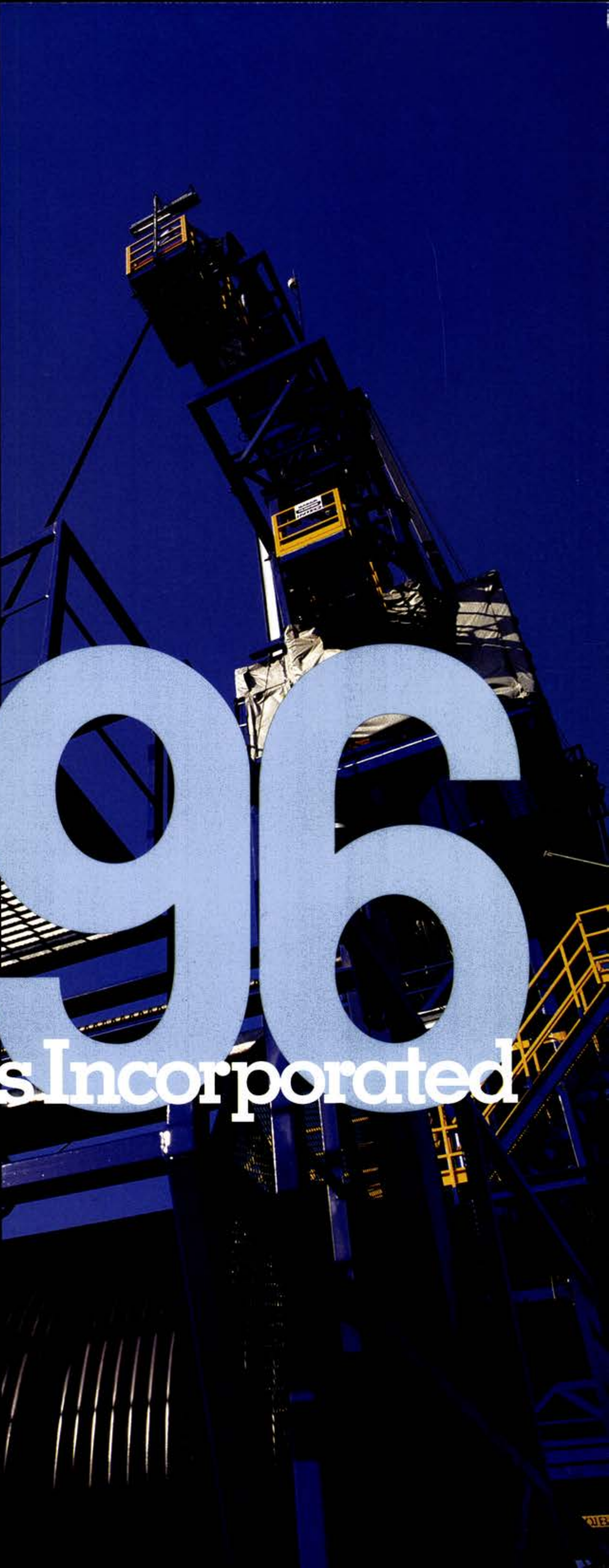
ANNUAL REPORT



1996

Baker Hughes Incorporated

BAKER HUGHES INCORPORATED

SELECTED FINANCIAL HIGHLIGHTS

(In thousands except per share amounts)

Fiscal year ended September 30,	**1996**	1995	1994
Total revenues	**$3,027,730**	$2,637,464	$2,504,758
Operating income	**306,679**	255,889	185,884
Income before extraordinary loss and cumulative effect of accounting changes	**176,350**	119,983	131,142
Net income	**176,350**	105,385	42,657
Income per share before extraordinary loss and cumulative effect of accounting changes	**1.23**	.67	.85
Net income per share	**1.23**	.57	.22
Working capital	**1,081,073**	984,684	855,421
Total assets	**3,297,390**	3,166,591	2,999,682
Long-term debt	**673,588**	798,352	637,972
Stockholders' equity	**1,689,209**	1,513,606	1,638,472
Debt/equity ratio	**.400**	.529	.399
Number of shares:			
Outstanding at year end	**144,553**	142,237	140,889
Average during year	**143,256**	141,215	140,532
Number of employees	**16.8**	15.2	14.7

IN A RECORD YEAR, OUR EARNINGS GREW 67% ON A REVENUE INCREASE OF 15% WITH STRONG MARKET SHARE, NEW TECHNOLOGY AND A SPIRIT OF TEAMWORK.

At Baker Hughes,

we develop and apply technology to drill, complete and produce oil and natural gas wells. We also provide separation systems to the petroleum, municipal, continuous process and mining industries. In 1996, we increased our revenues by 15% on a modest 3% increase in drilling rig activity. Reported net income rose 67% and earnings per share increased 116% for the year. These strong results were based on the teamwork of our employees in providing solutions for our customers around the world; the successful delivery of new, value-added technologies; and the application of systems that combine our products and expertise to improve the processes required to drill and produce wells. In the future, we will leverage our market leadership in products and systems to exploit emerging opportunities.

I am proud to report our results for fiscal 1996. Solid growth in revenues and earnings resulted from our market-focused strategies and the teamwork and dedication of Baker Hughes employees around the world.

Well positioned in a strengthening market, Baker Hughes achieved all-time high revenues of more than $3 billion, up 15% from fiscal 1995. More importantly, our operational earnings per share increased 56%, reaching $1.23 for the year compared to $0.79 last year.

OPERATIONS

As oil and gas companies expanded their exploration and production programs in key markets, our oilfield operations were ready with technology and sophisticated services to meet the demand. Oilfield revenues increased 15% to $2.6 billion, with operating profits, excluding unusual charges, up 32% for the year.

During 1996, we delivered breakthrough technology that reduces our customers' production costs and gets more oil and gas out of the reservoir. We leveraged our teamwork, our technology and our experience to gain competitive advantage with drilling and completion systems. These strengths have prepared us to benefit from emerging opportunities like re-entry wells, intelligent completions and coiled tubing drilling.

Our process operations increased revenues 10% to $353 million and finished the year with a 5% increase in operating profit. Strategically, the process group continued to focus on its core technologies – systems for separating water from solids or other liquids in the petroleum, mining, municipal and continuous process industries.

INTEGRATED SOLUTIONS

In 1989, Baker Hughes introduced the integrated service concept, in which an oilfield service company takes on an expanded role in technology integration and project management for drilling and completing oil and gas wells. In 1993, this concept was a guiding force behind the formation of Baker Hughes INTEQ, our largest division. Subsequently, our major competitors followed our example in establishing integrated service capabilities.

In 1996, our integrated services business continued its rapid growth as revenues climbed 45% to $400 million. Based on prospects of even faster growth, Baker Hughes formed a new, separate division – Baker Hughes Solutions – specifically devoted to integrated solutions and project management. This new company will focus on the broader issues of reservoir engineering and project and field management while permitting our five other oilfield divisions to concentrate on specific technology, systems and services.

Strategic Alliances

In September, Baker Hughes signed a letter of intent to establish several strategic alliances with Schlumberger Limited. Assuming definitive agreements are reached, our Baker Oil Tools division will become the preferred supplier of completion technology and services to certain Schlumberger divisions. Schlumberger will become the preferred supplier of coiled tubing services and downhole monitoring devices to Baker Oil Tools.

In addition, the two companies anticipate investing $50 million over the next few years to jointly develop and commercialize proprietary Intelligent Completion Systems. These systems will provide remote reservoir monitoring and control to improve operation and enhance recovery from deepwater and extended reach wells.

Once in place, we believe these alliances will increase Baker Oil Tools' leading share in the completions market while positioning Baker Hughes at the forefront of the large potential market for "intelligent" well systems.

Acquisitions

In April, the Baker Hughes Process Equipment Company (BHPEC) purchased Vortoil Separation Systems, the world leader in supplying hydrocyclones for removing oil from water. The business has excellent prospects, particularly for innovative systems to separate oil from water downhole. In May, BHPEC also acquired the Ketema Process Equipment Company, which provides liquid/solid separation equipment for the fine chemicals and pharmaceutical industries. In September, Baker Performance Chemicals Incorporated (BPCI) purchased BASF AG's oilfield chemical business. This acquisition significantly increases BPCI's international revenues and provides access to BASF's technology, manufacturing and research capabilities.

Outlook

The fundamentals for our business are as good as they have been in fifteen years. Worldwide demand for oil is projected to increase 2 to 3% per year through 2000. Forecasts show energy prices trending upward slowly, and the absence of price spikes will encourage continued growth in petroleum demand. Oil company capital expenditures for exploration and production increased 10% in 1996 and the outlook for 1997 remains bright.

Acknowledgement

In keeping with Corporate By-Laws that limit tenure of directors, Harry M. Conger will step down from the Board at the Annual Meeting on January 22, 1997. Harry has given Baker Hughes the benefit of his broad business experience and keen viewpoint into the mining and process industries. We thank Harry for his years of service and support. He will be succeeded by H. John Riley, Jr. pending approval by the remaining Class I directors at the Annual Meeting. John Riley is Chairman, President and Chief Executive Officer of Cooper Industries, Inc.

Personal Note

After more than 41 years of service, I will retire from Baker Hughes and its Board of Directors effective January 22, 1997. I look back on my career with a sense of gratitude and fulfillment. I am truly proud to have helped create Baker Hughes, an industry leader and a company that is positioned to pursue a bright future. I will leave a financially-strong company with a competitive strategy and a talented, opportunity-oriented management team. As I move on to new challenges, I wish to thank our shareholders, employees and customers for giving me the opportunity to serve, lead and grow with Baker Hughes.

J.D. Woods, Chairman of the Board

After more than 41 years of service, James D. Woods is retiring from our Company. As a strategist, leader and humanitarian, Jim leaves an immeasurable legacy for Baker Hughes, the oil service industry and his community.

It is difficult to lead even when business is good, but tough times test an executive's true skill. In 1986 and 1987, when the oil service industry faced precipitous circumstances, Jim successfully made the merger between Baker International and Hughes Tool Company happen. As champion of the merger, he molded the two organizations into a world-class market leader. Since the merger, Jim positioned the Company for growth through strategic acquisitions and divestitures which complemented the Company's existing product lines. In more than 30 separate business deals, he fashioned the strong product portfolio of Baker Hughes today and enabled the Company to pioneer integrated solutions for our customers.

From the beginning, Jim envisioned a company that would serve the worldwide petroleum industry with critical downhole technology and services. He chose premium product segments in which Baker Hughes could hold a leading market share position and provide superior value to our customers.

The execution of Jim's vision has produced enhanced value for our shareholders. Since the merger, revenues have increased by more than 50% and before tax profits improved by more than $500 million. These accomplishments are also reflected in the market value of Baker Hughes which has tripled to $5.2 billion since 1987.

As Baker Hughes shareholders and employees, we will benefit from the way Jim Woods has shaped our Company, developed our culture and mentored our managers at all levels. In his worldwide travels, he has shared his belief in our technology and the people who deliver it. By his example, Jim has demonstrated the value of top-notch performance, fiscal responsibility and risk-taking for growth. He also has emphasized the importance of personal integrity in every aspect of our business. Through his commitment to numerous charities, he has shown how important it is to contribute to the communities where we live and work.

In 1988, when his predecessor retired, Jim acknowledged the three individuals who had impacted the success of Baker Hughes the most; R. C. Baker, Howard Hughes, Sr. and Hubie Clark. Jim Woods is equally deserving of such recognition for his part in guiding the Company through trying times and shaping the Company for growth in the 1990's.

Thanks, Jim, for the accomplishments that have benefited our shareholders, our employees and our customers. We wish you and your lovely wife Jeanette the very best in the years to come.

Max L. Lukens

Max L. Lukens, President and Chief Executive Officer

WE ARE A COMPETITIVE TEAM, COMBINING OUR DIVERSE TALENTS TO DELIVER VALUE AS ON THIS OFFSHORE RE-ENTRY PROJECT IN THE GULF OF MEXICO.

