



## News Release

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### **BHI First Quarter Operational Earnings \$0.22 Per Share**

HOUSTON, Texas – April 23, 2002. Baker Hughes Incorporated (BHI - NYSE, PCX, EBS) announced today that net income, in accordance with generally accepted accounting principles ("net income"), for the first quarter of 2002 was \$33.3 million or \$0.10 per share, which includes a \$42.5 million after tax charge, or \$0.12 per share, related to the cumulative effect of an accounting change resulting from the adoption of SFAS 142, *Goodwill and Other Intangible Assets*.

Operating profit after tax, which excludes the impact of the accounting change, for the first quarter of 2002 was \$75.8 million or \$0.22 per share. Operating profit after tax for the first quarter of 2001 was \$86.6 million or \$0.26 per share and \$145.6 million or \$0.43 per share for the fourth quarter of 2001. These prior period results have been adjusted to exclude the impact of goodwill amortization for comparative purposes.

The company adopted the new goodwill accounting standard as of January 1, 2002. The \$42.5 million charge, noted above, resulted from the write-off of all of the goodwill associated with its remaining Process Operations. A reconciliation of net income to operating profit for the prior periods is included in other sections of this news release.

Revenue for the first quarter of 2002 was \$1,260.9 million compared to \$1,228.5 million for the first quarter of 2001 and \$1,375.7 million for the fourth quarter of 2001. Oilfield revenue for the first quarter of 2002 was \$1,189.1 million compared to \$1,156.2 million for the first quarter of 2001 and \$1,300.6 million for the fourth quarter of 2001.

Michael E. Wiley, Baker Hughes Chairman, President, and Chief Executive Officer, said, "Results for the first quarter were adversely impacted by the depressed levels of North American activity as well as events in Latin America. Our operational results for the quarter include approximately \$10 million, or \$0.02 per share of costs and expenses from foreign exchange losses and other charges related to our operations in Argentina and Venezuela."

Commenting on the outlook for the balance of the year, Mr. Wiley continued, "We expect the second quarter to mark the low point of this cycle. Activity in the Eastern hemisphere is expected to improve modestly through the end of the year. As confidence strengthens that current price levels in the U.S. are sustainable, activity should increase in the U.S. by the third quarter and accelerate through yearend."



## Financial Information

A table of comparative results follows:

(In millions, except per share amounts)  
UNAUDITED

	Three Months Ended		
	March 31, 2002	2001	December 31, 2001
Revenues	\$ 1,260.9	\$ 1,228.5	\$ 1,375.7
Costs and Expenses:			
Costs of revenues	916.9	890.0	971.2
Selling, general and administrative	214.1	203.2	201.8
Unusual charge (credit)	-	7.0	(2.0)
Total costs and expenses	1,131.0	1,100.2	1,171.0
Operating income	129.9	128.3	204.7
Equity in income of affiliates	13.0	10.5	6.9
Interest expense	(28.4)	(34.1)	(29.5)
Interest income	1.2	1.4	9.3
Income before income taxes and cumulative effect of accounting changes	115.7	106.1	191.4
Income tax	(39.9)	(35.8)	(65.4)
Income before cumulative effect of accounting change	75.8	70.3	126.0
Cumulative effect of accounting change	(42.5)	0.8	-
Net income	\$ 33.3	\$ 71.1	\$ 126.0
Earnings per share:			
Basic	\$ 0.10	\$ 0.21	\$ 0.37
Diluted	0.10	0.21	0.37
Shares outstanding, basic (millions)	336.8	335.0	335.9
Shares outstanding, diluted (millions)	338.1	337.6	337.0
Depreciation, depletion and amortization expense (excluding amortization of goodwill in 2001)	\$ 79.1	\$ 76.5	\$ 81.2
Capital expenditures	\$ 62.3	\$ 52.7	\$ 114.3
<b>Calculation of EBIT and EBITDA:</b>			
Income before income taxes	\$ 115.7	\$ 106.1	\$ 191.4
Interest expense	28.4	34.1	29.5
Unusual charge (credit)	-	7.0	(2.0)
Unusual charges recorded in equity in income of affiliates	-	-	10.3
Earnings before interest expense and taxes (EBIT)	144.1	147.2	229.2
Total depreciation, depletion and amortization Expense <sup>1</sup>	79.1	89.3	95.5
Earnings before interest expense, taxes, depreciation, depletion and amortization (EBITDA)	\$ 223.2	\$ 236.5	\$ 324.7

<sup>1</sup>Prior periods have been adjusted to include amortization of goodwill associated with equity method investments.



