

Baker Hughes Incorporated



1990 Annual Report

Baker Hughes Incorporated recognizes its responsibility to maintain the compatibility of its operations with the environment while supplying high quality products and services to the customers it serves. The Company firmly and seriously accepts its social responsibility to work with the public, the government and others to develop and to use natural resources in an environmentally sound manner while protecting the health and safety of our employees and the public. To meet these responsibilities, the Company and its subsidiaries commit to the following operational principals:

To recognize community concerns about the methods in which we use our raw materials, products and operations;

To make safety, health and environmental considerations a priority in our planning and development of new products and processes;

To operate our plants and facilities and to handle our raw materials and products in a manner which is consistent with prudent environmental, health and safety practice;

To commit to reduce overall emission and waste generation; and

To participate with government and others in creating responsible laws, regulations and standards to safeguard the community, work place and environment.

Environmental Objectives

On The Cover

A Hughes drill bit "going in the hole." The standard by which all others are measured, Hughes drill bit technology is but one of Baker Hughes' leading technologies.

Corporate Profile

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

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

*Summary of Selected
Financial Data*

	<u>1990</u>	<u>1989</u>
Sales	\$1,859,393	\$1,763,329
Services and rentals	754,864	564,666
Total revenues	2,614,257	2,327,995
Net income	142,177	85,023
Net income per share	1.06	.66
Working capital	676,383	620,017
Total assets	2,783,944	2,065,920
Net property, plant and equipment	652,281	660,592
Capital expenditures	132,784	92,702
Depreciation and amortization	125,149	110,344
Long-term debt	611,501	417,045
Stockholders' equity	1,424,285	1,003,380
Cash dividends per share of common stock	.46	.46
Number of shares (000)		
Average during year	128,319	119,091
Outstanding at end of year	137,457	120,435
Number of employees	20,900	20,400

Fiscal year 1990 was an eventful year for Baker Hughes Incorporated. The Company continued its earnings improvement as drilling activity, particularly in the United States, moved upward in response to higher crude oil prices. More importantly, Baker Hughes completed or announced a number of strategic acquisitions and divestitures during the year which will have a major impact on the Company's financial results and strategic direction for years to come.

The Company generated 1990 revenues of \$2.6 billion, up 12% from 1989. Net income was \$142.2 million, up 67% from \$85.0 million in 1989. Earnings per share in 1990 were \$1.06 as compared to .66¢ in 1989, an increase of 61%.

The improvement in financial results was largely related to the 17% increase in the average number of U.S. drilling rigs working for the entire year. Prior to the August 2nd invasion of Kuwait by Iraq, WTI oil prices had averaged just under \$20 for the first ten months of our fiscal year. This relatively stable environment of improved prices provided an incentive for our customers to increase their exploration and production expenditures. Additionally, Baker Hughes Process Technologies group had a record year with pretax operating earnings up 43% to \$63.9 million in 1990, as most of the markets served enjoyed excellent growth.

As mentioned in my letter to you last year, Baker Hughes is committed to businesses that command good operating margins based on strong technological positions. We are also committed to expanding these technical positions into either number one or number two market share positions. When achieved, these two objectives provide Baker Hughes the opportunity to consistently generate margins and financial results at or near the top of our industry group. In 1990 we completed a series of acquisitions and divestitures, which places us as the technological and market share leader in each of our thirteen major oilfield product lines, as well as strengthening our leadership positions in our Process Technologies' product lines.

In April of 1990, we completed the acquisition of Eastman Christensen (EC) for a combination of cash and warrants valued at slightly over \$600 million. This acquisition was the largest ever by Baker Hughes and its potential impact on the future of the Company is perhaps second only to the combination of Baker International and Hughes Tool Company. EC is the worldwide leader in the area of directional drilling systems and diamond bit technology. Directional drilling systems, particularly the horizontal drilling sector, has experienced explosive growth which we fully expect to continue. EC participated in the drilling of nearly half of the 700 worldwide horizontal wells drilled in fiscal year 1990 and we expect the number of horizontal wells drilled in 1991 to double.

In May of 1990, we acquired the instrumentation units of Tracor Holdings for \$93.7 million in cash. The instrumentation units provide a broad array of analytical instrumentation to a number of industry groups and accomplishes our strategy of strengthening our product offerings for the expanding environmental market and increases our presence in the European instrumentation market. This acquisition is a continuation of our strategic realignment of our non oilfield businesses which began in fiscal year 1988. Process Technologies' pretax operating profits have increased from \$20.9 million in fiscal year 1987 to \$63.9 million in fiscal year 1990.

In July of 1990, we completed an initial public offering (IPO) of 71% of our ownership interest in BJ Services Company (BJ). This IPO generated nearly \$200 million in cash for Baker Hughes. While BJ had been a good financial performer for Baker Hughes, we did not view the pressure pumping market segment as one in which we could achieve Baker Hughes' financial and operating objectives over the long term.

In late September, we announced the purchase of the ChemLink Group, Inc. (ChemLink) for \$136 million in cash. The combination of ChemLink and Baker Performance Chemicals Inc. makes Baker Hughes the largest oilfield chemical company in the United States and the number two market leader worldwide and provides us with a substantial foothold in the industrial chemicals market. Since the oilfield chemical business is principally

To Our
Stockholders

treating production from existing wells, our oilfield new well/old well revenue mix is better balanced.

On a smaller scale, we acquired the fishing tool business of Wilson Industries and signed an agreement to purchase Elder Oil Tools. We divested our tool joint business and the diamond bit product line of Hughes Tool Company. We reached agreement to sell our Totco subsidiary and announced our intention to divest our Baker Hughes Tubular Services division.

Baker Hughes was active in the capital markets in 1990. In February, prior to the closing of the EC acquisition, Baker Hughes sold publicly 10.3 million shares of common stock, netting approximately \$265 million. This was the single largest offering ever in the oilfield service equity market. In July we completed the IPO for BJ and in August we redeemed our Convertible Exchangeable Preferred Stock, substantially all of which was converted into Baker Hughes common stock.

Our acquisition activity in 1990 required total cash outflows of \$675 million, however, the combination of the equity offering, various divestiture proceeds, and operating cash flow allowed us to fund the acquisition program by assuming only \$179 million of incremental debt. Our debt to equity ratio at year-end was .450 which is essentially the same as the previous year. This debt level is comfortably within our targeted range. In 1991 we anticipate further reduction in our debt.

In October of 1990, a jury awarded \$124 million to Parker & Parsley Petroleum Corporation in connection with a lawsuit brought against BJ-Titan alleging overcharges in services performed by BJ-Titan and a predecessor company over a period of years. Baker Hughes agreed to indemnify BJ from the exposures of this suit in connection with the BJ public offering. We believe that the jury award is excessive and will aggressively pursue all avenues in the appeal of this judgement. Further we have claims against third parties which we intend to pursue to mitigate any adverse affect of this suit and we have established reserves to minimize any further financial exposure from this suit.

Outlook

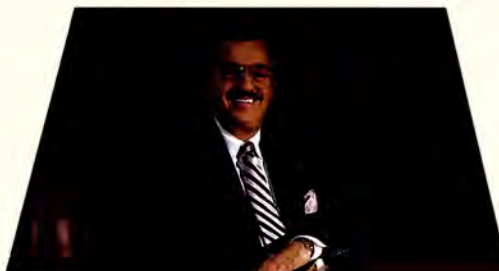
While the Iraq/Kuwait crisis creates a high level of uncertainty as to the near term outlook of our business, there are a number of factors that cause us to be optimistic. Volatility in the short term price of oil will remain, but most industry observers believe, as do we, that in the longer term oil prices will settle at a level above that which existed prior to the invasion of Kuwait. This will be beneficial to drilling budgets and as a result we are projecting increased worldwide drilling activity for fiscal year 1991. Certain segments of the oil service industry, such as horizontal drilling, will grow at rates substantially above the average. We continue to remain optimistic regarding U.S. natural gas activity.

Our Process Technologies group is generally tied to the growth of the gross domestic product of industrialized nations of the world. With the potential for a U.S. led economic slowdown, growth in this business may slow but will continue to provide superior returns.

We thank our stockholders for their patience and faith, our Directors for their wisdom and guidance, our customers for their loyalty and confidence, and above all, each employee who through their commitment, hard work and enthusiasm have given more than was asked and played a vital part in positioning Baker Hughes for success.



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





The Christensen

*"Egg Beater" PDC drill
bit is an innovative
design which increases
the rate of penetration*

*during the drilling
process. An example of
creative application of
science to practice.*

Baker Hughes
Drilling Equipment

Baker Hughes Drilling Equipment had 1990 revenues of \$1.009 billion, 38.6% over 1989 results. Pretax operating income was \$84.2 million, a 60.4% increase. Net capital employed at year end was \$664.8 million, an increase of 30.9%. The revenue increase included a \$153.0 million net increase from acquisitions and dispositions. The operating divisions contributed the remaining increase as oilfield drilling activity, as measured by the rig count, was higher in the United States by 17%.

During fiscal 1990 we moved significantly toward our strategic focus, one of applying advanced technology to reduce the real cost of drilling wells. This focus was the driver for all of our acquisition and disposition activity during the year.

The strategic goal of increasing drilling efficiencies was solidified during 1990 with the mid year acquisition of Eastman Christensen. The acknowledged technical and market front-runner in directional drilling systems and diamond drill bits, Eastman Christensen is the final strategic piece in BHDE's assemblage of market leaders in performance drilling.

We now have a cadre of technologies and operations that allow us to move forward. No significant piece is missing nor do we now have non-core businesses in our group. Although we will continually evaluate and make incremental adjustments, no major acquisitions or divestitures are necessary for BHDE to actively pursue its strategic goals.

By increasing the rate of penetration and keeping the drilling process going longer between changes of equipment, the economics of drilling are greatly improved.

The combination of BHDE's developing technologies and proven products is clearly moving drilling operations in that positive direction. New drill bits such as the Hughes ATM, ATX and MAX designs are rapidly improving drilling economies.

Coupled with such innovations as Milpark Drilling Fluid's MDF 1402 water based fluid which replaces toxic oil base products and Exlog's ADAMS System which greatly reduces drill pipe failure, our customers can safely drill wells in a shorter period of time than previously possible.

Additionally, Eastman Christensen can plan and execute high angle holes (horizontal) using a variety of techniques from short radius drain holes to long radius extended reach wells. Internal development and engineering integration will drive growth over the next several years as we commit our technical resources to improving drilling economics.

One significant arena of challenge is "Measurement While Drilling." In order to gain maximum efficiency from an increasing investment in this area we, this year, formed Baker Hughes MWD, an engineering and manufacturing organization. BHMWD will supply Exlog and Eastman Christensen tools for their respective markets. Since Exlog and Eastman Christensen are the world's leading delivery systems for MWD Services, our challenge is to produce competitive MWD Tools and BHMWD will be the vehicle to accomplish this.

The outlook for BHDE remains positive as drilling activity around the world, and particularly in the United States, is expected to improve. Reliable oil supplies and natural gas deliverability are both goals of our customers, and efficiently drilling wells for them is the solution.

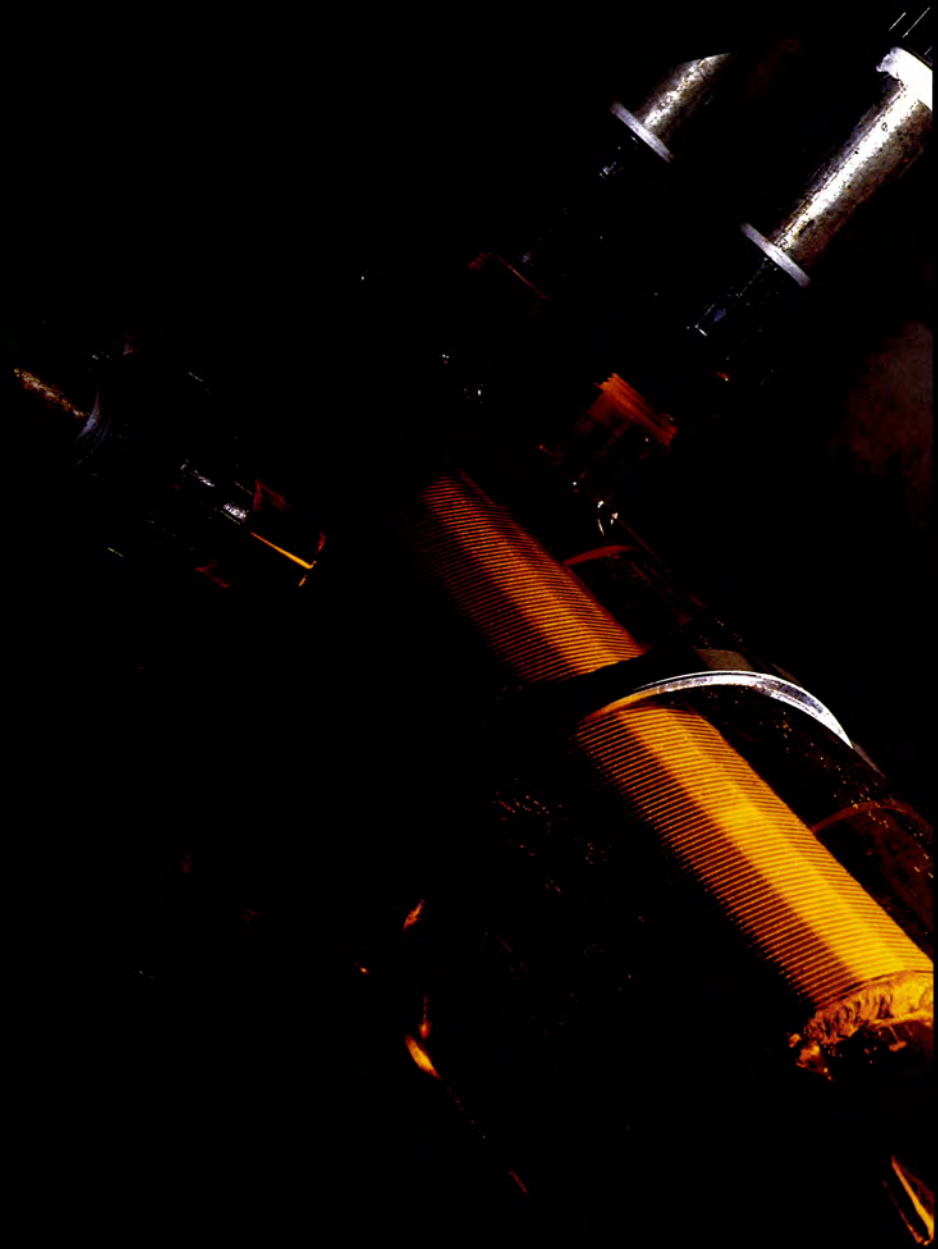
The financial data presented in the Operations Review (pages 5-9) is on a current organizational basis and excludes any corporate or unusual items and amortization of goodwill. It is not intended to correspond directly with the accompanying Consolidated Financial Statements and Notes thereto. See Note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



Motor Section

Drill Bit

*Eastman Christensen's
drilling motor shown
with an "Egg Beater"
drill bit is part of
the logging system in
horizontal drilling.*



*Baker Sand Control can
simulate gravel pack
operations at any angle,
using actual gravel
laden slurries, leading
to solutions to problems
of controlling sand
in high angle or
horizontal wells.*

Baker Hughes
Production Tools

Baker Hughes Production Tools' revenues rose 12.3% to \$756.5 million and pretax operating income hit \$107.8 million, 28.1% ahead of 1989. Net capital employed at year end was \$377 million, an 8.5% advance. The revenue increase was primarily attributable to a modest increase in oilfield activity accompanied by marginally improved product prices. The increase in profit demonstrates the strong incremental profit margins which accompanied the revenue increases.

