

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-9397

BAKER HUGHES INCORPORATED
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

76-0207995
(I.R.S. EMPLOYER IDENTIFICATION NO.)

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

77027-5177
(ZIP CODE)

3900 ESSEX LANE, HOUSTON, TEXAS
(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 439-8600

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, \$1 PAR VALUE	NEW YORK STOCK EXCHANGE PACIFIC STOCK EXCHANGE
COMMON STOCK PURCHASE RIGHTS	THE SWISS STOCK EXCHANGE NEW YORK STOCK EXCHANGE PACIFIC STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: WARRANTS TO
PURCHASE COMMON STOCK

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceeding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

At December 7, 1994, the registrant had outstanding 141,005,606 shares of
Common Stock, \$1 par value. The aggregate market value of the Common Stock on
such date (based on the closing price on the New York Stock Exchange) held by
nonaffiliates was approximately \$2,460,171,175.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Annual Report to Stockholders for 1994 are
incorporated by reference into Parts I and II.

Portions of Registrant's 1994 Proxy Statement for the Annual Meeting of
Stockholders to be held January 25, 1995 are incorporated by reference into
Part III.

PART I

ITEM 1. BUSINESS

The Company operates in two industry segments, Oilfield Services and Equipment and Process Products and Services. In addition to these industry segments, the Company manufactures and sells other equipment and provides services to industries not related to either the petroleum or process industries. Certain of the Company's operations are conducted through joint ventures or partnerships.

The Company is a Delaware corporation which was formed in connection with the combination of Baker International Corporation ("Baker") and Hughes Tool Company ("Hughes") consummated on April 3, 1987 (the "Combination"). Baker and Hughes were publicly-traded companies registered with the Securities and Exchange Commission for more than five years. As used herein, the "Company" refers to Baker Hughes Incorporated and its subsidiaries and the majority-owned joint ventures and partnerships in which Baker Hughes Incorporated and its subsidiaries participate, unless the context clearly indicates otherwise.

For additional industry segment information for each of the three years in the period ended September 30, 1994, see Note 9 of Notes to Consolidated Financial Statements which is incorporated herein by reference in Part II, Item 8 hereof ("Notes to Consolidated Financial Statements").

OILFIELD SERVICES AND EQUIPMENT

The Company manufactures and markets a broad range of rolling cutter and diamond drilling bits, ranging upward from 3-3/4 inches in diameter, which are designed for drilling in specific types of rock formations. The Company believes that it is the leading worldwide manufacturer of rock bits and that its principal competitors are Smith International, Inc. ("Smith"), the Security Division of Dresser Industries, Inc. ("Dresser"), Reed Tool Company and Hycalog, operating units of Camco, Incorporated.

The Company also produces and markets drilling fluids (muds) for oil and gas well drilling, as well as chemical additives and specialty chemicals, and provides technical services in connection with their formulation and use. Drilling fluids, which are usually barite and bentonite combined with other chemicals in a water, chemical or oil base, are used to clean the bottom of a hole by removing cuttings and transporting them to the surface, to cool the bit and drill string, to control formation pressures and to seal porous well formations. The Company also furnishes on-site, around-the-clock laboratory analysis and examination of circulated and recovered drilling fluids and recovered drill cuttings to detect the presence of hydrocarbons and identify the formations penetrated by the drill bit. The Company's principal competitors in these markets are M-I Drilling Fluids, which is jointly owned by Halliburton Company ("Halliburton") and Smith, and Baroid Corporation, a subsidiary of Dresser.

The Company believes it is the industry's leading supplier of directional and horizontal drilling services, downhole motors, coring services, subsurface surveying and both directional and formation-evaluation measurement-while-drilling services. The Company's specialized positive displacement downhole motors help operators to steer wells into pay zones for conventional directional drilling, and short, medium and long-radius horizontal drilling. A full range of measurement-while-drilling systems provided by the Company use mud-pulse telemetry to deliver real-time downhole information on the drilling process and the reservoir. The systems are available for every application, from directional-only service through wireline-replacement real-time logging. Through the well engineering and planning process, the Company integrates its high-performance drilling tools with downhole information systems to provide customers with a total systems approach. In these markets, the Company competes principally with Halliburton, Sperry-Sun, a subsidiary of Dresser, and Anadrill, a subsidiary of Schlumberger Ltd.

Other products of the Company related to drilling include surface and downhole instruments which collect, display and record data regarding various aspects of the drilling process and the possible accumulation of oil and gas.

After oil and gas wells are drilled, they must be completed and equipped using production tools, serviced to achieve safety and long-term productivity, protected against pressure and corrosion damage and stimulated or repaired during their productive lives. The Company provides a broad range of production tools and oilfield services to meet many of these needs.

Packers, a major product of the Company, are used to seal the space between the production tubing and the casing to protect the casing from reservoir pressures and corrosive formation fluids and also to maintain the separation of productive zones. The Company believes that it is the leading worldwide producer of packers, and that its principal competitors are the Guiberson AVA Division of Dresser and the Otis Division of Halliburton.

The Company manufactures liner hanger tools and equipment used to suspend and set strings of casing pipe in wells. It also manufactures downhole electric submersible pumps and variable frequency drive systems for use with such pumps, and provides related control equipment, electrical cable and repair services for artificial lift. The Company provides fishing tool services using specialized tools to locate, dislodge and retrieve twisted off, dropped or damaged pipe, tools or other objects from the well bore. It also provides inflatable and mechanical packers which are used in testing the potential of a well during the drilling phase prior to installation of casing, and under-reamers, which enlarge the well bore at any point below the surface to form a production cavity.

Other completion, remedial and production products and services include specialty chemicals used by the production segments of the petroleum industry (with Petrolite Corporation being the Company's principal competitor in the market for completion, remedial and production specialty chemicals) as well as industrial chemicals used in refining, waste water treatment, mineral handling and cooling and boiler water processes; control systems for surface and subsurface safety valves and surface flow lines; and flow regulators and packers used in secondary recovery waterflood projects. The Company offers gravel packing, a specialized service which prevents sand from entering the well bore and reducing productivity, as well as

other sand control services. It also provides tubing conveyed perforating services to provide paths through the casing and cement sheath in wells so that oil and gas can enter the well bore from the formation.

PROCESS EQUIPMENT PRODUCTS AND SERVICES

The Company provides a broad range of solid/liquid separation equipment and systems to concentrate product or separate and remove waste material in the mineral, municipal and industrial wastewater and pulp and paper industries. Product lines include vacuum filters (drum, disc and horizontal belt), filter presses, belt presses, granular media filters, thickeners, clarifiers, flotation cells and aeration equipment. Major competitors are Dorr-Oliver, Otokumpu and Sala in the worldwide minerals and industrial markets, Envirex and General Filter in municipal markets, and Alstrom is the principal competitor in the pump and paper market.

The Company manufactures and markets solid bowl, screen bowl and pusher centrifuges, tilting pan filters and a high speed Bird Young drum filter for the minerals, chemical and petrochemical sectors where the equipment is used for dewatering of process flow streams. The tilting pan filter is the preferred equipment in potash and phosphate fertilizer markets. Principal competitors in the centrifuge product lines are Alfa-Laval and Klockner-Humbolt-Deutch.

The Company designs and manufactures systems for the treatment of produced water and its reinjection and treatment of refinery waste streams. Products include coarse filters, fine filters, flotation units, coalescers, deaeration towers and electrochlorination cells. Primary competitors are General Filter and Serck Baker.

The Company provides parts and service for all of its product lines through a global network of personnel and facilities strategically located to serve the customer community.

OTHER

On September 30, 1994, the Company sold the EnviroTech Puumpsystems group of companies to The Weir Group PLC. The sale provided approximately \$210 million in proceeds and resulted in a gain of \$101 million.

On March 15, 1994, the Company sold the EnviroTech Measurements and Controls group of companies to Thermo Electron Corporation. The sale provided approximately \$134 million in proceeds and resulted in a gain of \$8.6 million.

ENVIRONMENTAL MATTERS

The Company's subsidiaries, divisions and customers are subject to local, state and federal regulations with regard to air and water quality and other environmental matters. The Company believes that it is in substantial compliance with these regulations. Regulation in this area is in the process of development, and changes in standards of enforcement of existing

regulations as well as the enactment and enforcement of new legislation may require the Company, its subsidiaries and divisions, as well as its customers, to modify, supplement or replace equipment or facilities, or to change or discontinue present methods of operation.

While making projections of future costs in the environmental area can be difficult and uncertain, based upon current information, the Company estimates that during the fiscal year ending September 30, 1995, the Company will spend approximately \$13,600,000 to enable the Company to comply with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, "Environmental Regulations"). Based upon current information, the Company believes that its compliance with Environmental Regulations will not have a material adverse effect upon the capital expenditures, earnings and competitive position of the Company and its subsidiaries because the Company has adequate reserves for such compliance expenditures or the cost to the Company for such compliance will be small when compared to the Company's overall net worth.

In addition to the amounts described in the preceding paragraph, based upon current information, the Company estimates that it will incur capital expenditures of approximately \$3,030,000 for environmental control equipment during the fiscal year ending September 30, 1995. Based upon current information, the Company believes that capital expenditures for environmental control equipment for the 1995 and 1996 fiscal years, as well as such future periods as the Company deems relevant, will not have a material adverse effect upon the financial condition of the Company because the aggregate amount of these expenditures for such periods is or will be small when compared to the Company's overall net worth.

The Company and certain of its subsidiaries and divisions have been identified as a potentially responsible party ("PRP") as a result of substances which may have been released in the past at various sites more fully discussed below. The United States Environmental Protection Agency (the "EPA") and appropriate state agencies are supervising investigative and clean-up activities at these sites.

(a) The Company's subsidiaries, Hughes Christensen ("HC"), a division of Baker Hughes Oilfield Operations, Inc. ("BH00"), Milpark Drilling Fluids ("Milpark") (now known as Baker Hughes INTEQ, a division of BH00), and a former subsidiary of the Company, Baker Hughes Tubular Services, Inc. ("BHTS"), have been named as PRPs in the French Limited Superfund Site which consists of a 15 acre wastepit and a seven acre lagoon located in Crosby, Texas. The site is on the Superfund National Priorities List. This site has been in active remediation for five (5) years and is managed by a task force of PRPs ("FLTG, Inc. Task Force"). \$64,700,000 has been spent to date by FLTG, Inc. Task Force, with additional costs of approximately \$18,500,000 being anticipated by FLTG, Inc. Task Force. The contribution of the Company's subsidiaries (including BHTS which was sold to ICO on September 30, 1992) is estimated to be approximately 1.33% of those costs (such proportion being based upon the ratio that the number of gallons of waste estimated to be contributed to the site by the Company's subsidiaries bears to the total number of gallons of waste estimated to have been disposed of at the site, and being herein sometimes

referred to as a "Volumetric Calculation"). A portion of the Company's liability (.77%) is covered by an indemnity from ICO. The Company has settled that portion of its liability for this site not covered by the Indemnity Agreement (.56%) for \$62,721, and the Company does not anticipate any additional liability for this site. The Company will continue to follow the progress of the site through completion.

(b) Baker Performance Chemicals Incorporated ("BPCI"), a subsidiary of the Company, HC, Milpark, BHTS and Baker Oil Tools ("BOT"), a division of BHOO, have been named as PRPs in the Sheridan Superfund Site, located in Hempstead, Texas. The remedial work at this site is being overseen by the Texas Natural Resource Conservation Commission. A trust formed to remediate the site and to allocate responsibility for the costs of such remedial work estimates that the total cost of remediation will be approximately \$30,000,000, with the contribution of the Company's subsidiaries (including BHTS which was sold to ICO on September 30, 1992) estimated to be approximately 0.63% of those costs (based upon a Volumetric Calculation).

(c) BPCI and Centrilift, a division of BHOO, have been named as PRPs in the Hardage Industrial Waste Disposal Superfund Site, located in Criner, Oklahoma. It has been estimated that the contribution to the contamination at this site by the Company's two subsidiaries is approximately 0.005% and 0.19%, respectively, of the total waste at such site (based upon a Volumetric Calculation). An agreement has been reached to release the Company and its subsidiaries from liability for a total of \$325,000 to be paid over three years. The first annual installment in the amount of \$108,333, was paid on November 1, 1994.

(d) Centrilift has also been named as a PRP in the Sand Springs Superfund Site, a former oil refinery operation situated on approximately 200 acres located west of Tulsa, Oklahoma on the Arkansas River. Following the shutdown of refining operations in 1948, portions of the site were operated by third parties as a storage and treatment facility for industrial waste. ARCO, successor in interest to Sinclair, the operator of the former refinery, has entered into a consent decree with the EPA to design and construct source control facilities, the total cost of which is estimated to be approximately \$15,000,000, with the contribution of the Company's subsidiary estimated to be approximately \$250,000, or 1.67% of the total cost.

(e) BPCI, has been named as a PRP in the Odessa Drum Company Superfund Site located in Odessa, Texas. Total cost of abatement at the site is currently estimated to be \$7,000,000. A de minimis Settlement Agreement with the PRP group has been signed under which BPCI has agreed to pay \$55,000.

(f) Spectrace Instruments, Inc. ("Spectrace"), a subsidiary of the Company, has been named as a PRP in the MEW Study Area, an eight square mile soil and groundwater contamination site located in Mountain View, California. A group of PRPs estimates that the total cost of remediation will be

approximately \$80,000,000. The Company's environmental consultants have conducted extensive investigations of Spectrace's operating facility located within the MEW Study Area, and have concluded that Spectrace's activities could not have been the source of any contamination in the soil or groundwater at and around the MEW Study Area. The Company has had several meetings with the EPA and the other PRPs and their respective counsel and consultants in an attempt to resolve this dispute. The EPA has recently informed the Company that no further work needs to be performed on Spectrace's site and indicated that the EPA does not believe there is a contaminant source on the property. The Company continues to believe the EPA's Administrative Order for Remedial Design and Remedial Action is not valid with respect to the Company's subsidiary and is diligently seeking the withdrawal of such Order with respect to the Company's subsidiary.

(g) Hughes Tool Company (now known as Hughes Christensen), Eastman Teleco Company (now known as Baker Hughes INTEQ, a division of BH00), and EIMCO, a subsidiary of the Company, have been named as PRPs in the Marco of Iota hazardous waste storage and treatment facility located in Iota, Acadia Parish, Louisiana. In 1991, the Marco facility was abandoned by the owners and the EPA discovered hazardous substances were being released into the surrounding environment. EPA records, corroborated by current Company information, suggest that the contribution to the contamination at this site by these subsidiaries of the Company is less than .005% of the total volume of wastes at this site. The hazardous wastes disposed of at this site have now been removed under the EPA's emergency response authority at a cost of approximately \$6,000,000. A de minimis buyout offer from either the EPA or the PRP group is anticipated in the future.

(h) BPCI, by virtue of its acquisition of ChemLink, was named in an administrative action brought by the EPA pursuant to the Toxic Substances Control Act. The complaint filed by the EPA alleges failure on the part of ChemLink to properly notify the EPA of the manufacture of a new chemical substance and asserts a fine against ChemLink in the amount of \$280,000. Contractual indemnities are available to BPCI as a part of the acquisition of ChemLink which the Company believes cover any liability of BPCI in connection with this action, including any defense costs.

(i) In May 1987, BPCI entered into an Agreed Administrative Order with the then Texas Water Commission, now known as the Texas Natural Resource Conservation Commission ("TNRCC"), with respect to soil and groundwater contamination at the Odessa - Hillmont site located in Odessa, Texas. This site was previously used by BPCI as a chemical blending plant. The contaminated soil has been removed and the site continues in the groundwater recovery/treatment phase at an annual cost of approximately \$60,000.

(j) Oil Base, Inc. and Hughes Drilling Fluids (now known as Baker Hughes INTEQ, a division of BH00), have been identified as PRPs in the PAB Superfund Site located in Abbeville, Louisiana. Due to certain issues at this site, the Company has estimated that the contribution to the contamination by these entities is approximately 2.0%-5.0% of the total waste at this site. A Volumetric Calculation is not possible because the disposal records maintained at this site are incomplete and inaccurate. The Company's ultimate percentage of liability will depend in part upon the final allocation of volumes among the participating PRPs. Resolution of these issues is currently being sought through an ADR process supported by Region VI of the EPA. The EPA currently estimates the total cost of remediation at this site will be approximately \$20,000,000. The Company is currently participating with other PRPs to fund certain remedial design efforts on an interim basis in order to comply with the EPA order, pending the finalization of the ADR process anticipated to occur within the next eighteen (18) months.

(k) PA Inc., a former subsidiary of the Company, was identified as a PRP in the Sonics International Superfund Site, a former hazardous waste disposal facility located near Ranger, Texas. It is not possible at this time to quantify the Company's ultimate liability. The Company currently believes that its former subsidiary is a de minimis PRP at this site based upon the small amount of waste allegedly contributed to this site by the Company's former subsidiary (approximately 1.64% based upon a Volumetric Calculation). The remediation proposed by the PRP group is estimated to cost \$700,000, and the Company anticipates its ultimate liability to be approximately \$25,000.

(l) The Company and Envirotech Corporation (now known as EVT Holdings, Inc.) have been sued by the Michigan Department of Natural Resources ("MDNR"). The MDNR has alleged that contamination to the residential water wells in the township of Rock, Michigan was caused in part by a 500 gallon diesel underground storage tank formerly located (removed in 1992) on real property acquired by the Company as a result of the acquisition of Envirotech in 1982. The MDNR has also brought suit against other potentially responsible parties. The MDNR is demanding partial payment from the Company and Envirotech (approximately \$1,200,000) for a residential drinking water system installed in response to elevated levels of petroleum hydrocarbons in residential drinking water wells. The Company has met with the MDNR regarding the allegations, and after review of the state's reports and data, as well as the Company's own data, it is the Company's position that it has no liability.

(m) Milpark (now known as Baker Hughes INTEQ, a division of BH00) has been identified as a PRP at the Toups Farm Superfund Site (eligible for cleanup under the Texas State Cleanup Fund) located two miles north of South Lake at the intersection of Highway 105 and Highway 326 near Hallettsville, Texas. The site consists of approximately 21 acres, and was operated over the years as a municipal landfill, fence post treating company, and a hog farm. Based on available information, the Company does not believe it has any liability for contamination at the site.

(n) The Company and BPCI have been named as PRPs at the former Fike Chemical Company site located in Nitro, West Virginia. The Company and BPCI were alleged to be responsible by virtue of business transactions involving toll chemical processing and raw materials with the site's operator, Fike Chemical. Contractual indemnities are available to BPCI as part of the acquisition of Chemlink, which the Company believes cover any liability of BPCI in connection with this action, including defense costs.

(o) Milpark and Baker Sand Control (now known as Baker Hughes INTEQ, a division of BH00) have been named as PRPs at the DL Mud Superfund Site located in Abbeville, Louisiana. This site was used for the disposal of used drilling fluids and drilling muds. However, another named PRP is responsible for over 98% of the waste volume disposed of at this site, and such PRP has agreed to remediate this site totally. The Company does not anticipate that it will have any liability for this site.

(p) Milpark (now known as Baker Hughes INTEQ, a division of BH00) has been named as a PRP at the Mar Services Superfund site located in Crankton, Louisiana. It has been estimated that the contribution to this site by the Company's subsidiary is approximately .08% of the total volume of solids at the site (based upon a volumetric calculation). The site is now undergoing investigative studies to determine the remedial action plan, as well as, a total estimated cost for remediation.

(q) Teleco (now known as Baker Hughes INTEQ, a division of BH00) has been named as a PRP at the Solvent Recycling Service of New England Superfund Site located in Southington, Connecticut. Approximately 1,000 companies have been named as PRPs at this site. Calculations from the PRP group verified by the Company indicate that Teleco contributed .00006% of the volume at the site. The total cost of cleanup at the site is currently estimated to be \$3,500,000. A de minimis buyout offer from either the EPA or the PRP group is anticipated in the future.

While PRPs in Superfund actions have joint and several liability for all costs of remediation and in many of the sites described above it is not possible at this time to quantify the Company's ultimate exposure because the project is either in its early investigative or remediation stage, based upon current information, the Company does not believe that probable and reasonably possible expenditures in connection with any of the sites described above are likely to have a material adverse effect on the Company's financial condition because: (i) the Company has established adequate reserves to cover what the Company presently believes will be its ultimate liability with respect to the matter, (ii) the Company and its subsidiaries have only limited involvement in the sites based upon a Volumetric Calculation, as described above, (iii) there are other PRPs who have greater involvement on a Volumetric Calculation basis who have substantial assets and who may reasonably be expected to pay their share of the cost of remediation, (iv) where discussed above, the Company has insurance coverage or contractual indemnities from third parties to cover the ultimate liability, and (v) the Company's ultimate liability, based upon current information, is small compared to the Company's overall net worth.

The Company, through its subsidiaries and/or divisions, is subject to various other governmental proceedings relating to environmental matters, but the Company does not believe that any of these matters is likely to have a material adverse effect on its financial condition.

MARKETING, COMPETITION AND ECONOMIC CONDITIONS

The products of each of the Company's principal industry segments are marketed primarily through its own sales organizations on a product line basis, although certain products and services are marketed through supply stores and independent distributors. Technical and advisory services are ordinarily provided to assist in the customer's use of the Company's products and services. Stockpoints and service centers are located in areas of drilling and production activity throughout the world. The Company markets its products and services in nearly all of the oil producing countries. In certain foreign areas where direct product sales efforts are not practicable, the Company utilizes licensees, sales agents and distributors.

The products of each of the Company's principal industry segments are sold in highly competitive markets, and its revenues and earnings can be affected by changes in competitive prices, fluctuations in the level of activity in major markets, general economic conditions and governmental regulation. The Company competes with a large number of companies, a few of which have greater resources and more extensive and diversified operations than the Company. The Company believes that the principal competitive factors in the industries which it serves are product and service quality and availability, technical proficiency and price.

INTERNATIONAL OPERATIONS

Revenues attributable to sales of products and provision of services for use outside the United States (which, for 1994, consisted of revenues from non-U.S. operations of \$1,233.2 million and export sales from the United States of \$244.6 million) accounted for approximately 59%, 66%, and 66% of the Company's total revenues for the years ended September 30, 1994, 1993 and 1992, respectively. These revenues in 1994 were distributed approximately as follows: Europe, 20%; other Eastern Hemisphere, 21%; and Non-U.S. Western Hemisphere, 18%. See Note 9 of Notes to Consolidated Financial Statements which is incorporated herein by reference.

The Company's operations are subject to the risks inherent in doing business in multiple countries with various legal and political policies. Such risks include war, boycotts, political changes, expropriation, currency restrictions, taxes and changes in currency exchange rates. Although it is impossible to predict the likelihood of such occurrences or their effect on the Company, management believes these risks to be acceptable and, in view of the diversified nature of the Company's activities, does not consider them a factor materially adverse to its operations as a whole.

RESEARCH AND DEVELOPMENT; PATENTS

At September 30, 1994, the equivalent of approximately 429 full-time employees were engaged in research and development activities directed primarily toward improvement of existing products and services and design of specialized products to meet specific customer needs and development of new products and processes. For information regarding the amounts of research and development expense for each of the three years in the period ended September 30, 1994, see Note 11 of Notes to Consolidated Financial Statements which is incorporated herein by reference.

The Company has followed a policy of seeking patent protection both inside and outside the U.S. for products and methods which appear to have commercial significance. The Company believes its patents and trademarks to be adequate for the conduct of its business, and while it regards patent and trademark protection important to its business and future prospects, it considers its established reputation, the reliability of its products and the technical skills of its personnel to be more important. The Company aggressively pursues protection of its patents against patent infringement worldwide.

EMPLOYEES

At September 30, 1994, the Company had a total of approximately 14,700 employees, as compared to approximately 18,400 employees at September 30, 1993. Approximately 680 employees at September 30, 1994 were represented under collective bargaining agreements which terminate at various times through 1996. The Company believes that its relations with its employees are satisfactory.

EXECUTIVE OFFICERS

The following table shows as of December 7, 1994, the name of each executive officer of the Company, together with his age and all offices presently held with the Company.

NAME OF INDIVIDUAL	AGE	
James D. Woods	63	Chairman of the Board, President, and Chief Executive Officer since 1987. Employed 1955.
Max L. Lukens	46	Executive Vice President since 1994 and President, Baker Hughes Oilfield Operations, since 1993. Employed 1981. Chief Financial Officer, 1984-1989; President, Baker Hughes Production Tools, 1989-1993; Senior Vice President from 1987 to 1994.

Timothy J. Probert	43	Vice President and President of Baker Hughes Process Equipment Operations since 1994. Employed 1972. President, Milpark, 1989-1990; President, Eastman Christensen, 1990-1992; President, Eastman Teleco, 1992-1993; Executive Vice President, Baker Hughes INTEQ, 1993; Vice President, Drilling & Evaluation Technology Unit, Baker Hughes INTEQ, 1993-1994.
James E. Braun	35	Controller since 1993. Employed 1993. From 1981-1993, Deloitte & Touche; Partner from 1991.
Arthur T. Downey	57	Vice President - Government Affairs since 1992. Employed 1992. Partner, Johnson & Gibbs from 1990-1992; Partner, Sutherland, Asbill & Brennan, 1977-1990.
George S. Finley	43	Vice President since 1990 and Chief Financial Officer of Baker Hughes Oilfield Operations since 1993. Employed 1982. Controller, 1987-1993.
Scott B. Gill	35	Vice President - Investor Relations since 1993. Employed 1990. Director of Technical Services, Baker Sand Control, 1990-1992; Integrated Engineering Services Manager, Baker Sand Control, 1992-1993.
Roger P. Herbert	48	Vice President since 1994 and Vice President - Technology and Market Development, Baker Hughes Oilfield Operations, since 1993. Employed 1988. President, Baker Hughes Drilling Systems, 1988-1990; President, Baker Hughes MWD, 1990-1991; President, Develco, 1991-1993.
Eric L. Mattson	43	Senior Vice President since 1994 and Chief Financial Officer since 1993. Employed 1980. Treasurer from 1983-1994; Vice President from 1988 to 1994.
Franklin Myers	42	Senior Vice President since 1994 and General Counsel since 1988. Employed 1988. Corporate Secretary from 1988 to 1992; Vice President from 1988 to 1994.
Phillip A. Rice	59	Vice President - Human Resources since 1985. Employed 1980.

There are no family relationships between the executive officers of the Company.

The Company follows the practice of electing its officers annually immediately after its Annual Meeting of Stockholders.

ITEM 2. PROPERTIES

The Company operates 72 principal manufacturing plants, almost all of which are owned, ranging in size from approximately 2,000 square feet to approximately 233,000 square feet of manufacturing space and totaling more than 2,967,000 square feet. Of such total, approximately 2,024,000 square feet (68%) are located in the United States, 301,000 square feet (10%) are located in the Western Hemisphere exclusive of the United States, 532,000 square feet (18%) are located in Europe and 110,000 square feet (4%) are located in the Eastern Hemisphere exclusive of Europe. Principal manufacturing plants by industry segment and geographic area appear in the table below.

	U.S.	Other Western Hemisphere	Europe	Other Eastern Hemisphere	Total
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Oilfield Services and Equipment	36	8	8	9	61
Process Equipment Products and Services	7	2	2	-	11

The Company believes that its manufacturing facilities are well maintained. The Company also has a significant investment in service vehicles, rental tools and equipment. During 1994 and 1992, the Company recognized permanent impairments and wrote down to net realizable value certain inventory, property, plant and equipment. For further information regarding these write-downs, see Note 3 of Notes to Consolidated Financial Statements which is incorporated herein by reference. The Company believes it has the capacity to meet increased demands in each of its industry segments.

ITEM 3. LEGAL PROCEEDINGS

On September 16, 1994, the Company and its insurers settled, for \$.8 million, litigation instituted June 30, 1992, by Mission Resources, Inc. - II in the Superior Court for the State of California for the County of Kern, in connection with product delivery or service variances on approximately 53 well stimulation projects performed by the Company's former subsidiary, BJ-Hughes in Kern County, California. Although the suit did not name the Company as a defendant, the allegations may have fallen within the Company's agreement, in connection with the initial public offering by BJ Services Company, to indemnify it for damages, if any, and costs of litigation arising out of any such claims.

On August 5, 1994, the Company settled, for \$7.5 million, a class action instituted February 15, 1991 by Glyn Snell, et al. on behalf of royalty interest owners in the 238th Judicial District Court in Midland County, Texas implicating Dresser, BJ Services Company, the Company and affiliates in damages to a number of wells in West Texas.

On July 18, 1994, the Company settled, for \$1 million, a complaint instituted March 31, 1993 by Chevron USA Inc. in the United States District Court for the Southern District of Texas, Houston Division alleging a conspiracy by the Company and three other major producers of tricone rock bits, Reed Tool Company, Smith and Dresser, in violation of federal antitrust laws regarding pricing of such rock bits.

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

See also "Business -- Environmental Matters."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is principally traded on The New York Stock Exchange. At December 7, 1994, there were approximately 59,155 stockholders and 18,155 stockholders of record.

For information regarding quarterly high and low sales prices for the Company's Common Stock, see page 48 of the 1994 Annual Report to Stockholders which is incorporated herein by reference.

For information regarding dividends declared on the Company's Common Stock, see Note 15 of Notes to Consolidated Financial Statements which is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Condensed Comparative Consolidated Financial Information" on page 17 of the 1994 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion And Analysis Of Financial Condition And Results Of Operations" on pages 19 through 25 of the 1994 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and the independent auditors' report set forth on pages 26 through 48 of the 1994 Annual Report to Stockholders are incorporated herein by reference:

Independent Auditors' Report.

Consolidated Statements of Operations for each of the three years in the period ended September 30, 1994.

Consolidated Statements of Financial Position as of September 30, 1994 and 1993.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended September 30, 1994.

Consolidated Statements of Cash Flows for each of the three years in the period ended September 30, 1994.

Notes to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the directors of the Company is set forth in the section entitled "Election of Directors" in the Proxy Statement of the Company for the Annual Meeting of Stockholders to be held January 25, 1995, which section is incorporated herein by reference. For information regarding executive officers of the Company, see pages 10 and 11 hereof.

ITEM 11. EXECUTIVE COMPENSATION

Information for this item is set forth in the section entitled "Executive Compensation" in the Proxy Statement of the Company for the Annual Meeting of Stockholders to be held January 25, 1995, which section is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management is set forth in the sections entitled "Voting Securities" and "Security Ownership of Management" in the Proxy Statement of the Company for the Annual Meeting of Stockholders to be held January 25, 1995, which sections are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) LIST OF DOCUMENTS FILED AS PART OF THIS REPORT

(1) Financial Statements

All financial statements of the Registrant as set forth under Item 8 of this report on Form 10-K.

(2) Financial Statement Schedules:

Schedule Number	Description	Page Number
-----	-----	-----
IX	Short-Term Borrowings	24

(3) Exhibits:

- 3.1 Restated Certificate of Incorporation (filed as Exhibit 3.1 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 3.2 By-Laws (filed as Exhibit 3.2 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1992 and incorporated herein by reference).
- 3.3 Certificate of Designation of Series One Junior Participating Preferred Stock (filed as Exhibit 3.3 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 3.4 Amended Certificate of Designation of Series One Junior Participating Preferred Stock (filed as Exhibit 3.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1992 and incorporated herein by reference).
- 3.5 Certificate of Designation of Series I Preferred Stock of Baker Hughes Incorporated (filed as Exhibit 3.6 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1989 and incorporated herein by reference).

