

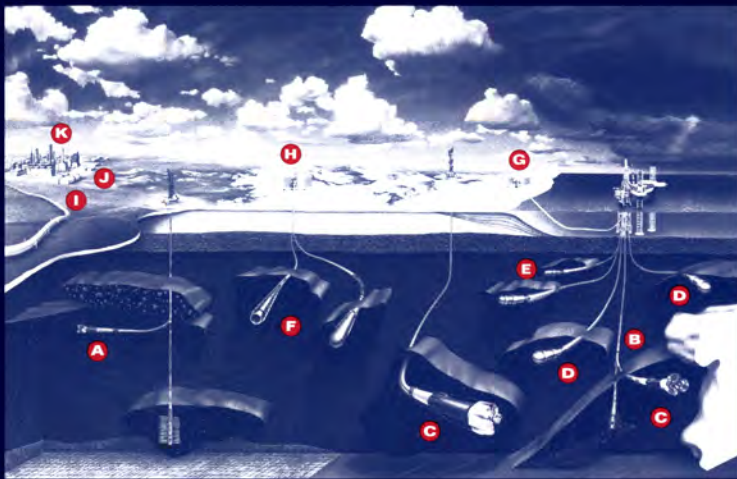
BAKER HUGHES INCORPORATED

Nineteen Ninety-five Annual Report



COMPANY PROFILE

Baker Hughes Incorporated is a leading provider of products and services for the worldwide petroleum and continuous process industries. Through its five oilfield companies, Baker Hughes provides products and services for the drilling, completion, and production of oil and gas wells. Its process equipment operations manufacture and market specialty equipment for a variety of process applications.



This year's cover illustration depicts Baker Hughes technology being applied to help produce, transport and refine hydrocarbons. Horizontal re-entry technology (A) helps operators boost production from existing wells. Milling, fishing and whipstock systems provide efficient exit from old-well casing strings (B). Drilling systems comprised of advanced drill bits, down-hole motors, measurement-while-drilling tools and drilling fluids (C) assure efficient, accurate placement of wells in their geologic targets. Completion systems (D) including packers, screens, inflatable elements, flow control equipment and gravel packing processes match the right completion to the reservoir. Multilateral wells (E) combine drilling and completion technology for more efficient reservoir development. Electric submersible pumps (F) efficiently lift oil where natural pressure reservoir drive is too low to achieve optimum production rates. Problems like corrosion, scale and paraffin are prevented or remedied with oilfield chemicals (G). Produced oil and water are separated (H) mechanically and with the help of specialty chemicals. Flow enhancing lubricants (I) boost throughput over pipeline systems. Solvent oil dewaxing filters (J) remove and reclaim paraffin from petroleum. Performance chemicals (K) help refiners reduce maintenance costs and add value to their final products.

SELECTED FINANCIAL HIGHLIGHTS

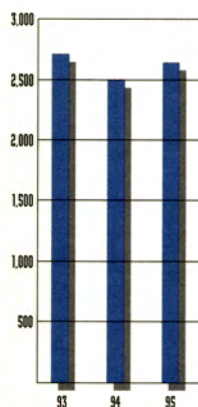
BAKER HUGHES INCORPORATED

Years Ended September 30,

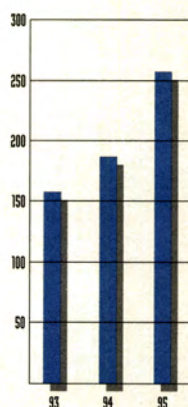
(In thousands, except per share amounts)

	1995	1994	1993
Total revenues	\$2,637,464	\$2,504,758	\$2,701,697
Operating income	255,889	185,884	158,914
Income before extraordinary loss and cumulative effect of accounting changes	119,983	131,142	58,856
Net income	105,385	42,657	58,856
Income per share before extraordinary loss and cumulative effect of accounting changes	.67	.85	.34
Net income per share	.57	.22	.34
Working capital	984,684	855,421	920,969
Total assets	3,166,591	2,999,682	3,143,340
Long-term debt	798,352	637,972	935,846
Stockholders' equity	1,513,606	1,638,472	1,610,648
Debt/equity ratio	.529	.399	.586
Number of shares:			
Outstanding at year end	142,237	140,889	140,437
Average during year	141,215	140,532	139,321
Number of employees	15.2	14.7	18.4

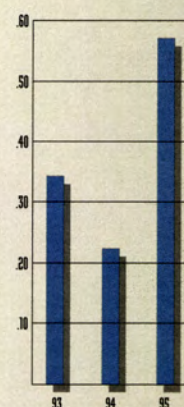
REVENUES
IN MILLIONS



OPERATING INCOME
IN MILLIONS



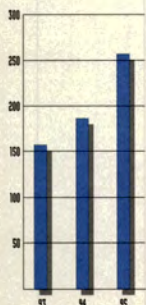
EARNINGS PER SHARE
IN CENTS



BAKER HUGHES AT A GLANCE

Selected Financial Highlights

OPERATING INCOME
IN MILLIONS



PAGE



An interview with Max L. Lukens, President and Chief Operating Officer.

Q: You've been part of the Baker



Hughes organization for more than 15 years. What do you feel are the company's greatest strengths?

A: Baker Hughes has a number of traditional strengths, strengths that made us the company we are today.

We're a technology leader in nearly every product line, particularly those required to construct and maintain an oil or gas well.

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OPERATIONS REVIEW

Hughes Christensen Company

New plant and new technology drive record performance.



Hughes Christensen Company set records for revenues and

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profits in FY 1995.

Baker Oil Tools

Premium products lead to customer solutions. Baker Oil Tools achieved strong results in 1995, despite lower levels of market activity.



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Baker Hughes INTEQ

Integrated concept yields outstanding results.



In FY95 Baker Hughes INTEQ improved profit before tax by 68% over the prior year on revenue growth of 9%.



Integrated Services comprise 24% of Baker Hughes INTEQ's revenue in 1995.

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Letter to the Stockholders

James D. Woods, Chairman and Chief Executive Officer

Fiscal 1995 was a successful year for Baker Hughes and provided a clear indication that our strategic direction is correctly aligned with the long term objectives of our customers.

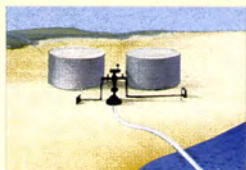


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Baker Hughes Process Equipment Operations

Three division structure is well positioned for growth.



During an excellent year, Baker Hughes Process Equipment Operations increased revenues 15% and earnings rose 41% over 1994 levels. All market sectors grew in 1995. We are committed to grow this business and we continue to review additional acquisition candidates.

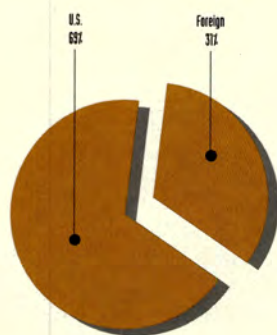
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Baker Performance Chemicals, Incorporated

Growth in international markets.



Baker Performance Chemicals, Incorporated was faced with an extremely difficult market environment in fiscal 1995.



Foreign revenues account for 31% of Baker Performance Chemicals 1995 revenues.

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Centrilift

Momentum from technology leadership.



In fiscal 1995, Centrilift continued its positive momentum of several years. Pretax operating margins remain strong at 14%. Centrilift is the leader in proprietary technology for electrical submersible pumps (ESP), variable speed controllers and cabling for ESP systems.

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

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Fiscal 1995 was a successful year for Baker Hughes and provided a clear indication that our strategic direction is correctly aligned with the long term objectives of our customers. Despite a 2.4% decline in worldwide rig activity, our operational earnings per share increased 41% on revenues from continuing operations that were up 9.5% to \$2.6 billion.

The operating environment for the oilfield service industry has changed markedly over the past three years and a number of new trends are beginning to emerge that will significantly alter the oil service marketplace in the years ahead. One of the key trends is in the accelerating movement towards the concept of integrated services. As increasing numbers of oil companies restructure their internal operations, they require increased support from the service sector in the form of planning, engineering and better integration of products and services. By relying more heavily on one or a small number of service companies and involving them earlier in these processes, major improvements in efficiency can be achieved in drilling, completion and well maintenance activities. These efficiencies serve to lower the cost of a given project while often increasing the ultimate recoverability of reserves, thereby providing a significant improvement in project economics for the operator. Baker Hughes was the first major service company to recognize the potential of the integrated service market, and in 1993 we reorganized our oilfield operations in order to address our customer needs in this area. In 1995 our revenues from integrated services totaled \$275 million, a 130% increase from 1994. We anticipate further rapid growth in this segment and we

are comfortable with our 1993 expectation that integrated services will represent one-third of our oilfield revenues by the turn of the century.

Another trend is in the accelerating pace of the application of new technologies aimed at reducing the finding costs for oil and gas. In this area, new Baker Hughes products and services have had a significant impact. For example, Hughes Christensen launched two new drill bit lines in 1995. These new premium products greatly enhance drilling performance and enabled Hughes Christensen to increase revenues and margins in a period of flat drilling activity. Also introduced in FY95, Baker Hughes INTEQ's NaviGator™ reservoir navigation system marked a significant advance in well positioning accuracy. Based on the precise geosteering capability of this new system, a number of operators are re-evaluating fields which were considered uneconomic before this technology was available. In 1996, we expect new technology—including new drilling motors, MWD systems and our multi-lateral completion technology—to make an even larger contribution to the industry and to Baker Hughes.

I am also pleased to report that our non-oilfield business, Baker Hughes Process Equipment Operations, enjoyed a successful 1995. After completing a strategic analysis in 1993 that led to the divestiture of two of our three non-oilfield groups, we determined the Process Equipment group was a core business with significant market opportunities. In 1995, the group increased revenues 15% to \$320 million with a 41% increase in pretax operating income and finished the year with a strong backlog.

Over the past twelve months, we have also completed several transactions that simplified our capital structure while significantly lowering our cost of capital. The redemption last year of high cost debt and the repurchase of our Convertible Preferred Stock from Sonat Inc. have allowed us to lower our weighted average interest cost to 6.5% while maintaining a strong capital structure.

MANAGEMENT TRANSITION One of the most important tasks for any CEO is to identify and mentor the future leadership of the company. In September of this year, we announced that Max L. Lukens had been promoted to President and Chief Operating Officer of Baker Hughes and will stand for election to the Baker Hughes Board of Directors

at the Annual Meeting in January of 1996. In my forty plus years with Baker Hughes I have had the pleasure to work with many talented and dedicated people, and Max certainly is at the top of this list. I am pleased to transfer the operating leadership of Baker Hughes to Max, a 15-year employee of the company. Max has served in numerous executive positions and has excelled in each of his assignments. He is honest, open, bright and operates with the highest level of integrity. His style and approach are ideally suited to carry

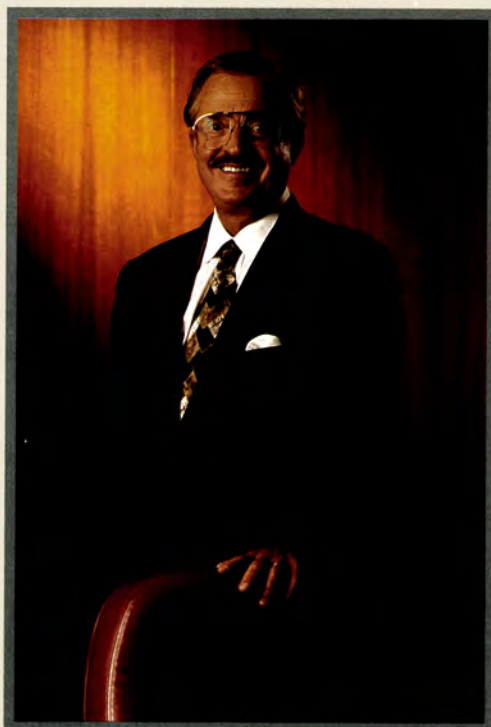
Baker Hughes forward in the ever changing environment we continue to experience. Max's promotion is a key to our overall strategy of maintaining market leadership in our chosen segments of the oilfield service market.

OUTLOOK We will enter fiscal 1996 with considerable momentum from the marketplace combined with the continuing benefits of cost efficiencies throughout our organization. While our outlook for rig activity is flat, we see numerous revenue growth opportunities which we believe will generate increased earnings per share in 1996.

ACKNOWLEDGMENT In accordance with the company's 10 year tenure rule, Gordon M. Anderson will retire from our board this year. We thank Gordon for his insight, guid-

ance and support during a very challenging decade for Baker Hughes and we wish him the best. We are pleased to welcome as a nominee to our Board of Directors in January 1996, Lieutenant General (retired) James F. McCall. General McCall is currently the Executive Director of the American Society of Military Comptrollers, having retired from the U.S. Army in 1991 after thirty-three years of service.

We are appreciative of the hard work and dedication of our employees and we thank the shareholders for their support.



A handwritten signature in black ink that reads "J. D. Woods". The signature is written in a cursive, flowing style.

