

C o r p o r a t e P r o f i l e

Baker Hughes Incorporated provides products and services to the petroleum and continuous process industries. The company's mission is to generate increasing value for its stockholders, customers and employees. To this extent Baker Hughes has consolidated its operations into two operating groups.

OILFIELD OPERATIONS

Oilfield Operations provides products and services for the drilling, completion and production of oil and gas wells. These companies are technology and market leaders in 14 key product lines serving the petroleum industry worldwide.

BAKER OIL TOOLS

Baker Oil Tools is the leading provider of completion, production, workover, and fishing equipment and services for the oil industry.

BAKER PERFORMANCE CHEMICALS

Baker Performance Chemicals provides specialty chemicals for the drilling, production treating, pipeline, and processing sectors as well as for mineral handling, agriculture, and industrial cleaning.

CENTRILIFT

Centrilift provides electric submersible pumps, drives, speed controls, and cabling.

HUGHES CHRISTENSEN

Hughes Christensen is the industry leader in the Tricone, PDC (fixed cutter), and mining drill bits.

BAKER HUGHES INTEQ

Baker Hughes INTEQ is the systems integrator that combines Baker Hughes oilfield capabilities into customized solutions (e.g. technical applications, project management, and long-term partnering relationships). Baker Hughes INTEQ provides drilling systems, information technologies, fluids technologies, and completion and production systems.

ENVIROTECH

EnviroTech manufactures and markets specialty process equipment and pumps for a variety of process applications.

ENVIROTECH PROCESS EQUIPMENT

EnviroTech Process Equipment provides a variety of process systems for produced fluids, centrifuges and filters for liquid-solid separation, and flotation cells for recovering mined ores through Baker Hughes Process Systems, Bird Machine, and EIMCO Process Equipment.

ENVIROTECH PUMPSYSTEMS

EnviroTech PumpSystems provide a variety of specialty centrifugal pumps for abrasive and solid laden slurries through BGA International, EnviroTech Specialty Pumps, EnviroTech Pump systems b.v., and Chas. S. Lewis & Co.

Selected Financial Highlights

B a k e r H u g h e s I n c o r p o r a t e d

Years Ended September 30,

(In thousands, except per share amounts)

	<i>1993</i>	<i>1992</i>
Total revenues	<i>\$ 2,701,697</i>	<i>\$ 2,538,515</i>
Operating income	<i>158,914</i>	<i>93,990</i>
Net income	<i>58,856</i>	<i>5,031</i>
Net income per share	<i>.34</i>	<i>.00</i>
Working capital	<i>920,969</i>	<i>715,472</i>
Total assets	<i>3,143,340</i>	<i>3,212,938</i>
Long-term debt	<i>935,846</i>	<i>812,465</i>
Stockholders' equity	<i>1,610,648</i>	<i>1,645,522</i>
Number of shares outstanding at end of year	<i>140,437</i>	<i>138,624</i>
Number of employees	<i>18.4</i>	<i>19.6</i>

Table of Contents

Letter to Stockholders	2
Strategic Review	6
Financial Review	24
Management's Discussion and Analysis	26
Financial Statements	33
Board of Directors & Corporate Information	55
Corporate Organization	56

T O O U R S T O C K H O L D E R S
B a k e r H u g h e s I n c o r p o r a t e d

Fiscal 1993 was a year of challenge for Baker Hughes, one in which we made great strides in restructuring and repositioning the company for an ever changing marketplace. On the surface, 1993 would appear to have been an uneventful year. Worldwide drilling activity was level compared to 1992 and workover activity increased modestly. We are pleased to report that in this flat market, Baker Hughes was able to improve its earnings per share from \$.00 to \$.34, while revenues increased 6.4% to \$2.7 billion.

On an operational basis, excluding the impact of unusual charges in both 1992 and 1993, earnings per share improved from \$.55 to \$.64, a 16% increase. I invite you to read Managements Discussion and Analysis of Financial Condition and Results of Operations beginning on page 26 for a detailed financial review of 1993.

Oilfield Operations Strategic Analysis

A closer look at the forces at work over the past several years, however, actually caused 1993 to be a strategically important year for your company. Since the collapse of oil prices in 1986, the oil and gas industry has slowly come to grips with the need to dramatically improve efficiency and productivity in order to achieve an adequate return on risk capital. This trend has gained momentum in the past several years to the point that in mid 1992 we decided it was necessary for Baker Hughes

Incorporated (BHI) to conduct a study to analyze our customer strategies for success in the 90's and beyond. This study formed the basis for a major restructuring of our oilfield operations and the formation of a new Baker Hughes company — Baker Hughes INTEQ. Our conclusion was that the nature of the relationship between our customer, the oil and gas companies, and the service industry has fundamentally changed and will continue to change over the remainder of the decade.

Our ability to adapt to and anticipate customer requirements will, in large measure, determine our success and set us apart from the competition. This process is so significant to the future of BHI that we have devoted this Annual Report to acquainting you with the details of our analysis, our response to its conclusions and some early, very encouraging results of changing relationships with our customers.

Our basic belief centers around the notion that customers would prefer to deal with fewer service providers on a more personal and partnering basis because they themselves no longer have the luxury of staffing levels that can adequately manage all aspects of the business. Said another way, many of our major customers have determined that those aspects of their business that deal with the physical process of drilling and completing wells are not their core competency and is,

therefore, a task that can increasingly be entrusted to the service companies. By being involved in a larger scope of services from the early stages of well planning, service companies can gain efficiencies for the operator and earn incentives for themselves, thus creating “win/win” economics for both.

Our reorganization was planned in late 1992 and implemented on March 31, 1993. In the six months we have been up and running, we have been pleased with the progress, despite a flat activity environment. We have been particularly pleased with the level of interest at virtually all levels of the customer community. One of our primary goals was to make the Baker Hughes organization more understandable and user-friendly for the customer. Two years ago we maintained some fifteen operating divisions under two oilfield group structures. Today, we have five operating divisions in one oilfield group. Furthermore, our customers now understand that if they desire to engage multiple BHI product lines on a particular project, Baker Hughes INTEQ has the mandate and is staffed to integrate and deliver all of our oilfield products and services.

Since the announcement of the INTEQ structure in March, customer response has been gratifying. Furthermore, all of our major competitors have since announced plans to move in similar fashion to Baker Hughes, a pattern which

confirms the observations and direction we have taken. As we have said in past annual reports, our product offerings include proven market leaders in all fourteen of our major market niches, which gives us a distinct advantage in competing in the world of integrated services, solutions and partnering relationships.

EnviroTech Strategic Analysis

Late in the fiscal year, we undertook a strategic analysis of the EnviroTech companies similar in scope to the oilfield review we had completed earlier in the year. The results of the study clearly identified some areas of concern in our Measurements and Controls Group of companies. While our technologies in these businesses were world class, our ability to effectively take these technologies to the marketplace and realize acceptable returns has been inadequate. Consequently, we made the decision to divest this group of companies. In November, we entered into negotiations with prospective buyers in an effort to sell the Measurements and Controls Group. We anticipate reaching a definitive agreement shortly and closing in early 1994.

Outlook

Our expectation for drilling activity in the coming year will be for modest growth on a worldwide basis. Continued strong activity in the U.S., particularly in the Gulf of Mexico will be offset by

soft international markets where politically related events in the U.K., Nigeria and Italy have led to declines in these very important markets where we enjoy a large market share. One of the bright spots in 1994 will be the former Soviet Union (FSU), where we enjoyed significant activity in 1993 with sales exceeding \$80 million, a fivefold increase from the previous year, and where we anticipate further revenue increases in 1994. This positive performance has been led by our Centrilift division which is a manufacturer of electric submersible pumps, a product in great demand in the Russian Republics given an existing population of 25,000 shut in wells. With continuing interest in our products and services by indigenous producing associations as well as forthcoming activity from Western operators and sovereign lending by the EXIM Bank and the World Bank, the FSU presents a tremendous upside opportunity for BHI mitigated by a risk profile that continues to change on almost a daily basis. Our long term belief is that the republics of the FSU hold immense promise. Planning in this political environment is problematic at best. However, our current success has allowed us to devote significant resources which will enable us to stay at the leading edge of opportunity in this region.

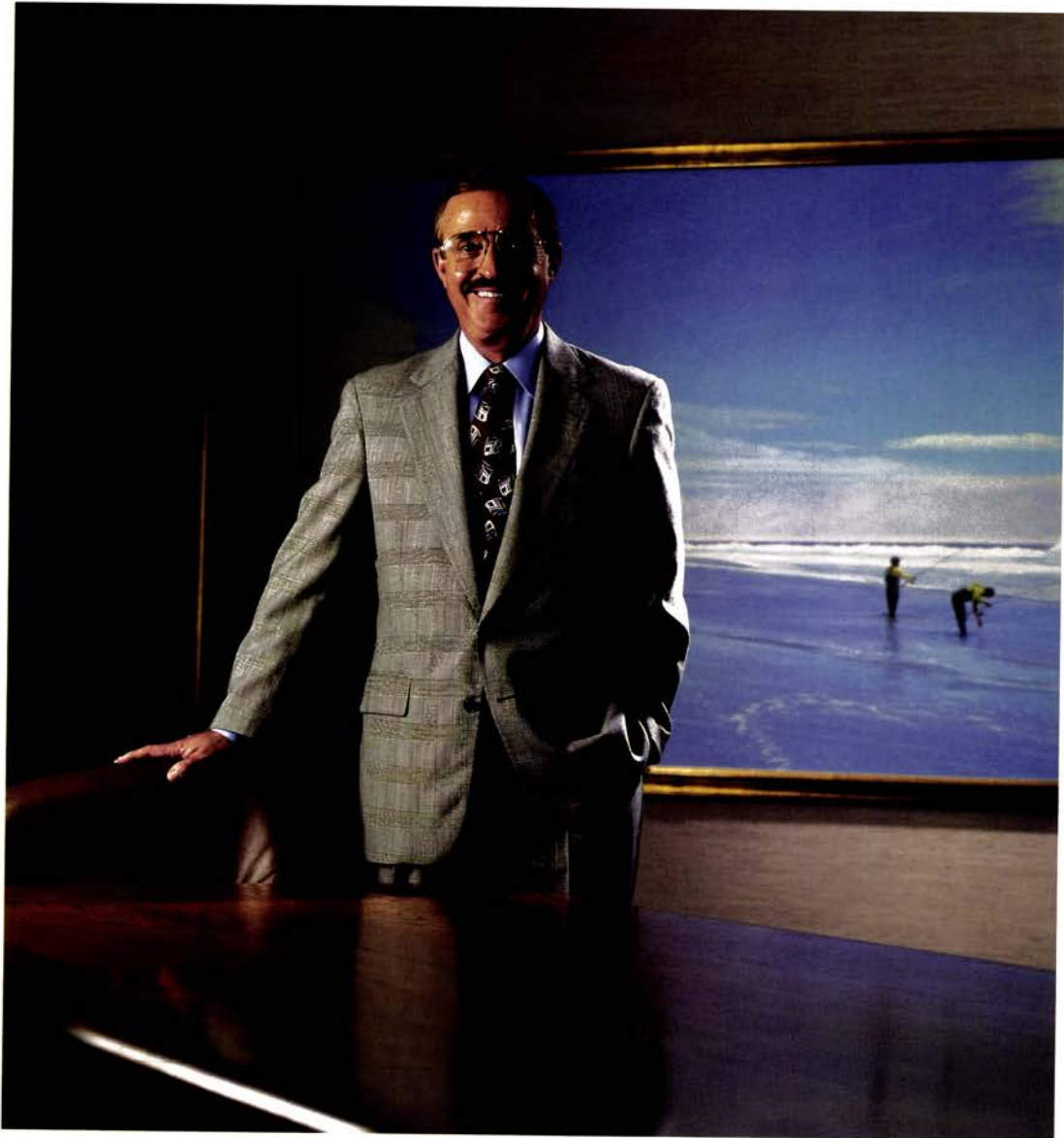
At our 1994 Annual Meeting of Stockholders, two outstanding directors will reach the 10 years

of service level and, in accordance with our rules of governance, will be required to step down from the Board. Kenneth L. Lay, Chairman and Chief Executive Officer of Enron Corporation, and Richard M. Bressler, Chairman of El Paso Natural Gas Company, have provided steady guidance for a decade and both played a particularly key role in the formation of Baker Hughes in 1987. Both are endowed with three key traits needed in a good director — insightful business judgement, forward thinking and common sense — and they will be missed. Fortunately, they will be replaced by two equally accomplished and talented individuals. We are pleased to welcome Dana G. Mead, President and Chief Operating Officer of Tenneco Inc., and Richard D. Kinder, President and Chief Operating Officer of Enron Corporation, who will join the Baker Hughes Board of Directors following our 1994 Annual Meeting of Shareholders.

