News Release

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Baker Hughes Reports Record Profits

Oilfield Operating Margins Reach 18%

HOUSTON, Texas – October 26, 2001. Baker Hughes Incorporated (BHI - NYSE, PCX, EBS) announced today that operating profit after tax, excluding non-recurring items, for the third quarter of 2001 was $134.7 million, or $0.40 per share (diluted), up 95% compared to $69.1 million, or $0.21 per share (diluted), for the third quarter of 2000. Total revenues for the third quarter of 2001 were $1,436.0 million, compared to $1,353.7 million reported for the third quarter of 2000. Oilfield Operations revenues for the third quarter of 2001 were $1,348.8 million, up 23% from $1,092.6 million for the third quarter of 2000, excluding Western Geophysical. Baker Process revenues for the third quarter of 2001 were $87.2 million, up 9% from the $80.2 million reported for the third quarter of 2000. Operating profits for the third quarter of 2001 exclude the impact of a $2.4 million non-recurring, divestiture-related gain, net of tax.

Net income for the third quarter of 2001 was $137.1 million, or $0.41 per share (diluted), compared to net income of $65.2 million, or $0.20 per share (diluted), for the third quarter of 2000.

Cash earnings (after-tax operating profit, excluding after-tax goodwill amortization) for the third quarter of 2001 were $144.2 million, or $0.43 per share (diluted), compared with $80.1 million, or $0.24 per share (diluted), for the third quarter of 2000.

Total revenues for the third quarter of 2001 were up $94.0 million, or 7%, compared to the second quarter of 2001. Oilfield revenues for the third quarter of 2001 were up $91.0 million, or 7%, while Baker Process' revenues rose $3.0 million compared to the second quarter of 2001. Total operating profit after tax, excluding non-recurring items, was up $29.4 million sequentially.

Michael E. Wiley, Baker Hughes chairman, president and chief executive officer, said, "Strong North American activity, improved margin performance and improving international activity are reflected in the third quarter's record results. We achieved record earnings, we met our goal of reducing debt by $1 billion from its peak level in year 2000 and we returned our cost of capital for the quarter."

Commenting on the outlook for drilling activity, Mr. Wiley added, "While our North American business remained strong in the third quarter, a decrease in natural gas-directed drilling activity began and is expected to continue at least through the end of the year. This decrease in North American activity is expected to have the most impact on our onshore North American business. Offshore activity should be impacted to a lesser degree as there have already been significant declines in Gulf of Mexico shelf activity and long-term deepwater projects are less likely to be impacted by short-term commodity price fluctuations. We believe that the fundamentals of the North American gas market remain strong for the intermediate term and that a sustained, multi-year natural gas drilling program is needed to address U.S. energy needs. The timing of the recovery in drilling activity will depend on how the natural gas supply and demand balance develops this winter. International activity, particularly in the Eastern hemisphere, is likely to grow modestly for the remainder of 2001 and into 2002."

Financial Information

A table of comparative results follows:

(In millions, except per share amounts) UNAUDITED	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Three Months Ended June 30, 2001
Revenues	$ 1,436.0	$ 1,353.7	$ 1,342.0
Costs and Expenses:			
Cost of revenues	1,008.8	1,019.5	961.8
Selling, general and administrative	214.9	188.1	198.7
Unusual credit	(3.4)	(1.7)	-
Total costs and expenses	1,220.3	1,205.9	1,160.5
Operating income	215.7	147.8	181.5
Equity in income of affiliates	19.6	0.6	8.8
Interest expense	(30.5)	(43.8)	(32.3)
Interest income	1.1	0.9	0.4
Loss on trading securities	-	(3.1)	-
Income before income taxes and extraordinary loss	205.9	102.4	158.4
Income taxes	(68.8)	(37.2)	(53.1)
Income before extraordinary loss	137.1	65.2	105.3
Extraordinary loss (net of $0.8 income tax benefit)	-	-	(1.5)
Net income	$ 137.1	$ 65.2	$ 103.8
Net income per share:			
Basic	$ 0.41	$ 0.20	$ 0.31
Diluted	0.41	0.20	0.31
Depreciation, depletion and amortization expense, excluding goodwill amortization	$ 73.5	$ 150.8	$ 68.9
Goodwill amortization	10.7	12.3	10.8
Total depreciation, depletion and amortization expense	$ 84.2	$ 163.1	$ 79.7
Capital expenditures	$ 68.4	$ 134.1	$ 83.6
Shares outstanding, basic (millions)	335.8	331.2	335.7
Shares outstanding, diluted (millions)	337.3	333.8	337.6
Earnings before interest expense and taxes (EBIT)[1]	$ 233.0	$ 147.7	$ 190.7
Earnings before interest expense, taxes, depreciation, depletion and amortization (EBITDA)[1]	$ 317.2	$ 310.8	$ 270.4

[1]Computed excluding non-operational items, extraordinary items, and cumulative effects of accounting changes.