Q: You've been part of the Baker Hughes organization for more than 15 years. What do you feel are the company's greatest strengths? A: Baker Hughes

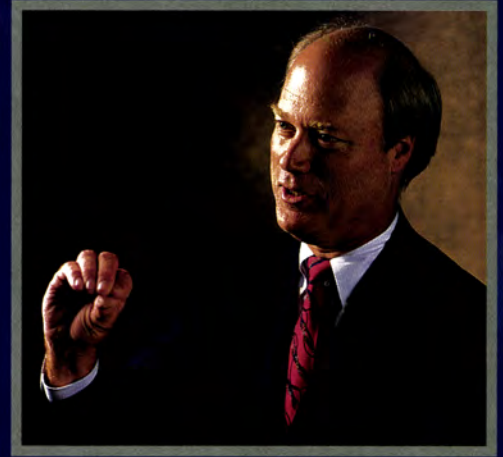
has a number of traditional strengths, strengths that made us the company we are today. We're a technology leader in nearly every product line, particularly those required to construct and maintain an oil or gas well. We have an exemplary, worldwide distribution network, staffed by experts who can apply our technology and solve customer problems. We're the industry leader in Integrated Solutions, so we derive a competitive advantage from our experience at working across technical disciplines to achieve results for our clients. And I believe we are the best business managers in the oilfield service industry, with the discipline to plan our work and measure results. All of these are Baker Hughes traditional strengths, but by themselves they won't enable us to achieve our true potential. We need a new strength which has already taken hold in our culture. **Q: What**

is this new strength at Baker Hughes? A: I call it Team BHI. Team BHI links our people as they've never been connected before. Team BHI has removed the barriers between our operating units and established a renewed spirit of cooperation among employees within and between Baker Hughes divisions. It focuses the resources of Baker Hughes on serving the customer. Team BHI is not just a slogan, it's a means of aligning the organization toward common goals. As part of Team BHI we all have shared risks, shared sacrifices and ultimately shared rewards. **Q: What have been the results of Team BHI to**

date? A: There have been many examples of how Team BHI is working. The outstanding growth in our Integrated Solutions business has largely been based on our ability to cooperate across division lines to meet the needs of the customer. It is now common practice throughout the world for Baker Hughes companies to establish joint facilities, to enhance the synergy between product lines as well as to reduce costs. Our entry into the multi-lateral business is being spearheaded by a team with representatives from the various oilfield companies. The list goes on. This spirit of cooperation has taken hold in almost every functional area within Baker Hughes. I'm very excited about Team BHI and the benefits it will bring to customers, employees and shareholders. Team BHI is at least as important as our new technology. **Q: What new products**

and services do customers seem most excited

about? A: Our customers are looking for ways to improve production from old fields and maximize production from new ones. Baker Hughes can supply complete systems of products and services to address these strategic needs. They involve efficient drilling and very accurate placement of the well in the right target, preventing damage to the payzone once the drill bit enters the reservoir,



and the right completion system to produce the hydrocarbons most effectively. That's why our re-entry systems and multi-lateral technology are so exciting to our customers. We have the technology to help them get the most value from both old and new reservoirs. **Q: When we look at the senior management**

team at Baker Hughes, we see a very young group. How much experience do they have? A: I am very proud of the team we have in place. The division presidents at Baker Hughes

are among the most capable executives in the industry. They have an average of more than 15 years experience with the organization. All the oilfield presidents have been in their current positions for more than two years. We encourage our people to be aggressive and take reasonable risks, and our senior executives embrace the challenge. Keep in mind too, that Jim Woods still plays a very active part in managing the company. His more than 40 years of experience with the company are available to us every day. **Q: Many industry**

analysts predict that rig activity will remain flat or decrease over the next several years. How can Baker Hughes improve earnings in this environment?

A: Baker Hughes is positioned to thrive in a relatively flat market by adding value in innovative ways, by being more efficient at what we do, and by developing new technology that helps us do both. As we go forward, we expect to play an increasingly important technical role in the exploration and production process. Whether we're managing an integrated solutions project, conducting a re-entry program, or installing a multi-lateral well, Team BHI is committed to improving the bottom line for our customers and for our shareholders.



During 1995, Baker Hughes capitalized on three opportunities that enabled the company to apply its broad offering of products and services to deliver significant value to oil company clients.

First, integrated solutions became an increasingly important component in Baker Hughes' business. Depending on oil company requirements, Baker Hughes can assume a broad range of engineering and project management responsibilities while also providing the right products and services from each of its divisions and from other contractors. In many cases, Baker Hughes shares in the success of the project through performance bonuses.

Second, the company began providing cost-effective horizontal re-entry systems that enable operators to boost production from old wells and extend the economic life of existing fields. The horizontal re-entry offering includes milling and whipstock technology from Baker Oil Tools; horizontal drilling, MWD and fluids technology from Baker Hughes INTEQ; drill bits from Hughes Christensen; and a variety of completion options from Baker Hughes INTEQ and Baker Oil Tools. First applied in West Texas and the Gulf of Mexico, horizontal re-entry technology has vast potential in mature oilfields around the world.

The third major opportunity identified in 1995 is multi-lateral well technology. Multi-lateral systems combine horizontal drilling technology with advanced completion systems to connect two or more horizontal branches into a single wellbore to the surface. During FY 95, Baker Oil Tools and Baker Hughes INTEQ combined resources to focus on multi-lateral technology in the United States and the North Sea. Baker Oil Tools also received a patent on its Sealed Roof™ system to enable selective completion from individual multilateral branches. Multilateral well systems could be as important a breakthrough in the next five years as horizontal drilling has been in the last five. Baker Hughes is again positioned to play a leading role.

HUGHES CHRISTENSEN COMPANY Hughes Christensen Company (HCC) set records for revenues and profits in FY1995. This outstanding performance is a direct result of the realignment and relocation strategy begun in 1992 and HCC's technical leadership in premium drill bit segments.

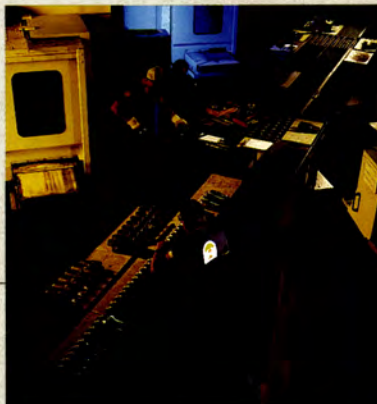
In the 1992 realignment, HCC combined Tri-cone®, Polycrystalline Diamond Compact (PDC), and mining bit product lines into a single operating unit. In 1993, the company relocated its Houston Tri-cone bit manufacturing operation from an outdated plant to a new, state-of-the-art facility in The Woodlands, Texas. Then, in the summer of 1995, HCC's major PDC manufacturing plant was moved from Salt Lake City, Utah, to The Woodlands facility.

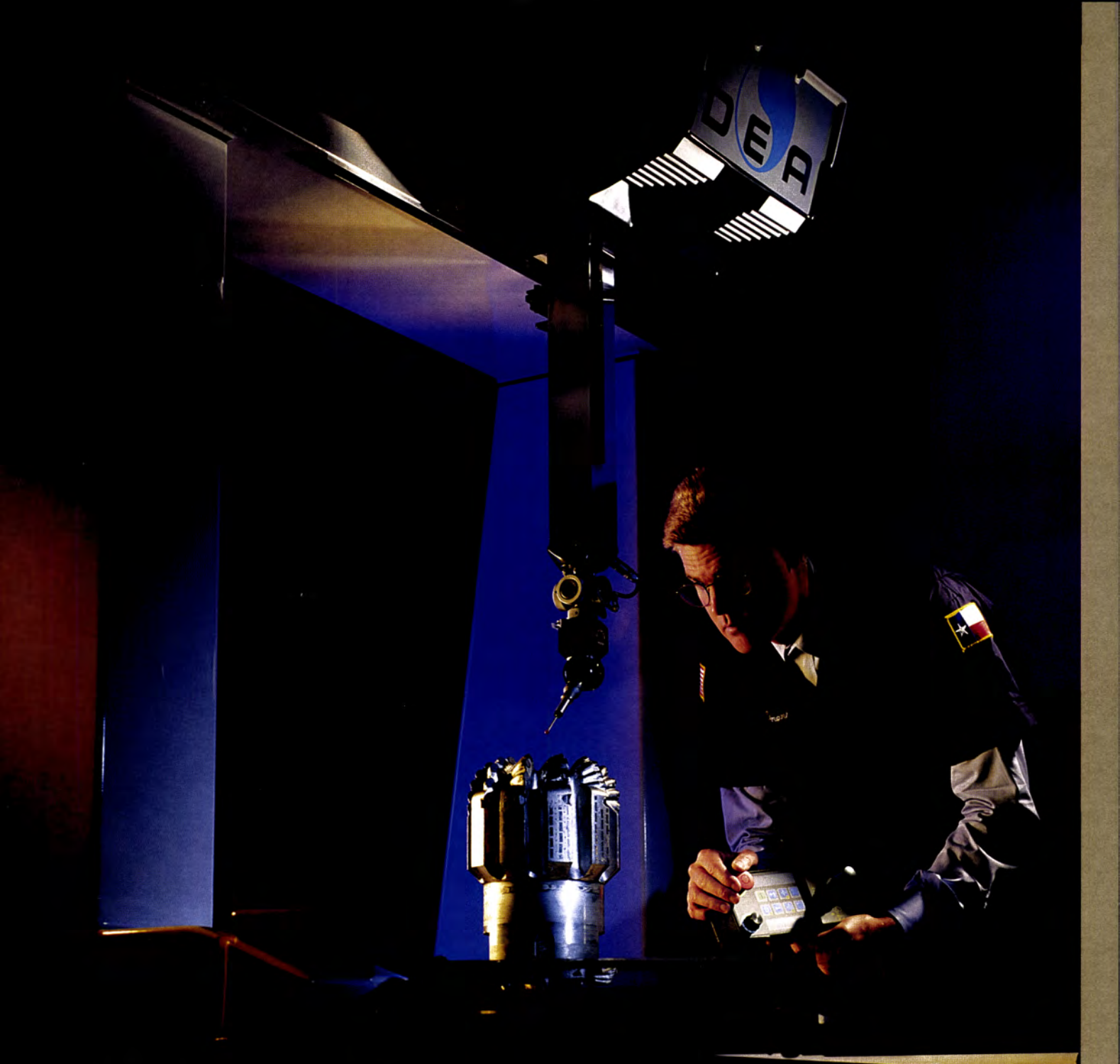
Asserting its technical leadership, HCC introduced two new

Opposite page: The coordinate measuring machine is used in the new Woodlands diamond manufacturing facility to check tolerances and design specifications in three dimensional measurements and locations.



The Woodlands Tricone drill bit facility features state of the art manufacturing processes and machines such as this view from the Heads area. Self-directed work teams focus on delivery, value, quality and safety.





AS A DIRECT RESULT OF ITS RELOCATION
STRATEGY AND ITS LEADERSHIP IN DRILL BIT
TECHNOLOGY, HUGHES CHRISTENSEN SET
RECORDS FOR REVENUES AND PROFITS IN
FISCAL YEAR 1995.

Opposite page: Retrieval of the WindowMaster™ whipstock is a critical procedure in a multi-lateral completion.

bit lines during FY'95. New GT-series™ Tricone bits and Gold Series™ PDC bits deliver significantly improved performance compared to competitive bit offerings. Because of this superior technology, HCC was able to gain market share while improving revenue and margins. In 1995, HCC reinforced its position as the world leader in both Tri-cone® and PDC bits.

In addition to its investment in manufacturing and new product development, HCC has made initiatives to instill a commitment to quality into every functional group in its worldwide organization. The company's Total Quality Management program has improved product quality while making the manufacturing process more efficient. By becoming a quality leader, HCC has gained competitive advantage for 1996 and beyond.

BAKER OIL TOOLS Baker Oil Tools (BOT) also achieved very strong results in 1995, despite lower levels of market activity. Profits increased on record revenues as the benefits of consolidations made over the past three years were fully realized.

BOT has succeeded by leveraging off its premium product lines to provide innovative customer solutions in completion, workover and fishing operations. For example, BOT offers a full range of liner hangers, packers, completion accessories and flow control equipment. This array of equipment – combined with sand control completion processes from Baker Hughes INTEQ – enables BOT to provide the optimum completion in virtually every

application, including horizontal, extended reach, and high temperature/high pressure wells.

Thru-tubing inflatable systems are innovative workover solutions from BOT. These systems can be run on coiled tubing to perform plug-back and stimulation operations without killing the well or pulling the production tubing. Baker Oil Tools leads the industry in this cost-saving technology.