As Team BHI,

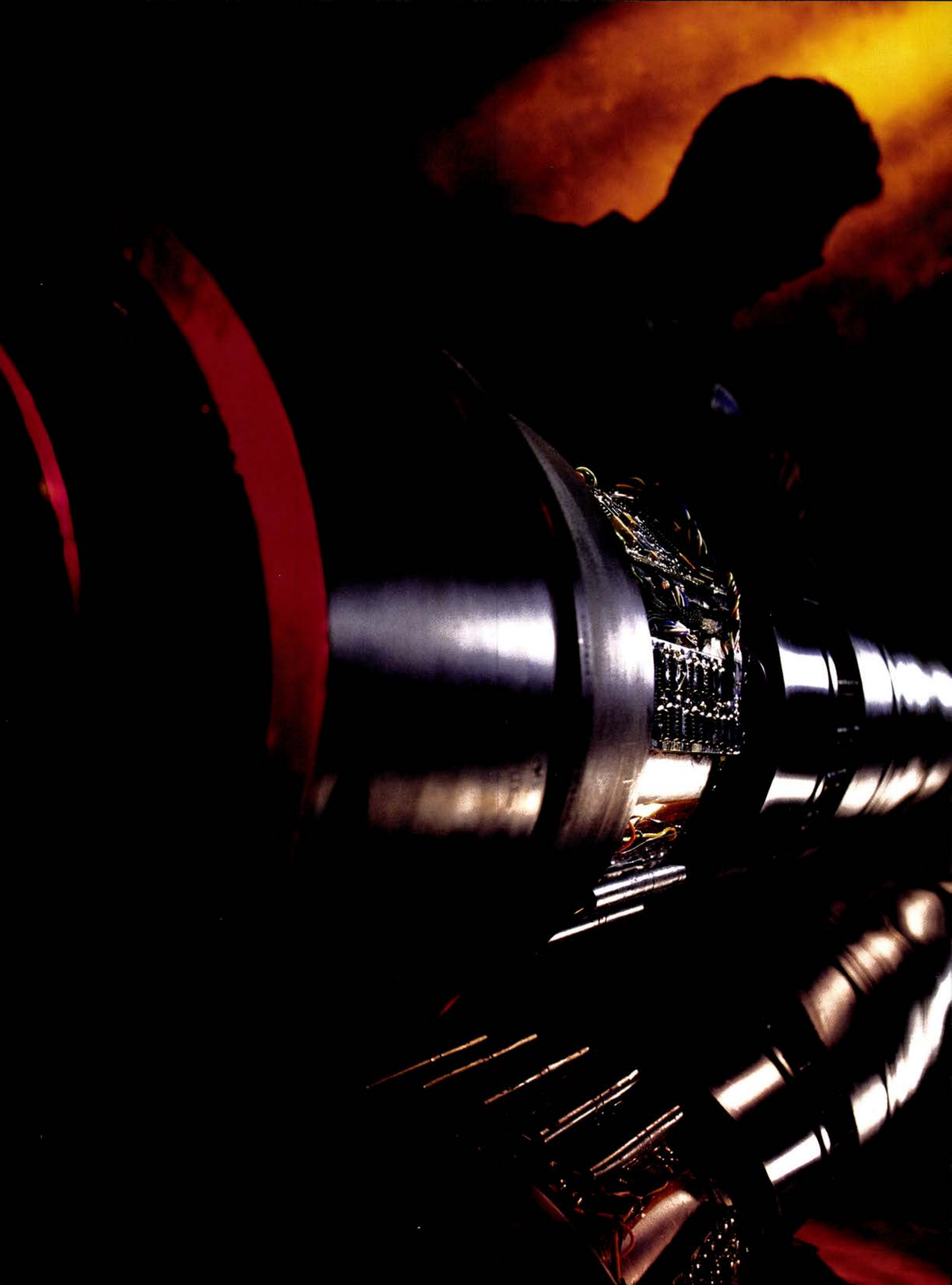
our 16,800 employees are aligned to provide outstanding service. Their efforts have established strong client relationships, and their expertise at applying Baker Hughes technology has earned us a combined 30% worldwide share of our key market segments. In 1996, our team was well-positioned to help oil companies expand their activity in offshore and premium-technology oilfields. With excellent market coverage, our revenue grew 36% in the North Sea, 22% in the Gulf of Mexico, and 19% in Latin America. Our teamwork also set new records in the integrated services business. Major alliance contracts in the North Sea, stepped-up activity in Latin America, and ongoing projects in the USA and Africa expanded our integrated solutions revenues to $400 million for the year.


CNG
BAKER
WOODLANDS
TEAM
BAKER
INTEQ

NEW PRODUCTS, LIKE THE EDGE™ INTELLIGENT COMPLETION SYSTEM, REDUCE COSTS FOR OIL COMPANY OPERATORS.

As technology

innovators, we introduced more than 20 new products in the past two years. These innovations improve efficiency or productivity for oil companies, reducing their cost per barrel of oil. For example, the Star Line™ of drill bits incorporates advanced technology for small-diameter re-entry and horizontal wells. Navi-Drill® Ultra Series drilling motors deliver greatly improved directional drilling performance. The Multiple Propagation Resistivity™ system produces the highest quality real-time logs available from an MWD tool. We advanced completions technology with the new EXCLUDER™ extended life well screen and the EDGE™ intelligent completion system, which remotely activates downhole tools in deepwater wells.



ON PROJECTS LIKE THIS RE-ENTRY WELL, WE COMBINE THE RIGHT TECHNOLOGIES INTO SYSTEMS THAT OPTIMIZE PERFORMANCE AND BOOST PRODUCTIVITY.

Our systems

combine technology components to optimize the drilling and completion processes. In 1996, we focused research, products and operations support on providing systems that add value in critical applications. Using steerable motors and measurement-while-drilling systems which navigate within the pay zone, we drilled record extended reach wells in Norway and the Gulf of Mexico. And we completed them with advanced isolation, liner hanger, flow control and gravel pack systems. Several major technical disciplines also converge in our systems for re-entering existing wells and installing new horizontal well sections. By integrating technology from planning through completion, we boosted production for our customers and gained a leading share of the re-entry well market.

WITH PREMIUM PRODUCTS AND SYSTEMS EXPERTISE, WE ARE READY TO TAKE THE LEAD IN BREAKTHROUGH TECHNOLOGIES LIKE COILED TUBING DRILLING.

The leverage

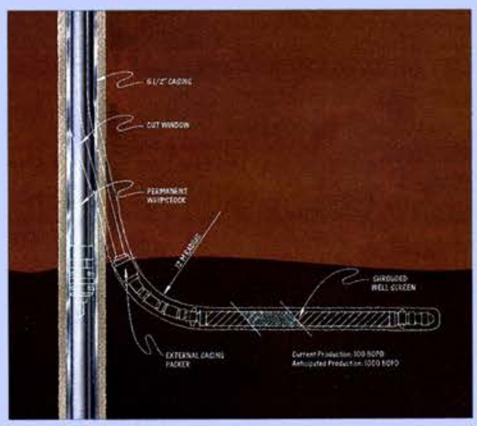
of applied technology puts Baker Hughes in a unique position to exploit emerging opportunities. For example, four regional teams are now deploying our patented multilateral systems, which can maximize oil and gas production by completing several horizontal legs from a single main wellbore. Another team is developing downhole hydrocyclone systems to produce oil while reinjecting formation water. With downhole separators, operators could use smaller platforms and develop subsea fields more economically. And our Wellbore Construction team has developed a unique Reeled Technology® system for drilling and completing entire fields. These coiled tubing units are more efficient than conventional rigs and their underbalanced drilling process helps make wells more productive.

One oil industry addage says that the best way to find oil is to look where it has already been found. According to U.S. Geological Survey estimates, more than 60 billion barrels of oil remain in place close to existing wells, processing facilities and pipelines. Oil companies around the world can extend the profitability of their mature fields if they can produce these hydrocarbons at a reasonable cost. For decades, however, such field enhancement efforts could not be economically justified. Limited reservoir knowledge meant the projects were risky, and the most efficient drilling and completion technology was designed for use in new wells.

CONSIDER IT

By the mid 1990's, new technology turned the field enhancement dream into an exciting opportunity. Oil companies began using three dimensional (3-D) seismic data and new reservoir modeling software to locate oil and gas deposits still in place near existing wells. Simultaneously, oilfield service companies developed scaled-down systems for drilling from old wells to produce these newly-defined targets.

Baker Hughes has played an important role in helping oil companies benefit from the re-entry opportunity. In fact, we developed a whole suite of technologies that enable oil companies to re-enter existing wells and recomplete them with new horizontal sections. With this technology, oil companies can reach production beyond depleted zones, complete secondary zones that were bypassed when the wells were initially drilled, or reach new targets identified by new 3-D seismic surveys.



"Oil companies have achieved compelling results using re-entry technology," says Pierre Collee, Baker Hughes re-entry systems marketing manager in Houston. "Our systems have helped operators recover previously unreachable reserves, obtaining five- to ten-fold production increases." Re-entries cost a fraction of new well costs so payback on re-entry wells often is measured in months, not years.

LARRY MASSEY

IN WEST TEXAS, BAKER HUGHES HAS APPLIED ITS SHORT RADIUS HORIZONTAL DRILLING TECHNOLOGY TO HELP OIL COMPANIES REACH NEW PAY ZONES. FOR EXAMPLE, WE DRILLED 92 RE-ENTRIES TO SLOW THE PRODUCTION DECLINE IN A PERMIAN BASIN FIELD WITH SOME 625 PRODUCING WELLS. ALTHOUGH THEY REPRESENT ONLY 15% OF THE WELLS IN THE FIELD, THE HORIZONTAL RE-ENTRIES CONTRIBUTE 22% OF THE FIELD'S TOTAL PRODUCTION.

Baker Hughes has gained a leading market position in re-entry drilling and completion. With hundreds of successful projects completed to date, Baker Hughes has unmatched experience at implementing re-entry projects.

PLAN IT

Our experience adds value to a re-entry project, beginning with the planning phase. In fact, proper planning is probably the single most important aspect of any re-entry program.

To be successful, a re-entry program must be planned with the end in mind, beginning with the reservoir and its production requirements. This includes proper candidate selection (to assure that the target zone has enough potential production to justify the re-entry investment) and optimum well placement for effective reservoir drainage. "Proper well placement and orientation can make the difference between success and failure from an economic point of view, regardless of how efficient the drilling and completion programs are," says Frank Syfan, manager of the Baker Hughes Reservoir Optimization team. Formed in 1996, the team is focusing its efforts on making client re-entry programs as productive as possible.

In addition to reservoir engineering, the re-entry planning process involves oil company and Baker Hughes team members from all major disciplines including geology, production and drilling. The team analyzes a wide variety of information–including seismic data, production records, electric logs, drill stem tests, core samples, and the drilling histories of nearby wells. The resulting project characteristics will influence the well profile and completion design.

"On one well, the objective was to intersect two separate targets with a horizontal well that turned sharply then reached nearly a mile from the old well's casing," says Keith Fisher, Engineering Manager, at Baker Hughes INTEQ in New Orleans. "The well had to be drilled so precisely that the oil company staff named it the 'String of Pearls' well."

Mill It

Once the plan is approved, the first operational step in every re-entry program is to cut through the existing casing wall to begin the new well section.

"That's not as easy as it sounds," says Jimmy Ryan, Manager at Baker Oil Tools in Houma, Louisiana. "Efficient window cutting requires the right equipment and a milling operator who knows what he's doing. And our people have gained a lot of experience. In the past year, we've cut more than 100 windows in our district alone."

Initiating a re-entry well normally involves cleaning out scale and other debris from the existing well, then cutting a "window" in a controlled direction through one or more layers of steel. Typically, the procedure is performed most efficiently using the Windowmaster™ system. This system includes an anchor, a whipstock and three specialized casing mills, combined in a single hookup. This assembly is run on drill pipe to the right depth, then oriented in the planned direction using a survey system provided by Baker Hughes INTEQ.