## Consolidated Condensed Balance Sheets

(in millions)	UNAUDITED	
	March 31, 2002	December 31, 2001
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 41.5	\$ 45.4
Accounts receivable, net	1,321.4	1,365.3
Inventories	1,062.0	1,049.8
Other current assets	238.1	236.7
Total current assets	2,663.0	2,697.2
Investment in affiliates	953.3	929.0
Property, net	1,366.9	1,375.8
Goodwill, net	1,232.2	1,260.4
Intangible assets, net	151.9	154.0
Other assets	247.9	259.8
Total assets	\$ 6,615.2	\$ 6,676.2
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 539.9	\$ 573.0
Short-term borrowings and current portion of long-term debt	13.7	12.2
Accrued employee compensation	210.6	318.8
Other current liabilities	279.6	308.4
Total current liabilities	1,043.8	1,212.4
Long-term debt	1,758.9	1,682.4
Deferred income taxes	200.7	210.3
Other long-term liabilities	257.6	243.3
Stockholders' equity:		
Common stock	337.3	336.0
Capital in excess of par value	3,151.2	3,119.3
Retained earnings	176.9	182.3
Accumulated other comprehensive loss	(311.2)	(309.8)
Total stockholders' equity	3,354.2	3,327.8
Total liabilities and stockholders' equity	\$ 6,615.2	\$ 6,676.2



## Segment Highlights

Operational highlights for the three months ended March 31, 2002, March 31, 2001 and December 31, 2001 are detailed below.

### Comparison of Quarters -- Year over Year (for the three months ended March 31, 2002 and 2001)

	UNAUDITED			
	Revenue (\$ millions)		Operating Profit Before Tax (\$ millions)	
	March 2002	March 2001	March 2002	March 2001
Oilfield Operations, excluding WesternGeco	\$ 1,189.1	\$ 1,156.2	\$ 167.5	\$ 173.2
WesternGeco	-	-	11.9	9.9
Oilfield Operations	1,189.1	1,156.2	179.4	183.1
Process Operations	71.8	72.3	(1.6)	(5.4)
Corporate, net interest and other	-	-	(62.1)	(64.6)
Non-operational items <sup>1</sup>	-	-	-	(7.0)
Total	\$ 1,260.9	\$ 1,228.5	\$ 115.7	\$ 106.1

### Comparison of Quarters -- Sequential (for the three months ended March, 31, 2002 and December 31, 2001)

	UNAUDITED			
	Revenue (\$ millions)		Operating Profit Before Tax (\$ millions)	
	March 2002	December 2001	March 2002	December 2001
Oilfield Operations, excluding WesternGeco	\$ 1,189.1	\$ 1,300.6	\$ 167.5	\$ 245.7
WesternGeco	-	-	11.9	17.1
Oilfield Operations	1,189.1	1,300.6	179.4	262.8
Process Operations	71.8	75.1	(1.6)	(4.5)
Corporate, net interest and other	-	-	(62.1)	(58.6)
Non-operational items <sup>1</sup>	-	-	-	(8.3)
Total	\$ 1,260.9	\$ 1,375.7	\$ 115.7	\$ 191.4

<sup>1</sup>See Reconciliation of GAAP Results and Operating Results.



## ***Oilfield Operations Segment***

Unless otherwise noted, all comments in this section refer to Baker Hughes Oilfield Operations, excluding WesternGeco.

The following table details the percentage change in revenue in the March 2002 quarter compared to the March 2001 quarter and December 2001 quarter.

### **Comparison of Revenue For the Three Months Ended March 31, 2002 Compared to the Three Months Ended**

	<u>March 31, 2001</u>	<u>December 31, 2001</u>
Product Line		
Baker Hughes INTEQ	8%	-4%
Baker Atlas	1%	-4%
Baker Oil Tools	4%	-13%
Baker Petrolite	5%	-4%
Centrilift	2%	-22%
Hughes Christensen	-6%	-12%
Geography		
North America	-9%	-12%
Western Hemisphere	-10%	-13%
Eastern Hemisphere	22%	-4%

Revenue for the first quarter of 2002 increased 3% compared to the first quarter of 2001, and decreased 9% compared to the fourth quarter 2001. First quarter 2002 North American revenues were impacted by lower than anticipated activity in US land operations and Canada. This weakness was partially offset by strong performance in certain offshore markets, particularly the deepwater Gulf of Mexico. The situations in Argentina and Venezuela resulted in weaker than expected revenues from Latin America.