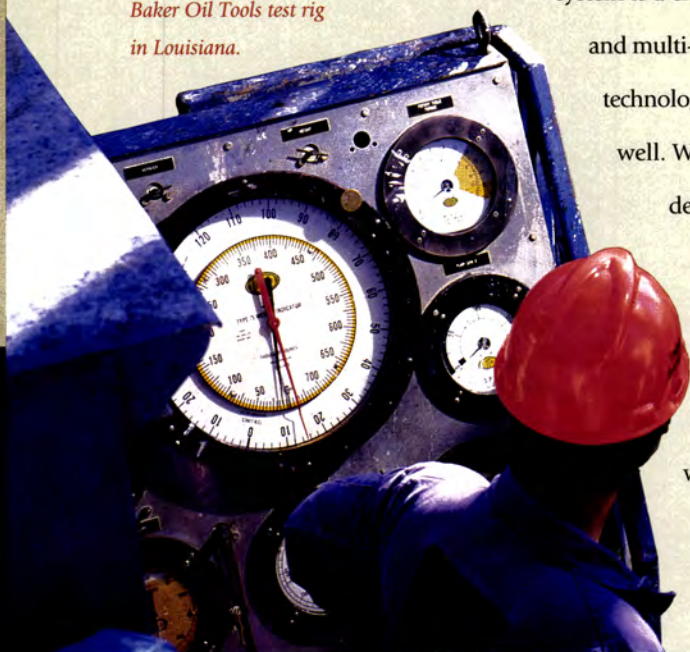
Derived from BOT's fishing and milling product lines, the WindowMaster™ casing whipstock system is a critical component of Baker Hughes' combined offering in the re-entry and multi-lateral markets. This system uses BOT's proprietary packer and milling technology to efficiently cut a window through the casing on a single trip into the well. With increasing emphasis on re-entry projects, BOT has seen growing demand for casing exit technology.

In 1996, Baker Oil Tools plans to commercialize innovative, "intelligent" technology to remotely set and actuate completion and flow control equipment. The EDGE™ downhole communication system replaces traditional mechanical and hydraulic setting devices with an acoustic transmission system. The EDGE system is expected to save rig time and improve equipment performance in deep water and extended reach development wells. In addition, the new

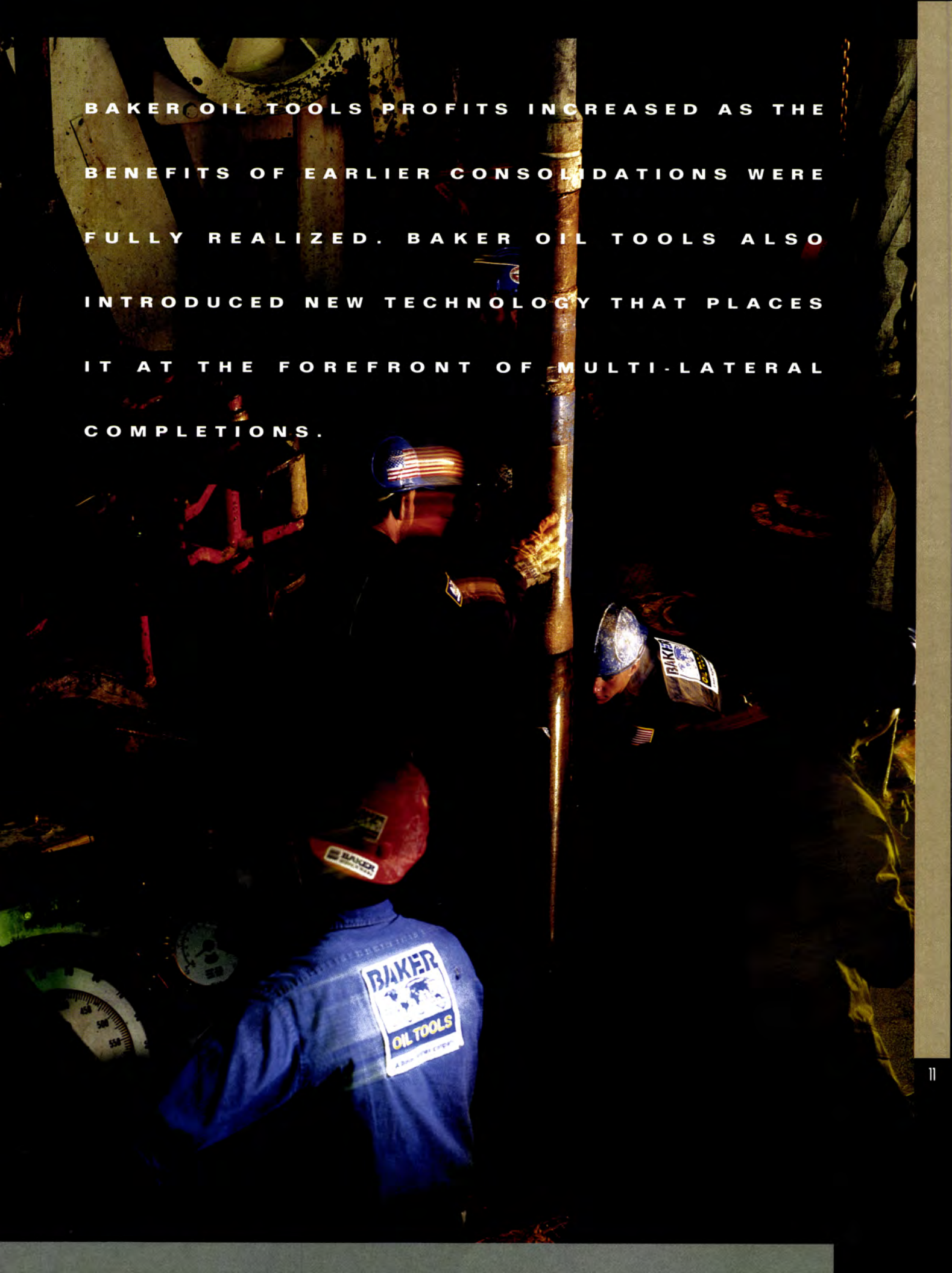
The milling system combines milling and reaming operations which reduce customers operating costs.



A drilling technician operates the console at the Baker Oil Tools test rig in Louisiana.



BAKER OIL TOOLS PROFITS INCREASED AS THE BENEFITS OF EARLIER CONSOLIDATIONS WERE FULLY REALIZED. BAKER OIL TOOLS ALSO INTRODUCED NEW TECHNOLOGY THAT PLACES IT AT THE FOREFRONT OF MULTI-LATERAL COMPLETIONS.



Remote Control Plug Dropping Head is designed to enhance rig-floor safety through automation of hazardous operations.

In 1995, BOT's activity was especially strong in the Gulf of Mexico, Canada, the Middle East, and Latin America. Additional opportunities exist in emerging markets such as India, China and Vietnam. BOT is well positioned for growth in these areas in 1996.

Expect Baker Oil Tools to continue to deliver technologies which provide customers with viable solutions to age old problems.

BAKER HUGHES INTEQ In FY95, Baker Hughes INTEQ improved profit before tax (PBT) by 68% over the prior year on revenue growth of 9%. INTEQ gained momentum in each

successive period, achieving 11% PBT performance in the fourth quarter. These results exceeded earlier expectations and verified that the industry has accepted INTEQ as an integrated supplier of technology solutions for wellbore construction and maintenance.

Baker Hughes INTEQ carried out a significant realignment of its operating structure during 1995, producing financial benefits. For example, the measurement-while-drilling business showed good margins in 1995,

and achieved its best financial performance since the 1992 Teleco acquisition.

By the end of calendar 1995, Baker Hughes INTEQ will have consolidated all its Houston locations and its manufacturing facilities from Oklahoma City and Salt Lake City into a new Worldwide Headquarters in Houston. This project brings together 1,000 employees in one location and will add efficiency in new product development, manufacturing, marketing and administration.

With a successful 1995 behind it, Baker Hughes INTEQ is poised to introduce a number of new products in FY96. In addition to continued commercialization of its NaviGator™

reservoir navigation system, the company will introduce a new small-diameter MWD system, the Navi-MPR™ multiple propagation resistivity system. The Navi-MPR, scheduled for commercial deployment late in the first quarter, will provide advanced measurements for geosteering and formation evaluation.

Baker Hughes INTEQ is also launching a new downhole motor line, the Navi-Drill® Ultra series. This next generation directional drilling tool offers significant gains in drilling penetration rates and durability, even compared to the latest competitive systems. The division will also introduce the new EXCLUDER™ extended-life well screen for horizontal and re-entry wells and

the SYN-TEQSM synthetic-based drilling fluid system for use in environmentally-sensitive areas. Both are expected to contribute incremental profits in FY96.



A Baker Hughes INTEQ technical specialist creates a fracture to bypass near well bore damage using H₂O FRAQSM process. This system was awarded a Petroleum Engineer International Special Meritorious Award for Engineering Innovation.



Opposite page: A Baker Hughes INTEQ directional supervisor prepares NaviDrill® downhole motors for use in an extend reach well offshore Louisiana.



BAKER HUGHES INTEQ
RESULTS EXCEEDED EARLIER
EXPECTATIONS AND CON-
FIRMED ITS PLACE AS A
LEADING INTEGRATED
SUPPLIER OF TECHNOLOGY
SOLUTIONS FOR WELL-
BORE CONSTRUCTION AND
MAINTENANCE.



Opposite page: Filtrate piping installation in an EIMCO rotary vacuum filter in the EIMCO Salt Lake City fabrication shop.

The Integrated Solutions market continues to grow impressively and Baker Hughes maintains its lead role within it. Baker Hughes managed Integrated Service projects in more than a dozen countries in 1995. For example, Baker Hughes INTEQ acted as project manager and lead contractor for exploratory wells in the North Sea and Argentina and was responsible for the drilling of two exploratory wells in Angola. An ongoing completions partnership with a major Gulf of Mexico operator was expanded to include engineering and all Baker Hughes INTEQ and Baker Oil Tool products on nine offshore rigs.

With a worldwide service presence, Baker Hughes INTEQ maintains very strong market positions in its drilling and completion product lines. In 1995, the Gulf of Mexico, the North Sea and Latin America were particularly active. These areas are expected to be strong in 1996, as well.

BAKER HUGHES PROCESS EQUIPMENT OPERATIONS (BHPEO) During an excellent year, BHPEO revenues increased 15% and earnings rose 41% over 1994 levels. All

market sectors grew in 1995. The company benefited significantly from its excellent position in the Asia Pacific region, where activity remains particularly strong, driven by investment in chemical and paper sectors.

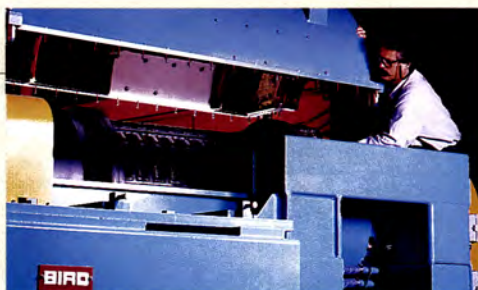
Through its three divisions, EIMCO, Bird and Baker Hughes Process Systems, the company provides separation technology to the minerals, chemical and industrial, oil and gas, pulp and paper and municipal markets. The company offers a broad range of separation technologies including filtration, sedimentation, flotation, centrifugation and associated process control technology.

The company added a number of differentiating products and services during the year to support long term growth. EIMCO acquired Pyramid Resources and now can offer monitoring and process optimization in minerals concentration with minimal operator intervention.

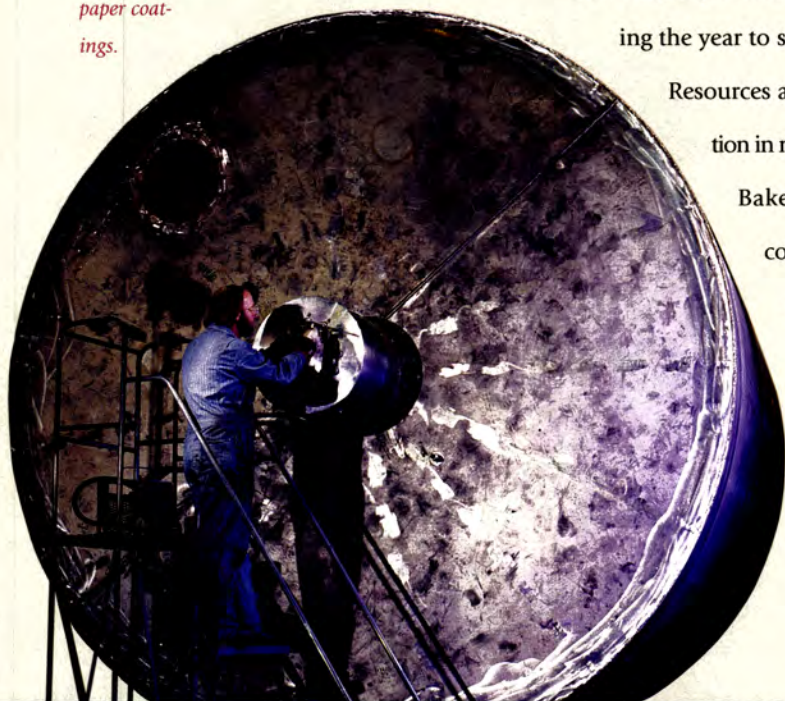
Baker Hughes Process Systems' BFCC acquisition adds copper chlorine antibiofoulant technology to enhance performance of its filtration products. In addition, Bird's patented "XL plus" centrifuge enhancements now provide its customers improved performance in a wide range of applications. We are committed to grow this business and we continue to review additional acquisition candidates.




Bird Machine is the leader in supplying pipeline coal dewatering centrifuges.



This 13.5'x36' Roll-discharge drum filter is one of four sold to the J.M. Huber Company of Georgia, for use in the processing of Kaolin clay for paper coatings.





BAKER HUGHES PROCESS
EQUIPMENT OPERATIONS
IMPROVED EARNINGS BY
41% IN FY 1995 AND IS
POSITIONED FOR CON-
TINUED GROWTH BY
PROVIDING SOLUTIONS
THAT ADD SIGNIFICANT
VALUE TO ITS CUS-
TOMERS' PROCESSES.