Baker Oil Tools' patented Metal Muncher™ technology, developed specifically for milling downhole steel tubulars, uses proprietary tungsten carbide inserts to cut through the casing and open a smooth window so drilling can proceed into the formation.

Casing exit technology, using retrievable whipstocks, also plays a key role in our multilateral completion systems.

Ted Zaleski

In the Gulf of Mexico, Baker Hughes has helped oil companies drill more than 200 horizontal re-entry wells to revive oil and gas production from older platforms. On one six-well project, we applied our technology to exploit three oil and three gas targets. The re-entries were drilled and completed for less than half the cost of new wells, and they produced oil and gas at up to six times the rate of nearby vertical wells. Five of the six wells paid for themselves within six months.

Drill It

Once the window through the casing is open, our re-entry team faces the complex task of drilling the new horizontal section.

"Horizontal drilling technology was the first real breakthrough. It made re-entry wells into money-makers for oil companies," says Larry Massey, Baker Hughes INTEQ district manager in West Texas, where short radius horizontal wells have rejuvenated production from fields first developed in the 1920's.

Beginning in 1985, Baker Hughes companies introduced efficient drilling technology to guide horizontal wells along complex paths to reach both geometric and geologic targets. In the 1990's, we re-engineered a full range of advanced systems–comprising drill bits, drilling motors and measurement while drilling technology–to accomplish these objectives in the smaller-diameter holes typical of re-entry wells.

VOLKER KRUEGER

BAKER HUGHES HAS PERFORMED RE-ENTRY OPERATIONS ON 31 PLATFORMS FOR 13 DIFFERENT OIL COMPANIES OFFSHORE IN THE UNITED KINGDOM. SERVICES HAVE INCLUDED DRILL BITS, DIRECTIONAL DRILLING, SURFACE LOGGING, MEASUREMENT WHILE DRILLING, SURVEY, DRILL-IN FLUIDS, AND COMPLETION TECHNOLOGY.

One example of re-entry technology innovation is Hughes Christensen's STAR™ slimhole technology drill bit line, introduced in 1996. For holes as small as 3-1/2", the STAR line incorporates many of the engineering advances of our highly successful GT-Technology™ Tricone® bits and our record-setting Gold Series™ PDC bit line.

"We really faced a design challenge," says Ted Zaleski, Director of Engineering for Hughes Christensen in the Woodlands, Texas. "Our mission was to compress our latest improvements in PDC cutter design, gauge protection and roller bearings so they could withstand the relatively higher loads experienced by smaller drill bits."

Results of the STAR line have been impressive. Average penetration rates have been nearly twice those of previous designs. And PDC bit life has more than doubled, improving performance on motor-driven directional drilling systems.

Fiscal 1996 also brought an important breakthrough in Baker Hughes INTEQ's Navi-Drill® downhole motor line. The new Navi-Drill Ultra Series motors went commercial during the first quarter and soon set records for fast drilling and high reliability.

"We introduced the first Navi-Drill in 1976," says Volker Krueger, who led the Ultra Series design team in Celle, Germany. "For almost 20 years, we made numerous gradual improvements rather than developing an entirely new motor design. With the Ultra Series, we used the most advanced engineering design, analysis, and test methods to develop a new generation of motors. We doubled their power output and made every major component stronger."

The more powerful Navi-Drill Ultra series motors drill faster while turning the curve and drilling the horizontal section. The stronger motors also are much more reliable than previous small-diameter systems used in re-entry wells.

We also advanced the capabilities of the third component of our re-entry drilling system: measurement while drilling. In 1996, we introduced the Multiple Propagation Resistivity™ (MPR) system for both slim and conventional hole sizes. The MPR system takes eight separate measurements of formation resistivity and provides wireline quality logs as the hole is being drilled. Its unique 400 kHz measurement penetrates deeply into the formation and can detect oil/water transition zones and changes in geology.

"We've used the MPR system for navigating horizontal re-entry wells," says Alan Aitken, Client Focus Team leader for Baker Hughes INTEQ in Aberdeen. "Using the MPR's readings, we can 'land' the horizontal well at the right depth and keep the hole in the oil a few feet above the water contact." The result is uniform production across the pay zone.

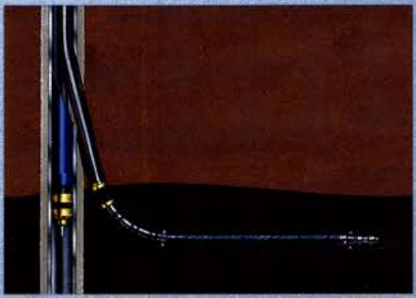
PROTECT IT

Drilling fluid technology also plays a role in efficient, productive re-entry projects. During re-entry horizontal drilling, long sections of the payzone are exposed to the drilling fluid and cuttings for an extended period. With the wrong fluid system, this exposure can plug off the formation's pore openings and impair the well's productivity.

Baker Hughes introduced the concept of reservoir drill-in fluids to protect the formation from damage. "We understand that the completion begins when the bit enters the payzone," says Anthony Ramsaran, Baker

Hughes INTEQ engineering manager in Venezuela. "The drill-in fluid is essential to preserving the formation's ability to produce."

During 1996, our PERF-*FLOW*® system was the most widely used drill-in fluid for re-entry applications. PERF*FLOW* acts as a drilling fluid–promoting drilling efficiency and hole cleaning–while insulating the well's payzone against damage. In its protective role, PERF*FLOW* seals pore openings exposed to the wellbore, remains intact during completion operations, and is easily removed with production.



Complete It

Baker Oil Tools' completion technology has kept pace with developments in re-entry horizontal drilling. Recent developments in horizontal gravel packs, as well as new liner hangers and external casing packers for small diameter wells, offer many design options for cost-effective and productive re-entry completions. Perhaps the most important re-entry completion innovation in 1996 was the EXCLUDER™ well screen.

"Until recently, oil companies had no reliable method of keeping formation sand out of tight-radius horizontal wells," says Mike Naquin, Sand Control Product Line Director for Baker Oil Tools in Houston. "The new EXCLUDER screen gives operators better protection against unwanted sand production, so re-entry activity has increased significantly."

The EXCLUDER screen combines a damage-tolerant shroud and a uniform, woven-metal screen. Lab tests and nine months of field results show that EXCLUDER screen is less prone to failure during installation and produces efficiently up to eight times longer than earlier prepack screens. EXCLUDER has been introduced successfully in Venezuela, the Gulf of Mexico, and the North Sea.

Reel It

While Baker Hughes has advanced the re-entry process using technology from the 20th century, our Wellbore Construction team has developed new Reeled Technology® systems that are likely to redefine the re-entry concept in the 21st.

The first unit, "Copernicus," is a modular rig designed especially for drilling with coiled tubing. It combines slimhole and underbalanced technologies to exit casing, drill horizontal wells and run completions into live wells. While it will operate primarily with coiled tubing, Copernicus also can run casing, pull tubing and drill with jointed pipe, as required.

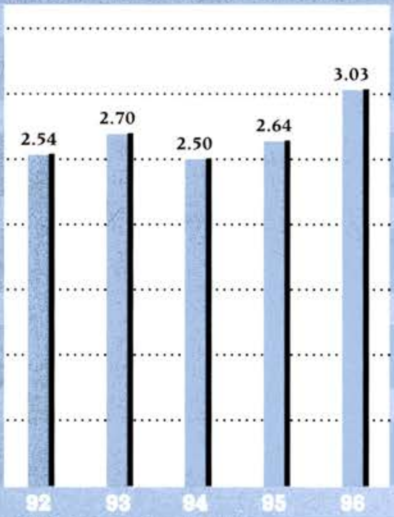
"The system is run from a single process control cabin," says Pete Fontana, manager of the Wellbore Construction Team in London. "Copernicus leverages advanced computer technology, including touch screen control panels, so the unit can be operated by a crew of four." This compares to crews of fifteen or more that are needed to staff a conventional offshore rig during a re-entry operation.

In the fall of 1996, Copernicus began its first re-entry project on a Gulf of Mexico platform. The second unit dubbed, "Galileo," includes more advanced features, and is expected to begin work in Canada during the first quarter of fiscal 1997, and later mobilize to Latin America. These, and subsequent Reeled Technology units should make a significant contribution in the industry's effort to produce more oil where it has already been discovered.

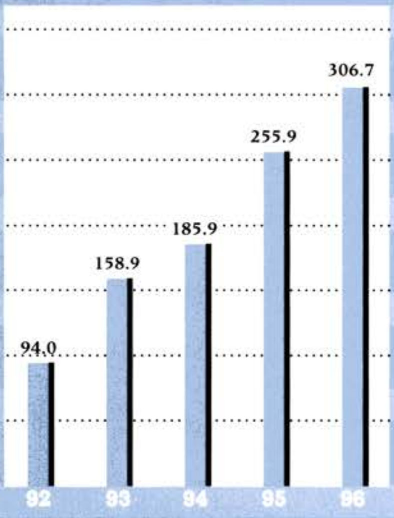
Pierre Collee

In Venezuela, Baker Hughes is helping an oil company conduct a re-entry program on eleven wells drilled beneath Lake Maracaibo. Our team of geologists and reservoir engineers is helping the customer choose prospect wells and select targets for them. Baker Hughes supervises rig operations for both drilling and completion, with a reservoir geologist on location. On the eight re-entries completed to date, horizontal re-entry technology has boosted production by 150%.

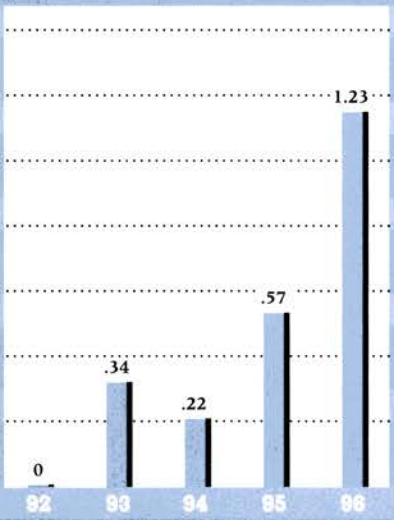
Revenues ($ in billions)



Operating Income ($ in millions)



Earnings Per Share (in dollars)



CONDENSED COMPARATIVE CONSOLIDATED FINANCIAL INFORMATION

(In thousands, except per share amounts)

	1996	1995	1994	1993	1992
Total revenues	**$ 3,027,730**	$ 2,637,464	$ 2,504,758	$ 2,701,697	$ 2,538,515
Costs and expenses:					
Costs and expenses applicable to revenues	**2,451,994**	2,148,788	2,082,745	2,262,545	2,132,928
General and administrative	**229,446**	232,787	214,788	238,238	232,407
Unusual charge - net	**39,611**		31,829	42,000	79,190
Operating income of business sold			(10,488)		
Total	**2,721,051**	2,381,575	2,318,874	2,542,783	2,444,525
Operating income	**306,679**	255,889	185,884	158,914	93,990
Interest expense	**(55,528)**	(55,595)	(63,835)	(64,703)	(68,112)
Interest income	**3,421**	4,806	3,067	5,840	6,078
Gain on sale of Varco stock	**44,295**				
Gain on sale of Pumpsystems			101,000		
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	**298,867**	205,100	226,116	100,051	31,956
Income taxes	**(122,517)**	(85,117)	(94,974)	(41,195)	(26,925)
Income before extraordinary loss and cumulative effect of accounting changes	**176,350**	119,983	131,142	58,856	5,031
Extraordinary loss			(44,320)		
Cumulative effect of accounting changes		(14,598)	(44,165)		
Net income	**$ 176,350**	$ 105,385	$ 42,657	$ 58,856	$ 5,031
Per share of common stock:					
Income before extraordinary loss and cumulative effect of accounting changes	**$ 1.23**	$ .67	$ .85	$ .34	$ .00
Net income	**1.23**	.57	.22	.34	.00
Dividends	**.46**	.46	.46	.46	.46
Financial position:					
Cash and cash equivalents	**$ 7,714**	$ 6,817	$ 69,179	$ 6,992	$ 6,692
Working capital	**1,081,073**	984,684	855,421	920,969	715,472
Total assets	**3,297,390**	3,166,591	2,999,682	3,143,340	3,212,938
Long-term debt	**673,588**	798,352	637,972	935,846	812,465
Stockholders' equity	**1,689,209**	1,513,606	1,638,472	1,610,648	1,645,522

See Note 1 of Notes to Consolidated Financial Statements for a discussion of the adoption of new accounting standards in 1995 and 1994. In addition to the acquisitions and dispositions discussed in Note 2 of Notes to Consolidated Financial Statements, the Company acquired Teleco Oilfield Services Inc. in 1992. The Company sold Baker Hughes Tubular Services ("BHTS") in 1992. See Note 3 of Notes to Consolidated Financial Statements for a description of the unusual charge-net in 1996 and 1994. The unusual charge-net in 1993 consisted primarily of litigation settlements. The unusual charge-net in 1992 consisted primarily of restructurings in Oilfield Operations and litigation claims offset by the gain on the disposition of BHTS. See Note 4 of Notes to Consolidated Financial Statements for a description of the extraordinary loss in 1994.

