Baker Oil Tools

Baker Sand Control

Baker Performance Chemicals, Inc.

BAKER HUGHES INCORPORATED

Centrilift

Develco

Eastman Teleco

EXLOG

Hughes Christensen

Milpark Drilling Fluids

EnviroTech Measurements & Controls

EnviroTech Process Equipment

EnviroTech Pumps

1992 Annual Report

BAKER HUGHES MISSION STATEMENT

The Company's mission is to generate increasing value for its stockholders, customers and employees through its role as a leading worldwide supplier of quality goods and services.

PEOPLE - Provide a challenging and rewarding environment that creates an opportunity for all employees to realize their full potential, while contributing to their Company and community.

MARKET - Achieve and maintain leadership positions in the markets served by anticipating and reacting quickly to changes.

GROWTH - Maximize the use of market, technology and people strengths to generate internal growth and make acquisitions that accomplish the Company's mission.

TECHNOLOGY - Develop technical superiority through aggressive customer-focused research and development, emphasizing products that improve our customers' economics.

FINANCIAL - Maintain a sound financial base while achieving rates of growth and returns on investments that rank among the highest in the industries served.

CORPORATE PROFILE

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

CONTENTS

ON THE COVER

Calibration testing is performed on a measurement-while-drilling (MWD) tool, a product of Eastman Teleco.

SUMMARY OF SELECTED FINANCIAL DATA

Years Ended September 30, *(In thousands of dollars, except per share amounts)*	1992	1991
Sales	$1,839,771	$1,989,336
Services and rentals	698,744	839,021
Total revenues	2,538,515	2,828,357
Net income	5,031	173,458
Net income per share	0.00	1.26
Working capital	715,472	652,404
Total assets	3,212,938	2,905,602
Net property, plant and equipment	719,354	642,729
Capital expenditures	137,875	161,203
Depreciation and amortization	166,002	153,285
Long-term debt	812,465	545,242
Stockholders' equity	1,645,522	1,545,361
Cash dividends per share of common stock	.46	.46
Number of shares (000)		
Average during year	138,599	137,817
Outstanding at end of year	138,624	138,396
Number of employees	19,600	21,300

The financial data presented in the Operations Review (pages 5, 9, 14) is on a current organizational basis and excludes any corporate or unusual items and amortization of goodwill. It is not intended to correspond directly with the accompanying Consolidated Financial Statements and Notes thereto. See Note 9 of Notes to Consolidated Financial Statements for segment data.

Fiscal 1992 was a year of challenge and opportunity for Baker Hughes. Our financial results were impacted by a 50-year low in U.S. drilling activity and an unexpected decline in non-U.S. drilling. Additionally, a recessionary environment has continued to affect most of the industrialized world and has contributed to a decline in the performance of our process technology-related businesses. As a result, our revenues in 1992 were $2.54 billion, a decline of 10% from the prior year.

As we move into the current decade, we are confronted with a worldwide oil and gas market that is in the midst of radical change. Many of the world's major oil companies are committed to becoming more efficient and the oilfield service industry will play a key role in that process. Just as the 1970s represented a decade of decentralization and growth and the 80s a decade of downsizing and consolidation, we believe the 90s will be a decade of strategic alliances, customer partnering and continued consolidation.

As a result of the forces at work in 1992, we once again looked for opportunities to enhance our strategic position and deliver improved financial performance. In April, we took a major step forward in our goal to be the dominant provider of drillstring related products and services by purchasing Teleco Oilfield Services Incorporated in a transaction valued at $350 million. Teleco is the leading provider of measurement-while-drilling (MWD) technology, and this acquisition places Baker Hughes in a leading strategic position in this important high-technology business. Teleco has been combined with our Eastman Christensen division, the leading provider of directional drilling services, to form a new entity, Eastman Teleco. This combination provides significant consolidation benefits and, more importantly, allows us to deliver unparalleled drilling expertise to the customer.

In addition to the formation of Eastman Teleco, we have made a number of other strategic realignments to more efficiently address the dramatic market changes that have occurred over the past year, particularly in the U.S.

During the year, we disposed of our tubular inspection and coating business in two separate transactions. Proceeds from these sales totaled $87 million, resulting in a net gain of $16 million.

In the area of drill bits, we combined all of our tricone, diamond and mining bit product lines into one entity, Hughes Christensen Company. Merging the two market leaders–Hughes in tricone bits and Christensen in diamond products–allows us to provide the broadest product offering in oilfield drill bits. We will soon relocate our U.S. oilfield bit manufacturing operations to a new facility near Houston, Texas. This state-of-the-art facility will enhance our market leadership position while allowing us to become the industry's low-cost producer.

In August, we combined our Baker Service Tools and Baker Oil Tools divisions. The ongoing changes in the oilfield service market necessitated a change in the Company's highly decentralized operating structure, a structure that has served us well for many years. The combination of these two premier oilfield equipment and service suppliers not only produces significant consolidation benefits, but also streamlines our ability to market our completion, remedial and workover products and services to a customer base more inclined to want fewer providers.

While the realignments of Eastman Teleco, Hughes Christensen and Baker Oil Tools and similar actions across various other divisions have significantly reduced our cost base, they also necessitated a cost to implement. Accordingly, during the year, we recognized a net pretax charge of $79.2 million to account for these internal reorganizations and to address specific asset levels in certain U.S. and Latin American operations. This charge, when included with our operating results, produced net income in fiscal 1992 for Baker Hughes of $5.0 million, compared to $173.5 million in 1991. Earnings per share in fiscal 1992 were breakeven. Excluding the impact of the unusual charge, earnings per share were $.55.

Over the past several years, we have observed that the restructuring process that is underway within the major and large independent oil companies is primarily geared towards two objectives–refocusing priorities to specific core areas of competence and improving efficiency.

These objectives provide major opportunities for Baker Hughes. First, as a result of restructuring, many of our customers are no longer as self-sufficient in all areas of oilfield operations and are relying more heavily on service companies. Our comprehensive product offering and global presence are ideally suited to fulfill this expanded role. Secondly, the need to improve efficiency is leading to increased partnering relationships between oil companies and service companies. As a technology leader with a firm commitment to quality, Baker Hughes has played, and will continue to play, a leading role in working jointly with our customers in an effort to lower the cost of drilling and production.

On the process technology side of our business, the Company's core technologies are focused in three major areas: pumps, liquid-solid separation, and instrumentation. Over the past few years, this segment's markets have increasingly emphasized the need for cleaner and more efficient industrial processes. With this in mind, we recently adopted a new name for this group of companies–EnviroTech. This name change will enable us to better communicate to our customers the focus and strength these companies bring to all of the continuous process industries.

J. D. Woods visits the new Hughes Christensen tricone bit manufacturing facility.

As we look ahead to fiscal 1993, current prices for both oil and natural gas would seem to provide a firm foundation for increased drilling activity. Conditions within OPEC, where virtually all member countries, except Saudi Arabia, are producing at capacity, confirms a stable oil price scenario. In the U.S., natural gas prices have increased dramatically and give credence to the notion that basic supply and demand fundamentals for gas are in their best shape in a decade.

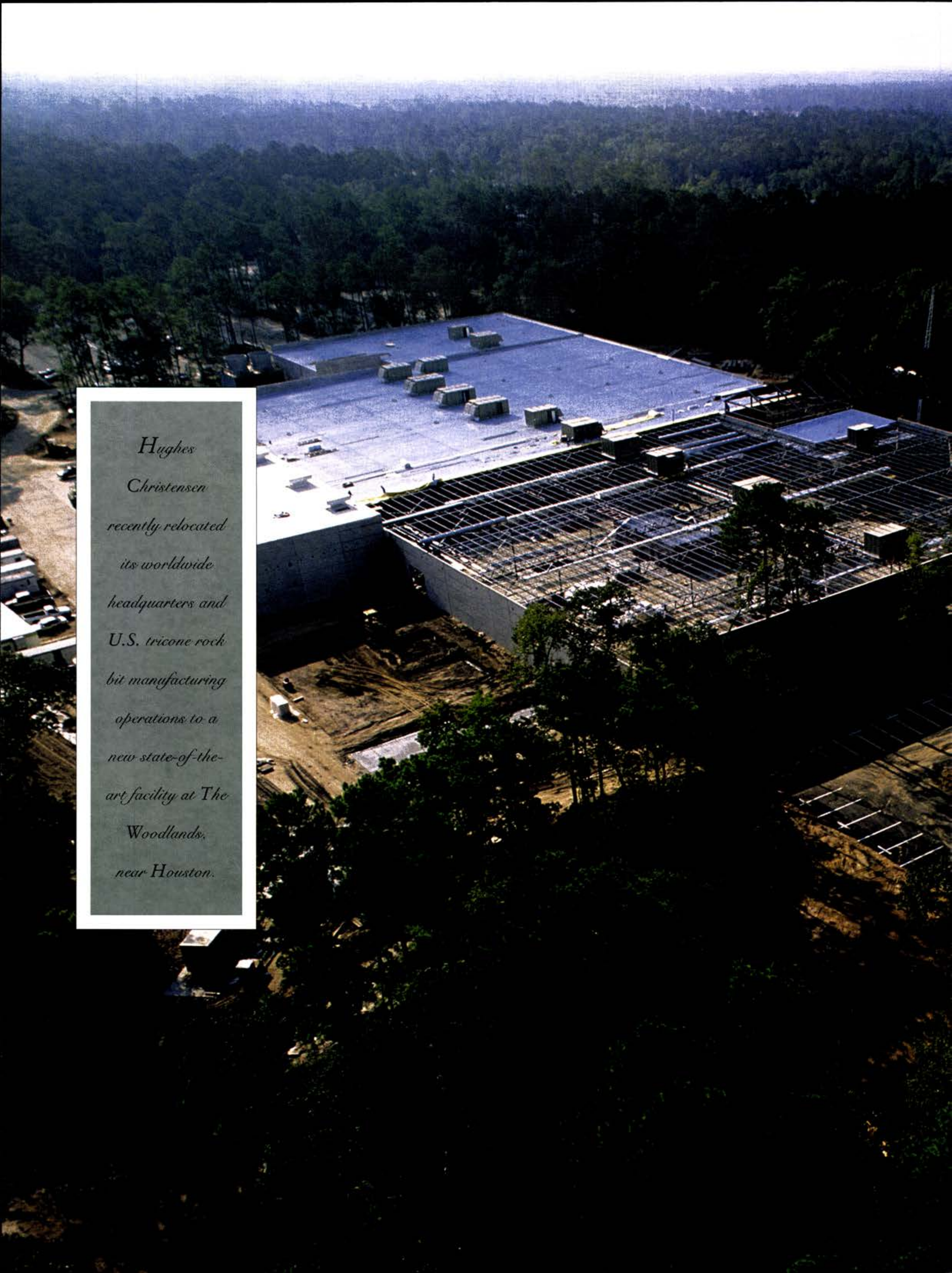
Against this favorable backdrop, several factors could impact the anticipated increase in activity. The large number of U.S. oil properties for sale by major producers, expiration of Section 29 tax credits for the U.S. natural gas industry, declining foreign rig activity, and a volatile U.S. dollar are all elements with which we must contend. We believe, however, that improving industry fundamentals will lead to increased activity and that meaningful growth will begin to occur in late fiscal 1993. EnviroTech, similarly, should enjoy a better 1993. While worldwide economic activity remains sluggish, EnviroTech's level of bookings indicates improved performance for the year.

Outside of our traditional markets, there are several areas that could hold great future promise for Baker Hughes. One of these is the Commonwealth of Independent States (CIS, formerly the Soviet Union), where we are committing resources and finding significant opportunities . Our success in the CIS will clearly be influenced by political and economic developments and, more specifically, by the timing and structure of western investment in the oil and gas sector. We will continue to pursue opportunities aggressively in the hope of being a major service provider to a region very much in need of our technology.

Finally, I would like to extend my sincere thanks and appreciation to the employees of Baker Hughes, who once again exhibited the "whatever it takes" attitude that we have come to learn is a necessary attribute for success in our highly volatile markets. I also extend my thanks and best wishes to retiring director David Lybarger for his ten years of valuable service and welcome Margie Filter, Vice President, Secretary and Treasurer of Xerox Corporation, and Vic Beghini, Vice Chairman-Marathon Group, USX Corporation & President-Marathon Oil Company, as capable new additions to the Baker Hughes Board of Directors.

JDWoods

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



Hughes Christensen recently relocated its worldwide headquarters and U.S. tricone rock bit manufacturing operations to a new state-of-the-art facility at The Woodlands, near Houston.