Financial Information

A table of comparative results follows:

(In millions, except per share amounts) UNAUDITED	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Revenues	$ 4,006.5	$ 3,850.0
Costs and Expenses:		
Cost of revenues	2,860.6	2,976.8
Selling, general and administrative	616.8	565.9
Unusual charge (credit) net	3.6	(25.4)
Total costs and expenses	3,481.0	3,517.3
Operating income	525.5	332.7
Equity in income of affiliates	38.9	1.9
Interest expense	(96.9)	(132.0)
Interest income	2.9	1.9
Gain on trading securities	-	14.1
Income before income taxes, extraordinary loss and cumulative effect of accounting change	470.4	218.6
Income taxes	(157.7)	(75.3)
Income before extraordinary loss and cumulative effect of accounting change	312.7	143.3
Extraordinary loss (net of $0.8 income tax benefit)	(1.5)	-
Cumulative effect of accounting change for derivative instruments (net of $0.5 income tax expense)	0.8	-
Net income	$ 312.0	$ 143.3
Net income per share:		
Basic	$ 0.93	$ 0.43
Diluted	0.92	0.43
Depreciation, depletion and amortization expense, excluding goodwill amortization	$ 218.9	$ 438.2
Goodwill amortization	32.3	36.6
Total depreciation, depletion and amortization expense	$ 251.2	$ 474.8
Capital expenditures	$ 204.7	$ 452.2
Shares outstanding, basic (millions)	335.5	330.5
Shares outstanding, diluted (millions)	337.5	332.4
Earnings before interest expense and taxes (EBIT)[1]	$ 570.9	$ 311.1
Earnings before interest expense, taxes, depreciation, depletion and amortization (EBITDA)[1]	$ 822.1	$ 785.9

[1]Computed excluding non-operational items, extraordinary items, and cumulative effects of accounting changes.

Segment Highlights

Operational highlights for the three months ended September 30, 2001, September 30, 2000 and June 30, 2001 are detailed below.

Comparison of Quarters – Year over Year
(for the Three Months Ended September 30, 2001 and 2000)
UNAUDITED

	Revenue ($ millions)		Operating Profit Before Tax ($ millions)	
	September 2001	**September 2000**	**September 2001**	**September 2000**
Oilfield Operations, excluding Western Geophysical and Western GECO	$ 1,348.8	$ 1,092.6	$ 243.8	$ 150.5
Western Geophysical	-	180.9	-	17.1
Western GECO	-	-	19.4	-
Oilfield Operations	1,348.8	1,273.5	263.2	167.6
Baker Process Operations	87.2	80.2	(2.6)	(0.6)
Corporate, net interest and other	-	-	(58.1)	(63.2)
Non-operational items [1]	-	-	3.4	(1.4)
Total	$ 1,436.0	$ 1,353.7	$ 205.9	$ 102.4

Comparison of Quarters – Sequential
(for the Three Months Ended September 30, 2001 and June 30, 2001)
UNAUDITED

	Revenue ($ millions)		Operating Profit Before Tax ($ millions)	
	September 2001	**June 2001**	**September 2001**	**June 2001**
Oilfield Operations, excluding Western Geophysical and Western GECO	$ 1,348.8	$ 1,257.8	$ 243.8	$ 214.3
Western Geophysical	-	-	-	-
Western GECO	-	-	19.4	9.2
Oilfield Operations	1,348.8	1,257.8	263.2	223.5
Baker Process Operations	87.2	84.2	(2.6)	(1.9)
Corporate, net interest and other	-	-	(58.1)	(63.2)
Non-operational items [1]	-	-	3.4	-
Total	$ 1,436.0	$ 1,342.0	$ 205.9	$ 158.4

[1] Please visit www.bakerhughes.com/investor for a reconciliation of non-operational items for prior periods.