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. 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, 1996, the Company's internal control system provides reasonable assurance that material errors or irregularities will be prevented or detected within a timely period and is cost effective.

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

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

Max L. Lukens

Max L. Lukens
President and Chief Executive Officer

Eric L. Mattson
Senior Vice President and Chief Financial Officer

James E. Braun

James E. Braun
Controller

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's Consolidated Financial Statements for the years ended September 30, 1996, 1995 and 1994 and the related Notes to Consolidated Financial Statements.

Business Environment

Baker Hughes provides products and services to the worldwide oilfield services and continuous process industries. Oilfield services generate approximately 87% of the Company's consolidated revenues.

Baker Hughes Oilfield Operations consist of six divisions that provide products, services and solutions used in the drilling, completion, production and maintenance of oil and gas wells. The business environment for oilfield operations and its corresponding operating results are affected significantly by petroleum industry exploration and production expenditures. These expenditures are influenced strongly by oil company expectations about energy prices and the supply and demand for crude oil and natural gas. Petroleum supply and pricing, in turn, are influenced by numerous factors. These include, but are not limited to, world economic conditions, weather, the legislative environment in the United States and other countries, OPEC policy and conflict in the Middle East and other major petroleum producing regions.

Baker Hughes Process Equipment Company ("BHPEC") has three divisions that serve a broad range of process industries around the world. BHPEC's technology separates solids from liquids and liquids from liquids through filtration, sedimentation, centrifugation and flotation processes. The business environment for BHPEC is affected significantly by worldwide economic conditions and the economic health of the specific markets where it participates.

Operating Environment For Oilfield Operations

Two key trends are altering the oilfield service market place: the impact of technology and the growth in outsourcing and partnering. Advances in the design and application of the Company's products and services allow oil and gas operators to drill and complete wells at a lower overall cost. At the same time, this technology helps accelerate hydrocarbon production and enhance reserve recovery.

Similarly, oil companies have increased their levels of outsourcing to and partnering with service companies because this approach has proven to be effective in lowering finding and development costs. The Company continues to expand and develop its involvement in project management. Baker Hughes works closely with client companies in project planning, and in the engineering and integration of several products and services into solutions that meet client objectives.

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

Worldwide Oil Demand

Fiscal Year *(In millions)*	**1996**	1995	1994
OECD Oil Demand	**40.9**	40.2	39.9
Non-OECD Oil Demand	**30.4**	29.6	28.7
Worldwide Oil Demand (Bbls/day)	**71.3**	69.8	68.6

OECD - Organization for Economic Cooperation and Development (developed countries)

According to the International Energy Agency, the demand for crude oil is expected to grow 1.4 million to 2.0 million barrels per day per year through the end of the century. Three-quarters of the incremental demand are expected to be driven by relatively low energy prices, low but increasing energy consumption per capita, population growth and economic growth in non-OECD countries, particularly in Asia and Latin America.

Oil and Gas Prices

Fiscal Year	**1996**	1995	1994
WTI ($/bbl)	**20.51**	18.29	16.87
U.S. Spot Natural Gas ($/mcf)	**2.21**	1.42	1.88

The Company expects crude oil to trade between $18 and $22 per barrel in 1997 while remaining susceptible to short-term price fluctuations as the growth in worldwide demand is met by increased production by non-OPEC producing countries. U.S. natural gas prices are expected to moderate in 1996 with the return of "normal" weather and limited pipeline de-bottlenecking. Natural gas prices are expected to average above $2/mcf. The Company believes that natural gas prices at or above $2/mcf will sustain the current natural gas exploration and development drilling activity.

Rotary Rig Count

Fiscal Year	**1996**	1995	1994
U.S. - Land	**652**	638	684
U.S. - Offshore	**107**	100	101
Canada	**247**	247	245
North America	**1,006**	985	1,030
Latin America	**279**	266	223
North Sea	**53**	42	42
Other Europe	**69**	66	67
Africa	**76**	65	66
Middle East	**138**	123	135
Asia Pacific	**173**	186	214
International	**788**	748	747
Worldwide	**1,794**	1,733	1,777
U.S. Workover	**1,306**	1,298	1,336

North America The Company anticipates a moderate increase in U.S. drilling activity. Offshore activity will remain strong; however, the worldwide shortage of offshore drilling rigs will limit future growth. Canadian activity is expected to increase from 1996 levels.

International The Company is optimistic that most international areas will post an increasing rig count in 1997. The Company is forecasting increases in Latin America, the North Sea and West Africa while activity in the Middle East and Asia Pacific is forecasted to be flat.

RESULTS OF OPERATIONS

Revenues

Consolidated revenues for 1996 increased $390.3 million, or 14.8%, from 1995 lead by Baker Hughes Oilfield Operations where most all regions of the world reported an increase. Activity was particularly strong in several key oilfield regions of the world including the North Sea, Gulf of Mexico and Nigeria where revenues were up $93.4 million, $56.8 million and $30.1 million, respectively. These areas provide the Company with higher margins because of the more difficult and complex drilling conditions that require the premium products and services offered by the Company. In addition, operators in these areas apply many of the Company's leading technologies including horizontal drilling techniques and multilateral completions. Strong drilling activity drove a $35.5 million increase in Venezuelan revenues. The strong performance in these and other areas was offset by a decrease of revenues in the former Soviet Union ("FSU"). Revenues in the FSU declined $10.9 million to $42.4 million as the lack of financing slowed activity in this region.

In 1996, Baker Hughes Process Equipment Company reported a revenue increase of $38.6 million, or 11.1% from 1995. The growth in the minerals processing and pulp and paper industry slowed from the prior year. In addition, two 1996 acquisitions account for $21.5 million of the increase.

Consolidated revenues for 1995 increased $132.8 million, or 5.3%, from 1994. Adjusting for the disposition of EnviroTech Pumpsystems ("Pumpsystems") in 1994, consolidated revenues increased 9.5%, or $229.3 million.

Baker Hughes Oilfield Operations accounted for $177.6 million of the increase. Latin America saw a revenue increase of $94.3 million as the national oil companies of Venezuela and Argentina increased their drilling programs. Acceptance and growth of horizontal drilling technology in Oman and the Gulf of Mexico resulted in revenue growth of $11.7 million and $33.5 million, respectively. Revenues in the FSU declined $21.3 million to $53.3 million as the lack of financing had a significant effect on activity in this region.

In 1995, Baker Hughes Process Equipment Company reported a revenue increase of $51.0 million, or 17.1% from 1994. The minerals processing industry, specifically copper, and the pulp and paper industry experienced significant growth during 1995 benefiting Baker Hughes Process Equipment Company.

Operating Income

(In millions)	**1996**	1995	1994
Consolidated Operating Income	**$ 306.7**	$ 255.9	$ 185.9
Plus Unusual Charge-net	**39.6**		31.8
Less Operating Income of Pumpsystems			(17.9)
Operating Income from Ongoing Operations	**$ 346.3**	$ 255.9	$ 199.8

Consolidated operating income in 1996 increased 19.8% from 1995 levels and in 1995 increased 37.7% from 1994 levels. Operating income from ongoing operations increased 35.3% in 1996 and 28.1% in 1995.

Cost and Expenses

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

The increase in 1996 of cost of sales and cost of services and rentals is in line with the increase in the related revenue. Research and engineering and marketing and field service expenses also increased due to higher revenues although, as a percent of revenue, they decreased slightly because these costs tend to be more fixed in nature. In total, as a percent of consolidated revenues, costs and expenses applicable to revenues decreased from 81.5% in 1995 to 81.0% in 1996.

For 1995, the total of cost of sales, cost of services and rentals, research and engineering and marketing and field service expenses as a percentage of total revenue decreased from 83.2% in 1994 to 81.5% in 1995 reflecting, in part, the realization of cost reductions from the Company's ongoing quality programs. Research and engineering decreased for the year due primarily to the reorganization of the research function at two divisions in Oilfield Operations and the disposition of Pumpsystems in 1994. The reorganizations consisted of reductions in headcount as well as a change in focus to product related engineering where costs are now included in cost of sales and marketing and field service expense.

General and administrative expense, which is less sensitive to changes in revenue, decreased $3.0 million, or 1.5% in 1996. The decrease is due primarily to the non-recurrence of the 1995 items discussed below, offset by foreign currency translation losses of $10.5 million related to the devaluation of the Venezuelan bolivar recognized in 1996. The increase in 1995 from 1994 is due to the resolution of certain legal matters during 1995, the accrual for other claims and the writedown of certain foreign properties held for disposal to their estimated net realizable value. Amortization of goodwill and intangibles has remained relatively flat in all three years as no significant acquisitions or dispositions have been made in recent years.

Unusual Charge-net

1996: During the third quarter of 1996, the Company recorded an unusual charge of $39.6 million. The charge consisted primarily of the write-off of $8.5 million of Baker Hughes Oilfield Operations patents that no longer protected commercially significant technology, a $5.0 million impairment of a Latin America joint venture due to changing market conditions in the region in which it operates and restructuring charges totaling $24.1 million. The restructuring charges include the downsizing of Baker Hughes INTEQ's Singapore and Paris operations, a reorganization of Baker Hughes Process Equipment Company's Italian operations and the consolidation of certain Baker Oil Tools manufacturing operations.

Noncash provisions of the charge totaled $25.3 million and consist primarily of the write-down of assets to net realizable value. The remaining $14.3 million of the charge represents future cash expenditures related to severance under existing benefit arrangements, the relocation of people and equipment and abandoned leases. The Company spent $4.2 million of the cash during 1996 and expects to spend substantially all of the remaining $10.1 million by the end of 1997. Such expenditures relate to specific plans and clearly defined actions and will be funded from operations and available credit facilities. The actions taken are expected to favorably impact future operating results and liquidity as the reduction of headcount and the downsizing of operations will reduce future operating costs without significantly impacting the pricing of the products and services and market share. Annual cost savings are expected to be between $7.0 million and $9.0 million.

1994: During the fourth quarter of 1994, the Company recorded a $32.4 million unusual charge related to the restructuring and reorganization of certain divisions, primarily Baker Hughes INTEQ, as part of a continuing effort to maintain a cost structure appropriate for current and future market conditions. Noncash provisions of the charge totaled $16.3 million and consist primarily of the write-down of excess facilities and operating assets to net realizable value. The remaining $16.1 million of the charge represents cash expenditures related to severance under existing benefit arrangements, the relocation of people, equipment and inventory and abandoned leases. The Company spent $1.8 million in 1996, $11.2 million in 1995 and $3.1 million in 1994.

In addition, an MWD (measurement-while-drilling) product line was discontinued when it was decided to market and support other MWD products resulting in the write-off of property and inventory of $15.0 million. Offsetting these charges was an unusual gain of $19.3 million related to the May 1994 cash settlement of a suit against certain insurance carriers in the Parker & Parsley litigation.

Interest Expense

Interest expense in 1996 remained comparable to 1995 as slightly higher average debt balances were offset by a slightly lower weighted average interest rate. Interest expense decreased $8.2 million in 1995 compared to 1994. The decrease in 1995 is attributable to the repurchase or defeasance of all the outstanding 6% discount debentures in the last half of 1994.

