, respectively, of the reversal of accrued interest expense on certain Internal Revenue Service issues. Excluding these reversals, interest expense decreased \$4.5 million in 1994 and \$8.6 million in 1993. The decrease in 1994 is attributable to lower total debt outstanding offset by a slightly higher overall effective interest rate. The decrease in 1993 is attributable to significantly lower effective interest rates offset by increases in total debt outstanding.

Interest Income

Interest income decreased \$2.8 million in 1994 and \$0.2 million in 1993. The decreases are due to the repayment of notes receivables and a decrease in short-term investments.

Income Taxes

The effective income tax rate for 1994 was 42.0% as compared to 41.2% in 1993 and 84.3% in 1992. The effective rates differ from the federal statutory rates due primarily to the utilization of loss and credit carryforwards (1994, 1993 and 1992), increases in taxes on foreign operations (1994, 1993 and 1992), nondeductible goodwill amortization (1994, 1993 and 1992), the impact of unusual charges in jurisdictions where virtually no tax benefit was available (1992) and the settlement with the IRS to resolve all pending tax issues for the 1978 through 1986 tax years (1992).

Extraordinary Loss

During 1994, the Company recorded an extraordinary loss of \$44.3 million, net of a tax benefit of \$23.9 million, in connection with the repurchase or defeasance of \$225.0 million face amount of its outstanding 6% debentures due March 2002. At September 30, 1994, \$43.7 million of the debentures have been considered extinguished through defeasance.

Net Income Per Share of Common Stock

Net income is adjusted for dividends on preferred stock of \$12.0 million in 1994 and 1993 and \$5.3 million in 1992.

Capital Resources and Liquidity

Financing Activities

Net cash outflows from financing activities were \$429.8 million in 1994 compared to cash inflows of \$56.0 million and \$127.0 million in 1993 and 1992, respectively.

Total debt outstanding at September 30, 1994 was \$653.3 million, compared to \$944.3 million at September 30, 1993 and \$838.9 million at September 30, 1992. The debt to equity ratio was .399 at September 30, 1994, compared to .586 at September 30, 1993 and .510 at September 30, 1992.

In 1994 the Company used cash to reduce overall debt levels. A total of \$368.1 million was used to reduce borrowings under short-term facilities and repurchase or defease all of the outstanding 6% discount debentures which had an effective interest rate of 14.66%. During 1994, the Company also issued debenture purchase warrants under favorable terms for \$7.0 million which entitle the holders to purchase \$93.0 million of the Company's debentures. Subsequent to September 30, 1994, certain holders exercised warrants and purchased \$78.0 million of debentures. The Company expects the remaining warrants to be exercised prior to their expiration in January 1995.

In 1993 and 1992, the Company had increased total debt to fund acquisitions and other operating needs, while at the same time taking advantage of lower interest rates. During 1993, the Company sold \$385.3 million principal amount at maturity of Liquid Yield Option Notes ("LYONS") due May 2008. The net proceeds of \$223.9 million were used to repay borrowings from short-term facilities incurred to fund the 1992 Teleco acquisition, retire debentures and fund

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

Baker Hughes Incorporated

working capital needs. During 1992, the Company raised \$168.9 million through the sale of 7.6 million shares of common stock. The proceeds were used to effectively retire 8.3 million shares of common stock held by Borg-Warner Corporation. Also in 1992, the Company issued fixed rate notes due in 1999 and 2004 with net proceeds of \$246.6 million which were used to retire debt maturing in 1992 and redeem convertible subordinated debentures. Borrowings under short-term facilities increased to fund the Teleco acquisition.

Cash dividends increased in 1993 due primarily to the \$12.0 million annual dividend requirement associated with the preferred stock issued as part of the Teleco acquisition in April 1992.

At September 30, 1994, the Company had \$800.8 million of credit facilities with commercial banks, of which \$511.6 million is committed. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

During 1994, the U.S. dollar weakened against most European currencies where the Company has a significant net asset position. As a result of this and the sale of EM&C and Pumpsystems, the cumulative foreign currency translation adjustment account decreased \$34.7 million. During 1993, the U.S. dollar strengthened against most European currencies resulting in an increase of \$45.1 million in the cumulative foreign currency translation adjustment account.

Investing Activities

Net cash inflows from investing activities were \$258.4 million in 1994 compared to cash outflows of \$76.7 million in 1993 and \$251.9 million in 1992.

Proceeds from the disposal of noncore businesses generated \$328.4 million in 1994, \$9.3 million in 1993 and \$50.7 million in 1992. The acquisition of Teleco in 1992 required the use of \$197.0 million. Property additions have decreased from \$137.9 million in 1992 to \$126.9 million in 1993 and to \$108.6 million in 1994. Part of the decrease in 1994 is due to the sale of EM&C and Pumpsystems. Likewise, the ratio of capital expenditures to depreciation has decreased over the same period from 110.8% to 89.6% and to 88.5%. The majority of the capital expenditures have been in Oilfield Operations where the largest single item is the expenditure for rental tools and equipment to supplement the rental fleet. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements. The Company expects 1995 capital expenditures to be between \$120.0 million and \$140.0 million as it focuses on replacing capital in amounts comparable to annual depreciation.

Operating Activities

Net cash inflows from operating activities were \$230.8 million, \$23.0 million and \$85.6 million in 1994, 1993 and 1992, respectively.

The increase of \$207.8 million in 1994 was due primarily to an increase in net income adjusted for noncash items, litigation settlements totalling \$75.0 million that were paid in 1993 and a decrease in the buildup of working capital.

The decrease of \$62.6 million in 1993 was due primarily to the buildup of working capital in Oilfield Operations due to increased domestic activity in the fourth quarter of 1993 compared to the same period in 1992 and the litigation settlements mentioned above. These uses of cash were offset by an increase in net income adjusted for noncash items.

Accounting Standards

Postretirement Benefits Other Than Pensions

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective October 1, 1993. The Company elected to immediately recognize the cumulative effect of the change in accounting and recorded a charge of \$69.6 million, net of a tax benefit of \$37.5, in the first quarter of 1994. Expense under SFAS No. 106 for 1994 was not significantly different from the prior method of cash basis accounting.

Accounting for Income Taxes

The Company adopted SFAS No. 109, "Accounting for Income Taxes," effective October 1, 1993, without restatement of prior years and recorded a credit to income of \$25.5 million in the first quarter of 1994. An additional benefit of \$21.9 million was allocated to capital in excess of par value, which reflects the cumulative tax effect of exercised employee stock options for which the Company has taken tax deductions in its federal tax return.

The Company establishes valuation reserves for certain of its deferred tax assets which management deems the realization is not likely to occur. In the U.S. jurisdiction, the Company has fully reserved the credit portion of all its foreign tax credit carryforwards based on a recent historical pattern of expiring foreign tax credits and the lack of taxable income in amounts sufficient to utilize the foreign tax credit carryforwards. The Company has also reserved the operating loss carryforwards in certain non-U.S. jurisdictions where its operations have decreased, currently ceased or the Company has withdrawn entirely.

The Company has not established valuation reserves on its remaining deferred tax assets, primarily temporary differences between the book and tax basis of assets and liabilities. Management believes that sufficient sources of taxable income will occur in future periods so that these tax assets will be realized. This judgement is based on recent profitable operations in the appropriate jurisdictions.