BAKER HUGHES DRILLING TECHNOLOGIES

The five Baker Hughes Drilling Technologies (BHDT) companies provide products and services used in the drilling of oil and gas wells. Eastman Teleco is the largest supplier of directional drilling systems as well as MWD systems for both directional drilling and formation evaluation applications. Hughes Christensen offers the industry's leading technologies in both tricone rock bits and diamond/PDC drill bits. EXLOG provides a range of comprehensive information services including mud logging and integrated information management systems. Milpark Drilling Fluids is a worldwide supplier of drilling fluid additives and services for critical well and hostile drilling environments. Develco supplies downhole technology to other Baker Hughes companies for borehole direction, formation evaluation and drilling efficiency systems.

BHDT reported 1992 revenues of $886.3 million, a 9.5% decline from 1991 results. Pretax operating income was $53.3 million, compared to $118.7 million for 1991.

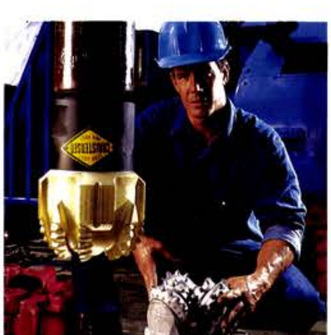
The decline in worldwide drilling activity, which was most pronounced in the United

States, negatively impacted BHDT's 1992 financial performance. For the 12-month period ended September 30, 1992, an average of 701 rigs were active in the United States, as compared to an average of 938 rigs during the previous year. Drilling activity in the U.S. reached a 50-year low in June 1992, while drilling activity outside of the U.S. was also unexpectedly weak, averaging 5.9% less than the prior year.

This difficult operating environment reconfirmed our commitment to aggressively pursue BHDT's strategic mission of assisting our customers in improving their drilling and production economics. BHDT's ability to achieve this strategic goal was significantly enhanced by the acquisition of Teleco in April 1992. The addition of Teleco moved BHDT to the forefront as the provider of the most technologically advanced element of the drilling process, MWD. Equally important, BHDT now offers the industry's strongest line of integrated drilling products and services under a new Baker Hughes concept known as Integrated Engineering Services (IES). In a typical IES drilling project, BHDT provides multiple related products and services used to drill a well. The Company's compensation varies with performance and reflects the degree to which mutually developed customer objectives are met or exceeded. The industry's movement toward performance based, integrated solutions is gathering substantial momentum and BHDT is positioned to be a major participant in this important future market segment.

BAKER HUGHES DRILLING TECHNOLOGIES CONTINUES TO AGGRESSIVELY PURSUE ITS STRATEGIC MISSION OF ASSISTING OUR CUSTOMERS IN IMPROVING THEIR OIL AND GAS DRILLING AND PRODUCTION ECONOMICS THROUGH ACQUISITIONS, INTERNAL REALIGNMENTS, TECHNOLOGICAL INNOVATION AND CREATIVITY.

Contemporaneous with the acquisition of Teleco, BHDT's operations were realigned for maximum market penetration and cost



(Left) During the year, BHDT's diamond and tricone rock bit operations were combined to form Hughes Christensen.

Exlog's DrillByte® Service provides operators with real-time drilling information.

effectiveness. First, the directional drilling and MWD operations of Teleco and Eastman Christensen were combined to create Eastman Teleco. Next, the Eastman Christensen diamond bit product line was merged into Hughes Tool Company to form Hughes Christensen. These structural changes were made with the sole objective of developing the most efficient vehicle for delivering BHDT's products and services to our customers.

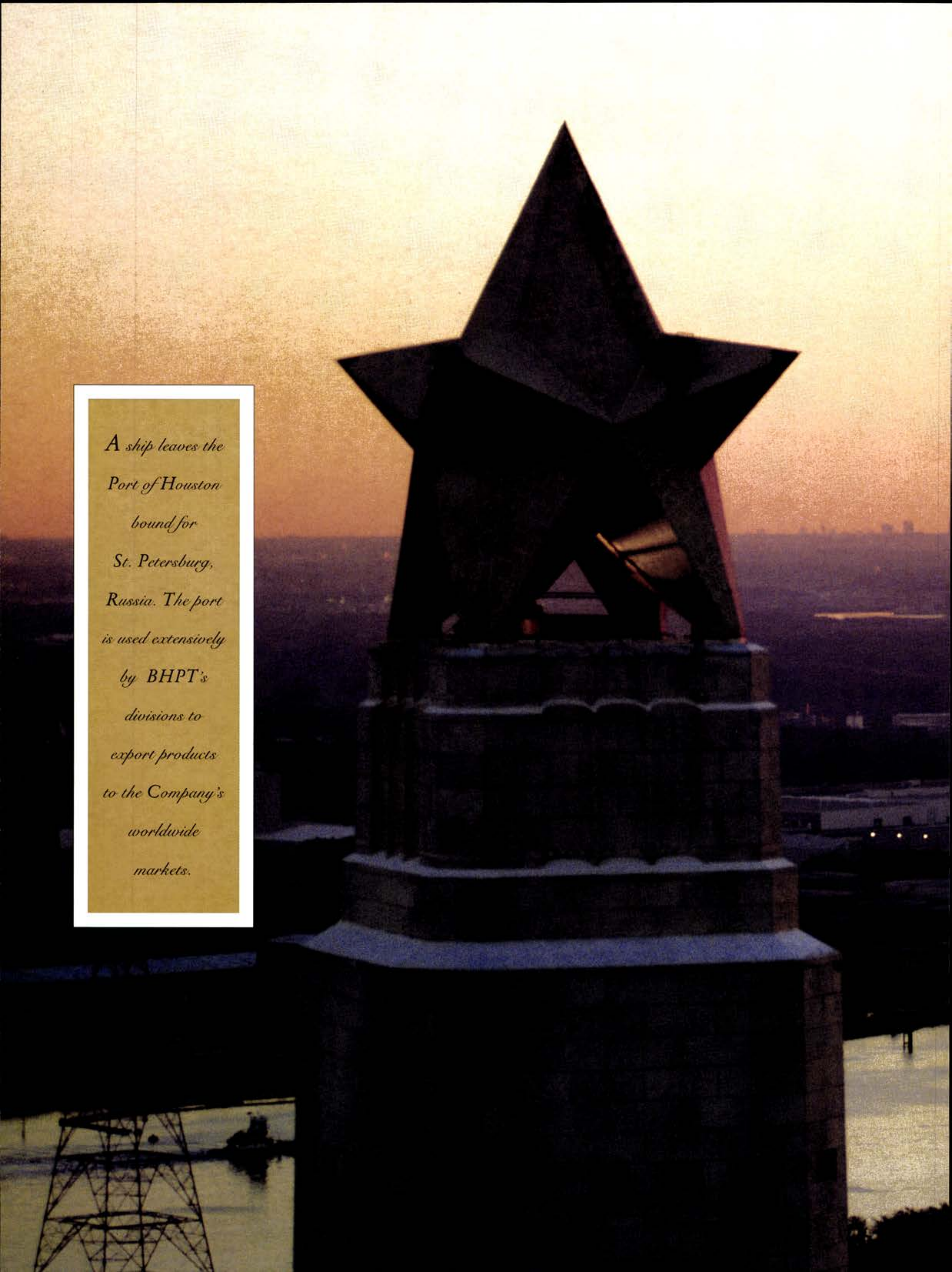
1992 was also a year in which we continued to invest capital that will significantly improve the productivity of our processes and the quality of our products. We are nearing completion of a new state-of-the-art rock bit manufacturing facility near Houston that reinsures Hughes Christensen's position as the industry's low-cost producer of high performance rock bits. In Aberdeen, Scotland, Milpark Drilling Fluids is participating with a BHPT division in the construction of a new research and training center. This facility will be operational in December 1992 and will greatly improve Milpark's technical responsiveness in the very important and demanding North Sea market.

In recent months, a number of the industry's fundamental indicators, particularly energy prices, have turned positive. This suggests that activity in the second half of 1993 will show improvement over 1992, especially natural gas drilling in North America. BHDT has structured itself to be the most cost effective provider of high quality products and services in the segments it serves and is now positioned to deliver significantly improved earnings at current activity levels and to capitalize on future increases in activity.

THE DRILLING INDUSTRY'S FUNDAMENTAL INDICATORS, PARTICULARLY THE PRICES OF CRUDE OIL AND NATURAL GAS; HAVE RECENTLY TURNED POSITIVE AND SUGGEST THAT THE LEVEL OF ACTIVITY DURING THE SECOND HALF OF 1993 WILL IMPROVE COMPARED TO PRIOR YEARS, ESPECIALLY NATURAL GAS DRILLING IN NORTH AMERICA.

(Right) Milpark's Aberdeen storage tanks are located near the Company's important North Sea customers.

A rotor for a NaviDrill downhole motor is manufactured at Eastman Teleco's Celle, Germany facility. The rotor is a key component of steerable and horizontal drilling systems.



A ship leaves the Port of Houston bound for St. Petersburg, Russia. The port is used extensively by BHPT's divisions to export products to the Company's worldwide markets.

BAKER HUGHES PRODUCTION TOOLS

The Baker Hughes Production Tools (BHPT) divisions are engaged in activities involving the completion, workover and production of oil and gas wells. Baker Oil Tools is a leading provider of well completion systems, as well as remedial, stimulation and fishing tools and their related services. Baker Sand Control is the leading supplier of equipment and engineering for high-efficiency completions, through the control of formation sand, improved perforating techniques and formation testing. Baker Performance Chemicals, Inc. is a premier supplier of oilfield production and flow enhancing chemicals as well as a supplier of chemicals to industrial markets. Centrilift is the leader in proprietary technology for electrical submersible pumps, variable-speed drives and cable.

BHPT reported revenues of $1,013.1 million for the year ended September 30, 1992, a 2.5% decline from 1991. Pretax operating income declined 18.1% in 1992 to $129.0 million, from $157.5 million in 1991.

The declines in revenue and profitability are principally the result of significantly lower levels of U.S. workover and drilling activity. For fiscal 1992, the Baker Oil Tools workover rig count in the United States averaged 1,260 compared to an average of 1,653 for the prior fiscal year, a 24% decline. During March, workover activity reached a historical low in the United States, with only 1,139 rigs in operation. In addition, workover and development rigs operating in the Gulf of Mexico declined to 75 rigs, a 36% decrease from an average of 117 rigs during the previous year. Product prices were modestly lower, reflecting lower activity levels and a more competitive marketplace.

BAKER HUGHES PRODUCTION TOOLS' STRATEGIC MISSION IS STRAIGHTFOWARD– TO LOWER OUR CUSTOMERS' COST PER BARREL OF PRODUCTION. WE WILL ACCOMPLISH THIS MISSION THROUGH THE CONTINUED DEVELOPMENT AND IMPLEMENTATION OF HIGH QUALITY AND COST EFFECTIVE PRODUCTS, SERVICES AND PRODUCTION/ COMPLETION SYSTEMS.

Throughout fiscal 1992, BHPT aggressively addressed the changing U.S. marketplace. Early in the year, BHPT merged the fishing tool operations of Tri-State Oil Tools into Baker Service Tools. During the third fiscal quarter of 1992, the operations of Baker Oil Tools and Baker Service Tools were merged. These three former divisions will now operate under the Baker Oil Tools name and their combination will result in better customer focus as well as substantial consolidation savings in the future.

Despite declines in the domestic market, BHPT continues to focus its efforts on new product introductions and new market penetration. Baker Sand Control introduced several significant new products, including its Mini Beta System, PerForm Charges (TCP), Auger Gravel Pack System and the Auger TCP System, each designed to lower its customers' completion costs per barrel of production. Baker Oil Tools successfully commercialized its Electronic Actuation System (EAS), a field adaptable software package to remotely actuate a downhole assembly without physical well

(Left) The economics of transporting crude oil through the Alaskan Pipeline are enhanced by the application of FLO®, a drag reducing agent, produced by Baker Performance Chemicals, Inc.

Centrilift prepares insulated control units for shipment to harsh operating environments such as the oil producing regions of Western Siberia.

intervention. Centrilift successfully penetrated two new markets, the CIS and the high horsepower dewatering market. In recognition of the high technological capabilities of its chemical additives, Baker Performance Chemicals, Inc. secured several large supply contracts with major oil companies.