Oilfield Operations Segment

All comments in this section refer to Baker Hughes Oilfield Operations, excluding Western Geophysical and Western GECO unless otherwise noted.

The following table details the percentage change in revenue for each oilfield product line in the September 2001 quarter compared to the September 2000 quarter and June 2001 quarter.

Comparison of Revenue For the Three Months Ended September 30, 2001 Compared to the Three Months Ended UNAUDITED		
Product Line	**September 30, 2000**	**June 30, 2001**
Baker Hughes INTEQ	35%	2%
Baker Atlas	26%	3%
Baker Oil Tools	31%	12%
Baker Petrolite	11%	-1%
Centrilift	13%	15%
Hughes Christensen	31%	15%

Comparing the September 2001 quarter to the June 2001 quarter, oilfield revenue was up 7% -- up 9% in North America, up 6% in the Western Hemisphere and up 8% in the Eastern Hemisphere. Revenues for the third quarter of 2001 increased 23% compared to the third quarter of 2000. Every division reported increases in revenue in the September 2001 quarter compared to the September 2000 quarter. North American revenue increased 35%, Western Hemisphere revenue increased 29% and Eastern Hemisphere revenue increased 17% in the September 2001 quarter, in each case, compared to the September 2000 quarter.

Operating margins of 18% for the September 2001 quarter were greater than any quarter since 1982. Operating profits and margins improved at every division compared to the September 2000 quarter. Every division, except Baker Petrolite, reported a sequential increase in operating profits and margins compared to the June 2001 quarter. Operating margins in the September 2001 quarter exceeded 10% at every division. Baker Atlas, Centrilift, Hughes Christensen, and INTEQ posted record operating profits and operating margins, and Baker Oil Tools reported record operating profits in the September 2001 quarter. Comparing the third quarter of 2001 to the third quarter of 2000, the incremental operating profit before tax margin was 37%.

Returns for Baker Hughes Oilfield Operations exceeded the cost of capital in the September 2001 quarter. Returns at Centrilift, Hughes Christensen, Baker Oil Tools, and Baker Atlas exceeded the cost of capital in the September 2001 quarter. Baker Petrolite and INTEQ had returns that exceeded the cost of capital, excluding goodwill, in the September 2001 quarter.

Baker Process Operations Segment

Baker Process' revenues improved in the September 2001 quarter compared to both the September 2000 and June 2001 quarters. The EIMCO division and the production and refining unit of Baker Process posted profits that were more than offset by operational losses at the Bird Machine division.

Corporate, Net Interest and Other

Corporate, net interest and other expenses were $58.1 million in the September 2001 quarter, down $5.1 million from the September 2000 quarter and from the June 2001 quarter. The improvement in the September 2001 quarter as compared to the September 2000 quarter was due to lower interest expense, offset partially by higher corporate expenses and decreases in net foreign exchange gains. The improvement in the September 2001 quarter as compared to the June 2001 quarter was due to lower interest expense and lower corporate expenses.

Outlook

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially. Factors affecting these forward-looking statements are detailed below under *Forward-Looking Statements.* These statements do not include the potential impact of any acquisition, disposition, merger or joint venture that could occur in the future. Information regarding Western GECO is based upon information that Western GECO has provided to Baker Hughes. Information derived from this information is subject to the accuracy of the information that Western GECO provided. Additionally, any forward-looking statements relating to Western GECO are also subject to the factors listed in *Forward-Looking Statements* in this news release.

- Oilfield revenues are expected to be up 20-21% for the year 2001 as compared to the year 2000, excluding Western Geophysical.
- Incremental profit before tax margin from oilfield revenue, excluding Western GECO, for the three months ended December 31, 2001 is expected to be between 35% and 40% compared to the three months ended December 31, 2000.
- Western GECO is expected to contribute $55 to $60 million in pre-tax profit for the year 2001.
- Baker Process is expected to post an $8-$10 million pre-tax loss for the 12 months ended December 31, 2001.
- Corporate expenses, excluding interest expense, are expected to be between $122 and $125 million for the year 2001.
- Interest expense is expected to be between $122 and $125 million for the year 2001.
- Operational earnings per share (diluted) are expected to be between $1.27 and $1.30 for the year 2001. Operational earnings per share (diluted) are expected to be between $0.34 and $0.37 for the three months ended December 31, 2001.
- Capital spending is expected to be between $300 and $315 million for the year 2001. Baker Hughes' expectation regarding its level of capital expenditures is only its forecast regarding this matter. This forecast may be substantially different from actual results. In addition to the factors

described in Forward-Looking Statements - General Outlook below, the following factors could affect levels of capital expenditures: the accuracy of the company's estimates regarding its spending requirements; the occurrence of any unanticipated acquisition or research and development opportunities; changes in the company's strategic direction; and the need to replace any unanticipated losses in capital assets.