The adoption of SFAS No. 109 had the practical effect of allowing the Company to report its tax assets, net of valuation reserves, on the consolidated statement of financial position. Additionally, the statement allows the netting of the noncurrent deferred tax assets and liabilities within the same taxing jurisdiction. The Company has used this approach in reporting its tax accounts in the consolidated statement of financial position at September 30, 1994. Such an approach was not allowed under the prior accounting method.

Investments in Debt and Equity Securities

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective September 30, 1994, and recorded a charge to a separate component of stockholders' equity for unrealized losses on securities available for sale of \$2.8 million, net of a tax benefit of \$1.5 million. A gain or loss will be recognized in the consolidated statement of operations when a security is sold.

Postemployment Benefits

In November 1992, the FASB issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The statement requires accrual basis accounting for such benefits as opposed to cash basis accounting. The Company will adopt this statement effective October 1, 1994. The Company will recognize a charge to income of \$14.6 million, net of a \$7.9 million tax benefit, in the first quarter of 1995 as the cumulative effect of the change in accounting. Expense under SFAS No. 112 for 1995 related to these benefits is not expected to be significantly different from actual cash payments.

Independent Auditors' Report

Baker Hughes Incorporated

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, 1994 and 1993, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1994. 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, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 1, the Company changed its method of accounting for postretirement benefits other than pensions and for income taxes effective October 1, 1993 to conform with Statement of Financial Accounting Standards No. 106 and Statement of Financial Accounting Standards No. 109, respectively. Also as discussed in Note 1, the Company changed its method of accounting for certain investments in debt and equity securities effective September 30, 1994 to conform with Statement of Financial Accounting Standards No. 115.

Deloitte & Touche LLP

November 16, 1994

Houston, Texas

Consolidated Statements of Operations

Baker Hughes Incorporated

Years ended September 30,

(In thousands, except per share amounts)

	1994	1993	1992
Revenues:			
Sales	\$1,727,734	\$1,945,793	\$1,839,771
Services and rentals	777,024	755,904	698,744
Total	<u>2,504,758</u>	<u>2,701,697</u>	<u>2,538,515</u>
Costs and Expenses:			
Cost of sales	1,015,458	1,154,865	1,076,378
Cost of services and rentals	389,605	395,286	347,020
Research and engineering	91,011	102,057	107,188
Marketing and field service	586,671	610,337	602,342
General and administrative	184,013	201,322	200,758
Amortization of goodwill and other intangibles	30,775	36,916	31,649
Unusual charges - net	31,829	42,000	79,190
Operating income of business sold	(10,488)		
Total	<u>2,318,874</u>	<u>2,542,783</u>	<u>2,444,525</u>
Operating income	185,884	158,914	93,990
Gain on sale of Pumpsystems	101,000		
Interest expense	(63,835)	(64,703)	(68,112)
Interest income	3,067	5,840	6,078
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	226,116	100,051	31,956
Income taxes	(94,974)	(41,195)	(26,925)
Income before extraordinary loss and cumulative effect of accounting changes	131,142	58,856	5,031
Extraordinary loss (net of \$23,865 income tax benefit)	(44,320)		
Cumulative effect of accounting changes:			
Income taxes	25,455		
Postretirement benefits other than pensions (net of \$37,488 income tax benefit)	(69,620)		
Accounting changes - net	(44,165)		
Net income	<u>\$ 42,657</u>	<u>\$ 58,856</u>	<u>\$ 5,031</u>
Per share of Common Stock:			
Income before extraordinary loss and cumulative effect of accounting changes	\$.85	\$.34	\$.00
Extraordinary loss	(.31)		
Cumulative effect of accounting changes	(.32)		
Net income	<u>\$.22</u>	<u>\$.34</u>	<u>\$.00</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Financial Position

Baker Hughes Incorporated

September 30, (In thousands)	1994	1993
Current Assets:		
Cash and cash equivalents	\$ 69,179	\$ 6,992
Receivables-less allowance for doubtful accounts: 1994, \$21,405; 1993, \$21,607	612,414	619,953
Inventories:		
Finished goods	508,198	467,806
Work in process	53,644	68,408
Raw materials	81,204	102,926
Total inventories	643,046	639,140
Net assets of business held for sale		126,430
Deferred income taxes	45,959	2,990
Other current assets	29,394	21,301
Total current assets	1,399,992	1,416,806
Property:		
Land	35,174	40,902
Buildings	294,104	305,952
Machinery and equipment	586,863	662,078
Rental tools and equipment	530,814	521,958
Total property	1,446,955	1,530,890
Accumulated depreciation	(886,871)	(869,427)
Property-net	560,084	661,463
Other assets:		
Investments	89,601	98,864
Property held for disposal	73,496	72,717
Other assets	80,054	79,420
Excess costs arising from acquisitions-less accumulated amortization: 1994, \$112,008; 1993, \$90,001	796,455	814,070
Total other assets	1,039,606	1,065,071
Total	\$ 2,999,682	\$ 3,143,340

See Notes to Consolidated Financial Statements

Consolidated Statements of Financial Position

Baker Hughes Incorporated

	1994	1993
Current Liabilities:		
Accounts payable-trade	\$ 253,616	\$ 249,781
Short-term borrowings	863	5,381
Current portion of long-term debt	14,436	3,067
Accrued employee compensation and benefits	113,304	95,303
Income taxes payable	29,729	15,322
Taxes other than income	20,608	22,552
Accrued insurance	26,492	20,554
Accrued interest	10,676	11,529
Other accrued liabilities	74,847	72,348
Total current liabilities	<u>544,571</u>	<u>495,837</u>
Long-term debt	637,972	935,846
Deferred income taxes	53,841	78,306
Postretirement benefits other than pensions	95,951	
Other long-term liabilities	25,494	19,021
Minority interest	3,381	3,682
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$1 par value (authorized and outstanding 4,000,000 shares of \$3.00 convertible preferred stock; \$50 liquidation preference per share)	4,000	4,000
Common stock, \$1 par value (authorized 400,000,000 shares; outstanding 140,889,000 shares in 1994 and 140,437,000 shares in 1993)	140,889	140,437
Capital in excess of par value	1,474,013	1,444,549
Retained earnings	125,276	159,277
Cumulative foreign currency translation adjustment	(102,915)	(137,615)
Unrealized loss on securities available for sale	(2,791)	
Total stockholders' equity	<u>1,638,472</u>	<u>1,610,648</u>
Total	<u>\$ 2,999,682</u>	<u>\$ 3,143,340</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Baker Hughes Incorporated