Interest Income

Interest income decreased $1.4 million in 1996. The decrease was due to lower levels of short-term investments during the year. Interest income increased $1.7 million in 1995 due to an increase in the average short-term investments during the year.

Gain on Sale of Varco Stock

In May 1996, the Company sold 6.3 million shares of Varco International, Inc. ("Varco") common stock, representing its entire investment in Varco. The Company received net proceeds of $95.5 million and recognized a pretax gain of $44.3 million. The Company's investment in Varco was accounted for using the equity method. Equity income included in the Consolidated Statements of Operations for 1996, 1995 and 1994 was $1.8 million, $3.2 million and $2.1 million, respectively.

Income Taxes

The effective income tax rate for 1996 was 41.0% as compared to 41.5% in 1995 and 42.0% in 1994. The effective rates differ from the federal statutory rate due primarily to taxes on foreign operations and nondeductible goodwill amortization. The decrease in the rate over the three year period is due to the fixed nature of the nondeductible goodwill amortization and a change in the mix of foreign earnings.

Extraordinary Loss

During 1994, the Company recorded an extraordinary loss of $44.3 million, net of a tax benefit of $23.9 million, in connection with the repurchase or defeasance of $225.0 million face amount of its outstanding 6% debentures due March 2002.

Net Income Per Share of Common Stock

In June 1995, the Company repurchased all outstanding shares of its convertible preferred stock for $167.0 million. The fair market value of the preferred stock was $149.4 million on its date of issuance. The repurchase price in excess of this amount, $17.6 million, is deducted from net income in arriving at net income per share of common stock. In addition, net income is adjusted for dividends on preferred stock of $8.0 million in 1995 and $12.0 million in 1994.

Capital Resources And Liquidity

Financing Activities

Net cash outflows from financing activities were $152.2 million in 1996 compared to $95.5 million and $429.8 million in 1995 and 1994, respectively.

Total debt outstanding at September 30, 1996 was $675.4 million, compared to $801.3 million at September 30, 1995 and $653.3 million at September 30, 1994. The debt to equity ratio was .400 at September 30, 1996, compared to .529 at September 30, 1995 and .399 at September 30, 1994.

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

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

In 1996, the Company used $108.4 million of cash to repay the 4.125% Swiss Franc Bonds that matured. The proceeds from the sale of Varco common stock funded the retirement. In addition, the price of the Company's common stock increased significantly during 1996 resulting in $43.7 million of capital raised through employee stock plans.

At September 30, 1996, the Company had $590.7 million of credit facilities with commercial banks, of which $300.0 million is committed. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

During 1996, the U.S. dollar strengthened slightly against most currencies in which the Company has a significant net asset position. During 1995, the U.S. dollar was relatively flat against most European currencies where the Company has a significant net asset position. However, the Company was impacted by the devaluation of the Mexican peso resulting in an increase of $4.8 million in the cumulative foreign currency translation adjustment account.

Investing Activities

Net cash outflows from investing activities were $40.9 million in 1996 compared to cash outflows of $94.1 million in 1995 and cash inflows of $258.4 million in 1994.

Proceeds from the disposal of assets and noncore businesses generated $78.5 million in 1996, $44.8 million in 1995 and $367.1 million in 1994. Property additions increased in 1996 to $182.2 million from $138.9 million in 1995. In 1994, property additions were $108.6 million. The increase in 1996 and 1995 is in line with the Company's objective of replacing capital to increase productivity and ensure that the necessary capacity is available to meet market demand.

The majority of the capital expenditures have been in Oilfield Operations where the largest single item is the expenditure for rental tools and equipment to supplement the rental fleet. Funds provided from operations and outstanding lines of credit are expected to be more than adequate to meet future capital expenditure requirements. The Company expects 1997 capital expenditures to be in excess of $200.0 million.

Operating Activities

Net cash inflows from operating activities were $194.7 million, $127.3 million and $230.8 million in 1996, 1995 and 1994, respectively.

The increase of $67.4 million in 1996 was due to an increase in net income adjusted for noncash items and a decrease in the growth of working capital from the prior year due primarily to the settlement of liabilities in 1995 as explained below. The decrease of $103.5 million in 1995 was due primarily to the build up of working capital in Oilfield Operations to support increased activity, in particular, the significant increase in Latin America and emerging markets, and the reduction in liabilities resulting from cash payments for costs associated with the disposition of Pumpsystems and the restructuring accruals recorded in the fourth quarter of 1994. These uses of cash were offset by an increase in net income adjusted for noncash items.

Accounting Standards

Postemployment Benefits

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

Postretirement Benefits Other Than Pensions

The Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective October 1, 1993. The Company elected to immediately recognize the cumulative effect of the change in accounting and recorded a charge of $69.6 million, net of a tax benefit of $37.5 million, in the first quarter of 1994.

Accounting for Income Taxes

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

Investments in Debt and Equity Securities

The Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," effective September 30, 1994, and recorded a charge to a separate component of stockholders' equity for unrealized losses on securities available for sale of $2.8 million, net of a tax benefit of $1.5 million.

Impairment of Long-Lived Assets

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which was effective for the Company on October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set forth in SFAS No. 121 is not significantly different from the Company's current policy and, therefore, the adoption of SFAS No. 121, as it relates to impairment of long-lived assets used in operations, does not have a significant impact on the consolidated financial statements. SFAS No. 121 also addresses the accounting for long-lived assets to be disposed of and requires these assets to be carried at the lower of cost or fair market value, rather than the lower of cost or net realizable value, the Company's current accounting policy. The impact of this aspect of SFAS No. 121 on the consolidated financial statements will be a charge to income of $12.1 million, net of a tax benefit of $5.9 million, which will be recorded in the first quarter of 1997 as the cumulative effect of a change in accounting.

Stock Based Compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which was effective for the Company on October 1, 1996. SFAS No. 123 permits, but does not require, a fair value based method of accounting for employee stock option plans which results in compensation expense being recognized in the results of operations when stock options are granted. The Company will continue the use of its current intrinsic value based method of accounting for such plans where no compensation expense is recognized. However, as required by SFAS No. 123, the Company will provide pro forma disclosure of net income and earnings per share in the notes to the 1997 consolidated financial statements as if the fair value based method of accounting had been applied.

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, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. 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, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 1, the Company changed its method of accounting for postemployment benefits effective October 1, 1994 to conform with Statement of Financial Accounting Standards No. 112.

Deloitte & Touche LLP

November 13, 1996
Houston, Texas

BAKER HUGHES INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

Years ended September 30,	1996	1995	1994
REVENUES:			
Sales	**$ 2,046,850**	$ 1,805,108	$ 1,727,734
Services and rentals	**980,880**	832,356	777,024
Total	**3,027,730**	2,637,464	2,504,758
COSTS AND EXPENSES:			
Costs of sales	**1,186,843**	1,045,672	1,015,458
Cost of services and rentals	**496,026**	418,342	389,605
Research and engineering	**87,033**	83,546	91,011
Marketing and field service	**682,092**	601,228	586,671
General and administrative	**199,894**	202,903	184,013
Amortization of goodwill and other intangibles	**29,552**	29,884	30,775
Unusual charge - net	**39,611**		31,829
Operating income of business sold			(10,488)
Total	**2,721,051**	2,381,575	2,318,874
Operating income	**306,679**	255,889	185,884
Interest expense	**(55,528)**	(55,595)	(63,835)
Interest income	**3,421**	4,806	3,067
Gain on sale of Varco stock	**44,295**		
Gain on sale of Pumpsystems			101,000
Income before income taxes, extraordinary loss and cumulative effect of accounting changes	**298,867**	205,100	226,116
Income taxes	**(122,517)**	(85,117)	(94,974)
Income before extraordinary loss and cumulative effect of accounting changes	**176,350**	119,983	131,142
Extraordinary loss (net of $23,865 income tax benefit)			(44,320)
Cumulative effect of accounting changes:			
Income taxes			25,455
Postretirement benefits other than pensions (net of $37,488 income tax benefit)			(69,620)
Postemployment benefits (net of $7,861 income tax benefit)		(14,598)	
Accounting changes - net		(14,598)	(44,165)
Net income	**$ 176,350**	$ 105,385	$ 42,657
PER SHARE OF COMMON STOCK:			
Income before extraordinary loss and cumulative effect of accounting changes	**$ 1.23**	$ .67	$ .85
Extraordinary loss			(.31)
Cumulative effect of accounting changes		(.10)	(.32)
Net income	**$ 1.23**	$ .57	$ .22

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands, except share amounts)

September 30,	1996	1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,714	$ 6,817
Receivables-less allowance for doubtful accounts:		
1996, $22,866; 1995, $24,809	793,801	709,588
Inventories:		
Finished goods	665,715	595,417
Work in process	70,609	61,622
Raw materials	65,870	70,743
Total inventories	802,194	727,782
Deferred income taxes	78,680	92,550
Other current assets	34,004	28,078
Total current assets	1,716,393	1,564,815
PROPERTY:		
Land	27,277	35,393
Buildings	290,735	314,184
Machinery and equipment	577,159	607,061
Rental tools and equipment	621,158	570,279
Total property	1,516,329	1,526,917
Accumulated depreciation	(917,379)	(951,858)
Property-net	598,950	575,059
OTHER ASSETS:		
Investments	68,992	92,474
Property held for disposal	57,666	58,544
Other assets	98,104	103,321
Excess costs arising from acquisitions - less accumulated amortization:		
1996, $156,937; 1995, $136,174	757,285	772,378
Total other assets	982,047	1,026,717
Total	$ 3,297,390	$ 3,166,591

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30,	1996	1995
CURRENT LIABILITIES:		
Accounts payable-trade	$ 330,138	$ 304,689
Short-term borrowings	1,612	2,130
Current portion of long-term debt	247	768
Accrued employee compensation and benefits	155,310	133,135
Income taxes payable	32,925	28,445
Taxes other than income	26,600	25,176
Accrued insurance	28,052	27,475
Accrued interest	10,324	11,978
Other accrued liabilities	50,112	46,335
Total current liabilities	635,320	580,131
LONG-TERM DEBT	673,588	798,352
DEFERRED INCOME TAXES	150,460	118,350
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	97,635	97,187
OTHER LONG-TERM LIABILITIES	51,178	58,965
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $1 par value (authorized 400,000,000 shares; outstanding 144,553,000 shares in 1996 and 142,237,000 shares in 1995)	144,553	142,237
Capital in excess of par value	1,393,580	1,342,317
Retained earnings	250,567	140,106
Cumulative foreign currency translation adjustment	(118,766)	(107,689)
Unrealized gain (loss) on securities available for sale	19,275	(3,365)
Total stockholders' equity	1,689,209	1,513,606
Total	$ 3,297,390	$ 3,166,591

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

For the three years ended September 30, 1996	Preferred Stock	Common Stock	Capital In Excess of Par Value	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain (Loss) on Securities Available for Sale	Total
Balance, September 30, 1993	$4,000	$ 140,437	$ 1,444,549	$ 159,277	$ (137,615)		$1,610,648
Net income				42,657			42,657
Cash and accrued dividends on $3.00 convertible preferred stock				(12,000)			(12,000)
Cash dividends on common stock ($.46 per share)				(64,658)			(64,658)
Foreign currency translation adjustment					17,825		17,825
Disposition of businesses					16,875		16,875
Income tax accounting change			21,896				21,896
Investment accounting change						$ (2,791)	(2,791)
Stock issued pursuant to employee stock plans		452	7,568				8,020
Balance, September 30, 1994	4,000	140,889	1,474,013	125,276	(102,915)	(2,791)	1,638,472
Net income				105,385			105,385
Cash and accrued dividends on $3.00 convertible preferred stock				(8,000)			(8,000)
Cash dividends on common stock ($.46 per share)				(64,955)			(64,955)
Foreign currency translation adjustment					(4,774)		(4,774)
Repurchase of $3.00 convertible preferred stock	(4,000)		(145,400)	(17,600)			(167,000)
Unrealized loss adjustment						(574)	(574)
Stock issued pursuant to employee stock plans		1,348	13,704				15,052
Balance, September 30, 1995		142,237	1,342,317	140,106	(107,689)	(3,365)	1,513,606
Net income				**176,350**			**176,350**
Cash dividends on common stock ($.46 per share)				**(65,889)**			**(65,889)**
Foreign currency translation adjustment					**(11,077)**		**(11,077)**
Unrealized gain adjustment, net of $12,191 tax charge						**22,640**	**22,640**
Stock issued pursuant to employee stock plans		**2,316**	**46,180**				**48,496**
Tax benefit related to employee stock plans			**5,083**				**5,083**
Balance, September 30, 1996		**$ 144,553**	**$ 1,393,580**	**$ 250,567**	**$ (118,766)**	**$19,275**	**$1,689,209**