- Depreciation and amortization expense is expected to be between $330 and $350 million for 2001. Baker Hughes' expectation regarding its depreciation and amortization expense is only its forecast regarding this matter. This forecast may be substantially different from actual results, which could be impacted by an unexpected increase in the company's assets that are subject to depreciation or amortization or an unexpected casualty, impairment or other loss in those assets.

- The tax rate on operating results for the 12 months ended December 31, 2001 is expected to be approximately 33.5%. Baker Hughes' expectation regarding its tax rate is only its forecast regarding this matter. This forecast may be substantially different from actual results. In addition to the factors described in Forward-Looking Statements - General Outlook below, the following factors could affect the tax rate: the level and sources of the profitability of the company; changes in tax laws or tax rates in the jurisdictions in which the company operates; and the ability of the company to fully utilize tax loss carry-forwards and credits in various jurisdictions.

Conference Call

The company has scheduled a conference call to discuss the results in today's earnings announcement. The call will begin today at 8:30 A.M. Eastern time, 7:30 A.M. Central time. To access the call, which is open to the public, please contact the conference call operator at (888) 942-8131, 20 minutes prior to the scheduled start time, and ask for the "Baker Hughes Conference Call." A replay will be available through Friday, November 2, 2001. The number for the replay is (800) 756-4574. The call and replay will also be webcast on www.bakerhughes.com/investor.

Forward-Looking Statements

This news release (and oral statements made regarding the subjects of this release, including on the conference call announced herein) contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "expect," "expected," "intends," "will," and similar expressions are intended to identify forward-looking statements.

General Outlook – Oilfield Segment: Baker Hughes' expectations in this news release, regarding its outlook for its oilfield businesses (including, without limitation, the company's oilfield operations and the production and refining component of the company's process segment), improved profitability and growth in those businesses and the oil and gas industry are only its forecasts regarding these matters. These forecasts may be substantially different from actual results, which are affected by the following factors: the effect of competition; the level of petroleum industry exploration and production expenditures; drilling rig and oil and gas industry manpower and equipment availability; the company's ability to implement and effect price increases for its products and services; the company's ability to control its costs; the availability of sufficient manufacturing capacity and subcontracting capacity at forecasted costs to meet the company's revenue goals; the ability of the company to introduce new technology on its forecasted schedule and at its forecasted cost; the ability of the company's competitors to capture market share; world economic conditions; the price of, and the demand for, crude oil and natural gas; drilling activity; weather; the legislative environment in the United States and other countries in which the company operates; OPEC policy; conflict in the Middle East and other major petroleum-producing or consuming regions; continuing effects of the terrorist attacks of September 11, 2001; the development of technology that lowers overall finding and development costs; the condition of the capital and equity markets and the timing of any of the foregoing.

Oilfield Pricing Improvement: Baker Hughes expectation's regarding pricing improvements for its products and services are only its expectations regarding pricing. Actual pricing improvement could be substantially different from the company's expectations, which are affected by many of the factors listed above in "General Outlook – Oilfield Businesses," as well as existing legal and contractual commitments to which the company is subject.

General Outlook – Process Segment: Baker Hughes' expectations in this news release regarding its outlook for its process segment and improvement and growth in Baker Process' business and its markets are only its forecasts regarding these matters. These forecasts may be substantially different from actual results, which are affected by the following factors: the effect of competition; the health of the markets of the company's customers, including, without limitation, the production and refining, industrial, chemical, municipal wastewater and mining markets; the level of customer expenditures and investment, especially in the oil and gas, industrial, chemical, municipal wastewater and mining markets; the company's ability to control its costs; the ability of the company's competitors to capture market share; world economic conditions; the legislative and regulatory environment in the United States and other countries in which the company operates; the condition of the capital and equity markets and the timing of any of the foregoing.

Baker Hughes is a leading provider of drilling, formation evaluation, completion and production products and services to the worldwide oil and gas industry.

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