For the three years ended September 30, 1994 (In thousands)	Preferred Stock (\$1 Par Value)	Common Stock (\$1 Par Value)	Capital In Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Loss on Securities Available For Sale	Total
Balance, September 30, 1991		\$138,396	\$1,256,325	\$ 239,610	\$ (88,970)		\$ 1,545,361
Net income				5,031			5,031
Issuance of \$3.00 convertible preferred stock	\$ 4,000		145,400				149,400
Cash and accrued dividends on \$3.00 convertible pre- ferred stock (\$3.00 per share)				(5,267)			(5,267)
Cash dividends on common stock (\$.46 per share)				(62,857)			(62,857)
Foreign currency translation adjustment					(3,506)		(3,506)
Stock issued pursuant to employee stock plans		705	11,203				11,908
Issuance of common stock		7,600	161,313				168,913
Purchase of shares		(8,300)	(160,525)				(168,825)
Other		223	5,141				5,364
Balance, September 30, 1992	4,000	138,624	1,418,857	176,517	(92,476)		1,645,522
Net income				58,856			58,856
Cash and accrued dividends on \$3.00 convertible pre- ferred stock (\$3.00 per share)				(12,000)			(12,000)
Cash dividends on common stock (\$.46 per share)				(64,096)			(64,096)
Foreign currency translation adjustment					(45,139)		(45,139)
Stock issued pursuant to employee stock plans		1,813	25,692				27,505
Balance, September 30, 1993	4,000	140,437	1,444,549	159,277	(137,615)		1,610,648
Net income				42,657			42,657
Cash and accrued dividends on \$3.00 convertible pre- ferred stock (\$3.00 per share)				(12,000)			(12,000)
Cash dividends on common stock (\$.46 per share)				(64,658)			(64,658)
Foreign currency translation adjustment					17,825		17,825
Disposition of businesses					16,875		16,875
Income tax accounting change			21,896				21,896
Investment accounting change						\$ (2,791)	(2,791)
Stock issued pursuant to employee stock plans		452	7,568				8,020
Balance, September 30, 1994	\$ 4,000	\$140,889	\$1,474,013	\$ 125,276	\$(102,915)	\$ (2,791)	\$ 1,638,472

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Baker Hughes Incorporated

Years ended September 30,
(In thousands)

	1994	1993	1992
<i>Cash flows from operating activities:</i>			
Net income	\$ 42,657	\$ 58,856	\$ 5,031
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	122,812	141,699	124,394
Other assets and debt discount	46,526	47,371	41,608
Deferred tax provision (credit)	47,366	19,349	(5,497)
Noncash portion of unusual charges-net	47,988		79,190
Gain on disposal of assets	(18,034)	(14,594)	(15,670)
Gain on disposition of businesses	(109,550)		
Foreign currency translation loss-net	1,892	441	960
Cumulative effect of accounting changes	44,165		
Extraordinary loss	44,320		
Change in receivables	(22,740)	(74,828)	6,359
Change in inventories	(58,035)	(50,506)	(26,296)
Change in accounts payable-trade	24,890	(2,962)	12,968
Changes in other assets and liabilities	16,520	(101,859)	(137,423)
Net cash flows from operating activities	230,777	22,967	85,624
<i>Cash flows from investing activities:</i>			
Property additions	(108,639)	(126,901)	(137,875)
Proceeds from disposal of assets	38,664	40,928	32,240
Proceeds from disposition of businesses	328,389	9,299	50,722
Acquisitions of businesses, net of cash acquired			(197,006)
Net cash flows from investing activities	258,414	(76,674)	(251,919)
<i>Cash flows from financing activities:</i>			
Net borrowings (payments) from commercial paper and revolving credit facilities	(162,590)	(95,010)	112,166
Retirement of debentures	(205,497)	(18,197)	(98,842)
Net proceeds from issuance of debenture purchase warrants	7,026		
Net proceeds from issuance of notes		223,911	246,595
Net proceeds from issuance of common stock			168,913
Purchase of common stock			(168,825)
Repayment of matured indebtedness			(77,835)
Proceeds from exercise of stock options and stock purchase grants	7,900	21,358	11,908
Dividends	(76,658)	(76,096)	(67,124)
Net cash flows from financing activities	(429,819)	55,966	126,956
Effect of exchange rate changes on cash	2,815	(1,959)	(5,678)
Increase (decrease) in cash and cash equivalents	62,187	300	(45,017)
Cash and cash equivalents, beginning of year	6,992	6,692	51,709
Cash and cash equivalents, end of year	\$ 69,179	\$ 6,992	\$ 6,692

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

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 (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 on the equity method. Prior to 1994, other investments were accounted for under the cost method. In 1994 the Company changed its accounting for other investments as explained below. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain minor reclassifications have been made to the 1993 balances to conform to the 1994 presentation.

Revenue recognition: Revenue from product sales are recognized upon delivery of products to the customer. Revenues from services and rentals are recorded when such services are rendered.

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.

Investments: The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective September 30, 1994. Investments in debt and equity securities, other than those accounted for by the equity method, are reported at fair value with unrealized gains or losses, net of tax, recorded as a separate component of stockholders' equity.

Excess costs arising from acquisitions: Excess costs arising from acquisitions of businesses ("Goodwill") are amortized on the straight-line method over the lesser of expected useful life or forty years. Management of the Company periodically reviews the carrying value of Goodwill in relation to the

current and expected operating results of the segments of business which benefit therefrom in order to assess whether there has been a permanent impairment of Goodwill.

Income taxes: The Company adopted SFAS No. 109, "Accounting for Income Taxes," effective October 1, 1993. Previously, the Company used SFAS No. 96, "Accounting for Income Taxes." The cumulative effect of adopting SFAS No. 109 was a credit to income of \$25.5 million (\$.18 per share). An additional benefit of \$21.9 million was allocated to capital in excess of par value, which reflects the cumulative tax effect of exercised employee stock options for which the Company has taken tax deductions in its federal tax return.

Deferred income taxes are determined utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with differences between the financial accounting and tax basis of assets and liabilities.

Environmental matters: Remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred.

Postretirement benefits other than pensions: The Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective October 1, 1993. The statement requires that the estimated cost of postretirement benefits other than pensions be accrued over the period earned rather than expensed as incurred. The cumulative effect of adopting SFAS No. 106 on the immediate recognition basis was a charge to income of \$69.6 million (\$.50 per share), net of a tax benefit of \$37.5 million.

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 per share: Income per share amounts are based on the weighted average number of shares outstanding during the respective years (140,532,000 in 1994, 139,321,000 in 1993 and 138,599,000 in 1992) and exclude the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income is adjusted for dividends on preferred stock.

Statements 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

1994

In September 1994, the Company sold the EnviroTech Pumpsystems ("Pumpsystems") group of companies. The decision to divest Pumpsystems was part of a continuing review of the Company's core product and service competencies. The sale provided approximately \$210.0 million in proceeds and resulted in a gain of \$101.0 million. Pumpsystems' operating revenues and expenses have been reported in a manner similar to discontinued operations since March 1994. As such, the first six months of Pumpsystems' revenues and expenses are included in the consolidated results for 1994 and the last six months net operating results are reflected as a separate line in the Company's consolidated statement of operations.

In July 1993, the Company announced that the EnviroTech Measurements & Controls ("EM&C") group of companies would no longer be considered part of its core business. Accordingly, the net assets of the EM&C operations were classified as a current asset at September 30, 1993. EM&C operating revenues and expenses have been reported in a manner similar to discontinued operations since June 1993. As such, there are no EM&C revenues and expenses included in the consolidated results for 1994 and nine months of EM&C revenues and expenses are included in the consolidated results for 1993. EM&C operated near break even levels from July 1993 to March 1994 with a small net operating loss offsetting the gain on the sale. In

March 1994, the Company completed the sale of EM&C which provided \$134.0 million in proceeds and resulted in a gain of \$8.6 million.

1992

In October 1991, the Company sold the Eastern Hemisphere operations of Baker Hughes Tubular Services ("BHTS") to Tuboscope Corporation, now known as Tuboscope Vetco International Corporation ("Tuboscope"), for total consideration of \$75.7 million. The consideration consisted of \$50.7 million in cash, 1.7 million shares of Tuboscope common stock and \$10.0 million of Tuboscope convertible preferred stock. The Company recognized a gain on the sale of \$31.9 million.