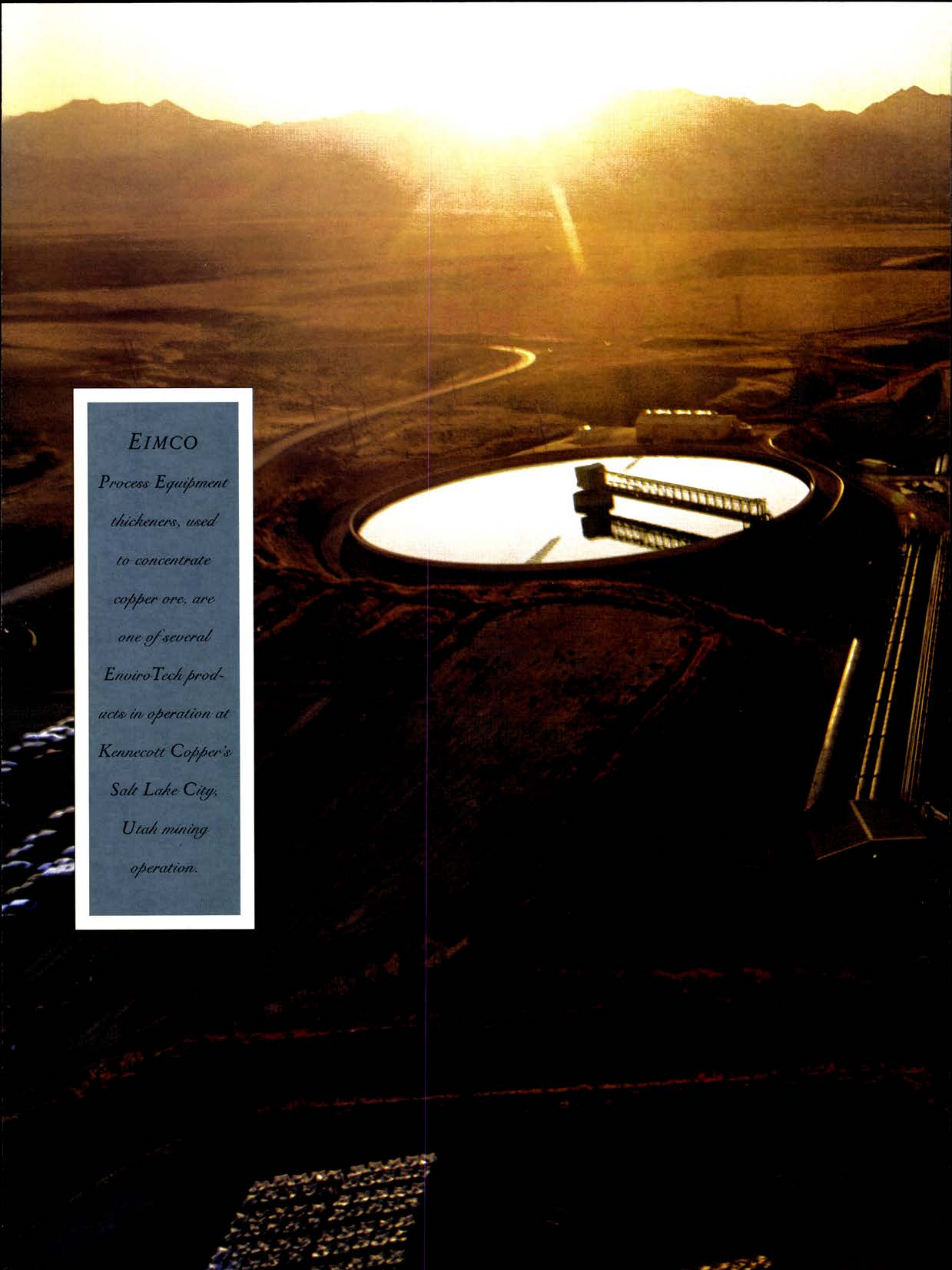
Like many of our customers, BHPT divisions continue to expand their international presence. While total revenues for fiscal 1992 declined modestly compared to the previous year, international revenues increased nearly 13.6%. An intriguing new area of opportunity rests in a number of the CIS Republics. BHPT's array of completion-related products are well suited to the needs of the various CIS producing associations. While demand for our products is strong, hard currency is scarce within the CIS economy and, as a result, numerous opportunities await funding. However, substantial foreign credits are being considered by various Western institutions.

OVER THE COURSE OF FISCAL 1993, WE EXPECT THE PRODUCTION AND REMEDIAL MARKETS TO IMPROVE, PRINCIPALLY IN RESPONSE TO A MORE FAVORABLE PRICING ENVIRONMENT FOR OIL AND NATURAL GAS, AS WELL AS, IN RESPONSE TO INCREASED LEVELS OF ACTIVITY BY INDEPENDENT OIL AND GAS PRODUCERS.

We believe that we have sized and structured our organization to meet the demands of the current market. We clearly understand that our mission is to lower our customers' cost per barrel of production and we will continue to develop high quality and cost effective solutions. For the future, we foresee an increase in U.S. activity, as natural gas markets signal a tightening of supply. In addition, we anticipate an improvement in remedial activity within the U.S., as independent oil and gas producers seek to develop property acquisitions made earlier in the year. Outside of the U.S., we see a reasonably stable market with growing opportunities, particularly in the CIS.

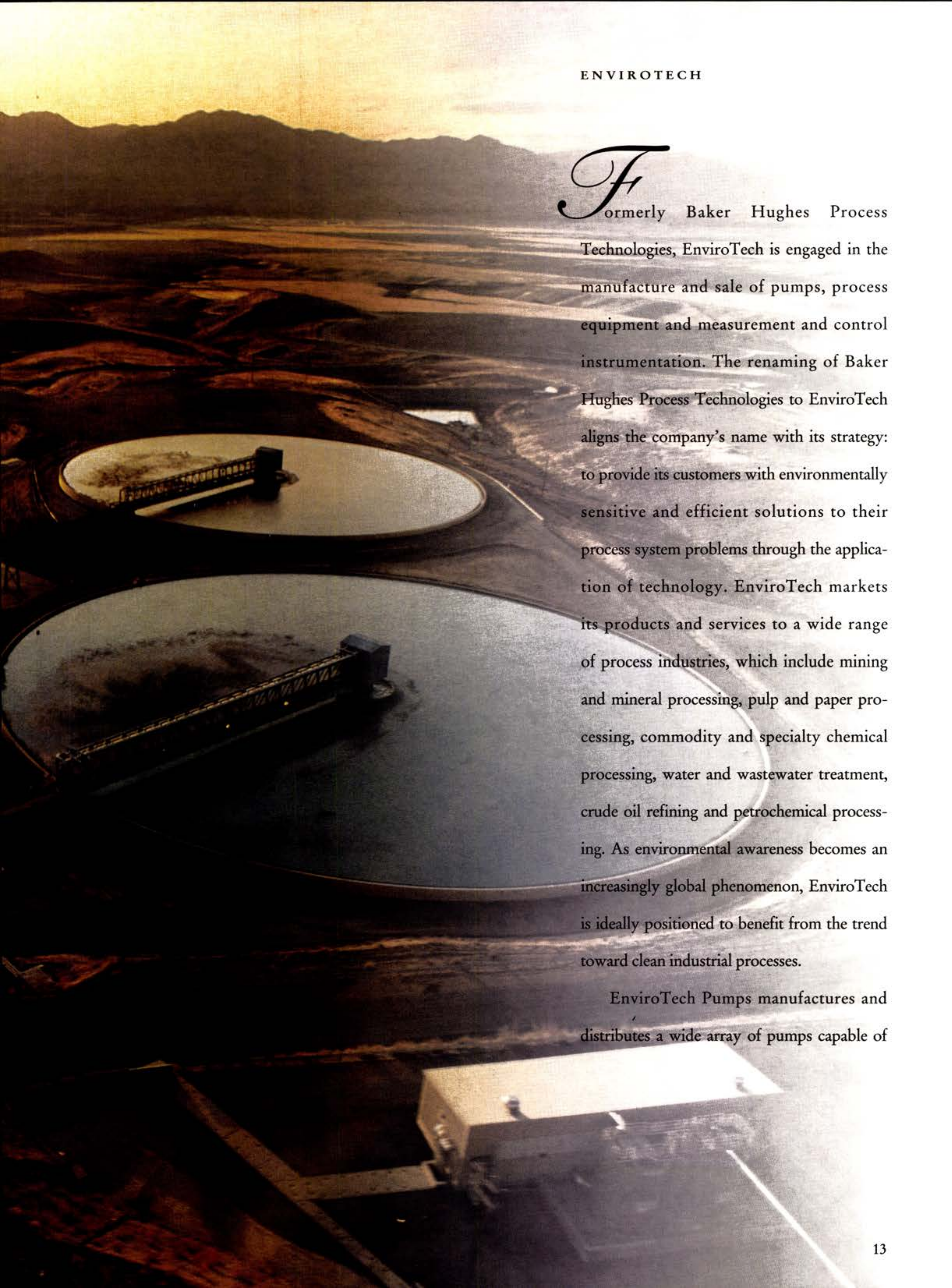
(Left) Baker Sand Control employees discuss the merits of the Company's new Auger TCP System.

The merger of Baker Oil Tools and Baker Service Tools in 1992 will result in the industry's most comprehensive well completion company.



EIMCO

Process Equipment thickeners, used to concentrate copper ore, are one of several EnviroTech products in operation at Kennecott Copper's Salt Lake City, Utah mining operation.



Formerly Baker Hughes Process Technologies, EnviroTech is engaged in the manufacture and sale of pumps, process equipment and measurement and control instrumentation. The renaming of Baker Hughes Process Technologies to EnviroTech aligns the company's name with its strategy: to provide its customers with environmentally sensitive and efficient solutions to their process system problems through the application of technology. EnviroTech markets its products and services to a wide range of process industries, which include mining and mineral processing, pulp and paper processing, commodity and specialty chemical processing, water and wastewater treatment, crude oil refining and petrochemical processing. As environmental awareness becomes an increasingly global phenomenon, EnviroTech is ideally positioned to benefit from the trend toward clean industrial processes.

EnviroTech Pumps manufactures and distributes a wide array of pumps capable of moving abrasive, corrosive, high-solid slurries common in mining, sewage treatment, pulp and paper, chemical processing and other process industries through its four divisions: BGA International, Chas. S. Lewis & Company, EnviroTech Specialty Pumps (formerly Wemco Pumps) and EnviroTech Pump-systems b.v. (formerly GEHO N.V.). EnviroTech Process Equipment, through its Bird Machine Company, EIMCO Process Equipment Company, EIMCO Canada and Baker Hughes Process Systems divisions, is a leading, worldwide provider of filtration, sedimentation, centrifugation and flotation equipment used to separate solids from liquids and liquids from liquids. EnviroTech Measurements and Controls designs and manufactures measurement and control instrumentation through six divisions: EnviroTech Controls (formerly Baker CAC, Houston Atlas and Westronics), NORAN Instruments, Ramsey Technology, TN Technologies, Tremetrics and Tracor Europa. These divisions provide a broad spectrum of products and services including process control gauges, analytical instruments used in environmental testing labs and basic research instrumentation.

For the fiscal year ended September 30, 1992, EnviroTech reported revenues of $653.2 million and pretax operating income of $41.6 million, compared to revenues and pretax operating income of $682.6 million and $57.4 million, respectively, for the prior fiscal year.

The decline in revenues and operating profitability is primarily due to continued economic weakness in most industrialized countries. This has prompted many of our customers to temporarily postpone

ENVIROTECH'S STRATEGIC MISSION IS TO PROVIDE ITS CUSTOMERS WITH CLEAN, EFFICIENT AND ENVIRONMENTALLY SENSITIVE SOLUTIONS TO THEIR PROCESS SYSTEM PROBLEMS THROUGH THE APPLICATION OF HIGH QUALITY AND TECHNOLOGICALLY ADVANCED PROCESS EQUIPMENT, PUMPS AND MEASUREMENT AND CONTROL INSTRUMENTATION.

(Left) EnviroTech, a name that was adopted in 1992, better describes Baker Hughes' process technology companies.

Float cells manufactured by EIMCO Process Equipment use chemically-activated air bubbles to float and separate minerals from raw ore.

the purchase of large capital items. These same customers are also deferring basic maintenance operations, which has negatively impacted our higher-margin parts business.

In terms of new product development, 1992 was a very active year for EnviroTech. The XL Plus technology, developed by Bird Machine Company to increase both the capacity and performance of centrifuges, was awarded the Engineering Merit Award in May 1992 by the American Filtration Society. BGA International designed and is manufacturing 60 of the world's largest rubber-lined pumps for a flue-gas desulfurization project scheduled for delivery at the customer's site in early 1993. TN Technologies recently introduced its DataGator sewer flow monitoring system, which provides accurate flow characteristics regardless of flow conditions.

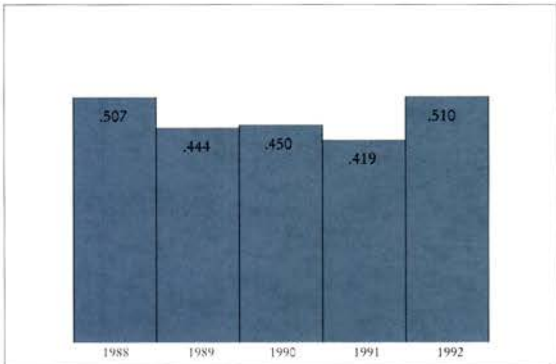
ENVIROTECH ANTICIPATES THAT DEMAND FOR ITS PRODUCTS AND SERVICES SHOULD CONTINUE TO INCREASE AS MORE REGIONS OF THE WORLD EMBRACE THE CONCEPT OF A CLEAN ENVIRONMENT AND AS THE MAJOR INDUSTRIALIZED ECONOMIES BEGIN TO RECOVER AND TO REINSTATE CAPITAL PURCHASES THAT WERE PREVIOUSLY POSTPONED.