As always my thanks go to the employees of Baker Hughes, who once again had to endure a major reorganization while continuing to perform on a day-to-day basis. The industries we serve have been relentless in their ability to take unexpected turns. We long ago learned that in our business, success is not a destination but a journey. In 1993, we took a very important step in that journey, one that we are convinced will pay handsomely down the road.

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

J.D. Woods



August 1993 – Forty five miles off the Louisiana coast, the future of the oilfield service industry is taking shape.

Working for BP Exploration, the **Diamond Offshore Ocean America**

makes hole on the eighth of up to 12 wells to be drilled this year through a subsea template on Viosca Knoll Block 989. In 1994, a platform will be installed here to complete the previously drilled wells then drill additional wells to fully develop the Pompano field.

Baker Hughes Plays Major Role

With complex logistics, deep water, extended-reach wells and a tight schedule, the Pompano Project requires experienced people and carefully-chosen technology. Not surprisingly, Baker Hughes has an important role in the project. In addition to providing engineering services, BHI is contributing directional drilling equipment, drill bits, drilling fluids, and completion systems to Pompano's success.

A New Kind of Relationship

At first glance, this high-tech operation looks like one of many integrated services projects that make up a growing portion of Baker Hughes' business. But there is a fundamental difference: the Pompano project is being implemented by an

TO IMPROVE THE EXPLORATION AND PRODUCTION PROCESS, OIL COMPANIES ARE SEEKING CAPABLE SUPPLIERS, WHO CAN WORK WITH THEM TOWARD COMMON GOALS... THIS REPORT SHOWS HOW BAKER HUGHES CHANGED TO MEET THESE NEEDS AND PRESENTS SIX CASES IN WHICH ALLIANCES HAVE BENEFITED THE CUSTOMER AND BHI.

alliance between the operator and its three lead contractors.

Project planning and operational decision-making are carried out by the project team with direction from

a steering committee with representatives from BP Exploration, Diamond Offshore, Schlumberger and Baker Hughes. All four companies are committed to working together in a new kind of relationship to achieve ambitious performance goals.

Key to Future Oilfield Business

Potentially, this new way of doing business — along with technical innovations — could reduce development costs by 30 percent compared to conventional "arms-length" contracting practices.

Such operator/supplier alliances are likely to transform the oilfield business. From now on, service companies will not only have to provide quality products and services, they will also need project management and technical skills to provide integrated solutions and the ability to form and maintain partnerships and alliances with oil companies and other contractors.

During 1993, Baker Hughes restructured its oilfield operations group to make it easier for BHI to conduct business in this new way.

*The Diamond Offshore Ocean America
working for BP Exploration in the Gulf of Mexico.*



Technology Partnership - Anti-Whirl Bit Program



A M O C O
TULSA, OKLAHOMA

Until recently, PDC (polycrystalline diamond compact) bit applications have been limited to relatively soft, consistent formations. Bit cutters frequently were damaged by vibration when drilling harder, more variable rock.

In the late 1980's, engineers at Amoco Production Company's Tulsa, Oklahoma, Drilling Research Center conducted tests to understand this vibration problem. These tests led to the discovery of a phenomenon known as "bit whirl", an asymmetrical rotation which caused high vibration levels, even on the most current bit designs. Amoco engineers realized that a new type of PDC drill bit, which eliminated bit whirl, would have greatly improved performance. To attain this goal, however, Amoco needed a partner with experience in bit design and construction.

In 1990, Hughes Christensen recognized the potential for the technology and entered into a license agreement with Amoco and a cooperative research program to develop a

commercial anti-whirl bit. Amoco research engineers already had a working relationship with the Hughes Christensen research team. In addition, Hughes Christensen had unmatched bit modeling capabilities and substantial experience at drill bit dynamics research, as well as high quality diamond bit manufacturing capabilities.

The joint research effort resulted in several prototypes which underwent an extensive field testing program. Positive results led to the commercialization of the first anti-whirl drill bit line, Hughes Christensen's "AR-Series" PDC bits.

The new anti-whirl bits have increased penetration rates up to 100% in some applications and have extended bit life as much as four-fold, compared to previous bit designs. Introduction of the AR-Series has resulted in increased sales and market share for Hughes Christensen.

Joint anti-whirl research with Amoco continues, using the technology to design bits for coring and other applications.



Tommy Warren
Research Supervisor
Amoco Production Company

Gordon Tibbitts
Director, Research & Development
Hughes Christensen



MARATHON OIL COMPANY
ALASKA

Baker Hughes also has developed partnerships to improve the efficiency and cut costs of production operations. For example, in 1991 Marathon Oil Company selected Baker Performance Chemicals, Inc. (BPCI) to provide a complete, systematic treatment program for its Alaska region.

Proper selection and application of production chemicals is essential for the protection of wells, pipelines and facilities from scale buildup, corrosion and bacterial activity.

BPCI and Marathon established a quality committee to optimize Marathon's chemical

treatment program. An intensive product testing and evaluation process was implemented, and operational improvements, including use of economical bulk transportation and streamlined purchasing procedures, were put in place.

The chemical recommendations and operational changes developed by the partnership are expected to reduce Marathon's \$1.3 million expenditures for specialty chemicals by approximately \$700,000. In turn, BPCI has gained a substantial new account in the profitable Alaskan market.



*Larry Disbrow
Advanced Chemist
Marathon Oil Company*

*Ken Domke
Area Engineer
Baker Performance Chemicals, Inc.*

IN A MAJOR STRATEGIC STUDY, BAKER HUGHES EXECUTIVES INTERVIEWED CUSTOMERS WORLDWIDE TO IDENTIFY TRENDS IN CLIENT NEEDS AND TO FRAME BHI'S RESPONSE TO MEETING THEM.

The 1990's have brought significant change to the petroleum industry. Facing new economic realities, both major oil companies and independents have revised their strategies and transformed their organizations.

To better understand these changes, Baker Hughes chairman J.D. Woods formed a task force of a dozen key executives from eight BHI divisions. The task force worked throughout 1992, interviewing a worldwide cross-section of oil company managers, gaining their perspectives on industry trends and producer priorities.

Economic Forces Bring Change

The interviewers found a consensus among operators that energy demand and prices are expected to remain relatively flat throughout the decade.

In response, producers are maximizing cash flow from their existing assets, while aggressively pursuing efficiencies and performance improvements.

Despite these efforts, many oil and gas prospects will not meet their economic hurdle rates of return if they are developed using conventional methods.

New Ways of Doing Business

The task force learned that many operators are focusing their resources on areas deemed to be "core competencies," the skills that cannot be

delegated to contractors. This emphasis is leading oil companies toward increased partnering relationships with

their major service suppliers, particularly in executing their drilling and completion activities. At the same time, suppliers are expected to become closely involved in oil company initiatives to improve business processes. These initiatives include alignment toward common goals, combined quality and safety processes, and participation in multidisciplinary project teams.

Opportunities for Baker Hughes

"The task force findings have significant implications for Baker Hughes," Chairman J.D. Woods concluded. "Baker Hughes already leads the industry in providing integrated solutions. We also have developed numerous technology and operating partnerships with our customers. This experience will serve as a foundation for Baker Hughes as we move forward into the future."

"In that future, as expressed by our clients, we must strengthen our capabilities in delivering the traditional products and services that satisfy the majority of our customers' needs," Mr. Woods said. "The task force results also showed that Baker Hughes needed to develop the right organization with skills to provide more 'integrated solutions' and develop new partnerships and alliances with customers and other contractors."

*We listened to our customers and
changed our company.*





**SHELL
OFFSHORE**

The partnership between Shell Offshore Inc.'s Shelf Division (New Orleans) and Baker Hughes INTEQ had its roots in a Quality Improvement Process initiative begun by Shell in 1991.

The operator sought to improve efficiency and productivity of its offshore completion and workover operations. The existing method was fragmented, with nine contract processes per year for well completions including downhole equipment and gravel pack, pumping and perforating services.

In June 1991, four Shell/BHI Quality Improvement Teams were established. More than 70 wells were completed during the first year of this program, and the teams implemented numerous improvements.

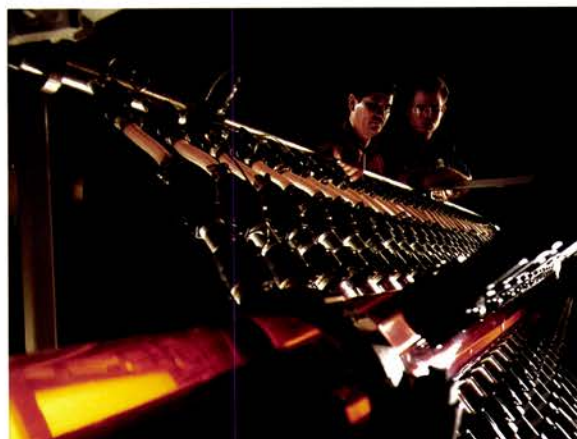
Based on the results, Shell awarded Baker Hughes INTEQ a single, five-year partnership

contract that replaced 45 conventional contracts and involves around 70-100 wells/year.

The project is managed by a steering committee and three cross-functional process teams, with equal numbers of Shell and Baker Hughes representatives.

The QIP process has had measurable results. On a standard completion, personnel on location have been reduced by 40%, rental tool costs have been cut by 35% and transportation costs are 40% lower than before the QIP initiatives.

The teams have also successfully streamlined the well completion work process from design to execution and established better systems for measuring the productivity and efficiency of the completion process. In addition, this positive experience can be applied directly to improve other areas of activity at Shell and Baker Hughes.



*Advanced gravel pack technology
at the Houston Research Center.*



PRUDHOE BAY DRILLING
ALASKA

Faced with declining Alaskan North Slope production, Prudhoe Bay Drilling (a shared services entity representing BP and ARCO) began a program in 1992 to reduce North Slope development well costs by 30% over the next three years.

To reach this target, PBD formed alliances with key contractors and service companies. PBD evaluated potential alliance companies based on their technical capabilities and performance history, commercial and financial stability, as well as their management goals and philosophy. Partners in the alliance now share ownership in achieving cost reduction goals.

After this review, Baker Oil Tools was selected to provide a broad range of completion and workover equipment, including completion packers

and liner hangers, thru tubing inflatable tools, fishing tools, and machine shop services.

From the beginning, Baker Oil Tools worked together with PBD to establish higher performance standards on current wells while developing a systems approach to achieve even better results on subsequent completions.

The focus on process improvement has encouraged the use of new products and new methods to reduce rig time and cut costs. For example, new liner hanger technology has made completions more efficient and has helped the North Slope owners realize significant cost savings.

To date, Baker Oil Tools has successfully completed more than 100 wells as a partner in this well construction alliance.