- 3.6 Certificate of Designation of Series J Preferred Stock of Baker Hughes Incorporated (filed as Exhibit 3.7 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1989 and incorporated herein by reference).
- 3.7 Certificate of Designation of Series K Preferred Stock of Baker Hughes Incorporated (filed as Exhibit 3.8 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1989 and incorporated herein by reference).
- 3.8 Certificate of Designation of Series L Preferred Stock of Baker Hughes Incorporated (filed as Exhibit 3.8 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1990 and incorporated herein by reference).
- 3.9 Certificate of Designation of \$3.00 Convertible Preferred Stock (filed as Exhibit A to Exhibit 2.1 to Form 8-K of Baker Hughes Incorporated on February 11, 1992 and incorporated herein by reference).
- 4.1 Rights of Holders of the Company's Long-Term Debt. The Company has no long-term debt instrument with regard to which the securities authorized thereunder equal or exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of its long-term debt instruments to the Commission upon request.
- 4.2 Stockholder Rights Agreement dated as of March 23, 1988, between Baker Hughes Incorporated and Morgan Shareholder Services Trust Company, as Rights Agent (filed as Exhibit 4.2 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.1 Employment Agreement between Baker Hughes Incorporated and James D. Woods dated December 7, 1994.
- 10.2 Executive Severance Agreement between Baker Hughes Incorporated and Eric L. Mattson dated as of May 22, 1991 (filed as Exhibit 10.2 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.3 Employment Agreement between Baker Hughes Incorporated and Max L. Lukens dated as of December 7, 1994.
- 10.4 Executive Severance Agreement between Baker Hughes Incorporated and Franklin Myers dated as of May 22, 1991 (filed as Exhibit 10.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1991 and incorporated herein by reference).

- 10.5 Executive Severance Agreement between Baker Hughes Incorporated and G.S. Finley dated as of May 22, 1991 (filed as Exhibit 10.5 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.6 Executive Severance Agreement between Baker Hughes Incorporated and P. A. Rice dated as of May 22, 1991 (filed as Exhibit 10.6 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.7 Amended and Restated 1991 Employee Stock Bonus Plan of Baker Hughes Incorporated (filed as Exhibit 10.5 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1991 and incorporated herein by reference).
- 10.8 Restated 1987 Stock Option Plan of Baker Hughes Incorporated (Amended as of October 24, 1990) (filed as Exhibit 10.7 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1991 and incorporated herein by reference).
- 10.9 1987 Convertible Debenture Plan of Baker Hughes Incorporated (Amended as of October 24, 1990) (filed as Exhibit 10.9 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1991 and incorporated herein by reference).
- 10.10 Baker Hughes Incorporated Supplemental Retirement Plan (filed as Exhibit 10.10 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.11 Executive Severance Policy (filed as Exhibit 10.11 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.12 1993 Stock Option Plan (filed as Exhibit 10.12 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.13 1993 Employee Stock Bonus Plan (filed as Exhibit 10.13 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.14 1993 Employee Annual Incentive Compensation Plan (filed as Exhibit 10.14 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).

- 10.15 Director Compensation Deferral Plan (filed as Exhibit 10.15 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1993 and incorporated herein by reference).
- 10.16 1995 Employee Annual Incentive Compensation Plan (subject to stockholder approval).
- 10.17 1995 Stock Award Plan (subject to stockholder approval).
- 10.18 Form of Credit Agreement, dated as of September 1, 1994, among Baker Hughes Incorporated and eighteen banks.
- 10.19 Warrant Agreement dated as of March 15, 1990 between Baker Hughes Incorporated and First Chicago Trust Company of New York (filed as Exhibit 10.15 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended September 30, 1990 and incorporated herein by reference).
- 10.20 Purchase Agreement dated as of December 31, 1991 by and between Sonat Inc. and Baker Hughes Incorporated (filed as Exhibit 2.1 to Form 8-K of Baker Hughes Incorporated on February 11, 1992 and incorporated herein by reference).
- 13 Portions of 1994 Annual Report to Stockholders.
- 21 Subsidiaries of Registrant.
- 23 Opinion and Consent of Deloitte & Touche, which is included at Page 23 of this Annual Report on Form 10-K.
- 27 Financial Data Schedule (for SEC purposes only)

(B) REPORTS ON FORM 8-K:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 7th day of December, 1994.

BAKER HUGHES INCORPORATED

By JAMES D. WOODS

 (James D. Woods, President and
 Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
JAMES D. WOODS ----- (James D. Woods)	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	December 7, 1994
E. L. MATTSON ----- (E. L. Mattson)	Senior Vice President and Chief Financial Officer (principal financial officer)	December 7, 1994
JAMES E. BRAUN ----- (James E. Braun)	Controller (principal accounting officer)	December 7, 1994
----- (Lester M. Alberthal, Jr.)	Director	December , 1994
GORDON M. ANDERSON ----- (Gordon M. Anderson)	Director	December 7, 1994

VICTOR G. BEGHINI ----- (Victor G. Beghini)	Director	December 7, 1994
JACK S. BLANTON ----- (Jack S. Blanton)	Director	December 7, 1994
HARRY M. CONGER ----- (Harry M. Conger)	Director	December 7, 1994
EUNICE M. FILTER ----- (Eunice M. Filter)	Director	December 7, 1994
JOE B. FOSTER ----- (Joe B. Foster)	Director	December 7, 1994
RICHARD D. KINDER ----- (Richard D. Kinder)	Director	December 7, 1994
----- (John F. Maher)	Director	December , 1994
----- (Dana G. Mead)	Director	December , 1994
DONALD C. TRAUSCHT ----- (Donald C. Trauscht)	Director	December 7, 1994

INDEPENDENT AUDITORS' REPORT

Baker Hughes Incorporated:

We have audited the consolidated financial statements of Baker Hughes Incorporated and its subsidiaries as of September 30, 1994 and 1993, and for each of the three years in the period ended September 30, 1994, and have issued our report thereon dated November 16, 1994; such financial statements and report are included in your 1994 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Baker Hughes Incorporated and its subsidiaries, listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Houston, Texas
November 16, 1994

INDEPENDENT AUDITORS' CONSENT

Baker Hughes Incorporated:

We consent to the incorporation by reference in Post-Effective Amendment Nos. 1, 2 and 3 on Form S-8 to Registration Statement No. 33-11074 on Form S-4, in Post-Effective Amendment No. 1 to Registration Statement No. 33-16094 on Form S-4, in Post-Effective Amendment Nos. 1 and 2 to Registration Statement No. 33-14803 on Form S-8, in Registration Statement No. 33-34935 on Form S-3, in Registration Statement No. 33-39445 on Form S-8, in Registration Statement No. 33-61304 on Form S-3, in Amendment No. 1 to Registration Statement No. 33-61304 on Form S-3 and in Registration Statement No. 33-52195 on Form S-8 of our reports dated November 16, 1994, appearing and incorporated by reference in the 1994 Annual Report on Form 10-K of Baker Hughes Incorporated for the year ended September 30, 1994.

DELOITTE & TOUCHE LLP

Houston, Texas
December 15, 1994

BAKER HUGHES INCORPORATED
SCHEDULE IX -- SHORT-TERM BORROWINGS

(Dollar amounts in thousands)	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During the Period (1)	Average Amount Outstanding During the Period (2)	Weighted Average Interest Rate During the Period (2)
Fiscal year ended September 30, 1994 Borrowings (3)	\$ 863 (4)	24.6%(4)	\$14,692	\$ 803	14.2%
Fiscal year ended September 30, 1993 Borrowings (3)	5,381	10.8	10,361	5,877	13.7
Fiscal year ended September 30, 1992 Borrowings (3)	7,161	13.1	21,701	9,290	16.3

(1) The maximum amount outstanding during the period is determined on the basis of the amounts outstanding at any month end.

(2) The average amount outstanding during the period and the weighted average interest rate during the period are computed on the basis of quarterly balances.

(3) Represents borrowings under uncommitted credit facilities outside of the U.S. of which a portion is denominated in currencies other than the U.S. dollar.

(4) Represents borrowings in Chilean pesos.

EMPLOYMENT AGREEMENT
FOR
J.D. WOODS

BAKER HUGHES INCORPORATED

December 7, 1994

BAKER HUGHES INCORPORATED

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (hereinafter referred to as the "Agreement") is made, entered into, and is effective as of this 7th day of December, 1994, by and between Baker Hughes Incorporated, (hereinafter referred to as the "Company"), a Delaware corporation having its principal offices at 3900 Essex Lane, Houston, Texas and J.D. Woods (hereinafter referred to as the "Employee").

WHEREAS, Employee is presently employed by the Company in the capacity of President and Chief Executive Officer and also serves as Chairman of the Board of Directors of the Company (hereinafter referred to as the "Board"); and

WHEREAS, Employee possesses considerable experience and an intimate knowledge of the business and affairs of the Company, its policies, methods, personnel and operations; and

WHEREAS, the Company recognizes that Employee's contribution has been substantial and meritorious and, as such, the Employee has demonstrated unique qualifications to act in an executive capacity for the Company; and

WHEREAS, the Company is desirous of assuring the continued employment of the Employee in the above stated capacity, and Employee is desirous of having such assurance; and

WHEREAS, the Company is desirous of assuring the Employee of certain benefits of employment at the time of retirement from the Company.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. TERM OF EMPLOYMENT

The Company hereby agrees to employ Employee and Employee hereby agrees to continue to serve the Company, in accordance with the terms and conditions set forth herein, for a term commencing as of the date hereof. The term of employment shall be until the later of January 31, 1997 or the retirement from employment of the Company by the Employee; provided, however Employee agrees not to retire on the last day of any fiscal year of the Company.

The Agreement shall automatically begin again for successive one year terms if the Employee does not enter retirement on January 31, 1997. No additional salary or benefits shall be owed to the Employee beyond the term except for normal retirement benefits and the payment for consulting services set forth below. As used herein, the "term of this Agreement" shall mean the term of employment as described above.

SECTION 2. POSITION AND RESPONSIBILITIES

During the term of this Agreement, Employee agrees to be employed as President and Chief Executive Officer of the Company and to further serve as Chairman of the Board if so elected. In the capacity of President and Chief Executive Officer, Employee shall be the highest ranking officer of the Company and shall have full authority and responsibility for formulating and administering the plans and policies of the Company. Employee shall have, subject to the sole discretion of the Board, the same status and responsibilities normally inherent in such capacity in U.S. publicly held corporations of similar size and character. Employee agrees and acknowledges that, in connection with his employment relationship with the Company, Employee owes fiduciary duties to the Company and will act accordingly. Employee also agrees that the Board may request that he relinquish the title of President at any time without there being considered any diminution in stature or position in the Company.

SECTION 3. STANDARD OF CARE

During the term of this Agreement, Employee agrees to devote substantially his full time, attention and energies to the Company's business and agrees to faithfully and diligently endeavor to the best of his ability to further the best interests of the Company. Employee shall not engage in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage. Subject to the covenants of Section 9 herein, this shall not be construed as preventing the Employee from investing his own assets in such form or manner as will not require his services in the daily operations of the affairs of the companies in which such investments are made. Further, subject to Section 9.1 herein, Employee may serve as a director of other companies so long as such service is not injurious to the Company and so long as such service does not present Employee with a conflict of interest.

In keeping with Employee's fiduciary duties to the Company, and after the term of this Agreement but during the term of the Consulting Agreement, Employee agrees that he shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that he shall promptly disclose to the Board any facts which might involve any reasonable possibility of a conflict of interest.

Circumstances in which a conflict of interest on the part of Employee would or might arise, and which should be reported immediately by Employee to the Board, include the following: (a) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which the Company does business; (b) misuse of information or facilities to which Employee has access in a manner which will be detrimental to Company's interest; (c) disclosure or other misuse of confidential information of any kind obtained through the Employee's connection with the Company; (d) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by the Company; (e) the appropriation to the Employee or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that the Company would be interested; and (f) the ownership, directly or indirectly, of a material interest in an enterprise in competition with the Company or its dealers and distributors or acting as a director, officer, partner, consultant, employee or agent of any enterprise which is in competition with the Company or its dealers or distributors.

Further, Employee covenants, warrants and represents that he shall:

(i) Devote his full and best efforts to the fulfillment of his employment obligations;

(ii) Exercise the highest degree of fiduciary loyalty and care and the highest standards of conduct in the performance of his duties; and

(iii) Endeavor to prevent any harm, in any way, to the business or reputation of the Company.

SECTION 4. COMPENSATION

As remuneration for all services to be rendered by Employee during the term of this Agreement, and as further consideration for so contracting with the Company, the Company shall pay Employee total compensation consisting of the following:

4.1. Base Salary. The Company shall pay Employee a Base Salary in an amount which shall be established from time to time by the Board or the Compensation Committee of the Board. This Base Salary shall be paid to Employee in 26 equal installments throughout the year, consistent with the normal payroll practices of the Company.

The Base Salary shall be reviewed at least annually in December, the first such review to occur in December 1995, while this Agreement is in force, to ascertain whether, in the sole discretion and judgment of the Board or the Compensation Committee of the Board, such Base Salary should be increased (but not decreased), based on the performance of the Employee during the year. If so increased, the Base Salary as stated above shall, likewise, be increased for all purposes of this Agreement.

4.2. Annual Bonus. The Company shall provide Employee the opportunity to earn an annual cash bonus based on the achievement of performance goals established, and communicated to the Employee, at the beginning of each bonus plan year, by the Board or the Compensation Committee of the Board (the "Bonus Plan"). The annual bonus opportunity shall be at a level as determined by the Board or the Compensation Committee of the Board in their sole discretion, which is commensurate with the opportunity normally offered to employees having the same duties and responsibilities (as the Employee), at public companies similar in size and character to the Company and which may vary from year to year with the executive salary grade schedule for the Company and for the Employee.

4.3. Long-Term Incentives. The Company shall provide as a long-term incentive award a stock grant, pursuant to the 1995 Stock Award Plan and subject to its approval by the stockholders of the Company, of 50,000 shares of Common Stock, \$1.00 par value, of the Company. Such stock grant shall vest and be issued to the Employee in its entirety upon the retirement of the Employee. The award shall also vest and be issued in its entirety upon the death or total disability of the Employee. Pending vesting and issuance, the Company shall pay to the Employee a cash payment equal to the dividend paid on such shares as though they were issued and outstanding from the date hereof.

In addition to the foregoing, the Company has granted to Employee stock options pursuant to the 1993 Stock Option Plan which shall remain in effect subject to the vesting schedule set forth by the Compensation Committee and remain outstanding for the term of this

Agreement. Such options shall also fully vest and remain outstanding upon the retirement of the Employee for the term of the lesser of (a) the original term set forth in such options or (b) three years subsequent to the end of the consulting arrangement set forth in Section 7.3.

4.4. Employee Benefits. During the term of this Agreement, the Company shall provide to the Employee the fringe benefits to which other officers and employees of the Company are entitled to receive, as determined by the Board or the Compensation Committee of the Board in their sole discretion, commensurate with the Employee's position. Such fringe benefits shall include, but not be limited to, group term life insurance, comprehensive health and major medical insurance, short-term and long-term disability and participation in all retirement plans.

Employee shall be entitled each year to paid vacation in accordance with the standard written policy of the Company with regard to vacations of employees. In applying this policy, Employee shall be given credit for prior service.

Employee shall likewise have the benefit of any additional fringe benefit established during the term of this Agreement, by standard written policy of the Company.

4.5. Perquisites. During the term of this Agreement, the Company shall provide to Employee, at the Company's cost, the perquisites to which other officers of the Company are entitled, as determined by the Board or the Compensation Committee of the Board in their sole discretion, including, but not limited to, executive life insurance, club memberships, financial planning (including tax return preparation), and an annual physical examination. The Company also shall provide such other perquisites which are suitable to the character of Employee's position with the Company and adequate for the performance of his duties hereunder, including, but not limited to, a furnished executive office and a full-time secretary at a location mutually agreeable to the Employee and the Company. However, by reason of Sections 4.4 and 4.5 herein, the Company shall not be obligated to institute, maintain or refrain from changing, amending or discontinuing any benefit plan, program or perquisite, so long as such changes are similarly applicable to senior executive employees generally.

SECTION 5. EXPENSES

The Company shall pay, or reimburse Employee, for all ordinary, reasonable and necessary expenses which Employee incurs in performing his duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees and expenses associated with membership in various professional, business and civic associations and societies of which Employee's participation is in the best interest of the Company.

SECTION 6. TERMINATION OF EMPLOYMENT

6.1. Termination Due to Disability. In the event of the Disability (as hereafter defined) of Employee during the term of this Agreement for a period of more than 90 days in the aggregate during any period of 12 consecutive months, or of the reasonable expectation that Employee's Disability will exist for more than such a period of time, upon termination of Employee's employment by the Company due to such Disability following 30 days prior written notice, the Company shall pay to Employee, in lieu of the Base Salary provided for in Section 4.1 hereof the Retirement Compensation (as defined in Section 7.3).

Notwithstanding any provision to the contrary contained in such plans, the above payments will be in lieu of any short-term or long-term disability provided to Employee under the terms of any broad-based plans maintained by the Company. However, Employee shall receive those benefits specified in Section 7.1 herein.

It is expressly understood that the Disability of Employee for a period of 90 days or less in the aggregate during any period of 12 consecutive months, in the absence of any reasonable expectation that his Disability will exist for more than such a period of time, shall not constitute a failure by him to perform his duties hereunder and shall not be deemed a breach or default and Employee shall receive full compensation for any such period of Disability or for any other temporary illness or incapacity during the term of this Agreement.

The term "Disability" shall mean, for all purposes of this Agreement, the incapacity of Employee due to injury, illness, disease, or bodily or mental infirmity to engage in the performance of substantially all of the usual duties of his employment with the Company, such incapacity to be determined by and in the sole discretion of the Board upon competent medical advice.

6.2. Termination Due to Death. In the event of the death of Employee during the term of this Agreement, or during any period of Disability during which he is receiving compensation pursuant to Section 6.1 herein, the Company shall pay Employee's designated beneficiary, the Retirement Compensation. Employee's beneficiaries also shall receive those benefits specified in Section 7.1 herein.

6.3. Termination for Good Reason. Employee may terminate this Agreement for Good Reason by giving the Board 30 days prior written notice of his intent to terminate for Good Reason. Such written notice must set forth in reasonable detail the facts and circumstances claimed to provide a basis for such Good Reason termination. "Good Reason" shall mean the occurrence of any one or more of the following without Employee's express written consent:

(i) The assignment to the Employee of any duties inconsistent with the Employee's position (including status, offices, titles and reporting requirements), authorities, duties or other responsibilities as contemplated by Section 2 of this Agreement, or any other action of the Company which results in an unreasonable or material diminishment in such position, authority, duties or responsibilities, other than a non-material, insubstantial or inadvertent action which is remedied by the Company after receipt of written notice thereof given by the Employee;

(ii) The Company's requiring the Employee to be based more than 50 miles from the location of his agreed upon principal office;

(iii) A reduction or elimination not otherwise in accordance with the terms of this Agreement of any component of Employee's compensation as provided for in Section 4 herein; or

(iv) A material breach by the Company of any provision of this Agreement which is not remedied by the Company after receipt of written notice thereof given by the Employee.

Subject to the consulting requirements of Section 7.3 herein, upon lapse of the 30-day period following notice of termination for Good Reason, the Employee's obligation to serve the Company, and the Company's obligation to employ Employee, under the terms of this Agreement, shall terminate, and the Employee shall receive the compensation and benefits specified in Section 7.2 herein.

6.4. Termination by Notice. Either the Company or Employee may terminate this Agreement without Cause by delivering proper written notice to the other party.

(i) Notice by Employee. Employee may terminate this Agreement at any time by giving the Board 90 days prior written notice of his intent to terminate or retire. In the case of termination, the Company shall pay Employee his full Base Salary and benefits through the effective date of termination and Employee shall immediately thereafter forfeit all rights and benefits (other than vested benefits under any agreement or plan) he would otherwise have been entitled to receive under this Agreement (including the Employee's annual bonus for the then current fiscal year). In the case of retirement, the Company shall pay the Employee the Retirement Compensation. The Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company. Subject to the consulting requirements of Section 7.2 herein, Employee thereafter shall have no further employment obligations under this Agreement.

(ii) Notice by the Company. The Company may terminate this Agreement at any time by the Board giving Employee 30 days prior written notice of the Company's intent to terminate. Subject to the consulting requirements of Section 7.2 herein, upon the lapse of the 30 days, Employee's employment obligation to the Company, and the obligation to employ Employee, under the terms of this Agreement shall terminate, and the Employee shall receive the compensation and benefits specified in Section 7.2 herein. The Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company.

6.5. Termination for Cause. Nothing in this Agreement shall be construed to prevent the Company from terminating Employee's employment under this Agreement for Cause.

"Cause" shall be defined as including the commission of an act of fraud, embezzlement, theft or other criminal act constituting a felony; the material breach of the Company's Code of Ethical Conduct attached hereto; a material breach of any provision of this Agreement which is not remedied by the Employee after receipt of written notice thereof given by the Company or the failure of Employee to perform any and all material covenants under this Agreement, for any reason other than Employee's death, Disability or as the result of a termination for Good Reason as defined in Section 6.3 herein.

In the event this Agreement is terminated by the Company for Cause, the Company shall pay Employee his full Base Salary, benefits and a portion of Employee's most recently ascertainable incentive bonus (as provided under the provisions of the annual incentive bonus plan) up through and including the date on which the termination becomes effective as computed in accordance with the provisions of the Company's Bonus Plan, and Employee shall immediately thereafter forfeit all other rights and benefits (other than vested benefits under any agreement or plan) he would otherwise have been entitled to receive under this Agreement (including the remainder of Employee's annual bonus for the then current plan year). The

Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company.

SECTION 7. COMPENSATION UPON TERMINATION

7.1. Disability or Death. In the event Employee's employment is terminated by reason of Disability (as provided in Section 6.1 herein), or by reason of Death (as provided in Section 6.2 herein), in addition to the payments specified in Sections 6.1 and 6.2, the Company shall pay Employee, or Employee's beneficiary, in a lump sum a portion of Employee's most recently ascertainable incentive bonus (as provided under the provisions of the annual incentive bonus plan), up through and including the date on which the termination becomes effective as computed in accordance with the provisions of the Bonus Plan.

7.2. For Good Reason or by Notice by the Company. In the event Employee's employment is terminated for Good Reason (as provided in Section 6.3 herein), or by Notice by the Company (as provided in Section 6.4(ii) herein) in addition to the payments specified in Sections 6.3 and 6.4(ii), the Company shall pay Employee the following amounts upon the effective date of such termination, or as otherwise specified subject to the Company's right to offset against any such amounts any monies owed by Employee to the Company:

(i) Employee's annual Base Salary (as stated in Section 4.1 and as previously adjusted by the Board from time to time) continued for the remaining term of this Agreement, paid to Employee in equal biweekly installments consistent with the normal payroll practices of the Company, subject to the Company's right of offset as provided in Section 8; and

(ii) Once a year, the greater of (a) one-half of Employee's expected value incentive bonus (as provided under the provisions of the Bonus Plan) to be computed for the current fiscal year at the time of termination or (b) Employee's expected value incentive bonus multiplied by the percentage amount of expected value incentive bonus a successor chief executive officer receives for such fiscal year, and in both (a) and (b) prorated for the months applicable. Such amounts are to be paid to Employee in an annual installment for each year or part thereof for the remaining term of this Agreement consistent with the normal payroll practices of the Company. To the extent Employee is terminated in the middle of a fiscal year, he is to receive the proportionate incentive bonus for the completed term of the year as computed in accordance with the Bonus Plan; and

(iii) An immediate vesting of all outstanding long-term incentive awards held by the Employee; and

(iv) A cash lump sum payment, within thirty (30) days of termination, of the present value of all Employee's accrued benefits, vested or otherwise, under the Company's supplemental retirement plan; and

(v) A continuation, at the same or greater benefit level, of all Employee Benefits and Perquisites, as provided in Sections 4.4 and 4.5 herein, for the remaining term of this Agreement; provided, however, that to the extent that any such Employee Benefit or Perquisite cannot be continued during a period when Employee is not an employee of the Company or cannot be continued with similar tax effects to Employee when Employee is not an employee of the Company, the Company shall pay Employee an amount in cash equal to the economic value of such Employee Benefit or Perquisite.

As consideration for the continuation of the above stated benefits, Employee agrees to make himself available during the remaining term of the Agreement, at reasonable times and locations, to the Company and/or to the successor to his position at the Company, to provide consulting advice (as requested) including, but not limited to, strategic planning, management development, market trend analysis, product development, acquisition planning and industry trend analysis. The Company agrees not to require more than 10 business days a month as long as the Employee is not otherwise fully employed nor more than four business days a month once the Employee is otherwise fully employed.

Notwithstanding the previous provisions of this Section 4.1 the amounts in Sections 7.2(i) and (ii) shall be adjusted automatically upward or downward (in the nearest increment of \$1,000), effective on each December 1, by the GNP price deflator as published by the Federal government for the previous twelve months, as determined by the then public accounting firm of record of the Company (that performs the annual audit). Upon such adjustment, the Base Salary as stated above shall, likewise, be increased or decreased for all purposes of this Agreement.

7.3. Consulting Arrangement Upon Retirement. Upon designation by Employee of his desire to retire from the Company upon completion of the term of this Agreement or otherwise, the Company shall pay Employee for five years subsequent to the date of retirement an annual consulting fee of \$400,000 (the "Retirement Compensation"). The Retirement Compensation shall be paid to Employee on a bi-weekly basis for the term of retirement. No Employment Benefits as set forth in Section 4.4 or perquisites as set forth in Section 4.5 shall be paid to the Employee, other than normal retirement benefits accruing to all retirees of the Company generally; provided, however, that any club memberships will be transferred into Employee's name upon retirement at no transfer cost to Employee. The Company shall continue to be responsible for expenses as set forth in Section 5 as they may be incurred on behalf of the Company. In addition, the Company shall provide Employee with reasonable office space and secretarial support in a location away from any principal office of the Company, but at a site reasonably convenient to Employee. The Company shall no longer be responsible for any incentive bonus pursuant to the Bonus Plan during the term of retirement and subsequent to the term of this Agreement.

Notwithstanding the foregoing, in addition to the compensation provided pursuant to Section 7.2 in the event of termination of employment of Good Reason or by Notice by the Company, Employee shall be entitled to the Retirement Compensation set forth in this Section 7.3 subsequent to the payments made pursuant to Section 7.2.

SECTION 8. OFFSET FOR COMPENSATION EARNED SUBSEQUENT TO TERMINATION

8.1. Right of Offset. In the event the Employee's employment is terminated for Good Reason (as provided in Section 6.3 herein), or by Notice by the Company (as provided in Section 6.4(ii) herein), the continuation of the Employee's Base Salary (as provided in Section 7.2(i) herein) and incentive bonus (as provided in Section 7.2(ii) herein), shall be offset by "Compensation" earned from a subsequent employer during the remaining term of this Agreement. The percentage of the offset shall be limited to 65% of the unpaid Base Salary and incentive bonus provided under Sections 7.2(i) and 7.2(ii) herein. However, there shall be no right of offset with respect to the Retirement Compensation.

8.2. Definition of Compensation. For purposes of the offset provided in Section 8.1 herein, "Compensation" shall be defined as all sums constituting income, as that term is defined for federal income tax purposes, received by Employee for his services as an employee, officer, partner, consultant or otherwise, subsequent to the effective date of termination under this Agreement.

8.3. Duty of Disclosure. For purposes of enforcing this Section 8, Employee has a duty to keep the Company informed of the terms and conditions of any subsequent employment and the corresponding "Compensation" earned from such employment, and shall provide or cause to be provided to the Company in writing true, correct, timely and complete information concerning the same on a quarterly basis.

SECTION 9. COVENANTS

9.1. Noncompetition. Employee and Company agree and acknowledge that the Company has developed and owns valuable Confidential Information (as defined in Section 9.2 of this Agreement) and that the Company has developed substantial goodwill. Employee and Company further agree and acknowledge that the Company has a substantial and legitimate interest in protecting the Company's Confidential Information and goodwill. Employee and Company further agree and acknowledge that the provisions of this Section 9 are reasonably necessary to protect the Company's legitimate business interests and are designed to protect the Company's Confidential Information and goodwill. During the term of this Agreement, or any other period in which amounts are paid hereunder, the Employee shall not, as a shareholder, employee, officer, partner, consultant or otherwise, engage directly or indirectly in any business or enterprise which is "in competition" with the Company or its successors or assigns. A business or enterprise "in competition" with the Company includes only a business or enterprise that is engaged in any business activity of the Company within a one hundred (100) mile radius of any facility operated by the Company.

However, the Employee shall be allowed to purchase and hold for investment less than two percent (2%) of the shares of any corporation whose shares are regularly traded on a national securities exchange or in the over-the-counter market.

Employee further agrees that, (a) during the two (2) years following his termination if such termination occurs pursuant to Section 6.4(i), or 6.5 or (b) during the term of the Agreement if termination is pursuant to Section 6.1, 6.3 or 6.4(ii) or (c) during the term the Employee is receiving Retirement Compensation, Employee will not solicit, contact, canvass, or attempt to solicit, contact or canvass any of the customers of Company with whom Employee had direct or indirect contact while Employee was performing services for the Company.

Employee and Company further agree and acknowledge that a part of Employee's compensation under this Agreement constitutes independent valuable consideration for this Section 9.1. Employee further agrees that the existence of any claim or cause of action of Employee against Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Company of any or all of this Section 9. Employee agrees that the scope of the restrictions as to time, geographic area, and scope of activity in this Section 9.1 are reasonably necessary for the protection of the Company's legitimate business interests and are not oppressive or injurious to the public interest.

Employee agrees that in the event of a breach or threatened breach of any of the provisions of this Section 9.1 the Company shall be entitled to injunctive relief against Employee's activities to the extent allowed by law. Employee further agrees that any breach or threatened breach of any of the provisions of Section 9.1 would cause irreparable injury to the Company for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including the recovery of damages.

9.2 Confidential Information. Employee recognizes and acknowledges that he will have access to certain information of the Company that is confidential and proprietary and constitutes valuable and unique property of the Company. Employee agrees that he will not at any time, either during or subsequent to the employment, disclose to others, use, copy or permit to be copied, except in pursuance of his duties on behalf of the Company, its successors, assigns or nominees, any secret or confidential information or know-how of the Company (whether or not developed by the Employee) without the Company's prior written consent. The term "secret or confidential information or know-how of the Company" (referred to collectively as "Confidential Information") shall include, without limitation, the Company's plans, strategies, costs, prices, uses, applications of products and services, results of investigations or experiments, and all apparatus, products, processes, compositions, samples, formulas, computer programs, pricing policy, financial information, methods of doing business, policy and/or procedure manuals, training and recruiting procedures, accounting procedures, the status and content of the Company's contracts with its customers, the Company's business philosophy, and servicing methods and techniques at any time used, developed, or investigated by the Company, before or during the Employee's tenure of employment which are not generally available to the public or which are maintained as confidential information of third parties received as a result of his employment with Company.