During the fiscal year, the markets improved for several of the group's divisions. In the United States Gulf of Mexico, an increase in gas well workovers caused demand for replacement gravel packs.

Although the Iraqi invasion of Kuwait came very late in the fiscal year, the resulting rise in oil prices began pushing up the number of oil well workovers, which contributed to a solid fourth quarter.

During fiscal 1990, Baker Performance Chemicals Incorporated (BPCI) acquired the oilfield chemical operations of CEDA Reactor, Ltd., a Canadian production chemical company, and after the close of the fiscal year, the acquisition of The ChemLink Group, Inc. was completed. BPCI is now North America's largest oilfield chemical company and is number two worldwide.

Each division is number one or number two in market position in its respective core products, fulfilling the corporation's objectives established at the formation of Baker Hughes in 1987.

During the year, several steps were taken to position the company for further growth.

Of particular note were the transfer of product lines between divisions, geographical expansion, incremental acquisition activity and new product development.

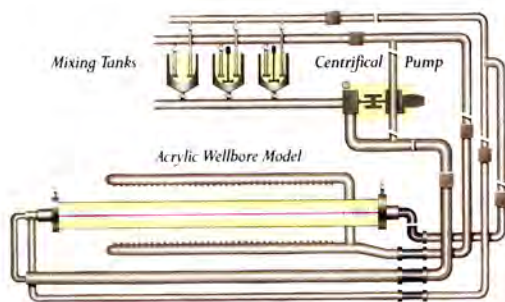
Baker CAC transferred its valve actuator line to Baker Oil Tools and its Roto-Jet pump line to Baker Hughes Process Technologies' pump group, streamlining its product focus to the production automation systems business.

Baker Oil Tools (BOT) introduced the downhole Electronic Activation System (EAS) for tools of all types which, for the first time, marries computer electronics with tools intended for long term placement in wells. Also introduced was the PSI horizontal well completion system which was awarded the Petroleum Engineer "Meritorious Award for Engineering Innovation."

Baker Service Tools (BST) expanded its geographic horizon by providing its own service personnel in the North Sea and introduced thru-tubing workover tools to allow coiled tubing workovers, which substantially reduce operator costs. External Casing Packer revenue growth was successful as BST capitalized on the growing horizontal completion market.

Centrilift increased revenues and lowered manufacturing costs. The division is planning to expand its activities in the electric submersible pump cable market.

The outlook for Baker Hughes Production Tools is increasingly positive. New well completions will follow as drilling activity increases. With the recent rise in the price of oil evolving from the Iraq/Kuwait crisis, it has become economically attractive to workover and stimulate old wells. Since there are over 600,000 producing wells in the United States alone, remedial work will continue to be an active part of our business. Strategically positioned in growing markets, Baker Hughes Production Tools will continue to be a strong contributor to Baker Hughes' overall results.



The system developed to test high angle gravel packs was the first in the world, an example of Baker Hughes' leadership.



X-Ray fluorescence is used in a variety of analyses to identify the chemical composition of mixtures and

compounds. NORAN is the technological and market leader in X-Ray fluorescence analysis.

Baker Hughes
Process Technologies

Baker Hughes Process Technologies had 1990 revenues of \$579.5 million, 33.0% higher than in 1989. Pretax operating income was \$63.9 million, a 43.3% increase. Net capital employed at year end was \$263.3 million. The excellent revenue and earnings growth was due in part to the 1989 acquisition of Bird Machine Company and the overall strength of the markets we serve.

During the year our strategic thrust to reorganize along our three basic technologies was realized while growing our participation in environmentally sensitive industrial markets. This, coupled with our increasing presence in Europe, positions BHP Tech in markets that we believe will outperform the gross domestic product of industrialized nations in the decade ahead.

The three technology segments of BHP Tech are (1) instrumentation, (2) process equipment (liquid/solid separation) and (3) pumps. Our instrumentation business was significantly expanded during the year with the acquisition of the instrumentation units of Tracor Holdings. These units expand our detection technology in sensors and software to take us into the next century. Since most environmental legislation requires the use of the most sensitive instruments available, we

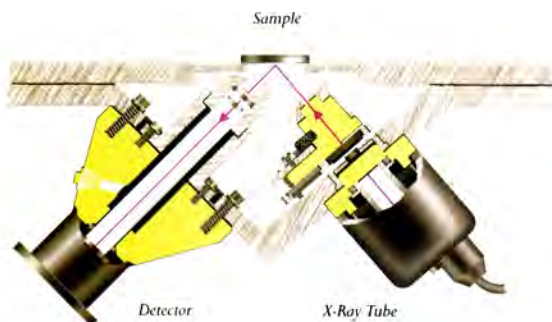
plan to be in the forefront of detection instrument technology which will keep us in our leadership position. Equally important, we will have visibility into what will be required of future machinery to remediate contaminated water or soil, a distinct advantage for our process equipment and pump businesses.

In our process equipment business we are the clear leaders in filtration, sedimentation, centrifugation and flotation processes. Our strengths include the basic technology and the application engineering capability to focus that technology on solving our customers' problems.

Our pump group focuses on pumps that will reliably move abrasive and corrosive slurries. The ability to transport multi-phase material opens new markets for the future.

Our traditional markets in continuous process industries and municipal waste treatment, as well as in mined product processing and process instrumentation, will continue to provide significant opportunity for BHP Tech. More importantly, for the future, they have provided the basis for the development of our basic technologies. The applicability of these technologies to a growing new market segment provides challenges and excitement.

By combining the strengths of our three basic technologies, our future opportunities are abundant. We can take advantage of our technical synergies among the three groups which will allow us to bring new products to the market in a more timely and efficient manner. In addition, we will have the broadest technical product offering to solve our customers' problems in disposing of industrial waste in the increasingly environmentally sensitive market. We are now poised to participate in one of the industrial world's most clear challenges, protecting and preserving the environment.

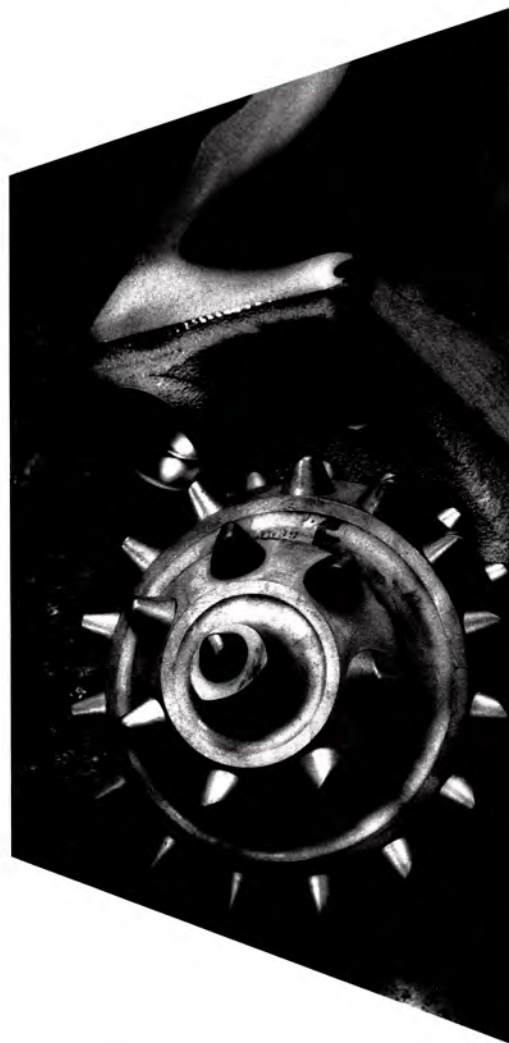


Excitation of a sample with an X-Ray tube beam, followed by detection of fluorescent X-Rays emitted by the elements in the sample.

Baker Hughes
Technology



Horizontal drilling has been accomplished by the development of an array of innovative products including Eastman Christensen's articulated system which is used in short radius wells.



Drill bit technology, in which the Company is the leading participant, has been improving since the origins of Hughes rolling cone bits in 1908. The number of bits required to drill a well continues to diminish.



Scaling technology in wells, a science in which the Company is preeminent, has been brought to extraordinary levels with thru-tubing tools which expand and seal tight in casing below the tubing's end. Baker Service Tools provides these products.

Baker Hughes' Mission Statement focuses the strategies of the Company on its three principal resources and their application to growth and financial goals. Those resources are people, chosen markets and technology. This special section on the technologies of Baker Hughes highlights our expanding investment in research and engineering which is nearing \$100 million annually. Baker Hughes technology is a multi-disciplined combination of sciences with a focused direction toward market success.

Earth science, life science, materials science, chemistry, physics, fluid mechanics, mathematics, electronics and advanced computer aided design engineering find application in our diverse oilfield and process industry market segments.

The breadth and scope of our technical efforts are vast. The use of video displays for the presentation of real time data, changes in which call for human interaction, are used with equal facility on a drilling rig in the North Sea, or in an operating room in a Minnesota hospital, or in an automated oilfield production office in South Texas.

Our oil and gas businesses require that we continue to lower the real cost of a barrel of oil or volume of gas produced. In our drilling related businesses the cost of access to hydrocarbons has been going down for some time. Technology has led the way. Drilling bits are far superior today to those of a few years ago as materials science and its application through advanced design has provided faster penetration rates and longer life. Superior advancement of the chemistry of drilling fluids has similarly lowered drilling costs while protecting the environment.

Measurement while drilling, along with advanced drilling motors, have opened the door to the exploding horizontal drilling market. Perhaps there is no better example of a technology driven market than

Baker Hughes
Technology



Baker Oil Tools is now providing down hole tools, designed to stay in a well throughout the well's life, with computer logic which allows control signals from the surface to activate tools when and in which sequence desired.



Ramsey Technology's "Checkweigher" system weighs packaged consumer products at speeds up to 600 per minute.



NORAN's Automated Digital Electron Microscope is unique in many respects, particularly in its large, versatile specimen stage, a singular achievement in design.

horizontal drilling where Baker Hughes is leading the way.

In oil and gas production markets, equal technical advancements are being made. Well tools are being equipped with computer processor hardware which allows infinitely variable control of tool activation, adding a dimension in well completion design never before imagined.

Development of non-Newtonian rheological models for gravel pack slurries has afforded our customers successful high angle sand control jobs while new chemicals for treating production are continually being formulated to fill our customers' needs to economically and efficiently produce oil along with formation water. Down-hole electrical submersible pumps are now speed controlled with frequency inverters, a significant step in electrical engineering.

Process technologies employ a comparable diverse array of technical assets. Liquids/solids transportation and separation requires mechanical, fluid and biological engineering to be successful in industrial and municipal markets. As the leader in these markets, Baker Hughes has an on going commitment to advancing such technology. In our instrument group, electronics is a significant part of the solutions to measurement challenge. High tech instruments are just part of the incredibly complex world of laboratory and process control instruments provided by the Company. We are leading market participants in such areas as nuclear radiation detection, gas and liquid chromatography, audiometric testing instruments and sulphur detection in a variety of environments.

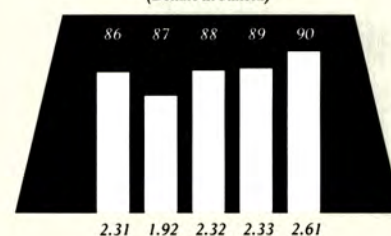
Overall, the technology of the Company is very sophisticated, its diversity providing challenge and opportunity. As we broaden our technical assets, our customers can look forward to Baker Hughes' continued technical leadership.