In April 1992, the Company acquired Teleco Oilfield Services Inc. ("Teleco") from Sonat, Inc. for \$349.4 million. The purchase price was funded with \$17.7 million in available cash, \$182.3 million of proceeds from commercial paper borrowings, four million shares of 6.0% convertible preferred stock with a face value of \$200.0 million (estimated fair market value at date of acquisition of approximately \$149.4 million) and a five percent royalty payment for five years on certain technology revenues. The acquisition has been accounted for using the purchase method of accounting and accordingly, the cost of the acquisition has been allocated to assets acquired and liabilities assumed based on their estimated fair market values at the date of acquisition. The operating results of Teleco are included in the consolidated statements of operations from the acquisition date.

In August 1992, the Company purchased from Borg-Warner Corporation ("B-W") a subsidiary of B-W, whose only asset was 8.3 million shares of the Company's common stock. Total consideration paid to B-W was \$168.8 million. All of the funds for the purchase were raised through a public offering by the Company of 7.6 million shares of its common stock at a price of \$22.25 per share. Net proceeds from the offering were \$168.9 million. The Company does not intend to reissue any of the shares purchased in this transaction and accordingly, the 8.3 million shares have been treated as having been constructively retired for financial reporting purposes.

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

In September 1992, the Company sold the Western Hemisphere operations of BHTS to ICO, Inc. ("ICO") for \$11.3 million in promissory notes varying in maturities from one to seven years and a warrant entitling the Company to purchase 800,000 shares of ICO common stock at \$3.75 per share (reflects a one-for-five reverse stock split). The net proceeds from the sale approximated the carrying value of the Western Hemisphere operations after recognition of a 1992 unusual charge related to these operations.

Note 3

Unusual Charges-Net

1994

During 1994, the Company recognized \$31.8 million of net unusual charges consisting of the following items:

(In thousands)

Insurance recovery in the Parker & Parsley litigation	\$ (19,281)
Discontinued product line	15,005
Oilfield restructurings:	
Severance under existing benefit arrangements	5,869
Relocation of property, inventory and people	5,773
Writedown of assets to net realizable value	18,650
Abandoned leases	2,082
Other	3,731
Unusual charges-net	<u>\$ 31,829</u>

In May 1994, the Company realized a gain of \$19.3 million from the cash settlement of a suit against certain insurance carriers in the Parker & Parsley litigation. See Note 12.

During the fourth quarter of 1994, the Company discontinued an MWD (measurement-while-drilling) product line when it decided to market and support other more viable MWD products resulting in the write-off of property and inventory of \$15.0 million. In addition, the Company recorded a \$32.4 million charge related to the restructuring and reorganization of certain divisions, primarily Baker Hughes INTEQ, in Oilfield Operations.

1993

During the first quarter of 1993, the Company recognized an unusual charge of \$17.5 million in connection with reaching an agreement with representatives of the class plaintiffs for the settlement of a class action civil antitrust lawsuit concerning the marketing of tricone rock bits. A cash payment of \$17.5 million was made in April 1993. See Note 12.

During the second quarter of 1993, the Company, along with Dresser Industries and Parker & Parsley Petroleum Development Incorporated ("Parker & Parsley"), settled all outstanding litigation among the parties over alleged intentional product delivery or service variance on a number of well stimulation projects. In recognition of settlement, the Company recorded an unusual charge of \$24.5 million. A cash payment of \$57.5 million was made for the Company's portion in May 1993. See Note 12.

1992

During 1992, the Company recognized \$79.2 million of net unusual charges consisting of the following items:

(In thousands)

Gain on sale of the Eastern Hemisphere operations of BHTS	\$ (31,882)
Restructuring costs and impairment of value of the Western Hemisphere operations of BHTS	16,272
Loss on discontinuance of Hughes Christensen Company Argentina operations	22,500
Costs related to the integration of Teleco	25,300
Operational restructurings	30,100
Litigation	8,700
Other	8,200
Unusual charges-net	<u>\$ 79,190</u>

As discussed in Note 2, in October 1991, the Company recognized a gain on the sale of the Eastern Hemisphere operations of BHTS. The Company recognized charges to operations for the estimated costs and losses to be incurred in connection with the restructuring of the Western Hemisphere operations of BHTS and the discontinuance of the Hughes Christensen Company ("HCC") Argentina operations, in the first quarter of 1992. In response to further structural changes in the U.S. oilfield, the Company recognized a \$7.0 million impairment of value of the BHTS Western Hemisphere operations in the third quarter of 1992.

During the third quarter of 1992, the Company recognized unusual charges totalling \$79.3 million in response to the structural changes in the U.S. oilfield and as a result of the Teleco acquisition. The costs associated with

the integration of the Teleco operations accounted for \$25.3 million of these charges.

Changes in market conditions, as evidenced by the decline in the worldwide active rig count which reported record lows in drilling activity, caused the Company to implement several operational restructurings and combinations. Of the \$30.1 million recognized for these restructurings, the most significant charge relates to the merger of the Baker Oil Tools and Baker Service Tools divisions.

As a result of a lawsuit filed by TRW Inc. against the Company, a charge was recorded to accrue the Company's estimate of the total costs of disposing of this suit through appeal or settlement. In addition, the Company accrued charges related to a Department of Justice investigation and imposed fine concerning the marketing of tricone rock bits by HCC. See Note 12.

Note 4

Indebtedness

Long-term debt at September 30, 1994 and 1993 consisted of the following:

(In thousands)	1994	1993
Commercial Paper		\$ 127,060
Revolving Credit Facilities due through 1999 with an average interest rate of 5.92% at September 30, 1994	\$ 47,693	77,192
4.125% Swiss Franc 200 million Bonds due June 1996 with an effective interest rate of 7.82%	107,222	106,547
7.625% Notes due February 1999 with an effective interest rate of 7.73%, net of unamortized discount of \$1,198 (\$1,449 in 1993)	148,802	148,551
6% Debentures with an effective interest rate of 14.66% due March 2002, net of unamortized discount of \$93,236 in 1993		131,764
8% Notes due May 2004 with an effective interest rate of 8.08%, net of unamortized discount of \$1,292 (\$1,406 in 1993)	98,708	98,594
Liquid Yield Option Notes due May 2008 with a yield to maturity of 3.5% per annum, net of unamortized discount of \$149,329 (\$157,884 in 1993)	235,921	227,366
Convertible Subordinated Debentures due through October 2000 with an average interest rate of 6.30% at September 30, 1994	10,197	10,197
Other indebtedness with an average interest rate of 5.99% at September 30, 1994	3,865	11,642
Total debt	652,408	938,913
Less current maturities	14,436	3,067
Long-term debt	\$ 637,972	\$ 935,846

Notes to Consolidated Financial Statements

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At September 30, 1994, the Company had \$800.8 million of credit facilities with commercial banks, of which \$511.6 million is committed. The majority of these facilities expire in 1999. The Company's policy is to classify commercial paper and borrowings under revolving credit facilities as long-term debt since the Company has the ability under certain credit agreements, and the intent, to maintain these obligations for longer than one year. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

In May through September 1994, the Company repurchased or defeased all of its outstanding 6% discount debentures for \$205.5 million and generated an extraordinary loss of \$44.3 million (\$.31 per share), net of a tax benefit of \$23.9 million. At September 30, 1994, \$43.7 million of the debentures have been considered extinguished through defeasance.