*On location in the hostile
Alaskan North Slope.*

BAKER OIL TOOLS AND BAKER HUGHES
INTEQ COMBINE TECHNICAL SPECIAL-
TIES INTO SOLUTIONS THAT REDUCE THE
COST OF DEVELOPING OIL AND GAS.

In FY1993, Baker Hughes acted on the task force recommendations and

realigned its oilfield service organization. The changes were aimed at reinforcing the company's ability to meet customer needs for broad technical and project management solutions.

The New Baker Oil Tools

In the first quarter, the company completed consolidation of its formidable array of completion, production, fishing and workover product lines — from the Baker Oil Tools, Tri-State and Baker Service Tools divisions— into a single entity, retaining the Baker Oil Tools name. With its combined technical capabilities and worldwide distribution system, the new Baker Oil Tools can match the technology that best suits each well's needs throughout its life. This ongoing, coordinated effort — from the design and installation of the completion string to remedial and stimulation work— gives Baker Hughes a distinct competitive advantage in providing production equipment and systems.

Baker Hughes INTEQ

Next, Baker Hughes formed Baker Hughes INTEQ, specifically to provide integrated services that include multiple technical

disciplines. Baker Hughes INTEQ combined the five BHI oilfield divisions with

the highest service content: Eastman Teleco, EXLOG, Develco, Baker Sand Control and Milpark Drilling Fluids. The result is a strong, service-oriented company with a single distribution network and technical capabilities spanning the drilling, formation evaluation and completion processes.

In addition, Baker Hughes INTEQ has been designated as the "lead company" in providing project management and coordination for integrated solutions projects, including technology from other BHI divisions — such as Baker Oil Tools and Hughes Christensen — and from drilling contractors, cementing companies, wireline logging providers and other contractors outside the Baker Hughes organization.

Baker Hughes INTEQ and Baker Oil Tools are industry leaders in the drilling service and completion/workover market sectors. With these two major service divisions in place, Baker Hughes was ready for the next step in enhancing its ability to serve today's oilfield: the formation of a single oilfield operations group.

*Baker Hughes experts apply advanced technology
to meet the needs of the project.*



1. On Site Information and Control Center
-
2. Drilling Dynamics
-
3. Drilling Fluid Systems
-
4. Formation Evaluation MWD
-
5. Steerable Drilling Systems
-
6. High Performance Bits

BAKER HUGHES OILFIELD CAPABILITIES SPAN THE LIFE OF THE WELL FROM DRILLING THROUGH COMPLETION, PRODUCTION AND WELL MAINTENANCE.

These figures show Baker Hughes technology being applied throughout the wellbore engineering process from drilling through completion, production and well maintenance. The company's engineering, manufacturing and project management capabilities enable us to develop new technology and to plan and implement jobs ranging from a single product or service to the development of an entire field.

With locations in more than 40 countries, Baker Hughes worldwide service organization supports clients wherever they choose to search for oil and gas.



D R I L L I N G

1 2 3 4 5 6 7

- 1. Completion Fluids
-
- 2. Pumping, Stimulation, Filtration
-
- 3. Completion Accessories
-
- 4. Gravel Packing Services
-
- 5. Well Screens
-
- 6. Tubing Conveyed Perforating
-
- 7. Packers



C O M P L E T I O N

1 2 3 4 5 6

- 1. Performance Chemicals
-
- 2. Automated Production Systems
-
- 3. Safety Systems
-
- 4. Flow Control Equipment
-
- 5. Electric Submersible Pumps
-
- 6. Packers



P R O D U C T I O N

**BAKER HUGHES OILFIELD OPERATIONS
CAN FOCUS ON CLIENT NEEDS FROM
INDIVIDUAL PRODUCTS TO INTEGRATED
SOLUTIONS AND LONG-TERM ALLIANCES.**

In May 1993, Baker Hughes formed a single oilfield operations group to assure

close cooperation between all divisions that primarily serve producing companies.

Previously, the oilfield businesses were divided between drilling and production technology groups. This organization tended to emphasize technical specialties and single-product sales rather than integrated solutions.

Baker Hughes Oilfield Operations includes Baker Hughes INTEQ, Baker Oil Tools, Baker Performance Chemicals, Inc., Centrilift and Hughes Christensen. These divisions share a common approach, which focuses Baker Hughes' full resources on meeting the needs of each project.

Each division will continue to serve its traditional markets with quality products and services. At the same time, the new organizational structure makes it easier for them to work together when it can benefit the customer.

When the project calls for technology or service from more than one Baker Hughes division, Baker Hughes INTEQ acts as the "systems

integrator," taking a lead role in providing integrated solutions and in developing

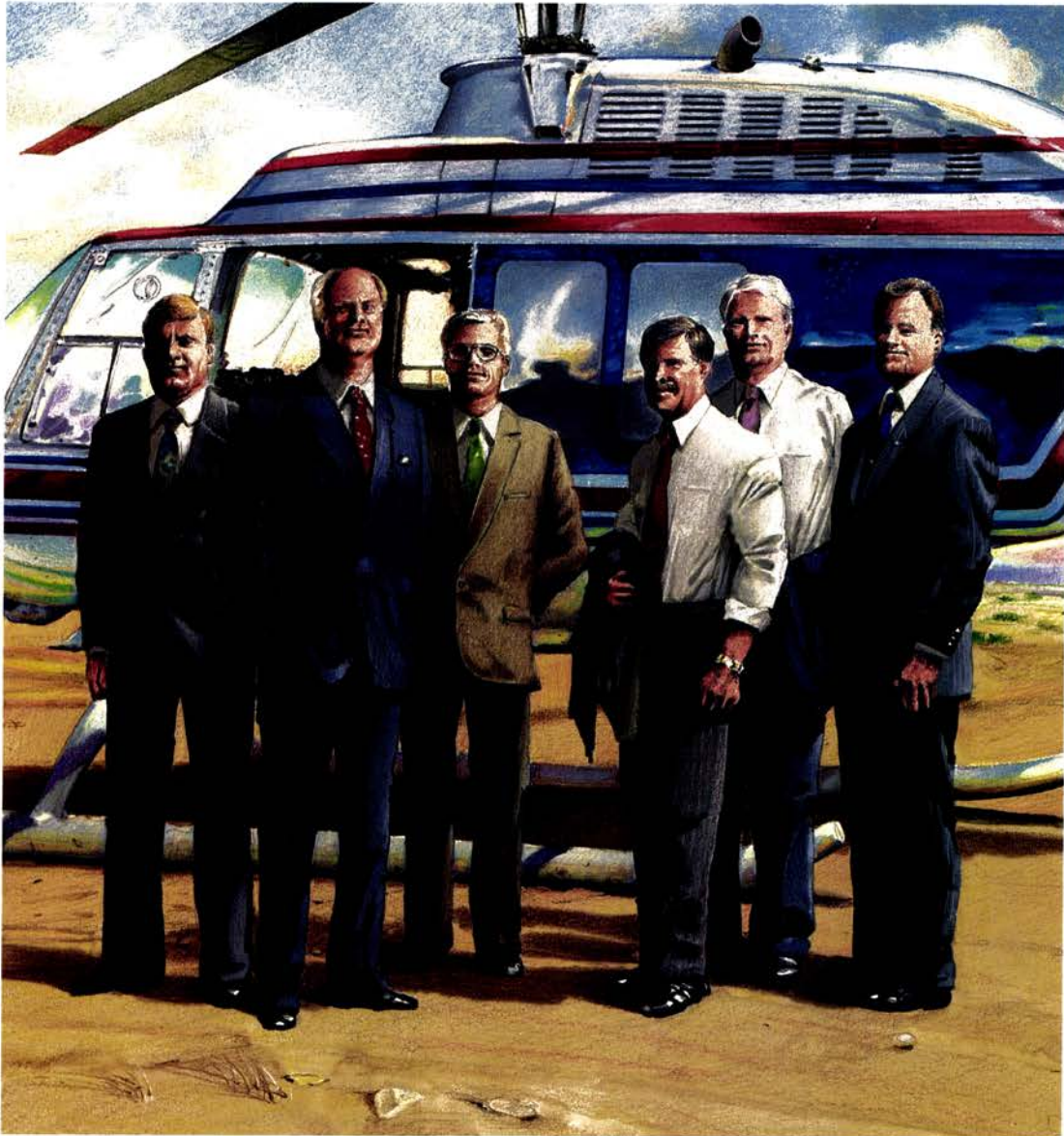
partnerships with customers and other contractors.

The new group's president is Max Lukens, a Baker Hughes Sr. Vice President who most recently served as President of Baker Hughes Production Tools Group.

"Our customers will be better served by this new organization. We have taken down all the fences between Baker Hughes divisions," Mr. Lukens said. "We now have a common approach to serving our customers in all key issues affecting our business. Now Baker Hughes can truly offer integrated solutions without losing the technical focus needed to maintain excellence in each component we provide."

The new organization is designed to keep pace with the ongoing changes in the industry. It builds on Baker Hughes' experience as a technical innovator and market leader. And it enables the company to make a larger contribution in helping oil companies plan and implement their projects to reduce the cost of developing oil and gas.

*The Oilfield Operations group is a team with a
common approach to serving our customers.*



*Left to right:
Andrew J. Szescila, President, Hughes Christensen Company, Max L. Lukens, President, Baker Hughes Oilfield Operations,
Joseph F. Brady, President, Centrilift, Jay P. Trahan, President, Baker Hughes INTEQ,
M. Glen Bassett, President, Baker Performance Chemicals, Inc., Edwin C. Howell, President, Baker Oil Tools*



ELF CONGO
WEST AFRICAN COAST

Baker Hughes also has applied its Integrated Solutions experience to conduct large projects in remote areas. In one such case, Elf Congo sought an integrated solution to implement a complete drilling program on its Tchendo platform off the West African coast.

Elf's objective was to improve results compared to traditional methods by changing the process of obtaining services. Project management was Elf's main focus in integrated solutions. A central Baker Hughes coordinator would serve as project manager and a communications link between everyone involved in the project. In addition, Baker Hughes would provide directional drilling services,

engineering and surveying, drilling fluids and drill bits.

The project called for 29 directional wells to be drilled in two years. Started in October 1991, the Tchendo project was completed in June 1993, three months ahead of schedule. Drilling time per well was reduced by 35% from plan. The project also ran more smoothly because of the on-site management by the Baker Hughes coordinator.

Baker Hughes won this sizeable contract based on its ability to plan and implement an Integrated Solution. Baker Hughes also earned an incentive bonus — and higher profits — for exceeding the project's performance objectives.



*Integrated solutions aid Elf
in remote locations.*

Centrilift Forms ESP Alliance With Conoco



CONOCO, INC.
DOMESTIC OPERATIONS

In 1992, Baker Hughes' Centrilift division also demonstrated its commitment to providing innovative solutions, when it established a long-term alliance with Conoco Inc., the energy subsidiary of DuPont.

While studying ways to lower the cost of its domestic operations, Conoco identified several potential advantages to forming an alliance with a single electric submersible pump (ESP) manufacturer for all of its ESP needs in the United States. By involving the supplier in the well design process, Conoco could reduce repeat failures and could analyze problems more thoroughly. Increased supplier attention also could lead to better utilization of the submersible pumping equipment Conoco already had in its inventory. Administrative costs for gathering and evaluating competitive bids also could be reduced.

After evaluating all major suppliers, Conoco decided that Centrilift was best suited to be its

alliance partner. Centrilift's facilities and personnel are located close to Conoco's major production areas. Centrilift offers a comprehensive range of ESP products and services, including the ability to repair and install competitors' equipment. Also, Centrilift's ongoing research and development projects, aimed at finding solutions to customer problems, are expected to continually reduce Conoco's operating costs. Finally, Centrilift's management philosophy — which emphasizes quality — closely matches Conoco's approach to doing business.