The outlook for EnviroTech's products and services is positive. Our backlog remains at near record levels and as the major industrial economies begin to recover, our customers will be in a position to reinstate the capital spending programs necessary to increase the efficiency and environmental cleanliness of their operations. Regardless of the pace of economic recovery, demand for our products and services should continue to climb as more and more regions of the world embrace the concept of a clean environment. Eastern Europe, in particular, offers EnviroTech great opportunities. We also see increasing need for systems solutions to process engineering problems. While EnviroTech's three operating groups generally operate autonomously, they stand ready to deliver a systems solution when requested by a customer.

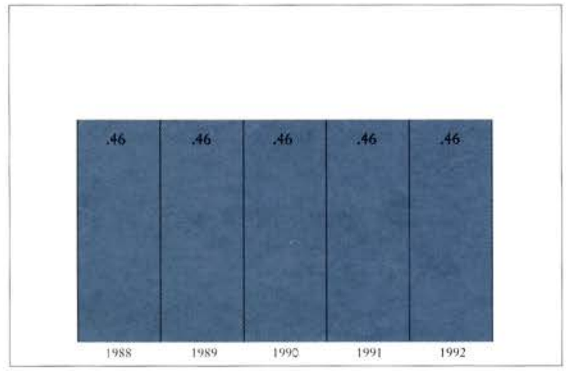
(Left) A Ramsey in-motion checkweigher is capable of accurately determining the weight of up to 600 packages per minute.

The largest flue-gas desulfurization pump ever constructed, manufactured by BGA International, is prepared for installation.

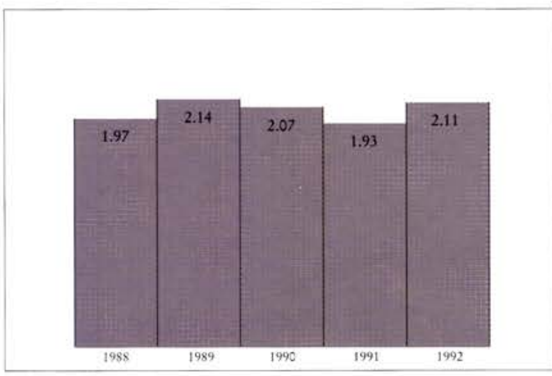
DEBT/EQUITY RATIO
(Includes Long and Short-Term Debt)



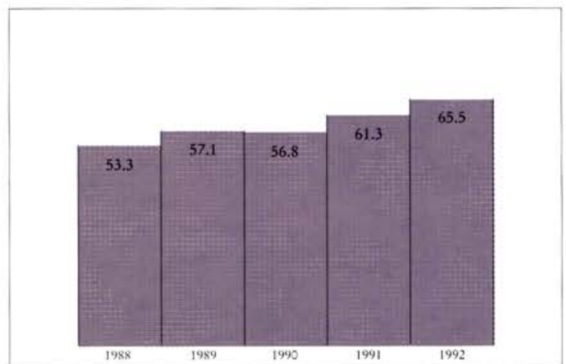
COMMON STOCK DIVIDENDS PAID
(Per Share)



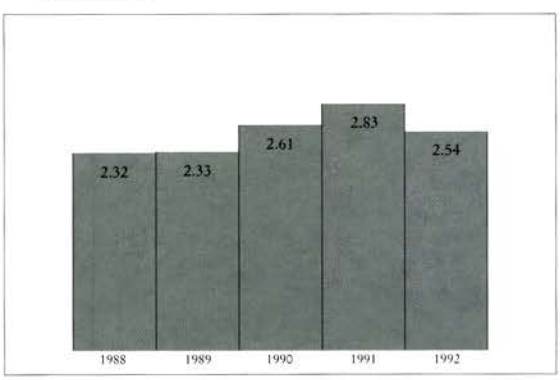
CURRENT RATIO



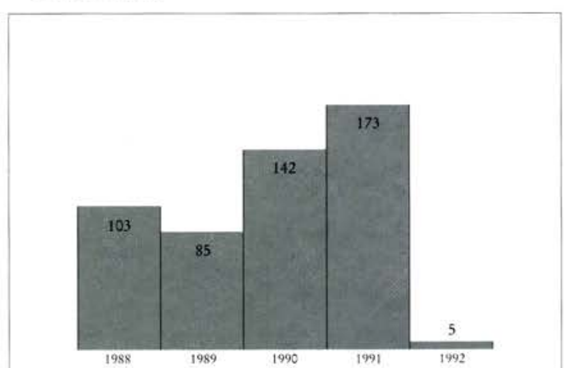
NON U.S. REVENUES
(As a Percent of Total Revenues)



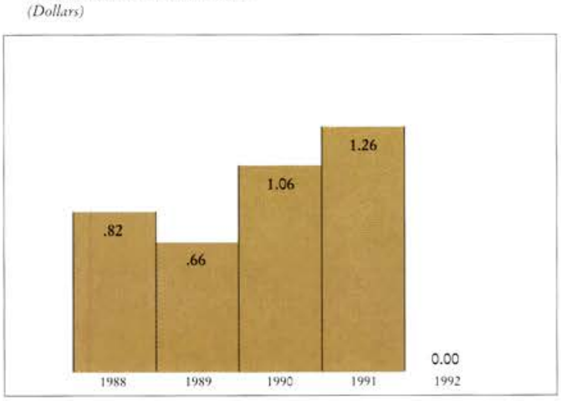
REVENUES
(Dollars in Billions)



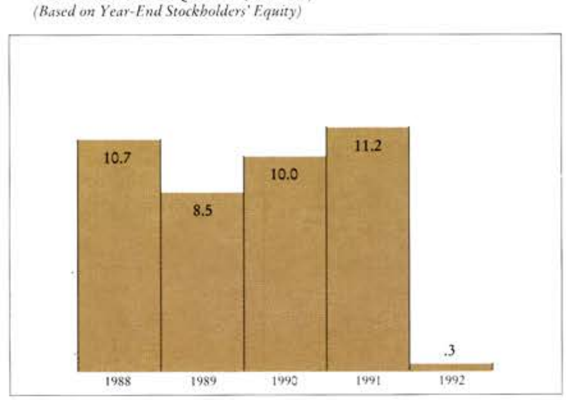
NET INCOME
(Dollars in Millions)



EARNINGS PER SHARE
(Dollars)



RETURN ON EQUITY (Percent)
(Based on Year-End Stockholders' Equity)



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

In fulfilling its responsibilities for the integrity of financial information, management maintains and relies on the Company's system of internal control. This system includes written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operational reviews by a professional staff of corporate auditors and the independent public accountants. The system is designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements. Management believes that, as of September 30, 1992, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

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

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

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

G. S. Finley
Vice President and
Controller

FISCAL 1992 COMPARED TO FISCAL 1991

Acquisitions and Dispositions. On October 29, 1991, the Company sold the Eastern Hemisphere operations of its Baker Hughes Tubular Services ("BHTS") subsidiary to Tuboscope 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. On September 30, 1992, the Company sold the Western Hemisphere operations of BHTS to ICO, Inc. ("ICO") for total consideration of $11.3 million. The consideration consisted of notes varying in maturities from one to seven years and a warrant entitling the Company to purchase four million shares of ICO common stock at $.75 per share. As a result of these transactions and the unusual charges recognized for the restructuring costs and impairment of value of the Western Hemisphere operations, the Company recognized a pretax net gain of $15.6 million.

On April 23, 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 (estimated fair market value at date of acquisition of approximately $149.4 million), and a five percent royalty payment for five years on certain technology revenues. Teleco is a leading provider of both directional and formation evaluation measurement while drilling services.

On August 6, 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.

Revenues and operating income for fiscal year 1991 discussed below have been adjusted for fiscal year 1992 organizational restructurings which affected all three operating groups.

Revenues. Revenues for 1992 were $2.54 billion, a decrease of $289.8 million or 10% from the prior year. During 1992, oilfield exploration and production activities in the United States declined substantially from the prior year. The average rotary rig count in the United States in fiscal 1992 was 701, down 25% from the fiscal 1991 average. The average United States workover rig count in fiscal 1992 as measured by the Company's Baker Oil Tools division was 1,260 as compared to 1,653 in the prior fiscal year. This drop in oilfield activity in the United States had a significant negative impact on the Company's revenues. Outside of the United States, oilfield activity was generally strong, particularly in geographic areas where the Company has significant operations. Additionally, the continuing worldwide economic recession caused revenues in our EnviroTech group to decline from the prior year. As noted above, the Company sold the Eastern Hemisphere operations of its BHTS subsidiary. The Western Hemisphere operations of BHTS were discontinued early in the year and were sold at the end of the fiscal year. These actions caused revenues to decline by approximately $96.0 million from the prior year. The Company also discontinued its Hughes Christensen Argentina manufacturing operations in the first quarter of fiscal 1992. This action resulted in a reduction in revenues of approximately $48.0 million from the prior year. The Drilling Technologies group had revenues of $886.3 million in 1992, down 9.5% or $93.3 million from last year. The acquisition of Teleco added approximately $50.0 million of revenue in 1992. The decrease in United States drilling activity was the principal reason for the balance of the decline; however, relatively strong non-U.S. activity mitigated the impact to a degree. The Production Tools group had revenues of $1.01 billion in 1992 as compared to $1.04 billion in the prior year. The decrease in United States workover and completion activity was the primary cause of decline; however, increased activity outside of the United States served to offset the impact to a large extent. The EnviroTech group's revenues were $653.2 million in 1992, down $29.3 million or 4.3% from 1991. 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 in these operations. The Company's foreign revenues accounted for 65.5% of revenues in 1992, as compared to 61.3% in 1991.

Operating Income. Operating income decreased $138.5 million to $94.0 million in 1992, largely as a result of the decline in revenues. Operating income for 1992 includes the impact of net unusual charges of $79.2 million and 1991 operating income includes the impact of $62.9 million of net unusual charges. These charges are described in Note 3 of the Notes to Consolidated Financial Statements. Excluding the impact of the unusual charges, operating income would have been $173.2 million in 1992 and $295.5 million in 1991.

The Drilling Technologies group had an operating loss of $3.0 million in 1992, which includes $61.4 million of unusual charges. In the prior year the group had operating income of $45.8 million which included unusual charges of $56.3 million. Excluding the impact of the unusual charges, the Drilling Technologies 1992 operating income declined $43.7 million from the prior year. The decrease was due to the decline in revenues and the impact of pricing pressure on the products and services offered by this group. Operating income at the Production Tools group which includes unusual charges of $23.2 million and $3.1 million in 1992 and 1991, respectively, decreased $52.9 million or 33.9% from 1991. Excluding the impact of the unusual charges from both years, operating income decreased $32.8 million or 20.6%. This decrease was primarily a result of the revenue decline caused by lower United States workover and completion activity, pricing pressures and a shift in revenues to less profitable products and services. EnviroTech had operating income of $26.0 million, a decrease of $25.2 million from the prior year. Excluding the impact of $10.2 million and $1.0 million of unusual charges in 1992 and 1991, respectively, the EnviroTech group's operating income would have declined $16.0 million from the prior year. The decrease in revenues from last year and a change in the mix of revenues, away from relatively high margin parts sales, caused the drop in this group's operating income.

Interest Expense. Interest expense in 1992 was $68.1 million, a decrease of $15.4 million from the prior year. The decrease in interest expense is due primarily to the reversal of $8.8 million of accrued interest expense resulting from a tentative settlement with the Internal Revenue Service ("IRS") to resolve all pending income taxes for the 1978 through 1986 tax years and lower interest rates in effect throughout 1992.

Income Taxes. Income taxes were $26.9 million in 1992 as compared to $38.9 million in 1991. The effective tax rate for 1992 was 84.3% as compared to 18.3% in 1991. The increase in the effective tax rate is primarily attributable to the impact of the net unusual charges in 1992 which related to operations in taxing jurisdictions where virtually no tax benefit was available and the impact of non-deductible goodwill amortization. Tax benefits arising from the utilization of capital loss carryforwards and from the IRS settlement partially offset the impact of the unusual charges and the non-deductible goodwill amortization. Excluding the impact of the net unusual charges and the minor tax benefit it generated, the effective tax rate for 1992 would have been 26%. The tax provision for 1991 included a $5.3 million benefit resulting from a tax law change in Norway. Excluding this tax benefit, the effective tax rate for 1991 would have been 21%. The primary difference in the year to year effective tax rate on income from operations before unusual charges resulted from a net shift in profits from the U.S. to countries with a higher effective rate of tax.