In April 1994, the Company issued debenture purchase warrants for \$7.0 million which entitled the holders to purchase \$93.0 million of the Company's debentures. Subsequent to September 30, 1994, certain holders exercised warrants and purchased \$78.0 million of debentures. The option to exercise the remaining \$15.0 million of debentures will expire in January 1995.

Maturities of long-term debt for the next five years are as follows: 1995-\$14.4 million; 1996-\$110.6 million; 1997-\$3.4 million; 1998-\$0.1 million and 1999-\$184.6 million.

Note 5

Financial Instruments

The Company has entered into arrangements to manage its exposure to interest rate and foreign currency fluctuations. The market value gains or losses arising from interest rate or foreign exchange hedging contracts offset gains or losses on the underlying hedged assets and liabilities. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense.

In the unlikely event that the counterparties fail to meet the terms of an interest rate swap agreement, the Company's exposure is limited to the interest rate differential.

At September 30, 1994, the Company had a \$204.5 million aggregate notional amount interest rate swap agreement outstanding maturing in 1998. This swap effectively exchanges fixed interest rates for variable interest rates on the notional amount. Additionally, the Company has an interest rate swap agreement in conjunction with the \$93.0 million debentures described in Note 4. The swap expires in January 2000 and effectively exchanges fixed interest rates for variable interest rates on a notional principal amount of \$93.0 million.

The 4.125% Swiss Franc 200.0 million Bonds ("SFrBonds") are hedged through a foreign currency swap agreement and a foreign currency option. These instruments convert the Company's Swiss Franc denominated principal and interest obligations under the SFrBonds into U.S. dollar denominated obligations. In the unlikely event of nonperformance by the counterparty, the Company's economic exposure is limited to the difference, in U.S. dollar terms, of its obligations under the foreign currency hedging instruments described above and its Swiss Franc denominated obligations pursuant to the terms of the SFrBonds.

Except as described below, the estimated fair values of the Company's financial instruments at September 30, 1994 and 1993, approximate their carrying value as reflected in

the consolidated statements of financial position. The Company's financial instruments include cash and short-term investments, receivables, investments, payables, debt and interest rate and foreign currency contracts. The fair value of such financial instruments has been estimated based on quoted market prices and the Black-Scholes pricing model.

The estimated fair value of the Company's debt, including the related interest rate and foreign currency contracts at September 30, 1994 and 1993 were \$645.6 million and \$1,075.1 million, respectively, which differs from the carrying amounts of \$653.3 million and \$944.3 million, respectively, included in the consolidated statements of financial position.

Note 6

Preferred Stock

In April 1992, the Company issued four million shares of \$3.00 convertible preferred stock (\$1 par value per share and \$50 liquidation preference per share) to Sonat, Inc. in connection with the Teleco acquisition. The preferred stock is convertible at the option of the holder at any time into the Company's common stock at a conversion price of \$32.50 per share.

The preferred stock is redeemable at any time, in whole or in part, at the option of the Company on at least thirty and not more than sixty days notice at \$50 per share, plus accrued dividends. Dividends on the preferred stock are cumulative at the rate of \$3.00 per share per annum. Such dividends are payable quarterly as declared by the Board of Directors.

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.

Stock option activity for the Company during 1994, 1993 and 1992 was as follows:

Number of Shares (In thousands)	1994	1993	1992
Stock options outstanding, beginning of year	2,890	2,726	2,121
Granted (per share):			
1994 \$20.13 to \$21.88	2,291		
1993 \$23.00		1,001	
1992 \$19.17 to \$25.00			1,022
Exercised (per share):			
1994 \$10.25 to \$15.38	(31)		
1993 \$10.25 to \$28.50		(721)	
1992 \$10.25 to \$21.95			(264)
Expired	(271)	(116)	(153)
Stock options outstanding, end of year (per share: \$13.38 to \$28.50 at September 30, 1994)	4,879	2,890	2,726

Notes to Consolidated Financial Statements

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At September 30, 1994, options were exercisable for 1.9 million shares, and 6.2 million shares were available for future option grants.

The Company has a plan which provides for the sale of convertible debentures to certain officers and key employees. An aggregate of \$30.0 million principal amount of debentures may be issued under the plan, which are convertible into shares of common stock after one year. At September 30, 1994, a total of \$10.2 million principal amount of debentures are outstanding and convertible into 472,000 shares of common stock at \$13.38 to \$28.50 per share.

The Company has an Employee Stock Purchase Plan (the "Plan") under which there remain authorized and available for sale to employees an aggregate of 482,000 shares of the Company's common stock. Based on the market price of common stock on the date of grant, the Company estimates that approximately 476,000 shares will be purchased in July 1995. Under the Plan, 421,000, 521,000 and 439,000 shares were issued at \$17.96, \$19.02 and \$19.34 per share during 1994, 1993 and 1992, respectively.

Note 8

Income Taxes

The geographical sources of income before income taxes, extraordinary loss and cumulative effect of accounting changes for the three years ended September 30, 1994 are as follows:

(In thousands)	1994	1993	1992
United States	\$ 139,940	\$ 41,024	\$ (49,185)
Foreign	86,176	59,027	81,141
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	<u>\$ 226,116</u>	<u>\$ 100,051</u>	<u>\$ 31,956</u>

The provision (credit) for income taxes for the three years ended September 30, 1994 are as follows:

(In thousands)	1994	1993	1992
Currently payable:			
United States	\$ 10,875	\$ 2,552	\$ 3,124
Foreign	36,733	19,294	29,298
Total currently payable	<u>47,608</u>	<u>21,846</u>	<u>32,422</u>
Deferred:			
United States	46,433	(1,053)	(8,248)
Foreign	933	20,402	2,751
Total deferred	<u>47,366</u>	<u>19,349</u>	<u>(5,497)</u>
Total provision for income taxes	<u>\$ 94,974</u>	<u>\$ 41,195</u>	<u>\$ 26,925</u>

The provision for income taxes differs from the amount computed by applying the U. S. statutory income tax rates to income before taxes, extraordinary loss and cumulative effect of accounting changes for the reasons set forth below:

(In thousands)	1994	1993	1992
Statutory income tax	\$ 79,141	\$ 34,818	\$ 10,865
Goodwill amortization	5,653	6,903	5,976
Foreign operations	11,984	22,812	3,132
State income taxes - net of U. S. tax benefit	2,940	1,701	2,045
Utilization of loss and credit carryforwards	(12,662)	(26,714)	(3,707)
Internal Revenue Service settlement			(8,245)
Unusual charges for which benefit is not currently recognizable			14,828
Other-net	7,918	1,675	2,031
Provision for income taxes	\$ 94,974	\$ 41,195	\$ 26,925

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss and tax credit carryforwards. The tax effects of the Company's temporary differences and carryforwards at September 30, 1994 are as follows (in thousands):

Deferred tax liabilities:	
Property	\$ 56,100
Investments	33,900
Excess costs arising from acquisitions	44,400
Undistributed earnings of foreign subsidiaries	29,600
Other	15,700
Total	\$ 179,700
Deferred tax assets:	
Receivables	\$ 4,900
Inventory	48,600
Postretirement benefits other than pensions	36,750
Other accrued expenses	28,300
Operating loss carryforwards	27,400
Tax credit carryforwards	46,960
Other	7,750
Subtotal	200,660
Valuation allowance	(28,840)
Total	\$ 171,820

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. The valuation allowance relates to the realization of operating loss carryforwards in certain non-U.S. jurisdictions and foreign tax credit carryforwards in the U.S.