Financial Review

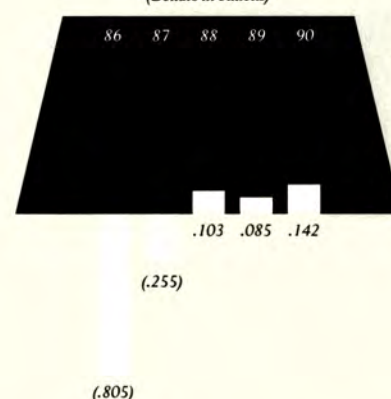
Baker Hughes Incorporated's revenues in 1990 were \$2.61 billion, up 12% from 1989's \$2.33 billion. The increase is attributable to a 17% increase in drilling activity in the United States, a strong performance by the Process Technologies group and the impact of several acquisitions in 1990 including Eastman Christensen Company and the instrumentation units of Tracor Holdings. In total, acquisitions added \$242 million of revenue in 1990. The disposition of the Mining Equipment group in the fourth quarter of 1989 and the Pumping Services operations in the fourth quarter of 1990 resulted in a decrease of \$223 million from 1989.

Income before income taxes for 1990 was \$180.0 million. Compared to 1989's \$117.6 million this represents an increase of \$62.4 million, or 53.1%. This significant improvement reflects the impact of the increased revenues, an improved quality of revenue mix and modest price increases for our products and services. The quality of revenue mix was impacted significantly by the sale of the Mining Equipment group which generated low operating margins and the acquisition of several businesses in the oilfield and Process Technologies group which carry relatively high operating margins. Cost of sales, services and rentals was \$1.64 billion, up 8.1% from the prior year, but as a percentage of revenues was 62.6%, an improvement from 65.0% in 1989. The increase in absolute dollars results from the higher revenues. The improvement as a percentage of revenues is attributable to the improved revenue mix and the slightly higher prices for our products and services. Marketing and field service expenses were \$502.7 million, a 16.5% increase from 1989. As a percentage of revenues, these expenses increased slightly to 19.2% from 18.5% in the prior year. This increase results from the higher service content of the oilfield service, Process Technologies and the acquired companies' revenues as compared to the Mining Equipment group. General and administrative expenses increased 4.3% to \$217.8 million but as a percentage of revenue fell to 8.3% from 9.0% from the prior year, reflecting the relatively fixed nature of these expenses. Net interest expense increased by \$11.1 million to \$62.3 million as a result of increased debt associated with acquisitions during the year.

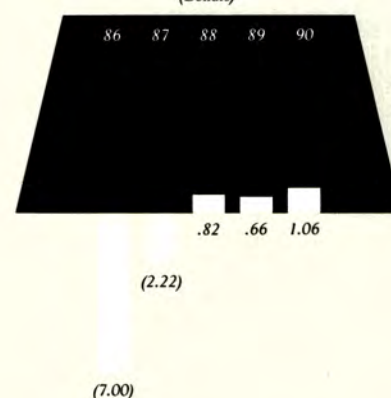
Revenues
(Dollars in billions)



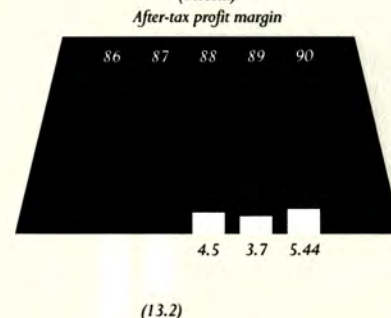
Net Income (Loss)
(Dollars in billions)



Earnings (Loss) Per Share
(Dollars)



Return on Revenues
(Percent)



Financial and Organizational Review

1990 results include a net unusual charge of \$1.1 million resulting from the gain on the sale of 71% of the Company's interest in BJ Services Company and unusual charges. The unusual charges represent charges to operations resulting from restructuring certain geographic operations and product lines, litigation and product liability claims, settlement of a common stock warrant and a writedown of assets related to Iraq and Kuwait. Net income increased \$57.2 million, or 67.2% to \$142.2 million and earnings per share increased to \$1.06 from \$.66 in 1989, a 60.6% improvement.

Capital Resources and Liquidity

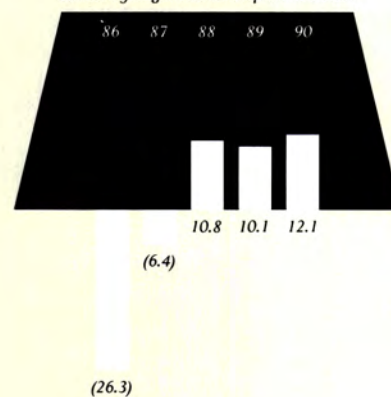
The Company's strategic focus on core businesses with a number one or number two market share and quality revenue businesses resulted in the acquisition of several significant operations during 1990. Funding for the acquisitions was accomplished through an offering of 10.3 million shares of the Company's common stock, proceeds from the sale of the majority ownership of BJ Services Company, available cash and additional borrowings. Dividends on common stock amounted to \$58.4 million and \$6.2 million on preferred stock. At year-end, the Company had \$124.6 million in cash and cash equivalents as compared to \$115.7 million at the end of 1989. Working capital increased by 9.1% during the year to \$676.4 million and the current ratio declined modestly from 2.14 at the end of last year to 2.07 at September 30, 1990. Total debt outstanding increased to \$640.2 million at the end of 1990 from \$445.2 million at the end of 1989. The debt to equity ratio increased very slightly to .450 during the year from .444.

As a result of the acquisitions, excess costs arising from acquisitions increased by \$508.4 million to \$575.4 million at the end of 1990.

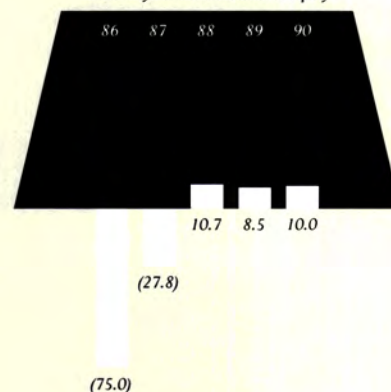
Capital additions of \$132.8 million were put in place during the year, up \$40.1 million from last year's total of \$92.7 million. The bulk of the Company's capital expenditures continued the trend established in prior years of addressing enhanced productivity and new technological areas.

In August of this year a definitive agreement to sell the TOTCO operations of the Exlog division to Varco International, Inc. was signed. This sale is expected to be finalized in the first quarter of FY 1991 after receiving necessary governmental

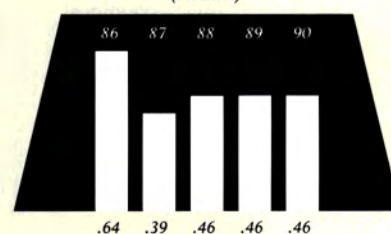
Earnings on Assets
(Percent)
Based on average total assets and
income before gross interest expense and taxes



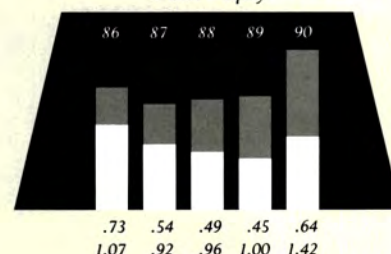
Return on Equity
(Percent)
Based on year-end stockholders' equity



Common Stock Dividends Paid
(Per share)



Stockholders' Equity and Debt
(Dollars in billions)
Includes long and short-term debt



approvals. In October of this year the Company acquired the ChemLink Group Inc., a leading supplier of specialty chemical products and services. The \$136 million purchase price was funded with \$32.6 million in available cash and the remainder with commercial paper and money market lines of credit. Subsequent to year-end it was announced that the Company is seeking to sell its Baker Hughes Tubular Service division which had revenues of \$108 million in 1990.

Organization and Management

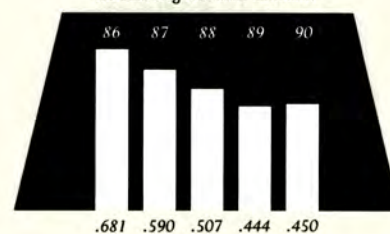
In addition to the acquisitions during the year, several other organizational and management changes were put in place to further strengthen the Company.

In the Baker Hughes Drilling Equipment group, a new company was formed, Baker Hughes MWD. R. Patrick Herbert is president of this company which has been chartered to direct the research, engineering and manufacturing efforts of the Company's Measurement While Drilling product lines. Baker Hughes Mining Tools, formerly part of the Process Technologies group will now be part of the Baker Hughes Drilling Equipment group. Additionally, Tim J. Probert was named president of Eastman Christensen Company, John F. Lauletta was named president of Milpark Drilling Fluids and J. Will Honeybourne was named president of Exlog, Inc.

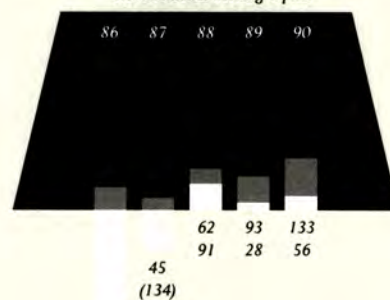
In the Baker Hughes Production Tools group, the ChemLink acquisition will become part of the Baker Performance Chemicals operations. A.G. Avant was named president of Baker Oil Tools and Jay P. Trahan was appointed president of Baker Sand Control.

The Baker Hughes Process Technologies group has been reorganized into three technology groups, Baker Hughes Pump group, Baker Hughes Process Equipment group and Baker Hughes Instrumentation group. Edward de Boer was appointed president of Baker Hughes Pump, Raymond H. Aldrich was appointed president of Baker Hughes Process Equipment and Donald L. Babbit was appointed president of Baker Hughes Instrumentation. Newly appointed presidents for the operating divisions were Donald H. Blohm, BGA International, Dean J. Smith, Eimco Process Equipment and Lewis J. Ribich, Ramsey Technology, Inc. The Instrumentation units acquired from Tracor Holdings have become part of Baker Hughes Instrumentation group.

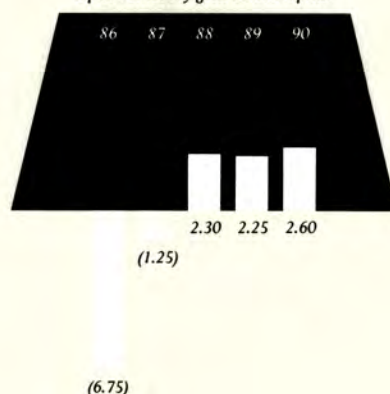
Debt/Equity Ratio
Includes long and short-term debt



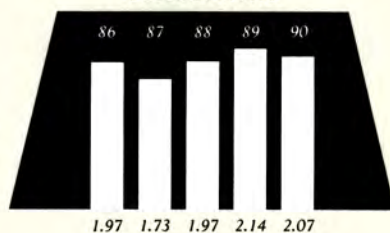
Incremental Asset Investment
(Dollars in millions)
■ Capital expenditures
■ Net additional working capital



Interest Coverage
Pretax income plus gross interest expense divided by gross interest expense



Current Ratio

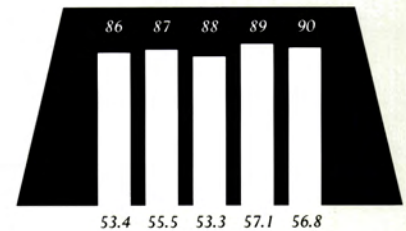


Financial and Organizational Review

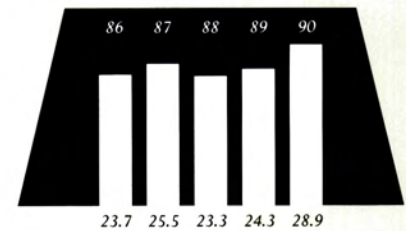
Outlook

Virtually all of the market drivers for our oilfield services operations appear to be headed upward. Even with continued turbulence in the Middle East and the threat of a worldwide economic slowdown, demand for crude oil is expected to continue to increase on a gradual trend in the 1990's. Activity related to the exploration for and production of natural gas, a large and profitable market for the Company, is expected to experience increased demand as well. Our oilfield operations have the structure, product and service offerings and organization to take full advantage of these and other market opportunities. The acquisition of the Instrumentation units and the product line and organizational restructurings of the Process Technologies group have further enhanced the ability of these operations to capitalize on the high growth environmental and high return process instrumentation markets. The favorable prospects of the markets we serve and our broad coverage in many segments positions the Company for a strong growth.

Non U.S. Revenues
As a percent of total



Service and Rental Revenue
As a percent of total



Management Report of Financial Responsibilities

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

In fulfilling its responsibilities for the integrity of financial information, management maintains and relies on the Company's system of internal control. This system includes written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operational reviews by a professional staff of corporate auditors and the independent public accountants. The system is designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements. Management believes that, as of September 30, 1990, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

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

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

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

Thomas W. Cason
Senior Vice President and
Chief Financial Officer

G. S. Finley
Controller

Independent Auditors' Report

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, 1990 and 1989 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1990. 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, 1990 and 1989 and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1990 in conformity with generally accepted accounting principles.

As discussed in Note 1 to consolidated financial statements, the Company changed its method of accounting for income taxes in 1990.