Net Income and Earnings per Share. Net income in 1992 was $5.0 million, as compared to $173.5 million in the prior year. As noted in the discussion of operating income above, results for both 1992 and 1991 include the impact of unusual charges. Net income for 1991 also included a gain of $56.1 million from the sale of the Company's remaining holdings of BJ Services common stock. Excluding the impact of the net unusual charges from both 1992 and 1991 results, excluding the gain from the sale of the BJ Services stock from 1991 results and excluding any tax impact on these transactions, net income for 1992 and 1991 would have been $82.2 million and $180.3 million, respectively.

Earnings per share for 1992 was $.00 as compared to $1.26 in 1991. Excluding the impact of the net unusual charges, the gain on the sale of the BJ Services stock and any tax impact these transactions generated from 1992 and 1991 results, earnings per share would have been $.55 and $1.31, respectively.

CAPITAL GENERATION AND LIQUIDITY

At September 30, 1992, the Company had cash and short-term investments of $6.7 million, a decrease of $45.0 million from September 30, 1991. The Company used available cash plus cash proceeds from the issuance of fixed rate notes, commercial paper offerings, sales of assets and businesses and bank borrowings to fund working capital requirements, acquire businesses, purchase property, retire debt and pay dividends.

Total debt outstanding at September 30, 1992 was $838.9 million, an increase of $192.0 million from September 30, 1991. The debt to equity ratio was .510 at September 30, 1992, compared to .419 at September 30, 1991. The increase in total debt outstanding and in the debt to equity ratio is a direct result of the additional debt from the Teleco acquisition.

On March 28, 1991, the Company filed a Registration Statement with the Securities and Exchange Commission (the "Commission") to register unsecured debt securities consisting of notes, debentures or other evidences of indebtedness at an aggregate initial offering price of not more than $200.0 million. On February 18, 1992, the Company issued $150.0 million of 7.625% fixed rate notes due February 15, 1999, under this Registration Statement. Net proceeds to the Company were $148.2 million, of which $77.8 million was used to repay the Company's Zero Coupon Guaranteed Notes which matured on February 25, 1992. The remaining proceeds along with the issuance of commercial paper were used to refinance the redemption of the Company's 9.5% Convertible Subordinated Debentures in the amount of $98.8 million called on February 25, 1992, at a redemption price of 100.86% of the outstanding principal amount plus accrued and unpaid interest of $1.8 million to February 25, 1992. On February 21, 1992, the Company entered into interest exchange agreements reducing the fixed rate indebtedness on the 7.625% Notes discussed above to an effective interest rate of 5.98% at September 30, 1992. These agreements effectively change the nature of the fixed rate on this debt to a short-term variable rate over the two-year term of the agreements, during which the rates will be adjusted at six month intervals.

On March 6, 1992, the Company filed a Registration Statement with the Commission to register unsecured debt securities consisting of notes, debentures or other evidences of indebtedness at an aggregate initial offering price of not more than $200.0 million. On May 13, 1992, the Company issued $100.0 million of 8.0% fixed rate notes due May 15, 2004, under this Registration Statement and the Registration Statement described in the preceding paragraph. Net proceeds to the Company were $98.4 million, which were used to repay commercial paper borrowings undertaken for the acquisition of Teleco.

Currently, the Company has not issued any debt securities under the remaining $150.0 million available under the registration statements noted above.

The Company has revolving credit lines with commercial banks aggregating $627.9 million. Of these lines, $413.4 million are committed facilities which begin to expire in 1994. At September 30, 1992, there were $121.9 million of borrowings against these agreements. The Company maintains, at all times, unused committed bank lines of credit at least equal to the principal amount of its outstanding commercial paper and money market borrowings.

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

Working capital at September 30, 1992 was $715.5 million, as compared to $652.4 million at September 30, 1991. In the Company's opinion the current ratio of approximately 2.11 indicates an acceptable level of liquidity.

Capital expenditures were $137.9 million for the year ended September 30, 1992 compared to $161.2 million in the same period last year. The ratio of capital expenditures to depreciation was 110.8% in 1992 as compared to 145.2% in 1991. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements.

Outlook. The market environment in the Company's oilfield businesses appears to be on an upward trend as United States drilling and workover activity levels have risen above historic lows recorded in mid 1992. United States natural gas prices are expected to remain within a reasonable range of their current levels as the prospect of supply and demand being in balance approaches reality. The slowly recovering world economy and current near capacity production by OPEC point to relatively stable oil prices. The EnviroTech group's improved order bookings in 1992 indicate improved performance in 1993 for this business segment. These favorable industry fundamentals, coupled with the significant cost reduction and consolidation actions taken by the Company over the past year are expected to produce improved results in 1993. United States oilfield activity levels, although trending upward, have only recently surpassed levels of the same period in the prior year. Non-U.S. oilfield activity, although still relatively strong, has weakened over the last few months in several of the Company's key geographic regions, but is expected to strengthen as the year progresses. If activity levels approach the Company's expectations, year over year earnings growth should occur in the latter part of the fiscal year.

The Company's acquisition of Teleco further enhances its market leadership position in integrated performance drilling systems. This high-technology business with measurement-while-drilling as a key component is expected to continue to lead the Company's growth in oilfield markets offering higher returns.

Opportunities presented in the former Soviet Union, now the Commonwealth of Independent States, are significant. The Company's penetration in this market and its long-term success will be dependent on the evolving political and economic environment.

FISCAL 1991 COMPARED TO FISCAL 1990

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

On November 28, 1990, the Company completed the disposition of the assets of the TOTCO division of Exlog, Inc., a wholly owned subsidiary of the Company, to Varco International, Inc. ("Varco") for 2.3 million shares of Varco common stock and approximately $20.0 million in cash. As a result of this transaction, the Company recognized a gain of $17.6 million with no provision for income taxes due to the Company's U.S. operating loss carryforwards. The TOTCO division manufactures, sells and rents a variety of instrumentation and analytical equipment utilized on drilling rigs and certain other oilfield and industrial applications. Prior to the disposition of TOTCO, the Company owned 3.0 million shares of Varco's outstanding common stock and an option to acquire an additional 1.0 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.

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

Revenues and operating income discussed below have been adjusted for fiscal year 1992 organizational restructurings which affected all three operating groups.

Revenues. Revenues in 1991 were $2.83 billion, up $214.1 million or 8.2% from 1990. Benefits from acquisitions were virtually offset by the impact of the disposition of BJ Services in 1990 and a decline in U.S. drilling activity during the last half of 1991. Revenues from the Drilling Technologies group increased $239.7 million, or 32.4% to $979.5 million for 1991. Most of the revenue improvement is due to the April 1990 acquisition of Eastman Christensen Company ("ECC"). The Production Tools group's revenues of $1.04 billion in 1991 were up from last year by $225.3 million, or 27.7%. The acquisition of ChemLink in October 1990 contributed significantly to the group's revenue improvement. The EnviroTech group had revenues of $682.6 million in 1991, an improvement of $94.0 million, or 16.0% from 1990. The acquisition in May 1990 of the Instruments Group ("Instruments") from Tracor Holdings, Inc. accounted for a significant amount of the increased revenues. The Company's foreign revenues accounted for 61.3% of revenues in 1991, as compared to 56.8% in 1990.

Operating Income. The Company's operating income increased $55.9 million, or 31.6%, to $232.5 million in 1991. Results for the year include the impact of $62.9 million of net unusual charges which are described in Note 3 of the Notes to Consolidated Financial Statements. Results for 1990 include operating income of $30.5 million from BJ Services and the impact of $66.9 million of unusual charges.

During the last six months of 1990 and the first quarter of 1991, the Company completed several acquisitions which more than replaced BJ Services' revenues and operating income. Also, the Company's two oilfield service groups benefitted from a trend toward more complex drilling applications, which provides an opportunity to sell higher margin products and services. The Drilling Technologies group's operating income, which included $56.3 million and $13.8 million of unusual charges in 1991 and 1990, respectively, increased $18.0 million as compared to 1990. Excluding the impact of the unusual charges, operating income increased $60.5 million and was provided primarily by ECC. Operating income at the Production Tools group, which included a $3.1 million unusual charge in 1991 and $10.2 million of unusual charges in 1990, increased $48.2 million over last year. The ChemLink acquisition contributed significantly to the growth in operating income. The EnviroTech group's operating income decreased $3.4 million from 1990. Expenses related to the amortization of intangible assets arising from the Instruments acquisition and changes in the group's geographic and product sales mix resulted in lower margins on incremental revenues.

Interest Expense. Interest expense increased $6.1 million as compared to 1990. The increase in interest expense was attributable to higher average debt levels during 1991 as compared to 1990.

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

Income Taxes. The effective tax rate for 1991 was 18.3% as compared to 21.0% in 1990. The reduction in the effective tax rate for the year was primarily due to a $5.3 million tax benefit in the fourth quarter of 1991 as a result of changes in Norwegian tax law.

Net Income and Earnings Per Share. Net income in 1991 was $173.5 million as compared to $142.2 million in 1990. Earnings per share were $1.26, an increase of $.20, or 18.9% from 1990. The improvement in net income and earnings per share in 1991 were due primarily to the increase in revenues resulting from the Company's significant acquisitions in 1990 and 1991 and the higher margin sales in the Company's oilfield groups.

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, 1992 and 1991, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended September 30, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and its subsidiaries at September 30, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1992 in conformity with generally accepted accounting principles.

Deloitte & Touche

November 18, 1992
Houston, Texas

Years ended September 30, *(In thousands of dollars, except per share amounts)*	1992	1991	1990
Revenues:			
Sales	$ 1,839,771	$ 1,989,336	$ 1,859,393
Services and rentals	698,744	839,021	754,864
Total	2,538,515	2,828,357	2,614,257
Costs and Expenses:			
Cost of sales	1,076,378	1,160,915	1,100,762
Cost of services and rentals	347,020	402,365	452,209
Research and engineering	107,188	102,558	82,790
Marketing and field service	602,342	617,226	502,720
General and administrative	200,758	221,907	217,827
Amortization of goodwill and other intangibles	31,649	27,926	14,476
Unusual charges - net	79,190	62,946	66,846
Total	2,444,525	2,595,843	2,437,630
Operating income	93,990	232,514	176,627
Gain on sale of subsidiary stock		(56,103)	(65,721)
Interest expense	68,112	83,561	77,465
Interest income	(6,078)	(7,295)	(15,132)
Income before income taxes	31,956	212,351	180,015
Income taxes	26,925	38,893	37,838
Net income	$ 5,031	$ 173,458	$ 142,177
Net Income Per Share of Common Stock	$ .00	$ 1.26	$ 1.06

See Notes to Consolidated Financial Statements

Years ended September 30, *(In thousands of dollars)*	1992	1991	1990
Cash flows from operating activities:			
Net income	$ 5,031	$ 173,458	$ 142,177
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	124,394	110,996	98,086
Other assets and debt discount	41,608	42,289	27,063
Unusual charges-net	79,190	62,946	66,846
Gain on sale of subsidiary stock		(56,103)	(65,721)
Gain on disposal of assets	(15,670)	(9,151)	(3,742)
Change in receivables	6,359	(45,765)	(55,906)
Change in inventories	(26,296)	(36,660)	(19,335)
Change in accounts payable-trade	12,968	(12,509)	40,510
Changes in other current assets and liabilities	(91,908)	(86,860)	(71,173)
Changes in other noncurrent assets and liabilities	(51,012)	(21,312)	(20,560)
Foreign currency translation loss-net	960	2,402	5,776
Net cash flows from operating activities	85,624	123,731	144,021
Cash flows from investing activities:			
Property additions	(137,875)	(161,203)	(132,784)
Proceeds from disposal of assets	32,240	40,642	35,274
Proceeds from sale of subsidiary stock		94,975	198,797
Proceeds from disposition of businesses	50,722	20,000	14,000
Acquisition of equity securities		(4,000)	
Acquisitions of businesses, net of cash acquired	(197,006)	(136,103)	(674,562)
Net cash flows from investing activities	(251,919)	(145,689)	(559,275)
Cash flows from financing activities:			
Proceeds from issuance of common stock	168,913		264,386
Purchase of common stock	(168,825)		
Proceeds from issuance of notes	246,595		
Proceeds from borrowings	343,222	95,305	325,241
Repayment of matured indebtedness	(77,835)		
Redemption of debentures	(98,842)		
Reduction of borrowings	(231,056)	(101,238)	(143,090)
Proceeds from exercise of stock options and stock purchase grants	11,908	16,153	32,871
Cash dividends	(67,124)	(63,405)	(64,620)
Net cash flows from financing activities	126,956	(53,185)	414,788
Effect of exchange rate changes on cash	(5,678)	2,267	9,365
(Decrease) increase in cash and short-term investments	(45,017)	(72,876)	8,899
Cash and short-term investments, beginning of year	51,709	124,585	115,686
Cash and short-term investments, end of year	$ 6,692	$ 51,709	$ 124,585