Employee further agrees to deliver to the Company at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, or other documents and all copies thereof (all of which are hereafter referred to as the "Documents"), made, composed or received by Employee, solely or jointly with others, and which are in Employee's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of the Company. In this regard, Employee hereby grants and conveys to Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, copies, abstracts or summaries thereof, which may be prepared by Employee or under his direction or which may come into his possession in any way during his employment with the Company which relate in any manner to the past, present or anticipated business of the Company.

In the event of a breach or threatened breach of any of the provisions of this Section 9.2, the Company shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Employee from using or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information, including but not limited to the Confidential Information which such Documents contain, constitute, or embody. Employee further agrees that any breach or threatened breach of any of the provisions of Section 9.2 would cause irreparable injury to the Company for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting the Company from

pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

9.3 Publicity. Employee agrees that Company may use, and hereby grants the Company the nonexclusive and worldwide right to use, Employee's name, picture, likeness, photograph, signature or any other attribute of Employee's persona (all of such attributes are hereafter collectively referred to as "Persona") in any media for any advertising, publicity or other purpose at any time, either during or subsequent to his employment by the Company. Employee agrees that such use of his Persona will not result in any invasion or violation of any privacy or property rights Employee may have; and Employee agrees that he will receive no additional compensation for the use of his Persona. Employee further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his Persona by the Company shall be and are the sole property of the Company.

9.4. Covenants Regarding Other Employees. During the term of this Agreement if termination is pursuant to Section 6.1, 6.3 or 6.4(ii), or during the 24 months following termination if termination occurs pursuant to Section 6.4(i), or 6.5 or during the term Employee is receiving Retirement Compensation, Employee agrees not to solicit or induce any employee of the Company to terminate their employment, accept employment with anyone else, or to interfere in a similar manner with the business of the Company.

SECTION 10. INDEMNIFICATION AND RELEASE

10.1. Indemnification. The Company hereby covenants and agrees to indemnify and hold harmless Employee fully, completely and absolutely against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including attorney's fees), losses and damages resulting from Employee's good faith performance of his duties and obligations under the terms of this Agreement to the extent provided in the Bylaws of the Company and the Indemnification Agreements for the benefit of the officers of the Company.

10.2. Release. In consideration of the benefits and compensation which may be awarded to Employee under Sections 6 and 7 of this Agreement, Employee agrees to execute and be bound by, as a condition precedent to receiving said benefits and compensation, the Release attached hereto as Exhibit "A", said Release being incorporated herein by this reference.

SECTION 11. ASSIGNMENT

11.1. Assignment by Company. This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes for the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase or otherwise, acquires all or essentially all of the assets or business of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder.

Failure of the Company's successor to agree to the assignment of this Agreement shall be a material breach of this Agreement. Except as herein provided, this Agreement may not otherwise be assigned by the Company.

11.2. Assignment by Employee. This Agreement shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors and administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts payable to Employee hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designee or, in the absence of such designee, to Employee's estate.

Other than a transfer by reason of death or incapacity, the rights and duties of Employee hereunder are personal and may not be assigned or transferred.

SECTION 12. INCOME AND EXCISE TAX

12.1. Tax Withholding. The Company may withhold from any sums or benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

12.2. Excise Tax Reimbursement. In addition to the compensation and benefits to which Employee shall become entitled under the terms of this Agreement, the Company shall reimburse the Employee in the amount of any excise or other similar tax or any interest or penalties with respect to such tax that is assessed against and paid by Employee and that is attributable to and calculated with reference to the compensation and benefits to which Employee is entitled under the Agreement. Any such reimbursement shall be payable to Employee immediately following the date that Employee provides evidence reasonably satisfactory to the Company that Employee has made any payment in satisfaction of any such tax liability. The reimbursement provided for herein shall not pertain to any tax liability attributable to such compensation and benefits that are determined and calculated in the manner that pertains to other income earned for personal services, but shall rather pertain only to liability arising under excise and other similar tax provisions of federal and state tax laws that specifically address employment termination or severance compensation and benefits as contemplated by Section 280(g) of the Internal Revenue Code or similar provisions. The reimbursements provided for in this Section 12.2 shall be "grossed up." For this purpose, "grossed up" shall mean that Employee shall be paid an amount which, after payment of taxes on such amount, shall insulate Employee from the effect of taxes on such reimbursements (including the effects of income tax assessed on the gross-up).

12.3. Procedural Aspects. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the grossed up payment. Such notification shall be given as soon as practicable but no later than 10 business days after the Employee knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the 30-day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time-to-time, including, without limitation, accepting legal representation with respect to such claim by any attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim;

(iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including attorneys fees and any additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any excise tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 12.3, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any excise tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance.

If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 12.3, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of Section 12.3) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 12.3, a determination is made that the Employee shall not be entitled to any refund with respect to such claims and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of grossed up payment required to be paid.

SECTION 13. ARBITRATION AND NOTICE

13.1. Arbitration. Any claim, controversy or dispute arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be conducted in Houston, Harris County, Texas. Federal law other than state law shall govern the interpretation of this Section 13.1. The decision of the arbitrator(s) shall be final and binding and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

The arbitrator(s) shall award the prevailing party in the arbitration its costs and expenses, including attorney's fees, incurred in enforcing the provisions of this Agreement, in arbitration.

13.2. Notice. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to Employee at the last address he has filed in writing with the Company or, in the case of the Company, at its principal executive offices.

SECTION 14. MISCELLANEOUS

14.1. Entire Agreement. This document contains the entire agreement of the parties relating to the subject matter hereof. This Agreement supersedes, replaces and merges any and all prior and contemporaneous understandings, representations, agreements and discussions relating to the same or similar subject matter as that of this Agreement between Employee and Company (including the Employment Agreement dated December 6, 1989) and constitutes the sole and entire agreement between the Employee and Company with respect to the subject matter of this Agreement.

14.2. Modifications. This Agreement shall not be varied, altered, modified, cancelled, changed or in any way amended except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

14.3. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable, or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if it had never been included herein. The remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect. Should any one or more of the provisions of this Agreement be held to be excessive or unreasonable as to duration, geographical scope or activity, then that provision shall be construed by limiting and reducing it so as to be reasonable and enforceable to the extent compatible with the applicable law. If such reformation is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if they had never been included herein.

14.4. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same agreement.

SECTION 15. GOVERNING LAW

The laws of the State of Texas, excluding any conflicts of law rule or principle that might otherwise refer to the substantive law of another jurisdiction, will govern the interpretation, validity and effect of this Agreement without regard to the place of execution or the place for performance thereof, and Company and Employee agree that the state and federal courts in Harris County, Texas, shall have personal jurisdiction and venue over the Company and Employee to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

IN WITNESS WHEREOF, Employee has executed and the Company (pursuant to a resolution adopted at a duly constituted meeting of its Board of Directors) has executed this Agreement, as of the day and year first above written.

ATTEST: BAKER HUGHES INCORPORATED

By: [Signature of Lawrence O'Donnell, III
Appears Here]

Corporate Secretary

By: [Signature of J.F. Maher
Appears Here]

Chairman, Compensation
Committee of the Board
of Directors

EMPLOYEE

[Signature of James D. Woods Appears Here]

EXHIBIT "A"

RELEASE

As a material inducement for Company to enter into this Agreement Employee hereby irrevocably and unconditionally releases, acquits and forever discharges Company and its affiliated companies and their directors, officers, employees and representatives, (collectively "Releasees"), from any and all claims, liabilities, obligations, damages, causes of action, demands, costs, losses and/or expenses (including attorneys fees) of any nature whatsoever, whether known or unknown, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort, or any legal restrictions on the Company's right to terminate employees, or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, and the Federal Age Discrimination in Employment Act, which Employee claims to have against any of the Releasees. In addition, Employee waives all rights and benefits afforded by any state laws which provide in substance that a general release does not extend to claims which a person does not know or suspect to exist in his favor at the time of executing the release which, if known by him, must have materially affected Employee's settlement with the other person. The only exception to the foregoing are claims and rights that may arise after the date of execution of this Agreement.

The Employee represents and acknowledges that in executing this Release he does not rely and has not relied upon any representation or statement, oral or written, not set forth herein or in the Agreement made by any of the Releasees or by any of the Releasees' agents, representatives or attorneys with regard to the subject matter, basis or effect of this Release, the Agreement or otherwise.

The Employee represents and agrees that he fully understands his right to discuss all aspects of this Release with his private attorney, that to the extent, if any, that he desires, he has availed himself of this right, that he has carefully read and fully understands all of the provisions of this Release and that he is voluntarily entering into this Release.

AGREED AND ACCEPTED, on this day of , 19 .

EMPLOYEE

By: _____

J.D. Woods

EMPLOYMENT AGREEMENT
FOR
M.L. LUKENS
BAKER HUGHES INCORPORATED
December 7, 1994

BAKER HUGHES INCORPORATED

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (hereinafter referred to as the "Agreement") is made, entered into, and is effective as of this 7th day of December, 1994, by and between Baker Hughes Incorporated, (hereinafter referred to as the "Company"), a Delaware corporation having its principal offices at 3900 Essex Lane, Houston, Texas and M.L. Lukens (hereinafter referred to as the "Employee").

WHEREAS, Employee is presently employed by the Company in the capacity of Senior Vice President and is employed by Baker Hughes Oilfield Operations, Inc. in the capacity of President; and

WHEREAS, Employee possesses considerable experience and an intimate knowledge of the business and affairs of the Company, its policies, methods, personnel and operations; and

WHEREAS, the Company recognizes that Employee's contribution has been substantial and meritorious and, as such, the Employee has demonstrated unique qualifications to act in an executive capacity for the Company; and

WHEREAS, the Company is desirous of assuring the continued employment of the Employee in the above stated capacity, and Employee is desirous of having such assurance; and

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. TERM OF EMPLOYMENT

The Company hereby agrees to employ Employee and Employee hereby agrees to continue to serve the Company, in accordance with the terms and conditions set forth herein, for a term of five (5) years commencing as of the date hereof and ending December 6, 1999, unless terminated earlier as hereinafter provided. At the end of such five (5) year term, Employee's status will be "at will" and Employee or the Company may terminate the employment relationship at any time. The Employee and the Company each agree not to terminate the employment relationship on the last day of any fiscal year of the Company.

No additional salary or benefits shall be owed to the Employee beyond the term of this Agreement except for the standard benefits that would otherwise be payable to Employee for his position. As used herein, the "term of this Agreement" shall mean the term of employment as described above.

SECTION 2. POSITION AND RESPONSIBILITIES

During the term of this Agreement, Employee agrees to be employed as Executive Vice President and to further serve in any higher ranking capacities if so elected. Employee shall have, subject to the sole discretion of the Board, the same status and responsibilities normally inherent in such capacity in U.S. publicly held corporations of similar size and character.

Employee agrees and acknowledges that, in connection with his employment relationship with the Company, Employee owes fiduciary duties to the Company and will act accordingly. Employee also agrees that the Board of Directors of the Company (hereinafter referred to as the "Board") may request that he relinquish the title of Executive Vice President at any time without there being considered any diminution in stature or position in the Company.

SECTION 3. STANDARD OF CARE

During the term of this Agreement, Employee agrees to devote substantially his full time, attention and energies to the Company's business and agrees to faithfully and diligently endeavor to the best of his ability to further the best interests of the Company. Employee shall not engage in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage. Subject to the covenants of Section 9 herein, this shall not be construed as preventing the Employee from investing his own assets in such form or manner as will not require his services in the daily operations of the affairs of the companies in which such investments are made. Further, subject to Section 9.1 herein, Employee may serve as a director of other companies so long as such service is not injurious to the Company and so long as such service does not present Employee with a conflict of interest.

In keeping with Employee's fiduciary duties to the Company, Employee agrees that he shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee agrees that he shall promptly disclose to the Board any facts which might involve any reasonable possibility of a conflict of interest.

Circumstances in which a conflict of interest on the part of Employee would or might arise, and which should be reported immediately by Employee to the Board, include the following (a) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which the Company does business; (b) misuse of information or facilities to which Employee has access in a manner which will be detrimental to the Company's interest; (c) disclosure or other misuse of confidential information of any kind obtained through the Employee's connection with the Company; (d) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by the Company; (e) the appropriation to the Employee or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that the Company would be interested; and (f) the ownership, directly or indirectly, of a material interest in an enterprise in competition with the Company or its dealers and distributors or acting as a director, officer, partner, consultant, employee or agent of any enterprise which is in competition with the Company or its dealers or distributors.

Further, Employee covenants, warrants and represents that he shall:

(i) Devote his full and best efforts to the fulfillment of his employment obligations;

(ii) Exercise the highest degree of fiduciary loyalty and care and the highest standards of conduct in the performance of his duties; and

(iii) Endeavor to prevent any harm, in any way, to the business or reputation of the Company.

SECTION 4. COMPENSATION

As remuneration for all services to be rendered by Employee during the term of this Agreement, and as further consideration for so contracting with the Company, the Company shall pay Employee total compensation consisting of the following:

4.1. Base Salary. The Company shall pay Employee a Base Salary in an amount which shall be established from time to time by the Board or the Compensation Committee of the Board. This Base Salary shall be paid to Employee in 26 equal installments throughout the year, consistent with the normal payroll practices of the Company.

The Base Salary shall be reviewed at least annually in December, the first such review to occur in December 1995, while this Agreement is in force, to ascertain whether, in the sole discretion and judgment of the Board or the Compensation Committee of the Board, such Base Salary should be increased (but not decreased), based on the performance of the Employee during the year. If so increased, the Base Salary as stated above shall, likewise, be increased for all purposes of this Agreement.

4.2. Annual Bonus. The Company shall provide Employee the opportunity to earn an annual cash bonus based on the achievement of performance goals established, and communicated to the Employee, at the beginning of each bonus plan year, by the Board or the Compensation Committee of the Board (the "Bonus Plan"). The annual bonus opportunity shall be at a level as determined by the Board or the Compensation Committee of the Board in their sole discretion, which is commensurate with the opportunity normally offered to employees having the same duties and responsibilities (as the Employee), at public companies similar in size and character to the Company and which may vary from year to year with the executive salary grade schedule for the Company and for the Employee.

4.3. Long-Term Incentives. The Company shall provide as a long-term incentive award a stock grant, pursuant to the 1995 Stock Award Plan and subject to its approval by the stockholders of the Company, of 15,000 shares of Common Stock, \$1.00 par value, of the Company. Such stock grant shall vest October 26, 1999 if Employee is employed by the Company at such time. The award shall also vest and be issued in its entirety upon the death or total disability of the Employee. Pending vesting and issuance, the Company shall pay to the Employee a cash payment equal to the dividend paid on such shares as though they were issued and outstanding from the date hereof.

The Company may also provide the Employee the opportunity to earn other long-term incentive awards to the extent any long-term incentive awards are provided to any employees or group of employees by the Board, at a level as determined by the Board or the Compensation Committee of the Board in their sole discretion, which is commensurate with the opportunity normally offered to employees, having the same duties and responsibilities (as the Employee), at public companies similar in size and character to the Company. Currently, the Company has, as long-term incentive awards, stock options and convertible debentures.

4.4. Employee Benefits. During the term of this Agreement, the Company shall provide to the Employee the fringe benefits to which other officers and employees of the

Company are entitled to receive, as determined by the Board or the Compensation Committee of the Board in their sole discretion, commensurate with the Employee's position. Such fringe benefits shall include, but not be limited to, group term life insurance, comprehensive health and major medical insurance, short-term and long-term disability and participation in all retirement plans.

Employee shall be entitled each year to paid vacation in accordance with the standard written policy of the Company with regard to vacations of employees. In applying this policy, Employee shall be given credit for prior service.

Employee shall likewise have the benefit of any additional fringe benefit established during the term of this Agreement, by standard written policy of the Company; provided, however, the Employee shall not be eligible for benefits under the Baker Hughes Incorporated Severance Policy except as provided in Section 7.2 hereunder.

4.5. Perquisites. During the term of this Agreement, the Company shall provide to Employee, at the Company's cost, the perquisites to which other officers of the Company are entitled, as determined by the Board or the Compensation Committee of the Board in their sole discretion, including, but not limited to, executive life insurance, club memberships, financial planning (including tax return preparation), and an annual physical examination. The Company also shall provide such other perquisites which are suitable to the character of Employee's position with the Company and adequate for the performance of his duties hereunder, including, but not limited to, a furnished executive office and a full-time secretary at a location mutually agreeable to the Employee and the Company. However, by reason of Sections 4.4 and 4.5 herein, the Company shall not be obligated to institute, maintain or refrain from changing, amending or discontinuing any benefit plan, program or perquisite, so long as such changes are similarly applicable to senior executive employees generally.

SECTION 5. EXPENSES

The Company shall pay, or reimburse Employee, for all ordinary, reasonable and necessary expenses which Employee incurs in performing his duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees and expenses associated with membership in various professional, business and civic associations and societies of which Employee's participation is in the best interest of the Company.

SECTION 6. TERMINATION OF EMPLOYMENT

6.1. Termination Due to Disability. In the event of the Disability (as hereafter defined) of Employee during the term of this Agreement for a period of more than 90 days in the aggregate during any period of 12 consecutive months, or of the reasonable expectation that Employee's Disability will exist for more than such a period of time, upon termination of Employee's employment by the Company due to such Disability following 30 days prior written notice, the Company shall pay to Employee, in lieu of the Base Salary provided for in Section 4.1 hereof, one-half of the Base Salary provided for in Section 4.1, until the last day of the month in which Employee is no longer deemed disabled pursuant to this Agreement or until the end of the term of this Agreement, whichever shall occur first.

Notwithstanding any provision to the contrary contained in such plans, the above payments will be in addition to any short-term or long-term disability provided to Employee under the terms of any broad-based plans maintained by the Company. Employee shall also receive those benefits specified in Section 7.1 herein.

It is expressly understood that the Disability of Employee for a period of 90 days or less in the aggregate during any period of 12 consecutive months, in the absence of any reasonable expectation that his Disability will exist for more than such a period of time, shall not constitute a failure by him to perform his duties hereunder and shall not be deemed a breach or default and Employee shall receive full compensation for any such period of Disability or for any other temporary illness or incapacity during the term of this Agreement.

The term "Disability" shall mean, for all purposes of this Agreement, the incapacity of Employee due to injury, illness, disease, or bodily or mental infirmity to engage in the performance of substantially all of the usual duties of his employment with the Company, such incapacity to be determined by and in the sole discretion of the Board upon competent medical advice.

6.2. Termination Due to Death. In the event of the death of Employee during the term of this Agreement, or during any period of Disability during which he is receiving compensation pursuant to Section 6.1 herein, the Company shall pay Employee's designated beneficiary, an amount equal to one-half of the annual Base Salary provided for in Section 4.1 herein, payable as set forth in Section 4.1 or in a lump sum, at the sole discretion of the Board. Employee's beneficiaries also shall receive those benefits specified in Section 7.1 herein.

6.3. Termination for Good Reason. Employee may terminate this Agreement for Good Reason by giving the Board 30 days prior written notice of his intent to terminate for Good Reason. Such written notice must set forth in reasonable detail the facts and circumstances claimed to provide a basis for such Good Reason termination. "Good Reason" shall mean the occurrence of any one or more of the following without Employee's express written consent:

(i) The assignment to the Employee of any duties inconsistent with the Employee's position (including status, office, titles and reporting requirements), authorities, duties or other responsibilities as contemplated by Section 2 of this Agreement, or any other action of the Company which results in an unreasonable or material diminishment in such position, authority, duties or responsibilities, other than a non-material, insubstantial or inadvertent action which is remedied by the Company after receipt of written notice thereof given by the Employee;

(ii) The Company's requiring the Employee to be based more than 50 miles from the location of his agreed upon principal office;

(iii) A reduction or elimination not otherwise in accordance with the terms of this Agreement of any component of Employee's compensation as provided for in Section 4 herein; or

(iv) A material breach by the Company of any provision of this Agreement which is not remedied by the Company after receipt of written notice thereof given by the Employee.

If the circumstances claimed to provide a basis for such Good Reason termination are not remedied by the Company (as may be provided for above), upon lapse of the 30-day period following notice of termination for Good Reason, the Employee's obligation to serve the Company, and the Company's obligation to employ Employee, under the terms of this Agreement, shall terminate, and the Employee shall receive the compensation and benefits specified in Section 7.2 herein.

6.4. Termination by Notice. Either the Company or Employee may terminate this Agreement without Cause (as hereinafter defined) by delivering proper written notice to the other party.

(i) Notice by Employee. Employee may terminate this Agreement at any time by giving the Board 90 days prior written notice of his intent to terminate. In such case, the Company shall pay Employee his full Base Salary and benefits through the effective date of termination and Employee shall immediately thereafter forfeit all rights and benefits (other than vested benefits under any agreement or plan) he would otherwise have been entitled to receive under this Agreement (including the Employee's annual bonus for the then current fiscal year). The Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company. Employee thereafter shall have no further employment obligations under this Agreement.

(ii) Notice by the Company. The Company may terminate this Agreement at any time by the Board giving Employee 30 days prior written notice of the Company's intent to terminate. Upon the lapse of the 30 days, Employee's employment obligation to the Company, and the obligation to employ Employee, under the terms of this Agreement shall terminate, and the Employee shall receive the compensation and benefits specified in Section 7.2 herein. The Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company.

6.5. Termination for Cause. Nothing in this Agreement shall be construed to prevent the Company from terminating Employee's employment under this Agreement for Cause.

"Cause" shall be defined as including the commission of an act of fraud, embezzlement, theft or other criminal act constituting a felony; the material breach of the Company's Code of Ethical Conduct attached hereto; a material breach of any provision of this Agreement which is not remedied by the Employee after receipt of written notice thereof given by the Company or the failure of Employee to perform any and all material covenants under this Agreement, for any reason other than Employee's death, Disability or as the result of a termination for Good Reason as defined in Section 6.3 herein.

In the event this Agreement is terminated by the Company for Cause, the Company shall pay Employee his full Base Salary, benefits and a portion of Employees most recently ascertainable incentive bonus (as provided under the provisions of the annual incentive bonus plan) up through and including the date on which the termination becomes effective as computed in accordance with the provisions of the Company's Bonus Plan, and Employee shall immediately thereafter forfeit all other rights and benefits (other than vested benefits under any agreement or plan) he would otherwise have been entitled to receive under this Agreement (including the remainder of Employee's annual bonus for the then current plan year). The Company shall have the right to offset against the aforementioned sums any monies owed by Employee to the Company.

SECTION 7. COMPENSATION UPON TERMINATION

7.1. Disability or Death. In the event Employee's employment is terminated by reason of Disability (as provided in Section 6.1 herein), or by reason of Death (as provided in Section 6.2 herein), in addition to the payments specified in Sections 6.1 and 6.2, the Company shall pay Employee, or Employee's beneficiary, in a lump sum a portion of Employee's most recently ascertainable incentive bonus (as provided under the provisions of the annual incentive bonus plan), up through and including the date on which the termination becomes effective as computed in accordance with the provisions of the Bonus Plan.

7.2. For Good Reason or by Notice by the Company. (a) In the event Employee's employment is terminated for Good Reason (as provided in Section 6.3 herein), or by Notice by the Company (as provided in Section 6.4(ii) herein), in addition to any payments specified in Sections 6.3 and 6.4(ii), the Company shall pay Employee the following amounts upon the effective date of such termination, or as otherwise specified subject to the Company's right to offset against any such amounts any monies owed by Employee to the Company:

(i) Employee's annual Base Salary (as stated in Section 4.1 and as previously adjusted by the Board from time to time) continued for the remaining term of this Agreement, paid to Employee in equal biweekly installments consistent with the normal payroll practices of the Company, subject to the Company's right of offset as provided in Section 8; and

(ii) Once a year, the greater of (a) one-half of Employee's expected value incentive bonus (as provided under the provisions of the Bonus Plan) to be computed for the current fiscal year at the time of termination or (b) Employee's expected value incentive bonus multiplied by the percentage amount of expected value incentive bonus an executive officer in a comparable position receives for such fiscal year, and in both (a) and (b) prorated for the months applicable. Such amounts are to be paid to Employee in an annual installment for each year or part thereof for the remaining term of this Agreement consistent with the normal payroll practices of the Company. To the extent Employee is terminated in the middle of a fiscal year, he is to receive the proportionate incentive bonus for the completed term of the year as computed in accordance with the Bonus Plan; and

(iii) An immediate vesting of all outstanding long-term incentive awards held by the Employee; and

(iv) A cash lump sum payment, within thirty (30) days of termination, of the present value of all Employee's accrued benefits, vested or otherwise, under the Company's supplemental retirement plan; and

(v) A continuation, at the same or greater benefit level, of all Employee Benefits and Perquisites, as provided in Sections 4.4 and 4.5 herein, for the remaining term of this Agreement; provided, however, that to the extent that any such Employee Benefit or Perquisite cannot be continued during a period when Employee is not an employee of the Company or cannot be continued with similar tax effects to Employee when Employee is not an employee of the Company, the Company shall pay Employee an amount in cash equal to the economic value of such Employee Benefit or Perquisite.

As consideration for the continuation of the above stated benefits, Employee agrees to make himself available during the remaining term of the Agreement, at reasonable times and

locations, to the Company and/or to the successor to his position at the Company, to provide consulting advice (as requested) including, but not limited to, strategic planning, management development, market trend analysis, product development, acquisition planning and industry trend analysis. The Company agrees not to require more than 10 business days a month as long as the Employee is not otherwise fully employed nor more than four business days a month once the Employee is otherwise fully employed.

Notwithstanding the previous provisions of Section 4.1, the amounts in Sections 7.2(i) and (ii) shall be adjusted automatically upward or downward (in the nearest increment of \$1,000), effective on each December 1, by the GNP price deflator as published by the Federal government for the previous twelve months, as determined by the then public accounting firm of record of the Company (that performs the annual audit). Upon such adjustment, the Base Salary as stated above shall, likewise, be increased or decreased for all purposes of this Agreement.

(b) Notwithstanding the provisions of Section 7.2(a) above, in the event that Employee's employment is terminated during the last eighteen (18) months of the term of this Agreement, either for Good Reason (as provided in Section 6.3 herein), or by Notice by the Company (as provided in Section 6.4(ii) herein), the Company shall then pay Employee the greater of (x) the benefits set forth in Section 7.2 above, or (y) the benefits under the terms of the Baker Hughes Incorporated Severance Policy, effective April 1, 1994, irrespective of whether Employee would otherwise be deemed eligible for the benefits under such policy.

SECTION 8. OFFSET FOR COMPENSATION EARNED SUBSEQUENT TO TERMINATION

8.1. Right of Offset. In the event the Employee's employment is terminated for Good Reason (as provided in Section 6.3 herein), or by Notice by the Company (as provided in Section 6.4(ii) herein), the continuation of the Employee's Base Salary (as provided in Section 7.2(i) herein) and incentive bonus (as provided in Section 7.2(ii) herein), shall be offset by "Compensation" earned from a subsequent employer during the remaining term of this Agreement. The percentage of the offset shall be limited to 65% of the unpaid Base Salary and incentive bonus provided under Sections 7.2(i) and 7.2(ii) herein.

8.2. Definition of Compensation. For purposes of the offset provided in Section 8.1 herein, "Compensation" shall be defined as all sums constituting income, as that term is defined for federal income tax purposes, received by Employee for his services as an employee, officer, partner, consultant or otherwise, subsequent to the effective date of termination under this Agreement.

8.3. Duty of Disclosure. For purposes of enforcing this Section 8, Employee has a duty to keep the Company informed of the terms and conditions of any subsequent employment and the corresponding "Compensation" earned from such employment, and shall provide or cause to be provided to the Company in writing true, correct, timely and complete information concerning the same on a quarterly basis.

SECTION 9. COVENANTS

9.1. Noncompetition. Employee and Company agree and acknowledge that the Company has developed and owns valuable Confidential Information (as defined in Section 9.2 of this Agreement) and that the Company has developed substantial goodwill. Employee and

Company further agree and acknowledge that the Company has a substantial and legitimate interest in protecting the Company's Confidential Information and goodwill. Employee and Company further agree and acknowledge that the provisions of this Section 9 are reasonably necessary to protect the Company's legitimate business interests and are designed to protect the Company's Confidential Information and goodwill. During the term of this Agreement, or any other period in which amounts are paid hereunder, the Employee shall not, as a shareholder, employee, officer, partner, consultant or otherwise, engage directly or indirectly in any business or enterprise which is "in competition" with the Company or its successors or assigns. A business or enterprise "in competition" with the Company includes only a business or enterprise that is engaged in any business activity of the Company within a one hundred (100) mile radius of any facility operated by the Company.

However, the Employee shall be allowed to purchase and hold for investment less than two percent (2%) of the shares of any corporation whose shares are regularly traded on a national securities exchange or in the over-the-counter market.

Employee further agrees that, (a) during the two (2) years following his termination if such termination occurs pursuant to Section 6.4(i) or 6.5, or (b) during the term of the Agreement if termination is pursuant to Section 6.1, 6.3 or 6.4(ii), Employee will not solicit, contact, canvass, or attempt to solicit, contact or canvass any of the customers of Company with whom Employee had direct or indirect contact while Employee was performing services for the Company.

Employee and Company further agree and acknowledge that a part of Employee's compensation under this Agreement constitutes independent valuable consideration for this Section 9.1. Employee further agrees that the existence of any claim or cause of action of Employee against Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by Company of any or all of this Section 9. Employee agrees that the scope of the restrictions as to time, geographic area, and scope of activity in this Section 9.1 are reasonably necessary for the protection of the Company's legitimate business interests and are not oppressive or injurious to the public interest.

Employee agrees that in the event of a breach or threatened breach of any of the provisions of this Section 9.1 the Company shall be entitled to injunctive relief against Employee's activities to the extent allowed by law. Employee further agrees that any breach or threatened breach of any of the provisions of Section 9.1 would cause irreparable injury to the Company for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for any breach or threatened breach, including the recovery of damages.

9.2 Confidential Information. Employee recognizes and acknowledges that he will have access to certain information of the Company that is confidential and proprietary and constitutes valuable and unique property of the Company. Employee agrees that he will not at any time, either during or subsequent to the employment, disclose to others, use, copy or permit to be copied, except in pursuance of his duties on behalf of the Company, its successors, assigns or nominees, any secret or confidential information or know-how of the Company (whether or not developed by the Employee) without the Company's prior written consent. The term "secret or confidential information or know-how of the Company" (referred to collectively as "Confidential Information") shall include, without limitation, the Company's plans, strategies, costs, prices, uses, applications of products and services, results of

investigations or experiments, and all apparatus, products, processes, compositions, samples, formulas, computer programs, pricing policy, financial information, methods of doing business, policy and/or procedure manuals, training and recruiting procedures, accounting procedures, the status and content of the Company's contracts with its customers, the Company's business philosophy, and servicing methods and techniques at any time used, developed, or investigated by the Company, before or during the Employee's tenure of employment which are not generally available to the public or which are maintained as confidential information of third parties received as a result of his employment with Company.