Process equipment customers are beginning to challenge suppliers to provide solutions to enhance overall process efficiency and to resolve specific process problems. With its wide range of products, process expertise and expanded investment in systems engineering capabilities, BHPEO is well positioned to take advantage of this growth opportunity to add significant value to its customers' processes.

BAKER PERFORMANCE CHEMICALS, INCORPORATED (BPCI) BPCI

was faced with an extremely difficult market environment in fiscal year 1995. Raw material costs at record high levels, combined with industry wide excess capacity and inadequate pricing produced a slight earnings decline over 1994 levels. On a positive note, revenues did grow 4% in this difficult market.

During 1995, BPCI took steps to reduce cost and improve profitability in the face of continuing industry over capacity. The work force was reduced and

production from the Dayton, Texas manufacturing plant will be shifted to the company's Sand Springs, Oklahoma manufacturing facility by mid fiscal year 1996.

Substantial growth opportunities exist in the specialty chemical business outside of the United States. BPCI has aggressive plans to expand in the Asia Pacific region, China and the Former Soviet Union. With manufacturing and blending facilities located in the United Kingdom, India and Indonesia, BPCI is positioned to grow in these key areas.

CENTRILIFT In fiscal 1995, Centrilift continued its positive momentum of several years. Pretax operating margins remain strong at 14%. Centrilift is the leader in proprietary technology for electrical submersible pumps (ESP), variable speed controllers and cabling for ESP systems. The company's strong financial performance has been the result of technical innovation, as evidenced by numerous patents for its ESP and controller designs.

Centrilift has primary manufacturing capabilities in Claremore, Oklahoma and Mendoza, Argentina. More than 30 field depot stations are in place around the world to service and support the ESP line including a regional base in Siberia.

In the past year, the company's largest markets were the Western United States and the Former Soviet Union. Venezuela and China present opportunities for growth in the ESP market for 1996.



New growth opportunities for BPCI exist in downstream refinery and petrochemical operations.



Testing is conducted on an Electrospeed® ICS Variable Speed Controller in the Centrilift plant in Claremore, Oklahoma.



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

In fulfilling its responsibilities for the integrity of financial information, management maintains and relies on the Company's system of internal control. This system includes written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operational reviews by a professional staff of corporate auditors. The system is designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements. Management believes that, as of September 30, 1995, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

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

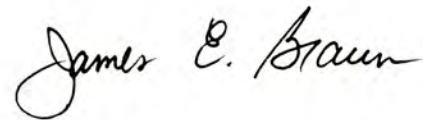
The Board of Directors, through its Audit/Ethics Committee composed solely of nonemployee directors, reviews the Company's financial reporting, accounting and ethical practices. The Audit/Ethics Committee recommends to the Board of Directors the selection of independent public accountants and reviews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



James D. Woods
*Chairman and Chief
Executive Officer*



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



James E. Braun
Controller

BUSINESS ENVIRONMENT

Baker Hughes has eight divisions that provide products and services to two industry segments worldwide: Oilfield and Process Equipment. Oilfield Operations generate approximately 87% of the Company's consolidated revenues.

Oilfield Operations consist of five divisions that provide products, services and solutions used in the drilling, completion, production and maintenance of oil and gas wells. The business environment for Oilfield Operations and its corresponding operating results are significantly affected by worldwide expenditures of the petroleum industry. Important factors establishing the levels of these expenditures include, but are not limited to, world economic conditions, crude oil and natural gas supply and demand balances, the legislative environment in the United States and other major countries, war, insurrection, weather, OPEC policy and other developments in the Middle East and other major petroleum producing regions.

Process Equipment Operations consist of three divisions that serve a broad range of process industries. They are recognized throughout the world as leaders in filtration, sedimentation, centrifugation and flotation processes for the separation of solids from liquids, and liquids from liquids. The business environment for Process Equipment Operations, which also includes Tracor Europa, a computer peripherals division, is significantly affected by worldwide economic conditions in the specific markets that they serve.

**OPERATING ENVIRONMENT
FOR OILFIELD OPERATIONS**

Historically, crude oil and natural gas prices and the number of rotary rigs operating have been prevalent factors in determining the level of worldwide exploration and production expenditures. However, the operating environment for the oilfield service industry has been changing over the past several years. While prices and rig count are still relevant as an indicator of expenditure activity, a number of new trends are beginning to emerge that could alter the oilfield service market place. One key trend is the concept of

integrated solutions, which is to involve the oilfield service company in the planning, engineering and integrating of several products and services. Another trend is the application of new technologies aimed at reducing the finding costs for oil and gas.

Crude oil and natural gas prices and the Baker Hughes rotary rig count are summarized in the tables below as annual averages followed by the Company's outlook. While reading the Company's outlook set forth below, caution is advised that the factors described above in "Business Environment" could negatively impact the Company's expectations for oil and gas prices and drilling activity.

Oil and Gas Prices

Fiscal Year	1995	1994	1993
WTI (\$/Bbl)	18.29	16.87	19.49
U.S. Spot Natural Gas (\$/mcf)	1.42	1.88	2.04

Barring any significant change in OPEC policy, the Company expects crude oil to trade between \$17 and \$19/Bbl in 1996 while remaining susceptible to short-term price fluctuations as the growth in worldwide demand is met by increased production by non-OPEC producing countries. U.S. natural gas prices are expected to strengthen in 1996 with demand for natural gas expected to grow 2% to 3% per year. The Company believes that higher natural gas prices and a tightening market would stimulate exploration and development drilling of natural gas.

Rotary Rig Count

Fiscal Year	1995	1994	1993
U.S. - Land	638	684	686
U.S. - Offshore	100	101	72
Canada	247	245	160
North America	985	1030	918
Latin America	266	223	205
North Sea	42	42	48
Other Europe	66	67	68
Africa	65	66	69
Middle East	123	135	158
Asia Pacific	186	214	233
International	748	747	781
Worldwide	1733	1777	1699
U.S. Workover	1298	1336	1379

North America

With the current softness in oil and gas prices, the Company anticipates a modest decline in North American drilling activity. In the U.S., the Company is expecting a decrease in gas-directed drilling to be partially offset by a modest increase in oil-directed drilling resulting in a slight increase in offshore activity and relatively flat land activity. Canadian activity is expected to fall short of 1995 levels.

International

The Company is cautiously optimistic that most areas internationally will post an increasing rig count in 1996. The Company is forecasting increases in Latin America, the North Sea and West Africa while activity in the Middle East and Asia Pacific is forecasted to be flat.

RESULTS OF OPERATIONS

Revenues

(In millions)	1995	1994	1993
CONSOLIDATED REVENUES:			
Sales	\$ 1,805.1	\$ 1,727.7	\$ 1,945.8
Services and Rentals	832.4	777.0	755.9
Total	<u>2,637.5</u>	<u>2,504.7</u>	<u>2,701.7</u>
LESS PUMPSYSTEMS AND EM&C OPERATIONS:			
Sales		96.5	334.5
Services and Rentals			15.7
Total		<u>96.5</u>	<u>350.2</u>
REVENUES FROM ONGOING OPERATIONS:			
Sales	1,805.1	1,631.2	1,611.3
Services and Rentals	832.4	777.0	740.2
Total	<u>\$ 2,637.5</u>	<u>\$ 2,408.2</u>	<u>\$ 2,351.5</u>

Consolidated revenues for 1995 increased 5.3% from 1994. Consolidated revenues for 1994 decreased 7.3% from 1993. Consolidated revenues were impacted in 1994 and 1993 by the revenues of disposed businesses. EnviroTech Measurements & Controls ("EM&C") was sold in March 1994 and EnviroTech Pumpsystems ("Pumpsystems") was sold in September 1994. The results of Pumpsystems and EM&C have been reported in a manner similar to discontinued operations since March 1994 and June 1993, respectively, which represents the date at which the decisions to divest the businesses were made. As such, consolidated results of operations for 1994 include six months of Pumpsystems' revenues and expenses. The last six months of Pumpsystems' net operating results are reflected as a separate line in the Company's consolidated statement of operations.

Nine months of EM&C revenues and expenses are included in the consolidated results for 1993. There are no EM&C revenues and expenses included in the consolidated results for 1994. EM&C operated near break even levels from July 1993 to March 1994 with a small net operating loss offsetting the gain on the sale.

Revenues from ongoing operations were up 9.5% in 1995 from 1994 and 2.4% in 1994 from 1993. In 1995, Oilfield Operations represented approximately 87% of consolidated revenues (\$2,288.2 million) with the remaining 13% represented by Process Equipment Operations (\$349.3 million).

In 1995, the Oilfield Operations experienced revenue growth in spite of decreases in the Baker Hughes rotary rig count and the U.S. workover rig count. Sales revenue and service and rentals revenue were both up 8.4%. Changes in the mix of the worldwide rig count

had a significant impact on the revenue of the Company. Certain areas of the world, including offshore U.S., North Sea and West Africa, historically provide more revenue per rig because of the more difficult and complex drilling conditions. Conditions such as deep water, high pressure and sensitive environment require the premium products and services offered by the Company. Additionally, technological advances in the design and application of the Company's products and services allow oil and gas operators to reach and extract greater quantities of hydrocarbons from a single drilling rig or wellbore. For example, from a single offshore drilling rig, multiple wells can be drilled, completed and produced and, as such, the revenue generating capability of a single drilling rig increases. The Company enjoys ancillary benefits in situations like these because of the wide breadth of products and services offered by the Company. The Oilfield Operations' 1995 results were favorably impacted by these two important trends.

Oilfield Operations was well positioned to take advantage of growth opportunities in a number of key geographic markets. In Latin America, Oilfield Operations saw its largest revenue growth in 1995 as revenue increased 38%. The revenue improvement was driven by an increase in drilling activity in Venezuela and Argentina. Oilfield Operations saw revenue increases in the Gulf of Mexico as horizontal drilling remained strong. Despite flat rig activity in the North Sea, revenue in Europe was up 6% due in large part to growing integrated solutions business. Middle East revenues were up 19% for the year, paced by an increase in Oman where the Company is the leading provider of horizontal drilling technology. Strong performance in these areas were partially offset by a difficult year in Africa and the former Soviet Union ("FSU"). Revenues in the FSU were \$53.3 million in 1995 and \$74.6 million in 1994.

Oilfield Operations reported revenues of \$2,110.9 million in 1994, up 3.3% from 1993. Sales revenue was up 2.6% and services and rentals revenue was up 4.7%. Much of the improvement in Oilfield

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

In 1995, Process Equipment Operations' sales, services and rentals revenue reported an increase of 17.1% from 1994. The minerals processing industry, specifically copper, and the pulp and paper industry experienced significant growth during 1995 benefiting Process Equipment Operations. In 1994, sales, services and rentals revenue declined 3.4% from 1993 primarily due to project deferrals and a general weakness in the economic conditions in most markets that they serve.

Operating Income

(In millions)	1995	1994	1993
Consolidated Operating Income	\$255.9	\$185.9	\$158.9
Plus Unusual Charges-net		31.8	42.0
Less Operating Income of Pumpsystems and EM&C		(17.9)	(23.1)
Operating Income from Ongoing Operations	\$255.9	\$199.8	\$177.8

Consolidated operating income in 1995 increased 37.7% from 1994 levels and in 1994 increased 17.0% from 1993 levels. Operating income from ongoing operations, which excludes the net unusual charges and operating income of Pumpsystems and EM&C, increased 28.1% in 1995 and 12.4% in 1994. Oilfield Operations provided \$269.6 million of operating income in 1995, up 29.0% from 1994 (excluding the 1994 unusual charge) and \$209.0 million in 1994, up 16.9% from 1993. Process Equipment Operations provided \$32.3 million of operating income in 1995, up 49.5% from 1994 and \$21.6 million in 1994, virtually flat compared to 1993. The increases year over

year result primarily from improved revenues and the impact of the Company's ongoing quality programs where, through various actions, increases in efficiency and productivity produce cost savings.

Cost and Expenses

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

The total of cost of sales, cost of services and rentals, research and engineering and marketing and field service expenses as a percentage of total revenue decreased from 83.2% in 1994 to 81.5% in 1995 reflecting the realization of cost reductions as explained above. Individually, cost of sales, cost of services and rentals and marketing and field service expense increased in 1995 in line with the revenue increase.

Research and engineering ("R&E") decreased for the year due primarily to the reorganization of the R&E function at two divisions in Oilfield Operations and the disposition of Pumpsystems in 1994. The reorganizations consisted of reductions in headcount as well as a change in focus to product related engineering where costs are now included in cost of sales and marketing and field service expense. General and administrative expense, which is less sensitive to changes in revenue, increased \$18.9 million in 1995. The increase in 1995 is due to the resolution of certain legal matters during the year, the accrual for other claims and the writedown of certain foreign properties held for disposal to their estimated net realizable value. Amortization of goodwill and intangibles has remained relatively flat in 1995 compared to 1994 as no significant acquisitions or dispositions were made in the current year.