Houston, Texas
November 14, 1990

Consolidated Statements of Operations

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

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Revenues:			
Sales	\$1,859,393	\$1,763,329	\$1,775,346
Services and rentals	754,864	564,666	540,805
Total	<u>2,614,257</u>	<u>2,327,995</u>	<u>2,316,151</u>
Costs and Expenses:			
Cost of sales, services and rentals	1,635,761	1,513,374	1,540,078
Marketing and field service	502,720	431,368	424,102
General and administrative	217,827	208,773	206,991
Amortization of goodwill and other intangibles	14,476	5,663	6,367
Interest — net	62,333	51,229	61,462
Unusual charges (credits) — net	1,125		(47,475)
Pension gains — net			(6,000)
Total	<u>2,434,242</u>	<u>2,210,407</u>	<u>2,185,525</u>
Income before income taxes and extraordinary item	180,015	117,588	130,626
Income taxes	37,838	34,837	71,235
Income before extraordinary item	142,177	82,751	59,391
Extraordinary item:			
Reduction of income taxes arising from carryforward of prior years' U.S. operating losses		2,272	43,856
Net income	<u>\$ 142,177</u>	<u>\$ 85,023</u>	<u>\$ 103,247</u>
Income Per Share of Common Stock:			
Income before extraordinary item	\$ 1.06	\$.64	\$.45
Extraordinary item		.02	\$.37
Net income	<u>\$ 1.06</u>	<u>\$.66</u>	<u>\$.82</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Financial Position

September 30,
(In thousands of dollars)

Current Assets:

	<u>1990</u>	<u>1989</u>
Cash and short-term investments, at cost, which approximates market value	\$ 124,585	\$ 115,686
Receivables—less allowance for doubtful accounts: 1990, \$35,220; 1989, \$41,985	551,258	488,825
Inventories:		
Finished goods	389,303	336,028
Work in process	78,933	62,568
Raw materials	125,502	135,703
Total inventories	593,738	534,299
Prepaid expenses and other current assets	36,416	26,199
Total current assets	1,305,997	1,165,009
Property:		
Land	45,673	55,220
Buildings	309,279	338,718
Machinery and equipment	750,833	1,160,990
Rental tools and equipment	383,257	347,515
Total property	1,489,042	1,902,443
Accumulated depreciation	(836,761)	(1,241,851)
Property—net	652,281	660,592
Other Assets:		
Property held for disposal	73,135	71,604
Investments	84,532	43,911
Long-term notes receivable	27,726	28,939
Other assets	64,879	28,886
Excess costs arising from acquisitions—less accumulated amortization: 1990, \$22,551; 1989, \$13,707	575,394	66,979
Total other assets	825,666	240,319
Total	<u>\$2,783,944</u>	<u>\$2,065,920</u>

See Notes to Consolidated Financial Statements

September 30,
(In thousands of dollars)

Current Liabilities:

	<u>1990</u>	<u>1989</u>
Accounts payable—trade	\$ 266,498	\$ 221,246
Short-term borrowings	26,075	15,806
Current portion of long-term debt	2,673	12,319
Accrued employee compensation and benefits	126,951	116,784
Income taxes payable	30,379	36,383
Accruals relating to unusual charges	29,542	9,488
Taxes other than income	17,949	21,847
Accrued insurance	23,941	34,860
Accrued interest	26,116	20,902
Other accrued liabilities	79,490	55,357

Total current liabilities

629,614 544,992

Long-term debt

611,501 417,045

Deferred income taxes

68,570 69,581

Other long-term liabilities

41,129 18,436

Minority interest

8,845 12,486

Commitments and Contingencies

Stockholders' Equity:

Preferred stock, \$1 par value (authorized 15,000,000 shares; outstanding 1,999,000 shares in 1989, of \$3.50 convertible exchangeable preferred stock, \$1 par value \$50 liquidation preference per share)		1,999
Common stock, \$1 par value (authorized 400,000,000 shares; outstanding 137,457,000 shares in 1990, and 120,435,000 shares in 1989)	137,457	120,435
Capital in excess of par value	1,240,657	918,044
Retained earnings	129,557	52,000
Cumulative foreign currency translation adjustment	(83,386)	(89,098)

Total stockholders' equity

1,424,285 1,003,380

Total

\$2,783,944 \$2,065,920

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

For the three years ended September 30, 1990
(In thousands of dollars)

	\$3.50 Convertible Exchangeable Preferred Stock (\$1 Par Value)	Common Stock (\$1 Par Value)	Capital in Excess of Par Value	Retained Earnings (Deficit)	Cumulative Foreign Currency Translation Adjustment	Total
Balance, September 30, 1987	\$2,000	\$117,490	\$ 883,941	\$ (13,226)	\$(74,685)	\$ 915,520
Net income				103,247		103,247
Cash and accrued dividends on \$3.50 convertible exchangeable preferred stock (\$3.50 per share)				(7,000)		(7,000)
Cash dividends on common stock (\$.46 per share)				(54,260)		(54,260)
Foreign currency translation adjustment					(8,765)	(8,765)
Stock issued pursuant to employee stock plans		777	8,569			9,346
Other		152	3,248			3,400
Balance, September 30, 1988	2,000	118,419	895,758	28,761	(83,450)	961,488
Net income				85,023		85,023
Cash and accrued dividends on \$3.50 convertible exchangeable preferred stock (\$3.50 per share)				(7,000)		(7,000)
Cash dividends on common stock (\$.46 per share)				(54,784)		(54,784)
Foreign currency translation adjustment					(5,648)	(5,648)
Stock issued pursuant to employee stock plans		1,857	20,544			22,401
Other	(1)	159	1,742			1,900
Balance, September 30, 1989	1,999	120,435	918,044	52,000	(89,098)	1,003,380
Net income				142,177		142,177
Cash and accrued dividends on \$3.50 convertible exchangeable preferred stock (\$3.12 per share)				(6,245)		(6,245)
Cash dividends on common stock (\$.46 per share)				(58,375)		(58,375)
Foreign currency translation adjustment					5,712	5,712
Stock issued pursuant to employee stock plans		2,486	30,385			32,871
Redemption of \$3.50 convertible exchangeable preferred stock	(1,999)	3,920	(1,921)			
Issuance of common stock warrants			36,800			36,800
Issuance of common stock		10,350	254,036			264,386
Other		266	3,313			3,579
Balance, September 30, 1990	\$	\$137,457	\$1,240,657	\$129,557	\$(83,386)	\$1,424,285

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended September 30,
(In thousands of dollars)

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Cash flows from operating activities:			
Net income	\$ 142,177	\$ 85,023	\$ 103,247
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization of:			
Property	98,086	92,951	102,615
Debt discount and other assets	27,063	17,393	19,563
Unusual charges	66,846		102,682
Deferred pension items			(3,715)
(Gain) loss on disposal of assets and businesses	(69,463)	(8,559)	3,721
Noncash proceeds from settlements of litigation			(42,100)
Change in receivables	(55,906)	(18,880)	(9,159)
Change in accounts payable-trade	40,510	15,007	(1,614)
Change in inventories	(19,335)	7,486	12,277
Changes in other current assets and liabilities	(71,173)	(29,694)	(66,238)
Changes in other noncurrent assets and liabilities	(20,560)	27	(78,221)
Foreign currency translation loss, net	5,776	17,442	6,876
Net cash flows from operating activities	<u>144,021</u>	<u>178,196</u>	<u>149,934</u>
Cash flows from investing activities:			
Property additions	(132,784)	(92,702)	(62,048)
Proceeds from disposal of assets	35,274	44,200	79,979
Cash proceeds from disposition of businesses	212,797	114,905	
Acquisitions of businesses, net of cash acquired	(674,562)	(95,159)	(2,772)
Net cash flows from investing activities	<u>(559,275)</u>	<u>(28,756)</u>	<u>15,159</u>
Cash flows from financing activities:			
Proceeds from borrowings	325,241	44,888	96,529
Reduction of borrowings	(143,090)	(99,302)	(149,662)
Proceeds from issuance of common stock	264,386		
Proceeds from exercise of stock options and stock purchase grants	32,871	22,401	9,346
Cash dividends	(64,620)	(61,784)	(61,260)
Net cash flows from financing activities	<u>414,788</u>	<u>(93,797)</u>	<u>(105,047)</u>
Effect of exchange rate changes on cash	9,365	(7,780)	(3,584)
Increase in cash and short-term investments	8,899	47,863	56,462
Cash and short-term investments, beginning of year	115,686	67,823	11,361
Cash and short-term investments, end of year	<u>\$ 124,585</u>	<u>\$ 115,686</u>	<u>\$ 67,823</u>

See Notes to Consolidated Financial Statements

Note 1 *Summary of Significant Accounting Policies:*

Principles of consolidation: The consolidated financial statements include the accounts of Baker Hughes Incorporated and all majority-owned subsidiaries and partnerships (the "Company"). In July 1990, BJ Services Company ("BJ Services"), formerly a wholly owned subsidiary of the Company, completed an initial public offering of approximately 71% of its common stock. Prior to the offering, the accounts of BJ Services were included in the Company's financial statements. Subsequent to the offering, the Company owned less than a majority voting interest in BJ Services. Accordingly, BJ Services' accounts are no longer consolidated, and the Company's remaining investment in BJ Services is accounted for by the equity method. Investments in which ownership interests range from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for using the equity method. Other investments are accounted for using the cost method. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

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

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

Income taxes: Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes," which changed the criteria for measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the statement of financial position. Deferred income tax assets and liabilities arise from differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. Deferred tax balances are determined by using the tax rate expected to be in effect when the taxes will actually be paid or refunds received. Under the provisions of SFAS No. 96, the Company elected not to restate prior years' consolidated financial statements and has determined that the cumulative effect of the change in accounting for income taxes was insignificant. In prior years, the Company accounted for income taxes using Accounting Principles Board Opinion No. 11 ("APB No. 11").

Income per share: Income per share amounts are based on the weighted average number of shares outstanding during the respective years (128,319,000 in 1990, 119,091,000 in 1989, and 117,919,000 in 1988) and excludes the negligible dilutive effect of shares issuable in connection with employee stock plans. Net income is adjusted for dividends on preferred stock.

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

Note 2 *Acquisitions and Dispositions:*

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

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

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

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

Year Ended September 30, (In millions of dollars, except per share amounts)

	<u>1990</u>	<u>1989</u>
Revenues	\$2,795.0	\$2,650.9
Net income before extraordinary item	127.0	55.7
Net income	127.0	71.4
Net income per common share	.91	.50

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

In July 1990, BJ Services completed an initial public offering of its common stock, after which the Company's investment in BJ Services decreased to approximately 29%. BJ Services participates in the pumping services segment of the oilfield service market and is primarily involved in the cementing, fracturing and acidizing of oil and gas wells. The Company received \$198,797,000 in cash and recognized a gain of \$65,721,000. The Company has accounted for its investment in BJ Services using the equity method of accounting from the date of the sale.

In August 1990, the Company entered into a definitive agreement to sell the net assets of the TOTCO division to Varco International, Inc. ("Varco") for total consideration of \$40,000,000. The consideration will consist of \$20,000,000 in cash and the remainder in shares of Varco common stock, the number of which will be determined based on the average market value of Varco's common stock on

selected trading days immediately prior to the closing date. TOTCO manufactures, sells and rents a variety of instrumentation and analytical equipment utilized on drilling rigs and certain other oilfield and industrial applications. The sale is contingent upon approval of Varco's shareholders and customary governmental approvals. The closing of the sale of TOTCO is anticipated to be in the first quarter of fiscal 1991 and the anticipated gain on sale will be recognized at that time. The net assets of TOTCO have been classified as other current assets and noncurrent investments at September 30, 1990 in relation to the consideration to be received. At September 30, 1990, the Company owned 3,000,000 shares of Varco's common stock, a warrant to purchase an additional 1,000,000 common shares at \$4.375 per share and a long-term note receivable from Varco of \$4,400,000. Subsequent to the sale of the TOTCO division, the Company will own less than 20% of Varco's common stock and will continue to account for its investment using the cost method.

During 1990, the Company acquired and disposed of several additional businesses, none of which, individually or in the aggregate, had a significant effect on the Company's results of operations for any of the periods presented. Subsequent to the end of the year, the Company announced the acquisition of all of the outstanding shares of the ChemLink Group, Inc. for \$136,100,000. The purchase price was funded with \$32,600,000 from cash on hand and \$103,500,000 from bank borrowings. On October 17, 1990, the Company announced that it is seeking to sell its Baker Hughes Tubular Services, Inc. subsidiary. The Company hopes to complete this sale in the second quarter of fiscal 1991 if an adequate offer is received. For the year ended September 30, 1990, this subsidiary had revenues of \$108,000,000.

The Company closed on the sale of five of the six business units comprising its Mining Equipment group, which manufactures and services underground mining equipment, on July 31, 1989 and received approximately \$115,000,000 in cash. At that time, an agreement was also reached for the sale of the one remaining business unit. During 1990 the Company received \$15,000,000 in cash plus interest when sale of the remaining unit was completed. Revenues of the Mining Equipment group for the ten months ended July 31, 1989 are included in the Company's 1989 consolidated statement of operations and amounted to \$192,000,000. The loss recognized on disposition was not significant.

During 1989, the Company acquired several businesses for approximately \$97,000,000 in cash. Pro-forma results of operations as if the businesses were acquired at the beginning of 1989 have not been presented as they did not have a significant effect on the Company's results of operations.

Note 3 *Unusual Charges (Credits) — net:*

In the fourth quarter of 1990, the Company recognized \$1,125,000 of net unusual charges consisting of the following items (in thousands):

Gain on disposition of BJ Services	\$ 65,721
Litigation and product liability claims	(33,100)
Geographic and product line restructurings	(22,646)
Impairment of assets relating to Iraq and Kuwait	(4,600)
Settlement of warrant obligation	(4,500)
Other	(2,000)
Net unusual charge	<u>\$ (1,125)</u>

As described in Note 2, in July 1990, the Company recognized a gain on the disposition of a portion of its investment in BJ Services upon completion of an initial public offering of BJ Services' common stock.

As discussed in Note 12, the Company recorded a charge with regard to the judgment rendered against BJ Services to accrue the Company's estimate of the ultimate cost for the disposition of this suit through appeal or settlement. In addition, the Company accrued a warranty settlement related to a product line disposed of in 1988.

During the fourth quarter of 1990, the Company determined that the geographic or product line restructuring of several businesses was necessary. Of the \$22,646,000 accrued for these restructurings, the most significant charge relates to the Company's withdrawal from substantially all oilfield operations in Brazil.

Iraq's recent invasion of Kuwait and the resulting government actions by the United States and certain other countries blocking property of and prohibiting transactions with Iraq and Kuwait have created uncertainty as to certain assets relating to these two countries. As a result, the Company wrote these assets down to their estimated net realizable value.