Employee further agrees to deliver to the Company at the termination of his employment all correspondence, memoranda, notes, records, drawings, sketches, plans, customer lists, product compositions, or other documents and all copies thereof (all of which are hereafter referred to as the "Documents"), made, composed or received by Employee, solely or jointly with others, and which are in Employee's possession, custody, or control at such date and which are related in any manner to the past, present, or anticipated business of the Company. In this regard, Employee hereby grants and conveys to Company all right, title and interest in and to, including without limitation, the right to possess, print, copy, and sell or otherwise dispose of, any reports, records, papers, summaries, photographs, drawings or other documents, and writings, copies, abstracts or summaries thereof, which may be prepared by Employee or under his direction or which may come into his possession in any way during his employment with the Company which relate in any manner to the past, present or anticipated business of the Company.

In the event of a breach or threatened breach of any of the provisions of this Section 9.2, the Company shall be entitled to an injunction ordering the return of such Documents and any and all copies thereof and restraining Employee from using or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information, including but not limited to the Confidential Information which such Documents contain, constitute, or embody. Employee further agrees that any breach or threatened breach of any of the provisions of Section 9.2 would cause irreparable injury to the Company for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

9.3 Publicity. Employee agrees that Company may use, and hereby grants the Company the nonexclusive and worldwide right to use, Employee's name, picture, likeness, photograph, signature or any other attribute of Employee's persona (all of such attributes are hereafter collectively referred to as "Persona") in any media for any advertising, publicity or other purpose at any time, either during or subsequent to his employment by the Company. Employee agrees that such use of his Persona will not result in any invasion or violation of any privacy or property rights Employee may have; and Employee agrees that he will receive no additional compensation for the use of his Persona. Employee further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his Persona by the Company shall be and are the sole property of the Company.

9.4. Covenants Regarding Other Employees. During the term of this Agreement if termination is pursuant to Section 6.1, 6.3 or 6.4(ii), or during the 24 months following termination if termination occurs pursuant to Section 6.4(i) or 6.5, Employee agrees not to solicit or induce any employee of the Company to terminate their employment, accept

employment with anyone else, or to interfere in a similar manner with the business of the Company.

SECTION 10. INDEMNIFICATION AND RELEASE

10.1. Indemnification. The Company hereby covenants and agrees to indemnify and hold harmless Employee fully, completely and absolutely against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including attorney's fees), losses and damages resulting from Employee's good faith performance of his duties and obligations under the terms of this Agreement to the extent provided in the Bylaws of the Company and the Indemnification Agreements for the benefit of the officers of the Company.

10.2. Release. In consideration of the benefits and compensation which may be awarded to Employee under Sections 6 and 7 of this Agreement, Employee agrees to execute and be bound by, as a condition precedent to receiving said benefits and compensation, the Release attached hereto as Exhibit "A", said Release being incorporated herein by this reference.

SECTION 11. ASSIGNMENT

11.1. Assignment by Company. This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes for the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase or otherwise, acquires all or essentially all of the assets or business of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder.

Failure of the Company's successor to agree to the assignment of this Agreement shall be a material breach of this Agreement. Except as herein provided, this Agreement may not otherwise be assigned by the Company.

11.2. Assignment by Employee. This Agreement shall inure to the benefit of and be enforceable by Employee's personal or legal representatives, executors and administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts payable to Employee hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee or other designee or, in the absence of such designee, to Employee's estate.

Other than a transfer by reason of death or incapacity, the rights and duties of Employee hereunder are personal and may not be assigned or transferred.

SECTION 12. INCOME AND EXCISE TAX

12.1. Tax Withholding. The Company may withhold from any sums or benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

12.2. Excise Tax Reimbursement. In addition to the compensation and benefits to which Employee shall become entitled under the terms of this Agreement, the Company shall reimburse the Employee in the amount of any excise or other similar tax or any interest or penalties with respect to such tax that is assessed against and paid by Employee and that is attributable to and calculated with reference to the compensation and benefits to which Employee is entitled under the Agreement. Any such reimbursement shall be payable to Employee immediately following the date that Employee provides evidence reasonably satisfactory to the Company that Employee has made any payment in satisfaction of any such tax liability. The reimbursement provided for herein shall not pertain to any tax liability attributable to such compensation and benefits that are determined and calculated in the manner that pertains to other income earned for personal services, but shall rather pertain only to liability arising under excise and other similar tax provisions of federal and state tax laws that specifically address employment termination or severance compensation and benefits as contemplated by Section 280(g) of the Internal Revenue Code or similar provisions. The reimbursements provided for in this Section 12.2 shall be "grossed up." For this purpose, "grossed up" shall mean that Employee shall be paid an amount which, after payment of taxes on such amount, shall insulate Employee from the effect of taxes on such reimbursements (including the effects of income tax assessed on the gross-up).

12.3. Procedural Aspects. The Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the grossed up payment. Such notification shall be given as soon as practicable but no later than 10 business days after the Employee knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Employee shall not pay such claim prior to the expiration of the 30-day period following the date on which the Employee gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Employee in writing prior to the expiration of such period that it desires to contest such claim, the Employee shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time-to-time, including, without limitation, accepting legal representation with respect to such claim by any attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim;

(iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including attorneys fees and any additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Employee harmless, on an after-tax basis, for any excise tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 12.3, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Employee to pay the tax

claimed and sue for a refund or contest the claim in any permissible manner, the Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Employee to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Employee, on an interest-free basis and shall indemnify and hold the Employee harmless, on an after-tax basis, from any excise tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance.

If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 12.3, the Employee becomes entitled to receive any refund with respect to such claim, the Employee shall (subject to the Company's complying with the requirements of Section 12.3) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Employee of an amount advanced by the Company pursuant to Section 12.3, a determination is made that the Employee shall not be entitled to any refund with respect to such claims and the Company does not notify the Employee in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of grossed up payment required to be paid.

SECTION 13. ARBITRATION AND NOTICE

13.1. Arbitration. Any claim, controversy or dispute arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be conducted in Houston, Harris County, Texas. Federal law other than state law shall govern the interpretation of this Section 13.1. The decision of the arbitrator(s) shall be final and binding and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

The arbitrator(s) shall award the prevailing party in the arbitration its costs and expenses, including attorney's fees, incurred in enforcing the provisions of this Agreement, in arbitration.

13.2. Notice. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to Employee at the last address he has filed in writing with the Company or, in the case of the Company, at its principal executive offices.

SECTION 14. MISCELLANEOUS

14.1. Entire Agreement. This document contains the entire agreement of the parties relating to the subject matter hereof. This Agreement supersedes, replaces and merges any and all prior and contemporaneous understandings, representations, agreements and discussions relating to the same or similar subject matter as that of this Agreement between Employee and Company, including, but not limited to, (i) the Executive Severance Agreement dated as of May 22, 1991, and (ii) any benefits that would be payable to Employee under the Baker Hughes Incorporated Executive Severance Policy effective April 1, 1994 (except that the

provisions of such policy may apply under Section 7.2(b) herein or following the term of this Agreement.) This Agreement constitutes the sole and entire agreement between the Employee and Company with respect to the subject matter of this Agreement.

14.2. Modifications. This Agreement shall not be varied, altered, modified, cancelled, changed or in any way amended except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

14.3. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the portions held to be invalid or unenforceable shall be revised and reduced in scope so as to be valid and enforceable, or, if such is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if it had never been included herein. The remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect. Should any one or more of the provisions of this Agreement be held to be excessive or unreasonable as to duration, geographical scope or activity, then that provision shall be construed by limiting and reducing it so as to be reasonable and enforceable to the extent compatible with the applicable law. If such reformation is not possible, then such portions shall be deemed to have been wholly excluded with the same force and effect as if they had never been included herein.

14.4. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same agreement.

SECTION 15. GOVERNING LAW

The laws of the State of Texas, excluding any conflicts of law rule or principle that might otherwise refer to the substantive law of another jurisdiction, will govern the interpretation, validity and effect of this Agreement without regard to the place of execution or the place for performance thereof, and Company and Employee agree that the state and federal courts in Harris County, Texas, shall have personal jurisdiction and venue over the Company and Employee to hear all disputes arising under this Agreement. This Agreement is to be at least partially performed in Harris County, Texas.

IN WITNESS WHEREOF, Employee has executed and the Company (pursuant to a resolution adopted at a duly constituted meeting of its Board of Directors) has executed this Agreement, as of the day and year first above written.

ATTEST: BAKER HUGHES INCORPORATED

By: [Signature of Lawrence O'Donnell, III appears here] [Signature of J. F. Maher appears here]

Corporate Secretary Chairman, Compensation Committee of the Board of Directors

EMPLOYEE

[Signature of Max L. Lukens appears here]

EXHIBIT "A"

RELEASE

As a material inducement for Company to enter into this Agreement Employee hereby irrevocably and unconditionally releases, acquits and forever discharges Company and its affiliated companies and their directors, officers, employees and representatives, (collectively "Releasees"), from any and all claims, liabilities, obligations, damages, causes of action, demands, costs, losses and/or expenses (including attorneys fees) of any nature whatsoever, whether known or unknown, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort, or any legal restrictions on the Company's right to terminate employees, or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, and the Federal Age Discrimination in Employment Act, which Employee claims to have against any of the Releasees. In addition, Employee waives all rights and benefits afforded by any state laws which provide in substance that a general release does not extend to claims which a person does not know or suspect to exist in his favor at the time of executing the release which, if known by him, must have materially affected Employee's settlement with the other person. The only exception to the foregoing are claims and rights that may arise after the date of execution of this Agreement.

The Employee represents and acknowledges that in executing this Release he does not rely and has not relied upon any representation or statement, oral or written, not set forth herein or in the Agreement made by any of the Releasees or by any of the Releasees' agents, representatives or attorneys with regard to the subject matter, basis or effect of this Release, the Agreement or otherwise.

The Employee represents and agrees that he fully understands his right to discuss all aspects of this Release with his private attorney, that to the extent, if any, that he desires, he has availed himself of this right, that he has carefully read and fully understands all of the provisions of this Release and that he is voluntarily entering into this Release.

AGREED AND ACCEPTED, on this day of , 19 .

EMPLOYEE

By

Max L. Lukens

BAKER HUGHES INCORPORATED

1995 EMPLOYEE ANNUAL INCENTIVE COMPENSATION PLAN

ARTICLE 1

ESTABLISHMENT AND PURPOSE

1.1 ESTABLISHMENT OF THE PLAN. Baker Hughes Incorporated (hereinafter referred to as the "COMPANY"), a Delaware corporation, hereby establishes an annual incentive compensation plan to be known as the "BAKER HUGHES INCORPORATED 1995 EMPLOYEE ANNUAL INCENTIVE COMPENSATION PLAN" (hereinafter referred to as the "PLAN") as set forth in this document. The Plan permits the awarding of annual cash bonuses to key employees of the Company and its subsidiaries, based on the achievement of preestablished performance goals. The Plan shall become effective as of October 1, 1994, and shall remain in effect until terminated by the Board of Directors of the Company. Notwithstanding any provision herein to the contrary, no amount shall be paid under the Plan unless and until the stockholders of the Company approve the Plan prior to September 30, 1995.

1.2 PURPOSE. The purpose of the Plan is to provide Key Employees with a meaningful annual incentive opportunity geared toward the achievement of specific corporate and/or individual goals.

ARTICLE 2

DEFINITIONS

2.1 DEFINITIONS. Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the defined meaning is intended, the term is capitalized:

(a) "BOARD" or "BOARD OF DIRECTORS" means the Board of Directors of the Company.

(b) "CAUSE" means the occurrence of any one of the following:

(i) The willfull and continued failure by a Participant to substantially perform his/her duties (other than any such failure resulting from the Participant's disability), after a written demand for substantial performance is delivered to the Participant that specifically identifies the manner in which the Company believes that the Participant has not substantially performed his/her duties, and the Participant has failed to remedy the situation within ten (10) business days of receiving such notice; or

(ii) The Participant's conviction for an act of fraud, embezzlement, theft, or other criminal act constituting a felony; or

(iii) The willful engaging by the Participant in gross misconduct or malfeasance. However, no act, or failure to act, on the Participant's part shall be considered "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company; or

(iv) The violation of the Company's Standards of Conduct, which violation is determined to be material by the Committee.

(c) "COMMITTEE" means the Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan. The membership of the Committee shall in all cases be comprised solely of two or more outside directors (within the meaning of Section 162(m)).

(d) "COMPANY" means Baker Hughes Incorporated, a Delaware corporation, and any successor thereto.

(e) "FINAL AWARD" means the actual award earned for a Plan Year by a Participant as determined by the Committee (see Article 5.4 herein).

(f) "KEY EMPLOYEE" means an employee of the Company, or any of its subsidiaries, who, in the opinion of the Chief Executive Officer of the Company, is in a position to significantly contribute to the growth and profitability of the Company (see Article 4 herein).

(g) "PARTICIPANT" means a Key Employee who is nominated for participation by the Chief Executive Officer of the Company and then is selected by the Committee to participate in the Plan (see Article 4 herein).

(h) "PLAN YEAR" means the Company's fiscal year commencing October 1 and ending September 30.

(i) "SECTION 162(M)" means section 162(m) (or any successor provision) of the Internal Revenue Code of 1986, as amended, and applicable interpretive authority thereunder.

2.2 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

2.3 SEVERABILITY. In the event any provision of the Plan shall be held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid Provision had not been included.

ARTICLE 3

ADMINISTRATION

3.1 THE COMMITTEE. This Plan shall be administered by the Committee in accordance with the rules that it may establish from time to time that are not inconsistent with the provisions of the Plan.

The determination of the Committee as to any disputed question arising under this Plan, including questions of construction and interpretation, shall be final, binding, and conclusive upon persons.

3.2 INDEMNIFICATION. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Restated Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 ELIGIBILITY. Eligibility for participation in the Plan shall be limited to those Key Employees who, by the nature and scope of their position, contribute to the overall results or success of the Company and its subsidiaries.

4.2 PARTICIPATION. Participation in the Plan shall be determined annually based upon the recommendation of the Chief Executive Officer of the Company and the approval of the Committee. Employees approved for participation shall be notified in writing of their selection, and of their performance goals and related Award Opportunities (as defined in Article 5.1), as soon after approval as is practicable.

4.3 PARTIAL PLAN YEAR PARTICIPATION. The Committee may, upon recommendation of the Chief Executive Officer of the Company, allow an individual who becomes eligible after the beginning of a Plan Year to participate in the Plan for that year. In such case, the Participant's Final Award normally shall be prorated based on the number of full months of participation. However, the Committee may, based upon the recommendation of the Chief Executive Officer of the Company, authorize an unreduced Final Award.

4.4 TERMINATION OF APPROVAL. The Committee may withdraw its approval for participation in the Plan for a Participant at any time. In the event of such withdrawal, the employee concerned shall cease to be a Participant as of the date designated by the Committee and the employee shall be notified of such withdrawal as soon as practicable following such action. Further, such employee shall cease to have any right to a Final Award for the Plan Year in which such withdrawal is effective; provided, however, that the Committee may, in its sole discretion, authorize a prorated award based on the number of full months of participation prior to the effective date of such withdrawal.

ARTICLE 5

AWARD DETERMINATION

5.1 AWARD OPPORTUNITIES. As soon as practicable (but in no event later than ninety (90) days) after the beginning of each Plan Year, the Committee shall establish, in writing, maximum, target, and minimum incentive award levels (the "AWARD OPPORTUNITIES") for each Participant. The established Award Opportunities may vary in relation to the responsibility level of the Participant. In the event a Participant changes job levels or salary grades during the Plan Year, the Award Opportunities may be adjusted by the Committee, in its sole discretion, to reflect the amount of time at each job level and/or in each salary grade.

5.2 PERFORMANCE GOALS. As soon as practicable (but in no event later than ninety (90) days) after the beginning of each Plan Year, the Committee shall establish, in writing, performance goals for each Participant for that Plan Year. The goals will be based on one or more financial objectives of the Company determined by and defined by the Committee, which objectives may include profits before-tax, profits after-tax, earnings per share, and/or the ratio of after-tax profits to net capital employed; provided, however, that as an alternative to other goals, and in addition thereto, an Award Opportunity shall provide an element based on a goal tied to total shareholder return ("TSR"), as defined by the Committee and discussed in Article 5.4. Nonfinancial objectives may also be included in a Participant's performance goals, and will not represent more than 20 percent of target Award Opportunities, as discussed in Article 5.1. Notwithstanding the foregoing, no covered employee (as such term is defined in Section 162(m)) may have any portion of his Final Award based on nonfinancial, subjective performance goals.

5.3 ADJUSTMENT OF PERFORMANCE GOALS. The Committee shall have the right to adjust the performance goals (either up or down) during the Plan Year if it determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals and unduly influenced the Company's

ability to meet them. Further, in the event of a Plan Year of less than twelve (12) months, the Committee shall have the right to adjust the performance goals, at its discretion, to protect the purpose and intent of the Plan.

Notwithstanding the foregoing, no such adjustment shall be made with respect to an individual who is a covered employee (within the meaning of Section 162(m)) to the extent the same is considered an upward discretionary increase in the amount of the Final Award for such individual (within the meaning of Section 162(m)).

5.4 FINAL AWARD DETERMINATIONS. As soon as practicable after the end of each Plan Year, Final Awards shall be computed for each Participant as determined by the Committee. The Committee shall certify to what extent the performance goals established pursuant to Article 5.2 and any other material terms of an award were in fact satisfied. Then, two (2) independent computations will be made, as follows:

(a) Achievement of financial goals (other than TSR goals), as discussed in Article 5.2, shall be assessed via a quantitative formula established by the Committee. Individuals' award calculations will be based on varying Award Opportunities, as discussed in Article 5.1. Adjustment will be made to reflect nonfinancial objectives for eligible Participants, as described in Article 5.2.

(b) Achievement of TSR goals, as discussed in Article 5.2, shall be assessed via a quantitative formula established by the Committee. Individuals' award calculations will be based on one-half of the target Award Opportunity, as discussed in Article 5.1.

The greater of the resulting two calculations will be used to determine the Final Award paid for the Plan Year. In determining the Final Award, the Committee, in its sole discretion, may increase or decrease calculated amounts to reflect factors regarding performance during the Plan Year which were not, in the sole opinion of the Committee, appropriately reflected in the Final Award calculation. Notwithstanding the foregoing, the Final Award to an individual who is a covered employee (within the meaning of Section 162(m)) will not be subject to upward discretionary adjustment by the Committee. Downward discretionary adjustment for these individuals will be permitted to the extent that such downward adjustments do not prevent the Final Awards to those individuals from being deductible by the Company for federal income tax purposes under Section 162(m).

5.5 INDIVIDUAL AWARD CAP. The maximum annual Final Award any individual may receive in connection with the Plan is \$1,000,000.

ARTICLE 6

PAYMENT OF FINAL AWARDS

As soon as practicable following the end of each Plan Year, Final Award payments shall be paid in cash.

ARTICLE 7

TERMINATION OF EMPLOYMENT

7.1 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. In the event a Participant's employment is terminated by reason of death, total and permanent disability (as determined by the Committee), or retirement, the Final Award, determined in accordance with Article 5.4 herein, shall be reduced so that it reflects only participation prior to termination. This reduction shall be determined by multiplying said Final Award by a fraction, the numerator of which is the months of participation through the date of termination rounded up to whole months, and the denominator of which is twelve (12). The Final Award thus determined plus all unpaid amounts, if any, from previous years shall be paid as soon as practicable following the Committee's determinations under Article 5.4 hereof for that Plan Year.

7.2 EMPLOYMENT TRANSFERS. If a Participant transfers from one division to another division within the Company, the Final Award for the Participant's time at the Participant's former division will be prorated for the number of whole months rounded to the nearest whole month of the Plan Year the Participant was at that division. The Final Award will be determined as soon as practicable after the end of the Plan Year and will be based on the financial results at the close of the Plan Year. The Final Award will be paid at the same time the other Final Awards for that division are paid. If a Participant is eligible for a Final Award in his new position, the Final Award will be based on the months left in the Plan Year, on his new base salary level and Award Opportunities, as determined by the Committee based upon the recommendation of the Chief Executive Officer of the Company.

7.3 DISPOSITION OF BUSINESS. If the Participant's division is disposed of during the Plan Year, payment of the Participant's Final Award shall be determined in accordance with the following alternatives:

(a) If the acquiring party of the division offers employment to the Participant and assumes the obligations under the Plan, either directly or indirectly, and the Participant accepts such offer of employment, the Company shall not be obligated to pay the Final Award and such obligation shall be that of the acquiring party in accordance with the Final Award parameters; or

(b) If the acquiring party does not assume the obligations under the Plan, whether or not the Participant is offered and accepts employment, then the Participant will receive a prorated Final Award for the portion of the Plan Year that the Participant was employed by the Company prior to the date of the consummation of the sale of the division, to be paid at the same time other Final Awards are paid under the Plan. The computation shall be made on the basis of the number of whole months rounded to the nearest whole month of the Plan Year that the Participant was in active service with the Company; or

(c) If the acquiring party of the division offers employment to the Participant and assumes the obligations under the Plan, either directly or indirectly, and the Participant rejects such employment, the Participant shall be deemed to have voluntarily resigned as provided under Article 7.4 below.

7.4 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. In the event a Participant's employment is terminated voluntarily by the employee or by the Company for Cause, all of the Participant's rights to a Final Award for the Plan Year then in progress shall be forfeited. If a Participant's termination is for any reason other than as described in Article 7.3, death, disability, retirement, voluntary resignation, or Cause, the Participant will receive a prorated bonus award for the portion of the Plan Year that the Participant was employed by the Company, computed as determined by the Committee, to be paid at the same time other Final Awards are paid under the Plan.

ARTICLE 8

RIGHTS OF PARTICIPANTS

8.1 EMPLOYMENT. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time for any reason, nor confer upon any Participant any right to continue in the employ of the Company. For all purposes of the Plan, a Participant shall be considered to be in the employment of the Company as long as he or she remains employed on a full-time basis by the Company or any of its subsidiaries or is on an authorized leave of absence approved by the Committee. Any question as to whether and when there has been a termination of a Participant's employment, and the reason for such termination, shall be determined solely by the Committee, and its determination shall be final and conclusive.

8.2 PARTICIPATION. No Participant or other employee shall at any time have a right to be selected for participation in the Plan for any Plan Year, despite having been selected for participation in a previous Plan Year.

8.3 NONTRANSFERABILITY. No right or interest of any Participant in this Plan shall be assigned or transferable, or subject to any lien, directly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge, and bankruptcy.

ARTICLE 9

BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 10

AMENDMENT AND TERMINATION

The Board may modify or amend, in whole or in part, any or all of the provisions of this Plan, or suspend or terminate it entirely; provided, that no such modification, amendment, suspension, or termination may, without the consent of a Participant (or his beneficiary in the case of the death of the Participant), reduce the right of a Participant (or his beneficiary as the case may be) to a payment or distribution hereunder to which he is entitled with respect to a Plan Year that has ended prior to such modification, amendment, suspension, or termination.

ARTICLE 11

GOVERNING LAW AND WITHHOLDING

11.1 GOVERNING LAW. THE PLAN, AND ALL AWARDS HEREUNDER, SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS.

11.2 WITHHOLDING TAXES. The Company shall have the right to deduct from all payments under this Plan any Federal, state, or local taxes required by law to be withheld with respect to such payments.

BAKER HUGHES INCORPORATED

1995 STOCK AWARD PLAN

I. PURPOSE

The purpose of the BAKER HUGHES INCORPORATED 1995 STOCK AWARD PLAN (the "PLAN") is to provide a means through which BAKER HUGHES INCORPORATED, a DELAWARE CORPORATION (the "COMPANY"), and its subsidiaries may attract able persons to enter the employ of the Company and to provide a means whereby those upon whom the responsibilities of the successful administration and management of the Company rest, and whose present and potential contributions to the welfare of the Company are of importance, can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company and their desire to remain in its employ. A further purpose of the Plan is to provide such persons with additional incentive and reward opportunities designed to enhance the profitable growth of the Company. Accordingly, the Plan provides for granting stock Awards to Employees as provided herein.

II. DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

(a) "AWARD" means, individually or collectively, any stock award granted under the Plan.

(b) "AWARD AGREEMENT" means a written agreement between the Company and a Holder with respect to an Award.

(c) "BOARD" means the Board of Directors of the Company.

(d) "CODE" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to any section and any regulations under such section.

(e) "COMMITTEE" means the committee charged with the administration of the Plan in accordance with Article IV.

(f) "COMMON STOCK" means the common stock, par value \$1 per share, of the Company.

(g) "COMPANY" means Baker Hughes Incorporated.

(h) "EMPLOYEE" means any person in an employment relationship with the Company or with one of its subsidiaries.

(i) "1934 ACT" means the Securities Exchange Act of 1934, as amended.

(j) "HOLDER" means an Employee who has been granted an Award.

(k) "PLAN" means Baker Hughes Incorporated 1995 Stock Award Plan, as amended from time to time.

(l) "RULE 16b-3" means SEC Rule 16b-3 promulgated under the 1934 Act, as such may be amended from time to time, and any successor rule, regulation or statute fulfilling the same or a similar function.

III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan shall be effective as of October 26, 1994, the date of its adoption by the Board, provided the Plan is approved by the stockholders of the Company within twelve months thereafter and on or prior to the date of the first annual meeting of stockholders of the Company held subsequent to the acquisition of an

equity security by a Holder hereunder for which exemption is claimed under Rule 16b-3. No further Awards may be granted under the Plan after October 26, 2004. The Plan shall remain in effect until all Awards granted under the Plan have been satisfied or expired.

IV. ADMINISTRATION

(a) COMPOSITION OF COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board which shall be (i) appointed by the Board, (ii) consist of at least three members of the Board and (iii) constituted so as to permit the Plan to comply with Rule 16b-3. No member of the Committee shall be eligible to receive an Award under the Plan and no person who has received an Award in the preceding year shall be eligible to serve on the Committee.

(b) POWERS. Subject to the provisions of the Plan, the Committee shall have sole authority, in its discretion, to determine which Employees shall receive an Award, the time or times when such Award shall be made, the number of shares of Common Stock which may be issued under each such Award, and the vesting requirements which apply to each such Award. In making such determinations the Committee may take into account the nature of the services rendered by the respective individuals, their present and potential contribution to the Company's success and such other factors as the Committee in its discretion shall deem relevant.

(c) ADDITIONAL POWERS. The Committee shall have such additional powers as are delegated to it by the other provisions of the Plan. Subject to the express provisions of the Plan, the Committee is authorized to construe the Plan and the respective Award Agreements executed thereunder, to prescribe such rules and regulations relating to the Plan as it may deem advisable to carry out the Plan, and to determine the terms, restrictions and provisions of each Award, and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in any Award Agreement in the manner and to the extent it shall deem expedient to carry it into effect. The determinations of the Committee on the matters referred to in this Article IV shall be conclusive.

V. AWARD LIMITS AND SHARES SUBJECT TO THE PLAN

(a) AWARD LIMITS. The Committee may, from time to time, grant Awards to one or more individuals determined by it to be eligible for participation in the Plan in accordance with the provisions of paragraph VI. Subject to paragraph VIII, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 350,000 shares. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses or the rights of its Holder terminate, any shares of Common Stock subject to such Award shall again be available for the grant of an Award.

(b) STOCK OFFERED. The stock to be offered pursuant to the grant of an Award may be authorized but unissued Common Stock or Common Stock previously issued and outstanding and reacquired by the Company.

VI. ELIGIBILITY

Awards may be granted only to key Employees (including officers and directors who are also key Employees) as determined by the Committee. An Award may be granted on more than one occasion to the same Person.

VII. STOCK AWARDS

(a) AWARD GRANTS. Awards which may be granted by the Committee pursuant to the Plan are rights to receive shares of Common Stock which vest over a period of time or upon the occurrence of an event as established by the Committee, without payment of any amounts by the holder thereof to the Company (except to the extent otherwise required by law, such as income or transfer taxes) or satisfaction of any performance criteria or objectives.

(b) AWARD PERIOD. The Committee shall establish, with respect to and at the time of each award, a period over which or the event upon which the Award shall vest with respect to the Holder.

(c) AWARDS CRITERIA. In determining the grant of an Award, the Committee may take into account an individual's responsibility level, performance, potential, length of service, age, other Awards, compensation, other Common Stock ownership and such other considerations as it deems appropriate.

(d) PAYMENT. Following the end of the vesting period for an Award, the Holder of an Award shall be entitled to receive the underlying shares of Common Stock represented by the Award as soon as administratively practicable following such vesting. Cash dividend equivalents may be paid during or after the vesting period with respect to an Award, as determined by the Committee.

(e) TERMINATION OF EMPLOYMENT. An Award shall terminate if the Holder does not remain continuously in the employ of the Company at all times during the applicable vesting period, except as may be otherwise determined by the Committee or as set forth in the Award at the time of grant.

(f) AGREEMENTS. At the time any Award is made under this paragraph VII, the Company and the Holder shall enter into an Award Agreement setting forth each of the matters contemplated hereby as the Committee may determine to be appropriate. The terms and provisions of the respective Award Agreements need not be identical.

VIII. RECAPITALIZATION OR REORGANIZATION

(a) The shares with respect to which Awards may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Award theretofore granted, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such Award may thereafter be exercised or satisfied, as applicable, (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced.

(b) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise or satisfaction, as applicable, of an Award theretofore granted, the Holder shall be entitled to receive under such Award, in lieu of the number of shares of Common Stock then covered by such Award, the number and class of shares of stock and securities to which the Holder would have been entitled to receive pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Holder had been the holder of record of the number of shares of Common Stock then covered by such Award.

(c) In the event of changes in the outstanding Common Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this paragraph VIII, any outstanding Awards and any agreements evidencing such Awards shall be subject to adjustment by the Committee at its discretion as to the number of shares of Common Stock subject to such Awards. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(d) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act of proceeding.

(e) Any adjustment provided for in Subparagraphs (a), (b) or (c) above shall be subject to any required stockholder action.

(f) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares of obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Awards theretofore granted.

IX. AMENDMENT AND TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Awards have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided that no change in any Award theretofore granted may be made which would impair the rights of the holder without the consent of the Holder, and provided, further, that the Board may not, without approval of the stockholders, amend the Plan;

(a) to increase the maximum number of shares which may be issued pursuant to Awards, except as provided in paragraph VIII;

(b) to change the class of individuals eligible to receive Awards under the Plan;

(c) to extend the maximum period during which Awards may be granted under the Plan;

(d) to modify materially the requirements as to eligibility for participation in the Plan;

(e) to materially increase the benefits accruing to participants under the Plan; or

(f) to decrease any authority granted to the Committee hereunder in contravention of Rule 16b-3.

X. MISCELLANEOUS

(a) NO RIGHT TO AN AWARD. Neither the adoption of the Plan by the Company nor any action of the Board or the Committee shall be deemed to give an employee any right to be granted an Award or any of the rights hereunder except as may be evidenced by an Award or by an Award Agreement duly executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of Common Stock or other assets to assure the payment of any Award.

(b) NO EMPLOYMENT RIGHTS CONFERRED. Nothing contained in the Plan shall (i) confer upon any Employee any right with respect to continuation of employment with the Company or any subsidiary or (ii) interfere in any way with the right of the Company or any subsidiary to terminate his or her employment at any time.

(c) OTHER LAWS; WITHHOLDING. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the shares covered by such Award have not been registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as

the Company or the Committee deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the issuance of such shares. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations.