In addition to increased market share, Centrilift has gained other important benefits from the alliance. With a better understanding of Conoco's operations, Centrilift has improved its ability to design systems and analyze problems for this customer. The close working relationship also has given Centrilift the opportunity to develop and prototype new products in cooperation with the customer.



*Vernon Peipelman
ESP Specialist
Centrilift*

*Tom Evans
ESP Leadership Team Leader
Conoco, Inc.*

THE STRATEGIC ANALYSIS WE CONDUCTED OF OUR ENVIROTECH COMPANIES RESULTED IN A MAJOR CHANGE OF FOCUS FOR THIS GROUP OF BUSINESSES.

With three separate and distinct operating groups and fifteen business units,

the EnviroTech group of companies services a wide array of industries and technologies in numerous niche markets. During the fiscal year we undertook a strategic analysis of this group of companies. The major outcome of this study was a decision to divest the Measurements and Controls Group. In November we entered into negotiations with prospective buyers in an effort to sell the Measurements and Controls Group. We anticipate reaching a definitive agreement shortly and closing in early 1994. At our pump and process groups we have flattened the organizational structure and consolidated several units in order to take cost out of these organizations and move decision making closer to the market.

During the coming year, we will continue to analyze our market positions in the pump and process industries. We will leverage our strengths and eliminate non-contributing assets. Our EnviroTech companies are committed to deliver quality products and systems to our customers as environmental cleanliness continues to be a priority worldwide.

EnviroTech PumpSystems

Our pump group levels of activity directly track worldwide economic growth. Since most

economies have shown sluggish growth, the outlook for our business is steady. In

this economic climate, our customers have not shown a willingness to increase capital budgets, opting instead to extend the operating life of their existing units.

One of the highlights of the year has been the completion of the Tennessee Valley Authority flue gas desulfurization project in July, 1993. On this project, sixty large pumps were built and delivered by our BGA International facility in Salt Lake City, Utah. The pump group will continue to pursue new product and market niches as a key to growth and expanding market share.

EnviroTech Process Equipment

Our process group also follows worldwide activity. In 1993 despite the slow economic recovery in North America, the continued recession in Europe and the political instability in the former Soviet Union, the group experienced growth both in terms of revenue and profit.

Fiscal 1994 will be a challenging year as the group focuses on global expansion with emphasis on the Far East, Eastern Europe and Latin America. Research and development expenditures will be increased in an effort to reduce product cost and improve equipment performance, resulting in improving profit margins.

*A WEMCO 225 (3000 Cubic Feet) float cell in route to the
Freeport Indonesia Grasberg copper and gold mine in Irian Jaya, Indonesia.*



Condensed Comparative Consolidated Financial Information

Baker Hughes Incorporated

(In thousands, except per share amounts)

	1993	1992	1991	1990	1989
Summary of operations:					
Total revenues	\$2,701,697	\$2,538,515	\$2,828,357	\$2,614,257	\$2,327,995
Cost and expenses:					
Cost and expenses applicable to revenues	2,262,545	2,132,928	2,283,064	2,138,481	1,944,742
General and administrative	238,238	232,407	249,833	232,303	214,436
Unusual charges - net	42,000	79,190	62,946	66,846	
Total	2,542,783	2,444,525	2,595,843	2,437,630	2,159,178
Operating income	158,914	93,990	232,514	176,627	168,817
Gain on sale of subsidiary stock			(56,103)	(65,721)	
Interest expense	64,703	68,112	83,561	77,465	60,037
Interest income	(5,840)	(6,078)	(7,295)	(15,132)	(8,808)
Income before income taxes and extraordinary item	100,051	31,956	212,351	180,015	117,588
Income taxes	41,195	26,925	38,893	37,838	34,837
Income before extraordinary item	58,856	5,031	173,458	142,177	82,751
Extraordinary item					2,272
Net income	\$ 58,856	\$ 5,031	\$ 173,458	\$ 142,177	\$ 85,023
Income per share before extraordinary item	\$.34	\$.00	\$ 1.26	\$ 1.06	\$.64
Dividends per share of common stock	\$.46	\$.46	\$.46	\$.46	\$.46
Financial position:					
Cash and short-term investments	\$ 6,992	\$ 6,692	\$ 51,709	\$ 124,585	\$ 115,686
Working capital	\$ 920,969	\$ 715,472	\$ 652,404	\$ 676,383	\$ 620,017
Total assets	\$3,143,340	\$3,212,938	\$2,905,602	\$2,783,944	\$2,065,920
Long-term debt	\$ 935,846	\$ 812,465	\$ 545,242	\$ 611,501	\$ 417,045
Stockholders' equity	\$1,610,648	\$1,645,522	\$1,545,361	\$1,424,285	\$1,003,380

In 1990, the Company adopted Statement of Financial Accounting Standard No. 96, "Accounting for Income Taxes" ("SFAS 96"). Previously, the Company accounted for income taxes using Accounting Principles Board Opinion No. 11 which required, among other things, that the benefit of utilizing operating loss carryforwards be recognized as an extraordinary item as was the case in 1989. SFAS 96 requires such utilization to be reported in the provision for income taxes.

In addition to the significant acquisitions and dispositions discussed in Note 2 of Notes to Consolidated Financial Statements, the Company acquired Eastman Christensen Company and the Instrument Group in 1990. The Company also sold 71% of BJ Services Company and the TOTCO division of Exlog, Inc. in 1990 and the Mining Equipment Group in 1989.

See Note 3 of Notes to Consolidated Financial Statements for a description of the unusual charges - net in 1993, 1992 and 1991. The unusual charges in 1990 consisted primarily of litigation and product liability claims and geographic and product line restructurings.

Management Report of Financial Responsibility

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, 1993, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detect-

ed 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 standards.

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 certified 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
*Vice President, Chief
Financial Officer and Treasurer*



James E. Braun
Controller

BUSINESS ENVIRONMENT

The Company's ongoing efforts to create a more efficient operating structure dedicated to meeting the changing needs of its clients led to the combination of five of its oilfield companies to form a single operating unit, Baker Hughes INTEQ, Inc. ("INTEQ") in April 1993. These five companies were Milpark Drilling Fluids, Eastman Teleco Company, Baker Sand Control, Develco and Exlog, Inc. INTEQ retains the product specialization of these companies and also has the ability to combine a full range of technologies into optimum integrated solutions. Management believes this reorganization will effectively address developing customer needs for single access to the Company's oilfield products and services. In May 1993, the Company announced it would go one step further by forming a singular oilfield products and services entity, Baker Hughes Oilfield Operations ("Oilfield Operations"). This new group consists of INTEQ, Baker Oil Tools, Hughes Christensen Company, Centrilift and Baker Performance Chemicals, Inc.

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	1993	1992	1991
WTI (\$/Bbl)	19.49	20.88	23.85
U.S. Spot Natural Gas (\$/mcf)	2.04	1.53	1.44

Oil prices weakened in 1993 falling \$1.39 / Bbl or 6.7%. Prices in 1992 were 12.5% below 1991 prices. In the long term, the Company expects prices to be flat, ranging between \$16 and \$20 / Bbl for the next several years. U.S. natural gas prices improved in 1993, increasing 33.3% from 1992 prices. Prices in 1992 were up 6.3% from 1991 prices. Prices are expected to increase modestly next year. The Company believes that higher natural gas prices and a tightening market should 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 table below are annual averages.)

Fiscal Year	1993	1992	1991
North American	918	788	1,074
Non-North American	781	885	914
Total Rig Count	1,699	1,673	1,988
U.S. Workover Rig Count	1,379	1,260	1,653

Total drilling activity was 1.6% higher in 1993 than 1992; 1992 was 15.9% lower than 1991. In 1993, activity increases in North America were matched by activity decreases in the non-North American markets.

North American Activity: The North American rig count was up 16.5% from 1992 and 1992 was down 26.6% from 1991. The expiration of section 29 tax credits for non-conventional gas (coalbed methane and tight sands gas) was a

driver in the first half of 1993. Higher natural gas prices were a driver throughout the year. Activity increases in the Gulf of Mexico drove an increase in the average offshore rig count from 51 to 71 rigs — up 39.2% from 1992. In 1991, the average offshore rig count was 89 rigs. 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. An increase in Canadian activity in 1993 also contributed to the North American improvement. The primary drivers in Canada were a tax incentive in Alberta and increased drilling for gas. Workover activity was up 9.4% from 1992 levels and 1992 activity was down 23.8% from 1991.

The outlook for North American activity is positive as the Company expects gas-directed drilling to increase next year. The U.S. offshore market continues to strengthen and is expected to remain strong next year. In Canada, the increase in gas-directed drilling should offset the loss of the Alberta tax credits. The average U.S. workover rig count is expected to increase slightly in 1994.

Non-North American Activity: Outside North America, activity continued to fall. The average rig count was down 11.8% from 1992 and 1992 was 3.2% lower than 1991. The fall in activity was widespread as most regions showed a decrease in activity. Two areas of particular importance to the Company that were down significantly were the North Sea and Nigeria. The Company expects international activity to be flat or increase slightly in 1994. The UK's Petroleum Revenue Tax changes will most likely be neutral to positive for the Company as decreased exploration and appraisal drilling is expected to be offset by increased development drilling and remedial and stimulation projects.

ACQUISITIONS AND DISPOSITIONS

1993: 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. In November, the Company entered into negotiation with prospective buyers in an effort to sell EM&C. The Company anticipates reaching a definitive agreement shortly and closing in early 1994. The net proceeds from the disposition are expected to exceed the current carrying value.

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 all of the outstanding shares of 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.

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

Baker Hughes Incorporated

1991: In October 1990, the Company acquired all of the outstanding shares of the ChemLink Group, Inc. ("ChemLink"), a privately held company, for \$136.1 million. ChemLink is a leading supplier of specialty chemical products and services for oil production, petroleum pipelines and industrial processes.

In November 1990, the Company completed the disposition of the assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company, to Varco International, Inc. ("Varco") for 2.3 million shares of Varco common stock and \$20.0 million in cash.

In March 1991, the Company sold its 29% interest in BJ Services Company in an underwritten public offering of common stock.

RESULTS OF OPERATIONS

Selected Consolidated Results

(in millions)	1993	1992	1991
Revenues	\$ 2,701.7	\$ 2,538.5	\$ 2,828.4
Operating Income			
Before Unusual Charges	200.9	173.2	295.4
Unusual Charges - net	42.0	79.2	62.9
Operating Income	\$ 158.9	\$ 94.0	\$ 232.5

Revenues Consolidated revenues for 1993 increased 6.4% from 1992. Increases were experienced by both Oilfield Operations and the EnviroTech group. Consolidated revenues for 1992 decreased 10.2% from 1991. Decreases were experienced by both Oilfield Operations and the EnviroTech group. Consolidated revenues were impacted in each year by the revenues of disposed businesses. Due to the pending sale of EM&C, revenues have been reported in a manner similar to discontinued operations since June 1993. As such, nine months of EM&C's revenues are included in 1993. EM&C's fourth quarter revenues, which are not included in the 1993 consolidated revenues, were \$58.9 million.

Oilfield Operations reported revenues of \$2.0 billion in 1993, up \$153.2 million from 1992. 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 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. Oilfield Operations' 1992 revenues were \$1.9 billion, down \$114.0 million compared to 1991. The revenue decline was attributable to the decrease in worldwide drilling activity, most notably in North America.

The EnviroTech group's revenues were \$503.5 million in 1993 up \$69.7 million from 1992. Improved order bookings resulting from improved economic activity drove the revenue favorability. In 1992, revenues were \$433.8 million, a decline of \$27.1 million from the prior year. Customer order cancellations and delays of capital spending decisions resulting from the relatively weak worldwide economic environment were the major reasons for the revenue decline.