In July 1990, the Company reached an understanding with Asea Brown Boveri to exchange 150,000 shares of the Company's common stock and its 10% investment in Vetco Gray, Inc. ("V-G") for release from a warrant issued by the Company pursuant to which shares of common stock of V-G are exchangeable for up to 1,146,823 shares of the Company's common stock. The date on which the exchange for the 150,000 shares occurs is the earlier of October 1, 1991 or the date on which at least one share of V-G's preferred stock has been redeemed and is contingent upon obtaining consents from V-G related parties which cannot be unreasonably withheld.

In 1988, the Company recognized \$47,475,000 of net unusual credits consisting of the following items (in thousands):

Patent infringement settlement credits	\$150,157
Impairment of long-lived assets	(36,300)
Operational restructurings	(36,800)
Disposal of product lines	(20,800)
Other	(8,782)
Net unusual credits	<u>\$ 47,475</u>

During 1988, the Company settled two patent infringement lawsuits against Smith International, Inc. ("Smith") and Dresser Industries, Inc. ("Dresser"). In December 1987, the Company received \$89,750,000 in cash and a \$10,000,000 note (bearing interest at the prime rate of the Chase Manhattan Bank plus 1.5% per annum) from Smith. Of the proceeds, \$95,000,000 has been recorded as an unusual credit and \$4,750,000 has been recorded as interest income in accordance with the terms of the settlement agreement. In July 1988, the Company received from Dresser \$23,000,000 in cash and Dresser's 27.7% interest in B-J Titan Services Company Partnership of which the Company already owned the remaining 72.3%. Accordingly, an unusual credit of \$55,157,000 was recorded in the fourth quarter of 1988. As a result, excess costs arising from acquisitions increased \$15,794,000.

During 1988, the Company determined that certain of its assets had been permanently impaired due to changes in market conditions and operating strategies and that disposal of certain product lines and the continued consolidation of geographic operations was necessary. Accordingly, the Company recognized charges to operations totalling \$102,682,000. Of these charges, \$30,300,000 related to the impairment of assets of part of the Company's pumping services operations in Latin America, and \$26,200,000 related to the writedown of mining equipment inventory and a provision for consolida-

tion of certain businesses, which resulted from the strategic restructuring of the Company's mining equipment operations and was recorded in the fourth quarter of 1988.

Note 4 *Change in Accounting Estimate:*

During 1989, the Company revised the estimated remaining useful lives of certain rental tools and equipment to more closely reflect expected remaining lives. The effect of this change in accounting estimate resulted in an increase in the Company's income before extraordinary item of \$2,220,000 or \$.02 per common share, and net income of \$2,822,000, or \$.02 per common share, for 1989.

Note 5 *Indebtedness:*

Long-term debt at September 30, 1990 and 1989 consisted of the following:

<u>(In thousands)</u>	<u>1990</u>	<u>1989</u>
Zero Coupon Guaranteed Notes due 1992 with an effective interest rate of 14.48%, net of unamortized discount of \$13,988 (\$22,320 in 1989)	\$ 63,847	\$ 55,515
6% Debentures due 2002 with an effective interest rate of 14.66%, net of unamortized discount of \$107,307 (\$110,833 in 1989)	117,693	114,167
4.125% Swiss Franc 200 million Bonds due 1996 (principal and interest payments hedged through a currency swap at an effective interest rate of 7.82%)	104,525	103,851
Revolving Credit Facilities due through 1995 with an average interest rate of 10.37% at September 30, 1990	182,778	
9% Debentures due November 1, 2008	18,033	18,029
9.5% Convertible Subordinated Debentures due December 15, 2006 convertible into common stock at \$58.91 per share	98,289	98,239
Convertible Subordinated Debentures due through 1996 with an interest rate at September 30, 1990 of 9.2%	12,550	12,223
Other indebtedness with an average interest rate of 7.56% at September 30, 1990	16,459	27,340
Total	614,174	429,364
Less current maturities	2,673	12,319
Total long-term debt	<u>\$611,501</u>	<u>\$417,045</u>

At September 30, 1990 the Company had \$582,400,000 of revolving credit facilities with commercial banks of which \$562,400,000 is committed. Included in this total are revolving credit agreements signed in July 1989 aggregating \$300,000,000 with twenty foreign and domestic banks which have maturity dates of July 17, 1994. The rate of interest on borrowings under these arrangements is $\frac{3}{8}\%$ in excess of the London Interbank Offered Rate (LIBOR) for U.S. dollar deposits with a commitment fee of $\frac{1}{8}\%$ per annum on the unused portion. At September 30, 1990, there was \$16,830,000 outstanding under these agreements.

During 1990, the Company entered into revolving credit agreements aggregating \$282,400,000 with ten foreign banks. These agreements provide foreign subsidiaries of the Company with local currency

and U.S. dollar borrowings at short-term rates of interest. At September 30, 1990, there was \$165,948,000 outstanding under certain of these agreements whose maturity dates range from March 1993 to March 1995. Commitment fees related to these facilities are not significant.

Additional bank lines of credit at September 30, 1990 include \$57,000,000 of short-term money market lines available on an as-offered basis. There are no requirements for commitment fees or compensating balances in connection with these agreements. At September 30, 1990, there were no borrowings outstanding under these agreements. The Company maintains, at all times, unused committed bank lines of credit at least equal to the principal amount of its outstanding commercial paper and money market borrowings.

Redemption of the Zero Coupon Notes due 1992 and the 6% Debentures due 2002 may be made at the option of the Company, in whole or in part, at any time at par plus accrued interest. Furthermore, the Zero Coupon Notes due 1992 may be redeemed prior to maturity at prices (expressed as a percentage of principal amount) of 75.60% at September 30, 1990 and scaling upward over time to 86.95% (in each case together with accrued amortization of original issue discount) in the event of certain changes affecting United States or Netherlands Antilles taxation.

The 9% Debentures due November 1, 2008 have a \$2,400,000 per annum sinking fund requirement which has been satisfied through 2005. These debentures may be redeemed by paying a premium which decreases proportionally from 4.16% until it is eliminated in 2003. The 9.5% Debentures due December 15, 2006 have a \$5,000,000 per annum sinking fund requirement beginning December 15, 1992 and may be redeemed by paying a premium which decreases proportionally from 1.73% at December 15, 1990 until it is eliminated in 1992. Optional payments, not to exceed the amounts of the mandatory sinking funds requirements, may be made in addition to the mandatory payments.

The provisions of the bonds and unsecured credit agreements have an effect on the ability of the Company to, among other things, incur borrowings, sell certain assets, pay cash dividends, acquire other businesses and purchase the Company's capital stock. At September 30, 1990, the Company could pay dividends and purchase the Company's common stock up to an amount not exceeding \$439,006,000.

At September 30, 1990, long-term debt was due in aggregate annual installments of \$2,673,000; \$65,964,000; \$25,414,000; \$46,087,000; and \$134,904,000 in each of the five years in the period ending September 30, 1995.

During the three years ended September 30, 1990, the maximum aggregate short-term borrowings outstanding at any month-end were \$29,840,000, \$55,469,000 and \$62,396,000, respectively; the average aggregate short-term borrowings outstanding based on quarter-end balances were \$20,157,000, \$39,974,000 and \$47,110,000, respectively; and the weighted average interest rates were 16.6%, 18.8% and 16.6%, respectively. The average interest rates on short-term borrowings outstanding at September 30, 1990, 1989 and 1988 were 13.12%, 20.9% and 15.5%, respectively.

Note 6 \$3.50 Convertible Exchangeable Preferred Stock:

In June 1987, the Company issued 2,000,000 shares of \$3.50 convertible exchangeable preferred stock (\$1 par value per share and \$50 liquidation preference per share). The preferred stock was con-

vertible at the option of the holder at any time into the Company's common stock at a conversion price of \$25.50 per share (equivalent to a conversion rate of 1.96 shares of common stock for each share of preferred stock), subject to adjustment in certain events. On August 31, 1990, the Company exercised its option and redeemed all of the convertible exchangeable preferred stock in exchange for 3,920,000 shares of the Company's common stock.

Note 7 Employee Stock Plans:

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

The stock option activity for the Company during 1990, 1989 and 1988 was as follows:

<u>Number of Shares (In thousands)</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Stock options outstanding, beginning of year	3,602	4,469	5,685
Changes during the year:			
Granted (per share):			
1990, \$21.95 to \$25.88	696		
1989, \$12.88 to \$15.00		1,092	
1988, \$11.75 to \$15.375			876
Exercised (per share):			
1990, \$10.25 to \$25.78	(2,004)		
1989, \$10.25 to \$21.88		(1,283)	
1988, \$10.25 to \$20.375			(423)
Expired	(110)	(676)	(1,669)
Stock options outstanding, end of year (per share: \$10.25 to \$54.03 at September 30, 1990)	<u>2,184</u>	<u>3,602</u>	<u>4,469</u>

At September 30, 1990, options were exercisable for 1,499,000 shares, and 4,046,000 shares were available for future option grants.

Additionally, the Company has a plan which provides for the sale of convertible debentures to certain officers and key employees. An aggregate of \$30,000,000 principal amount of debentures may be issued under the plan which are convertible into shares of common stock after one year. At September 30, 1990, a total of \$12,550,000 principal amount of debentures are outstanding and convertible into 929,000 shares of common stock at \$10.25 to \$21.95 per share.

The Company also has an Employee Stock Purchase Plan (the "Plan") under which there remain authorized and available for sale to employees an aggregate of 2,186,000 shares of the Company's common stock. The maximum number of shares subject to each option under the Plan is determined on the date of grant and equals the sum of the payroll deductions authorized by each participating employee (up to 10% of regular pay) divided by 85% of the fair market value of a share of common stock at the date of grant. Based on the market price of common stock on the date of grant, the Company estimates that approximately 421,000 shares will be purchased under the Plan on July 31, 1991, at \$26.78 per share. Under the plan, 479,000, 573,000 and 354,000 shares were issued at \$17.00, \$13.18 and \$13.18 per share during 1990, 1989 and 1988, respectively.

Note 8 Income Taxes:

The geographical sources of income before income taxes and extraordinary item for the three years ended September 30, 1990 were as follows:

<u>(In thousands of dollars)</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
United States	\$ 79,696	\$ (7,133)	\$107,324
Foreign	<u>100,319</u>	<u>124,721</u>	<u>23,302</u>
Total income before income taxes and extraordinary item	<u>\$180,015</u>	<u>\$117,588</u>	<u>\$130,626</u>

The provisions (credits) for income taxes for the three years ended September 30, 1990 are summarized as follows:

<u>(In thousands of dollars)</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Currently payable:			
United States	\$ 721	\$ 245	\$ 3,412
Foreign	<u>41,018</u>	<u>32,268</u>	<u>23,713</u>
Total currently payable	<u>41,739</u>	<u>32,513</u>	<u>27,125</u>
Deferred:			
United States			(2,695)
Foreign	<u>(3,901)</u>	<u>52</u>	<u>2,949</u>
Total deferred	<u>(3,901)</u>	<u>52</u>	<u>254</u>
Utilization of prior years' U.S. operating losses		<u>2,272</u>	<u>43,856</u>
Total provision for income taxes	<u>\$37,838</u>	<u>\$34,837</u>	<u>\$71,235</u>

In accordance with SFAS No. 96, the Company reported the tax benefit of operating loss carryforwards in the provision for income taxes for 1990. In 1989 and 1988, the tax benefit of net operating loss carryforwards is reflected as an extraordinary item in accordance with APB No. 11.

The consolidated effective income tax rates for the three years ended September 30, 1990 varied from the United States statutory income tax rate for the reasons set forth below:

<u>% of Income Before Taxes</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Statutory income tax rate	34.0	34.0	34.0
Goodwill amortization	1.5	.4	.3
Utilization of operating loss carryforward	(11.1)		
Utilization of capital loss carryforward	(4.7)		
Gain on BJ Services	(6.6)		
State taxes based on income—net of United States income tax benefit	.3	.1	.4
Foreign earnings at varying tax rates	6.4	(5.6)	19.0
Other—net	<u>1.2</u>	<u>.7</u>	<u>.8</u>
Effective income tax rate	<u>21.0</u>	<u>29.6</u>	<u>54.5</u>

The sources and amounts of deferred taxes for the three years ended September 30, 1990 were as follows:

<u>(In thousands of dollars)</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Depreciation expense	\$(2,608)	\$(2,047)	\$(3,910)
Inventory valuations—net	(3,216)	(3,036)	491
Unusual charges	(359)	3,248	142
Foreign exchange effect on historical assets	(3,079)		
Zero coupon bond amortization	508	1,886	1,090
Other—net	4,853	1	2,441
Total deferred tax provision	<u>\$(3,901)</u>	<u>\$ 52</u>	<u>\$ 254</u>

Deferred income tax assets and liabilities relate primarily to basis differences in property, inventory, accruals for unusual charges, foreign exchange effect on historical assets and zero coupon bonds.

In 1990, the Company utilized approximately \$58,872,000 of U.S. operating loss carryforwards for financial reporting purposes and the related tax benefit of \$20,016,000 has been reflected in the provision for income taxes. At September 30, 1990, the Company had approximately \$253,723,000 of U.S. operating loss carryforwards remaining for financial reporting purposes, which expire in varying amounts between 2001 and 2009. In addition, the Company had approximately \$46,403,000 of net operating loss carryforwards arising primarily from the exercise of employee stock options, the tax benefit of which will be included in capital in excess of par value when realized. These carryforwards expire between 2003 and 2005.

For federal income tax purposes, the net operating loss carryforwards are approximately \$164,946,000, expiring in varying amounts between 1998 and 2004. In addition, the Company had capital loss carryforwards of approximately \$23,765,000, which expire in varying amounts between 1992 and 1994.