(d) NO RESTRICTION ON CORPORATE ACTION. Nothing contained in the Plan shall be construed to prevent the Company or any subsidiary from taking any corporate action which is deemed by the Company or such subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Employee, beneficiary or other person shall have any claim against the Company or any subsidiary as a result of any such action.

(e) RESTRICTIONS ON TRANSFER. An Award shall not be transferable otherwise than by will or the laws of descent and distribution.

(f) RULE 16b-3. It is intended that the Plan and any grant of an Award made to a person subject to Section 16 of the 1934 Act meet all of the requirements of Rule 16b-3. If any provision of the Plan or any such Award would disqualify the Plan or such Award under, or would otherwise not comply with, Rule 16b-3, such provision or Award shall be construed or deemed amended to conform to Rule 16b-3.

(g) GOVERNING LAW. This Plan shall be construed in accordance with the laws of the State of Texas, except to the extent that it implicates matters which are the subject of the General Corporation Law of the State of Delaware which matters shall be governed by the latter law.

CREDIT AGREEMENT

By and Between
Baker Hughes Incorporated
and

Dated as of September 1, 1994

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BAKER HUGHES INCORPORATED

CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of September 1, 1994, is hereby made and entered into by and between BAKER HUGHES INCORPORATED, a Delaware corporation (the "Company"), and (the "Bank"), on the following terms and conditions.

ARTICLE I. DEFINITIONS

For the purposes hereof, unless the context otherwise requires:

1.01 "Advance(s)" means any or all of the Eurodollar Advances and Reference Rate Advances made to the Company by the Bank pursuant to Section 3.01.

1.02 "Agreement" means this Credit Agreement as originally executed or, if later amended or supplemented, then as so amended or supplemented.

1.03 "Business Day" means any day (other than a day which is Saturday, Sunday, or a legal holiday in London, England, the State of Texas, the State of New York, or the State within the U.S., if any, where the Bank maintains its corporate headquarters) on which commercial banks are open for domestic and international business in London, England, Houston, Texas, New York, New York, and the city within the U.S., if any, where the Bank maintains its corporate headquarters; provided, however, that when used in connection with a Eurodollar Advance, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

1.04 "Commitment" means the Bank's commitment to lend an aggregate amount not to exceed the Commitment Limit at any time outstanding pursuant to Section 2.01, as such Commitment may be reduced or terminated pursuant to Section 2.02, Section 2.03 or Article VII.

1.05 "Commitment Limit" means MILLION DOLLARS (\$)).

1.06 "Consolidated Net Worth" of any Person means the Net Worth of such Person and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

1.07 "Control Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common CONTROL WHICH, together with the Company, are treated as a single employer under Section 414(b) or 414(c) of the Internal Revenue Code of 1986, as from time to time amended.

1.08 "Default Rate" means a rate per annum equal to the sum of 1% plus the Reference Rate (changing when and as such Reference Rate changes).

1.09 "Dollars" and "\$" mean the lawful currency of the United States of America and in respect of all payments to be made in Dollars under this Agreement mean funds which are for same day settlement in immediately available funds through the Federal Reserve wire transfer system (or such other United States dollar funds as may at the relevant time be customary for the settlement of international banking transactions denominated in United States dollars).

1.10 "Effective Date" means the date of this Agreement first written above.

1.11 "Encumbrance" means any mortgage, deed of trust, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance, but excluding any right of offset or set-off which arises by operation of law or which may be granted to a lender in connection with credit facilities for the Company or any of its Subsidiaries, and further excluding any encumbrance which arises by reason of any restraining order, injunction, or similar impediment or restriction that affects the transfer of any assets.

1.12 "ERISA" means the Employee Retirement Income Security Act of 1974, as from time to time amended.

1.13 "Eurodollar Advance(s)" means loans made by the Bank to the Company under Section 3.01 that bear interest at the Eurodollar Rate.

1.14 "Eurodollar Rate" means, in respect of each Interest Period of each Eurodollar Advance, a rate per annum equal to LIBOR plus the LIBOR Margin; provided, however, that if the Bank incurs a reserve requirement (as set forth below in the definition of "Eurodollar Reserve Percentage") on any day of any Interest Period and the Bank notifies the Company, within thirty (30) days after incurring such reserve requirement that it has incurred same, then "Eurodollar Rate" means, in respect of the portion of the Interest Period of such Eurodollar Advance in which such reserve requirement is in effect, a rate per annum equal to the sum of LIBOR Margin plus the quotient obtained (rounded upwards, if necessary, to the next higher 1/16 of 1%) by dividing (i) LIBOR by (ii) 1.00 minus the Eurodollar Reserve Percentage in effect during such portion of such Interest Period.

1.15 "Eurodollar Reserve Percentage" means for any day that a Eurodollar Advance is outstanding, that percentage (expressed as a decimal) which is in effect on such day of the applicable Interest Period, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirement for the Bank in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar Advances is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of the Bank to United States residents).

1.16 "Event of Default" shall have the meaning attributed thereto in Article VII.

1.17 "Facility Fee" means the fee payable to the Bank pursuant to Section 2.04.

1.18 "Facility Fee Rate" means the rate per annum which shall be used to calculate the Facility Fee and is equal to (i) 1/10 of 1% if the Company has a senior unsecured credit rating by Standard and Poors of better than BBB+ or a senior unsecured credit rating by Moody's Investor Services of better than Baa1; (ii) 1/8 of 1% if the Company has a senior unsecured credit rating by Standard and Poors between BBB+ and BBB-, inclusive or a senior unsecured credit rating by Moody's Investor Services between Baa1 and Baa3, inclusive; or (iii) 1/4 of 1% if the Company has a senior unsecured credit rating by Standard and Poors of less than BBB- or a senior unsecured credit rating by Moody's Investor Services of less than Baa3; provided, however, that the greater senior unsecured credit rating (Standard and Poors or Moody's Investor Services) shall always be applied to determine the Facility Fee Rate, and if Standard and Poors (or Moody's Investor Services) changes its rating designations, then the new equivalent Standard and Poors (or Moody's Investor Services) credit ratings shall be applied.

1.19 "GAAP" means those generally accepted accounting principles which are in effect on the date of determination and which are recognized as such by the Financial Accounting Standards Board (or any generally recognized successor).

1.20 "Governmental Requirement" means any law, statute, code, ordinance, order, rule, regulation, guideline, judgment, decree, injunction, franchise, permit, certificate, license, authorization or other direction or requirement (including, without limitation, any of the foregoing which relate to environmental standards or controls, energy regulations and occupational, safety and health standards or controls) of any (domestic or foreign) federal, state, county, municipal, parish, provincial or other government or any department, commission, board, court, agency or any other instrumentality of any of them.

1.21 "Interest Period" means (a) in respect of each Eurodollar Advance made to the Company, the period commencing on the date of such Eurodollar Advance and ending one, three or six months thereafter (as designated by the Company pursuant to Section 3.01(a)) or such other time period as may be mutually agreed upon by the Bank and the Company, and (b) in respect of each Reference Rate Advance made to the Company, the period commencing on the date of such Reference Rate Advance and ending one, three or six months thereafter (as designated by the Company pursuant to Section 3.01(a)) or such other time period as may be mutually agreed upon by the Bank and the Company; provided, however, that in each case:

(i) any Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless by such extension it would fall in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period which begins on a day for which there is no numerically corresponding day in the calendar month during which such Interest Period is to end shall, subject to the provisions of clause (i) hereof, end on the last day of such calendar month;

(iii) no Interest Period shall extend beyond the Termination Date; and

(iv) no more than ten different Interest Periods may be outstanding at any one time.

1.22 "Lending Office" means the office or offices of the Bank specified as its "Domestic Lending Office" or "Eurodollar Lending Office", as the case may be, below its name on the signature page hereof or such other office or offices of the Bank as the Bank may from time to time specify in writing to the Company, or, if the Bank fails to so notify the Company, the Bank's Domestic Lending Office listed below its name on the signature page hereof

1.23 "LIBOR" means, in respect of each Interest Period of each Eurodollar Advance, the rate per annum quoted by the Bank at which deposits in Dollars, in amounts comparable to the amount of the subject Eurodollar Advance and with maturities comparable to such Interest Period, are offered to the principal office of the Bank in London, England (or if the Bank does not have an office in London, England, the rate at which such deposits are offered to the principal offices of major banks in London, England) by major banks in the interbank market at 11:00 A.M. London time two (2) Business Days prior to the first day of such Interest Period (rounded upward, if necessary, to the next higher 1/16 of 1%).

1.24 "LIBOR Margin" means the rate per annum which shall be added to LIBOR to determine the Eurodollar Rate and is equal to (i) .275% if the Company has a senior unsecured credit rating by Standard and Poors of better than BBB+ or a senior unsecured credit rating by Moody's Investor Services of better than Baa1; (ii) .375% if the Company has a senior unsecured credit rating by Standard and Poors between BBB+ and BBB-, inclusive, or a senior unsecured credit rating by Moody's Investor Services between Baa1 and Baa3, inclusive; or (iii) .5% if the Company has a senior unsecured credit rating by Standard and Poors of less than BBB- or a senior unsecured credit rating by Moody's Investor Services of less than Baa3; provided, however, that the greater senior unsecured credit rating (Standard and Poors or Moody's Investor Services) shall always be applied to determine the LIBOR Margin, and if Standard and Poors (or Moody's Investor Services) changes its rating designations, then the new equivalent Standard and Poors (or Moody's Investor Services) credit ratings shall be applied.

1.25 "Mortgage" means any Encumbrance, excluding Permitted Encumbrances.

1.26 "Net Worth" of a Person shall mean the sum of the par value or stated value of its issued and outstanding capital stock (common and preferred), capital in excess of par

or stated value of shares of its capital stock, retained earnings, and any other account which, in accordance with GAAP, constitutes Stockholders' Equity.

1.27 "Note" means the note substantially in the form of Exhibit A hereto issued by the Company pursuant to Section 3.01.

1.28 "Other Bank(s)" means, collectively, the banks set forth on Exhibit B, other than the Bank.

1.29 "Other Bank Agreement(s)" shall have the meaning attributed thereto in Section 4.13.

1.30 "PBGC" means the Pension Benefit Guaranty Corporation or any successor established under ERISA.

1.31 "Permitted Encumbrance" shall have the meaning attributed thereto in Section 6.01.

1.32 "Person" means an individual, corporation, partnership, joint venture, trust, unincorporated organization, association, joint stock company, government or any agency or political subdivision thereof or any other entity.

1.33 "Plan" means each employee benefit plan or other plan maintained by the Company or any member of the Control Group for employees of the Company or any member of the Control Group and covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code of 1986, as from time to time amended.

1.34 "Reference Rate" means the varying rate of interest per annum equal to the rate of interest per annum publicly announced from time to time by Citibank, N.A., New York, New York, or its successor, as its "Base Rate" of interest, changing as and when a change in such rate occurs; provided, however, that in the event that such rate ceases or fails to be published, the Reference Rate shall be equal to the "Prime Rate" published in the Wall Street Journal in the Money Rates Column, as it may change from time to time.

1.35 "Reference Rate Advance(s)" means loans made by the Bank to the Company under Section 3.01 that bear interest at the Reference Rate.

1.36 "Reportable Event" means any event described in Section 4043 of ERISA, but excluding Sections 4043(b)(2) and 4043(b)(3) thereof.

1.37 "Stockholders' Equity" means the excess of assets over liabilities, in each case of the Company and its Subsidiaries on a consolidated basis, as determined and computed in accordance with GAAP.

1.38 "Subsidiary" means a corporation of which the Company and/or one or more of its other subsidiaries of any tier own, directly or indirectly, such number of outstanding shares as have the power (disregarding any voting power, solely by reason of the happening of any default, of shares of any class) to elect a majority of the Board of Directors of such corporation.

1.39 "Taxes" means all present and future taxes, levies, imposts, duties, fees, assessments, or charges of whatever nature (excluding income and similar taxes) now or hereafter imposed by any governmental authority, or any political subdivision or taxing authority thereof, together with interest thereon and penalties in respect thereof

1.40 "Termination Date" means the date on which the Commitment expires, which shall be five (5) years after the Effective Date (August 31, 1999), or such earlier date as the Bank's obligation to honor its Commitment shall have terminated under Section 2.02, Section 2.03 or Article VII of this Agreement.

ARTICLE II. LOAN COMMITMENT

2.01 Commitment to Lend. The Bank agrees, on the terms and conditions of this Agreement and in reliance upon the representations and warranties set forth in Article IV, to make Eurodollar Advances and Reference Rate Advances to the Company, from time to time, from the Effective Date to but excluding the Termination Date, at such times and in such amounts as the Company shall request in accordance with Section 3.01, in an aggregate principal amount not to exceed at any one time outstanding the Commitment Limit.

2.02 Change of Law. Notwithstanding any other provision herein, in the event that any change in any applicable Governmental Requirement or in the interpretation or administration thereof shall make it unlawful or impossible for the Bank to (i) honor its Commitment under Section 2.01, then the obligation of the Bank to make Advances to the Company under Section 2.01 and the obligation of the Company to pay the Facility Fee for the period of time subsequent thereto shall terminate, or (ii) maintain its Advances, then the aggregate principal amount of the Bank's Advances which are then outstanding and which cannot be lawfully maintained, together with interest accrued and unpaid thereon and all other amounts payable hereunder to the Bank in respect thereof, shall be paid, all as provided below in this Section 2.02. Upon the occurrence of any change making it unlawful for the Bank to honor its Commitment under Section 2.01 or maintain its Advances as aforesaid, the Bank shall immediately notify an officer of the Company thereof by telephone (which shall be confirmed by written notice in accordance with Section 8.03), and shall furnish to the Company written evidence of such change. Any payment of the principal amount of the Bank's Advances which is required under this Section 2.02 shall be made, together with accrued and unpaid interest and all other amounts payable hereunder to the Bank in respect thereof, on the earlier of (i) the last day of the respective Interest Periods applicable to such Advances, or (ii) such earlier date or dates required by any such

Governmental Requirement or any such interpretation or administration thereof, provided the Company has been notified of such earlier date or dates.

2.03 Termination and Reduction of Commitment. The Company may, upon at least five (5) Business Days' prior written notice given by the Company to the Bank, and upon payment of the Facility Fee accrued through the date of such termination or reduction, at any time wholly terminate or from time to time permanently reduce the unused portion of the Commitment; provided that any such partial reduction of the commitment must be in the amount of \$1,000,000 or an integral multiple thereof.

2.04 Facility and Origination Fees.

(a) Facility Fee. The Company agrees to pay the Bank a Facility Fee, in Dollars, equal to the Facility Fee Rate multiplied by the daily average amount of the Commitment Limit, used and unused, as it may exist for the period from and including the Effective Date, to but not including the Termination Date (or such earlier date as the Bank's obligation to honor its Commitment shall have terminated pursuant to Sections 2.02, 2.03 or 7.08). The applicable Facility Fee Rate shall be determined as of, and the accrued Facility Fee shall be paid to the Bank on, (i) the last Business Day of each March, June, September and December, commencing with the first of such dates which follows the Effective Date, and (ii) the date of any early termination of the Commitment pursuant to Sections 2.02, 2.03 or 7.08.

(b) Origination Fee. The Company agrees to pay the Bank a one-time origination fee, in Dollars, equal to .03% of the Commitment Limit, payable within fifteen (15) days of the Effective Date of this Agreement.

2.05 Withholding Taxes. Subject to Sections 2.07 and 2.08, if at any time any applicable law, regulation or regulatory requirement or any governmental authority, monetary agency or central bank enacted after the Effective Date requires the Company to make any deduction or withholding in respect of Taxes from any payment due under this Agreement for the account of the Bank, the sum due from the Company in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Bank receives on the due date for such payment a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made, and the Company shall indemnify the Bank against any losses or costs incurred by the Bank by reason of any failure of the Company to make any such deduction or withholding or by reason of any increased payment not being made on the due date for such payment, except to the extent the same arise by reason of a transfer, sale, or assignment of the Note. The Company shall promptly deliver to the Bank any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid. If the Bank should, in connection with any payment made by the Company pursuant to this Section 2.05, receive any offsetting tax credit or obtain any similar tax benefit which may reasonably be applied to the benefit of the Company, the Bank will in a timely manner reimburse the Company an amount equal to the

amount of such credit or benefit after deducting any expenses reasonably and properly attributable thereto. The Bank agrees to use its reasonable efforts to obtain any such tax credit or similar tax benefit. If any such tax credit or benefit, the amount of which has been reimbursed to the Company, is subsequently disallowed in whole or in part by the appropriate taxation authorities, the Company agrees to repay on demand to the Bank the amount of credit or benefit so reimbursed to the Company and subsequently disallowed.

2.06 Increased Costs. Without duplication of any amounts otherwise payable under this Agreement the Company agrees to reimburse the Bank, within ten (10) days after receipt of written notice from the Bank, for any increase in its cost or decrease in its effective rate of return incurred after the Effective Date hereof (which shall include, but not be limited to, taxes (other than income or similar taxes), fees, charges and/or reserves) directly or indirectly resulting from the making of any Advances to the Company or maintaining of its Commitment, and arising as a result of:

(a) any change after the Effective Date in any Governmental Requirement or the interpretation thereof by any governmental authority, court, bureau or agency charged with the administration or interpretation thereof (whether or not having the force of law); or

(b) any capital or similar requirements imposed on the Bank or any corporation controlling the Bank against assets or liabilities (or against any class thereof or any required change in the amount thereof) of, or commitments or extensions of credit by, the Bank (including, without limitation, the Bank's obligation to make Advances hereunder);

except to the extent the same arise by reason of a transfer, sale or assignment of the Note. Such reimbursement shall be made to the Bank within ten (10) days after the receipt by the Company of notice from the Bank setting forth the nature and amount of such loss, decrease in its effective rate of return, or expense and an explanation as to how such amounts were calculated by the Bank, said notice to be conclusive and binding in the absence of manifest error. The Company will pay all amounts required pursuant to this Section 2.06 to the Bank in immediately available funds.

2.07 Bank as Foreign Person. If the Bank is a foreign Person (i.e., a Person other than a United States Person for United States Federal income tax purposes), then Bank hereby agrees that:

(i) it shall on or prior to the Effective Date deliver to the Company one original of the following:

(A) if any Lending Office is located in the United States of America, accurate and complete signed copies of IRS Form 4224 or any successor thereto ("Form 4224") and IRS Form W-9 or any successor thereto ("Form W-9"); and/or

(B) if any Lending Office is located outside the United States of America, accurate and complete signed copies of IRS Form 1001 or any successor thereto ("Form 1001") and IRS Form W-8 or any successor thereto ("Form W-8");

in each case indicating that the Bank is on the date of delivery thereof entitled to receive payments of principal, interest and fees for the account of such Lending Office or Lending Offices under this Agreement free from withholding of United States Federal income tax;

(ii) if at any time the Bank changes its Lending Office or Lending Offices or selects an additional Lending Office, it shall, at the same time, but only to the extent the forms previously delivered by it hereunder are no longer effective, deliver to the Company one original, in replacement for the forms previously delivered by it hereunder:

(A) if such changed or additional Lending Office is located in the United States of America, accurate and complete signed originals of Form 4224 and Form W-9; or

(B) otherwise, accurate and complete signed originals of Form 1001 and Form W-8;

in each case indicating that the Bank is on the date of delivery thereof entitled to receive payments of principal, interest and fees for the account of such changed or additional Lending Office under this Agreement free from withholding of United States Federal income tax;

(iii) it shall, upon the occurrence of any event (including the passing of time, but excluding any event mentioned in clause (ii) above) requiring a change in the most recent Form 4224, Form W-9, Form 1001 or Form W-8 previously delivered by such Bank, deliver to the Company one original accurate and complete signed copies of Form 4224, Form W-9, Form 1001 or Form W-8 in replacement for the forms previously delivered by the Bank;

(iv) it shall, promptly upon the request of the Company, deliver to the Company such other forms or similar documentation as may be required from time to time by any applicable law, treaty, rule or regulation in order to establish the Bank's tax status for withholding purposes;

(v) if the Company claims exemption from withholding tax under a United States tax treaty by providing a Form 1001 and the Bank sells or grants a participation of all or part of its rights under this Agreement, it shall notify the Company of the percentage amount in which it is no longer the beneficial owner under this Agreement. To the extent of this percentage amount, the Company shall

treat the Bank's Form 1001 as no longer applicable for purposes of this Section 2.07. In the event the Bank is claiming exemption from United States withholding tax by filing Form 4224 with the Company, and sells or grants a participation in its rights under this Agreement, the Bank agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code; and

(vi) if the IRS or any authority of the United States of America or other jurisdiction asserts a claim that the Company did not properly withhold tax from amounts paid to or for the account of the Bank (because the appropriate form was not delivered, was not properly executed, or because the Bank failed to notify the Company of a change in circumstances which rendered the exemption from withholding tax ineffective), the Bank shall indemnify the Company fully for all amounts paid, directly or indirectly, by the Company, as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable by the Company under Sections 2.05 and 2.06 together with all costs, expenses and reasonable attorneys' fees (including the allocated cost of in-house counsel).

Without limiting or restricting the Bank's right to increased amounts under Sections 2.05 and 2.06 from the Company upon satisfaction of such Bank's obligations under the provisions of this Section 2.07, if the Bank is a foreign Person and is entitled to a reduction in the applicable withholding tax, the Company may withhold from any interest to the Bank an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by clause (i) above are not delivered to the Company, then the Company may withhold from any interest payment to the Bank an amount equivalent to the applicable withholding tax. In addition, the Company may also withhold against periodic payments other than interest payments to the extent United States withholding tax is not eliminated by obtaining Form 4224 or Form 1001.

2.08 Bank's Obligation for Taxes. Notwithstanding anything to the contrary contained herein, the Company shall not be required to pay any additional amounts in respect of United States Federal income tax pursuant to Sections 2.05 or 2.06 to the Bank for the account of any Lending Office of the Bank:

(i) if the obligation to pay such additional amounts would not have arisen but for a failure by the Bank to comply with its obligations under Section 2.07 in respect of such Lending Office;

(ii) if the Bank shall have delivered to the Company a Form 4224 and a Form W-9 in respect of such Lending Office pursuant to Sections 2.07(i)(A), 2.07(ii)(A) or 2.07(iii) and the Bank shall not at any time be entitled to exemption from deduction or withholding of United States Federal income tax in respect of payments by the Company hereunder for the account of such Lending Office for any reason other than a change in United States law or regulations or in the official

interpretation of such law or regulations by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) after the date of delivery of such Form 4224 and Form W-9; or

(iii) if the Bank shall have delivered to the Company a Form 1001 and a Form W-8 in respect of such Lending Office pursuant to Sections 2.07(i)(B), 2.07(ii)(B), or 2.07(iii) and the Bank shall not at any time be entitled to exemption from deduction or withholding of United States Federal income tax in respect of payments by the Company hereunder for the account of such Lending Office for any reason other than a change in United States law or regulations or any applicable tax treaty or regulations or in the official interpretation of any such law, treaty or regulations by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) after the date of delivery of such Form 1001 and Form W-8.

Any and all present or future Taxes and related liabilities (including penalties, interest, additions to tax and expenses) which are not required to be paid by the Company pursuant to Sections 2.05 and 2.06 shall be paid by the Bank and Bank agrees to indemnify and hold the Company harmless from the same.

2.09 Change of Lending Office. Bank agrees that upon the occurrence of any event giving rise to the payment of taxes or withholding pursuant to Sections 2.05 or 2.06, it will if so requested by the Company, use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Lending Office for any Advances affected by such event with the object of avoiding the consequence of the event giving rise to the payment of taxes or withholding pursuant to such Sections; provided, however, that such designation would not, in the judgment of Bank, be otherwise disadvantageous to Bank. Nothing in this Section 2.09 shall affect or postpone any of the obligations of the Company or the right of the Bank provided in Sections 2.05 or 2.06.

ARTICLE III. REVOLVING CREDIT LOANS TO THE COMPANY

3.01 Advances to the Company. Subject to the terms and conditions of this Agreement, the Company may from time to time borrow under this Section 3.01, pay pursuant to this Section 3.01, and reborrow under this Section 3.01. Each Advance made to the Company and payment thereof shall be in Dollars in an aggregate principal amount of not less than \$1,000,000. All Advances to the Company shall be subject to the provisions of Section 3.01(a) through 3.01(g).

(a) Manner of Borrowing. The Company shall give the Bank, not later than 10:00 A.M. (Houston time) (i) three (3) Business Days prior to the drawdown date in the case of a Eurodollar Advance; and (ii) on the drawdown date in the case of a Reference Rate Advance, irrevocable notice (effective upon receipt), substantially in the form of Exhibit C attached hereto, of each requested Advance to be made to the Company specifying (A) the amount of the requested Advance,

(B) the drawdown date of the requested Advance (which shall be a Business Day), (C) whether the Advance is to be comprised of Eurodollar Advances or Reference Rate Advances, and (D) the term of the Interest Period for such Advance, provided that if the Company fails to specify the duration of such term, the Interest Period for such Advance shall be three (3) months. If such Advance will be a Eurodollar Advance, the Bank shall notify the Company of the Eurodollar Rate by no later than 11:00 A.M. (Houston time) one (1) Business Day prior to the drawdown date specified for such Advance. If such Advance will be a Reference Rate Advance, the Bank shall notify the Company of the Reference Rate by no later than 11:30 A.M. (Houston time) on the drawdown date specified for such Advance.

(b) Manner of Making Funds Available. The Bank, not later than 12:00 Noon Houston time, on the drawdown date specified for such Advance, shall make the Advance available to the Company by transferring in immediately available funds the amount of such Advance to The Northern Trust Company, 50 South LaSalle Street, Chicago, Illinois, U.S.A., 60675 for credit to the Company's account #93343 or to such other bank and/or account as the Company shall designate to the Bank in writing.

(c) Payment of Principal. The Company hereby promises to pay to the Bank the principal of each Advance made to the Company on the last day of the Interest Period applicable to such Advance. The Company shall have the right, at any time and from time to time, to prepay, in whole or in part, any Advance by giving Bank not less than (i) three (3) Business Days prior written notice in the case of a prepayment of a Eurodollar Advance; and (ii) one (1) Business Day prior written notice in the case of a Reference Rate Advance; together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that each partial prepayment of principal shall be in an integral multiple of \$1,000,000 and further provided that the Company shall be required to pay reasonable costs and losses incurred by the Bank as a result of the Company prepaying any Eurodollar Advance, pursuant to Section 3.03.

(d) Payment of Interest. The Company hereby promises to pay to the Bank accrued but unpaid interest on the principal amount of each Advance made to the Company, from the date of such Advance until the principal amount of such Advance shall be paid in full (i) at the Eurodollar Rate for Eurodollar Advances; and (ii) at the Reference Rate for Reference Rate Advances; payable on the last day of the Interest Period applicable to such Advance and, if such Interest Period is longer than six months, also on each six-month anniversary of the making of such Advance; provided, however, that any amount of such principal and, to the extent permitted by law, any interest thereon which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest from the date on which such amount is due until such amount is paid in full, payable on demand, at the Default Rate.

(e) Currency of Payment. All payments of principal and interest on Advances shall be made in Dollars.

(f) Note. The Advances made by the Bank to the Company shall be evidenced by the Note substantially in the form attached hereto as Exhibit A with appropriate insertions, payable to the order of the Bank, dated the Effective Date, maturing on the Termination Date and bearing interest from the Effective Date on the unpaid principal amount thereof from time to time outstanding at the rates provided for in this Agreement. The Bank shall record and endorse on the Note all transactions in the space provided thereon, which recordation and endorsement, absent manifest error, shall be prima facie evidence of Advances made to the Company and payments thereon; provided, however, that the failure by the Bank to make such recordation and endorsement shall not limit or otherwise affect the obligations of the Company hereunder or under the Note and payments of principal and interest on the Note by the Company shall not be affected by the failure to make any such recordation and endorsement thereof on the Note. Although the Note shall be dated the Effective Date, interest in respect thereof shall be payable only for the periods during which the Advances evidenced thereby are outstanding and then only with respect to such Advances.

(g) Available London Interbank Rate. Anything herein to the contrary notwithstanding, if, with respect to any proposed Eurodollar Advance to the Company, the Bank determines (i) that for any reason whatsoever the rates for the offering of Dollars for deposit in the London interbank market in immediately available funds in an amount and for a period comparable to the scheduled maturity of such Eurodollar Advance are not being offered to the Bank in the London interbank market or (ii) that the rates offered for purposes of computing the rate of interest on the requested Eurodollar Advance do not accurately reflect the cost to the Bank of making such Eurodollar Advance, then the Bank shall notify an officer of the Company immediately by telephone (which shall be promptly confirmed by written notice in accordance with Section 8.03) and so long as such failure to offer such rates continue and/or such rates fail to accurately reflect costs to the Bank as aforesaid, the Bank shall be under no obligation to make such Eurodollar Advance under this Agreement; provided, however, that the Company shall have the option to elect to have such Advance changed to a Reference Rate Advance by giving the Bank notice at any time prior to 11:00 a.m. (Houston time) on the date of the proposed Advance.

3.02 Disposition of Funds and Amount Payable in the Event of Refinancing. If the Bank makes a new Advance to the Company hereunder on a day on which the Company is to pay all or any part of an outstanding Advance made to the Company, the Bank shall apply the proceeds of such new Advance to make such payment and (i) only an amount equal to the excess, if any, of the amount being borrowed by the Company over the amount applied by the Bank to make such payment shall be made available by the Bank to the Company as provided in Section 3.01(b) and (ii) only an amount equal to the excess, if any,

of the amount payable by the Company to the Bank on such day over the amount applied by the Bank to make such payment shall be payable by the Company to the Bank on such day.

3.03 Funding Losses. The Company shall pay to the Bank upon written request (which request shall set forth in reasonable detail the basis for such request), such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to reasonably compensate the Bank for any loss or expense (other than the loss of margin) incurred by the Bank as a result of (i) any prepayment by the Company of any Eurodollar Advance made to the Company on a date other than the last day of the Interest Period applicable thereto (but specifically excluding Section 2.02), or (ii) any failure by the Company to borrow an Advance on the date scheduled for such borrowing pursuant to Section 3.01, except Section 3.01(g), whether because of any Event of Default by the Company or otherwise.

3.04 Conditions to the Initial Borrowing. The obligation of the Bank to make its initial Advance to the Company is subject to the conditions precedent that the Bank shall have received:

(a) Note. In the case of the initial Advance to the Company, the Note drawn to the order of the Bank complying with the provisions of Section 3.01 hereof.

(b) Authorized Signatories of the Company. A certificate of the Secretary or an Assistant Secretary of the Company which shall certify the names of the officers of the Company authorized to sign this Agreement, the Note, and any other document related to this Agreement, together with the true specimen signatures of such officers. The Bank may conclusively rely upon such certificate unless it received evidence to the contrary.

(c) Evidence of Corporate Action of the Company. Certified copies of all corporate action taken by the Company to authorize this Agreement, the Note, and the borrowings by the Company hereunder, and such other papers as the Bank shall reasonably require.

(d) Opinion of Company Counsel. An opinion of the General Counsel or Deputy General Counsel of the Company in substantially the form set forth in Exhibit D hereto.