Operating Income Operating income increased 69.0% in 1993 from 1992 and decreased 59.6% in 1992 from 1991. Results for 1993, 1992 and 1991 include the impact of net unusual charges discussed below of \$42.0 million, \$79.2 million and \$62.9 million, respectively. Excluding the unusual charges, operating income increased 16.0% in 1993 and decreased 41.4% in 1992 from the respective prior year. Operating income before unusual charges was 7.4%, 6.8% and 10.4% of consolidated revenues in 1993, 1992 and 1991, respectively.

Operating income for Oilfield Operations was \$178.8

million, compared to \$100.3 million in 1992 and \$202.3 million in 1991. Results for 1993, 1992 and 1991 include the impact of the \$17.5 million, \$62.1 million and \$59.4 million unusual charges, respectively. Excluding the impact of the unusual charges, Oilfield Operations contributed operating income of \$196.3 million in 1993, \$162.4 million in 1992 and \$261.7 million in 1991. The increase in 1993 compared to 1992 results from improved revenues and cost containment measures, including the consolidation of several divisions. The decrease in 1992 from 1991 was due to the decline in revenues and the impact of pricing pressure on the products and services offered by this group of companies.

The EnviroTech group contributed operating income of \$43.6 million in 1993, compared to \$23.6 million in 1992 and \$45.7 million in 1991. Results for 1992 and 1991 include the impact of \$10.2 million and \$1.0 million of unusual charges, respectively. Excluding the unusual charges, operating income was \$33.8 million in 1992 and \$46.7 million in 1991. The profitability improvement in 1993 is due to increased revenues and a favorable mix as 1993 included certain large jobs with incrementally better margins. The decrease in revenues in 1992 as compared to 1991 and a change in the mix of revenues away from relatively high margin parts sales caused the drop in operating income in 1992.

Operating expenses, excluding unusual charges, have fluctuated 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. Amortization of goodwill and other intangibles has increased over the three year period because of the acquisitions of ChemLink in 1991 and Teleco in 1992.

Unusual Charges-Net 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 recorded a charge of \$24.5 million relating to the settlement of the Parker & Parsley litigation which arose from allegations involving intentional product delivery or service variances on a number of well stimulation projects.

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, unusual charges totalling \$31.8 million for the restructuring of the Western Hemisphere operations of BHTS and the discontinuance of the Hughes Christensen Company ("HCC") 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. Changes in market conditions led the Company to implement several operational restructurings and combinations representing \$30.1 million of the charge. In addition, the Company accrued charges for certain litigation.

1991: During 1991, the Company recognized unusual charges totalling \$62.9 million. Costs associated with the restructuring of the domestic rockbit manufacturing operations of HCC account for \$52.2 million of the charge. A gain of \$17.6 million was recognized on the sale of the net assets of the TOTCO division offsetting charges of \$28.3 million recognized for litigation and insurance claims, product line restructurings and other costs.

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 ("IRS") issues. Excluding these reversals,

interest expense decreased \$8.6 million from 1992 and \$6.7 million from 1991 to 1992. The decreases were attributable to lower effective interest rates offset by increases in total debt outstanding.

Income Taxes The effective income tax rate for 1993 was 41.2% as compared to 84.3% in 1992 and 18.3% in 1991. The effective rates differ from the federal statutory rate due primarily to the utilization of operating loss carryforwards (1993 and 1991), increases in taxes on foreign operations (1993), nondeductible goodwill amortization (1993 and 1992), the impact of unusual charges in jurisdictions where virtually no tax benefit was available (1992), the utilization of capital loss carryforwards (1992) and the settlement with the IRS to resolve all pending tax issues for the 1978 through 1986 tax years (1992).

Net Income Per Share of Common Stock Net income is adjusted in 1993 and 1992 for dividends on preferred stock of \$12.0 million and \$5.3 million, respectively.

CAPITAL RESOURCES AND LIQUIDITY

Financing Activities Total debt outstanding at September 30, 1993 was \$944.3 million, compared to \$838.9 million at September 30, 1992 and \$646.9 million at September 30, 1991. The debt to equity ratio was .586 at September 30, 1993, .510 at September 30, 1992 and .419 at September 30, 1991.

Net cash flows from financing activities were \$56.0 million and \$127.0 million in 1993 and 1992, respectively. In 1991, \$53.2 million was used in financing activities.

Over the three year period, the Company has increased total debt to fund acquisitions and other operating needs, while at the same time taking advantage of lower interest rates to reduce the weighted average effective interest rate on its debt portfolio. 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 acquisitions, redeem debentures and fund 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. During 1991, cash was used to reduce the borrowings under short-term facilities.

Cash dividends have increased over the three year period 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, 1993, the Company had \$594.6 million of credit facilities with commercial banks, of which \$417.7 million is committed. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

During 1993, the U.S. dollar strengthened against most European currencies where the Company has a significant net asset position. As a result, the cumulative foreign currency translation adjustment account increased \$45.1 million.

Investing Activities Net cash outflows from investing activities were \$76.7 million in 1993, \$251.9 million in 1992 and \$145.7 million in 1991.

Property additions have decreased from \$161.2 million in 1991 to \$137.9 million in 1992 and to \$126.9 million in 1993. Likewise, the ratio of capital expenditures to depreci-

ation has decreased over the same period from 145.2% to 110.8% and to 89.6%. The decrease over the three year period is due to specific projects in 1991 and 1992. The majority of the capital expenditures have been in Oilfield Operations where the largest single item is the expenditure for rental tools and equipment. 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 1994 capital expenditures to be between \$100.0 and \$120.0 million.

Cash was used in investing activities in 1992 and 1991 as the Company has maintained a continuous program of evaluating acquisition and disposition candidates to enhance shareholder value. Proceeds from the disposal of non-core businesses generated \$9.3 million in 1993, \$50.7 million in 1992 and \$115.0 million in 1991, including the sale of the 29% interest in BJ Services Company. Acquisitions of businesses described above required the use of \$197.0 million and \$136.1 million in 1992 and 1991, respectively. There were no significant acquisitions in 1993.

Operating Activities Net cash flows from operating activities were \$23.0 million, \$85.6 million and \$123.7 million in 1993, 1992 and 1991, respectively.

The decrease of \$62.6 million in 1993 was due primarily to the build-up of working capital in Oilfield Operations due to increased domestic activity in the fourth quarter of 1993 as compared to the fourth quarter of 1992. In addition, litigation settlements totalling \$75.0 million were paid in 1993. These uses of cash were offset by an increase in net income, adjusted for non-cash items. The decrease in 1992 was due primarily to the decrease in net income, adjusted for non-cash items. This decrease was offset by a reduction in working capital as activity declined from 1991 levels.

ACCOUNTING STANDARDS

Postretirement Benefits Other Than Pensions In December 1990, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The statement requires accrual basis accounting for postretirement benefits rather than the Company's current method of cash basis accounting. The Company will adopt this statement effective October 1, 1993.

The Company has elected to immediately recognize the cumulative effect of the change in accounting and currently estimates that the cumulative effect will be a charge to income of \$69.6 million (net of a \$37.5 million tax benefit) in the first quarter of 1994.

Income Taxes In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes." The statement requires an asset and liability approach for financial accounting and reporting of income taxes. The Company will adopt SFAS No. 109 effective October 1, 1993, without restatement of prior years. The Company currently estimates that the cumulative effect of the change in accounting will be a credit to income of \$25.0 million to be recorded in the first quarter of 1994. In addition, the Company estimates that the effective income tax rate for 1994 will be approximately 42%.

Postemployment Benefits In November 1992, the FASB issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The statement, like SFAS No. 106, requires accrual basis accounting for such benefits. The Company plans to adopt SFAS No. 112 in 1995 and has not yet determined the impact on the consolidated financial statements.

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, 1993 and 1992, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1993. 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 disclo-

tures 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, 1993 and 1992, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1993 in conformity with generally accepted accounting principles.

Deloitte & Touche

November 17, 1993

Houston, Texas

Consolidated Statements of Operations
Baker Hughes Incorporated

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

	1993	1992	1991
Revenues:			
Sales	\$ 1,945,793	\$ 1,839,771	\$ 1,989,336
Services and rentals	755,904	698,744	839,021
Total	2,701,697	2,538,515	2,828,357
Costs and Expenses:			
Cost of sales	1,154,865	1,076,378	1,160,915
Cost of services and rentals	395,286	347,020	402,365
Research and engineering	102,057	107,188	102,558
Marketing and field service	610,337	602,342	617,226
General and administrative	201,322	200,758	221,907
Amortization of goodwill and other intangibles	36,916	31,649	27,926
Unusual charges - net	42,000	79,190	62,946
Total	2,542,783	2,444,525	2,595,843
Operating income	158,914	93,990	232,514
Gain on sale of subsidiary stock			(56,103)
Interest expense	64,703	68,112	83,561
Interest income	(5,840)	(6,078)	(7,295)
Income before income taxes	100,051	31,956	212,351
Income taxes	41,195	26,925	38,893
Net Income	\$ 58,856	\$ 5,031	\$ 173,458
Net Income Per Share of Common Stock	\$.34	\$.00	\$ 1.26

See Notes to Consolidated Financial Statements

5

Consolidated Statements of Financial Position
Baker Hughes Incorporated

September 30, (In thousands)	1993	1992
Current Assets:		
Cash and cash equivalents	\$ 6,992	\$ 6,692
Receivables-less allowance for doubtful accounts: 1993, \$21,607; 1992, \$26,880	619,953	632,726
Inventories:		
Finished goods	467,806	501,288
Work in process	68,408	78,021
Raw materials	102,926	113,792
Total inventories	639,140	693,101
Net assets of business held for sale	126,430	
Other current assets	24,291	28,465
Total current assets	1,416,806	1,360,984
Property:		
Land	40,902	44,529
Buildings	305,952	315,111
Machinery and equipment	662,078	730,399
Rental tools and equipment	521,958	488,153
Total property	1,530,890	1,578,192
Accumulated depreciation	(869,427)	(858,838)
Property-net	661,463	719,354
Other assets:		
Property held for disposal	72,717	78,797
Investments	98,864	98,493
Notes receivable	25,486	23,095
Other assets	53,934	74,702
Excess costs arising from acquisitions-less accumulated amortization: 1993, \$90,001; 1992, \$67,016	814,070	857,513
Total other assets	1,065,071	1,132,600
Total	\$ 3,143,340	\$ 3,212,938

See Notes to Consolidated Financial Statements

Consolidated Statements of Financial Position

Baker Hughes Incorporated

	1993	1992
Current Liabilities:		
Accounts payable-trade	\$ 249,781	\$ 281,196
Short-term borrowings	5,381	7,161
Current portion of long-term debt	3,067	19,275
Accrued employee compensation and benefits	95,303	122,141
Income taxes payable	15,322	41,660
Accruals relating to unusual charges	30,042	51,571
Taxes other than income	22,552	21,314
Accrued insurance	20,554	28,088
Accrued interest	11,529	11,942
Other accrued liabilities	42,306	61,164
Total current liabilities	495,837	645,512
Long-term debt	935,846	812,465
Deferred income taxes	78,306	61,603
Other long-term liabilities	19,021	44,424
Minority interest	3,682	3,412
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 140,437,000 shares in 1993 and 138,624,000 shares in 1992)	140,437	138,624
Capital in excess of par value	1,444,549	1,418,857
Retained earnings	159,277	176,517
Cumulative foreign currency translation adjustment	(137,615)	(92,476)
Total stockholders' equity	1,610,648	1,645,522
Total	\$ 3,143,340	\$ 3,212,938