At September 30, 1990, the Company had approximately \$14,060,000 of investment tax credits available to offset future payments of federal income taxes. The investment tax credits expire in varying amounts between 1994 and 2001. The investment tax credit carryforwards have not been recognized for financial reporting purposes. The Company had approximately \$37,881,000 of foreign tax credits available to offset future payments of federal income taxes at September 30, 1990. If not used, the foreign tax credits expire in varying amounts between 1991 and 1995. The foreign tax credit carryforwards have not been recognized for financial reporting purposes.

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings of approximately \$359,173,000 at September 30, 1990, if remitted, would not result in any additional U.S. income taxes because of available foreign tax credits.

Note 9 Industry Segment and Geographic Information:

The Company currently operates principally in three industry segments, two of which provide equipment and services to the petroleum industry. In 1990, the Company changed its method of grouping products and services into industry segments in order to group operations of significant dispositions into one segment. Previously reported 1989 and 1988 operations by industry segment have been restated to conform to the revised industry segment grouping.

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

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

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

Disposed Businesses: As discussed in Note 2, in July 1990 the Company sold 71% of its investment in its pumping services operations and accordingly, the 1990 segment information includes ten months of pumping services operations. The segment information for 1990 for disposed businesses includes the gain on sale of the Company's majority ownership of this operation and the charge to operations for the lawsuit against BJ Services (See Note 12). In July 1989, the Company sold its mining operations and accordingly, the 1989 segment information includes ten months of mining operations. The loss recognized on disposition of the Mining Equipment group was not significant. In addition, the Company disposed of several other businesses which are included herein.

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

Notes To Consolidated Financial Statements (continued)

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1990, 1989, and 1988 and for each of the years then ended is shown in the following tables:

<u>(In thousands of dollars)</u>	<u>Drilling</u>	<u>Production</u>	<u>Total Petroleum</u>	<u>Process</u>	<u>Disposed Businesses</u>	<u>Eliminations</u>	<u>Total</u>
Operations by Industry Segment:							
1990							
Revenues from unaffiliated customers:							
Sales	\$ 536,257	\$583,788	\$1,120,045	\$548,131	\$191,217		\$1,859,393
Services and rentals	433,001	163,019	596,020	27,325	131,519		754,864
Intersegment sales	3,398	9,689	13,087	4,065	311	\$(17,463)	
Total revenues	<u>\$ 972,656</u>	<u>\$756,496</u>	<u>\$1,729,152</u>	<u>\$579,521</u>	<u>\$323,047</u>	<u>\$(17,463)</u>	<u>\$2,614,257</u>
Operating income	<u>\$ 56,895</u>	<u>\$ 97,665</u>	<u>\$ 154,560</u>	<u>\$ 59,727</u>	<u>\$ 74,639</u>		<u>\$ 288,926</u>
Identifiable assets	<u>\$1,436,035</u>	<u>\$587,821</u>	<u>\$2,023,856</u>	<u>\$421,956</u>	<u>\$ 22,227</u>	<u>\$ (4,712)</u>	<u>\$2,463,327</u>
Capital expenditures	<u>\$ 64,823</u>	<u>\$ 32,290</u>	<u>\$ 97,113</u>	<u>\$ 16,619</u>	<u>\$ 15,852</u>	<u>\$ 3,200</u>	<u>\$ 132,784</u>
Depreciation and amortization	<u>\$ 64,621</u>	<u>\$ 28,485</u>	<u>\$ 93,106</u>	<u>\$ 15,353</u>	<u>\$ 3,332</u>	<u>\$ 503</u>	<u>\$ 112,294</u>
1989							
Revenues from unaffiliated customers:							
Sales	\$ 450,697	\$519,281	\$ 969,978	\$413,072	\$380,279		\$1,763,329
Services and rentals	236,331	143,382	379,713	19,545	165,408		564,666
Intersegment sales	3,804	10,732	14,536	3,106	542	\$(18,184)	
Total revenues	<u>\$ 690,832</u>	<u>\$673,395</u>	<u>\$1,364,227</u>	<u>\$435,723</u>	<u>\$546,229</u>	<u>\$(18,184)</u>	<u>\$2,327,995</u>
Operating income	<u>\$ 43,884</u>	<u>\$ 83,320</u>	<u>\$ 127,204</u>	<u>\$ 44,469</u>	<u>\$ 35,055</u>		<u>\$ 206,728</u>
Identifiable assets	<u>\$ 703,597</u>	<u>\$545,804</u>	<u>\$1,249,401</u>	<u>\$271,357</u>	<u>\$292,976</u>	<u>\$ (6,962)</u>	<u>\$1,806,772</u>
Capital expenditures	<u>\$ 38,596</u>	<u>\$ 24,117</u>	<u>\$ 62,713</u>	<u>\$ 11,873</u>	<u>\$ 16,589</u>	<u>\$ 1,527</u>	<u>\$ 92,702</u>
Depreciation and amortization	<u>\$ 42,137</u>	<u>\$ 29,128</u>	<u>\$ 71,265</u>	<u>\$ 9,394</u>	<u>\$ 16,133</u>	<u>\$ 1,822</u>	<u>\$ 98,614</u>
1988							
Revenues from unaffiliated customers:							
Sales	\$ 517,533	\$479,192	\$ 996,725	\$351,574	\$427,047		\$1,775,346
Services and rentals	219,061	153,892	372,953	8,039	159,813		540,805
Intersegment sales	9,592	8,107	17,699	3,894	2,480	\$(24,073)	
Total revenues	<u>\$ 746,186</u>	<u>\$641,191</u>	<u>\$1,387,377</u>	<u>\$363,507</u>	<u>\$589,340</u>	<u>\$(24,073)</u>	<u>\$2,316,151</u>
Operating income (loss)	<u>\$ 179,913</u>	<u>\$ 54,550</u>	<u>\$ 234,463</u>	<u>\$ 30,775</u>	<u>\$ (35,800)</u>		<u>\$ 229,438</u>
Identifiable assets	<u>\$ 704,531</u>	<u>\$575,692</u>	<u>\$1,280,223</u>	<u>\$190,516</u>	<u>\$442,210</u>	<u>\$ (588)</u>	<u>\$1,912,361</u>
Capital expenditures	<u>\$ 24,380</u>	<u>\$ 14,212</u>	<u>\$ 38,592</u>	<u>\$ 8,559</u>	<u>\$ 14,807</u>	<u>\$ 90</u>	<u>\$ 62,048</u>
Depreciation and amortization	<u>\$ 49,643</u>	<u>\$ 34,041</u>	<u>\$ 83,684</u>	<u>\$ 8,040</u>	<u>\$ 22,261</u>	<u>\$ 254</u>	<u>\$ 114,239</u>

	<u>Western Hemisphere</u>		<u>Eastern Hemisphere</u>			<u>Total</u>
	<u>United States</u>	<u>Other</u>	<u>Europe</u>	<u>Other</u>	<u>Eliminations</u>	
<i>(In thousands of dollars)</i>						
Operations by Geographic Area:						
1990						
Revenues from unaffiliated customers:						
Sales	\$ 980,374	\$269,819	\$313,866	\$295,334		\$1,859,393
Services and rentals	368,080	76,284	190,755	119,745		754,864
Transfer between geographic areas	122,301	14,931	23,495	4,980	\$(165,707)	
Total revenues	<u>\$1,470,755</u>	<u>\$361,034</u>	<u>\$528,116</u>	<u>\$420,059</u>	<u>\$(165,707)</u>	<u>\$2,614,257</u>
Operating income	<u>\$ 66,261</u>	<u>\$ 57,901</u>	<u>\$ 83,707</u>	<u>\$ 81,057</u>		<u>\$ 288,926</u>
Identifiable assets	<u>\$1,564,022</u>	<u>\$271,462</u>	<u>\$520,702</u>	<u>\$253,540</u>	<u>\$(146,399)</u>	<u>\$2,463,327</u>
Export sales of U.S. companies		<u>\$ 68,881</u>	<u>\$ 19,990</u>	<u>\$130,631</u>		<u>\$ 219,502</u>
1989						
Revenues from unaffiliated customers:						
Sales	\$ 899,694	\$296,855	\$291,182	\$275,598		\$1,763,329
Services and rentals	274,069	75,027	124,701	90,869		564,666
Transfer between geographic areas	98,252	3,767	3,237	7,069	\$(112,325)	
Total revenues	<u>\$1,272,015</u>	<u>\$375,649</u>	<u>\$419,120</u>	<u>\$373,536</u>	<u>\$(112,325)</u>	<u>\$2,327,995</u>
Operating income	<u>\$ 40,357</u>	<u>\$ 37,443</u>	<u>\$ 65,735</u>	<u>\$ 63,193</u>		<u>\$ 206,728</u>
Identifiable assets	<u>\$1,241,781</u>	<u>\$244,297</u>	<u>\$284,376</u>	<u>\$173,258</u>	<u>\$(136,940)</u>	<u>\$1,806,772</u>
Export sales of U.S. companies		<u>\$ 64,227</u>	<u>\$ 15,924</u>	<u>\$ 95,617</u>		<u>\$ 175,768</u>
1988						
Revenues from unaffiliated customers:						
Sales	\$ 954,939	\$313,169	\$271,279	\$235,959		\$1,775,346
Services and rentals	306,875	80,806	81,876	71,248		540,805
Transfer between geographic areas	91,903	18,984	15,268	12,710	\$(138,865)	
Total revenues	<u>\$1,353,717</u>	<u>\$412,959</u>	<u>\$368,423</u>	<u>\$319,917</u>	<u>\$(138,865)</u>	<u>\$2,316,151</u>
Operating income (loss)	<u>\$ 193,390</u>	<u>\$ (5,606)</u>	<u>\$ 27,894</u>	<u>\$ 13,760</u>		<u>\$ 229,438</u>
Identifiable assets	<u>\$1,092,423</u>	<u>\$392,217</u>	<u>\$306,261</u>	<u>\$221,788</u>	<u>\$(100,328)</u>	<u>\$1,912,361</u>
Export sales of U.S. companies		<u>\$ 45,495</u>	<u>\$ 34,795</u>	<u>\$ 99,131</u>		<u>\$ 179,421</u>

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 income (loss) is total revenues less costs and expenses (including unusual charges (credits)—net) but before deduction of general corporate expenses and net interest totalling \$108,911,000, \$89,140,000 and \$98,812,000 in 1990, 1989 and 1988, 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 \$320,617,000, \$259,148,000 and \$205,165,000 at September 30, 1990, 1989 and 1988, respectively.

Note 10 *Employee Benefit Plans:*

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Pension expense for these plans was \$1,231,000, \$1,150,000 and \$3,000,000 for 1990, 1989 and 1988, respectively. Generally, the Company makes annual contributions to the plans in an amount necessary to meet minimum governmental funding requirements. Effective October 1, 1989, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" for its foreign defined benefit plans. The effect of this change on pension expense was not significant. During 1988 the Company settled and curtailed certain defined benefit pension plans resulting in a gain of \$6,000,000.

The net pension expense for 1990, 1989 and 1988 included the following components (in thousands):

	1990	1989	1988
Service cost—benefits earned during the period	\$2,978	\$ 544	\$1,435
Interest cost on projected benefit obligation	4,980	1,682	3,588
Actual return on assets	(4,859)	(1,176)	455
Net amortization and deferral	(1,868)	100	(2,478)
Net pension expense	<u>\$1,231</u>	<u>\$1,150</u>	<u>\$3,000</u>

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

	1990	1989	1988
Discount rate	9.0%	9.5%	9.5%
Rates of increase in compensation levels	6.0%	5.0%	5.0%
Expected long-term rate of return on assets	9.0%	9.0%	9.0%

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1990 and 1989 (in thousands):

<u>September 30,</u>	<u>1990</u>		<u>1989</u>	
	<i>Over- funded Plans</i>	<i>Under- funded Plans</i>	<i>Over- funded Plans</i>	<i>Under- funded Plans</i>
<u>Actuarial present value of benefit obligations:</u>				
Vested benefit obligation	\$32,659	\$16,964	\$4,554	\$ 7,583
Accumulated benefit obligation	\$32,688	\$18,063	\$4,594	\$ 7,648
Projected benefit obligation	\$40,570	\$27,209	\$4,857	\$11,986
Plan assets at fair value	67,868	7,485	7,085	4,990
Projected benefit obligation (in excess of) less than plan assets	27,298	(19,724)	2,228	(6,996)
Unrecognized prior service cost		161	109	135
Unrecognized net (gain) loss	314	1,860	(2,104)	827
Unrecognized net (asset) liability at transition	(20,099)	2,545	(229)	1
Prepaid pension cost (pension liability)	\$ 7,513	\$(15,158)	\$ 4	\$(6,033)

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

Additionally, virtually all employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 10% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of \$.50 per \$1.00 up to 6% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year. Company contributions become fully vested to the employee after five years of employment. Supplemental employee contributions are allowed. The Company's contributions to defined contribution plans including the Thrift Plan amounted to \$17,902,000, \$16,080,000 and \$14,746,000 in 1990, 1989 and 1988, respectively.

The Company also provides certain health care (primarily in the U.S.) and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Company. Costs related to benefits provided for retired employees are expensed as incurred, and for 1990, 1989 and 1988 totalled \$9,458,000, \$6,675,000 and \$4,585,000, respectively.

The issuance of a final statement on "Employers' Accounting for Postretirement Benefits Other Than Pensions" by the Financial Accounting Standards Board is expected in December 1990. The statement

will require accrual basis accounting for such benefits as opposed to the Company's current method of cash basis accounting. In anticipation of such issuance, the Company has had a preliminary actuarial valuation performed to estimate its liability under the statement. Although the Company has not had ample time to study the valuation in detail, the valuation indicates an accumulated post-retirement benefit obligation at September 30, 1990 of approximately \$180,000,000. The Company has begun the process of reviewing alternatives with respect to retiree health care benefits in an effort to reduce this liability prior to the required implementation of the new statement which the Company believes to be in fiscal 1994.