In 1994, cost of sales, cost of services and rentals, research and engineering and marketing and field service expenses decreased in line with the revenue decreases associated with the dispositions of EM&C and Pumpsystems. General and administrative

expense and amortization of goodwill and other intangibles both decreased in 1994 also reflective of the impact of the disposed businesses.

Unusual Charges-net

1994: During the fourth quarter of 1994, the Company recorded a \$32.4 million unusual charge related to the restructuring and reorganization of certain divisions, primarily Baker Hughes INTEQ as part of a continuing effort to maintain a cost structure appropriate for current and future market conditions. Noncash provisions of the charge total \$16.3 million and consist primarily of the write-down of excess facilities and operating assets to net realizable value. The remaining \$16.1 million of the charge represents cash expenditures related to severance under existing benefit arrangements, the relocation of people, equipment and inventory and abandoned leases. The Company spent \$11.2 million in 1995 and \$3.1 million in 1994 and expects to spend the remaining \$1.8 million in 1996. In addition, an MWD (measurement-while-drilling) product line was discontinued when it was decided to market and support other MWD products resulting in the write-off of property and inventory of \$15.0 million. Offsetting these charges was an unusual gain of \$19.3 million related to the May 1994 cash settlement of a suit against certain insurance carriers in the Parker & Parsley litigation discussed below.

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

Interest Expense

Interest expense decreased \$8.2 million in 1995 compared to 1994. The decrease in 1995 is attributable to the repurchase or defeasance of all the outstanding 6% discount debentures in the last half of 1994. Offsetting interest expense in 1993 is \$3.6 million of the reversal of accrued interest expense on certain Internal Revenue Service issues. Excluding these reversals, interest expense decreased \$4.5 million in 1994. The decrease in 1994 is attributable to lower average debt outstanding offset by a slightly higher overall effective interest rate.

Interest Income

Interest income increased \$1.7 million in 1995 due to an increase in the average short-term investments during the year. Interest income decreased \$2.8 million in 1994. The decrease was due to the repayment of notes receivables and a decrease in short-term investments.

Income Taxes

The effective income tax rate for 1995 was 41.5% as compared to 42.0% in 1994 and 41.2% in 1993. The effective rates differ from the federal statutory rates due primarily to taxes on foreign operations and nondeductible goodwill amortization offset by the recognition of loss and credit carryforwards.

Extraordinary Loss

During 1994, the Company recorded an extraordinary loss of \$44.3 million, net of a tax benefit of \$23.9 million, in connection with the repurchase or defeasance of \$225.0 million face amount of its outstanding 6% debentures due March 2002. At September 30, 1995, \$45.9 million of the debentures have been considered extinguished through defeasance.

Net Income Per Share of Common Stock

In June 1995, the Company repurchased all outstanding shares of its convertible preferred stock for \$167.0 million. The fair market value of the preferred stock was \$149.4 million on its date of issuance. The repurchase price in excess of this amount, \$17.6 million, is deducted from net income in arriving at net income per share of common stock. In addition, net income

is adjusted for dividends on preferred stock of \$8.0 million in 1995. Net income is adjusted for dividends on preferred stock of \$12.0 million in 1994 and 1993.

CAPITAL RESOURCES AND LIQUIDITY

Financing Activities

Net cash outflows from financing activities were \$95.5 million in 1995 compared to \$429.8 million and \$56.0 million in 1994 and 1993, respectively.

Total debt outstanding at September 30, 1995 was \$801.3 million, compared to \$653.3 million at September 30, 1994 and \$944.3 million at September 30, 1993. The debt to equity ratio was .529 at September 30, 1995, compared to .399 at September 30, 1994 and .586 at September 30, 1993.

In 1994, the Company used cash to reduce overall debt levels. A total of \$368.1 million was used to reduce borrowings under short-term facilities and repurchase or defease all of its outstanding 6% discount debentures which had an effective interest rate of 14.66%. During 1994, the Company also issued debenture purchase warrants under favorable terms for \$7.0 million that entitled the holders to purchase \$93.0 million of the Company's debentures. In the first half of 1995, all holders exercised their warrants and purchased \$93.0 million in debentures.

In June 1995, the Company repurchased all outstanding shares of its convertible preferred stock for \$167.0 million. Existing cash on hand and borrowings from commercial paper and revolving credit facilities funded the repurchase. Cash dividends decreased in 1995 due to the repurchase.

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

At September 30, 1995, the Company had \$667.1 million of credit facilities with commercial banks, of which \$402.4 million is committed. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

During 1995, the U.S. dollar was relatively flat against most European currencies where the Company has a significant net asset position. The Company was impacted, however, by the devaluation of the Mexican peso resulting in an increase of \$4.8 million in the cumulative foreign currency translation adjustment account. During 1994, the U.S. dollar weakened against most European currencies. As a result of this and the sale of EM&C and Pumpsystems, the cumulative foreign currency translation adjustment account decreased \$34.7 million.

Investing Activities

Net cash outflows from investing activities were \$94.1 million in 1995 compared to cash inflows of \$258.4 million in 1994 and cash outflows of \$76.7 million in 1993.

Proceeds from the disposal of assets and noncore businesses generated \$44.8 million in 1995, \$367.1 million in 1994 and \$50.2 million in 1993. Property additions increased in 1995 to \$138.9 million from \$108.6 million in 1994. In 1993 property additions were \$126.9 million. The increase in 1995 is in line with the Company's objective of replacing capital to increase productivity and ensure that the necessary capacity is available to meet market demand. Part of the decrease in 1994 is due to the sale of EM&C and Pumpsystems.

Likewise, the ratio of capital expenditures to depreciation has increased from 88.5% in 1994 to 121.6% in 1995. The majority of the capital expenditures have been in Oilfield Operations where the largest single item is the expenditure for rental tools and equipment to supplement the rental fleet. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements. The Company expects 1996 capital expenditures to be between \$170.0 million and \$190.0 million.

Operating Activities

Net cash inflows from operating activities were \$127.3 million, \$230.8 million and \$23.0 million in 1995, 1994 and 1993, respectively.

The decrease of \$103.5 million in 1995 was due primarily to the build up of working capital in Oilfield Operations to support increased activity, in particular the significant increase in Latin America, and several new emerging markets (e.g. Vietnam and China), and the reduction in liabilities resulting from cash payments for costs associated with the disposition of Pumpsystems and the restructuring accruals recorded in the fourth quarter of 1994. These uses of cash were offset by an increase in net income adjusted for noncash items.

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

OTHER MATTERS

In May 1995, President Clinton signed an Executive Order prohibiting virtually all transactions between the U.S. and Iran, and in September 1995, the U.S. Department of Treasury issued implementing regulations. The Order and regulations generally do not reach to the activities of non-U.S. subsidiaries. At September 30, 1995, the Company, through its non-U.S. subsidiaries, had receivables from the National Iranian Oil Company ("NIOC") in an amount of approximately one percent of stockholders' equity. These receivables are currently being paid pursuant to an agreement with the NIOC. It is not possible to predict with any accuracy how the current state of U.S.-Iran relations will impact the Company's ability to collect these receivables. Sales to Iran in the year ended September 30, 1995 and 1994 were not significant.

ACCOUNTING STANDARDS

Postemployment Benefits

The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits," effective October 1, 1994. The Company recognized a charge to income of \$14.6 million (\$.10 per share), net of a \$7.9 million tax benefit, in the first quarter of 1995. Expense under SFAS No. 112 for 1995 was not significantly different from the prior method of cash basis accounting.

Postretirement Benefits Other Than Pensions

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

Accounting for Income Taxes

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

Investments in Debt and Equity Securities

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

Impairment of Long-Lived Assets

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which is effective for the Company on October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set forth in SFAS No. 121 is not significantly different from the Company's current policy and, therefore, the Company does not expect the adoption of SFAS No. 121, as it relates to impairment, to have a significant impact on the consolidated financial statements. SFAS No. 121 also addresses the accounting for long-lived assets to be disposed of. The Company has not yet determined the impact of this aspect of SFAS No. 121 on the consolidated financial statements.

Stock Based Compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which is effective for the Company on October 1, 1996. SFAS No. 123 permits, but does not require, a fair value based method of accounting for employee stock option plans which results in compensation expense being recognized in the results of operations when stock options are granted. The Company plans to continue the use of its current intrinsic value based method of accounting for such plans where no compensation expense is recognized. However, as required by SFAS No. 123, the Company will provide pro forma disclosure of net income and earnings per share in the notes to the consolidated financial statements as if the fair value based method of accounting had been applied.

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, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1995. 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, 1995 and 1994, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1995 in conformity with generally accepted accounting principles.

As discussed in Note 1, the Company changed its method of accounting for postemployment benefits effective October 1, 1994 to conform with Statement of Financial Accounting Standards No. 112. Also as discussed in Note 1, the Company changed its method of accounting for postretirement benefits other than pensions and for income taxes effective October 1, 1993 to conform with Statement of Financial Accounting Standards No. 106 and Statement of Financial Accounting Standards No. 109, respectively.

Deloitte & Touche LLP

November 15, 1995

Houston, Texas

CONSOLIDATED STATEMENTS OF OPERATIONS

BAKER HUGHES INCORPORATED

Years Ended September 30,

(In thousands, except per share amounts)

	1995	1994	1993
REVENUES:			
Sales	\$ 1,805,108	\$ 1,727,734	\$ 1,945,793
Services and rentals	832,356	777,024	755,904
Total	<u>2,637,464</u>	<u>2,504,758</u>	<u>2,701,697</u>
COSTS AND EXPENSES:			
Costs of sales	1,045,672	1,015,458	1,154,865
Cost of services and rentals	418,342	389,605	395,286
Research and engineering	83,546	91,011	102,057
Marketing and field service	601,228	586,671	610,337
General and administrative	202,903	184,013	201,322
Amortization of goodwill and other intangibles	29,884	30,775	36,916
Unusual charges - net		31,829	42,000
Operating income of business sold		(10,488)	
Total	<u>2,381,575</u>	<u>2,318,874</u>	<u>2,542,783</u>
Operating income	255,889	185,884	158,914
Gain on sale of Pumpsystems		101,000	
Interest expense	(55,595)	(63,835)	(64,703)
Interest income	4,806	3,067	5,840
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	<u>205,100</u>	<u>226,116</u>	<u>100,051</u>
Income taxes	(85,117)	(94,974)	(41,195)
Income before extraordinary loss and cumulative effect of accounting changes	<u>119,983</u>	<u>131,142</u>	<u>58,856</u>
Extraordinary loss (net of \$23,865 income tax benefit)		(44,320)	
Cumulative effect of accounting changes:			
Income taxes		25,455	
Postretirement benefits other than pensions (net of \$37,488 income tax benefit)		(69,620)	
Postemployment benefits (net of \$7,861 income tax benefit)	(14,598)		
Accounting changes - net	(14,598)	(44,165)	
Net income	<u>\$ 105,385</u>	<u>\$ 42,657</u>	<u>\$ 58,856</u>
PER SHARE OF COMMON STOCK:			
Income before extraordinary loss and cumulative effect of accounting changes	\$ 0.67	\$ 0.85	\$ 0.34
Extraordinary loss		(0.31)	
Cumulative effect of accounting changes	(0.10)	(0.32)	
Net income	<u>\$ 0.57</u>	<u>\$ 0.22</u>	<u>\$ 0.34</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

BAKER HUGHES INCORPORATED

September 30, (In thousands)	1995	1994
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,817	\$ 69,179
Receivables-less allowance for doubtful accounts: 1995, \$24,809; 1994, \$21,405	709,588	612,414
Inventories:		
Finished goods	595,417	508,198
Work in process	61,622	53,644
Raw materials	70,743	81,204
Total inventories	727,782	643,046
Deferred income taxes	92,550	45,959
Other current assets	28,078	29,394
Total current assets	1,564,815	1,399,992
PROPERTY:		
Land	35,393	35,174
Buildings	314,184	294,104
Machinery and equipment	607,061	586,863
Rental tools and equipment	570,279	530,814
Total property	1,526,917	1,446,955
Accumulated depreciation	(951,858)	(886,871)
Property-net	575,059	560,084
OTHER ASSETS:		
Investments	92,474	89,601
Property held for disposal	58,544	73,496
Other assets	103,321	80,054
Excess costs arising from acquisitions - less accumulated amortization: 1995, \$136,174; 1994, \$112,008	772,378	796,455
Total other assets	1,026,717	1,039,606
Total	<u>\$ 3,166,591</u>	<u>\$ 2,999,682</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

BAKER HUGHES INCORPORATED

 September 30,
 (In thousands)

	1995	1994
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 304,689	\$ 253,616
Short-term borrowings	2,130	863
Current portion of long-term debt	768	14,436
Accrued employee compensation and benefits	133,135	113,304
Income taxes payable	28,445	29,729
Taxes other than income	25,176	20,608
Accrued insurance	27,475	26,492
Accrued interest	11,978	10,676
Other accrued liabilities	46,335	74,847
Total current liabilities	<u>580,131</u>	<u>544,571</u>
Long-term debt	<u>798,352</u>	<u>637,972</u>
Deferred income taxes	<u>118,350</u>	<u>53,841</u>
Postretirement benefits other than pensions	<u>97,187</u>	<u>95,951</u>
Other long-term liabilities	<u>58,965</u>	<u>28,875</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$1 par value (authorized and outstanding 4,000,000 shares in 1994 of \$3.00 convertible preferred stock)		4,000
Common stock, \$1 par value (authorized 400,000,000 shares; outstanding 142,237,000 shares in 1995 and 140,889,000 shares in 1994)	142,237	140,889
Capital in excess of par value	1,342,317	1,474,013
Retained earnings	140,106	125,276
Cumulative foreign currency translation adjustment	(107,689)	(102,915)
Unrealized loss on securities available for sale	(3,365)	(2,791)
Total stockholders' equity	<u>1,513,606</u>	<u>1,638,472</u>
Total	<u>\$ 3,166,591</u>	<u>\$ 2,999,682</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