Consolidated Statements of Stockholders' Equity

Baker Hughes Incorporated

For the three years ended September 30, 1993 <i>(In thousands)</i>	Preferred Stock (\$1 Par Value)	Common Stock (\$1 Par Value)	Capital In Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Total
Balance, September 30, 1990		\$ 137,457	\$1,240,657	\$ 129,557	\$ (83,386)	\$1,424,285
Net income				173,458		173,458
Cash dividends on common stock (\$.46 per share)				(63,405)		(63,405)
Foreign currency translation adjustment					(5,584)	(5,584)
Stock issued pursuant to employee stock plans		910	15,243			16,153
Other		29	425			454
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 preferred 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 preferred 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

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Baker Hughes Incorporated

Years ended September 30,

(In thousands)

	1993	1992	1991
Cash flows from operating activities:			
Net income	\$ 58,856	\$ 5,031	\$ 173,458
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	141,699	124,394	110,996
Other assets and debt discount	47,371	41,608	42,289
Deferred tax provision (credit)	19,349	(5,497)	(8,511)
Non-cash portion of unusual charges-net		79,190	62,946
Gain on sale of subsidiary stock			(56,103)
Gain on disposal of assets	(14,594)	(15,670)	(9,151)
Foreign currency translation loss-net	441	960	2,402
Change in receivables	(74,828)	6,359	(45,765)
Change in inventories	(50,506)	(26,296)	(36,660)
Change in accounts payable-trade	(2,962)	12,968	(12,509)
Changes in other assets and liabilities	(101,859)	(137,423)	(99,661)
Net cash flows from operating activities	22,967	85,624	123,731
Cash flows from investing activities:			
Property additions	(126,901)	(137,875)	(161,203)
Proceeds from disposal of assets	40,928	32,240	40,642
Proceeds from sale of subsidiary stock			94,975
Proceeds from disposition of businesses	9,299	50,722	20,000
Acquisitions of businesses, net of cash acquired		(197,006)	(136,103)
Acquisition of equity securities			(4,000)
Net cash flows from investing activities	(76,674)	(251,919)	(145,689)
Cash flows from financing activities:			
Net proceeds from issuance of common stock		168,913	
Purchase of common stock		(168,825)	
Net proceeds from issuance of notes	223,911	246,595	
Proceeds from borrowings	30,268	343,222	95,305
Repayment of matured indebtedness		(77,835)	
Redemption of debentures	(18,197)	(98,842)	
Reduction of borrowings	(125,278)	(231,056)	(101,238)
Proceeds from exercise of stock options and stock purchase grants	21,358	11,908	16,153
Dividends	(76,096)	(67,124)	(63,405)
Net cash flows from financing activities	55,966	126,956	(53,185)
Effect of exchange rate changes on cash	(1,959)	(5,678)	2,267
Increase (decrease) in cash and cash equivalents	300	(45,017)	(72,876)
Cash and cash equivalents, beginning of year	6,692	51,709	124,585
Cash and cash equivalents, end of year	\$ 6,992	\$ 6,692	\$ 51,709

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. Other investments are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

Excess costs arising from acquisitions: Excess costs arising from acquisitions of businesses ("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: Income taxes are provided based on the provisions of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." Deferred income taxes are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with differences between the financial accounting and tax bases 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.

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 (139,321,000 in 1993, 138,599,000 in 1992, 137,817,000 in 1991) and excludes the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income is adjusted for dividends on preferred stock in 1993 and 1992.

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

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

During each of the three years in the period ended September 30, 1993, the Company acquired and disposed of several businesses not described below, none of which, individually or in the aggregate, had a significant effect on the Company's consolidated results of operations for any of the periods presented.

1993

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. In November 1993, the Company entered into negotiation with prospective buyers in an effort to sell EM&C. Accordingly, the net assets of the EM&C operations have been classified as a current asset at September 30, 1993, anticipating that the disposition will occur in early 1994. The net proceeds from the disposition are expected to exceed the current carrying value.

1992

In October 1991, the Company sold the Eastern Hemisphere operations of Baker Hughes Tubular Services ("BHTS"), a wholly owned subsidiary of the Company, 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 all of the outstanding shares of 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 (fair market value at date of acquisition of \$149.4 million), and a five percent royalty payment for five years on certain technology revenues. 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.

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.

1991

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

In November 1990, the Company completed the disposition of the assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company, to Varco International, Inc. ("Varco") for 2.3 million shares of Varco common stock and \$20.0 million in cash. As a result of this transaction, the Company recognized a gain of \$17.6 million. Prior to the disposition of TOTCO, the Company owned three million shares of Varco's outstanding common stock and an option to acquire an additional one million shares. As a result of the disposition of TOTCO and exercise of the warrant, the Company owns 6.3 million shares, or approximately 20%, of Varco's outstanding common stock.

Notes to Consolidated Financial Statements
Baker Hughes Incorporated

Note 3

UNUSUAL CHARGES-NET

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. See Note 13.

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. See Note 13.

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
Net unusual charges	\$ 79,190

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, 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 against its subsidiary, Bird Machine Company, the Company recorded a charge 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 the United States Department of Justice investigation and imposed fine concerning the marketing of tricone rock bits by HCC. See Note 13.

1991

During 1991, the Company recognized \$62.9 million of net unusual charges consisting of the following items (in thousands):

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

As described in Note 2, in November 1990, the

Company recognized a gain from the disposition of the net assets of the TOTCO division of Exlog, Inc.

With regard to the judgment against the Company and its former wholly owned subsidiary, BJ Services Company USA, Inc. ("BJ"), as discussed in Note 13, in the first quarter of 1991 the Company revised its estimate of the ultimate cost for the disposition of this suit through appeal or settlement. Based upon additional complexities of the suit and the expected longevity of the appeals process, the Company anticipated that the ultimate cost would be greater than previously expected. Accordingly, an additional amount was accrued corresponding to this revised estimate. In addition, the Company accrued charges for the settlement of insurance and litigation claims relating to certain disposed businesses and other items.

During the second quarter of 1991, the Company recognized a \$52.2 million unusual charge which related primar-

ily to a restructuring of the domestic rockbit manufacturing operations of HCC. The restructuring included a write-down of nonproductive facilities and machinery and provision for other costs.

During the fourth quarter of 1991, the Company determined that the restructuring of several product lines was necessary. Of the \$4.1 million accrued for these restructurings, the majority of the charge related to the closure of two manufacturing facilities and the relocation of certain employees.

Note 4

GAIN ON SALE OF SUBSIDIARY STOCK

In March 1991, the Company sold its 29% interest in BJ in an underwritten public offering of its common stock. Net cash proceeds from the sale were \$95.0 million, resulting in a gain of \$56.1 million. As a result of this sale, the Company was no longer a stockholder of BJ.

Note 5

INDEBTEDNESS

Long-term debt at September 30, 1993 and 1992 consisted of the following:

(In thousands)

	<i>1993</i>	<i>1992</i>
Commercial Paper with an average interest rate of 3.37% at September 30, 1993	<i>\$127,060</i>	\$ 186,015
Revolving Credit Facilities due through 1995 with an average interest rate of 5.94% at September 30, 1993	<i>77,192</i>	121,111
4.125% Swiss Franc 200 million Bonds due June 1996 with an effective interest rate of 7.82%	<i>106,547</i>	105,873
7.625% Notes due February 1999 with an effective interest rate of 7.73%, net of unamortized discount of \$1,449 (\$1,693 in 1992)	<i>148,551</i>	148,307
6% Debentures due March 2002 with an effective interest rate of 14.66%, net of unamortized discount of \$93,236 (\$98,595 in 1992)	<i>131,764</i>	126,405
8% Notes due May 2004 with an effective interest rate of 8.08%, net of unamortized discount of \$1,406 (\$1,516 in 1992)	<i>98,594</i>	98,484
Liquid Yield Option Notes due May 2008 with a yield to maturity of 3.5%, net of unamortized discount of \$157,884	<i>227,366</i>	
Convertible Subordinated Debentures due through October 2000 with an average interest rate of 4.18% at September 30, 1993	<i>10,197</i>	16,536
9% Debentures due November 2008		18,051
Other indebtedness with an average interest rate of 8.83% at September 30, 1993	<i>11,642</i>	10,958
Total debt	<i>938,913</i>	831,740
Less current maturities	<i>3,067</i>	19,275
Long-term debt	<i>\$935,846</i>	\$ 812,465

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

At September 30, 1993, the Company had \$594.6 million of credit facilities with commercial banks, of which \$417.7 million is committed. The majority of these facilities expire in 1995. 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 December 1992, the Company redeemed in full its 9% Debentures due November 2008 at a redemption price equal to 103.52%, together with accrued and unpaid interest.

In May 1993, the Company sold \$385.3 million principal amount at maturity of Liquid Yield Option Notes ("LYONS") due May 5, 2008. The LYONS provided \$223.9 million in net proceeds to the Company. The LYONS are zero-coupon convertible notes with a yield to maturity of 3.5% per annum. The LYONS are convertible into the Company's common stock at an initial conversion price of \$31.95 per share, which increases at an annual rate of 3.5%. At the option of the Company, the LYONS may be redeemed for cash at any time on or after May 5, 1998, at a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. At the option of the holder, the LYONS may be redeemed for cash on May 5, 1998, or on May 5, 2003, for a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. The LYONS are subject to an interest rate swap agreement discussed in Note 6.

Maturities of long-term debt for the next five years are as follows: 1994-\$3.1 million; 1995-\$197.9 million; 1996-\$107.9 million; 1997-\$3.5 million and 1998-\$.2 million.

Note 6

FINANCIAL INSTRUMENTS

The Company has entered into arrangements to manage its exposure to interest and foreign currency exchange rate 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, 1993, the Company has \$350.0 million aggregate notional amount of interest rate swap agreements outstanding with maturity dates up to five years. Included in this amount are five year interest rate swap agreements executed in conjunction with the LYONS described above which effectively exchanges fixed interest rates for variable interest rates on a total notional principal amount of \$200.0 million. Under the terms of these agreements, both parties will make one payment at the end of the five year term of the agreements. The Company will receive a fixed annual rate of 3.5%, and pay the 30-day AA commercial paper rate (3.2% at September 30, 1993) minus 1.96%, adjusted monthly.

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, 1993, approximate their carrying value as reflected in the consolidated statement 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 market value of such financial instruments has been estimated based on quoted market prices and the Black-Scholes pricing model.

The estimated fair market value of the Company's debt, including the related interest rate and foreign currency contracts at September 30, 1993 is \$1,075.1 million, which differs from the carrying amount of \$944.3 million included in the consolidated statement of financial position.

Note 7

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 8

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 on the date of grant.

Stock option activity for the Company during 1993, 1992 and 1991 was as follows:

Number of Shares <i>(In thousands)</i>	1993	1992	1991
Stock options outstanding, beginning of year	2,726	2,121	2,184
Granted (per share):			
1993 \$23.00	1,001		
1992 \$19.17 to \$25.00		1,022	
1991 \$28.50			606
Exercised (per share):			
1993 \$10.25 to \$28.50	(721)		
1992 \$10.25 to \$21.95		(264)	
1991 \$10.25 to \$28.50			(550)
Expired	(116)	(153)	(119)
Stock options outstanding, end of year (per share: \$10.25 to \$28.50 at September 30, 1993)	2,890	2,726	2,121

Notes to Consolidated Financial Statements
Baker Hughes Incorporated

At September 30, 1993, options were exercisable for 1.4 million shares, and 1.7 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 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, 1993, a total of \$10.2 million principal amount of debentures are outstanding and convertible into 470,000 shares of common stock at \$13.34 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 903,000 shares of the Company's common stock. The maximum number of shares subject to each option under the Plan is determined on the date of grant and equals the sum of the payroll deductions authorized by each participating employee (up to 10% of regular pay) divided by 85% of the fair market value of a share of common stock at the date of grant. Based on the market price of common stock on the date of grant, the Company estimates that approximately 420,000 shares will be purchased in July 1994. Under the Plan, 521,000, 439,000 and 358,000 shares were issued at \$19.02, \$19.34 and \$22.31 per share during 1993, 1992 and 1991, respectively.