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years ended September 30,	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 176,350	$ 105,385	$ 42,657
Adjustments to reconcile net income to			
net cash flows from operating activities:			
Depreciation and amortization of:			
Property	115,920	114,170	122,812
Other assets and debt discount	39,927	40,368	46,526
Deferred tax provision	30,145	44,783	47,366
Noncash portion of unusual charge-net	25,269		47,988
Gain on sale of Varco stock	(44,295)		
Gain on disposal of assets	(31,716)	(18,313)	(18,034)
Gain on disposition of businesses			(109,550)
Foreign currency translation loss-net	8,863	1,948	1,892
Cumulative effect of accounting changes		14,598	44,165
Extraordinary loss			44,320
Change in receivables	(84,044)	(94,660)	(22,740)
Change in inventories	(73,836)	(79,937)	(58,035)
Change in accounts payable-trade	22,623	51,734	24,890
Changes in other assets and liabilities	9,471	(52,805)	16,520
Net cash flows from operating activities	194,677	127,271	230,777
CASH FLOWS FROM INVESTING ACTIVITIES:			
Property additions	(182,157)	(138,876)	(108,639)
Proceeds from sale of Varco stock	95,476		
Proceeds from disposal of assets	78,463	44,786	38,664
Acquisition of businesses, net of cash acquired	(32,681)		
Proceeds from disposition of businesses			328,389
Net cash flows from investing activities	(40,899)	(94,090)	258,414
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (payments) from commercial paper			
and revolving credit facilities	(21,662)	42,674	(162,590)
Retirement of debentures			(205,497)
Repayment of indebtedness	(108,401)		
Proceeds from exercise of debenture purchase warrants		93,000	
Net proceeds from issuance of debenture purchase warrants			7,026
Repurchase of preferred stock		(167,000)	
Proceeds from exercise of stock options and stock			
purchase grants	43,734	9,773	7,900
Dividends	(65,889)	(73,955)	(76,658)
Net cash flows from financing activities	(152,218)	(95,508)	(429,819)
Effect of exchange rate changes on cash	(663)	(35)	2,815
Increase (decrease) in cash and cash equivalents	897	(62,362)	62,187
Cash and cash equivalents, beginning of year	6,817	69,179	6,992
Cash and cash equivalents, end of year	$ 7,714	$ 6,817	$ 69,179

See Notes to Consolidated Financial Statements

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation: The consolidated financial statements include the accounts of Baker Hughes Incorporated and all majority owned subsidiaries (the "Company"). Investments in which ownership interest ranges from 20 to 50 percent and the Company exercises significant influence over operating and financial policies are accounted for on the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

Investments: Investments in debt and equity securities, other than those accounted for by the equity method, are reported at fair value with unrealized gains or losses, net of tax, recorded as a separate component of stockholders' equity.

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

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

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

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

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

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

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

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

Income per share: Net income per common share is based on the weighted average number of shares outstanding during the respective periods and excludes the negligible dilutive effect of shares issuable in connection with employee stock, stock option and similar plans.

The following table presents information necessary to calculate net income per common share for the periods indicated:

(In thousands)	**1996**	1995	1994
Net income	**$ 176,350**	$105,385	$ 42,657
Less: Preferred stock dividends		(8,000)	(12,000)
Effect of preferred stock repurchase		(17,600)	
Net income applicable to common stock	**$ 176,350**	$ 79,785	$ 30,657
Weighted average shares outstanding	**143,256**	141,215	140,532

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

1997 accounting change: In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which was effective for the Company on October 1, 1996. The statement sets forth guidance as to when to recognize an impairment of long-lived assets, including goodwill, and how to measure such an impairment. The methodology set forth in SFAS No. 121 is not significantly different from the Company's current policy and, therefore, the adoption of SFAS No. 121, as it relates to impairment of long-lived assets used in operations, does not have a significant impact on the consolidated financial statements. SFAS No. 121 also addresses the accounting for long-lived assets to be disposed of and requires these assets to be carried at the lower of cost or fair market value, rather than the lower of cost or net realizable value, the Company's current accounting policy. The impact of this aspect of SFAS No. 121 on the consolidated financial statements will be a charge to income of $12.1 million, net of a tax benefit of $5.9 million, which will be recorded in the first quarter of 1997 as the cumulative effect of a change in accounting.

NOTE 2

Acquisitions And Dispositions

1996

In April 1996, the Company purchased the assets and stock of a business operating as Vortoil Separation Systems, and certain related oil/water separation technology, for $18.8 million. In June 1996, the Company purchased the stock of KTM Process Equipment, Inc., a centrifuge company, for $14.1 million. These acquisitions are now a part of Baker Hughes Process Equipment Company and have been accounted for using the purchase method of accounting. 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 1996 consolidated statement of operations from the respective acquisition dates. Pro forma results reflecting these two acquisitions have not been presented as the pro forma revenue, net income and earnings per share would not be materially different from the Company's actual results.

In April 1996, the Company exchanged the 100,000 shares of Tuboscope Vetco International Corporation ("Tuboscope") Series A convertible preferred stock held by the Company since October 1991, for 1.5 million shares of Tuboscope common stock and a warrant to purchase 1.25 million shares of Tuboscope common stock. The warrants are exercisable at $10.00 per share and expire on December 31, 2000.

In May 1996, the Company sold 6.3 million shares of Varco International, Inc. ("Varco") common stock, representing its entire investment in Varco. The Company received net proceeds of $95.5 million and recognized a pretax gain of $44.3 million. The Company's investment in Varco was accounted for using the equity method. Equity income included in the consolidated statements of operations for 1996, 1995 and 1994 was $1.8 million, $3.2 million and $2.1 million, respectively.

1994

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

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

NOTE 3

UNUSUAL CHARGE-NET

1996

During 1996, the Company recognized a $39.6 million unusual charge consisting of the following:

(In thousands)	
Patent write-off	$ 8,481
Impairment of joint venture	5,000
Restructurings:	
Severance for 360 employees under existing benefit arrangements	7,145
Relocation of people and equipment	2,332
Abandoned leases	2,765
Inventory write-down	1,500
Write-down of assets to net realizable value	10,388
Other	2,000
Unusual charge	$ 39,611

The Company has certain oilfield operations patents which no longer protect commercially significant technology resulting in the write-off of $8.5 million. A $5.0 million impairment of a Latin America joint venture was recorded due to changing market conditions in the region in which it operates. The Company recorded a $24.1 million restructuring charge including the downsizing of Baker Hughes INTEQ's Singapore and Paris operations, a reorganization of Baker Hughes Process Equipment Company's Italian operations and the consolidation of certain Baker Oil Tools manufacturing operations. Cash provisions of the charge totaled $14.3 million. The Company spent $4.2 million in 1996 and expects to spend substantially all of the remaining $10.1 million in 1997.

1994

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

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

In May 1994, the Company realized a gain of $19.3 million from the cash settlement of a suit against certain insurance carriers in the 1993 Parker & Parsley litigation.

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

NOTE 4

INDEBTEDNESS

Long-term debt at September 30, 1996 and 1995 consisted of the following:

(In thousands)	1996	1995
Commercial Paper with an average interest rate of 5.25% at September 30, 1996	$ 44,000	$ 15,000
Revolving Credit Facilities due through 1999 with an average interest rate of 8.14% at September 30, 1996	32,972	81,961
Liquid Yield Option Notes (LYONS) due May 2008 with a yield to maturity of 3.5% per annum, net of unamortized discount of $131,380 ($140,505 in 1995)	253,870	244,745
7.625% Notes due February 1999 with an effective interest rate of 7.73%, net of unamortized discount of $669 ($938 in 1995)	149,331	149,062
4.125% Swiss Franc 200 million Bonds repaid in June 1996		107,896
8% Notes due May 2004 with an effective interest rate of 8.08%, net of unamortized discount of $1,054 ($1,175 in 1995)	98,946	98,825
Debentures with an effective interest rate of 8.59%, due January 2000	93,000	93,000
Other	1,716	8,631
Total debt	673,835	799,120
Less current maturities	247	768
Long-term debt	$ 673,588	$798,352

At September 30, 1996, the Company had $590.7 million of credit facilities with commercial banks, of which $300 million is committed. The majority of these facilities expire in 1999. The Company's policy is to classify commercial paper and borrowings under revolving credit facilities as long-term debt since the Company has the ability under certain credit agreements, and the intent, to maintain these obligations for longer than one year. These facilities are subject to normal banking terms and conditions and do not materially restrict the Company's activities.

The LYONS are convertible into the Company's common stock at a conversion price of $36.08 per share, calculated as of November 5, 1996, and increases at an annual rate of 3.5%. At the option of the Company, the LYONS may be redeemed for cash at any time on or after May 5, 1998, at a redemption price equal to the issue price plus accrued original issue discount through the date of redemption. At the option of the holder, the LYONS may be redeemed for cash on May 5, 1998, or on May 5, 2003, for a redemption price equal to the issue price plus accrued original issue discount through the date of redemption.

In June 1996, the Company used $108.4 million of cash to repay the 4.125% Swiss Franc Bonds ("SFr Bonds"). The SFr Bonds were hedged through a foreign currency swap agreement and a foreign currency option, both of which expired in June 1996. These instruments converted the Company's Swiss Franc denominated principal and interest obligations under the SFr Bonds into U.S. dollar denominated obligations.

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

Maturities of long-term debt for the next five years are as follows: 1997-$0.2 million; 1998-$.1 million; 1999-$226.6 million; 2000-$93.1 million and 2001-$1.0 million.

NOTE 5

Financial Instruments

At September 30, 1996, the Company had $314.8 million aggregate notional amount interest rate swap agreements outstanding maturing in 1998 and 2000. These swaps effectively exchange a weighted average fixed interest rate of 5.0% for variable interest rates on the notional amount. The variable interest rate is six-month LIBOR plus 2% and 30-day commercial paper rates minus 1.96% on notional amounts of $93.0 million and $221.8 million, respectively. The interest rate swaps settle semi-annually with respect to the $93.0 million notional amount and upon maturity (2000) with respect to the $221.8 million notional amount. At September 30, 1996 and 1995, the Company had recorded an asset of $3.3 million and $3.8 million, respectively, related to the interest rate swap agreements. In the unlikely event that the counterparties fail to meet the terms of an interest rate swap agreement, the Company's exposure is limited to the interest rate differential.

Except as described below, the estimated fair values of the Company's financial instruments at September 30, 1996 and 1995 approximate their carrying value as reflected in the consolidated statements of financial position. The Company's financial instruments include cash and short-term investments, receivables, investments, payables, debt and interest rate and foreign currency contracts. The fair value of such financial instruments has been estimated based on quoted market prices and the Black-Scholes pricing model.

The estimated fair value of the Company's debt, at September 30, 1996 and 1995 was $704.8 million and $886.5 million, respectively, which differs from the carrying amounts of $675.4 million and $801.3 million, respectively, included in the consolidated statements of financial position. The fair value of the Company's interest rate swaps and forward foreign currency contracts at September 30, 1996 and 1995 was $0.1 million and $68.7 million, respectively.