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, *(In thousands of dollars)*	1992	1991
Current Assets:		
Cash and short-term investments, at cost, which approximates market value	$ 6,692	$ 51,709
Receivables-less allowance for doubtful accounts: 1992, $26,880; 1991, $33,446	632,726	606,130
Inventories:		
Finished goods	501,288	442,864
Work in process	78,021	80,069
Raw materials	113,792	113,024
Total inventories	693,101	635,957
Prepaid expenses and other current assets	28,465	63,880
Total current assets	1,360,984	1,357,676
Property:		
Land	44,529	41,651
Buildings	315,111	304,178
Machinery and equipment	730,399	718,936
Rental tools and equipment	488,153	420,620
Total property	1,578,192	1,485,385
Accumulated depreciation	(858,838)	(842,656)
Property-net	719,354	642,729
Other assets:		
Property held for disposal	78,797	66,796
Investments	98,493	90,415
Long-term notes receivable	23,095	23,413
Other assets	74,702	58,426
Excess costs arising from acquisitions-less accumulated amortization: 1992, $67,016; 1991, $44,304	857,513	666,147
Total other assets	1,132,600	905,197
Total	$ 3,212,938	$ 2,905,602

See Notes to Consolidated Financial Statements

September 30, *(In thousands of dollars)*	1992	1991
Current Liabilities:		
Accounts payable-trade	$ 281,196	$ 260,711
Short-term borrowings	7,161	25,657
Current portion of long-term debt	19,275	75,962
Accrued employee compensation and benefits	122,141	134,123
Income taxes payable	41,660	39,835
Accruals relating to unusual charges	51,571	36,252
Taxes other than income	21,314	21,027
Accrued insurance	28,088	25,346
Accrued interest	11,942	19,772
Other accrued liabilities	61,164	66,587
Total current liabilities	645,512	705,272
Long-term debt	812,465	545,242
Deferred income taxes	61,603	61,039
Other long-term liabilities	44,424	44,980
Minority interest	3,412	3,708
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $1 par value (authorized and outstanding 4,000,000 shares in 1992 of $3.00 convertible preferred stock; $50 liquidation preference per share)	4,000	
Common stock, $1 par value (authorized 400,000,000 shares; outstanding 138,624,000 shares in 1992, and 138,396,000 shares in 1991)	138,624	138,396
Capital in excess of par value	1,418,857	1,256,325
Retained earnings	176,517	239,610
Cumulative foreign currency translation adjustment	(92,476)	(88,970)
Total stockholders' equity	1,645,522	1,545,361
Total	$ 3,212,938	$ 2,905,602

See Notes to Consolidated Financial Statements

For the three years ended September 30, 1992 *(In thousands of dollars)*	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, 1989	$ 1,999	$ 120,435	$ 918,044	$ 52,000	$ (89,098)	$1,003,380
Net income				142,177		142,177
Cash and accrued dividends on $3.50 convertible exchangeable preferred stock ($3.50 per share)				(6,245)		(6,245)
Cash dividends on common stock ($.46 per share)				(58,375)		(58,375)
Foreign currency translation adjustment					5,712	5,712
Stock issued pursuant to employee stock plans		2,486	30,385			32,871
Redemption of $3.50 convertible exchangeable preferred stock	(1,999)	3,920	(1,921)			
Issuance of common stock warrants			36,800			36,800
Issuance of common stock		10,350	254,036			264,386
Other		266	3,313			3,579
Balance, September 30, 1990		137,457	1,240,657	129,557	(83,386)	1,424,285
Net income				173,458		173,458
Cash dividends on common stock ($.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 common stock		(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

See Notes to Consolidated Financial Statements

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

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

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

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

Income taxes: Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes," which changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the statement of financial position. Deferred income tax assets and liabilities arise from differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. Deferred tax balances are calculated by using the tax rate currently enacted to determine the amount of taxes payable or refundable in future years. The cumulative effect of the change in accounting for income taxes was insignificant. In prior years, the Company accounted for income taxes using Accounting Principles Board Opinion No. 11.

Income per share: Income per share amounts are based on the weighted average number of shares outstanding during the respective years (138,599,000 in 1992, 137,817,000 in 1991, 128,319,000 in 1990) and excludes the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income used to compute income per share is adjusted for dividends on preferred stock in 1992 and 1990.

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

NOTE 2

ACQUISITIONS AND DISPOSITIONS:

On October 29, 1991, the Company sold the Eastern Hemisphere operations of Baker Hughes Tubular Services ("BHTS"), a wholly owned subsidiary of the Company, to Tuboscope Corporation ("Tuboscope") for total consideration of $75,686,000. The consideration consisted of $50,722,000 in cash, 1,686,047 shares of Tuboscope common stock and $10,000,000 of Tuboscope convertible preferred stock. The Company recognized a gain on the sale of $31,882,000 in the first quarter of fiscal 1992. On September 30, 1992, the Company sold the Western Hemisphere operations of BHTS to ICO, Inc. ("ICO") for $11,262,000 in promissory notes varying in maturities from one to seven years and a warrant entitling the Company to purchase four million shares of ICO common stock at

$.75 per share. The net proceeds from the sale approximated the carrying value of the Western Hemisphere operations after recognition of the current year unusual charges (see Note 3).

On April 23, 1992, the Company acquired all of the outstanding shares of Teleco Oilfield Services Inc. ("Teleco") from Sonat Inc. for $349,400,000. The purchase price was funded with $17,700,000 in available cash, $182,300,000 of proceeds from commercial paper borrowings, 4,000,000 shares of 6.0% convertible preferred stock with a face value of $200,000,000 (estimated fair market value at date of acquisition of approximately $149,400,000 - see Note 6), 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.

The following unaudited pro forma information presents the consolidated results of operations, assuming the acquisition of Teleco had occurred at the beginning of each of the following periods:

Year Ended September 30, *(In millions of dollars, except per share amounts)*	1992	1991
Revenues	$ 2,616.5	$ 2,977.2
Net income (loss)	(14.9)	122.3
Net income (loss) per common share	(.19)	.80

The above amounts are based upon certain assumptions and estimates which the Company believes are reasonable. The pro forma results do not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

On August 6, 1992, the Company purchased from Borg-Warner Corporation ("B-W") a subsidiary of B-W, whose only asset was 8,300,000 shares of the Company's common stock. Total consideration paid to B-W was $168,825,000. All of the funds for the purchase were raised through a public offering by the Company of 7,600,000 shares of its common stock at a price of $22.25 per share. Net proceeds from the offering were $168,913,000. The Company does not intend to reissue any of the shares purchased in this transaction and accordingly, the 8,300,000 shares have been treated as having been constructively retired for financial reporting purposes.

On October 18, 1990, the Company acquired all of the outstanding shares of the ChemLink Group, Inc. ("ChemLink"), a privately held company, for $136,103,000. The purchase price was funded with $32,603,000 in available cash and $103,500,000 of proceeds from short-term borrowings. ChemLink is a leading supplier of specialty chemical products and services for oil production, petroleum pipelines and industrial processes.

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

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

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

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

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

During each of the three years in the period ended September 30, 1992, the Company acquired and disposed of several additional businesses, none of which, individually or in the aggregate, had a significant effect on the Company's consolidated results of operations for any of the periods presented.

NOTE 3

UNUSUAL CHARGES-NET:

During fiscal 1992, the Company recognized $79,190,000 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, a subsidiary of the Company. With regard to 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 fiscal year 1992, the Company recognized charges to operations for the estimated costs and losses to be incurred in connection with these actions. In response to further structural changes in the U.S. oilfield, in the third quarter of the fiscal year, the Company recognized a $7,000,000 impairment of value of the BHTS Western Hemisphere operations.

During the quarter ended June 30, 1992, the Company, in response to the structural changes in the U.S. oilfield and as a result of the Teleco acquisition, recognized unusual charges totalling $79,300,000. The costs associated with the integration of the Teleco operations accounted for $25,300,000 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 $30,100,000 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 it's 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, a wholly owned subsidiary of the Company. These transactions are discussed in detail in Note 12.

During fiscal 1991, the Company recognized $62,946,000 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., a wholly owned subsidiary of the Company.

With regard to the judgment against the Company and its former subsidiary, BJ Services, as discussed in Note 12, in the first quarter of 1991 the Company revised its estimate of the ultimate cost for the disposition of this suit through appeal or settlement. Based upon additional complexities of the suit and the expected longevity of the appeals process, the Company 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 $52,200,000 unusual charge which relates primarily to a restructuring of the domestic rockbit manufacturing operations of HCC. The restructuring includes a writedown of nonproductive facilities and machinery and provision for other costs.

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

NOTE 4

GAIN ON SALE OF SUBSIDIARY STOCK:

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

NOTE 5

INDEBTEDNESS:

Long-term debt at September 30, 1992 and 1991 consisted of the following:

(In thousands)	1992	1991
Commercial Paper with an average interest rate at September 30, 1992 of 3.59%	$ 186,015	
7.625% Notes due February 15, 1999 with an effective interest rate of 7.73%, net of unamortized discount of $1,693	148,307	
8% Notes due May 15, 2004 with an effective interest rate of 8.08%, net of unamortized discount of $1,516	98,484	
Zero Coupon Guaranteed Notes due 1992 with an effective interest rate of 14.48%, net of unamortized discount of $4,405 in 1991		$ 73,430
6% Debentures due 2002 with an effective interest rate of 14.66%, net of unamortized discount of $98,595 ($103,255 in 1991)	126,405	121,745
4.125% Swiss Franc 200 million Bonds due 1996 (principal and interest payments hedged through a currency swap at an effective interest rate of 7.82%)	105,873	105,199
Revolving Credit Facilities due through 1995 with an average interest rate of 8.27% at September 30, 1992	121,111	172,674
9% Debentures due November 1, 2008	18,051	18,042
9.5% Convertible Subordinated Debentures due December 15, 2006		98,332
Convertible Subordinated Debentures due through 2001 with an average interest rate at September 30, 1992 of 4.01%	16,536	17,218
Other indebtedness with an average interest rate of 9.33% at September 30, 1992	10,958	14,564
Total	831,740	621,204
Less current maturities	19,275	75,962
Total long-term debt	$ 812,465	$ 545,242

At September 30, 1992, the Company had $627,863,000 of revolving credit facilities with commercial banks, of which $413,351,000 is committed. Included in the Company's committed facilities are revolving credit agreements signed in July 1989 aggregating $300,000,000 with twenty foreign and domestic banks which have maturity dates of July 17, 1994. The rate of interest on borrowings under these arrangements is 3/8% in excess of the London Interbank Offered Rate (LIBOR) for U.S. dollar deposits with a commitment fee of 1/8% per annum on the unused portion. At September 30, 1992, there was $27,680,000 outstanding under these agreements. The Company also has committed facilities with maturity dates through March 1995 totalling $113,351,000 with five foreign banks denominated in foreign currencies. At September 30, 1992, borrowings under these facilities totalled $26,910,000. The Company maintains, at all times, unused committed bank lines of credit at least equal to the principal amount of its outstanding commercial paper and money market borrowings.

September 30, 1992, there was $67,279,000 outstanding under certain of these agreements. There are no requirements for commitment fees or compensating balances in connection with these agreements.

On February 18, 1992, the Company issued $150,000,000 of 7.625% fixed rate notes due February 15, 1999. Net proceeds to the Company were $148,156,000, of which $77,835,000 was used to repay the Company's Zero Coupon Guaranteed Notes which matured on February 25, 1992. The remaining proceeds along with the proceeds from the issuance of commercial paper were used to refinance the redemption of the Company's 9.5% Convertible Subordinated Debentures in the amount of $98,842,000 called on February 25, 1992, at a redemption price of 100.86% of the outstanding principal amount plus accrued and unpaid interest of $1,800,000 to February 25, 1992. On February 21, 1992, the Company entered into interest exchange agreements reducing the fixed rate indebtedness on the 7.625% Notes discussed above to an effective interest rate of 5.98% at September 30, 1992. These agreements effectively change the nature of the fixed rate on this debt to a short-term variable rate over the two-year term of the agreements, during which the rates will be adjusted at six month intervals. The differential paid or received on interest exchange agreements is recognized as an adjustment to interest expense. In the unlikely event that the counterparties fail to meet the terms of an interest exchange agreement, the Company's exposure is limited to the interest rate differential.

The 4.125% Swiss Franc 200.0 million Bonds ("SFr Bonds") 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 SFr Bonds 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 SFr Bonds.

On May 13, 1992, the Company issued $100,000,000 of 8% fixed rate notes due May 15, 2004. Net proceeds to the Company were $98,439,000, which were used to repay commercial paper borrowings undertaken for the acquisition of Teleco.