Deferred income tax assets and liabilities at September 30, 1993 relate primarily to basis differences in property, inventory, accruals for unusual charges and accrued liabilities.

Provision has been made for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of foreign subsidiaries of the Company. The Company considers the undistributed earnings of its foreign subsidiaries above the amount already provided to be permanently reinvested. These additional foreign earnings could become subject to additional tax if remitted as a dividend, lent by the foreign subsidiary to the Company or if the Company should sell its stock in the subsidiary. The additional amount of taxes payable are not practicable to estimate but the Company believes they would not be material due to offsetting foreign tax credits generated by the repatriation of such earnings.

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During 1992, the Company reached a settlement with the IRS to resolve all pending federal income tax issues for the 1978 through 1986 tax years. As a result of the settlement, the Company revised its estimates of deferred income taxes and related interest expense. Accordingly, the reversal of deferred income taxes had the effect of increasing net income by \$8.2 million, while the reversal of the related interest reduced interest expense by \$8.8 million. The Company has reached agreement with the IRS on all federal income tax issues through and including the 1991 tax year.

At September 30, 1994, the Company had approximately \$46.9 million of general business, alternative minimum tax and foreign tax credit carryforwards available to offset future payments of federal income taxes expiring in varying amounts between 1995 and 2009.

Note 9

Industry Segment and Geographic Information

The Company operates principally in two industry segments - oilfield and process.

Oilfield Industry: Manufacture and sale of equipment and provision of services used during and subsequent to the drilling of oil and gas wells to achieve safety and long-term productivity, to 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 Industry: Manufacture and sale of process equipment for separating and treating liquids, solids and slurries for environmental and other process industries.

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. Prior years segment information has been restated to reflect the 1994 dispositions.

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

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 \$32.8 million, \$35.6 million and \$25.7 million in 1994, 1993 and 1992, 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 \$281.3 million, \$231.2 million and \$199.4 million at September 30, 1994, 1993 and 1992, respectively.

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1994, 1993 and 1992 and for each of the years then ended is shown in the following tables:

(In thousands)	Oilfield	Process	Disposed Businesses	Eliminations	Total
Operations by Industry Segment:					
1994					
Revenues from unaffiliated customers:					
Sales	\$ 1,366,555	\$ 264,725	\$ 96,454		\$ 1,727,734
Services and rentals	744,086	32,938			777,024
Intersegment sales	297	589	4,678	\$ (5,564)	
Total revenues	2,110,938	298,252	101,132	(5,564)	2,504,758
Operating profit	157,906	21,628	39,116		218,650
Identifiable assets	2,504,512	188,265	30,594	(4,939)	2,718,432
Capital expenditures	100,514	4,188	2,713	1,224	108,639
Depreciation and amortization	141,369	7,260	4,053	1,513	154,195
1993					
Revenues from unaffiliated customers:					
Sales	\$ 1,332,407	\$ 278,849	\$ 334,537		\$ 1,945,793
Services and rentals	710,725	29,479	15,700		755,904
Intersegment sales	359	522	5,154	\$ (6,035)	
Total revenues	2,043,491	308,850	355,391	(6,035)	2,701,697
Operating profit (loss)	178,776	21,820	(6,130)		194,466
Identifiable assets	2,461,070	167,891	285,465	(2,330)	2,912,096
Capital expenditures	106,562	6,059	13,548	732	126,901
Depreciation and amortization	154,304	7,786	15,071	1,457	178,618
1992					
Revenues from unaffiliated customers:					
Sales	\$ 1,238,743	\$ 253,719	\$ 347,309		\$ 1,839,771
Services and rentals	651,157	26,272	21,315		698,744
Intersegment sales	931	44	4,576	\$ (5,551)	
Total revenues	1,890,831	280,035	373,200	(5,551)	2,538,515
Operating profit	100,321	5,471	13,882		119,674
Identifiable assets	2,519,863	171,809	325,911	(4,031)	3,013,552
Capital expenditures	121,321	3,594	12,511	449	137,875
Depreciation and amortization	131,139	7,270	16,615	1,019	156,043

Notes to Consolidated Financial Statements

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(In thousands)	Western Hemisphere		Eastern Hemisphere		Eliminations	Total
	United States	Other	Europe	Other		
Operations by Geographic Area:						
1994						
Revenues from unaffiliated customers:						
Sales	\$ 963,413	\$ 253,834	\$269,604	\$240,883		\$ 1,727,734
Services and rentals	308,106	108,282	209,875	150,761		777,024
Transfers between geographic areas	180,345	23,177	36,588	23,433	\$ (263,543)	
Total revenues	1,451,864	385,293	516,067	415,077	(263,543)	2,504,758
Operating profit	60,391	59,688	38,125	60,446		218,650
Identifiable assets	1,631,374	278,109	552,104	411,317	(154,472)	2,718,432
Export sales of U.S. companies		77,219	24,837	142,524		244,580
1993						
Revenues from unaffiliated customers:						
Sales	\$ 929,943	\$ 254,678	\$371,346	\$389,826		\$ 1,945,793
Services and rentals	281,844	95,325	195,224	183,511		755,904
Transfers between geographic areas	175,411	23,039	48,252	28,183	\$ (274,885)	
Total revenues	1,387,198	373,042	614,822	601,520	(274,885)	2,701,697
Operating profit (loss)	(20,640)	43,077	65,606	106,423		194,466
Identifiable assets	1,689,377	298,381	663,132	402,428	(141,222)	2,912,096
Export sales of U.S. companies		79,236	14,503	197,607		291,346
1992						
Revenues from unaffiliated customers:						
Sales	\$ 893,953	\$ 210,119	\$418,041	\$317,658		\$ 1,839,771
Services and rentals	231,327	75,764	276,546	115,107		698,744
Transfers between geographic areas	194,531	13,388	42,496	9,250	\$ (259,665)	
Total revenues	1,319,811	299,271	737,083	442,015	(259,665)	2,538,515
Operating profit (loss)	(87,312)	13,476	139,749	53,761		119,674
Identifiable assets	1,795,343	269,994	793,440	326,990	(172,215)	3,013,552
Export sales of U.S. companies		79,320	24,431	146,036		249,787

Note 10

Employee Benefit Plans

Postretirement Benefits Other Than Pensions

The Company provides postretirement health care and life insurance benefits for substantially all U.S. employees. In 1993 and 1992, the Company recognized \$9.5 million and \$8.4 million, respectively, as expense for postretirement health care and life insurance benefits. Expense recognized in 1994 under SFAS No. 106 was \$8.8 million. The Company's postretirement plan is not funded.

The following table sets forth the funded status at September 30, 1994:

(In thousands)

Accumulated postretirement benefit obligation ("APBO"):	
Retirees	\$ (83,449)
Fully eligible active plan participants	(9,856)
Other active plan participants	(19,920)
Total	(113,225)
Unrecognized net loss	7,595
Accrued postretirement benefit cost	<u>\$ (105,630)</u>

Net pension expense includes the following components:

(In thousands)

	1994	1993	1992
Service cost - benefits earned during the period	\$ 954	\$ 1,413	\$ 4,345
Interest cost on projected benefit obligation	2,329	3,348	6,582
Actual return on assets	(1,710)	(3,545)	(3,019)
Net amortization and deferral	(216)	126	(4,954)
Net pension expense	<u>\$ 1,357</u>	<u>\$ 1,342</u>	<u>\$ 2,954</u>

Net periodic postretirement benefit cost for 1994 consists of the following:

(In thousands)

Service cost of benefits earned	\$ 1,300
Interest cost on APBO	7,500
Net periodic postretirement benefit cost	<u>\$ 8,800</u>

The assumed health care cost trend rate used in measuring the APBO as of September 30, 1994 was 9.0% for 1995 declining gradually each successive year until it reaches 5% in 2002, after which it remains constant. A 1% increase in the trend rate for health care costs would have increased the APBO by approximately 9% and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately 11%. The assumed discount rate used in determining the APBO was 7.5%.