(e) Certificate of the Company. A certificate dated the date of such Advance to the Company and signed by an authorized executive or financial officer of the Company stating that the representations and warranties of the Company contained in Article IV are true and correct as of the date thereof, and that no Event of Default, or event which with the giving of notice or lapse of time or both would constitute an Event of Default, has occurred and is continuing.

3.05 Conditions To All Advances. The obligation of the Bank to make each Advance to the Company is subject to the conditions precedent that on the date of such Advance:

(a) Notice. The Bank shall have received the applicable notice required by Section 3.01.

(b) Compliance with Agreement. The Company shall have complied and shall then be in compliance with all the terms, covenants and conditions of this Agreement which are binding upon it.

(c) No Default. There shall exist or result from such Advance no Event of Default as defined in Article VII and no event which, with the giving of notice or the lapse of time, or both, would constitute such an Event of Default.

(d) Accuracy of Representations and Warranties. The representations and warranties of the Company contained in Article IV shall be true with the same effect as though such representations and warranties had been made at the time of such Advance. In the case of each Advance to the Company hereunder, each notice or request by the Company to the Bank to make each borrowing shall be deemed to be a representation and warranty to the foregoing effects.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

4.01 Existence and Rights. The Company (i) is duly organized, validly existing, and in good standing under the laws of the State of Delaware, (ii) has all necessary corporate power to own its properties and to carry on its businesses as now conducted, and (iii) is duly qualified and in good standing (to the extent such concepts are applicable) in each United States jurisdiction which requires qualification and in which the character of the properties owned by it or the conduct of its business therein makes such qualification necessary, except where the failure to so qualify would not have a material adverse effect on the Company and its Subsidiaries on a consolidated basis. The Company has all necessary corporate power and authority to make and carry out this Agreement and to issue and deliver and perform the Note as herein provided.

4.02 Agreement and Note. The execution, delivery and performance of this Agreement and the Note by the Company have been duly authorized by all necessary corporate action and do not require the consent or approval of any governmental body or other regulatory authority, are not in contravention of or in conflict with any law or regulation applicable to the Company or any term or provision of the charter or bylaws of the Company, and this Agreement is, and the Note when delivered for value received, will be, the valid and legally binding obligations of the Company, enforceable in accordance with their terms, except as such enforceability may be (i) limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws from time to time in effect and judicial decisions relating to or affecting the enforceability

of creditors' rights and debtor's obligations generally, and (ii) subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.03 No Conflict. The execution, delivery and performance of this Agreement and the Note are not in contravention of or in conflict with any material agreement, indenture, undertaking or Governmental Requirement to which the Company or any of its Subsidiaries is a party or by which any of them or any of their property is subject, and do not cause any Mortgage to be created or imposed upon any such property, except pursuant to the terms of this Agreement.

4.04 Litigation. There are no proceedings pending or, so far as the officers of the Company know, threatened before any court, administrative agency or arbitration panel which, in the opinion of the officers of the Company, are expected to materially adversely affect the financial condition or operations of the Company and its Subsidiaries on a consolidated basis. Neither the Company nor any of its Subsidiaries is in material default with respect to any order, writ, injunction or decree of any court or other governmental or regulatory authority which, in the opinion of the officers of the Company, is expected to materially adversely affect the financial condition or operations of the Company and its Subsidiaries on a consolidated basis.

4.05 Financial Condition. The consolidated balance sheet of the Company and its Subsidiaries as of September 30, 1993 and the related consolidated statement of income for the fiscal year then ended, covered by the opinion of Deloitte & Touche and heretofore delivered to the Bank, present fairly the financial position of the Company and its consolidated Subsidiaries as of such date and the results of their operations for the period then ended and have been prepared in accordance with GAAP. There were no material liabilities, direct or indirect, fixed or contingent, of the Company or any of its consolidated Subsidiaries as of the date of such balance sheet which are not reflected therein or in the notes thereto. Other than as has been previously disclosed to the Bank in writing through the date hereof (including through the delivery of filings made with the U.S. Securities and Exchange Commission), there has been since September 30, 1993 no material adverse change in the financial condition and operations of the Company and its Subsidiaries on a consolidated basis.

4.06 Title to Assets. The Company and its Subsidiaries have sufficient title to their respective assets to enable them to conduct their business, and such assets are subject to no Mortgage not permitted by Section 6.01, except where the failure to have such title would not have a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

4.07 Trademarks, Patents. The Company and each of its Subsidiaries as of the date hereof possess all necessary trademarks, copyrights, patents, patent rights and licenses to conduct their respective businesses as now operated, without any known material infringement of valid trademarks, trade names, copyrights, patents or license rights of others,

except to the extent that the failure of the foregoing would not have a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

4.08 Margin Securities. The Company is not incurring the indebtedness evidenced by the Note hereunder for the purpose, directly or indirectly, of purchasing or carrying any "margin stock" as that term is defined in Regulations U and X of the Board of Governors of the Federal Reserve System, as amended from time to time. Neither the Company nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock.

4.09 ERISA. Neither the Company nor any member of the control group has incurred any material accumulated funding deficiency within the meaning of Section 412 of the Internal Revenue Code of 1986, as from time to time amended, or has incurred any material liability to the PBGC under Title IV of ERISA in connection with any Plan or other class of benefit which PBGC has elected to insure, and no Reportable Event that is materially adverse to the Company and its Subsidiaries taken in the aggregate has occurred with respect to any Plan.

4.10 Investment Company Act. The Company is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

4.11 Labor Matters. There are no strikes or other labor disputes pending, or to the knowledge of Company threatened, against the Company or any of its Subsidiaries which have any reasonable likelihood of having a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

4.12 Environmental Laws. Except as may have been previously disclosed to the Bank or may be disclosed in any information furnished by the Company to the Bank pursuant to Section 5.05, the Company and its Subsidiaries are in compliance with all environmental, health, and safety laws having applicability to the Company and its Subsidiaries, and their respective operations and properties, except to the extent that such non-compliance would not, in the aggregate, have a material adverse effect on the Company and its Subsidiaries on a consolidated basis.

4.13 Other Bank Agreements. Substantially concurrently with the execution of this Agreement by the Company and the Bank, the Company is executing with each of the Other Banks a substantively identical (other than with respect to the amount of the Commitment) form of this Agreement (collectively, the "Other Bank Agreements," and individually an "Other Bank Agreement").

ARTICLE V. AFFIRMATIVE COVENANTS

Unless the Bank shall otherwise consent in writing, it is agreed that, so long as any credit hereunder shall be available and until payment in full of the Note:

5.01 Corporate Rights and Franchises. The Company will, and will cause each of its Subsidiaries to, except as may be otherwise permitted by the provisions of Sections 6.02 and 6.03, (i) maintain and preserve its corporate or partnership existence and all rights, franchises and other authority necessary for the conduct of its business unless, in the judgment of management of the Company, the preservation thereof is no longer desirable to the conduct of the business of the Company and its Subsidiaries taken as a whole and the loss thereof is not disadvantageous in any material respect to the Bank; and (ii) maintain its properties, equipment and facilities in good working order and repair and conduct its business in an orderly manner without voluntary interruption unless, in the judgment of management of the Company, such activities are no longer desirable to the conduct of the Company's business and the discontinuance thereof is not disadvantageous in any material respect to the Bank.

5.02 Insurance. The Company will, and will cause each of its Subsidiaries to, maintain with responsible insurance carriers liability, property damage and worker's compensation insurance coverage in such amounts and with such deductibles and retentions as the management of the Company considers reasonable.

5.03 Taxes and other Liabilities. The Company will, and will cause each of its Subsidiaries to, pay and discharge, before the same become delinquent and before penalties accrue thereon, all taxes, assessments and governmental charges upon or against it or any of its properties, and all its other liabilities at any time existing which, if unpaid, might by law become a Mortgage on a material portion of its property, except to the extent that and so long as:

(a) the same are being contested in good faith and by appropriate proceedings in such manner as not to cause any materially adverse effect upon the financial condition of the Company and its Subsidiaries taken as a whole or the loss of any material right of redemption from any sale thereunder; and

(b) it shall have set aside on its books reserves (segregated in accordance with GAAP) deemed by it adequate with respect thereto.

5.04 Records. The Company will maintain, and cause each of its Subsidiaries to maintain, a system of accounting in accordance with GAAP and permit representatives of the Bank to have reasonable access to and to examine the properties and publicly available information of the Company and its Subsidiaries at all reasonable times, provided that the Bank shall keep confidential any proprietary information of the Company or any Subsidiary identified in writing by such entity or entities as being proprietary and confidential; provided, however, that the Bank may disclose any such information (i) to enable it to comply with the requirements of governmental bodies or legal process, if the Company, after written notice to it (except in cases where notice would be prohibited by law or by court order), has failed to obtain a protective or similar order to prevent such disclosure or to preserve the confidentiality of such information prior to the time that the Bank is advised by its legal counsel that immediate disclosure is necessary to avoid liability for failure to

disclose, (ii) in connection with the defense of any litigation or other proceeding brought against it arising out of the transactions contemplated by this Agreement and related documents when such disclosure is necessary for such defense, (iii) in connection with the enforcement of the rights and remedies of the Bank under this Agreement when such disclosure is necessary for such enforcement, (iv) to its auditors, legal advisors and bank examiners (provided they agree to be bound by the provisions of this Section), (v) to its subsidiaries and affiliates (provided they agree to be bound by the provisions of this Section), and (vi) to assignees and participants, including prospective assignees and participants, eligible as such under Section 8.10 hereof (provided they agree to be bound by the provisions of this Section).

5.05 Reports by the Company. The Company will furnish the Bank:

(a) As soon as available, and in any event within forty-five (45) days after the close of each of the first three quarters of each fiscal year of the Company, commencing with the quarter next ending following the Effective Date, a copy of its Quarterly Report on Form 10-Q for such quarter as filed with the U.S. Securities and Exchange Commission.

(b) As soon as available, and in any event within one hundred twenty (120) days after the close of each fiscal year of the Company ending following the Effective Date (i) a balance sheet of the Company and its consolidated Subsidiaries as of the end of such fiscal year and the related income statement and statement of changes in cash flows of the Company and its consolidated Subsidiaries for the fiscal year then ended, in reasonable detail in accordance with GAAP and stating, when appropriate, in comparative form the corresponding figures for the previous fiscal year, together with a signed opinion of Deloitte & Touche (or other independent certified public accountants reasonably satisfactory to the Bank) based on an audit using generally accepted auditing standards, certifying that such financial statements present fairly the financial position of the Company and its consolidated Subsidiaries as of the end of such fiscal year and the results of their consolidated operations for the fiscal year then ended, which opinion shall not contain any material qualification or exception not reasonably satisfactory to the Bank, and (ii) a certificate of such accountants stating that in the course of their examination they became aware of nothing of an accounting nature which would indicate the occurrence of an Event of Default under this Agreement or the occurrence of any event which, upon the lapse of time or the giving of notice, or both, would constitute an Event of Default hereunder, or, if such is not the case, stating the facts with respect thereto.

(c) As soon as possible, and in any event within forty-five (45) days after the close of each of the first three quarters of each fiscal year of the Company, and ninety (90) days after the close of each fiscal year of the Company, commencing with the quarter next ending following the Effective Date, a certificate of the Chief Financial Officer, Vice President-Finance, Treasurer or Assistant Treasurer of the Company, any one acting alone, stating that the Company has performed and

observed each and every covenant contained in this Agreement to be performed by it and that no event has occurred and no condition then exists which constitutes an Event of Default hereunder or would constitute such an Event of Default upon the lapse of time or upon the giving of notice or both, or, if any such event has occurred or any such condition exists, specifying the nature thereof and the action which the Company proposes to take with respect thereto.

(d) Such other publicly available information of the Company as the Bank may from time to time reasonably request, within a reasonable period of time following such request.

(e) Within ten (10) Business Days after the same are known, written notice of the following:

(1) Each Event of Default or event which, with the giving of notice or lapse of time or both, would constitute an Event of Default under the terms of this Agreement.

(2) Any other matter which has resulted or might result in a materially adverse change in the financial condition or operations of the Company and its Subsidiaries taken in the aggregate, including, without limitation, copies of any detailed report or "management letter" submitted by independent certified public accountants relating thereto.

(3) All events of default under any notes, debentures, other evidences of indebtedness or preferred stock, or under any indenture, mortgage, deed of trust or other agreement relating to any evidence of indebtedness including, without limitation, any Other Bank Agreement, for which the Company or any Subsidiary is liable, including the occurrence of any event which upon the lapse of time or giving of notice or both would constitute such a default, if such events or the exercise of any remedies arising therefrom would have a material adverse effect upon the financial condition or operations of the Company and its Subsidiaries taken as a whole.

(4) The occurrence of any Reportable Event with respect to any Plan, together with the statement of the Chief Financial Officer, Vice President-Finance, Treasurer, or Assistant Treasurer of the Company setting forth the details as to such Reportable Event and the action which the Company proposes to take, if any, with respect thereto.

(5) Any material modification or amendment to or termination of any of the Other Bank Agreements.

(6) If at any time the value of all "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System, as

amended from time to time) owned by the Company and its subsidiaries exceeds 25% of the value of the assets of the Company and its subsidiaries, on a consolidated basis, as reasonably determined by the Company.

ARTICLE VI. NEGATIVE COVENANTS

Unless the Bank otherwise consents in writing, the company agrees that so long as any credit hereunder shall be available and until payment in full of the Note, the Company will not do or permit any of its Subsidiaries to do any of the following:

6.01 Liens and Encumbrances. Create, incur, assume or permit to exist any mortgage affecting the assets of the Company or any Subsidiary except the following (herein being collectively called "permitted encumbrance"):

(a) Encumbrances simultaneously created in favor of the Bank and the other Banks, on a pari passu basis, to secure the indebtedness (up to a maximum aggregate of \$300,000,000) under this Agreement and the Other Bank Agreements;

(b) Encumbrances existing as of the date hereof, and any and all extensions, renewals or refinancings of any of the foregoing (provided that such extensions, renewals or refinancings do not increase the outstanding aggregate principal amount of indebtedness secured by such Encumbrances);

(c) Encumbrances upon any materials, supplies, tools, articles or other things acquired or manufactured in connection with the performance of contracts with the United States of America or any department or agency thereof to secure partial progress or other payments or performance under such contracts;

(d) Encumbrances against assets which (1) existed when such assets were acquired by the Company or such Subsidiary or (2) owned by an entity which, subsequent to the date hereof, becomes a Subsidiary, and such Encumbrance is in existence at the time such entity becomes a Subsidiary (and which, in the case of each of (1) and (2), (A) do not attach to assets other than those encumbered at the time of such acquisition or transaction resulting in such entity becoming a Subsidiary, and (B) were not created in contemplation of such acquisition or transaction resulting in such entity becoming a Subsidiary);

(e) Mechanic's, workmen's, materialmen's, landlord's, carrier's, repairmen's, construction and other similar Encumbrances arising in the ordinary course of business in respect of obligations not delinquent or which are being contested in good faith;

(f) Encumbrances in connection with worker's compensation, unemployment insurance or other social security obligations;

(g) Encumbrances securing bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety, appeal and customs bonds and other obligations of like nature, and other Encumbrances arising by operation of law in respect of the providing of goods or services, arising in the ordinary course of business;

(h) Encumbrances on any property hereafter acquired by the Company or such Subsidiary which are created contemporaneously with such acquisition to secure or provide for the payment or financing of any part of the purchase price thereof, provided:

(1) The obligation thereby secured consists primarily of the unpaid balance of the purchase price of the property (including improvements existing or to be constructed) being acquired by the Company or such Subsidiary;

(2) The unpaid purchase price so secured does not exceed 90% of the total purchase price of the property being acquired; and

(3) Any such encumbrance does not extend to, or otherwise affect or apply to, property other than that being so acquired;

(i) Encumbrances on any property of a Subsidiary in favor of the Company or any other Subsidiary which is wholly-owned (except for directors' or other qualifying shares);

(j) Encumbrances for taxes, assessments or other governmental charges or levies (i) which are not yet due, or (ii) which are due so long as the Company or such Subsidiary is contesting the validity thereof in good faith and by appropriate proceedings so as not to cause any materially adverse effect upon the financial condition of the Company and its Subsidiaries taken as a whole and has set aside on its books reserves (segregated in accordance with GAAP) deemed by it adequate with respect thereto;

(k) Any right of set-off granted to any lending institution in connection with that lending institution providing cash management services and/or other financing to the Company and any of its Subsidiaries; and

(l) Any other Encumbrances; provided, however, that the aggregate claims secured by such other Encumbrances (excluding those Encumbrances otherwise permitted pursuant to this Section 6.01) shall not exceed 10% of Stockholder's Equity.

6.02 Sales of Assets or Business. Other than sales or dispositions by a Subsidiary to the Company or another Subsidiary or by the Company to a Subsidiary, or sales in the

ordinary course of business, the Company shall not sell, lease or otherwise dispose of its assets, business or stock or other investment in any Subsidiary having a value, in each case, in excess of \$20,000,000 unless the Board of Directors of the Company determines that the sale, lease or other disposition thereof (a) is in the best interest of the Company and its Subsidiaries taken as a whole, and (b) will not significantly adversely affect the Company's ability to meet its financial obligations as they become due.

6.03 Liquidation, Dissolution, Consolidation or Merger. Liquidate, dissolve or enter into any consolidation or merger unless:

(a) In the case of a consolidation or merger (1) involving the Company, the Company will be the surviving corporation, and (2) involving a Subsidiary, (i) a Subsidiary will be the surviving entity, or (ii) the fair market value of the Company's investment in such Subsidiary is less than \$20,000,000, or (iii) the fair market value of the Company's investment in such Subsidiary is \$20,000,000 or greater and the Board of Directors of the Company determines that the preservation thereof is no longer desirable to the business of the Company and its Subsidiaries taken as a whole and that the absence thereof will not significantly adversely affect the Company's ability to meet its financial obligations as they become due; and

(b) After giving effect to any such merger or consolidation, there will exist neither an Event of Default under this Agreement nor any event which, upon the giving of notice of lapse of time or both would constitute such an Event of Default.

6.04 Minimum Consolidated Net Worth. The Company will not permit its consolidated net worth to be less than \$1 billion at any time.

ARTICLE VII. EVENTS OF DEFAULT AND REMEDIES

The occurrence of any one or more of the following events described in Sections 7.01 through 7.07 shall be deemed an Event of Default under this Agreement (an "Event of Default"):

7.01 Failure to Pay Note; Breach of Certain Covenants. Failure to make any payment of principal or interest on the Note, or any payment of any Facility Fee or any other amount due under this Agreement, when due and payable as required under this Agreement, whether at the end of the applicable interest period, at maturity, or otherwise, and such failure shall have continued unremedied for a period of three (3) days after written notice by Bank to the Company, or the failure to observe or perform any term, covenant or agreement of the Company contained in Sections 5.05(e)(1), 6.02, or 6.03; or

7.02 Breach of Remaining Covenants. The failure to observe or perform any term, covenant or agreement of the Company contained in this Agreement (other than those described in Section 7.01), and such failure shall have continued unremedied for a period of thirty (30) days after written notice by the Bank to the Company or beyond a reasonable

period of time thereafter, if such Event of Default is not reasonably capable of being cured within such thirty (30) day period and the Company is diligently pursuing the cure thereof; or

7.03 Breach of Warranty. Any representation or warranty made by the Company herein, or any statement or representation made in any certificate, report or opinion delivered pursuant hereto, shall prove to have been incorrect in any material respect when made; or

7.04 Other Obligations. The Company or any Subsidiary shall default (as principal, guarantor or surety):

(a) in the payment of any principal of or premium, if any, or interest on any indebtedness (other than its indebtedness hereunder and indebtedness between the Company and any Subsidiary or between Subsidiaries) beyond the applicable grace period, if any, (i) for borrowed money in an amount in excess of an aggregate of \$20,000,000 and/or (ii) representing the deferred purchase price of property with an outstanding deferred aggregate liability in excess of \$20,000,000; or

(b) with respect to the performance or observance of any term of any instrument pursuant to which any indebtedness described in Section 7.04(a) was created or any mortgage, indenture or other agreement relating thereto if the effect of such default (after giving effect to any applicable grace period) is to cause or permit such indebtedness exceeding an aggregate of \$20,000,000 to become due and payable prior to its stated maturity; or

7.05 Insolvency; Receiver.

(a) if the Company makes an assignment for the benefit of creditors, files a petition in bankruptcy, is adjudicated or held to be insolvent or bankrupt, petitions or applies to any tribunal for any receiver or any trustee for the Company or any substantial part of the Company's property, commences any proceeding relating to the Company under any reorganization, arrangement, readjustment of debt or similar law or statute of any jurisdiction, whether now or hereafter in effect, or if there is commenced against the Company any such proceeding which remains undismissed, unstayed (or, if stayed, such stay shall have been set aside) or unvacated for a period of 60 days, or the Company by any act indicates its consent to, approval of or acquiescence in any such proceeding or the appointment of any receiver or of any trustee for the Company or any substantial part of the Company's property, or suffers any such receivership or trusteeship to continue undischarged, unstayed (or, if stayed, such stay shall have been set aside) or unvacated for a period of 60 days; or

(b) if any of the foregoing events described in this Section 7.05(a) occurs with respect to a Subsidiary instead of the Company and such event will have a

material adverse effect on the ability of the Company to meet its financial obligations as they become due; or

7.06 Judgments; Attachments.

(a) The Company or any Subsidiary shall suffer the entry against it of a final judgment or decree for any amount in excess of \$20,000,000 (not adequately covered by insurance or reserves as determined by the Bank in its reasonable discretion) unless, within 30 days after the entry thereof, the same is satisfied or discharged or an appeal or appropriate proceeding for review thereof is taken and a stay of execution pending such appeal is obtained; or

(b) The Company or any Subsidiary shall suffer one or more writs or warrants of attachment to be issued by any court against any of its property exceeding in the aggregate \$20,000,000 in value, and such writs or warrants of attachment are not satisfied, stayed or released within thirty (30) days after the entry or levy thereof or after any stay is vacated or set aside; or

7.07 ERISA. Any Reportable Event which the Bank shall determine in good faith constitutes grounds for the termination of any Plan by the PBGC or for the appointment by the appropriate United States District Court of a trustee to administer any Plan shall have occurred and be continuing for 30 days after written notice shall have been given by the Bank to the Company; or any Plan shall be terminated without another Plan being available to replace or substitute for the terminated Plan; or a trustee shall be appointed by an appropriate United States District Court to administer any Plan; or the PBGC shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan; and in any situation described above the aggregate amount of the excess of the current value of the Plan's benefits guaranteed under Title IV of ERISA over the current value of the Plan's assets allocable to such benefits under Section 4044 of ERISA shall exceed \$20,000,000.

7.08 Remedies. If any one or more of the Events of Default described in Sections 7.01 through 7.07 above shall occur and be continuing, then the Bank, by notice to the Company, may take either or both of the following actions: (i) declare the obligation of the Bank to make Advances to the Company hereunder to be terminated whereupon the same shall forthwith terminate, and/or (ii) declare the entire unpaid principal amount of the Note, all interest accrued and unpaid thereon, all accrued Facility Fees and all other amounts due and payable by the Company under this Agreement to be forthwith due and payable, whereupon the Note, all such accrued and unpaid interest, accrued Facility Fees and all such other amounts due and payable by the Company shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Company; provided, however, that if an Event of Default described in Section 7.05(a) shall occur, then the actions described in this Section 7.08(i) and (ii) shall occur automatically, without any notice to the Company or declaration by the Bank.

ARTICLE VIII. MISCELLANEOUS

8.01 Survival of Warranties. All agreements, representations and warranties made herein or made in writing in connection herewith shall survive the execution and delivery of this Agreement, the making of the Advances hereunder and the execution and delivery of the Note.

8.02 Failure or Indulgence Not Waiver. No failure or delay on the part of the Bank, or any holder of the Note in the exercise of any power, right or privilege hereunder or under the Note shall operate as a waiver thereof, and no single or partial exercise of any such power, right or privilege shall preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing under this Agreement and the Note are cumulative to, and not exclusive of, any rights or remedies otherwise available.

8.03 Notices. Any notice herein required or permitted to be given shall be in writing, and may be sent by telex, facsimile, personal delivery or mail and, in each case, shall be deemed to have been given when received by the party to which such notice was addressed. Notices shall be sent to the addresses which are set out in the signature pages hereof (until notice of change thereof is served in the manner provided in this Section 8.03).

8.04 Applicable Law. This Agreement, the Note, all documents provided for herein and the rights and obligations of the parties hereto shall be governed by and construed in accordance with the laws of the State of Texas, United States of America. The foregoing provision is not intended to limit the rate of interest payable with respect to the Bank to the maximum rate permitted by the laws of the State of Texas, United States of America if a higher rate is permitted with respect to the Bank by supervening provisions of United States federal law.

8.05 Interest Limitation. It is the intention of the Company and the Bank to conform strictly to the usury laws as set forth in Section 8.04 hereof. Accordingly, if the transactions contemplated hereby would be usurious under such laws or any other applicable laws, then, in that event, notwithstanding anything to the contrary in the Note, or this Agreement, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest that is contracted for, taken, reserved, charged or received under the Note, or this Agreement, or otherwise in connection with any Advance, shall under no circumstances exceed the maximum amount allowed by such laws, and any excess shall be credited by the Bank on the principal amount of such Advance (or, if the principal amount of such Advance shall have been paid in full, refunded to the Company); and (ii) in the event that the maturity of any Advance is accelerated or in the event of any required or permitted prepayment, then such consideration that constitutes interest may never include more than the maximum amount allowed by such laws, and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited by the Bank on the principal amount of such Advance (or, if the principal amount of such Advance shall have been paid in full, refunded by the Bank to the Company).

8.06 Assignability. Subject to Section 8.10 hereof, this Agreement shall be binding upon and inure to the benefit of the Company and the Bank and their respective successors and permitted assigns, except that the Company may not assign or transfer its rights hereunder without the prior written consent of the Bank, which will not be unreasonably withheld.

8.07 Computation of Interest Rates and Fees; Time of Payment. All computations of interest and fees shall be made on the basis of a year of 360 days for the actual number of days elapsed (including the first day but excluding the last day) (which results in greater interest than if a year of 365 days is used). The Company shall make each payment of principal of, and interest on, the Advances made to it and of the fees due hereunder by it not later than 11:00 a.m. (in the time of the city in which the Bank has its principal office) on the date when due.

8.08 Expenses; Indemnity by the Company. The Company agrees to pay and hold the Bank harmless against liability for the payment of all reasonable attorneys' fees (including, without limitation, the allocated costs of in-house counsel) and court costs incurred by the Bank arising in connection with the enforcement against the Company of this Agreement, the Note, and the other instruments and documents to be delivered by the Company hereunder.

8.09 Modifications and Amendments. This Agreement and the Note may only be modified or amended by a written agreement duly executed by the Company and the Bank.

8.10 Restriction on Transfers.

(a) The Bank may, without the consent of the Company, sell participations to one or more Banks or other entities (including, without limitation, the Other Banks) in all or a portion of its rights and obligations under this Agreement (including, without limitation, the Bank's commitment), the advances then owing to the Bank and the Note; provided, however, that (1) such sales are made in compliance with all applicable United States federal and state securities laws, (2) the Bank's obligations under this Agreement shall remain unchanged, (3) the Bank shall remain solely responsible and liable to the Company for the performance of such obligations, (4) the participating Banks or other entities shall be entitled to the cost protection provisions contained in Sections 2.05, 2.06, and 3.03 hereof, but only to the extent that such protection would have been available to the Bank, calculated as if no such participation had been sold, (5) the Company shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, and (6) the Bank shall retain the sole right and responsibility to enforce the obligations of the Company relating to this Agreement, the Advances and the Note, including, without limitation, the right to approve any Amendment, Modification or Waiver of any provision hereof or thereof.

(b) The Bank may, with the prior written consent of the Company (which consent shall not be unreasonably withheld in the case of a proposed assignment by the Bank to one of its subsidiaries or affiliates) (which consent may be withheld in the sole discretion of the Company in the case of any other proposed assignment by the Bank), assign to one or more banks or other institutions (including, without limitation, the Other Banks and subsidiaries and/or affiliates of the Bank) all or a portion of the Bank's Commitment and its other rights and obligations under this Agreement and the same portion of the then outstanding Advances and Note; provided, however, that (1) each such assignment shall be of a constant, and not a varying, percentage of the Bank's Commitment and its other rights and obligations under this Agreement, and the then outstanding Advances and the Note, and (2) the parties to each such assignment shall execute and deliver to the Company an assignment and assumption agreement in form and substance satisfactory to the Company. Upon such execution and delivery, from and after the effective date specified in such assignment and assumption agreement, the assignee shall be a party hereto and, to the extent provided in such assignment and assumption agreement, shall have the rights and obligations of the Bank under this Agreement and the Bank shall, to the extent provided in such assignment and assumption agreement, be released from its obligations under this Agreement.

(c) The Bank may, without the consent of the Company, assign to a Federal Reserve Bank all or a portion of the Bank's rights and obligations under this Agreement, the then outstanding Advances and the Note; provided, however, that the Bank's obligations under this Agreement shall remain unchanged and the Bank shall remain solely responsible to the Company for performance of such obligations.

8.11 Table of Contents; Headings. The Table of Contents and the section headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

8.12 Articles; Sections. References herein to "Article(s)" and "Section(s)" mean the respective Article(s) and Section(s) of this Agreement.

8.13 Counterparts. This Agreement may be separately executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Agreement.

8.14 Survival of Agreements. All of the agreements of the Company in this Agreement shall survive the Company's repayment of all Advances made by the Bank pursuant hereto.

8.15 Severability. If any term or provision of this Agreement and the Note shall be determined to be illegal or unenforceable, all other terms and provisions of such documents shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable law.

8.16 Confidentiality. The Bank agrees to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all non-public information provided to it by the Company in connection with this Agreement and agrees and undertakes that neither the Bank nor any of its affiliates shall use any such information for any purpose or in any manner other than pursuant to the terms contemplated by this Agreement. The Bank may disclose such information (a) at the request of any bank regulatory authority or in connection with an examination of the Bank by any such authority; (b) to Bank's independent auditors, counsel and other professional advisors; or (c) pursuant to subpoena or other court process or when required to do so in accordance with the provisions of any applicable law or at the express direction of any agency of any State of the United States of America or of any other jurisdiction in which the Bank conducts its business, if the Company, after written notice to it (except in cases where notice would be prohibited by law or court order), has failed to obtain a protective or similar order to prevent such disclosure or to preserve the confidentiality of such information prior to the time that the Bank is advised by its legal counsel that immediate disclosure is necessary to avoid liability for failure to disclose. Notwithstanding the foregoing, the Company authorizes the Bank to disclose to any participant, assignee, prospective participant, prospective assignee or the Bank's U.S. investment banking affiliates, such financial and other information in Bank's possession concerning the Company or its Subsidiaries which has been delivered to the Bank; provided, however, that such participant, assignee, prospective participant, prospective assignee or the Bank's U.S. investment banking affiliates, as the case may be, agrees in writing to the Bank to keep such information confidential to the same extent required of the Bank hereunder.

8.17 Consequential Damages. Notwithstanding anything herein to the contrary, neither party shall have any liability for any consequential, indirect, punitive, exemplary or special damages, including without limitation, loss of business, opportunities, revenue, profit or anticipated profit.