Redemption of the 6% Debentures due 2002 may be made at the option of the Company, in whole or in part, at any time at par plus accrued interest.

On December 2, 1992, the Company plans to redeem in full its 9% Debentures due November 1, 2008 at a redemption price equal to 103.52%, together with interest accrued and unpaid.

The provisions of the bonds and unsecured credit agreements have an effect on the ability of the Company to, among other things, incur borrowings, sell certain assets, pay cash dividends, acquire other businesses and purchase the Company's capital stock. At September 30, 1992, the Company could pay dividends and purchase the Company's common stock up to an amount not exceeding $443,570,000.

At September 30, 1992, long-term debt was due or planned for redemption in aggregate annual installments of $20,300,000; $311,483,000; $4,716,000; $107,642,000; and $3,846,000 in each of the five years in the period ending September 30, 1997.

During the three years ended September 30, 1992, the maximum aggregate short-term borrowings outstanding at any month-end were $21,701,000, $40,703,000 and $29,840,000, respectively; the average aggregate short-term borrowings outstanding based on quarter-end balances were $9,290,000, $26,182,000 and $20,157,000, respectively; and the weighted average interest rates were 16.3%, 15.4% and 16.6%, respectively. The average interest rates on short-term borrowings outstanding at September 30, 1992, 1991 and 1990 were 13.1%, 17.5% and 13.1%, respectively. Throughout the year ended September 30, 1992, substantially all of the Company's short-term borrowings were outside of the United States and denominated in currencies other than the U.S. dollar. A portion of such borrowings were in high inflation rate countries in Latin America. These borrowings are used primarily as a means of hedging the Company's exposure to fluctuations in these countries' currencies.

NOTE 6

PREFERRED STOCK:

In April 1992, the Company issued 4,000,000 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 (see Note 2). 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 (equivalent to a conversion rate of 1.54 shares of common stock for each share of preferred stock).

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 from the date of original issuance. Such dividends are payable quarterly as declared by the Board of Directors.

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

NOTE 7

EMPLOYEE STOCK PLANS:

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

The stock option activity for the Company during 1992, 1991 and 1990 was as follows:

Number of Shares *(In thousands)*	1992	1991	1990
Stock options outstanding, beginning of year	2,121	2,184	3,602
Changes during the year:			
Granted (per share):			
1992, $19.17 to $25.00	1,022		
1991, $28.50		606	
1990, $21.95 to $25.88			696
Exercised (per share):			
1992, $10.25 to $21.95	(264)		
1991, $10.25 to $28.50		(550)	
1990, $10.25 to $25.78			(2,004)
Expired	(153)	(119)	(110)
Stock options outstanding, end of year (per share: $10.25 to $28.50 at September 30, 1992)	2,726	2,121	2,184

At September 30, 1992, options were exercisable for 1,653,000 shares, and 2,592,000 shares were available for future option grants.

Additionally, the Company has a plan which provides for the sale of convertible debentures to certain officers and key employees. An aggregate of $30,000,000 principal amount of debentures may be issued under the plan which are convertible into shares of common stock after one year. At September 30, 1992, a total of $16,536,000 principal amount of debentures are outstanding and convertible into 1,045,000 shares of common stock at $10.25 to $28.50 per share.

The Company also has an Employee Stock Purchase Plan (the "Plan") under which there remain authorized and available for sale to employees an aggregate of 1,489,000 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 584,000 shares will be purchased under the Plan on July 31, 1993, at $19.02 per share. Under the Plan, 439,000, 358,000 and 479,000 shares were issued at $19.34, $22.31 and $17.00 per share during 1992, 1991 and 1990, respectively.

NOTE 8

INCOME TAXES:

The geographical sources of income before income taxes for the three years ended September 30, 1992 are as follows:

(In thousands of dollars)	1992	1991	1990
United States	$ (49,185)	$ 98,141	$ 79,696
Foreign	81,141	114,210	100,319
Total income before income taxes	$ 31,956	$ 212,351	$ 180,015

The provisions (credits) for income taxes for the three years ended September 30, 1992 are summarized as follows:

(In thousands of dollars)	1992	1991	1990
Currently payable:			
United States	$ 3,124	$ 3,003	$ 721
Foreign	29,298	44,401	41,018
Total currently payable	32,422	47,404	41,739
Deferred-U.S.	(8,248)		
Deferred-foreign	2,751	(8,511)	(3,901)
Total deferred	(5,497)	(8,511)	(3,901)
Total provision for income taxes	$ 26,925	$ 38,893	$ 37,838

In accordance with SFAS No. 96, the Company reported the tax benefit of the utilization of operating loss carryforwards in the provision for income taxes for 1991 and 1990.

The consolidated effective income tax rates for the three years ended September 30, 1992 varied from the United States statutory income tax rate for the reasons set forth below:

% of Income Before Taxes	1992	1991	1990
Statutory income tax rate	34.0	34.0	34.0
Goodwill amortization	18.7	2.8	1.5
Utilization of operating loss carryforwards		(17.9)	(15.8)
Utilization of capital loss carryforwards	(11.6)		
Effect of unusual charges for which benefit is not recognizable	46.4		
Gain on sale of subsidiary stock		(9.0)	(6.6)
State taxes based on income - net of United States income tax benefit	6.4	.7	.3
Internal Revenue Service settlement	(25.8)		
Foreign earnings at varying tax rates	9.8	6.9	6.4
Other-net	6.4	.8	1.2
Effective income tax rate	84.3	18.3	21.0

The sources and amounts of deferred taxes for the three years ended September 30, 1992 were as follows:

(In thousands of dollars)	1992	1991	1990
Depreciation expense	$ (1,674)	$ 8,651	$ (2,608)
Inventory valuations-net	(2,980)	(5,232)	(3,216)
Unusual charges	(660)	(3,320)	(359)
Foreign exchange effect on historical assets	39	(7,879)	(3,079)
Zero coupon bonds		(5,895)	508
Internal Revenue Service settlement	(8,248)		
Other-net	8,026	5,164	4,853
Total deferred tax provision	$ (5,497)	$ (8,511)	$ (3,901)

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

In 1991, the Company utilized approximately $111,750,000 of U.S. operating loss carryforwards for financial reporting purposes. The related tax benefit of $37,995,000 has been reflected in the provision for income taxes. At September 30, 1992, the Company had approximately $142,788,000 of U.S. operating loss carryforwards remaining for financial reporting purposes, which expire in varying amounts between 2001 and 2007.

In 1992, the Company utilized approximately $10,890,000 of U.S. capital loss carryforwards for financial reporting purposes and the related tax benefit of $3,703,000 has been reflected in the provision for income taxes. At September 30, 1992, the Company had capital loss carryforwards of approximately $38,100,000, which expire in varying amounts between 1993 and 1995.

At September 30, 1992, the Company had approximately $21,519,000 of general business credits and $7,827,000 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 2007. The general business credit and alternative minimum tax credit carryforwards have not been recognized for financial reporting purposes. The Company had approximately $28,332,000 of foreign tax credits available to offset future payments of federal income taxes at September 30, 1992. If not used, the foreign tax credits expire in varying amounts between 1993 and 1997. The foreign tax credit carryforwards have not been recognized for financial reporting purposes.

At September 30, 1992, the Company had realized for tax purposes approximately $56,238,000 in deductions relating primarily to the exercise of employee stock options. The related tax benefit of $19,121,000 will be included as an increase to capital in excess of par upon the final realization of the U.S. operating loss and tax credit carryforwards.

The Company has not provided deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings of approximately $380,000,000 at September 30, 1992, if remitted, would not result in material additional U.S. income taxes.

During 1992, the Company reached a tentative settlement with the Internal Revenue Service to resolve all pending income tax issues for the 1978 through 1986 tax years. As a result of the tentative settlement, the Company revised its estimates of accrued income taxes and related interest expense. Accordingly, the reversal of accrued income taxes had the effect of increasing net income by $8,248,000.

Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes", was issued by the Financial Accounting Standards Board in February 1992. The statement requires an asset and liability approach for financial accounting and reporting of income taxes. The Company intends to adopt SFAS No. 109 in 1994 without restatement of prior years. Upon adoption, the Company expects to recognize to a greater degree the tax benefits related to expenses already recognized in the financial statements, as well as, various tax credit carryforwards which could not be recognized under SFAS No. 96. However, the net effect on the Company's financial statements of the new method of income tax accounting cannot be accurately determined at this time.

NOTE 9

INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION:

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

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

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

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

Disposed Businesses: The disposed businesses segment information includes the results of significant operations that were sold or discontinued during the three years presented. As discussed in Note 2, the Company sold the Eastern Hemisphere operations of BHTS in October 1991 and the remaining Western Hemisphere operations in September 1992. Additionally, in the first quarter of fiscal 1992, the Company discontinued the HCC Argentina operations. The 1992 segment information reflects the gain on sale of the Eastern Hemisphere operations and the impact of the unusual charges recognized on the Western Hemisphere operations and the HCC Argentina operations (see Note 3). Also discussed in Note 2, in November 1990 the Company sold the assets of the TOTCO division and accordingly, the 1991 segment information includes two months of TOTCO's operations as well as the gain realized on the sale. In July 1990, the Company sold 71% of its investment in BJ Services and accordingly, the 1990 segment information includes ten months of pumping services operations. The segment information for 1991 and 1990 includes the charges to operations for the lawsuit against BJ Services (see Note 12). In addition, the Company disposed of several other businesses which are included herein. Prior years segment information has been reclassified to conform with the 1992 presentation.

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

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1992, 1991 and 1990 and for each of the years then ended is shown in the following tables:

(In thousands of dollars)	Drilling	Production	Total Petroleum	Process	Disposed Businesses	Elimi- nations	Total
Operations by Industry Segment:							
1992							
Revenues from unaffiliated customers:							
Sales	$ 487,971	$ 750,772	$ 1,238,743	$ 601,028			$ 1,839,771
Services and rentals	396,653	254,504	651,157	47,587			698,744
Intersegment sales	1,649	7,791	9,440	4,620		$ (14,060)	
Total revenues	$ 886,273	$ 1,013,067	$ 1,899,340	$ 653,235		$ (14,060)	$ 2,538,515
Operating profit (loss)	$ (2,985)	$ 103,306	$ 100,321	$ 26,035	$ (6,682)		$ 119,674
Identifiable assets	$ 1,585,877	$ 933,986	$ 2,519,863	$ 461,512	$ 36,208	$ (4,031)	$ 3,013,552
Capital expenditures	$ 71,216	$ 50,105	$ 121,321	$ 16,105		$ 449	$ 137,875
Depreciation and amortization	$ 84,099	$ 47,040	$ 131,139	$ 23,885		$ 1,019	$ 156,043
1991							
Revenues from unaffiliated customers:							
Sales	$ 561,280	$ 746,044	$ 1,307,324	$ 632,511	$ 49,501		$ 1,989,336
Services and rentals	413,825	282,745	696,570	44,546	97,905		839,021
Intersegment sales	4,443	9,732	14,175	5,513	1,309	$ (20,997)	
Total revenues	$ 979,548	$ 1,038,521	$ 2,018,069	$ 682,570	$ 148,715	$ (20,997)	$ 2,828,357
Operating profit	$ 45,799	$ 156,207	$ 202,006	$ 51,268	$ 10,724		$ 263,998
Identifiable assets	$ 1,215,932	$ 886,376	$ 2,102,308	$ 441,859	$ 111,705	$ (5,231)	$ 2,650,641
Capital expenditures	$ 71,758	$ 60,483	$ 132,241	$ 20,616	$ 6,990	$ 1,356	$ 161,203
Depreciation and amortization	$ 62,202	$ 45,306	$ 107,508	$ 21,059	$ 9,144	$ 1,211	$ 138,922
1990							
Revenues from unaffiliated customers:							
Sales	$ 489,102	$ 563,300	$ 1,052,402	$ 557,864	$ 249,127		$ 1,859,393
Services and rentals	248,014	241,395	489,409	27,585	237,870		754,864
Intersegment sales	2,707	8,481	11,188	3,112	2,142	$ (16,442)	
Total revenues	$ 739,823	$ 813,176	$ 1,552,999	$ 588,561	$ 489,139	$ (16,442)	$ 2,614,257
Operating profit	$ 27,786	$ 108,055	$ 135,841	$ 54,709	$ 24,389		$ 214,939
Identifiable assets	$ 1,217,409	$ 657,077	$ 1,874,486	$ 423,840	$ 169,713	$ (4,712)	$ 2,463,327
Capital expenditures	$ 52,736	$ 37,074	$ 89,810	$ 17,222	$ 22,552	$ 3,200	$ 132,784
Depreciation and amortization	$ 47,972	$ 34,767	$ 82,739	$ 14,593	$ 14,459	$ 503	$ 112,294

(In thousands of dollars)	Western Hemisphere United States	Western Hemisphere Other	Eastern Hemisphere Europe	Eastern Hemisphere Other	Eliminations	Total
Operations by Geographic Area:						
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
1990						
Revenues from unaffiliated customers:						
Sales	$ 980,374	$ 269,819	$ 313,866	$ 295,334		$ 1,859,393
Services and rentals	368,080	76,284	190,755	119,745		754,864
Transfers between geographic areas	122,301	14,931	23,495	4,980	$ (165,707)	
Total revenues	$ 1,470,755	$ 361,034	$ 528,116	$ 420,059	$ (165,707)	$ 2,614,257
Operating profit	$ 29,457	$ 37,148	$ 73,849	$ 74,485		$ 214,939
Identifiable assets	$ 1,564,022	$ 271,462	$ 520,702	$ 253,540	$ (146,399)	$ 2,463,327
Export sales of U.S. companies		$ 68,881	$ 19,990	$ 130,631		$ 219,502

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 $25,684,000, $31,484,000 and $38,312,000 in 1992, 1991 and 1990, 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 $199,386,000, $254,961,000 and $320,617,000 at September 30, 1992, 1991 and 1990, respectively.