Note 11 *Stockholder Rights Agreement and Other Matters:*

In 1988, the Company adopted a Stockholder Rights Agreement to protect against coercive takeover tactics. Pursuant to the agreement, the Company distributed to its stockholders one Right for each outstanding share of common stock. Each Right entitles the holder to purchase from the Company .01 of a share of the Series One Junior Participating Preferred Stock and, under certain circumstances, securities of the Company or an acquiring entity at 1/2 market value. The Rights are exercisable only if a person or group either acquires 20% or more of the Company's outstanding common stock or makes a tender offer for 30% or more of the Company's common stock. The Rights may be redeemed by the Company at a price of \$.03 per Right at any time prior to a person or group acquiring 20% or more of the Company's common stock. The Rights will expire on March 23, 1998.

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

	<u>1990</u>	<u>1989</u>	<u>1988</u>
Maintenance and repairs	\$91,462	\$60,410	\$66,655
Operating leases (generally transportation equipment and warehouse facilities)	38,885	39,077	41,965
Research and development	38,492	30,140	26,065
Taxes other than payroll and income tax	28,454	26,549	29,782
Income taxes paid	43,091	36,522	14,180
Interest paid	54,605	54,961	65,875
Net foreign exchange translation losses	5,776	17,442	6,876

Note 12 *Litigation:*

On October 26, 1990, a U.S. District Court jury in Midland, Texas awarded a judgment of \$124,000,000 against the Company's former subsidiary, BJ Services, in a lawsuit alleging overcharges in services performed by BJ Services and a predecessor, Titan Services, Inc. The plaintiffs in the lawsuit were limited partnerships controlled by Parker & Parsley Petroleum Company of Midland, Texas. At the time of the alleged overcharging by BJ Services, BJ Services was a partnership which was 72% owned by the Company. The remaining interest in the partnership at that time was held by Dresser Industries, Inc. Subsequently, this remaining interest was acquired by the Company. The Company agreed, in connection with the initial public offering by BJ Services, to indemnify BJ Services for damages and costs arising out of this litigation to the extent such damages and costs exceed the reserves which BJ Services had established in its financial statements. The Company has also agreed to indemnify BJ Services against claims of this type arising out of periods prior to July 1990. No such other claims have been asserted.

The Company believes that the jury award is grossly in excess of any actual damages, if any, and intends to vigorously appeal the verdict. The Company is conducting this litigation on behalf of itself

and BJ Services. The Company also believes that any ultimate liability may be covered by insurance and has claimed coverage from its insurance carriers, and the Company also has claims against other parties which it may pursue. Management, after review and consultation with counsel, believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position.

Note 13 Commitments and Contingencies:

In June 1988, the Company sold, with no significant effect on the consolidated financial statements, 87.5% of its 80.1% common stock interest in V-G to Bain Venture Capital. At September 30, 1990, the Company remains contingently liable for certain bank notes issued by V-G amounting to \$12,759,000. These bank notes may be reduced by payments by V-G or through the sale of certain assets of V-G and its subsidiaries pledged to the banks. In addition, the Company is contingently liable for \$5,838,000 of performance bond letters of credit made by the Company on behalf of V-G. The Company does not expect the ultimate resolution of these contingencies to have a significant effect on the Company's consolidated financial position or results of operations.

At September 30, 1990, 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, 1995 were \$30,209,000, \$22,058,000, \$16,371,000, \$13,587,000 and \$12,237,000, respectively, and \$89,200,000 in the aggregate thereafter. The Company has not entered into any significant capital leases.

Note 14 Quarterly Data (Unaudited):

Summarized quarterly financial data for the years ended September 30, 1990 and 1989 are shown in the table below:

<i>(In thousands of dollars, except per share amounts)</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Fiscal Year Total</i>
Fiscal Year 1990:*					
Revenues	\$578,908	\$600,879	\$711,634	\$722,836	\$2,614,257
Gross Profit**	96,846	102,210	131,824	144,896	475,776
Income before income tax	34,811	38,511	45,990	60,703	180,015
Net income	25,412	30,303	37,970	48,492	142,177
Net income per share	.20	.23	.28	.35	1.06
Dividends per share	.115	.115	.115	.115	.46
Fiscal Year 1989:*					
Revenues	\$566,291	\$568,554	\$588,953	\$604,197	\$2,327,995
Gross Profit**	88,895	86,785	94,020	113,553	383,253
Income before income tax and extraordinary item	23,431	23,719	25,646	44,792	117,588
Income before extraordinary item	15,560	15,770	15,746	35,675	82,751
Extraordinary item	1,803	(1,048)	967	550	2,272
Net income	17,363	14,722	16,713	36,225	85,023
Earnings per share amounts:					
Income before extraordinary item	.12	.12	.12	.28	.64
Extraordinary item	.01	(.01)	.01	.01	.02
Net income	.13	.11	.13	.29	.66
Dividends per share	.115	.115	.115	.115	.46

*See Notes 1, 3 and 8 for information regarding change in method of accounting for income taxes, unusual charges (credits)-net and extraordinary item.
**Represents revenues less (i) cost of sales, services and rentals and (ii) marketing and field service expense.

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

Fiscal 1990 Compared to Fiscal 1989

Acquisitions and Dispositions. On April 11, 1990, the Company acquired Eastman Christensen Company ("ECC") from Norton Company. The Company paid Norton Company \$561.5 million in cash and issued warrants entitling Norton Company to purchase up to eight million shares of the Company's common stock at a purchase price of \$36.75 per share. The warrants will expire on March 31, 1995. The Company financed the acquisition from several sources as follows:

(In millions)

Cash on hand	\$ 65.6
Net proceeds from sale of common stock	264.4
Bank borrowings	231.5
	<u>\$561.5</u>

In February 1990, the Company completed a public offering of 10,350,000 shares of its common stock at a price of \$26.375 per share. The entire proceeds, net of offering costs, were applied to the acquisition price. Bank borrowings of \$231.5 million were financed from revolving credit agreements. The total cost, including acquisition costs and valuation of the common stock warrants, was \$602.3 million.

ECC is the worldwide leader in horizontal and directional drilling systems and is also a leading manufacturer of diamond drill bits. The addition of ECC to the Company's oilfield service operations enhances its ability to assist in optimizing the drilling process and reducing the costs of finding and developing oil and gas. The Company believes it is well positioned to capitalize on the high growth markets of directional and horizontal drilling as well as integrated performance drilling services.

As a result of the ECC acquisition, the Department of Justice required the Company to divest its existing diamond bit business. This sale, which generated proceeds of \$14 million in cash, was consummated in June 1990. The sale did not have a significant impact on the Company's consolidated financial position or results of operations.

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

On June 1, 1990, BJ Services Company ("BJ Services"), formerly a wholly owned subsidiary of the Company, filed a Registration Statement with the Securities and Exchange Commission to register its common stock for sale to the public. The offering was consummated on July 27, 1990. The net proceeds of the offering (\$173,797,000), together with \$25,000,000 of borrowed funds, were distributed to the Company. As a result of the disposition, the Company recognized a gain of \$65.7 million in the quarter ended September 30, 1990. Subsequent to the initial public offering, the Company owns approximately 29% of BJ Services. BJ Services is in the pressure pumping business with revenues of approximately \$286,212,000 for the ten months ended July 31, 1990.

On August 3, 1990, the Company entered into a definitive agreement to sell the assets of the TOTCO division of Exlog, Inc., a subsidiary of the Company, to Varco International, Inc. ("Varco"). Under the terms of the agreement, Varco will issue to the Company shares of Varco common stock having a market value of \$20,000,000 and will pay the Company \$20,000,000 in cash. The TOTCO division manufactures, sells and rents a variety of instrumentation and analytical equipment utilized on drilling rigs and certain other oilfield and industrial applications. The sale is expected to be consummated

in the first quarter of fiscal 1991 and is contingent upon the approval of certain U.S. government regulatory agencies and Varco shareholders. The Company expects to recognize a gain when the sale is consummated. For the year ended September 30, 1990, the TOTCO division had revenues of approximately \$28.4 million.

On October 17, 1990, the Company announced that it is seeking to sell its Baker Hughes Tubular Services Inc. subsidiary. The Company is hoping to complete this sale during the second quarter of fiscal 1991 if an adequate offer is received. For the year ended September 30, 1990, this subsidiary had revenues of approximately \$108 million.

On October 18, 1990, the Company acquired ChemLink, Inc. ("ChemLink"), a privately held oilfield and industrial chemicals company for \$136.1 million.

Revenues. Revenues in 1990 totalled \$2.61 billion, representing a 12.3% increase from the \$2.33 billion reported last year. Benefits derived from acquisitions and increased market activity caused the increase in revenues. The improvement in revenues was generated by all of the Company's oilfield service operations as well as the Process Technologies group (formerly named the Process Equipment group). Acquisitions added \$242 million of revenues during 1990 while the dispositions of the Mining Equipment group in the fourth quarter of 1989 and the Pumping Services group in the fourth quarter of 1990 resulted in a decrease in revenues of \$223 million from 1989. Excluding the impact of acquisitions, revenues from the Drilling Equipment group improved \$127.9 million or 18% over last year. The increase is attributable to improved drilling activity as evidenced by a 5.6% increase in the worldwide active rig count from 1989 to 1990. The Production Tools group's revenues increased \$83.1 million as a result of strong demand for the group's workover and completion products and services as U.S. drilling activity and the remedial and stimulation markets improved. The Process Technologies group's revenues increased \$143.8 million from last year as a result of acquisitions and improved market activity. The acquisition of Bird Machine Company in June 1989 and Instruments in May 1990 provided \$89.1 million of the improvement with the remaining increase being a result of the general strength in the mineral, industrial continuous process industries and waste water treatment markets which the group's businesses serve. The Company's foreign revenues accounted for 56.8% of revenues in 1990, as compared to 57.1% in 1989.

Operating Earnings. The Company's operating earnings (defined as earnings before income tax and net unusual charges) increased \$63.6 million to \$181.1 million compared to 1989. The prior year's results included low operating margins from the Mining Equipment group, which was sold in the last quarter of 1989. The Company replaced the Mining Equipment group's revenues by completing several acquisitions of businesses with higher operating margins. The Company's oilfield service groups also benefitted from a trend toward more complex offshore and gas drilling, which provides an opportunity to sell products and services with higher profit margins.

Unusual charges — net. During the fourth quarter of 1990, the Company recorded unusual charges — net of \$1.1 million. This amount includes a \$65.7 million gain on disposition of its majority ownership of BJ Services. In addition, the Company charged \$66.8 million to operations to recognize liabilities for litigation and product liability claims, certain geographic and product line restructurings, settlement of a common stock warrant and a writedown of net assets related to Iraq and Kuwait.

Interest. Net interest expense increased \$11.1 million to \$62.3 million, up 22% from last year. The increase is due primarily to the borrowings incurred in connection with the acquisition of businesses. The increase in interest expense due to the additional debt is partially offset by the interest earned on increased levels of cash and short-term investment balances during 1990 as compared to 1989. The increased levels of cash and short-term investments resulted from the cash proceeds received from the sale of the Mining Equipment group in July 1989, the proceeds received from the common stock

*Management's Discussion and Analysis of
Financial Condition and Results of Operations (continued)*

offering in February 1990 and the BJ Services disposition in July 1990. The Company used approximately \$78 million of the proceeds received from the BJ Services disposition to pay down debt incurred to acquire Instruments.

Income Taxes. Effective October 1, 1990, the Company adopted Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes". In accordance with SFAS No. 96, the tax benefit resulting from the utilization of net operating loss ("NOL") carryforwards in fiscal 1990 of \$20,016,000 is included in the provision for income taxes. The effective tax rate for fiscal 1990 was 21.0%, as compared with 29.6% for fiscal 1989. In 1989, the Company recorded an extraordinary item of \$2,272,000 relating to the reduction of income taxes arising from carryforward of prior years' U.S. operating losses. Had the reduction of income taxes arising from the carryforward of prior years' U.S. operating losses not been afforded extraordinary item treatment, the effective tax rate would have been 27.7% for 1989. The reduction in the comparable effective tax rate from 27.7% to 21.0% is due to a shift in the Company's profitability from foreign locations to the United States where, due to NOL carryforwards, no taxes are currently provided.

General Outlook. The acquisition of ECC has significantly enhanced the Company's position in directional and horizontal integrated drilling systems, which currently generate attractive operating margins. The Company believes that the utilization of horizontal and directional drilling techniques will continue to increase significantly in the future, which is expected to result in a positive impact to the Company's results.

The Company believes the acquisition of Instruments provides a strong addition to the instrumentation segment of its Process Technologies group. Instruments provides technical, product and market strengths in analytical instrumentation and broadens the Company's high return process instrumentation business with unique capabilities in imaging software and detectors. Instruments' technology also adds to the Company's high growth environmental market, and offers some unique synergistic opportunities to Baker Hughes' process and oilfield operations.

Iraq's recent invasion of Kuwait and the resulting government actions by the United States and certain other countries blocking property of and prohibiting transactions with Iraq and Kuwait have created uncertainty as to the Company's business activities in the region. For the year ended September 30, 1990, revenues from Iraq and Kuwait were approximately \$14,000,000, accounting for approximately .5% of the Company's total revenues for the period. The Company cannot predict whether such recent events will have a significant adverse affect on the Company's business activities or the Company's future results.

The Company believes it is well positioned to take advantage of the expected growth in its oilfield service markets. If the recent improvement in drilling activity, the favorable mix of offshore and gas drilling and strength in the industries served by the Process Technologies group continues, the Company believes it will have opportunities for further improvement in revenues and profitability.