BAKER HUGHES INCORPORATED

For the three years ended September 30, 1995 (In thousands)	Preferred Stock (\$1 Par Value)	Common Stock (\$1 Par Value)	Capital In Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Loss on Securities Available for Sale	Total
Balance, September 30, 1992	\$4,000	\$ 138,624	\$ 1,418,857	\$176,517	\$ (92,476)		\$ 1,645,522
Net income				58,856			58,856
Cash and accrued dividends on \$3.00 convertible preferred stock				(12,000)			(12,000)
Cash dividends on common stock (\$.46 per share)				(64,096)			(64,096)
Foreign currency translation adjustment					(45,139)		(45,139)
Stock issued pursuant to employee stock plans		1,813	25,692				27,505
Balance, September 30, 1993	4,000	140,437	1,444,549	159,277	(137,615)		1,610,648
Net income				42,657			42,657
Cash and accrued dividends on \$3.00 convertible preferred stock				(12,000)			(12,000)
Cash dividends on common stock (\$.46 per share)				(64,658)			(64,658)
Foreign currency translation adjustment					17,825		17,825
Disposition of businesses					16,875		16,875
Income tax accounting change			21,896				21,896
Investment accounting change						\$(2,791)	(2,791)
Stock issued pursuant to employee stock plans		452	7,568				8,020
Balance, September 30, 1994	4,000	140,889	1,474,013	125,276	(102,915)	(2,791)	1,638,472
Net income				105,385			105,385
Cash and accrued dividends on \$3.00 convertible preferred stock				(8,000)			(8,000)
Cash dividends on common stock (\$.46 per share)				(64,955)			(64,955)
Foreign currency translation adjustment					(4,774)		(4,774)
Repurchase of \$3.00 convertible preferred stock	(4,000)		(145,400)	(17,600)			(167,000)
Unrealized loss adjustment						(574)	(574)
Stock issued pursuant to employee stock plans		1,348	13,704				15,052
Balance, September 30, 1995		\$142,237	\$1,342,317	\$140,106	\$(107,689)	\$(3,365)	\$1,513,606

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

BAKER HUGHES INCORPORATED

 Years Ended September 30,
 (In thousands)

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 105,385	\$ 42,657	\$ 58,856
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	114,170	122,812	141,699
Other assets and debt discount	40,368	46,526	47,371
Deferred tax provision	44,783	47,366	19,349
Noncash portion of unusual charges-net		47,988	
Gain on disposal of assets	(18,313)	(18,034)	(14,594)
Gain on disposition of businesses		(109,550)	
Foreign currency translation loss-net	1,948	1,892	441
Cumulative effect of accounting changes	14,598	44,165	
Extraordinary loss		44,320	
Change in receivables	(94,660)	(22,740)	(74,828)
Change in inventories	(79,937)	(58,035)	(50,506)
Change in accounts payable-trade	51,734	24,890	(2,962)
Changes in other assets and liabilities	(52,805)	16,520	(101,859)
Net cash flows from operating activities	127,271	230,777	22,967
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions	(138,876)	(108,639)	(126,901)
Proceeds from disposal of assets	44,786	38,664	40,928
Proceeds from disposition of businesses		328,389	9,299
Net cash flows from investing activities	(94,090)	258,414	(76,674)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (payments) from commercial paper and revolving credit facilities	42,674	(162,590)	(95,010)
Retirement of debentures		(205,497)	(18,197)
Proceeds from exercise of debenture purchase warrants	93,000		
Net proceeds from issuance of debenture purchase warrants		7,026	
Net proceeds from issuance of notes			223,911
Repurchase of preferred stock	(167,000)		
Proceeds from exercise of stock options and stock purchase grants	9,773	7,900	21,358
Dividends	(73,955)	(76,658)	(76,096)
Net cash flows from financing activities	(95,508)	(429,819)	55,966
Effect of exchange rate changes on cash	(35)	2,815	(1,959)
Increase (decrease) in cash and cash equivalents	(62,362)	62,187	300
Cash and cash equivalents, beginning of year	69,179	6,992	6,692
Cash and cash equivalents, end of year	\$ 6,817	\$ 69,179	\$ 6,992

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 (the "Company"). Investments in which ownership interest ranges from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for on the equity method. In 1994, the Company changed its accounting for other investments as explained below. Prior to 1994, other investments were accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain minor reclassifications have been made to the 1994 balances to conform to the 1995 presentation.

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

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

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

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

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

Excess costs arising from acquisitions: Excess costs arising from acquisitions of businesses ("Goodwill") are amortized on the straight-line method over the lesser of expected useful life or forty years. The carrying amount of unamortized Goodwill is reviewed for potential impairment loss when events or changes in circumstances indicate that the carrying amount of Goodwill may not be recoverable. An impairment loss of Goodwill is recorded in the period in which it is determined that it is not recoverable. The determination of recoverability is made based upon the estimated undiscounted future net cash flows, excluding interest expense, of the business unit to which the Goodwill relates.

Income taxes: The Company adopted SFAS No. 109, "Accounting for Income Taxes," effective October 1, 1993, without restatement of prior years. The cumulative effect of adopting SFAS No. 109 was a credit to income of \$25.5 million (\$.18 per share). An additional benefit of \$21.9 million was allocated to capital in excess of par value, which reflects the cumulative tax effect of exercised employee stock options for which the Company has taken tax deductions in its U.S. federal tax returns.

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

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

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

Postemployment benefits: The Company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective October 1, 1994. The standard requires that the cost of benefits provided to former or inactive employees after employment, but before retirement, be accrued when it is probable that a benefit will be provided, or in the case of service related benefits, over the period earned. The cost of providing these benefits was previously recognized as a charge to income in the period the benefits were paid. The cumulative effect of adopting SFAS No. 112 was a charge to income of \$14.6 million (\$.10 per share), net of a tax benefit of \$7.9 million.

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

Financial Instruments: The Company uses forward exchange contracts and currency swaps to hedge certain firm commitments and transactions denominated in foreign currencies. Gains and losses on forward contracts are deferred and offset against foreign exchange gains or losses on the underlying hedged item. The Company uses interest rate swaps to manage interest rate risk. The interest differentials from interest rate swaps are recognized as an adjustment to interest expense. The Company's policies do not permit financial instrument transactions for speculative purposes.

Income per share: Income per share amounts are based on the weighted average number of shares outstanding during the respective years (141,215,000 in 1995, 140,532,000 in 1994, and 139,321,000 in 1993) and exclude the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income is adjusted for dividends on preferred stock. Per share amounts in 1995 are also reduced by \$17.6 million related to the repurchase of the Company's convertible preferred stock.

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

NOTE 2 DISPOSITIONS

1994

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

In July 1993, the Company announced that the EnviroTech Measurements & Controls ("EM&C") group of companies would no longer be considered part of its core business. EM&C operating revenues and expenses have been reported in a manner similar to discontinued operations since June 1993. As such, there are no EM&C revenues and expenses included in the consolidated results for 1994 and nine months of EM&C revenues and expenses are included in the consolidated results for 1993. EM&C operated near break even levels from July 1993 to March 1994 with a small net operating loss offsetting the gain on the sale. In March 1994, the Company completed the sale of EM&C which provided \$134.0 million in proceeds and resulted in a gain of \$8.6 million.

NOTE 3 UNUSUAL CHARGES-NET

1994

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

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

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

During the fourth quarter of 1994, the Company discontinued an MWD (measurement-while-drilling) product line when it decided to market and support other MWD products resulting in the write-off of property and inventory of \$15.0 million. In addition, the Company recorded a \$32.4 million charge related to the restructuring and reorganization of certain divisions, primarily Baker Hughes INTEQ. Cash provisions of the charge totalled \$16.1 million. The Company spent \$11.2 million in 1995, \$3.1 million in 1994 and expects to spend the remaining \$1.8 million in 1996.

1993

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

During the second quarter of 1993, the Company,

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

NOTE 4 INDEBTEDNESS

Long-term debt at September 30, 1995 and 1994 consisted of the following:

(In thousands)	1995	1994
Commercial Paper with an average interest rate of 6.85% at September 30, 1995	\$ 15,000	
Revolving Credit Facilities due through 1999 with an average interest rate of 8.84% at September 30, 1995	81,961	\$ 47,693
Liquid Yield Option Notes ("LYONS") due May 2008 with a yield to maturity of 3.5% per annum, net of unamortized discount of \$140,505 (\$149,329 in 1994)	244,745	235,921
7.625% Notes due February 1999 with an effective interest rate of 7.73%, net of unamortized discount of \$938 (\$1,198 in 1994)	149,062	148,802
4.125% Swiss Franc 200 million Bonds due June 1996 with an effective interest rate of 7.82%	107,896	107,222
8% Notes due May 2004 with an effective interest rate of 8.08%, net of unamortized discount of \$1,175 (\$1,292 in 1994)	98,825	98,708
Debentures with an effective interest rate of 8.59%, due January 2000	93,000	
Other indebtedness with an average interest rate of 6.73% at September 30, 1995	8,631	14,062
Total debt	799,120	652,408
Less current maturities	768	14,436
Long-term debt	<u>\$798,352</u>	<u>\$637,972</u>

At September 30, 1995, the Company had \$667.1 million of credit facilities with commercial banks, of which \$402.4 million is committed. The majority of these facilities expire in 1999. The Company's policy is to classify commercial paper and borrowings under revolving credit facilities as long-term debt since the Company has the ability under certain credit agreements, and the intent, to maintain these obligations for longer than one year. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

The LYONS are convertible into the Company's common stock at a conversion price of \$34.85 per share, calculated as of November 5, 1995 and increases at an annual rate of 3.5%. At the option of the Company, the LYONS may be redeemed for cash at any time on or after May 5, 1998, at a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. At the option of the holder, the LYONS may be redeemed for cash on May 5, 1998, or on May 5, 2003, for a redemption price equal to the issue price plus accrued original issue discount through the date of redemption.

In May through September 1994, the Company repurchased or defeased all of its outstanding 6% discount debentures for \$205.5 million and generated an extraordinary loss of \$44.3 million (\$.31 per share), net of a tax benefit of \$23.9 million. At September 30, 1995, \$45.9 million of the debentures have been considered extinguished through defeasance.

In April 1994, the Company issued debenture purchase warrants for \$7.0 million that entitled the holders to purchase \$93.0 million of the Company's debentures. In October 1994 through January 1995, all warrants were exercised and \$93.0 million of debentures were purchased.

Maturities of long-term debt for the next five years are as follows: 1996-\$108.7 million; 1997-\$4.5 million; 1998-\$.1 million; 1999-\$190.1 million and 2000-\$149.2 million. At September 30, 1995, the 4.125% Swiss Franc 200.0 million Bonds ("SFrBonds") were classified as long-term as the Company has the intent and the ability to refinance them on a long-term basis through available credit facilities.

NOTE 5 FINANCIAL INSTRUMENTS

At September 30, 1995, the Company had \$306.5 million aggregate notional amount interest rate swap agreements outstanding maturing in 1998 and 2000. These swaps effectively exchange a weighted average fixed interest rate of 5.0% for variable interest rates on the notional amount. The variable interest rate is six-month LIBOR plus 2% and 30-day commercial paper rates minus 1.96% on notional amounts of \$93.0 million and \$213.5 million, respectively. In the unlikely event that the counterparties fail to meet the terms of an interest rate swap agreement, the Company's exposure is limited to the interest rate differential.

The SFrBonds are hedged through a foreign currency swap agreement and a foreign currency option.

These instruments convert the Company's Swiss Franc denominated principal and interest obligations under the SFrBonds into U.S. dollar denominated obligations. In the unlikely event of nonperformance by the counterparty, the Company's credit exposure at September 30, 1995 is represented by the fair value of the contract of \$66.2 million.

Except as described below, the estimated fair values of the Company's financial instruments at September 30, 1995 and 1994 approximate their carrying value as reflected in the consolidated statement of financial position. The Company's financial instruments include cash and short-term investments, receivables, investments, payables, debt and interest rate and foreign currency contracts. The fair value of such financial instruments has been estimated based on quoted market prices and the Black-Scholes pricing model.

The estimated fair value of the Company's debt, at September 30, 1995 and 1994 was \$886.5 million and \$673.6 million, respectively, which differs from the carrying amounts of \$801.3 million and \$653.3 million, respectively, included in the consolidated statement of financial position. The fair value of the Company's interest rate and currency contracts at September 30, 1995 and 1994, which are designated as hedges to the Company's debt and related interest cost, was \$68.7 million and \$28.0 million, respectively, which should be considered a reduction to the fair value of the debt mentioned above.