NOTE 10

EMPLOYEE BENEFIT PLANS:

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was $2,954,000, $1,028,000 and $1,231,000 for 1992, 1991 and 1990, respectively. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements.

The net pension expense for 1992, 1991 and 1990 included the following components (in thousands):

	1992	1991	1990
Service cost - benefits earned during the period	$ 4,345	$ 3,427	$ 2,978
Interest cost on projected benefit obligation	6,582	5,642	4,980
Actual return on assets	(3,019)	(2,179)	(4,859)
Net amortization and deferral	(4,954)	(5,862)	(1,868)
Net pension expense	$ 2,954	$ 1,028	$ 1,231

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

	1992	1991	1990
Discount rate	9.5%	9.5%	9.0%
Rates of increase in compensation levels	5.5%	5.5%	6.0%
Expected long-term rate of return on assets	9.5%	9.5%	9.0%

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1992 and 1991 (in thousands):

	1992		1991	
Actuarial present value of benefit obligations:	Over-funded Plans	Under-funded Plans	Over-funded Plans	Under-funded Plans
Vested benefit obligation	$ 27,791	$ 18,371	$ 25,553	$ 15,040
Accumulated benefit obligation	$ 27,739	$ 19,429	$ 27,264	$ 15,658
Projected benefit obligation	$ 59,271	$ 26,326	$ 46,144	$ 22,056
Plan assets at fair value	78,029	11,494	65,961	9,532
Projected benefit obligation (in excess of) less than plan assets	18,758	(14,832)	19,817	(12,524)
Unrecognized prior service cost	(58)	107		66
Unrecognized net loss	9,607	2,642	7,091	2,244
Unrecognized net (asset) liability at transition	(18,015)	398	(17,936)	(53)
Prepaid pension cost (pension liability)	$ 10,292	$ (11,685)	$ 8,972	$ (10,267)

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

Additionally, virtually all employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 10% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of $.50 per $1.00 up to 6% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year. Company contributions become fully vested to the employee after five years of employment. The Company's contributions to defined contribution plans including the Thrift Plan amounted to $20,978,000, $20,826,000 and $17,902,000 in 1992, 1991 and 1990, respectively.

The Company also provides certain health care (primarily in the U.S.) and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Company. Costs related to benefits provided for retired employees are expensed as incurred, and for 1992, 1991 and 1990 totalled $8,438,000, $8,934,000 and $9,458,000, respectively.

Statement of Financial Accounting Standards No. 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. Adoption is not required by the Company until fiscal 1994. Over the past two years, the Company has implemented certain changes to its health care plans for employees and retirees in order to reduce this liability prior to the required implementation of the new statement. Other alternatives with respect to retiree health care benefits that could potentially reduce this liability further will continue to be investigated. An actuarial valuation has been prepared to estimate the liability resulting from implementation of the statement at the required date of adoption. The valuation indicates an estimated accumulated postretirement benefit obligation at October 1, 1993 of approximately $138,000,000. Upon adoption of this statement, the Company intends to reflect the effect of the transition liability in net income as a change in accounting principle. The actuarial valuation indicates that expenses for fiscal year 1994 related to these benefits will be approximately $16,800,000 under the accrual method of accounting.

NOTE 11

STOCKHOLDER RIGHTS AGREEMENT AND OTHER MATTERS:

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

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

	1992	1991	1990
Maintenance and repairs	$ 100,481	$ 108,680	$ 91,462
Operating leases (generally transportation equipment and warehouse facilities)	44,899	42,368	38,885
Research and development	48,810	46,574	38,492
Taxes other than payroll and income	21,906	23,446	28,454
Income taxes paid	27,976	31,694	43,091
Interest paid	66,794	75,892	54,605
Net foreign exchange translation losses	960	2,402	5,776

NOTE 12

LITIGATION:

On September 3, 1992, the United States Court of Appeals for the Fifth Circuit vacated a judgment against the Company, a former subsidiary, BJ Services Company USA, Inc. ("BJ") and affiliated parties. The judgment arose from allegations involving intentional product delivery or service variances on a number of well stimulation projects in West Texas for Parker & Parsley Petroleum Co. and certain related parties. On September 8, 1992, Parker & Parsley Petroleum Co. filed a similar lawsuit in the 238th Judicial District Court in Midland, Texas seeking in excess of $120,000,000 in actual and punitive damages. The Company has also agreed, in connection with the initial public offering by BJ, to indemnify it for damages, if any, and costs of litigation arising out of said allegations or similar claims from any other customers prior to the date of the initial public offering.

The Company believes that it has adequate reserves for this matter and the ultimate liability, if any, may be covered by insurance and claims against other parties. The Company has filed suit against codefendants for damages caused by this suit and related matters. The Company is also in litigation with its insurance carriers seeking coverage of the damages in this matter. The Company believes that the ultimate resolution of this matter will not result in a material adverse effect on the Company's financial position.

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

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

On January 2, 1991, the Company and its subsidiary, Hughes Christensen Company, 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. The Company has complied with the subpoena and has otherwise cooperated with the Justice Department.

On July 13, 1992, pursuant to an agreement with the Justice Department, Hughes Christensen Company 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 $1,000,000 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, including 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. The civil plaintiffs allege a conspiracy from September 1986 to January 1992. The Company has filed an answer denying the allegations of the plaintiffs.

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. The same order sets the case for trial in April 1993. Discovery on the merits of the case is in its early stages and quantification of the magnitude of a potential recovery of damages by the plaintiffs, if any, is premature. The Company believes that this claim is without merit and will not result in any material adverse effect on the Company's financial position.

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 connection 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 $7,700,000 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 filed a Notice of Appeal to the United States Court of Appeals for the Fifth Circuit. 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 financial position.

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 financial position of the Company.

NOTE 13

COMMITMENTS AND CONTINGENCIES:

At September 30, 1992, 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, 1997 were $30,258,000, $24,078,000, $17,133,000, $12,255,000 and $10,472,000, respectively, and $71,134,000 in the aggregate thereafter. The Company has not entered into any significant capital leases.

NOTE 14

QUARTERLY DATA (UNAUDITED):

Summarized quarterly financial data for the years ended September 30, 1992 and 1991 are shown in the table below:

(In thousands of dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Total
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 taxes	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 share	.18	.13	(.46)	.15	.00
Dividends per common share	.115	.115	.115	.115	.46
Fiscal Year 1991: *					
Revenues	$ 683,833	$ 705,884	$ 708,862	$ 729,778	$ 2,828,357
Gross Profit**	127,059	134,399	134,156	149,679	545,293
Income before income taxes	46,363	51,574	56,110	58,304	212,351
Net income	36,296	40,382	45,113	51,667	173,458
Net income per share	.26	.29	.33	.38	1.26
Dividends per common share	.115	.115	.115	.115	.46

* See Note 3 for information regarding 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.

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

		Baker Hughes Incorporated Common Stock	
	Quarter Ended	High	Low
1991	12-31-90	$ 29.88	$ 24.13
	3-31-91	31.00	20.75
	6-30-91	30.25	22.13
	9-30-91	27.50	22.25
1992	12-31-91	$ 26.00	$ 17.88
	3-31-92	21.38	16.38
	6-30-92	24.13	15.88
	9-30-92	25.38	19.13

(In thousands of dollars, except per share amounts)	1992	1991	1990	1989	1988
Summary of operations:					
Total revenues	$2,538,515	$2,828,357	$2,614,257	$2,327,995	$2,316,151
Costs and expenses:					
Costs and expenses applicable to revenues	2,132,928	2,283,064	2,138,481	1,944,742	1,964,180
General and administrative	232,407	249,833	232,303	214,436	213,358
Unusual charges (credits) - net	79,190	62,946	66,846		(47,475)
	2,444,525	2,595,843	2,437,630	2,159,178	2,130,063
Operating income	93,990	232,514	176,627	168,817	186,088
Gain on sale of subsidiary stock		(56,103)	(65,721)		
Interest expense	68,112	83,561	77,465	60,037	71,024
Interest income	(6,078)	(7,295)	(15,132)	(8,808)	(9,562)
Pension gains - net					(6,000)
Income before income taxes and extraordinary item	31,956	212,351	180,015	117,588	130,626
Income taxes	26,925	38,893	37,838	34,837	71,235
Income before extraordinary item	5,031	173,458	142,177	82,751	59,391
Extraordinary item				2,272	43,856
Net income	$ 5,031	$ 173,458	$ 142,177	$ 85,023	$ 103,247
Income per share before extraordinary item	$ .00	$ 1.26	$ 1.06	$ .64	$ .45
Dividends per share of common stock	$ .46	$ .46	$ .46	$ .46	$ .46
Financial position:					
Cash and short-term investments	$ 6,692	$ 51,709	$ 124,585	$ 115,686	$ 67,823
Working capital	$ 715,472	$ 652,404	$ 676,383	$ 620,017	$ 592,134
Total assets	$3,212,938	$2,905,602	$2,783,944	$2,065,920	$2,117,526
Long-term debt	$ 812,465	$ 545,242	$ 611,501	$ 417,045	$ 440,007
Stockholders' equity	$1,645,522	$1,545,361	$1,424,285	$1,003,380	$ 961,488

See Notes 1, 2 and 3 of Notes to Consolidated Financial Statements for the Company's change in its method of accounting for income taxes in 1990, significant acquisitions and dispositions and unusual charges.

BAKER HUGHES INCORPORATED

OFFICERS

James D. Woods
Chairman, President and Chief Executive Officer

Stephen T. Harcrow
Senior Vice President and President of EnviroTech

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

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

Arthur T. Downey
Vice President,
Government Affairs

G. S. Finley
Vice President and Controller

Eric L. Mattson
Vice President and Treasurer

Franklin Myers
Vice President and
General Counsel

Lawrence O'Donnell III
Deputy General Counsel and
Corporate Secretary

Phillip A. Rice
Vice President, Human Resources

Ronald G. Turner
Vice President

BAKER HUGHES DRILLING TECHNOLOGIES
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Develco
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Eastman Teleco Company
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EXLOG, Inc.
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St. Louis, Missouri
William M. Stuart, President

EnviroTech Pumpsystems b.v.
Veulo, Holland
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EnviroTech Specialty Pumps
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Bird Machine Company
South Walpole, Massachusetts
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EIMCO Process Equipment Company
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Lewis J. Ribich, President

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Round Rock, Texas
Mark Whitman, President

Tracor Europa
Bilthoven, The Netherlands
Arend Politiek, General Manager

Tremetrics, Inc.
Austin, Texas
Dr. Patrick Y. Howard, General Manager

CORPORATE INFORMATION

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

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

Independent Accountants:
Deloitte & Touche
Houston, Texas

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

Annual Meeting:
The Company's Annual Meeting of Stockholders will be held at 11:00 AM on January 27, 1993 at The Doubletree Hotel at Post Oak, 2001 Post Oak Boulevard, Houston, Texas

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

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

1. John F. Maher 2. Richard M. Bressler 3. Harry M. Conger 4. Gordon M. Anderson 5. Joe B. Foster 6. Lester M. Alberthal, Jr. 7. James D. Woods 8. Eunice M. Filter 9. Jack S. Blanton 10. Kenneth L. Lay 11. Donald C. Trauscht 12. Victor G. Beghini

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

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

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

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

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

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

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

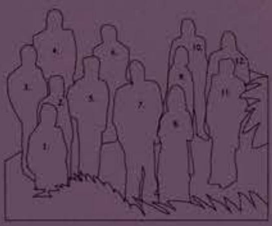
Kenneth L. Lay
Chairman and Chief Executive Officer of Enron Corp. (Diversified Energy)

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

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

Donald C. Trauscht
President and Chief Executive Officer of Borg-Warner Corporation (Diversified Products and Services)

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



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HUGHES