8.18 Replacement of Prior Agreements. This Agreement and the Note hereby replace (i) that certain Credit Agreement (the "Prior Credit Agreement") dated on or about September 1, 1993 by and between the Bank and the Company, and (ii) the Note described in and executed in connection with the Prior Credit Agreement (all of such documents with the Prior Credit Agreement being collectively referred to as the "Prior Credit Documents"); and the Prior Credit Documents are hereby canceled, terminated, and of no further force or effect. The Bank and the Company shall have no further obligations or liabilities under the Prior Credit Documents.

8.19 Final Agreement.

THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the Company and the Bank have caused this Agreement to be duly executed as of the day and year first above written.

COMPANY:

BAKER HUGHES INCORPORATED,
a Delaware corporation

By:

Eric L. Mattson
Vice President and Chief
Financial Officer

Address for Notices:
BAKER HUGHES INCORPORATED
3900 Essex Lane, Suite 1200
Houston, Texas 77027
Attention: Treasurer and
Assistant Treasurer
Telex: 857656 (BHI HOU)
Facsimile: 713/439-8699
Telephone: 713/439-8600

BANK:

By:
Name:
Title:

Addresses for Notices:

Telex:
Facsimile:
Telephone:

Bank's Domestic Lending Office:

Bank's Eurodollar Lending Office:

EXHIBIT A

FORM OF COMPANY NOTE

September 1, 1994

For value received, BAKER HUGHES INCORPORATED, a Delaware corporation (the "Company") promises to pay to the order of (the "Bank"), for the account of its applicable lending office, at the principal office of the Bank at _____, the principal amount of each Advance made by the Bank to the Company pursuant to Section 3.01 of the Credit Agreement hereinafter referred to on the last day of the Interest Period for such Advance. In any event, the aggregate unpaid principal amount of each Advance shall be due and payable on the Termination Date.

The Company also promises to pay interest on the unpaid principal amount of each such Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement; provided, however, that any amount of such principal and, to the extent permitted by law, any interest thereon which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest from the date on which such amount is due until such amount is paid in full, payable on demand, at the Default Rate.

Loans and payments under this note shall be recorded and endorsed hereon by the holder hereof, provided, however, that the failure by the holder hereof to make such recordation and endorsement shall not limit or otherwise affect the obligation of the Company hereunder and payments of principal and interest hereof by the Company shall not be affected by the failure to make any such recordation and endorsement thereof hereon.

Principal and interest shall be payable in Dollars in immediately available funds.

This note is the Note referred to in, is issued in connection with, and is entitled to the benefits of, that certain Credit Agreement dated as of September 1, 1994, between the Company and the Bank, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this note is issued. Capitalized terms used herein shall have the respective meanings set forth in the Credit Agreement. This note shall be governed by and construed in accordance with the laws of the State of Texas, United States of America. Except for notice required to be given to the Company under the Credit Agreement, the Company hereby waives presentment, demand, protest, or notice in connection with this Note.

THIS WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BAKER HUGHES INCORPORATED

By:
Name:
Title:

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TRANSACTIONS ON WITHIN NOTE

Date	Amount of Advance	Maturity Date	Interest Rate	Amount of Payment	Unpaid Principal Balance	Notation Made By
-----	-----	-----	-----	-----	-----	--

EXHIBIT B

ABN AMRO Bank N.V.
Bank of America National Trust and Savings Association
Bank of Scotland
Banque Nationale de Paris, Houston Agency
Bayerische Vereinsbank AG, Los Angeles Agency
Chase Manhattan Bank, N.A.
Citibank, N.A.
Dresdner Bank AG, New York Branch
Morgan Guaranty Trust Company of New York
NationsBank of Texas, N.A.
Northern Trust Company
PNC Bank, National Association
Royal Bank of Canada
Texas Commerce Bank National Association
The Mitsubishi Bank, Ltd.
The Sumitomo Bank, Ltd.
Toronto Dominion (Texas), Inc.
Union Bank of Switzerland

EXHIBIT C
COMPANY REQUEST FOR ADVANCE

[Date]

[Name and address of Bank]

Gentlemen:

Baker Hughes Incorporated (the "Company") refers to the Credit Agreement, dated September 1, 1994 (the "Credit Agreement") (the terms defined therein being used herein as therein defined), by and between the Company and you. The Company hereby gives you notice pursuant to Section 3.01 of the Credit Agreement that the Company hereby requests an Advance under the Credit Agreement, and in that connection sets forth the terms on which such proposed Advance is requested to be made.

The principal amount of the proposed Advance is \$; the drawdown date of the proposed Advance is , 19 ; the proposed Advance is to be a [Eurodollar Advance] or [Reference Rate Advance]; the term of the Interest Period for such proposed Advance is months; the maturity date for payment of the principal amount of the proposed Advance is , 19 ; the interest payment date[s] of the proposed Advance is/are ; and the other terms applicable to the proposed Advance are .

In accordance with Section 3.01 of the Credit Agreement, please advise the Company of the [Eurodollar Rate] or [Reference Rate].

Sincerely,

BAKER HUGHES INCORPORATED

By:
Name:
Title:

EXHIBIT D

FORM OF OPINION OF COMPANY COUNSEL

, 1994

Dear Sirs:

I am the duly elected _____ of Baker Hughes Incorporated, a Delaware corporation (the "Company"), and have acted as counsel to the Company in connection with the preparation and execution of that certain Credit Agreement (the "Credit Agreement") dated as of September 1, 1994, by and between the Company and _____ ("Bank"). Terms used herein which are defined in the Credit Agreement have the respective meanings ascribed to such terms in the Credit Agreement, unless the context otherwise indicates.

In that connection, I have examined the Note and the Credit Agreement which have been executed by the Company, but not by the Bank (herein being collectively referred to as the "Examined Documents"). I have also examined the originals or photostatic copies, certified or otherwise identified to my satisfaction, of the Certificate of Incorporation and Bylaws of the Company, each as amended to date, corporate records of the Company, certificates of public officials, and certificates of representatives of the Company, and such other documents as I have deemed necessary or appropriate for the purposes of this opinion.

Based upon the foregoing, subject to the qualifications, limitations, exceptions and assumptions hereinafter set forth, and having due regard for such legal considerations as I deem relevant, I am of the opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all necessary corporate power and authority to own its properties and carry on its business as now conducted and is duly qualified and in good standing in each United States jurisdiction which requires qualification, except those jurisdictions, if any, in which the failure to so qualify would not have a material adverse affect on the business, properties or financial condition of the Company and its Subsidiaries taken as a whole.

2. The Company has all necessary corporate power and authority to enter into and perform the Credit Agreement and to issue and deliver the Note, as provided in the Credit Agreement. The execution, delivery and performance of the Credit Agreement and the Note have been authorized by all necessary corporate action on the part of the Company.

3. The Credit Agreement is, and the Note when duly executed and delivered for value received will be, the valid and legally binding obligations of the Company enforceable in accordance with their terms, except as such enforceability may be (i) limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other similar laws from time to time in effect and judicial decisions relating to or affecting the enforcement of creditors' rights and debtor's obligations generally, or (ii) subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4. The execution, delivery and performance of the Credit Agreement and the Note by the Company do not require the consent or approval of any United States governmental body or other regulatory authority and are not in contravention of or in conflict with any law or regulation applicable to the Company or any term or provision of the Certificate of Incorporation or Bylaws of the Company.

5. The execution, delivery and performance of the Credit Agreement and the Note, to the best of my knowledge, are not in contravention of or in conflict with any agreement or indenture which is material to the Company and its Subsidiaries, taken as a whole, and to which the Company is a party or by which any of its property is bound, and do not cause any Mortgage upon any such property to be created or imposed or to mature except as may be permitted by the terms of the Credit Agreement.

6. To my knowledge, there is no pending or threatened litigation before any court, administrative agency or arbitration panel to which the Company is a party, which, in view of the facts currently available to me, is expected to have a material adverse effect on the financial condition or operations of the Company and its Subsidiaries, taken as a whole. To my knowledge, the Company is not in default with respect to any material order, writ, injunction or decree of any court or other governmental or regulatory authority which is expected to have a material adverse effect on the financial condition or operations of the Company and its Subsidiaries, taken as a whole.

The opinions expressed herein are subject to the following qualifications, limitations, exceptions and assumptions:

(A) In rendering the opinions expressed in Paragraph 1, above, I have relied in part on certificates or telegrams of recent date of public officials of the State of Delaware. Such opinions are limited to the date of the relevant certificates or telegrams.

(B) The opinions expressed in Paragraph 5 hereof are limited to the agreements, indentures and instruments filed by the Company with the U.S. Securities and Exchange Commission ("SEC") as material agreements pursuant to the rules and regulations of the SEC as a part of its annual report on Form 10-K for the year ending September 30, 1993, and those filed by the Company with the SEC subsequent to September 30, 1993.

(C) I have assumed, without independent investigation, that the Bank will duly execute and deliver to the Company each of the Examined Documents to which it is a party, with all necessary power and authority (corporate and otherwise) and that (i) if the Company or the Bank exercise any rights or enforce any remedies, it will do so in good faith and in a commercially reasonable manner and will abide by any implied covenant of good faith and fair dealing which may be imposed by law, and (ii) the Bank will comply with any applicable state or federal securities laws.

(D) As to matters of fact relevant to this opinion, I have, to the extent I have deemed appropriate, relied upon (i) certificates and other representations of officers and representatives of the Company and its Subsidiaries who have made investigations outside of my personal control, and (ii) certificates and telegrams of governmental officials.

(E) In my examination of the documents referred to above, I have assumed (i) all documents submitted to me as originals are authentic and complete, (ii) all documents submitted to me as certified or photostatic copies conform to the original document, and such original document is authentic and complete, (iii) that signatures on all documents are genuine, (iv) all statements of fact contained in the Examined Documents and all other documents, certificates, and records that I have examined are true, accurate, and correct, and all statements of fact made to me by officers and representatives of the Company and its Subsidiaries are true and correct, and (v) there has been no material change in the facts set forth in the Examined Documents, or such other documents, certificates, and records that I have examined or representations made to me, prior to the date hereof. I have no knowledge that any such documents, certificates, and records were not authentic and complete, or that any of such statements are not true and correct as of the date hereof.

(F) I have assumed there has been no cancellation or withdrawal of any of the organizational documents of the Company, and that no act or event has occurred which would, pursuant to the terms of such organizational documents or other applicable law, permit or require the dissolution of the Company, and I have no

knowledge of any such cancellation, withdrawal, act or event. I have further assumed due authorization for execution, delivery, and performance of such organizational documents by each party by whom such authorization is required, and that none of the signatories to such organizational documents was operating under any legal disability under the laws of the state of residence or incorporation of such party.

(G) I express no opinion as to the availability or enforceability of the following provisions and remedies set forth in the Examined Documents: (i) equitable remedies, including specific performance, or any other remedy set forth in the Examined Documents; (ii) provisions relating to waivers by any of the parties or precluding any of the parties from asserting certain claims or defenses or from obtaining certain rights and remedies, or which purport to waive any applicable statute of limitations, or rights to any stay or extension laws, or which purport to establish evidentiary standards; (iii) provisions expressly or by implication waiving broadly or vaguely stated rights, unknown future rights, or defenses to obligations or rights granted by law; (iv) provisions relating to subrogation rights, delay or omission or enforcement of rights or remedies, severability, injunctions, appointment of receivers, waivers or ratifications of future acts, the rights of third parties, prohibitions against the sale, transfer, or assignment of any property or interest, marshalling of assets, set-offs, or sale in the inverse order of alienation; (v) provisions at variance with public laws which do not affect the practical benefits of the Examined Documents; (vi) provisions covenanting to take actions, the taking of which are discretionary with or subject to the approval of a third party or which are otherwise subject to a contingency, the fulfillment of which is not within the control of the parties so covenanting; (vii) provisions purporting to apply subsequently enacted laws; (viii) provisions to the effect that rights or remedies may be exercised without notice, that rights or remedies are not exclusive, that every right or remedy is cumulative and may be exercised in addition to or with any other right or remedy, or that the election of a particular remedy or remedies does not preclude recourse to one or more other remedies, or that the failure to exercise or delay in exercising rights or remedies will not operate as a waiver of such right or remedy; and (ix) limitations on enforceability posed by public policy consideration or court decisions which may limit the right to obtain indemnification under certain circumstances. Enforcement of obligations under the Examined Documents may also be limited by constitutional limitations (including notice and due process requirements), by the redemption rights of the United States under the Federal Tax Lien Act of 1966, as amended, and requirements that the Bank exercise rights under the Examined Documents in a commercially reasonable manner.

(H) The opinions expressed herein relate solely to, are based solely upon, and are limited exclusively to the laws of the State of Texas, the General Corporation Law of the State of Delaware, and the laws of the United States of America, to the extent applicable and as currently in effect. I assume no, and hereby specifically disclaim any, obligation to supplement this opinion if any applicable laws change

after the date of this opinion, or if I become aware of any facts that might change the opinions expressed above after the date of this opinion.

(I) The opinions set forth herein are limited to the specific matters addressed hereby, and no opinion is to be implied or may be inferred beyond the matters specifically addressed.

(J) This letter is provided to you as a legal opinion only and not as a guaranty or warranty of the matters discussed herein, nor does this letter constitute a guarantee of any of the obligations set forth in the Examined Documents. By rendering this opinion, I am not guaranteeing or insuring the obligations set forth in the Examined Documents, or other matters referred to herein or opined upon herein.

This opinion is furnished to you solely for your benefit pursuant to the Credit Agreement. This letter and the opinions expressed herein may not be used or relied upon by you for any other purpose and may not be relied upon for any purpose by any other person or entity without my prior written consent. Except for the use permitted herein, this letter is not to be quoted or reproduced in whole or in part or otherwise referred to in any manner, nor is it to be filed with any governmental agency or delivered to any other person or entity without my prior written consent.

Very truly yours,

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Condensed Comparative Consolidated Financial Information
Baker Hughes Incorporated

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
Baker Hughes Incorporated

Business Environment

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

Activity Indicators

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

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

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

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

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

North American Activity

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

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

Non-North American Activity

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
Baker Hughes Incorporated

Acquisitions and Dispositions

1994

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

1992

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

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

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

Results of Operations

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

(In millions)	1994	1993	1992

Consolidated Revenues:			
Sales	\$1,727.7	\$1,945.8	\$1,839.8
Services and rentals	777.0	755.9	698.7

Total	2,504.7	2,701.7	2,538.5

Less Pumpsystems and EM&C Operations:			
Sales	96.5	334.5	347.3
Services and rentals		15.7	21.3

Total	96.5	350.2	368.6

Revenues from Ongoing Operations:			
Sales	1,631.2	1,611.3	1,492.5
Services and rentals	777.0	740.2	677.4

Total	\$2,408.2	\$2,351.5	\$2,169.9
=====			

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

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

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

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

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

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

Operating Income

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

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

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

Costs and Expenses

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Unusual Charges-net

1994

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

1993

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

1992

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

Interest Expense

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

Interest Income

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

Income Taxes

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

Extraordinary Loss

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

Net Income Per Share of Common Stock

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

Capital Resources and Liquidity

Financing Activities

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
Baker Hughes Incorporated

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

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

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

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

Investing Activities

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

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

Operating Activities

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

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

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

Accounting Standards

Postretirement Benefits Other Than Pensions

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

Accounting for Income Taxes

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

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

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

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

Investments in Debt and Equity Securities

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

Postemployment Benefits

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

INDEPENDENT AUDITORS' REPORT
Baker Hughes Incorporated

STOCKHOLDERS OF BAKER HUGHES INCORPORATED:

We have audited the consolidated statements of financial position of Baker Hughes Incorporated and its subsidiaries as of September 30, 1994 and 1993, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and its subsidiaries at September 30, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1994 in conformity with generally accepted accounting principles.

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

Deloitte & Touche LLP

November 16, 1994
Houston, Texas

CONSOLIDATED STATEMENTS OF OPERATIONS
Baker Hughes Incorporated

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Baker Hughes Incorporated

September 30, (In thousands)	1994	1993

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Baker Hughes Incorporated

(In thousands)	1994	1993
<hr/>		
Current liabilities:		
Accounts payable-trade	\$ 253,616	\$ 249,781
Short-term borrowings	863	5,381
Current portion of long-term debt	14,436	3,067
Accrued employee compensation and benefits	113,304	95,303
Income taxes payable	29,729	15,322
Taxes other than income	20,608	22,552
Accrued insurance	26,492	20,554
Accrued interest	10,676	11,529
Other accrued liabilities	74,847	72,348

Total current liabilities	544,571	495,837

Long-term debt	637,972	935,846

Deferred income taxes	53,841	78,306

Postretirement benefits other than pensions	95,951	

Other long-term liabilities	25,494	19,021

Minority interest	3,381	3,682

Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$1 par value (authorized and outstanding 4,000,000 shares of \$3.00 convertible preferred stock; \$50 liquidation preference per share)	4,000	4,000
Common stock, \$1 par value (authorized 400,000,000 shares; outstanding 140,889,000 shares in 1994 and 140,437,000 shares in 1993)	140,889	140,437
Capital in excess of par value	1,474,013	1,444,549
Retained earnings	125,276	159,277
Cumulative foreign currency translation adjustment	(102,915)	(137,615)
Unrealized loss on securities available for sale	(2,791)	

Total stockholders' equity	1,638,472	1,610,648

Total	\$2,999,682	\$3,143,340
	=====	

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
Baker Hughes Incorporated

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

See Notes to Consolidated Financial
Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
Baker Hughes Incorporated

Years ended September 30, (In thousands)	1994	1993	1992

Cash flows from operating activities:			
Net income	\$ 42,657	\$ 58,856	\$ 5,031
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization of:			
Property	122,812	141,699	124,394
Other assets and debt discount	46,526	47,371	41,608
Deferred tax provision (credit)	47,366	19,349	(5,497)
Noncash portion of unusual charges-net	47,988		79,190
Gain on disposal of assets	(18,034)	(14,594)	(15,670)
Gain on disposition of businesses	(109,550)		
Foreign currency translation loss-net	1,892	441	960
Cumulative effect of accounting changes	44,165		
Extraordinary loss	44,320		
Change in receivables	(22,740)	(74,828)	6,359
Change in inventories	(58,035)	(50,506)	(26,296)
Change in accounts payable-trade	24,890	(2,962)	12,968
Changes in other assets and liabilities	16,520	(101,859)	(137,423)

Net cash flows from operating activities	230,777	22,967	85,624

Cash flows from investing activities:			
Property additions	(108,639)	(126,901)	(137,875)
Proceeds from disposal of assets	38,664	40,928	32,240
Proceeds from disposition of businesses	328,389	9,299	50,722
Acquisitions of businesses, net of cash acquired			(197,006)

Net cash flows from investing activities	258,414	(76,674)	(251,919)

Cash flows from financing activities:			
Net borrowings (payments) from commercial paper and revolving credit facilities	(162,590)	(95,010)	112,166
Retirement of debentures	(205,497)	(18,197)	(98,842)
Net proceeds from issuance of debenture purchase warrants	7,026		
Net proceeds from issuance of notes		223,911	246,595
Net proceeds from issuance of common stock			168,913
Purchase of common stock			(168,825)
Repayment of matured indebtedness			(77,835)
Proceeds from exercise of stock options and stock purchase grants	7,900	21,358	11,908
Dividends	(76,658)	(76,096)	(67,124)

Net cash flows from financing activities	(429,819)	55,966	126,956

Effect of exchange rate changes on cash	2,815	(1,959)	(5,678)

Increase (decrease) in cash and cash equivalents	62,187	300	(45,017)

Cash and cash equivalents, beginning of year	6,992	6,692	51,709

Cash and cash equivalents, end of year	\$ 69,179	\$ 6,992	\$ 6,692
	=====		

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

Note 1
Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of Baker Hughes Incorporated and all majority-owned subsidiaries (the "Company"). Investments in which ownership interest ranges from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for on the equity method. Prior to 1994, other investments were accounted for under the cost method. In 1994 the Company changed its accounting for other investments as explained below. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain minor reclassifications have been made to the 1993 balances to conform to the 1994 presentation.

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

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

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

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

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

Excess costs arising from acquisitions: Excess costs arising from acquisitions of businesses ("Goodwill") are amortized on the straight-line method over the lesser of expected useful life or forty years. Management of the Company periodically reviews the carrying value of Goodwill in relation to the current and expected operating results of the segments of business which benefit therefrom in order to assess whether there has been a permanent impairment of Goodwill.

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

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

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

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

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

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

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

Note 2
Acquisitions and Dispositions

1994

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

In July 1993, the Company announced that the EnviroTech Measurements & Controls ("EM&C") group of companies would no longer be considered part of its core business. Accordingly, the net assets of the EM&C operations were classified as a current asset at September 30, 1993. EM&C operating revenues and expenses have been reported in a manner similar to discontinued operations since June 1993. As such, there are no EM&C revenues and expenses included in the consolidated results for 1994 and nine months of EM&C revenues and expenses are included in the consolidated results for 1993. EM&C operated near break even levels from July 1993 to March 1994 with a small net operating loss offsetting the gain on the sale. In March 1994, the Company completed the sale of EM&C which provided \$134.0 million in proceeds and resulted in a gain of \$8.6 million.

1992

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

Note 3
Unusual Charges-Net

1994

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

(In thousands)

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

Unusual charges-net	\$ 31,829
	=====

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

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

1993

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

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

1992

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

(In thousands)

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

Unusual charges-net	\$ 79,190
	=====

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

During the third quarter of 1992, the Company recognized unusual charges totalling \$79.3 million in response to the structural changes in the U.S. oilfield and as a result of the Teleco acquisition. The costs associated with the integration of the Teleco operations accounted for \$25.3 million of these charges.

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

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

 Note 4
 Indebtedness

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

(In thousands)	1994	1993

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

Total debt	652,408	938,913
Less current maturities	14,436	3,067

Long-term debt	\$637,972	\$935,846
	=====	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

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

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

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

Note 5
Financial Instruments

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

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

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

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

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

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

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

 Note 6
 Preferred Stock

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

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

 Note 7
 Employee Stock Plans

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

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

Number of Shares (In thousands)	1994	1993	1992

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

Stock options outstanding, end of year (per share: \$13.38 to \$28.50 at September 30, 1994)	4,879	2,890	2,726
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

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

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

Note 8
Income Taxes

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

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

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

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

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

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

Deferred tax liabilities:	
Property	\$ 56,100
Investments	33,900
Excess costs arising from acquisitions	44,400
Undistributed earnings of foreign subsidiaries	29,600
Other	15,700

Total	\$179,700

Deferred tax assets:	
Receivables	\$ 4,900
Inventory	48,600
Postretirement benefits other than pensions	36,750
Other accrued expenses	28,300
Operating loss carryforwards	27,400
Tax credit carryforwards	46,960
Other	7,750

Subtotal	200,660
Valuation allowance	(28,840)

Total	\$171,820

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

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

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

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

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

Note 9
Industry Segment and Geographic Information

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

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

Process Industry: Manufacture and sale of process equipment for separating and treating liquids, solids and slurries for environmental and other process industries.

Disposed Businesses: The disposed businesses segment information includes the results of significant operations that were sold during the three years presented as discussed in Note 2. Prior years segment information has been restated to reflect the 1994 dispositions.

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

Intersegment sales and transfers between geographic areas are priced at the estimated fair value of the products or services negotiated between the selling and receiving units. Operating profit is total revenues less costs and expenses (including unusual charges-net) but before deduction of general corporate expenses totalling \$32.8 million, \$35.6 million and \$25.7 million in 1994, 1993 and 1992, respectively. Identifiable assets are those assets that are used by the Company's operations in each industry segment or are identified with the Company's operations in each geographic area. Corporate assets consist principally of cash, assets held for disposal, investments and notes receivable which amount to \$281.3 million, \$231.2 million and \$199.4 million at September 30, 1994, 1993 and 1992, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

 Note 10
 Employee Benefit Plans

Postretirement Benefits Other Than Pensions

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

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

(In thousands)

Accumulated postretirement benefit obligation ("APBO"):	
Retirees	\$ (83,449)
Fully eligible active plan participants	(9,856)
Other active plan participants	(19,920)

Total	(113,225)
Unrecognized net loss	7,595

Accrued postretirement benefit cost	\$(105,630)
	=====

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

(In thousands)

Service cost of benefits earned	\$1,300
Interest cost on APBO	7,500

Net periodic postretirement benefit cost	\$8,800
	=====

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

Defined Benefit Pension Plans

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

Net pension expense includes the following components:

(In thousands)	1994	1993	1992

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

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

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

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

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

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

Thrift Plan

Virtually all employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 15% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of \$.50 per \$1.00 up to 6% of the employee's salary. Beginning January 1, 1995, the Company matching will change to \$1.00 per \$1.00 employee contribution for the first 2% and \$.50 per \$1.00 employee contribution for the next 4% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year. Company contributions become fully vested to the

employee after five years of employment. The Company's contributions to the Thrift Plan and other defined contribution plans amounted to \$26.3 million, \$23.6 million and \$21.0 million in 1994, 1993 and 1992, respectively.

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

 Note 11

Stockholder Rights Agreement and Other Matters

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

Supplemental consolidated statement of operations information is as follows:

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

Note 12
Litigation

Parker & Parsley

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

Glyn Snell

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

Mission Resources

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

Department of Justice Investigation

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

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

TRW Inc.

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

Other

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

Note 13
Environmental Matters

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

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

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

Note 14
Commitments and Contingencies

At September 30, 1994, the Company had long-term operating leases covering certain facilities and equipment on which minimum annual rental commitments for each of the five years in the period ending September 30, 1999 are \$24.9 million, \$17.6 million, \$12.9 million, \$8.5 million and \$6.8 million, respectively, and \$32.9 million in the aggregate thereafter. The Company has not entered into any significant capital leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Baker Hughes Incorporated

Note 15
Quarterly Data (Unaudited):

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

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

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

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

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

[GRAPH OF BAKER HUGHES APPEARS HERE]

	Quarter	High	Low
1993	1st Quarter	\$24.50	\$17.88
	2nd Quarter	24.25	18.50
	3rd Quarter	29.63	22.13
	4th Quarter	28.25	21.25
1994	1st Quarter	\$24.75	\$18.88
	2nd Quarter	22.13	17.00
	3rd Quarter	22.00	17.25
	4th Quarter	22.13	18.38

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Azimuth Sales Ltd.	Cayman Islands	100%	
Baker Canada Holding, Inc.	Delaware	(6)	
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		---
Baker Performance Chemicals	Operating Division		---
Baker Supply Products	Operating Division		---
Bird Machine of Canada	Operating Division		---
Canada Intermediates/CHEM-LINK	Trade Name		---
Centrilift	Operating Division		---
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		---
Eimco Fluid Process International	Operating Division		---
Eimco Process Equipment	Operating Division		---
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Holdings (U.S.), Inc.	Nevada	100%	
Baker Hughes Limited	England		(2)
Baker Hughes (BJ) Ltd.	Scotland		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark- CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes INTEQ (M) Sdn. Bhd.	Malaysia		49%
Baker Hughes Process Systems	Operating Division		---
Baker Oil Tools U.K.	Operating Division		---
Baker Oil Tools India (Private) Limited	India		(3)
Baker Oil Tools (UK) Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E	Abu Dhabi		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Performance Chemicals	Operating Division		---
Aquaness	Assumed Name		---
Baker Production Services (UK) Limited	England		100%
Baker Oil Treating India (Private) Ltd.	India		(25)
Baker Service Tools Limited	England		100%
Centrilift U.K.	Operating Division		---
Eastman Christensen de Espana, S.A.	Spain		100%
Eden Engineering Limited	England		100%
Eimco Process Equipment Limited	England		100%
EnviroTech Pumpsystems	Operating Division		---
Hughes Christensen	Operating Division		---
Hughes Tool Company of Australia Limited	Delaware		100%
Hughes Tool Company Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Service Tools B.V.	The Netherlands		100%
Centrilift Netherlands	Operating Division		---
Lombard Baker Leasing Co.	England Partnership		49%
P.T. Eastman Christensen Indonesia	Indonesia		(26)
Teleco Oilfield Services (Europe) Limited	Scotland		100%
Tri-State Oil Tool (U.K.) Limited	England		100%
Wemco G.B.	Operating Division		---
Baker Quimica de Colombia S.A.	Colombia		(13)
Eimco-Wemco de Colombia S.A.	Colombia		(21)
Baker Hughes Australia Holding, Inc.	Delaware	(4)	

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools of Australia	Operating Division		---
Baker Oil Tools	Operating Division		---
Centrilift-Australia	Operating Division		---
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		---
EXLOG Australia	Operating Division		---
Hughes Christensen	Operating Division		---
Milpark Drilling Fluids	Operating Division		---
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker Hughes Equipamentos Ltda.	Brazil	(5)	
Baker Hughes Equipamentos Ltda.	Operating Division		---
Centrilift Brazil	Operating Division		---
Exploration Logging Brazil	Operating Division		---
Hughes Tool do Brazil	Operating Division		---
Baker Hughes Finance, Inc.	Delaware	100%	
Baker Hughes Environmental Services, Inc.	Delaware		100%
Baker Hughes Treatment Services	D/B/A		---
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Hughes FSC Inc.	Barbados		100%
Baker Hughes Holding Company	Delaware	100%	
American Tricones, Inc.	Delaware		100%
Herramientas y Tricones, S.A. de C.V.	Mexico		(7)
Proveedores Para Operaciones Energeticas S.A. de C.V.	Mexico		(12)
Baker Hughes Argentina, S.A.	Argentina		100%
Hughes Tool Company Chile Ltda.	Chile		95%
Kobe Argentina S.A.	Operating Division		---
Baker Hughes Oilfield Operations, Inc.	California		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		---
Baker Performance Chemicals	Operating Division		---

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Supply Products	Operating Division		---
Bird Machine of Canada	Operating Division		---
Canada Intermediates/CHEM-LINK	Trade Name		---
Centrilift	Operating Division		---
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		---
Eimco Fluid Process International	Operating Division		---
Eimco Process Equipment	Operating Division		---
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Eastern S.A.	Panama		100%
Baker Eastern S.A.	Venezuela		(9)
Baker Sand Control Venezuela	Operating Division		---
Baker Eastern S.A. (Libya)	Operating Division		---
Baker Nigeria Ltd.	Nigeria		(11)
Herramientas Interamericanas S.A. de C.V.	Mexico		(16)
Baker Hughes Services de Mexico S.A. de C.V.	Mexico		(31)
Baker Far East Ltd.	Bermuda		100%
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools of Australia	Operating Division		---
Baker Oil Tools	Operating Division		---
Centrilift-Australia	Operating Division		---
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		---
EXLOG Australia	Operating Division		---
Hughes Christensen	Operating Division		---
Milpark Drilling Fluids	Operating Division		---