NOTE 6 PREFERRED STOCK

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

The preferred stock was 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 were cumulative at the rate of \$3.00 per share per annum. Such dividends were payable quarterly as declared by the Board of Directors.

In June 1995, the Company repurchased all outstanding shares of its convertible preferred stock for \$167.0 million. The fair market value of the preferred stock was \$149.4 million on its original date of issuance. The repurchase price in excess of this amount, \$17.6 million, is deducted from net income in arriving at net income per share of common stock.

NOTE 7 EMPLOYEE STOCK PLANS

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

Stock option activity for the Company during 1995, 1994 and 1993 was as follows:

Number of Shares (In thousands)	1995	1994	1993
Stock options outstanding, beginning of year	4,879	2,890	2,726
Granted (per share):			
1995 \$19.13 to \$20.50	1,349		
1994 \$20.13 to \$21.88		2,291	
1993 \$23.00			1,001
Exercised (per share):			
1995 \$13.38 to \$21.95	(153)		
1994 \$10.25 to \$15.38		(31)	
1993 \$10.25 to \$28.50			(721)
Expired	(1,060)	(271)	(116)
Stock options outstanding, end of year (per share: \$13.38 to \$28.50 at September 30, 1995)	<u>5,015</u>	<u>4,879</u>	<u>2,890</u>

At September 30, 1995, options were exercisable for 2.2 million shares, and 4.2 million shares were available for future option grants.

The Company has a plan that provides for the sale of convertible debentures to certain officers and key employees. An aggregate of \$30.0 million principal amount of debentures may be issued under the plan,

which are convertible into shares of common stock after one year. At September 30, 1995, a total of \$5.9 million principal amount of debentures are outstanding and convertible into 257,000 shares of common stock at \$13.38 to \$28.50 per share.

The Company has an Employee Stock Purchase

Plan (the "Plan") under which there remain authorized and available for sale to employees, at a discount of 15%, an aggregate of 2,068,000 shares of the Company's common stock. Based on the market price of common stock on the date of grant, the Company

estimates that approximately 450,000 shares will be purchased in July 1996. Under the Plan, 414,000, 421,000 and 521,000 shares were issued at \$17.96, \$17.96 and \$19.02 per share during 1995, 1994 and 1993, respectively.

NOTE 8 INCOME TAXES

The geographical sources of income before income taxes, extraordinary loss and cumulative effect of accounting changes for the three years ended September 30, 1995 are as follows:

(In thousands)	1995	1994	1993
United States	\$128,273	\$139,940	\$ 41,024
Foreign	76,827	86,176	59,027
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	<u>\$205,100</u>	<u>\$226,116</u>	<u>\$100,051</u>

The provision for income taxes for the three years ended September 30, 1995 are as follows:

(In thousands)	1995	1994	1993
Currently payable:			
United States	\$ 3,730	\$ 10,875	\$ 2,552
Foreign	36,604	36,733	19,294
Total currently payable	<u>40,334</u>	<u>47,608</u>	<u>21,846</u>
Deferred:			
United States	42,106	46,433	(1,053)
Foreign	2,677	933	20,402
Total deferred	<u>44,783</u>	<u>47,366</u>	<u>19,349</u>
Total provision for income taxes	<u>\$ 85,117</u>	<u>\$ 94,974</u>	<u>\$ 41,195</u>

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

(In thousands)	1995	1994	1993
Statutory income tax	\$ 71,785	\$ 79,141	\$ 34,818
Incremental effect of foreign operations	24,828	21,591	22,812
Goodwill amortization	4,155	5,653	6,903
State income taxes - net of U.S. tax benefit	995	2,940	1,701
Operating loss and credit carryforwards	(13,103)	(12,662)	(26,714)
Other-net	(3,543)	(1,689)	1,675
Provision for income taxes	<u>\$ 85,117</u>	<u>\$ 94,974</u>	<u>\$ 41,195</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss and tax credit carryforwards. The tax effects of the Company's temporary differences and carryforwards at September 30, 1995 and 1994 are as follows:

(In thousands)	1995	1994
Deferred tax liabilities:		
Property	\$ 54,500	\$ 56,100
Other assets	60,650	33,900
Excess costs arising from acquisitions	59,800	44,400
Undistributed earnings of foreign subsidiaries	34,150	29,600
Other	21,600	15,700
Total	<u>230,700</u>	<u>179,700</u>
Deferred tax assets:		
Receivables	3,200	4,900
Inventory	66,800	48,600
Employee benefits	47,400	36,750
Other accrued expenses	32,500	28,300
Operating loss carryforwards	27,000	27,400
Tax credit carryforwards	32,100	46,960
Other	11,800	7,750
Subtotal	<u>220,800</u>	<u>200,660</u>
Valuation allowance	(15,900)	(28,840)
Total	<u>204,900</u>	<u>171,820</u>
Net deferred tax liability	<u>\$ 25,800</u>	<u>\$ 7,880</u>

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. The Company has reserved the operating loss carryforwards in certain non-U.S. jurisdictions where its operations have decreased, currently ceased or the Company has withdrawn entirely. At September 30, 1994, the Company had fully reserved the U.S. credit portion of all its foreign tax credit ("FTC") carryforwards based on a recent historical pattern of expiring foreign tax credits and the lack of taxable income in amounts sufficient to utilize the

foreign tax credit carryforwards. At September 30, 1995, the Company determined that a valuation allowance was no longer required for the U.S. credit portion of its FTC carryforwards based on the expected utilization of FTC carryforwards in 1995 and expectations that taxable income will be generated during the carryforward period in amounts sufficient to utilize the FTC carryforwards. In addition, changes in the Company's profitability in Latin America resulted in a change in the valuation allowance for certain non-U.S. operating loss carryforwards. These changes in circumstances reduced the valuation allowance by \$8.3 million in 1995.

Provision has been made for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of foreign subsidiaries of the Company. The Company considers the undistributed earnings of its foreign subsidiaries above the amount already provided to be permanently reinvested. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend; however, the additional amount of taxes payable is not practicable to estimate.

At September 30, 1995, the Company had approximately \$32.1 million of general business, alternative minimum tax and foreign tax credits available to offset future payments of federal income taxes expiring in varying amounts between 1996 and 2008. At September 30, 1995, the Company had approximately \$8.4 million of U.S. capital loss carryforwards, which expire in varying amounts between 1998 and 2000.

NOTE 9 INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

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

Oilfield Industry: Manufacture and sale of equipment and provision of services used during and subsequent to the drilling of oil and gas wells to achieve safety and long-term productivity, to provide structural integrity to protect against pressure and corrosion damage and to stimulate or rework wells during their productive lives by chemical, mechanical or other stimulation means.

Process Industry: Manufacture and sale of process equipment for separating and treating liquids, solids and slurries for environmental and other process industries. The process industry also includes the results of Tracor Europa, a computer peripherals operation.

Disposed Businesses: The disposed businesses segment information includes the results of significant operations that have been disposed of in prior years.

The Company maintains worldwide manufacturing plants and service locations to serve these industry segments. Intersegment sales and transfers between geographic areas are priced at the estimated fair value of the products or services negotiated between the selling and receiving units. Operating profit is total revenues less costs and expenses (including unusual charges-net) but before deduction of general corporate expenses totalling \$35.0 million, \$32.8 million and \$35.6 million in 1995, 1994 and 1993, 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 \$253.6 million, \$281.3 million and \$231.2 million at September 30, 1995, 1994 and 1993, respectively.

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1995, 1994 and 1993 and for each of the years then ended is shown in the following tables:

(In thousands)	Oilfield	Process	Disposed Businesses	Eliminations	Total
OPERATIONS BY INDUSTRY SEGMENT:					
1995					
Revenues from unaffiliated customers:					
Sales	\$ 1,481,969	\$ 323,139			\$ 1,805,108
Services and rentals	806,254	26,102			832,356
Intersegment sales	9	7		\$ (16)	
Total revenues	2,288,232	349,248		(16)	2,637,464
Operating profit	269,630	32,334	\$ (11,083)		290,881
Identifiable assets	2,695,050	211,304	6,923	(318)	2,912,959
Capital expenditures	132,189	5,142		1,545	138,876
Depreciation and amortization	136,311	5,589		2,154	144,054
1994					
Revenues from unaffiliated customers:					
Sales	\$ 1,366,555	\$ 264,725	\$ 96,454		\$ 1,727,734
Services and rentals	744,086	32,938			777,024
Intersegment sales	297	589	4,678	\$ (5,564)	
Total revenues	2,110,938	298,252	101,132	(5,564)	2,504,758
Operating profit	157,906	21,628	39,116		218,650
Identifiable assets	2,504,512	188,265	30,594	(4,939)	2,718,432
Capital expenditures	100,514	4,188	2,713	1,224	108,639
Depreciation and amortization	141,369	7,260	4,053	1,513	154,195
1993					
Revenues from unaffiliated customers:					
Sales	\$ 1,332,407	\$ 278,849	\$ 334,537		\$ 1,945,793
Services and rentals	710,725	29,479	15,700		755,904
Intersegment sales	359	522	5,154	\$ (6,035)	
Total revenues	2,043,491	308,850	355,391	(6,035)	2,701,697
Operating profit	178,776	21,820	(6,130)		194,466
Identifiable assets	2,461,070	167,891	285,465	(2,330)	2,912,096
Capital expenditures	106,562	6,059	13,548	732	126,901
Depreciation and amortization	154,304	7,786	15,071	1,457	178,618

(In thousands)	Western Hemisphere		Eastern Hemisphere		Eliminations	Total
	United States	Other	Europe	Other		
OPERATIONS BY GEOGRAPHIC AREA:						
1995						
Revenues from unaffiliated customers:						
Sales	\$ 952,836	\$ 290,317	\$ 349,374	\$ 212,581		\$ 1,805,108
Services and rentals	260,032	155,650	248,521	168,153		832,356
Transfers between geographic areas	210,032	28,639	43,534	25,576	\$ (307,781)	
Total revenues	1,422,900	474,606	641,429	406,310	(307,781)	2,637,464
Operating profit	67,038	77,305	99,914	46,624		290,881
Identifiable assets	1,901,670	348,850	528,454	319,159	(185,174)	2,912,959
Export sales of U.S. companies		89,314	10,414	139,111		238,839
1994						
Revenues from unaffiliated customers:						
Sales	\$ 870,023	\$ 253,834	\$ 362,994	\$ 240,883		\$ 1,727,734
Services and rentals	308,106	108,282	209,875	150,761		777,024
Transfers between geographic areas	180,345	23,177	36,588	23,433	\$ (263,543)	
Total revenues	1,358,474	385,293	609,457	415,077	(263,543)	2,504,758
Operating profit	33,439	59,688	65,077	60,446		218,650
Identifiable assets	1,631,374	278,109	552,104	411,317	(154,472)	2,718,432
Export sales of U.S. companies		77,219	14,883	152,478		244,580
1993						
Revenues from unaffiliated customers:						
Sales	\$ 929,943	\$ 254,678	\$ 371,346	\$ 389,826		\$ 1,945,793
Services and rentals	281,844	95,325	195,224	183,511		755,904
Transfers between geographic areas	175,411	23,039	48,252	28,183	\$(274,885)	
Total revenues	1,387,198	373,042	614,822	601,520	(274,885)	2,701,697
Operating profit	(20,640)	43,077	65,606	106,423		194,466
Identifiable assets	1,689,377	298,381	663,132	402,428	(141,222)	2,912,096
Export sales of U.S. companies		79,236	14,503	197,607		291,346

NOTE 10 EMPLOYEE BENEFIT PLANS

Postretirement Benefits Other Than Pensions

The Company provides postretirement health care benefits for substantially all U.S. employees. Expense recognized in 1995 and 1994 under SFAS No. 106 was \$9.5 million and \$8.8 million, respectively. In

1993, the Company recognized \$9.5 million as expense for postretirement health care benefits under the cash basis method. The Company's postretirement plans are not funded.

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1995 and 1994:

(In thousands)	1995	1994
Accumulated postretirement benefit obligation ("APBO"):		
Retirees	\$ (70,885)	\$ (83,449)
Fully eligible active plan participants	(9,568)	(9,856)
Other active plan participants	(17,683)	(19,920)
Total	(98,136)	(113,225)
Unrecognized net (gain) loss	(8,740)	7,595
Accrued postretirement benefit cost	<u>\$(106,876)</u>	<u>\$(105,630)</u>
Net periodic postretirement benefit cost (in thousands):		
Service cost of benefits earned	\$ 1,300	\$ 1,300
Interest cost on APBO	8,200	7,500
Net periodic postretirement benefit cost	<u>\$ 9,500</u>	<u>\$ 8,800</u>

The assumed health care cost trend rate used in measuring the APBO as of September 30, 1995 was 8.0% for 1996 declining gradually each successive year until it reaches 5% in 2002, after which it remains constant. A 1% increase in the trend rate for health care costs would have increased the APBO by approximately 5% and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost by approximately 5%. The assumed discount rate used in determining the APBO was 7.5%.

Defined Benefit Pension Plans

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was \$1.4 million, \$1.4 million and \$1.3 million in 1995, 1994 and 1993, respectively. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements.