NOTE 6

Preferred Stock

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

The preferred stock was redeemable at any time, in whole or in part, at the option of the Company at $50 per share, plus accrued dividends. Dividends on the preferred stock were cumulative at the rate of $3.00 per share per annum. Such dividends were payable quarterly as declared by the Board of Directors.

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

NOTE 7

Employee Stock Plans

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

Stock option activity for the Company during 1996, 1995 and 1994 was as follows:

Number of Shares	1996	1995	1994
(In thousands)			
Stock options outstanding,			
beginning of year	5,015	4,879	2,890
Granted (per share):			
1996 $19.63	1,145		
1995 $19.13 to $20.50		1,349	
1994 $20.13 to $21.88			2,291
Exercised (per share):			
1996 $13.38 to $28.50	(1,774)		
1995 $13.38 to $21.95		(153)	
1994 $10.25 to $15.38			(31)
Expired	(203)	(1,060)	(271)
Stock options outstanding, end of year (per share: $19.13 to $28.50 at September 30, 1996)	4,183	5,015	4,879

At September 30, 1996, options were exercisable for 1.3 million shares, and 3.2 million shares were available for future option grants.

The Company has an Employee Stock Purchase Plan (the "Plan") under which there remain authorized and available for sale to employees, at a discount of 15%, an aggregate of 1.6 million shares of the Company's common stock. Based on the market price of common stock on the date of grant, the Company estimates that approximately 418,000 shares will be purchased in July 1997. Under the Plan, 427,000, 414,000 and 421,000 shares were issued at $18.81, $17.96 and $17.96 per share during 1996, 1995 and 1994, respectively.

NOTE 8

Income Taxes

The geographical sources of income before income taxes, extraordinary loss and cumulative effect of accounting changes for the three years ended September 30, 1996 are as follows:

(In thousands)	1996	1995	1994
United States	$116,363	$128,273	$139,940
Foreign	182,504	76,827	86,176
Total	$298,867	$205,100	$226,116

The provision for income taxes for the three years ended September 30, 1996 are as follows:

(In thousands)	1996	1995	1994
Current:			
United States	$ 40,144	$ 3,730	$ 10,875
Foreign	52,228	36,604	36,733
Total current	92,372	40,334	47,608
Deferred:			
United States	20,669	42,106	46,433
Foreign	9,476	2,677	933
Total deferred	30,145	44,783	47,366
Provision for income taxes	$122,517	$ 85,117	$ 94,974

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

(In thousands)	1996	1995	1994
Statutory income tax	$104,603	$ 71,785	$ 79,141
Incremental effect of foreign operations	12,529	24,828	21,591
Goodwill amortization	5,347	4,155	5,653
State income taxes - net of U.S. tax benefit	2,098	995	2,940
Operating loss and credit carryforwards	(3,276)	(13,103)	(12,662)
Other-net	1,216	(3,543)	(1,689)
Provision for income taxes	$122,517	$ 85,117	$ 94,974

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss and tax credit carryforwards. The tax effects of the Company's temporary differences and carryforwards at September 30, 1996 and 1995 are as follows:

(In thousands)	1996	1995
Deferred tax liabilities:		
Property	**$ 62,300**	$ 54,500
Other assets	**57,700**	60,650
Excess costs arising from acquisitions	**64,000**	59,800
Undistributed earnings of foreign subsidiaries	**41,280**	34,150
Other	**37,400**	21,600
Total	**262,680**	230,700
Deferred tax assets:		
Receivables	**4,100**	3,200
Inventory	**72,400**	66,800
Employee benefits	**44,000**	47,400
Other accrued expenses	**20,200**	32,500
Operating loss carryforwards	**16,600**	27,000
Tax credit carryforwards	**30,800**	32,100
Other	**15,900**	11,800
Subtotal	**204,000**	220,800
Valuation allowance	**(13,100)**	(15,900)
Total	**190,900**	204,900
Net deferred tax liability	**$ 71,780**	$ 25,800

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. The Company has reserved the operating loss carryforwards in certain non-U.S. jurisdictions where its operations have decreased, currently ceased or the Company has withdrawn entirely.

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

At September 30, 1996, the Company had approximately $30.8 million of alternative minimum tax and foreign tax credits available to offset future payments of federal income taxes with foreign tax credits expiring in varying amounts between 1997 and 2002.

NOTE 9

INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

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

Oilfield Industry: Manufacture and sale of equipment and provision of services used in the drilling, completion, production and maintenance of oil and gas wells. The principle markets for this segment include all major oil and gas producing regions of the world including North America, Latin America, Europe, Africa and Far East. Customers include major multi-national, independent and national or state-owned oil companies.

Process Industry: Manufacture and sale of process equipment for separating solids from liquids and liquids from liquids through filtration, sedimentation, centrifugation and flotation processes. The principle markets for this segment include all regions of the world where there are significant industrial and municipal wastewater applications and base metals activity. Customers include municipalities, contractors, engineering companies and pulp and paper, minerals, industrial and oil and gas producers. The process industry also includes the results of Tracor Europa, a computer peripherals operation.

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

The Company maintains worldwide manufacturing plants and service locations to serve these industry segments. Intersegment sales and transfers between geographic areas are priced at the estimated fair value of the products or services negotiated between the selling and receiving units. Operating profit is total revenues less costs and expenses (including unusual charge-net), but before deduction of general corporate expenses totaling $43.6 million (including an unusual charge of $5.0 million), $35.0 million and $32.8 million in 1996, 1995 and 1994, 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 $194.5 million, $253.6 million and $281.3 million at September 30, 1996, 1995 and 1994, respectively.

The 1996 industry segment information contains unusual charges of $30.9 million and $3.7 million in Oilfield and Process, respectively. The 1994 unusual charge-net was related in its entirety to Oilfield. Geographic area operating profit information for 1995 and 1994 has been restated to conform to the 1996 presentation. The information is presented on a legal entity, or statutory basis rather than on a management reporting basis. This change results in an increase in the profitability of the U.S. area and a decrease in the profitability of the non-U.S. areas.

Summarized financial information concerning the industry segments and geographic areas in which the Company operated at September 30, 1996, 1995 and 1994 and for each of the years then ended is shown in the following tables:

(In thousands)	Oilfield	Process	Disposed Businesses	Eliminations	Total
OPERATIONS BY INDUSTRY SEGMENT:					
1996					
Revenues from unaffiliated customers:					
Sales	**$ 1,686,655**	**$ 360,195**			**$ 2,046,850**
Services and rentals	**953,233**	**27,647**			**980,880**
Total revenues	**2,639,888**	**387,842**			**3,027,730**
Operating profit (loss)	**320,093**	**30,471**	**$ (241)**		**350,323**
Identifiable assets	**2,819,081**	**284,014**	**767**	**$ (935)**	**3,102,927**
Capital expenditures	**174,109**	**6,660**		**1,388**	**182,157**
Depreciation and amortization	**135,985**	**7,146**		**2,341**	**145,472**
1995					
Revenues from unaffiliated customers:					
Sales	$ 1,481,969	$ 323,139			$ 1,805,108
Services and rentals	806,254	26,102			832,356
Intersegment sales	9	7		$ (16)	
Total revenues	2,288,232	349,248		(16)	2,637,464
Operating profit (loss)	269,630	32,334	$ (11,083)		290,881
Identifiable assets	2,695,050	211,304	6,923	(318)	2,912,959
Capital expenditures	132,189	5,142		1,545	138,876
Depreciation and amortization	136,311	5,589		2,154	144,054
1994					
Revenues from unaffiliated customers:					
Sales	$ 1,366,555	$ 264,725	$ 96,454		$ 1,727,734
Services and rentals	744,086	32,938			777,024
Intersegment sales	297	589	4,678	$ (5,564)	
Total revenues	2,110,938	298,252	101,132	(5,564)	2,504,758
Operating profit	157,906	21,628	39,116		218,650
Identifiable assets	2,504,512	188,265	30,594	(4,939)	2,718,432
Capital expenditures	100,514	4,188	2,713	1,224	108,639
Depreciation and amortization	141,369	7,260	4,053	1,513	154,195

	Western Hemisphere		Eastern Hemisphere			
(In thousands)	United States	Other	Europe	Other	Eliminations	Total
OPERATIONS BY GEOGRAPHIC AREA:						
1996						
Revenues from unaffiliated customers:						
Sales	**$ 1,013,487**	**$ 332,201**	**$ 444,114**	**$ 257,048**		**$2,046,850**
Services and rentals	**317,980**	**162,378**	**310,998**	**189,524**		**980,880**
Transfers between geographic areas	**343,352**	**10,900**	**85,725**	**5,933**	**$ (445,910)**	
Total revenues	**1,674,819**	**505,479**	**840,837**	**452,505**	**(445,910)**	**3,027,730**
Operating profit	**188,609**	**44,488**	**139,056**	**7,110**	**(28,940)**	**350,323**
Identifiable assets	**1,675,523**	**417,639**	**880,554**	**470,096**	**(340,885)**	**3,102,927**
Export sales of U.S. companies		**103,786**	**17,664**	**154,790**		**276,240**
1995						
Revenues from unaffiliated customers:						
Sales	$ 952,836	$ 290,317	$ 349,374	$ 212,581		$1,805,108
Services and rentals	260,032	155,650	248,521	168,153		832,356
Transfers between geographic areas	210,032	28,639	43,534	25,576	$ (307,781)	
Total revenues	1,422,900	474,606	641,429	406,310	(307,781)	2,637,464
Operating profit	177,848	41,416	75,545	20,775	(24,703)	290,881
Identifiable assets	1,901,670	348,850	528,454	319,159	(185,174)	2,912,959
Export sales of U.S. companies		89,314	10,414	139,111		238,839
1994						
Revenues from unaffiliated customers:						
Sales	$ 870,023	$ 253,834	$ 362,994	$ 240,883		$1,727,734
Services and rentals	308,106	108,282	209,875	150,761		777,024
Transfers between geographic areas	180,345	23,177	36,588	23,433	$ (263,543)	
Total revenues	1,358,474	385,293	609,457	415,077	(263,543)	2,504,758
Operating profit	89,437	47,040	65,869	41,246	(24,942)	218,650
Identifiable assets	1,631,374	278,109	552,104	411,317	(154,472)	2,718,432
Export sales of U.S. companies		77,219	14,883	152,478		244,580

NOTE 10

Employee Benefit Plans

Postretirement Benefits Other Than Pensions

The Company provides postretirement health care benefits for substantially all U.S. employees. The Company's postretirement plans are not funded.

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1996 and 1995:

(In thousands)	**1996**	1995
Accumulated postretirement benefit obligation ("APBO"):		
Retirees	**$ (70,757)**	$ (70,885)
Fully eligible active plan participants	**(9,994)**	(9,568)
Other active plan participants	**(16,625)**	(17,683)
Total	**(97,376)**	(98,136)
Unrecognized net gain	**(9,759)**	(8,740)
Accrued postretirement benefit cost	**$ (107,135)**	$(106,876)

Postretirement benefit expense includes the following components:

(In thousands)	**1996**	1995	1994
Cost of benefits earned	**$ 1,137**	$ 1,300	$ 1,300
Interest cost on APBO	**7,077**	8,200	7,500
Postretirement benefit expense	**$ 8,214**	$ 9,500	$ 8,800

The assumed health care cost trend rate used in measuring the APBO as of September 30, 1996 was 7.5% for 1997 declining gradually each successive year until it reaches 5% in 2002, after which it remains constant. A 1% increase in the trend rate for health care costs would have increased the APBO as of September 30, 1996 by approximately 5% and the aggregate of the service and interest cost components of the 1996 net periodic postretirement benefit cost by approximately 6%. The assumed discount rate used in determining the APBO was 7.5%.

Defined Benefit Pension Plans

The Company has several noncontributory defined benefit pension plans covering various domestic and foreign employees. Generally, the Company makes annual contributions to the plans in amounts necessary to meet minimum governmental funding requirements.