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker Hughes (C.I.) Ltd.	Cayman Islands		100%
Baker Hughes Singapore Pte.	Singapore		(33)
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Process Systems	Operating Division		---
Eimco Process Equipment	Operating Division		---
Baker Oil Tools Asia Pacific	Operating Division		---
Hughes Christensen/Singapore	Operating Division		---
Tri-State Oil Tools Singapore	Operating Division		---
Bird Machine	Operating Division		---
Centrilift Congo	Operating Division		---
Baker Hughes INTEQ	Operating Division		---
Baker Hughes INTEQ Cameroon	Cameroon		100%
Baker Hughes INTEQ Gabon	Gabon		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ de Venezuela S.A.	Venezuela		100%
Baker Hughes INTEQ International Branches, Inc.	Delaware		100%
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools of Australia	Operating Division		---
Baker Oil Tools	Operating Division		---
Centrilift-Australia	Operating Division		---
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		---
EXLOG Australia	Operating Division		---
Hughes Christensen	Operating Division		---
Milpark Drilling Fluids	Operating Division		---
Teleco Oilfield Services Pty. Limited	Western Australia		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Mining Tools Peru, S.A.	Peru		99%
Baker Hughes Norge A/S	Norway		100%
Baker Oil Tools Denmark	Operating Division		---
Baker Hughes Services de Mexico S.A. de C.V.	Mexico		(31)
Baker Hughes Services International, Inc.	Delaware		100%
Baker Hughes S.P.A.	Italy		(14)
Baker Oil Tools (Italia)	Operating Division		---
Eastman Teleco	Operating Division		---
Eimco	Operating Division		---
Wemco	Operating Division		---
Hughes Christensen	Operating Division		---
Baker Hughes Systems (Bolivia) Ltda.	Bolivia		100%
Baker Hughes Thailand Co., Ltd.	Thailand		100%
Baker Hughes Ventures, Inc.	Delaware		100%
Baker Hughes World Trade, Inc.	Delaware		100%
Baker International Cote D'Ivoire S.A.R.L.	Ivory Coast		(10)
Baker (Malaysia) Sdn. Bhd.	Malaysia		100%
Baker Oil Tools Malaysia	Operating Division		---
Baker Nigeria Ltd.	Nigeria		(11)
Baker Oil Tools	Operating Division		---
Baker Oil Tools Surface Safety Systems Company	D/B/A		---
Elder Oil Tools	Operating Division		---
Tri-State Oil Tools	Operating Unit		---
Baker Oil Tools (Brunei) Sdn. Bhd.	Brunei		50%
Baker Oil Tools de France S.A.R.L.	France		19%
Baker Performance Chemicals Incorporated	California		100%
Aquaness Chemicals	Operating Division		---
Aquaness Industrias de Venezuela, S.A.	Venezuela		100%
Aquaness Quimica de Venezuela S.A.	Venezuela		55%
Baker Quimica de Venezuela S.A.	Venezuela		55%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Eimco-Wemco Equipos de Venezuela S.A.	Venezuela		(22)
Venezolana de Resinas, C.A.	Venezuela		55%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		---
Baker Performance Chemicals	Operating Division		---
Baker Supply Products	Operating Division		---
Bird Machine of Canada	Operating Division		---
Canada Intermediates/CHEM-LINK	Trade Name		---
Centrilift	Operating Division		---
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		---
Eimco Fluid Process International	Operating Division		---
Eimco Process Equipment	Operating Division		---
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Performance Chemicals Incorporated	Delaware		100%
Alamex, Inc.	Delaware		100%
Camcor-Chem, Inc.	Delaware		100%
ChemLink Petroleum Chemicals, Inc.	Delaware		100%
P.T. Elnusa Chemlink	Indonesia		49%
Baker Pipeline Products	Operating Division		---
Baker Quimica de Colombia S.A.	Colombia		(13)
Eimco-Wemco de Colombia S.A.	Colombia		(21)
ChemLink	Operating Division		---
Magna Herbicide	D/B/A		---

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Magna International Limited	Bermuda		100%
Oreprep	D/B/A		---
Baker Production Services, Inc.	Texas		100%
Baker Production Services (Bermuda) Ltd.	Bermuda		100%
Baker Eastern S.A.	Venezuela		(9)
Baker Sand Control Venezuela	Operating Division		---
Baker Mira Saudi Arabia Limited	Saudi Arabia		(32)
Baker Production Technology International Inc.	Nevada		100%
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools of Australia	Operating Division		---
Baker Oil Tools	Operating Division		---
Centrilift-Australia	Operating Division		---
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		---
EXLOG Australia	Operating Division		---
Hughes Christensen	Operating Division		---
Milpark Drilling Fluids	Operating Division		---
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker Hughes (Deutschland) GmbH	Germany		100%
Baker Hughes INTEQ GmbH	Germany		100%
Baker Oil Tools Germany	Operating Division		---
Centrilift Germany	Operating Division		---
Eastman Whipstock GmbH	Germany		100%
Eimco	Operating Division		---
Gummiwerk Christensen-Netzsch GmbH	Germany		50%
Hughes Christensen	Operating Division		---
Corband Bandstahlbearbeitungs-Gesellschaft mbH	Germany		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Lynes Caribbean, Inc.	Nevada		100%
Lynes International Services Inc.	Panama		100%
Baker Quimica de Colombia S.A.	Colombia		(13)
Eimco-Wemco de Colombia S.A.	Colombia		(21)
Baker Real Estate	Operating Division		--
Baker RTC (Delaware), Inc.	Delaware		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools	Operating Division		--
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		--
Baker Performance Chemicals	Operating Division		--
Baker Supply Products	Operating Division		--
Bird Machine of Canada	Operating Division		--
Canada Intermediates/CHEM-LINK	Trade Name		--
Centrilift	Operating Division		--
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		--
Eimco Fluid Process International	Operating Division		--
Eimco Process Equipment	Operating Division		--
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools of Australia	Operating Division		--
Baker Oil Tools	Operating Division		--

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Centrilift-Australia	Operating Division		---
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		---
EXLOG Australia	Operating Division		---
Hughes Christensen	Operating Division		---
Milpark Drilling Fluids	Operating Division		---
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker RTC, Inc.	Texas		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		---
Baker Performance Chemicals	Operating Division		---
Baker Supply Products	Operating Division		---
Bird Machine of Canada	Operating Division		---
Canada Intermediates/CHEM-LINK	Trade Name		---
Centrilift	Operating Division		---
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		---
Eimco Fluid Process International	Operating Division		---
Eimco Process Equipment	Operating Division		---
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker RTC International Limited	Bermuda		100%
Baker Hughes Services de Venezuela C.A.	Venezuela		100%
Centrilift Colombia/Ecuador	Operating Division		---
Reed Rock do Brazil Industrial Ltda.	Brazil		99%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Sand Control Limited	Bermuda		100%
Baker Eastern S.A.	Venezuela		(9)
Baker Sand Control Venezuela	Operating Division		---
Centrilift-Congo	Operating Division		---
Baker Sand Control Services Pte. Ltd.	Singapore		100%
Baker Sand Control Servicios Tecnicos, Ltda.	Brazil		(15)
Baker Transworld, Inc.	California		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		---
Baker Performance Chemicals	Operating Division		---
Baker Supply Products	Operating Division		---
Bird Machine of Canada	Operating Division		---
Canada Intermediates/CHEM-LINK	Trade Name		---
Centrilift	Operating Division		---
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		---
Eimco Fluid Process International	Operating Division		---
Eimco Process Equipment	Operating Division		---
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Hughes de Venezuela S.A.	Venezuela		100%
Eimco-Wemco de Colombia S.A.	Colombia		(21)
Baker Transworld, Inc. y Compania Limitada	Chile		100%
Bakerline Far East, Inc.	Delaware		100%
Bakerline Services Ltd.	Cayman Islands		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Centrilift-U.S.	Operating Division		---
Allen Service	Operating Division		---
Clays Pump Service	Operating Division		---
Centrilift-Peru	Operating Division		---
Christensen-Netzsch Rubber, Inc.	Oklahoma		50%
ChuanShi Christensen Diamond Bit Company, Ltd.	China		50%
DC Oil Tools	Operating Division		---
Eastman Christensen Marketing, Inc.	Utah		100%
Eastman Whipstock (Cameroon) S.A.R.L.	Cameroon		100%
Eisenman Chemical Company	Delaware		100%
EXLOG Arabian Gulf Limited	Jersey		49%
EXLOG A.G. Limited	Jersey		100%
EXLOG International, Inc.	Panama		100%
EXLOG Egypt	Operating Division		---
EXLOG International-Asia Pacific	Operating Division		---
EXLOG International-Papua New Guinea	Operating Division		---
PT Sarana Indonesia	Operating Division		---
EXLOG (Malaysia) Sdn. Bhd.	Malaysia		100%
EXLOG Overseas, Inc.	Panama		100%
EXLOG S.A.	Nevada		100%
Baker Hughes Equipamentos Ltda.	Brazil		(5)
Baker Hughes Equipamentos Ltda.	Operating Division		---
Centrilift Brazil	Operating Division		---
Exploration Logging Brazil	Operating Division		---
Hughes Tool do Brazil	Operating Division		---
Baker Hughes INTEQ S.A.	Argentina		100%
EXLOG de Venezuela S.A.	Venezuela		100%
Exploration Logging Espanola S.A.	Spain		100%
Exploration Logging (Ireland) Limited	Ireland		100%
Exploration Logging Netherland B.V.	The Netherlands		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Fluidos de Perforacion Milchem Guatemala S.A.	Guatemala		100%
Holtex, Inc.	Delaware		100%
Proveedores Para Operaciones Energeticas S.A. de C.V.	Mexico		(12)
Precision Mecanica, S.A. de C.V.	Mexico		100%
Herramientas y Triconos, S.A. de C.V.	Mexico		(7)
Proveedores Para Operaciones Energeticas S.A. de C.V.	Mexico		(12)
Hughes Christensen Company	Operating Division		---
Baker Hughes Mining Tools	Operating Division		---
Hughes MPD	Operating Division		---
Hughes Services Middle East Company	Delaware		100%
Mid-East Drill Bit Manufacturing Co. Ltd.	Saudi Arabia		50%
Hughes Tool (C.I.) Ltd.	Cayman Islands		100%
Abunayyan-Hughes Tool S.A. Ltd. Co.	Saudi Arabia		50%
Baker Hughes Singapore Pte.	Singapore		(33)
Baker Hughes INTEQ	Operating Division		---
Eimco Process Equipment	Operating Division		---
Baker Hughes Process Systems	Operating Division		---
Baker Oil Tools Asia Pacific	Operating Division		---
Hughes Christensen/Singapore	Operating Division		---
Tri-State Oil Tools Singapore	Operating Division		---
Bird Machine	Operating Division		---
Centrilift Congo	Operating Division		---
Hughes Tool Co. S.A.	Delaware		100%
International Mud Services Inc.	Panama		100%
Kobe WHTC	California		100%
Lufkin Argentina S.A.	Argentina		50%
Lynes, Inc.	Texas		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%
Baker Hughes Canada Inc.	Canada		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools	Operating Division		--
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		--
Baker Performance Chemicals	Operating Division		--
Baker Supply Products	Operating Division		--
Bird Machine of Canada	Operating Division		--
Canada Intermediates/CHEM-LINK	Trade Name		--
Centrilift	Operating Division		--
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		--
Eimco Fluid Process International	Operating Division		--
Eimco Process Equipment	Operating Division		--
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Milpark de Venezuela, S.A.	Venezuela		100%
Milpark International Limited	Bahamas		100%
Milchem International (Nigeria) Ltd.	Nigeria		100%
Milpark Kuwait for Drilling Fluids Company	Kuwait		49%
Milchem Libya Co., Ltd.	Libya		49%
P. T. Milchem Indonesia	Indonesia		75%
Milpark Western Hemisphere Incorporated	Delaware		100%
Plumayen Holdings Inc.	Panama		100%
Plumayen do Brazil Ltda.	Brazil		100%
Productos Industriales Mineros S.A. (Prima)	Colombia		100%
E.P.E.C.-Colombia Prima	Operating Division		--
R.F. Smith Corporation	California		100%
Servicios Y Herramientas Petroleras S.A. de C.V.	Mexico		100%
Baker Hughes Inmobiliaria	Mexico		100%
Herramientas Interamericanas S.A. de C.V.	Mexico		(16)

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Services de Mexico S.A. de C.V.	Mexico		(31)
Supply Products	Operating Division		--
Teleco Administrative Services S.A.R.L.	France		100%
Teleco Inc.	Delaware		100%
Teleco Oilfield Services International Ltd.	Cayman		100%
Teleco Oilfield Services Offshore Ltd.	Cayman		100%
Teleco Oilfield Services Sdn. Bhd.	Malaysia		49%
TOTCO de Venezuela C.A.	Venezuela		100%
Tri-State Oil Tool (Egypt) S.A.	Panama		100%
Tri-State Oil Tool (H.K.) Limited	Hong Kong		100%
Tri-State Oil Tool (M) Sdn. Bhd.	Malaysia		100%
Tri-State Oil Tool de Mexico, S.A. de C.V.	Mexico		100%
Tri-State Oil Tool S.A.	Panama		100%
Tri-State Oil Tool (Thailand) Ltd.	Cayman Islands		100%
EVT Holdings, Inc.	Delaware		100%
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools of Australia	Operating Division		--
Baker Oil Tools	Operating Division		--
Centrilift-Australia	Operating Division		--
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		--
EXLOG Australia	Operating Division		--
Hughes Christensen	Operating Division		--
Milpark Drilling Fluids	Operating Division		--
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools	Operating Division		--
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		--
Baker Performance Chemicals	Operating Division		--
Baker Supply Products	Operating Division		--
Bird Machine of Canada	Operating Division		--
Canada Intermediates/CHEM-LLNK	Trade Name		--
Centrilift	Operating Division		--
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		--
Eimco Fluid Process International	Operating Division		--
Eimco Process Equipment	Operating Division		--
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Hughes Limited	England		(2)
Baker Hughes (BJ) Ltd.	Scotland		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		--
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		--
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes INTEQ (M) Sdn. Bhd.	Malaysia		49%
Baker Hughes Process Systems	Operating Division		--
Baker Oil Tools U.K.	Operating Division		--
Baker Oil Tools India (Private) Limited	India		(3)
Baker Oil Tools (UK) Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		--
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		--
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Performance Chemicals	Operating Division		--
Aquaness	Assumed Name		--
Baker Production Services (UK) Limited	England		100%
Baker Oil Treating India (Private) Ltd.	India		(25)
Baker Service Tools Limited	England		100%
Centrilift U.K.	Operating Division		--
Eastman Christensen de Espana, S.A.	Spain		100%
Eden Engineering Limited	England		100%
Eimco Process Equipment Limited	England		100%
EnviroTech Pumpsystems	Operating Division		--
Hughes Christensen	Operating Division		--
Hughes Tool Company of Australia Limited	Delaware		100%
Hughes Tool Company Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		--
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		--
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Service Tools B.V.	The Netherlands		100%
Centrilift Netherlands	Operating Division		--
Lombard Baker Leasing Co.	England Partnership		49%
P.T. Eastman Christensen Indonesia	Indonesia		(26)
Teleco Oilfield Services (Europe) Limited	Scotland		100%
Tri-State Oil Tool (U.K.) Limited	England		100%
Wemco G.B.	Operating Division		--
Baker International Limited	England		100%
Baker Process Technology de Mexico S.A. de C.V.	Mexico		100%
Baker Hughes Mining Tools Mexico	Operating Division		--
Filtracion Technica Especializada S.A. de C.V.	Mexico		(18)
BGA International	Operating Division		--
Eimco (Central Africa) (Pvt) Limited	Zimbabwe		99%
Eimco Process Equipment Company	Operating Division		--

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Eimco S.A.	Chile		100%
Eimco-Wemco de Colombia S.A.	Colombia		(21)
Eimco-Wemco de Venezuela S.A.	Venezuela		(22)
Envirotech Chile Ltda.	Chile		(19)
Envirotech Participatoes Limitada	Brazil		100%
Filtracion Technica Especializada S.A. de C.V.	Mexico		(18)
Galigher Ash Company	Assumed Name		---
KRABE V Pty. Ltd.	Australia		100%
Wemco	Operating Division		---
Wemco Products	Assumed Name		---
WVA Mining Equipment	Assumed Name		---
EnviroTech Measurements and Controls Company	Delaware		100%
Baker Hughes Instruments, Inc.	California		100%
DII, Inc.	Delaware		100%
EnviroTech Controls Incorporated	Delaware		100%
NOR Instruments Inc.	Texas		100%
TREMETRICS Inc.	Texas		100%
Westron Inc.	Texas		100%
Hughes Tool Company, C.A.	Venezuela		100%
Hughes Tool Company (Far East) Pte. Ltd.	Singapore		100%
Oilfield Finance International N.V.	Netherland Antilles		100%
Milchem Venezuela Corporation	Delaware		100%
Milafon Venezolana C.A.	Venezuela		20%
Milchem Venezuela Corporation, C.A.	Venezuela		100%
Baker Hughes INTEQ International, Ltd.	Bermuda	100%	
Eastman Whipstock (China) Ltd.	Hong Kong		100%
Baker Hughes INTEQ Sdn. Bhd.	Brunei	51%	
Baker Hughes Limited	England	(2)	
Baker Hughes (BJ) Ltd.	Scotland		100%
Baker Hughes France S.A.	France		(1)

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark-CKS de Angola	Angola		100%
Mikpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes INTEQ (M) Sdn. Bhd.	Malaysia		49%
Baker Hughes Process Systems	Operating Division		---
Baker Oil Tools U.K.	Operating Division		---
Baker Oil Tools India (Private) Limited	India		(3)
Baker Oil Tools (UK) Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes INTEQ S.A. Milpark	Gabon Operating Division		(27) --
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A. CECA, U.A.E.	Gabon Abu Dhabi		(27) 100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd. Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia Malaysia		70% 50%
EXLOG Samega S.N.C. Milpark	France Operating Division		100% --
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Performance Chemicals Aquaness	Operating Division Assumed Name		-- --
Baker Production Services (UK) Limited	England		100%
Baker Oil Treating India (Private) Ltd.	India		(25)
Baker Service Tools Limited	England		100%
Centrilift U.K.	Operating Division		--
Eastman Christensen de Espana, S.A.	Spain		100%
Eden Engineering Limited	England		100%
Eimco Process Equipment Limited	England		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
EnviroTech Pumpsystems	Operating Division		---
Hughes Christensen	Operating Division		---
Hughes Tool Company of Australia Limited	Delaware		100%
Hughes Tool Company Limited	England		100%
Baker Hughes France S.A.	France		(1)
Baker Hughes Angola S.A.R.L.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Milpark	Operating Division		---
Baker Hughes INTEQ S.A.	Gabon		(27)
Baker Hughes INTEQ Administrative Services S.A.R.L.	France		100%
Baker Hughes INTEQ-France S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
CECA, U.A.E.	Abu Dhabi		100%
CKS Cameroon S.A.R.L.	Cameroon		100%
CKS Congo S.A.R.L.	Congo		100%
CKS Drilling Fluids Services, Inc.	Delaware		100%
CKS Espanola S.A.	Spain		80%
CKS Norge A/S	Norway		100%
Drilling Fluids Services (Far East) Sdn. Bhd.	Malaysia		70%
Malaysia Mud and Chemicals Sdn. Bhd.	Malaysia		50%
EXLOG Samega S.N.C.	France		100%
Milpark	Operating Division		---
Milpark - CKS de Angola	Angola		100%
Milpark Nigeria Ltd.	Nigeria		60%
Baker International S.A.	France		100%
Baker Hughes INTEQ S.A.	Gabon		(27)
Wemco Eimco S.A.	France		100%
Baker Service Tools B.V.	The Netherlands		100%
Centrilift Netherlands	Operating Division		---
Lombard Baker Leasing Co.	England Partnership		49%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
P.T. Eastman Christensen Indonesia	Indonesia		(26)
Teleco Oilfield Services (Europe) Limited	Scotland		100%
Tri-State Oil Tool (U.K.) Limited	England		100%
Wemco G.B.	Operating Division		---
Baker Hughes Mining Equipment Company	California	100%	
Baker Hughes Nederland B.V.	The Netherlands	100%	
Baker Hughes Denmark A/S	Denmark		100%
Baker Hughes INTEQ	Operating Division		---
Baker Hughes INTEQ (China) Limited	Guernsey		100%
Baker Oil Tools Nederland	Operating Division		---
Baker Performance Chemicals	Operating Division		---
Ferranti Eastman Survey GmbH	Switzerland		49%
Hughes Christensen Co. Holland	Operating Division		---
Milchem Nederland B.V.	The Netherlands		100%
Societe Camerounaise de Broyage Minerai Petroliers	Cameroon		65%
Tekchem B.V.	The Netherlands		100%
Tracor Europa B.V.	The Netherlands		100%
Tracor France S.A.R.L.	France		100%
Baker Hughes Russia, Inc.	Delaware	100%	
Baker Hughes (Cyprus) Limited	Cyprus		100%
Baker Hughes JSC	Russia		100%
Baker Hughes Kazakhstan Ltd.	Republic of Kazakhstan		100%
Baker Hughes S.P.A.	Italy	(14)	
Eastman Teleco	Operating Division		---
Eimco	Operating Division		---
Wemco	Operating Division		---
Hughes Christensen	Operating Division		---
Baker Hughes Technology, Inc.	California	100%	
Baker Canada Holding, Inc.	Delaware		(6)
ACC Diamond Products de Venezuela C.A.	Venezuela		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Canada Inc.	Canada		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools	Operating Division		--
Baker Hughes Wyoming LLC	Wyoming		(20)
Baker Oil Tools Canada	Operating Division		--
Baker Performance Chemicals	Operating Division		--
Baker Supply Products	Operating Division		--
Bird Machine of Canada	Operating Division		--
Canada Intermediates/CHEM-LINK	Trade Name		--
Centrilift	Operating Division		--
Christensen Diamond Products del Peru S.A.	Peru		100%
Econolift Systems Canada	Operating Division		--
Eimco Fluid Process International	Operating Division		--
Eimco Process Equipment	Operating Division		--
Envirotech Chile Ltda.	Chile		(19)
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Hughes Australia Holding, Inc.	Delaware		(4)
Baker Hughes Australia Pty. Limited	Australia		(30)
BHA Superannuation (Nominees) Pty. Limited	Australia		100%
Baker Hughes INTEQ	Operating Division		--
Baker Hughes Mining Tools of Australia	Operating Division		--
Baker Oil Tools	Operating Division		--
Centrilift-Australia	Operating Division		--
Eastman Christensen (Australia) Pty. Limited	Australia		100%
Eastman Teleco	Operating Division		--
EXLOG Australia	Operating Division		--
Hughes Christensen	Operating Division		--
Milpark Drilling Fluids	Operating Division		--
Teleco Oilfield Services Pty. Limited	Western Australia		100%
Baker Hughes South Africa (Proprietary) Ltd.	South Africa		100%

NAME OF SUBSIDIARIES AND SUB-SUBSIDIARIES	JURISDICTION OR ORGANIZATION	PERCENTAGE OWNED BY REGISTRANT	PERCENTAGE OWNED BY SUBSIDIARY
Baker Hughes Mining Tools (Proprietary) Limited	South Africa		100%
Reminto (Proprietary) Limited	South Africa		100%
GAW, Inc.	Texas		100%
Hughes Christensen South Africa (Proprietary) Limited	South Africa		100%
Mangueras Industriales Schiaffino S.A.	Chile		99.9%
Ramsey Comercio Industria Ltd.	Brazil		(8)
Baker Middle East Development Company S.A.R.L.	Lebanon	51%	
Baker Oil Tools (Espana) S.A.	Spain	100%	
Baker Oil Tools (H.K.) Ltd.	Hong Kong	100%	
Baker Quimica de Colombia S.A.	Colombia	(13)	
Eimco-Wemco de Colombia S.A.	Colombia		(21)
Baker Sand Control Servicios Tecnicos, Ltda.	Brazil	(15)	
Bird Machine Company	Operating Division	---	
Bird Machine Company, Inc.	Delaware	100%	
Bird Machine International, Inc.	Massachusetts	100%	
BJ-Hughes Holding Company	Delaware	100%	
BW-Hughes Tool Stock Corporation	Delaware	100%	
Chas. S. Lewis and Co., Inc.	Missouri	100%	
Christensen Gulf Services (Private) Ltd.	Dubai	40%	
Christensen Saudi Arabia Limited	Saudi Arabia	40%	
Galigher West	Utah	100%	
Herramientas Interamericanas S.A. de C.V.	Mexico	(16)	
Baker Hughes Services de Mexico S.A. de C.V.	Mexico		(31)
Hughes Tool J.V. Inc.	Delaware	100%	
Oil Base de Venezuela, C.A.	Venezuela	100%	
STH, Inc.	West Virginia	100%	
Coppinger Machinery Service, Inc.	Assumed Name		---
The Galigher Co.	Utah	100%	
Varco International, Inc.	Delaware	20%	

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(1)	Baker Hughes France S.A.	Baker Hughes Finance, Inc. - 44% Baker Hughes Limited - 55% Baker Oil Tools (UK) Limited* Hughes Tool Company Limited* George Reekie* Jean Paul E. Pradal* ----- * Total of 1%
(2)	Baker Hughes Limited	Baker Holdings (U.S.), Inc. - 48% Baker Hughes Incorporated - 38% Envirotech Corporation - 14%
(3)	Baker Oil Tools India (Private) Limited	Baker Oil Tools Division of Baker Hughes Limited - 40% Khushalani Group - 60%
(4)	Baker Hughes Australia Holding, Inc.	Baker Hughes Incorporated - 5.07% Baker Hughes INTEQ International Branches - 6.73% Baker Hughes Oilfield Operations, Inc. - 56.99% Baker Hughes Technology, Inc. - 6.84% Baker Production Technology International, Inc. - 11.59% Baker RTC (Delaware), Inc. - 4.69% EVT Holdings, Inc. - 8.10%
(5)	Baker Hughes Equipamentos Ltda.	Baker Hughes Incorporated - 99% EXLOG, S.A. - 1%

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(6)	Baker Canada Holding, Inc.	Baker Hughes Incorporated - 18% Baker Hughes Oilfield Operations, Inc. - 13% Baker Hughes Technology, Inc. - 3% Baker Performance Chemicals Incorporated (Ca. Company) - 7% Baker RTC (Delaware), Inc. - 12% Baker RTC, Inc. - ** Baker Transworld, Inc. - 12% EVT Holdings, Inc. - 7% Lynes, Inc. - 28% ----- *Less than 1%
(7)	Herramientas y Triconos, S.A. de C.V.	American Tricones, Inc. - 49% Precision Mecanica, S.A. de C.V. - 2% TAMBA - 48% Giuseppe Castiglioni* Alfredo Freyssinier* Emilio Paulon Gasparini* Eugenio Perez Gil* Manuel Garcia Ramos* ----- * Total of 1%
(8)	Ramsey Comercio Industria Ltd.	Baker Hughes Canada, Inc. - 50% Baker Hughes Technology, Inc. - 50%

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(9)	Baker Eastern S.A. (Venezuela Company)	Baker Eastern S.A. (Panama Company) - 50% Baker Production Services (Bermuda) Ltd. - 25% Baker Sand Control Ltd. - 25%
(10)	Baker International Cote D' Ivoire S.a.r.l.	Baker Hughes Oilfield Operations, Inc. - 99.5% Baker Transworld, Inc. - .5%
(11)	Baker Nigeria Ltd.	Baker Eastern S.A. (Panama Company) - 1% Baker Hughes Oilfield Operations, Inc. - 59% Others - 40%
(12)	Proveedores Para Operaciones Energeticas S.A. de C.V.	Herramientas y Triconos, S.A. de C.V. - 31% Holtex, Inc. - 49% Ing. Alejandro Herce Caro - .50% Ing. Pedro Herce Berassin - 19% Lic. Relipe Septien Flores - .50%
(13)	Baker Quimica de Colombia S.A.	Baker Holdings (U.S.), Inc. - .1% Baker Hughes Incorporated - .1% Baker Hughes Oilfield Operations, Inc. - .1% Baker Performance Chemicals Incorporated (Ca. Company)- 99.7%
(14)	Baker Hughes S.P.A.	Baker Hughes Oilfield Operations, Inc. - 99.9% Baker Hughes Incorporated - .1%

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(15)	Baker Sand Control Servicios Tecnicos, Ltda.	Baker Hughes Incorporated - 1% Baker Hughes Oilfield Operations, Inc. - 99%
(16)	Herramientas Interamericanas S.A. de C.V.	Baker Eastern S.A. (Panama Company) - 40% Baker Hughes Incorporated - 7% Servicios Y Herramientas Petroleras S.A. de C.V. - 53%
(17)	left blank	
(18)	Filtracion Technica Especializada S.A. de C.V.	Baker Process Technology de Mexico S.A. de C.V. - 99.9% EVT Holdings, Inc. - .1%
(19)	Envirotech Chile Ltda.	Baker Hughes Canada, Inc. - .5% EVT Holdings, Inc. - 99.5%
(20)	Baker Hughes Wyoming LLC	Baker Hughes Canada, Inc. - 99% Baker Hughes Oilfield Operations, Inc. - 1%
(21)	Eimco-Wemco de Colombia S.A.	EVT Holdings, Inc. - 97% Exploration Logging de Colombia (Branch) - .81% Baker Transworld, Inc. - .81% Baker Quimica de Colombia S.A. - .81% Milpark de Colombia (Branch) - .81%
(22)	Eimco Wemco Equipos de Venezuela S.A.	EVT Holdings, Inc. - 99% Baker Quimica de Venezuela S.A. - 1%

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(23)	Baker Sand Control Cameroon S.a.r.l.	Baker Hughes Incorporated - 99% Baker Hughes Oilfield Operations, Inc. - 1%
(24)	(left blank)	
(25)	Baker Oil Treating (India) Private Ltd.	Baker Production Services U.K. Ltd. - 40% Dai-Ihci Karkaria Limited - 60%
(26)	P.T. Eastman Christensen Indonesia	Baker Hughes Limited owns rights in agreement with R. Widjaya 75% owner and B. Sastromulyono 25% owner, local agents
(27)	Baker Hughes Gabon S.A.	Baker Hughes INTEQ-France S.A. 1% Baker International S.A. - 87% Baker Hughes Oilfield Operations, Inc. - 2% Gabonese Government - 10%
(28)	(left blank)	
(29)	(left blank)	
(30)	Baker Hughes Australia Pty. Limited	Baker Hughes Australia Holding, Inc. - 99% Peter Boesenberg - 1%
(31)	Baker Hughes Services de Mexico S.A. de C.V.	Baker Hughes Oilfield Operations, Inc. - 99% Herramientas Interamericanas S.A. de C.V. - 1%

FOOTNOTES	ENTITY	ENTITY OWNERSHIP
(32)	Baker Mira Saudi Arabia Limited	Percentage of ownership not available. Owned by Baker Production Services (Bermuda) Ltd. and Mira Brothers
(33)	Baker Hughes Singapore Pte.	Hughes Tool (C.I.) Ltd. - 99% Baker Hughes (C.I.) Ltd. - 1%
(34)	(left blank)	

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AND CONSOLIDATED STATEMENTS OF OPERATIONS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR	
	SEP-30-1994
	SEP-30-1994
	69,179
	0
	612,414
	21,405
	643,046
	1,399,992
	560,084
	886,871
	2,999,682
544,571	
	637,972
	140,889
	0
	4,000
2,999,682	1,493,583
	1,727,734
2,504,758	
	1,015,458
	2,082,745
	236,129
	0
	63,835
	226,116
	94,974
131,142	
	0
	(44,320)
	(44,165)
	42,657
	.22
	.22