Note 9
INCOME TAXES

The geographical sources of income before income taxes for the three years ended September 30, 1993 are as follows:

<i>(In thousands)</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
United States	\$ 41,024	\$ (49,185)	\$ 98,141
Foreign	59,027	81,141	114,210
Income before income taxes	\$100,051	\$ 31,956	\$ 212,351

The provisions (credits) for income taxes for the three years ended September 30, 1993 are as follows:

<i>(In thousands)</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
Currently payable:			
United States	\$ 2,552	\$ 3,124	\$ 3,003
Foreign	19,294	29,298	44,401
Total currently payable	21,846	32,422	47,404
Deferred:			
United States	(1,053)	(8,248)	
Foreign	20,402	2,751	(8,511)
Total deferred	19,349	(5,497)	(8,511)
Total provision for income taxes	\$41,195	\$ 26,925	\$ 38,893

The effective income tax rate for the three years ended September 30, 1993 varied from the U.S. statutory income tax rate for the reasons set forth below:

% of Income Before Income Taxes	<i>1993</i>	1992	1991
Statutory income tax rate	<i>34.8%</i>	34.0%	34.0%
Goodwill amortization	<i>6.9</i>	18.7	2.8
Utilization of operating loss carryforwards	<i>(26.7)</i>		(17.9)
Utilization of capital loss carryforwards		(11.6)	
Unusual charges for which benefit is not currently recognizable		46.4	
Gain on sale of subsidiary stock			(9.0)
State income taxes - net of U.S. tax benefit	<i>1.7</i>	6.4	.7
Internal Revenue Service settlement		(25.8)	
Foreign operations	<i>22.8</i>	9.8	6.9
Other-net	<i>1.7</i>	6.4	.8
Effective income tax rate	<i>41.2%</i>	84.3%	18.3%

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

The Company utilized U.S. operating loss carryforwards in 1993 and 1991 resulting in tax benefits of \$26.7 million and \$38.0 million, respectively.

During 1992, the Company reached a tentative settlement with the Internal Revenue Service to resolve all pending federal income tax issues for the 1978 through 1986 tax years. As a result of the tentative 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.

At September 30, 1993, the Company had approximately \$26.2 million of U.S. operating loss carryforwards for financial reporting purposes, which expire in varying amounts between 2002 and 2008. At September 30, 1993, the Company had U.S. capital loss carryforwards of approximately \$16.0 million, which expire in varying amounts between 1994 and 1996.

At September 30, 1993, the Company had approximately \$21.9 million of general business credits and \$8.4 million of alternative minimum tax credits available to offset future payments of federal income taxes. The general business credits expire in varying amounts between 1994 and 2008. The general business credit and alternative minimum tax credit carryforwards have not been recognized for financial reporting purposes. The Company had approximately \$29.2 million of foreign tax credits available to offset future payments of federal income taxes at September 30, 1993. If not used, the foreign tax credits expire in varying amounts between 1994 and 1998. Foreign tax credit carryforwards of \$5.7 million have been recognized for financial reporting purposes.

The Company has not provided deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings of approximately \$315.4 million at September 30, 1993, if remitted, would not result in material U.S. income taxes because of the utilization of foreign tax credits generated by the remittance of such amounts.

Statement of Financial Accounting Standards No. 109

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

("SFAS 109"), "Accounting for Income Taxes", was issued by the Financial Accounting Standards Board in February, 1992. The Company intends to adopt SFAS 109 effective October 1, 1993 without restatement of prior years. The Company currently estimates that the cumulative effect of the change in accounting will be a credit to income of \$25.0 million because SFAS 109 allows, to a greater degree, the recognition of tax benefits related to expenses already recognized in the consolidated financial statements, as well as, various tax credit carryforwards which could not be recognized under SFAS 96. In addition, a tax benefit of \$21.9 million related to employee stock options will be recorded as an increase to capital in excess of par value upon adoption.

Note 10

INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates principally in two industry segments - oilfield and process. During 1993, the Company restructured its oilfield operations into the one oilfield industry group. Previously, the Company operated under two oilfield groups. Prior years' segment information has been restated to conform with the 1993 presentation.

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 pumping, 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 or discontinued during the three years presented as discussed in Note 2, including the results of EM&C. The 1992 segment information reflects the gain on sale of the Eastern Hemisphere operations of BHTS and the impact of the unusual charges recognized on the Western Hemisphere operations of BHTS and the HCC Argentina operations. The 1991 segment information includes two months of TOTCO's operations as well as the gain realized on the sale. The segment information for 1993 and 1991 includes the unusual charges for the lawsuit against BJ. See Note 13. In addition, the Company disposed of several other businesses which are included herein.

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 \$35.6 million, \$25.7 million and \$31.5 million in 1993, 1992 and 1991, 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 \$195.9 million, \$199.4 million and \$255.0 million at September 30, 1993, 1992 and 1991, respectively.

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1993, 1992 and 1991 and for each of the years then ended is shown in the following tables:

<i>(In thousands)</i>	Oilfield	Process	Disposed Businesses	Eliminations	Total
Operations by Industry Segment:					
1993					
Revenues from unaffiliated customers:					
Sales	\$ 1,332,407	\$ 478,838	\$ 134,548		\$ 1,945,793
Services and rentals	710,725	24,697	20,482		755,904
Intersegment sales	359	4,615	1,061	\$ (6,035)	
Total revenues	\$ 2,043,491	\$ 508,150	\$ 156,091	\$ (6,035)	\$ 2,701,697
Operating profit (loss)	\$ 178,776	\$ 43,581	\$ (27,891)		\$ 194,466
Identifiable assets	\$ 2,461,070	\$ 297,553	\$ 191,190	\$ (2,330)	\$ 2,947,483
Capital expenditures	\$ 106,562	\$ 16,597	\$ 3,010	\$ 732	\$ 126,901
Depreciation and amortization	\$ 154,304	\$ 14,135	\$ 8,722	\$ 1,457	\$ 178,618
1992					
Revenues from unaffiliated customers:					
Sales	\$ 1,238,743	\$ 413,930	\$ 187,098		\$ 1,839,771
Services and rentals	651,157	19,838	27,749		698,744
Intersegment sales	931	3,432	1,188	\$ (5,551)	
Total revenues	\$ 1,890,831	\$ 437,200	\$ 216,035	\$ (5,551)	\$ 2,538,515
Operating profit (loss)	\$ 100,321	\$ 23,558	\$ (4,205)		\$ 119,674
Identifiable assets	\$ 2,519,863	\$ 291,733	\$ 205,987	\$ (4,031)	\$ 3,013,552
Capital expenditures	\$ 121,321	\$ 10,979	\$ 5,126	\$ 449	\$ 137,875
Depreciation and amortization	\$ 131,139	\$ 13,543	\$ 10,342	\$ 1,019	\$ 156,043
1991					
Revenues from unaffiliated customers:					
Sales	\$ 1,307,324	\$ 441,949	\$ 240,063		\$ 1,989,336
Services and rentals	696,570	18,906	123,545		839,021
Intersegment sales	374	5,373	1,449	\$ (7,196)	
Total revenues	\$ 2,004,268	\$ 466,228	\$ 365,057	\$ (7,196)	\$ 2,828,357
Operating profit	\$ 202,255	\$ 45,691	\$ 16,052		\$ 263,998
Identifiable assets	\$ 2,101,677	\$ 269,409	\$ 284,786	\$ (5,231)	\$ 2,650,641
Capital expenditures	\$ 132,241	\$ 16,269	\$ 11,337	\$ 1,356	\$ 161,203
Depreciation and amortization	\$ 107,259	\$ 11,551	\$ 18,901	\$ 1,211	\$ 138,922

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

<i>(In thousands)</i>	Western Hemisphere		Eastern Hemisphere		Eliminations	Total
	United States	Other	Europe	Other		
Operations by Geographic Area:						
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	\$ 1,712,379	\$ 299,443	\$ 673,394	\$ 403,489	\$ (141,222)	\$ 2,947,483
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
1991						
Revenues from unaffiliated customers:						
Sales	\$ 1,023,918	\$ 294,544	\$ 369,960	\$ 300,914		\$ 1,989,336
Services and rentals	365,383	74,129	266,986	132,523		839,021
Transfers between geographic areas	162,063	17,785	44,047	9,041	\$ (232,936)	
Total revenues	\$ 1,551,364	\$ 386,458	\$ 680,993	\$ 442,478	\$ (232,936)	\$ 2,828,357
Operating profit	\$ 71,536	\$ 52,047	\$ 72,081	\$ 68,334		\$ 263,998
Identifiable assets	\$ 1,725,265	\$ 217,823	\$ 584,051	\$ 259,806	\$ (136,304)	\$ 2,650,641
Export sales of U.S. companies		\$ 101,941	\$ 57,527	\$ 135,221		\$ 294,689

Note 11

EMPLOYEE BENEFIT PLANS

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was \$1.3 million, \$3.0 million and \$1.0 million in 1993, 1992 and 1991, respectively. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements.

Net pension expense includes the following components:

<i>(In thousands)</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
Service cost - benefits earned during the period	\$ 1,413	\$ 4,345	\$ 3,427
Interest cost on projected benefit obligation	3,348	6,582	5,642
Actual return on assets	(3,545)	(3,019)	(2,179)
Net amortization and deferral	126	(4,954)	(5,862)
Net pension expense	\$ 1,342	\$ 2,954	\$ 1,028

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

	<i>1993</i>	<i>1992</i>	<i>1991</i>
Discount rate	7.3%	9.5%	9.5%
Rates of increase in compensation levels	4.5%	5.5%	5.5%
Expected long-term rate of return on assets	8.8%	9.5%	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, 1993 and 1992:

<i>(In thousands)</i>	<i>1993</i>		<i>1992</i>	
	Over- funded Plans	Under- funded Plans	Over- funded Plans	Under- funded Plans
Actuarial present value of benefit obligations:				
Vested benefit obligation	\$ 16,800	\$ 12,654	\$ 51,493	\$ 18,371
Accumulated benefit obligation	\$ 17,013	\$ 13,509	\$ 51,545	\$ 19,429
Projected benefit obligation	\$ 17,509	\$ 15,631	\$ 59,271	\$ 26,326
Plan assets at fair value	20,368	6,178	78,029	11,494
Projected benefit obligation (in excess of) less than plan assets	2,859	(9,453)	18,758	(14,832)
Unrecognized prior service cost	351	942	(58)	107
Unrecognized net loss	79	760	9,607	2,642
Unrecognized net (asset) liability at transition	314	822	(18,015)	398
Prepaid pension cost (pension liability)	\$ 3,603	\$ (6,929)	\$ 10,292	\$ (11,685)

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

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.

Virtually all employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 10% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of \$.50 per \$1.00 up to 6% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year. Company contributions become fully vested to the employee after five years of employment. The Company's contributions to defined contribution plans, including the Thrift Plan, amounted to \$23.6 million, \$21.0 million and \$20.8 million in 1993, 1992 and 1991, respectively.

The Company also provides certain health care (primarily in the U.S.) and life insurance benefits for retired employees. Substantially all employees become eligible for these benefits if they reach normal retirement age while working for the Company. Costs related to benefits provided for retired employees are expensed as incurred, and for 1993, 1992 and 1991 totalled \$9.5 million, \$8.4 million, and \$8.9 million, respectively.

Statement of Financial Accounting Standards No. 106 ("SFAS 106"), "Employers' Accounting for Postretirement Benefits Other Than Pensions", was issued by the Financial Accounting Standards Board in December 1990. The statement requires accrual basis accounting for such benefits as opposed to the Company's current method of cash basis accounting. The Company will adopt this state-

ment effective October 1, 1993. The Company has elected to immediately recognize the cumulative effect of the change in accounting and currently estimates that the cumulative effect will be a charge to income of \$69.6 million, net of income taxes of \$37.5 million. Expense under SFAS 106 for 1994 related to these benefits is estimated to be \$9.6 million.