Defined Benefit Pension Plans

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was \$1.4 million, \$1.3 million and \$3.0 million in 1994, 1993 and 1992, respectively. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements.

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

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

	1994	1993	1992
Discount rate	7.7%	7.3%	9.5%
Rates of increase in compensation levels	3.5%	4.5%	5.5%
Expected long-term rate of return on assets	8.6%	8.8%	9.5%

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1994 and 1993:

(In thousands)	1994		1993	
	Overfunded Plans	Underfunded Plans	Overfunded Plans	Underfunded Plans
Actuarial present value of benefit obligations:				
Vested benefit obligation	\$ (15,309)	\$ (12,922)	\$ (16,800)	\$ (12,654)
Accumulated benefit obligation	\$ (15,518)	\$ (13,848)	\$ (17,013)	\$ (13,509)
Projected benefit obligation	\$ (16,812)	\$ (16,185)	\$ (17,509)	\$ (15,631)
Plan assets at fair value	22,159	7,387	20,368	6,178
Projected benefit obligation (in excess of) less than plan assets	5,347	(8,798)	2,859	(9,453)
Unrecognized prior service cost	259	98	351	942
Unrecognized net (gain) loss	(2,024)	239	79	760
Unrecognized net liability at transition	320	97	314	822
Prepaid pension cost (pension liability)	\$ 3,902	\$ (8,364)	\$ 3,603	\$ (6,929)

During 1993, the Company terminated certain defined benefit pension plans. A net gain of \$3.3 million was recorded in connection with the terminations. Pension plan assets are primarily mortgages, private placements, bonds and common stocks.

Thrift Plan

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 15% 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. Beginning January 1, 1995, the Company matching will change to \$1.00 per \$1.00 employee contribution for the first 2% and \$.50 per \$1.00 employee contribution for the next 4% 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. The Company's contributions to the Thrift Plan and other defined contribution plans amounted to \$26.3 million, \$23.6 million and \$21.0 million in 1994, 1993 and 1992, respectively.

SFAS No. 112 "Employers' Accounting for Postemployment Benefits," was issued by the Financial Accounting Standards Board in November 1992. The statement requires accrual basis accounting for such benefits as opposed to the Company's current method of cash basis accounting. The Company will adopt this statement effective October 1, 1994. The cumulative effect due to the change in accounting will be a charge to income of \$14.6 million, net of a \$7.9 million tax benefit. Expense under SFAS No. 112 for 1995 related to these benefits is not expected to be significantly different from actual cash payments.

Note 11

Stockholder Rights Agreement and Other Matters

The Company has 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 consolidated statement of operations information is as follows:

(In thousands)	1994	1993	1992
Maintenance and repairs	\$ 89,734	\$ 92,801	\$ 100,481
Operating leases (generally transportation equipment and warehouse facilities)	30,089	36,500	39,218
Research and development	37,393	41,067	44,615
Taxes other than payroll and income tax	24,755	25,094	21,906
Income taxes paid	39,397	43,112	27,976
Interest paid	55,488	65,673	66,794
Net foreign exchange translation losses	1,892	441	960

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

Note 12

Litigation

Parker & Parsley

In May 1994, a settlement of litigation against its insurance carriers provided the Company a recovery of \$19.3 million, net of expenses, which was recognized as an unusual credit in the third quarter of 1994. The Company had previously recorded a charge to earnings of \$24.5 million in the second quarter of 1993 as a result of a litigation settlement for \$57.5 million in May 1993 paid on behalf of a former affiliate, BJ Services Company USA, Inc. ("BJ") to Parker & Parsley over alleged intentional product delivery or service variance on a number of well stimulation projects. In connection with the initial public offering by BJ in 1990, the Company had previously agreed to indemnify BJ for damages 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.

Glyn Snell

In August 1994, the Company made a payment of \$7.5 million to settle a class action suit on behalf of Glyn Snell and other royalty interest owners implicating Dresser Industries, BJ, the Company and affiliates in damages to the same wells included in the Parker & Parsley litigation.

Mission Resources

In September 1994, the Company and its insurers settled litigation requiring the Company to pay \$.8 million to Mission Resources, Inc. - II in connection with product delivery or service variances on approximately 53 well stimulation projects performed by its former subsidiary, BJ-Hughes in Kern County, California. Although the suit did not name the Company as a defendant, the allegations may have fallen within the Company's agreement, in connection with the initial public offering by BJ, to indemnify it for damages, if any, and costs of litigation arising out of any such claims.

Department of Justice Investigation

In July 1992, pursuant to an agreement with the Justice Department, HCC pleaded guilty to a one count criminal information alleging that it had conspired to fix the price of tricone rock bits for a period of nine weeks in 1989 in violation of Section 1 of the Sherman Act. A fine of \$1.0 million was imposed by the Court upon acceptance of the plea.

As a consequence of the Justice Department action, the Company and three other major producers of tricone rock bits were sued civilly in a class action by several litigants alleging damages as a consequence of the Sherman Act violation. In April 1993, a \$17.5 million settlement was approved by the Court and a judgement dismissing claims against the Company on behalf of the class was entered. A charge to earnings of \$17.5 million was recorded in the first quarter of 1993. In September 1993, the Court notified the Class that an Additional Settlement Agreement had been entered into on behalf of the Class with two other defendants. Because the prior settlement with the Company contained a most favored nations clause requiring a refund to the Company if a later settlement with any other defendants was more favorable, the Company received a refund of \$2.1 million in the first quarter of 1994. One antitrust action by a customer who opted out of the class was settled for \$1.0 million for which payment was made by the Company in July 1994.

TRW Inc.

In January 1994, the Company paid \$10.4 million to TRW Inc. ("TRW") to satisfy a judgement TRW had obtained in connection with a damage suit filed against the Company and affiliates in connection with the sale of certain disc and decanter machines by the affiliates prior to the Company's acquisition of the affiliates in 1989.

Other

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.

Note 13

Environmental Matters

The Company's past and present operations include activities which are subject to extensive federal and state environmental regulations.

The Company has been identified as a potentially responsible party ("PRP") in remedial activities related to various "Superfund" sites. Applicable federal law imposes joint and several liability on each PRP for the cleanup of these sites leaving the Company with the uncertainty that it may be responsible for the remediation cost attributable to other PRPs who are unable to pay their share of the remediation costs. Generally, the Company has determined its share of such total cost based on the ratio that the number of gallons of waste estimated to be contributed to the site by the Company bears to the total number of gallons of waste estimated to have been disposed at the site. The Company has accrued what it believes to be its share of the total cost of remediation of these Superfund sites. No accrual has been made under the joint and several liability concept since the Company believes that the probability that it will have to pay material costs above its share is remote due to the fact that the other PRPs have substantial assets available to satisfy their obligation.