Net pension expense includes the following components:

(In thousands)	1995	1994	1993
Service cost - benefits earned during the period	\$ 1,375	\$ 954	\$ 1,413
Interest cost on projected benefit obligation	2,406	2,329	3,348
Actual return on assets	(4,793)	(1,710)	(3,545)
Net amortization and deferral	2,391	(216)	126
Net pension expense	<u>\$ 1,379</u>	<u>\$ 1,357</u>	<u>\$ 1,342</u>

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

	1995	1994	1993
Discount rate	7.3%	7.7%	7.3%
Rates of increase in compensation levels	3.0%	3.5%	4.5%
Expected long-term rate of return on assets	8.5%	8.6%	8.8%

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1995 and 1994:

(In thousands)	1995		1994	
	Overfunded Plans	Underfunded Plans	Overfunded Plans	Underfunded Plans
Actuarial present value of benefit obligations:				
Vested benefit obligation	\$ (21,906)	\$ (9,316)	\$ (15,309)	\$ (12,922)
Accumulated benefit obligation	\$ (22,826)	\$ (9,995)	\$ (15,518)	\$ (13,848)
Projected benefit obligation	\$ (24,050)	\$ (11,752)	\$ (16,812)	\$ (16,185)
Plan assets at fair value	30,828	3,324	22,159	7,387
Projected benefit obligation (in excess of) less than plan assets	6,778	(8,428)	5,347	(8,798)
Unrecognized prior service cost	371		259	98
Unrecognized net (gain) loss	(2,922)	(251)	(2,024)	239
Unrecognized net liability at transition	7	327	320	97
Prepaid pension cost (pension liability)	<u>\$ 4,234</u>	<u>\$ (8,352)</u>	<u>\$ 3,902</u>	<u>\$ (8,364)</u>

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

Thrift Plan

Virtually all U.S. employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The

Thrift Plan allows eligible employees to elect to contribute from 2% to 15% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of \$1.00 per \$1.00 employee contribution for the first 2% and \$.50 per \$1.00 employee contribution for the next 4% of the employee's salary. In addition, the Company contributes for

all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year with such contributions becoming fully vested to the employee after five years of employment. The Company's contribution to the Thrift Plan and other defined contribution plans amounted to \$27.5 million, \$26.3 million and \$23.6 million in 1995, 1994 and 1993, respectively.

Postemployment Benefits

The Company provides certain postemployment benefits to substantially all domestic former or inactive employees following employment but before retirement. Net postemployment expense in 1995 under SFAS No. 112 was \$2.8 million, which consisted of service and interest cost of \$1.0 million and \$1.8 million, respectively. Expense in 1994 and 1993 was \$2.0 million and \$2.2 million, respectively. Certain disability income benefits are provided through a qualified plan which is funded by contributions from the Company and employees. The primary asset of the plan is a guaranteed insurance contract with an insurance company. At September 30, 1995, the disability income obligation was \$10.2 million assuming a discount rate of 7% and the guaranteed insurance contract had a contract value of \$18.6 million. Certain additional benefits, pri-

marily the continuation of medical benefits while on disability, are provided through a nonqualified, unfunded plan. At September 30, 1995, the plan has an accumulated benefit obligation of \$27.8 million assuming a discount rate of 7%.

NOTE 11 STOCKHOLDER RIGHTS AGREEMENT AND OTHER MATTERS

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

Supplemental consolidated statement of operations information is as follows:

(In thousands)	1995	1994	1993
Operating leases (generally transportation equipment and warehouse facilities)	\$ 32,952	\$ 30,089	\$ 36,500
Research and development	37,423	37,393	41,067
Income taxes paid	49,672	39,397	43,112
Interest paid	45,206	55,488	65,673

At September 30, 1995, 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, 2000 are \$28.7 million, \$19.3 mil-

lion, \$12.2 million, \$8.1 million and \$7.0 million, respectively, and \$46.6 million in the aggregate thereafter. The Company has not entered into any significant capital leases.

NOTE 12 LITIGATION**Glyn Snell**

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

TRW Inc.

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

Other

See Note 3 for additional litigation matters that have been resolved. The Company is sometimes named as a defendant in litigation relating to the products and services it provides. The Company insures against these risks to the extent deemed prudent by its management, but no assurance can be given that the nature and amount of such insurance will in every case fully indemnify the Company against liabilities arising out of pending and future legal proceedings relating to its ordinary business activities.

NOTE 13 ENVIRONMENTAL MATTERS

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

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

At September 30, 1995 and 1994, the Company had accrued approximately \$13.3 million and \$18.8 million, respectively, for remediation costs, including the Superfund sites referred to above. The measurement of the accruals for remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the difficulty in estimating the extent and remedy of agreements may be available to the Company to mitigate the remediation costs, such amounts have not been considered in measuring the remediation accrual. The Company believes that the likelihood of material losses in excess of those amounts recorded is remote.

NOTE 14 QUARTERLY DATA (UNAUDITED):

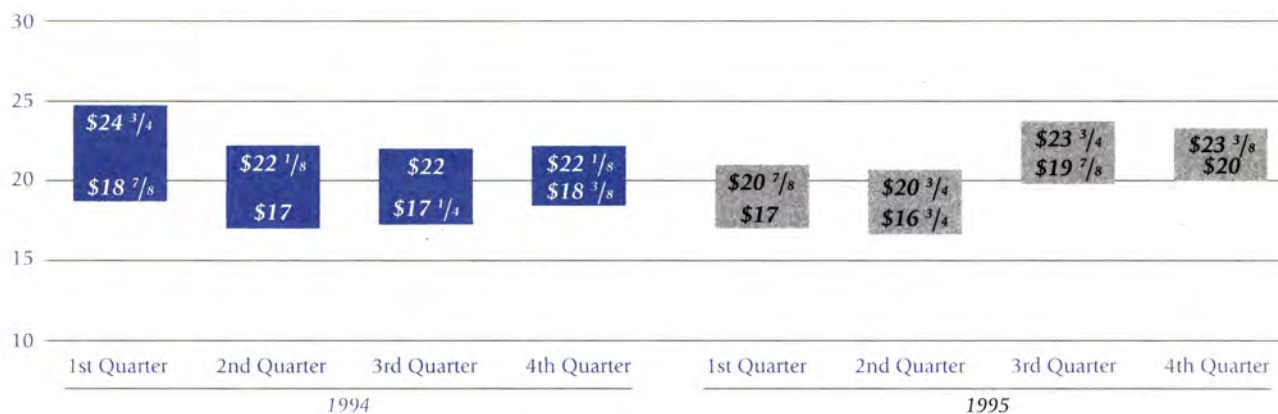
Summarized quarterly financial data for the years ended September 30, 1995 and 1994 are shown in the table below:

(In thousands of dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Total
FISCAL YEAR 1995: *					
Revenues	\$ 606,917	\$ 652,609	\$ 668,404	\$ 709,534	\$ 2,637,464
Gross Profit **	105,006	124,304	124,495	134,871	488,676
Income before cumulative effect of accounting change	24,231	28,000	32,242	35,510	119,983
Net income	9,633	28,000	32,242	35,510	105,385
Per share of common stock:					
Income before cumulative effect of accounting change	.15	.18	.09	.25	.67
Net income	.05	.18	.09	.25	.57
Dividends per share	.115	.115	.115	.115	.46
FISCAL YEAR 1994: *					
Revenues	\$ 624,562	\$ 650,016	\$ 590,532	\$ 639,648	\$ 2,504,758
Gross Profit **	104,882	114,747	100,293	102,091	422,013
Income before extraordinary loss and cumulative effect of accounting changes	16,879	23,288	34,439	56,536	131,142
Net income (loss)	(27,286)	23,288	22,651	24,004	42,657
Per share of common stock:					
Income before extraordinary loss and cumulative effect of accounting changes	.10	.14	.22	.39	.85
Net income (loss)	(.22)	.14	.14	.16	.22
Dividends per share	.115	.115	.115	.115	.46

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

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

Stock Prices by Quarter



FIVE YEAR SUMMARY OF FINANCIAL INFORMATION

BAKER HUGHES INCORPORATED

(In thousands, except per share amounts)	1995	1994	1993	1992	1991
Total revenues	\$ 2,637,464	\$ 2,504,758	\$ 2,701,697	\$ 2,538,515	\$ 2,828,357
Costs and expenses:					
Costs and expenses applicable					
to revenues	2,148,788	2,082,745	2,262,545	2,132,928	2,283,064
General and administrative	232,787	214,788	238,238	232,407	249,833
Unusual charges - net		31,829	42,000	79,190	62,946
Operating income of business sold		(10,488)			
Total	2,381,575	2,318,874	2,542,783	2,444,525	2,595,843
Operating income	255,889	185,884	158,914	93,990	232,514
Gain on sale of Pumpsystems		101,000			
Gain on sale of subsidiary stock					56,103
Interest expense	(55,595)	(63,835)	(64,703)	(68,112)	(83,561)
Interest income	4,806	3,067	5,840	6,078	7,295
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	205,100	226,116	100,051	31,956	212,351
Income taxes	(85,117)	(94,974)	(41,195)	(26,925)	(38,893)
Income before extraordinary loss and cumulative effect of accounting changes	119,983	131,142	58,856	5,031	173,458
Extraordinary loss		(44,320)			
Cumulative effect of accounting changes	(14,598)	(44,165)			
Net income	\$ 105,385	\$ 42,657	\$ 58,856	\$ 5,031	\$ 173,458
Per share of common stock:					
Income before extraordinary loss and cumulative effect of accounting changes	\$.67	\$.85	\$.34	\$.00	\$ 1.26
Net income	.57	.22	.34	.00	1.26
Dividends	.46	.46	.46	.46	.46
Financial Position:					
Cash and cash equivalents	\$ 6,817	\$ 69,179	\$ 6,992	\$ 6,692	\$ 51,709
Working capital	984,684	855,421	920,969	715,472	652,404
Total assets	3,166,591	2,999,682	3,143,340	3,212,938	2,905,602
Long-term debt	798,352	637,972	935,846	812,465	545,242
Stockholders' equity	1,513,606	1,638,472	1,610,648	1,645,522	1,545,361

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the adoption of new accounting standards in 1995 and 1994. In addition to the dispositions discussed in Note 2 of Notes to Consolidated Financial Statements, the Company acquired Teleco Oilfield Services Inc. in 1992 and ChemLink Group, Inc. in 1991. The Company also sold Baker Hughes Tubular Services ("BHTS") in 1992 and the TOTCO division of Exlog, Inc. and the remaining 29% of BJ Services Company in 1991. See Note 3 of Notes to Consolidated Financial Statements

for a description of the unusual charges-net in 1994 and 1993. The unusual charges-net in 1992 consisted primarily of restructurings in Oilfield Operations and litigation claims offset by the gain on the disposition of BHTS. The unusual charges-net in 1991 consisted primarily of the restructuring of Hughes Christensen Company and litigation and insurance claims offset by the gain on the disposition of TOTCO. See Note 4 of Notes to Consolidated Financial Statements for a description of the extraordinary loss in 1994.

C O R P O R A T E I N F O R M A T I O N

Board of Directors

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

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

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

Jack S. Blanton
President of Eddy
Refining Company

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

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

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

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

Max L. Lukens **
President and Chief Operating
Officer of Baker Hughes
Incorporated

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

James F. McCall ***
Lt. General, U.S. Army (Retired)
Executive Director of the
American Society of
Military Comptrollers

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

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

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

Corporate Information

Transfer Agent and Registrar:
First Chicago Trust Company
of New York, NY
Telephone: 201/324-1644

Independent Accountants:
Deloitte & Touche LLP
Houston, TX.

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

Form 10-K:
A copy of the Company's Annual
Report to the Securities and
Exchange Commission (Form 10-K)
is available by writing to: Scott Gill,
Vice President, Investor Relations,
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 24, 1996 at the
offices of the Company, 3900 Essex
Lane, Suite 210, Houston, TX.

Baker Hughes Incorporated

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

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

Baker Hughes Information System
1-800-969-7447

Baker Hughes on The World Wide
Web: <http://WWW.BHI-Net.com>

* Will retire at the Annual Meeting of
Stockholders to be held January 24, 1996
due to the term limitation contained in
the Corporation's Bylaws.

** Nominee to fill the vacancy in Class
III directors created by the retirement of
Mr. Anderson.

*** Nominee to be an addition in Class
III directors.

C O R P O R A T E O R G A N I Z A T I O N

Corporate Officers

James D. Woods
Chairman and Chief
Executive Officer

Max L. Lukens
President and Chief
Operating Officer

Eric L. Mattson
Senior Vice President
and Chief Financial Officer

G. Stephen Finley
Senior Vice President and
Chief Administrative Officer

Arthur T. Downey
Vice President, Government Affairs

Scott Gill
Vice President, Investor Relations

R. Pat Herbert
Vice President, Market Development
& Technology

Lawrence O'Donnell, III
Vice President, General Counsel
and Corporate Secretary

James E. Braun
Controllor

Douglas C. Doty
Treasurer

M. Glen Bassett
Vice President and President,
Baker Performance Chemicals,
Incorporated

Joseph F. Brady
Vice President and President,
Centrilift

Edwin C. Howell
Vice President and President,
Baker Oil Tools

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

Andrew J. Szescila
Vice President and President,
Hughes Christensen Company

Jay P. Trahan
Vice President and President,
Baker Hughes INTEQ



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