Capital Generation and Liquidity. At September 30, 1989, the Company had \$115.7 million of cash and short-term investments. The increase from 1988 was due primarily to the cash proceeds of \$115 million generated from the sale of the Mining Equipment group in July 1989 partially offset by funds used to retire debt. Also during 1989, the Company used funds to acquire Bird Machine Company for \$47.5 million, Vetco Services for \$37 million and EDECO Petroleum Services for \$12.1 million. At September 30, 1990, the Company had cash and short-term investments of \$124.6 million, an increase of \$8.9 million from September 30, 1989. The net effect of cash provided from dispositions and issuance of common stock and funds used for acquisitions accounts for this increase. In February 1990, the Company received \$264.4 million of net proceeds from the issuance of 10,350,000 shares of common stock. These funds were held as short-term investments until the close of the ECC acquisi-

tion on April 11, 1990. The acquisitions of ECC and Instruments increased bank borrowings by \$231.5 million and \$93.7 million, respectively. In July 1990, the Company received \$198.8 million in cash from the sale of 71% of its investment in BJ Services. In addition, the Company used cash during the year to purchase property and pay dividends.

Total debt outstanding at September 30, 1990 was \$640.2 million, an increase of \$195 million from September 30, 1989. The primary reason for the increase was the \$325.2 million of borrowings related to the ECC and Instruments acquisitions. The debt to equity ratio at the end of 1990 was .450 remaining relatively stable in comparison to the debt to equity ratio of .444 at September 30, 1989. The Company used approximately \$78 million of the proceeds from the BJ Services disposition to pay down debt and held the remaining funds in short-term investments. Subsequent to September 30, 1990, the Company used a portion of the proceeds remaining from the BJ Services disposition and borrowed \$103.5 million to fund the ChemLink acquisition. This debt is being paid down with funds from the Company's short-term investments as they mature.

The Company has committed bank credit lines aggregating \$562.4 million and \$20.0 million of uncommitted lines with commercial banks which begin to expire in December 1990 as well as \$57.0 million of uncommitted short-term money market lines of credit. At September 30, 1990, there were \$182.8 million of borrowings against these agreements.

The Company maintains a continuous process of evaluating acquisition and disposition candidates to better increase stockholder value. Cash on hand and bank credit lines are available to provide funding for potential acquisitions as well as to increase capital investment.

Capital expenditures were \$132.8 million for 1990 compared to \$92.7 million in 1989 and \$62.0 million in 1988. The ratio of capital expenditures to depreciation increased to 135.4% in 1990 as compared to 99.7% in 1989 and 60.5% in 1988. The increase in capital spending is in line with the Company's goal of continuing to increase productivity and ensure that the necessary capacity to meet market demands is available. The Company expects capital expenditures to be slightly in excess of depreciation in fiscal year 1991. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements.

Working capital at September 30, 1990 was \$676.4 million, as compared to \$620.0 million at September 30, 1989. In the Company's opinion, the current ratio of approximately 2.07 indicates an acceptable level of liquidity.

Fiscal 1989 Compared to Fiscal 1988

Revenues. Revenues in 1989 were \$2.33 billion, a slight increase from 1988. The year-to-year change in revenues was affected by the acquisition of several businesses during the year which added \$74.5 million of revenues during 1989 as well as the disposition of the Mining Equipment group in the last quarter of fiscal 1989 which resulted in a decrease in revenues of \$34.9 million from 1988. Excluding the impact of acquisitions and dispositions in both 1988 and 1989, consolidated revenues have remained stable at \$2.3 billion, and revenues from the Company's three oil and gas related groups decreased \$54.1 million, or 3.1%. This decrease from the prior year results primarily from decreased worldwide drilling activity as evidenced by the 15% and 13% decreases in the U.S. and non-U.S. active rig counts, respectively. Foreign revenues for the oil and gas related groups improved from 1988, despite the reduced rig count, as a result of the weakened U.S. dollar, market share improvements and activity increases in certain oilfield markets. Excluding the impact of acquisitions, revenues from the Company's Process Technologies group improved \$47.0 million from last year resulting from continued strength in the markets served by this group. The Process Technologies group provides products and services to the mineral, industrial continuous process industries and waste water treatment mar-

*Management's Discussion and Analysis of
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kets. Overall, the Company's foreign revenues accounted for 57.1% of revenues in 1989, compared to 53.3% of revenues in 1988.

Operating Earnings. The Company's operating earnings (defined as earnings before income taxes, net unusual credits and net pension gains) increased \$40.4 million to \$117.6 million in 1989. This significant improvement is attributable to improved quality of revenue, modest price increases in our products and services, effective cost control of operating expenses and reduced net interest expense. All of the Company's oilfield service operations experienced increased operating earnings reflecting the impact of continuing cost containment and a better revenue mix.

Interest. For the year ended September 30, 1989, net interest expense decreased 16.6% to \$51.2 million from \$61.5 million in 1988. The decrease was primarily due to a decline in average debt outstanding and an increase in the average level of cash and short-term investments on hand during the year. Total debt outstanding at the end of fiscal 1989 was down 10.6% to \$445.2 million. Even though three acquisitions took place in 1989 for an aggregate of \$96.6 million, all the acquisitions were funded entirely by cash on hand and borrowings on a short-term money market line which was retired by September 30, 1989.

Income Taxes. The effective tax rate decreased significantly from 54.5% in 1988 to 29.6% in 1989. The decrease is primarily attributable to unusual charges recorded in 1988 which related to foreign tax jurisdictions where no tax benefit was available. During 1989 and 1988, the Company recorded extraordinary items of \$2.3 million and \$43.9 million, respectively, relating to the reduction of income taxes arising from the carryforward of prior years' U.S. operating loss.

Stock Prices by Quarter

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

		<i>Baker Hughes Incorporated Common Stock</i>		
		<i>Quarter Ended</i>	<i>High</i>	<i>Low</i>
1989		12-31-88	\$14.25	\$12.13
		3-31-89	17.50	13.63
		6-30-89	20.00	16.63
		9-30-89	23.00	18.50
1990		12-31-89	\$27.63	\$19.88
		3-31-90	28.75	21.75
		6-30-90	29.75	25.25
		9-30-90	34.75	26.00

Condensed Comparative Consolidated Financial Information

*(In thousands of dollars,
except per share amounts)*

	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>
Summary of operations:					
Total revenues	\$2,614,257	\$2,327,995	\$2,316,151	\$1,923,598	\$2,312,678
Cost and expenses:					
Cost and expenses applicable to revenues	2,138,481	1,944,742	1,964,180	1,793,451	2,158,537
General and administrative	230,836	212,811	209,522	197,147	234,131
Interest expense—net	62,333	51,229	61,462	77,161	95,757
Minority interest in income (loss) of subsidiaries	1,467	1,625	3,836	(6,697)	(68,916)
Pension gains—net			(6,000)	(76,765)	
Unusual charges (credits)—net	1,125		(47,475)		919,198
Combination and divestiture costs				140,000	
Loss in Vetco Gray Inc.				68,223	11,670
Total costs and expenses	<u>2,434,242</u>	<u>2,210,407</u>	<u>2,185,525</u>	<u>2,192,520</u>	<u>3,350,377</u>
Income (loss) before income taxes and extraordinary items	180,015	117,588	130,626	(268,922)	(1,037,699)
Income taxes	37,838	34,837	71,235	(14,100)	(144,494)
Income (loss) before extraordinary items	142,177	82,751	59,391	(254,822)	(893,205)
Extraordinary items—net		2,272	43,856		88,608
Net income (loss)	<u>\$ 142,177</u>	<u>\$ 85,023</u>	<u>\$ 103,247</u>	<u>\$ (254,822)</u>	<u>\$ (804,597)</u>
Net income (loss) per share	<u>\$ 1.06</u>	<u>\$.66</u>	<u>\$.82</u>	<u>\$ (2.22)</u>	<u>\$ (7.00)</u>
Dividends per share of common stock	\$.46	\$.46	\$.46	\$.39	\$.64
Financial position:					
Cash and short-term investments	\$ 124,585	\$ 115,686	\$ 67,823	\$ 11,361	\$ 43,863
Working capital	\$ 676,383	\$ 620,017	\$ 592,134	\$ 500,755	\$ 634,818
Total assets	\$2,783,944	\$2,065,920	\$2,117,526	\$2,188,632	\$2,511,054
Long-term debt	\$ 611,501	\$ 417,045	\$ 440,007	\$ 460,767	\$ 638,557
Stockholders' equity	\$1,424,285	\$1,003,380	\$ 961,488	\$ 915,520	\$1,072,149

See Note 1 of Notes to Consolidated Financial Statements for the Company's change in its method of accounting for income taxes in 1990.

Corporate Organization

Baker Hughes Drilling
Equipment
Joel V. Staff, President

Divisions

Baker Hughes MWD, Inc.
Houston, Texas
R. Patrick Herbert, President

Baker Hughes Mining Tools
Grand Prairie, Texas
John A. Alich, Jr., President

Baker Hughes Tubular Services
Houston, Texas
David L. Daniel, President

Eastman Christensen
Houston, Texas
Tim J. Probert, President

EXLOG, Inc.
Houston, Texas
J. Will Honeybourne, President

Hughes Tool Company
Houston, Texas
Andrew J. Szescila, President

Milpark Drilling Fluids
Houston, Texas
John F. Lauletta, President

Tri-State Oil Tools
Houston, Texas
Andrew B. Schmitt, President

Baker Hughes Production Tools
Max L. Lukens, President

Divisions

Baker CAC
Houston, Texas
Chris K. Monauni, President

Baker Oil Tools
Houston, Texas
A. G. Avant, President

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

Baker Sand Control
Houston, Texas
Jay P. Trahan, President

Baker Service Tools
Houston, Texas
Edwin C. Howell, President

Centrilift
Claremore, Oklahoma
Joseph F. Brady, President

Develco
San Jose, California
Chris A. Snyder, President

Baker Hughes Process
Technologies
Stephen T. Harcrow, President

Divisions

Baker Hughes Pump Group
Edward deBoer, President

BGA International
Salt Lake City, Utah
Donald H. Blohm, President

Chas. S. Lewis & Company
St. Louis, Missouri
William M. Stuart, President

Wemco Pumps
Sacramento, California
James V. Mangano, President

Baker Hughes Process
Equipment Group
Raymond H. Aldrich, President

Bird Machine Company
South Walpole, Massachusetts
Tim L. Davis, President

EIMCO Process
Equipment Company
Salt Lake City, Utah
Dean J. Smith, President

Baker Hughes
Instrumentation Group
Donald L. Babbitt, President

Houston Atlas
Houston, Texas
Chris L. Kimbell, President

NORAN Inc.
Middleton, Wisconsin
George C. Johnson, President

Ramsey Technology, Inc.
St. Paul, Minnesota
Lewis J. Ribich, President

TN Technologies, Inc.
Round Rock, Texas
Dr. John B. Nelson, President

Tremetrics, Inc.
Austin, Texas
Graham G. Midgley, President

Westronics
Fort Worth, Texas
Donald L. Clarke, President

Baker Hughes
Process Technologies Europe
James E. Furman, President

Corporate Organization

<i>Officers</i>	<i>Board of Directors</i>	<i>Corporate Information</i>
James D. Woods <i>Chairman, President and Chief Executive Officer</i>	Lester M. Alberthal, Jr. <i>Chairman, President and Chief Executive Officer of EDS (Electronics)</i>	Kenneth L. Lay <i>Chairman and Chief Executive Officer of Enron Corp. (Diversified Energy)</i>
Thomas W. Cason <i>Senior Vice President and Chief Financial Officer</i>	Gordon M. Anderson* <i>Executive Vice President and Chief Operating Officer of Santa Fe International (Oil Service)</i>	John F. Maher <i>President and Chief Operating Officer of Great Western Financial Corporation (Financial Services)</i>
Stephen T. Harcrow <i>Senior Vice President and President of Baker Hughes Process Technologies</i>	Jack S. Blanton <i>President of Eddy Refining Company (Petroleum Products)</i>	David D. Lybarger* <i>Petroleum Consultant</i>
Max L. Lukens <i>Senior Vice President and President of Baker Hughes Production Tools</i>	Richard M. Bressler <i>Chairman of the Board, El Paso Natural Gas Company (Diversified Energy)</i>	Robert H. Quenon* <i>President and Chief Executive Officer of Peabody Holding Company, Inc. (Coal Mining & Sales)</i>
Joel V. Staff <i>Senior Vice President and President of Baker Hughes Drilling Equipment</i>	Harry M. Conger <i>Chairman of the Board and Chief Executive Officer of Homestake Mining Company (Precious Metals Mining)</i>	Donald C. Trauscht <i>Vice President— Finance and Strategy of Borg-Warner Corporation (Diversified Products and Services)</i>
Isaac C. Kerridge, Jr. <i>Vice President</i>	Joe B. Foster <i>Chairman of the Board and Chief Executive Officer of Newfield Exploration Company (Oil & Gas)</i>	James D. Woods* <i>Chairman, President and Chief Executive Officer of Baker Hughes Incorporated</i>
Eric L. Mattson <i>Vice President and Treasurer</i>		
Franklin Myers <i>Vice President, Secretary and General Counsel</i>		
Phillip A. Rice <i>Vice President, Human Resources</i>		
Ronald G. Turner <i>Vice President</i>		
G. S. Finley <i>Controller</i>		

* Nominee to be presented to Annual Meeting of Stockholders, January 23, 1991

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

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

Independent Accountants:
Deloitte & Touche
Houston, Texas

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

Annual Meeting:
The Company's Annual
Meeting of Stockholders
will be held at 2 p.m.
on January 23, 1991 at
The Doubletree Hotel
at Post Oak
2001 Post Oak Boulevard
Houston, Texas

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

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