At September 30, 1994 and 1993, the Company had accrued approximately \$18.8 million and \$18.2 million, respectively, for remediation costs, including the Superfund sites referred to above. The measurement of the accruals for remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the difficulty in estimating the extent and remedy of environmental contamination. While recoveries from insurance coverage or indemnification agreements may be available to the Company to mitigate the remediation costs, such amounts have not been considered in measuring the remediation accrual. The Company believes that the likelihood of material losses in excess of those amounts recorded is remote.

Note 14

Commitments and Contingencies

At September 30, 1994, 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, 1999 are \$24.9 million, \$17.6 million, \$12.9 million, \$8.5 million and \$6.8 million, respectively, and \$32.9 million in the aggregate thereafter. The Company has not entered into any significant capital leases.

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

Note 15

Quarterly Data (Unaudited):

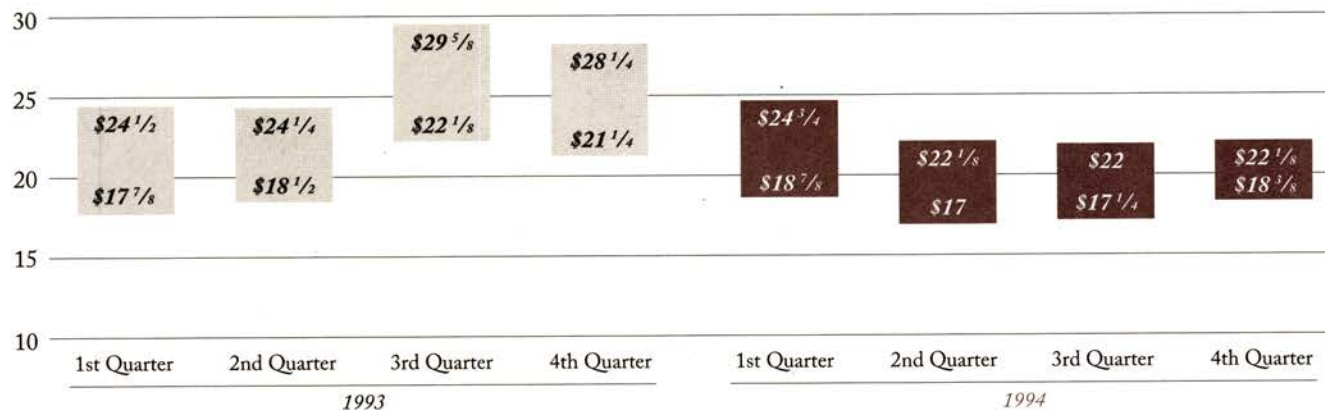
Summarized quarterly financial data for the years ended September 30, 1994 and 1993 are shown in the table below:

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Total
Fiscal Year 1994: *					
Revenues	\$ 624,562	\$ 650,016	\$ 590,532	\$ 639,648	\$2,504,758
Gross Profit**	104,882	114,747	100,293	102,091	422,013
Income before extraordinary loss and cumulative effect of accounting changes	16,879	23,288	34,439	56,536	131,142
Net income (loss)	(27,286)	23,288	22,651	24,004	42,657
Per share of common stock:					
Income before extraordinary loss and cumulative effect of accounting changes	.10	.14	.22	.39	.85
Net income (loss)	(.22)	.14	.14	.16	.22
Dividends per share	.115	.115	.115	.115	.46
Fiscal Year 1993: *					
Revenues	\$ 684,073	\$ 692,449	\$ 670,416	\$ 654,759	\$2,701,697
Gross Profit**	107,942	116,107	104,130	110,973	439,152
Net income	4,210	2,799	23,831	28,016	58,856
Net income per share	.01	.00	.15	.18	.34
Dividends per share	.115	.115	.115	.115	.46

* See Notes 1, 2, 3 and 4 for information regarding accounting changes, dispositions, unusual charges-net and the extraordinary loss, respectively.

** 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

Stock Prices by Quarter The following graph 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:



Corporate Information

Board of Directors

Lester M. Alberthal, Jr.
Chairman, President and
Chief Executive Officer of EDS

Gordon M. Anderson
Chairman, President and
Chief Executive Officer of
Santa Fe International Corporation

Victor G. Beghini
Vice Chairman - Marathon Group,
USX Corporation and
President of Marathon Oil Company

Jack S. Blanton
President of Eddy
Refining Company

Harry M. Conger
Chairman and Chief Executive Officer
of Homestake Mining Company

Eunice M. Filter
Vice President, Secretary and
Treasurer of Xerox Corporation

Joe B. Foster
Chairman and Chief Executive Officer
of Newfield Exploration Company

Richard D. Kinder
President and Chief Operating Officer
of Enron Corp.

John F. Maher
President and Chief Operating Officer
of Great Western Financial
Corporation

Dana G. Mead
Chairman and Chief Executive Officer
of Tenneco Inc.

Donald C. Trauscht
Chairman and Chief Executive Officer
of Borg-Warner Security Corporation

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

Corporate Information

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

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

Independent Accountants:
Deloitte & Touche LLP
Houston, TX

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: Scott Gill, Vice President,
Baker Hughes Incorporated, P.O. Box
4740, Houston, TX 77210-4740

Annual Meeting:

The Company's Annual Meeting of
Stockholders will be held at 11:00 AM
on January 25, 1995 at the offices of the
Company, 3900 Essex Lane, Suite 210,
Houston, TX.

Baker Hughes Incorporated

Corporate Office Location:
3900 Essex Lane
Houston, TX 77027
Telephone: 713/439-8600

Corporate Office Mailing Address:
P.O. Box 4740
Houston, TX 77210-4740

Corporate Organization

Baker Hughes Incorporated

James D. Woods
Chairman, President and
Chief Executive Officer

Max L. Lukens
Executive Vice President and President,
Baker Hughes Oilfield Operations

Eric L. Mattson
Senior Vice President and Chief
Financial Officer

Franklin Myers
Senior Vice President and General
Counsel

Timothy J. Probert
Vice President and President, Baker
Hughes Process Equipment Operations

G. Stephen Finley
Vice President and Vice President
and Chief Financial Officer,
Baker Hughes Oilfield Operations

R. Pat Herbert
Vice President and Vice President-
Technology & Market Development,
Baker Hughes Oilfield Operations

Phillip A. Rice
Vice President, Human Resources

Arthur T. Downey
Vice President, Government Affairs

Scott Gill
Vice President, Investor Relations

James E. Braun
Controller

Douglas C. Doty
Treasurer

Lawrence O'Donnell III
Deputy General Counsel
and Corporate Secretary

Baker Hughes Oilfield Operations

Baker Hughes Oilfield Operations
Houston, Texas
Max L. Lukens
President

Baker Hughes INTEQ
Houston, Texas
Jay P. Trahan
President

Baker Oil Tools
Houston, Texas
Edwin C. Howell
President

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

Centrilift
Claremore, Oklahoma
Joseph F. Brady
President

Hughes Christensen
The Woodlands, Texas
Andrew J. Szescila
President

Baker Hughes Process Equipment Operations

**Baker Hughes Process
Equipment Operations**
Houston, Texas
Timothy J. Probert
President

**EIMCO Process Equipment
Company**
Salt Lake City, Utah
Timothy J. Probert
President

BIRD Machine Company, Inc.
South Walpole, Massachusetts
Tim L. Davis
President

Baker Hughes Process Systems
Rugby, England
Granville Heeley
President