Net pension expense includes the following components:

(In thousands)	**1996**	1995	1994
Cost of benefits earned	**$ 1,384**	$ 1,375	$ 954
Interest cost on projected benefit obligation	**2,545**	2,406	2,329
Actual return on assets	**(6,619)**	(4,793)	(1,710)
Net amortization and deferral	**3,718**	2,391	(216)
Net pension expense	**$ 1,028**	$ 1,379	$ 1,357

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

	1996	1995	1994
Discount rate	**7.1%**	7.3%	7.7%
Rates of increase in compensation levels	**3.0%**	3.0%	3.5%
Expected long-term rate of return on assets	**8.6%**	8.5%	8.6%

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1996 and 1995:

	1996		1995	
(In thousands)	Overfunded Plans	Underfunded Plans	Overfunded Plans	Underfunded Plans
Actuarial present value of benefit obligations:				
Vested benefit obligation	**$ (25,245)**	**$ (9,925)**	$ (21,906)	$ (9,316)
Accumulated benefit obligation	**(25,668)**	**(10,779)**	(22,826)	(9,995)
Projected benefit obligation	**(28,127)**	**(12,934)**	(24,050)	(11,752)
Plan assets at fair value	**37,945**	**3,166**	30,828	3,324
Projected benefit obligation (in excess of) less than plan assets	**9,818**	**(9,768)**	6,778	(8,428)
Unrecognized prior service cost	**492**		371	
Unrecognized net (gain) loss	**(5,272)**	**1,064**	(2,922)	(251)
Unrecognized net liability at transition	**12**	**272**	7	327
Prepaid pension cost (pension liability)	**$ 5,050**	**$ (8,432)**	$ 4,234	$ (8,352)

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

Thrift Plan

Virtually all U.S. employees not covered under one of the Company's pension plans are eligible to participate in the Company sponsored Thrift Plan. The Thrift Plan allows eligible employees to elect to contribute from 2% to 15% of their salaries to an investment trust. Employee contributions are matched by the Company at the rate of $1.00 per $1.00 employee contribution for the first 2% and $.50 per $1.00 employee contribution for the next 4% of the employee's salary. In addition, the Company contributes for all eligible employees between 2% and 5% of their salary depending on the employee's age as of January 1 each year with such contributions becoming fully vested to the employee after five years of employment. The Company's contribution to the Thrift Plan and other defined contribution plans amounted to $30.0 million, $27.5 million and $26.3 million in 1996, 1995 and 1994, respectively.

Postemployment Benefits

The Company provides certain postemployment benefits to substantially all former or inactive U.S. employees following employment but before retirement. The continuation of medical, life insurance and Thrift Plan benefits while on disability and service related salary continuance benefits ("Continuation Benefits") are provided through a nonqualified, unfunded plan. Expense for Continuation Benefits in 1996 and 1995 include the following components (Expense in 1994 was $2.0 million prior to the adoption of SFAS No. 112.):

(In thousands)	1996	1995
Cost of benefits earned	**$ 987**	$ 979
Interest cost on projected benefit obligation	**1,901**	1,843
Postemployment benefit expense	**$ 2,888**	$ 2,822

An additional plan provides for disability income benefits ("Disability Benefits"), available at the date of hire, through a qualified plan which has been funded by contributions from the Company and employees. Because of the overfunded status of the plan, Company contributions are not currently required. Employees will not be required to make contributions effective January 1, 1997. The primary asset of the plan is a guaranteed insurance contract with an insurance company which currently earns interest at 6%. The actuarially determined obligation, is calculated at a discount rate of 7%. Disability Benefits income was $.1 million and $1.5 million in 1996 and 1995, respectively. Expense for these benefits was $2.0 million in 1994, prior to the adoption of SFAS No. 112.

The following table sets forth the funded status and amounts recognized in the Company's consolidated statements of financial position at September 30, 1996 and 1995:

	1996		1995	
(In thousands)	Disability Benefits	Continuation Benefits	Disability Benefits	Continuation Benefits
Actuarial present value of accumulated benefit obligation	**$ (9,546)**	**$ (30,552)**	$ (10,181)	$ (27,792)
Plan assets at fair value	**18,637**		18,594	
Accumulated benefit obligation (in excess of) less than plan assets	**9,091**	**(30,552)**	8,413	(27,792)
Unrecognized net (gain) loss		**3,143**		(825)
Prepaid postemployment cost (postemployment liability)	**$ 9,091**	**$ (27,409)**	$ 8,413	$ (28,617)

Health care cost assumptions used to measure the Continuation Benefits obligation are similar to the assumptions used in determining the obligation for postretirement health care benefits. Additional assumptions used in the accounting for Continuation Benefits in 1996 and 1995 were a discount rate of 7.0% and increases in compensation of 5.0%.

NOTE 11

Stockholder Rights Agreement and Other Matters

The Company had a Stockholder Rights Agreement (SRA) to protect against coercive takeover tactics. During 1996, the Company exercised its option to redeem all of the rights to purchase from the Company .01 of a share of the Series One Junior Participating Preferred Stock for the redemption price of $.03 per right in accordance with the SRA. The cash distribution of $.115 per share of common stock in the third quarter of 1996 includes the redemption price.

Supplemental consolidated statement of operations information is as follows :

(In thousands)	**1996**	1995	1994
Rental expense (generally transportation equipment and warehouse facilities)	**$ 41,509**	$ 36,952	$ 30,089
Research and development	**44,019**	37,423	37,393
Income taxes paid	**78,114**	49,276	39,397
Interest paid	**49,636**	45,206	55,488

At September 30, 1996, 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, 2001 are $37.0 million, $25.0 million, $16.8 million, $11.2 million and $9.3 million, respectively, and $57.3 million in the aggregate thereafter. The Company has not entered into any significant capital leases.

NOTE 12
Litigation

Glyn Snell

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

TRW Inc.

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

Other

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

NOTE 13
Environmental Matters

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

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

At September 30, 1996 and 1995, the Company had accrued approximately $8.3 million and $13.3 million, respectively, for remediation costs, including the Superfund sites referred to above. The measurement of the accruals for remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the difficulty in estimating the extent and remedy of agreements that may be available to the Company to mitigate the remediation costs, such amounts have not been considered in measuring the remediation accrual. The Company believes that the likelihood of material losses in excess of those amounts recorded is remote.

NOTE 14

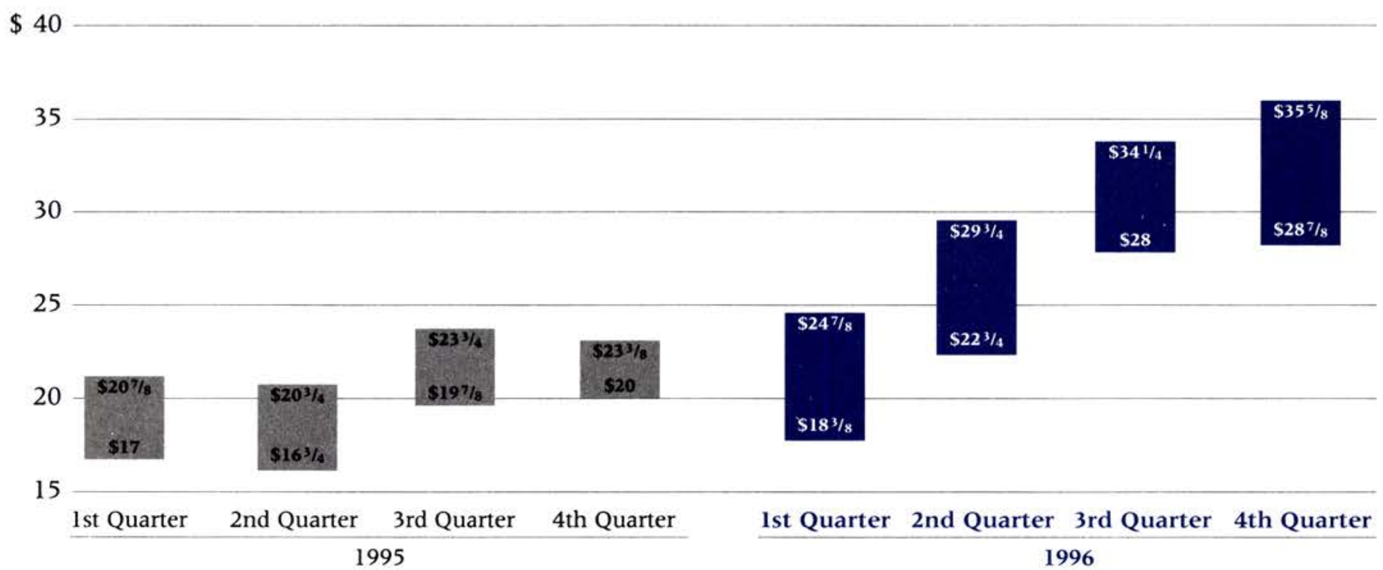
QUARTERLY DATA (UNAUDITED):

Summarized quarterly financial data for the years ended September 30, 1996 and 1995 are shown in the table below:

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Total
FISCAL YEAR 1996:*					
Revenues	$ 694,697	$ 744,822	$ 765,852	$ 822,359	$ 3,027,730
Gross Profit**	126,415	140,239	146,416	162,666	575,736
Net income	32,398	41,559	46,873	55,520	176,350
Net income per share	.23	.29	.33	.38	1.23
Dividends per share	.115	.115	.115	.115	.46
FISCAL YEAR 1995:*					
Revenues	$ 606,917	$ 652,609	$ 668,404	$ 709,534	$ 2,637,464
Gross Profit**	105,006	124,304	124,495	134,871	488,676
Income before cumulative effect of accounting change	24,231	28,000	32,242	35,510	119,983
Net income	9,633	28,000	32,242	35,510	105,385
Per share of common stock:					
Income before cumulative effect of accounting change	.15	.18	.09	.25	.67
Net income	.05	.18	.09	.25	.57
Dividends per share	.115	.115	.115	.115	.46

** See Notes 1, 2 and 3 for information regarding accounting changes and earnings per share calculation, acquisitions and dispositions and unusual charge-net, respectively.*
*** Represents revenues less (i) cost of sales, (ii) cost of services and rentals, (iii) research and engineering expense and (iv) marketing and field service expense.*

Stock Prices by Quarter



CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

Jack S. Blanton
President of Eddy Refining Company

Harry M. Conger *
Chairman of the Board of Homestake Mining Company

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

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

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

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

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

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

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

H. John Riley, Jr. ***
Chairman, President and Chief Executive Officer of Cooper Industries, Inc.

Donald C. Trauscht
Chairman of BW Capital Corporation

James D. Woods*
Chairman of the Board of Baker Hughes Incorporated

CORPORATE INFORMATION

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

Independent Accountants:
Deloitte & Touche LLP
Houston, Texas

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

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

Annual Meeting:
The Company's Annual Meeting of Stockholders will be held at 11:00 a.m. on January 22, 1997 at the offices of the Company, 3900 Essex Lane, Suite 210, Houston, Texas

BAKER HUGHES INCORPORATED

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

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

Baker Hughes Information System
1-800-969-7447

Baker Hughes on The World Wide Web: http://www.BHI-Net.com

* Will retire at the Annual Meeting of Stockholders to be held January 22, 1997.
** Will be named Chairman of Baker Hughes Incorporated on January 22, 1997.
*** Nominee to be an addition in Class I directors.

CORPORATE ORGANIZATION

CORPORATE OFFICERS

James D. Woods
Chairman of the Board

Max L. Lukens
President and Chief Executive Officer

Eric L. Mattson
Senior Vice President and Chief Financial Officer

G. Stephen Finley
Senior Vice President and Chief Administrative Officer

Arthur T. Downey
Vice President, Government Affairs

Scott B. Gill
Vice President, Investor Relations

R. Pat Herbert
Vice President, Market Development & Technology

Lawrence O'Donnell, III
Vice President and General Counsel

James E. Braun
Controller

Douglas C. Doty
Treasurer

Linda J. Smith
Corporate Secretary

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

Joseph F. Brady
Vice President and President, Centrilift

Matthew G. Dick
Vice President and President, Baker Hughes Process Equipment Company

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

Timothy J. Probert
Vice President and President, Baker Hughes INTEQ

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

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

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Operations Section Written by Ron Bitto

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