Statement of Financial Accounting Standards No. 112 ("SFAS 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. The Company plans to adopt SFAS 112 in 1995 and has not yet determined the impact on the consolidated financial statements.

Note 12

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 statements of operations information is as follows:

<i>(In thousands)</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>
Maintenance and repairs	\$ 92,801	\$ 100,481	\$ 108,680
Operating leases (generally transportation equipment and warehouse facilities)	36,500	39,218	42,368
Research and development	41,067	44,615	46,574
Taxes other than payroll and income tax	25,094	21,906	23,446
Income taxes paid	43,112	27,976	31,694
Interest paid	65,673	66,794	75,892
Net foreign exchange translation losses	441	960	2,402

Note 13

LITIGATION

Parker & Parsley

On September 8, 1992, Parker & Parsley Petroleum Development Incorporated ("PDP") filed a lawsuit alleging intentional product delivery or service variances on a number of well stimulation projects in West Texas for PDP and certain related parties in the 238th Judicial District Court in Midland, Texas seeking in excess of \$120.0 million in actual and punitive damages. This case was similar to a case in federal court which had previously been vacated by the U.S. Fifth Circuit Court of Appeals. In connection with the initial public offering by BJ, the Company 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.

On May 26, 1993, the Company and Dresser Industries ("DI") made a cash payment, shared equally, of \$115.0 million to PDP to settle all outstanding claims among the parties in this litigation. Of the \$57.5 million portion of the settlement paid by the Company, the Company believes it has liability insurance coverage available to recover a significant portion of the settlement amount.

The Company previously established a reserve for this litigation and also had access to additional third party funds from contractual arrangements. Since the Company was unable to reach timely agreement with its insurance carriers, the Company recorded a charge to earnings of \$24.5 million in the second quarter of 1993, and is vigorously pursuing its legal claims against its insurance carriers. In this regard, Ms. E. M. Filter, a director of the Company and an executive officer of Xerox Corporation, has dis-

closed that two subsidiaries of Talegen Holdings, Inc., a wholly owned subsidiary of Xerox Financial Services, Inc., have been sued by the Company in connection with the litigation. On June 17, 1991, the Company filed a Complaint against its insurers, including the two subsidiaries of Talegen Holdings, Inc., styled Baker Hughes Incorporated, et. al. v. Underwriters of Lloyds et. al. in the 333rd Judicial District Court in Harris County, Texas. At the time of the settlement with PDP, Ms. Filter advised the Company that a conflict of interest existed in this matter and requested exclusion from any further discussions regarding insurance coverage in connection with the PDP litigation.

Glyn Snell

On February 15, 1991, Glyn Snell, et. al. filed a class action suit on behalf of royalty interest owners in the 238th Judicial District Court in Midland County, Texas, implicating DI, BJ, the Company and affiliates in damages to the same wells included in the PDP litigation. On September 30, 1993, the Company and DI agreed to make a cash payment, shared equally, of \$15.0 million to the class pursuant to a Settlement Agreement. An Order Preliminarily Approving The Settlement, Directing Notice To The Class and Setting a Hearing on Proposed Settlement on April 18, 1994 was entered by the Court on October 1, 1993. The Company has adequate reserves recorded at September 30, 1993 with respect to this matter.

Mission Resources

On June 30, 1992, the Company was notified of a suit

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

against BJ and certain individual defendants filed by Mission Resources, Inc. - II in the Superior Court for the State of California for the County of Kern, alleging fraudulent misrepresentation, negligent misrepresentation, fraud, breach of contract, and violations of RICO in connection with product delivery or service variances on approximately 53 well stimulation projects performed by BJ-Hughes in Kern County in late 1983 and early 1984. Although the suit does not name the Company as a defendant, the allegations may fall 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. The suit seeks damages in the amount of at least \$15.0 million, treble damages under RICO and exemplary damages in an unspecified amount. BJ has removed the case to the United States District Court for the Eastern District of California, Fresno Division. This case is in its early stages with no discovery on the merits having occurred. Quantification of the magnitude of damages, if any, is premature. The Company believes that this claim will not result in any material adverse effect to the Company's consolidated financial position.

Department of Justice Investigation

On January 2, 1991, the Company and HCC received a United States federal grand jury subpoena requesting documents relating to the marketing of tricone rock bits. Six other tricone rock bit manufacturers received similar subpoenas with respect to the same investigation being conducted by the Department of Justice.

On July 13, 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 investigation, the Company and three other major producers of tricone rock bits were sued civilly by several litigants, includ-

ing Red Eagle Resources Corporation Inc., alleging unspecified damages and claiming to represent a class of purchasers of such rock bits who had been damaged as a consequence of a conspiracy in violation of Section 1 of the Sherman Act. The civil suits have been consolidated in a single action in the Southern District of Texas, Houston Division. On September 8, 1992, the trial court entered an order provisionally certifying the case as a class action on behalf of all purchasers of insert and milled tooth tricone rock bits for domestic use from September 1986 to January 1992. On January 27, 1993, the Company reached an agreement with the representatives of the class plaintiffs to settle this suit for \$17.5 million. On April 26, 1993, the 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. On September 17, 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 ("MFN") requiring a refund to the Company if a later settlement with any other defendants is more favorable, the Company expects to receive a refund of \$2.1 million. The Additional Settlement Agreement, including the MFN refund for the Company, was approved by the Court on October 28, 1993. One antitrust action by a customer who opted out of the class settlement remains pending; however, the Company believes that this claim will not result in any material adverse effect on the Company's consolidated financial position.

TRW Inc.

On May 30, 1989, TRW Inc. ("TRW") filed suit against the Company, Bird Machine Company, Inc. (a wholly owned subsidiary of the Company) ("BMC"), and Bird Incorporated (the previous parent of BMC), in the U.S. District Court for the Southern District of Texas, Houston Division, alleging breach of express warranty, fraud, and breach of a duty of good faith and fair dealing, in connec-

tion with the sale of certain disc and decanter machines sold to TRW by BMC prior to the acquisition of BMC by the Company in 1989. On April 29, 1992, the jury found that TRW had suffered damages. The Court, on July 30, 1992, entered a final judgment in the amount of \$7.7 million together with prejudgment and post-judgment interest.

The Company does not believe there was sufficient evidence at trial for portions of the damages and has appealed to the United States Court of Appeals for the Fifth Circuit. The Court of Appeals has scheduled the case for argument on November 30, 1993. The Company believes that it has adequate reserves with respect to this matter and believes that the ultimate liability, if any, will not result in any material adverse effect on the Company's consolidated financial position.

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. However, the Company is not a party to any litigation the probable outcome of which, in the opinion of the Company's management, would have a material adverse effect on the consolidated financial position of the Company.

Note 14

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 quantity of waste estimated to be contributed to the site by the Company bears to the total quantity 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 at September 30, 1993. 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, 1993, the Company had accrued \$18.2 million 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 generally 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 15

COMMITMENTS AND CONTINGENCIES

At September 30, 1993, 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, 1998 are \$34.0 million, \$24.1 million, \$16.4 million, \$13.0 million and \$11.7 million, respectively, and \$65.6 million in the aggregate thereafter. The Company has not entered into any significant capital leases.

Notes to Consolidated Financial Statements

Baker Hughes Incorporated

Note 16

QUARTERLY DATA (UNAUDITED):

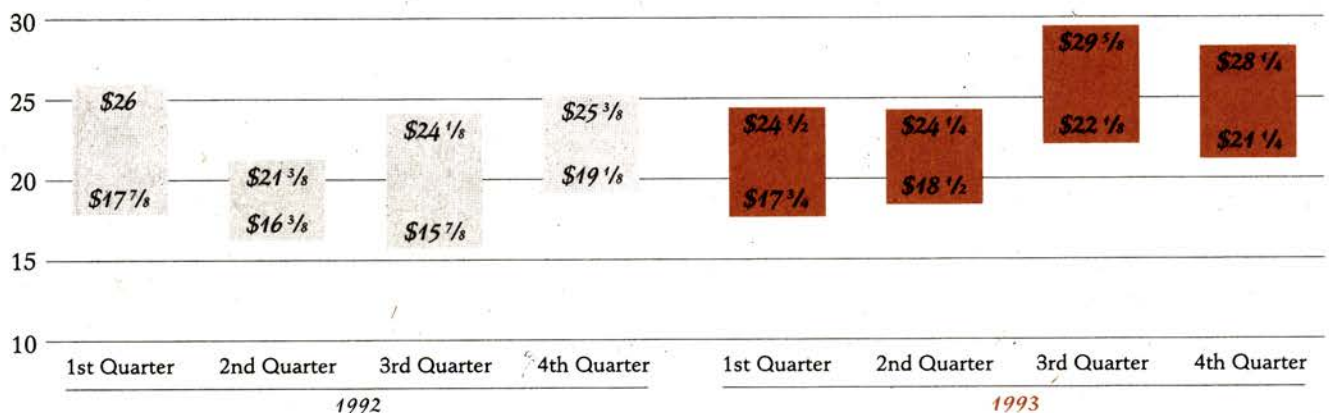
Summarized quarterly financial data for the years ended September 30, 1993 and 1992 are shown below:

<i>(In thousands, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Total
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
Income before income tax	13,964	15,064	31,563	39,460	100,051
Net income	4,210	2,799	23,831	28,016	58,856
Net income per common share	.01	.00	.15	.18	.34
Dividends per common share	.115	.115	.115	.115	.46
Fiscal Year 1992: *					
Revenues	\$ 602,515	\$ 622,675	\$ 643,170	\$ 670,155	\$2,538,515
Gross Profit**	95,525	100,640	97,963	111,459	405,587
Income (loss) before income tax	32,537	24,068	(56,771)	32,122	31,956
Net income (loss)	24,565	18,173	(61,526)	23,819	5,031
Net income (loss) per common share	.18	.13	(.46)	.15	.00
Dividends per common share	.115	.115	.115	.115	.46

* See Notes 2 and 3 for information regarding acquisitions and dispositions and unusual charges-net.

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

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

Baker Hughes Incorporated

BOARD OF DIRECTORS

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

Gordon M. Anderson
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

*Richard M. Bressler**
Chairman of the Board of
El Paso Natural Gas Company

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

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

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

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

*Kenneth L. Lay**
Chairman and Chief Executive Officer
of Enron Corp.

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

*Dana G. Mead****
President and Chief Operating 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
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 26, 1994 at the Holiday Inn Crowne Plaza, 2222 West
Loop South, Houston, TX.

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

Baker Hughes Incorporated Corporate Offices Mailing Address:
P.O. Box 4740
Houston, TX 77210-4740

* Will retire at the Annual Meeting of Stockholders to be held January 26, 1994 due to the term limitation contained in the Corporation's Bylaws.

** Nominee to fill the vacancy in Class II directors created by the retirement of Mr. Bressler.

*** Nominee to fill the vacancy in Class I directors created by the retirement of Mr. Lay.

Corporate Organization

B a k e r H u g h e s I n c o r p o r a t e d

BAKER HUGHES INCORPORATED

James D. Woods

Chairman, President and
Chief Executive Officer

Max L. Lukens

Senior Vice President and President,
Baker Hughes Oilfield Operations

Eric L. Mattson

Vice President, Chief Financial Officer
and Treasurer

Franklin Myers

Vice President and General Counsel

G. Stephen Finley

Vice President,
Chief Financial Officer,
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

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

Houston, Texas

Andrew J. Szescila,

President

ENVIROTECH

EnviroTech Pump Systems

Salt Lake City, Utah

Edward de Boer,

President

EnviroTech Process Equipment

Salt Lake City, Utah

Raymond H. Aldrich,

President