First quarter 2002 Oilfield Operations operating profit fell 3% compared to the first quarter of 2001 and fell 32% compared to the fourth quarter of 2001. Without the impact of the foreign exchange and other costs in Argentina and Venezuela, first quarter operating profits were up nearly 2% from the first quarter of 2001 and down 28% from the fourth quarter of 2001. First quarter results also reflect the company's strategy not to reduce its workforce to match current activity levels, preserving its ability to service customers following what is anticipated to be a short duration downturn. Pricing remained generally stronger than anticipated, which helped offset the impact of the higher cost base. WesternGeco's profit contribution in the first quarter of 2002 increased 20% compared to the first quarter of 2001, but fell 30% compared to the fourth quarter of 2001. Weakness in the seismic industry continues as crew counts remain at historic lows.

The first quarter 2002 operating margin of 14% compares to 15% in the first quarter of 2001 and 19% in the fourth quarter of 2001. The operating margin for the first quarter was 15% without consideration of the foreign exchange and other costs in Argentina and Venezuela.

## ***Baker Value Added***

Using an internal benchmark of 12% cost of capital, three divisions, Centrilift, Hughes Christensen and Baker Oil Tools, were BVA positive for the quarter. Two divisions, Baker Atlas and INTEQ, were BVA positive excluding goodwill.



## ***Process Operations***

Process Operations first quarter 2002 revenues were flat compared to first quarter 2001 revenues, and down 4% compared to fourth quarter 2001. Weak demand for replacement and repair parts, and delays on a large order impacted revenues this quarter. While Process Operations posted a \$1.6 million operating loss in the March 2002 quarter, operating profits improved \$2.9 million and \$3.8 million compared to the December 2001 and March 2001 quarters, respectively.

## ***Corporate, Net Interest and Other***

Corporate, net interest and other expenses were \$62.1 million in the March 2002 quarter, down \$2.5 million compared to the March 2001 quarter and up \$3.5 million compared to the December 2001 quarter. The improvement in the March 2002 quarter compared to the March 2001 quarter was primarily due to reduced net interest expense, partially offset by higher G&A costs and increased depreciation of the costs associated with the now completed Project Renaissance. The increase in corporate expenses in the current quarter compared to the December 2001 quarter is due to the recognition of interest income in the December quarter resulting from a favorable audit settlement with the IRS, offset by lower interest expense and G&A costs in the current quarter.



## 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 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 WesternGeco is based upon information that WesternGeco has provided to Baker Hughes. Information derived from this information is subject to the accuracy of the information that WesternGeco provided. Additionally, any forward-looking statements relating to WesternGeco are also subject to the factors listed in Forward-Looking Statements in this news release.

- Oilfield Operations revenues are expected to be down 3 to 5% for the year 2002 as compared to the year 2001. Oilfield Operations revenues are expected to be flat to down slightly in the second quarter of 2002 compared to the first quarter of 2002.
- WesternGeco is expected to contribute \$40 to \$50 million in pre-tax profit for the year 2002 and \$5 to \$10 million in the second quarter of 2002.
- Process Operations is expected to post a breakeven to \$3 million pre-tax profit for the year 2002. Process Operations is expected to be slightly below breakeven in the second quarter of 2002.
- Corporate and other expenses, excluding interest expense, are expected to be between \$140 and \$150 million for the year 2002 and approximately \$35 to \$40 million in the June 2002 quarter.
- Net interest expense is expected to be between \$100 and \$110 million for the year 2002 or approximately \$25 to \$28 million per quarter.
- Operating profit after tax per share (diluted), excluding non-operational items is expected to be between \$1.00 and \$1.10 for the year 2002. Operating profit after tax per share (diluted), excluding non-operational items is expected to be between \$0.20 and \$0.22 for the second quarter of 2002.
- Capital spending is expected to be between \$300 and \$340 million for the year 2002. 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*, 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 2002. 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 effective tax rate on operating results for the 12 months ended December 31, 2002 is expected to be approximately 34.5%. 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*, 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.



## Impact of SFAS 142 on Prior Year Operating Results

The following table is a reconciliation of previously reported operating profit and earnings per share to the pro forma amounts, which are adjusted for the exclusion of amortization related to goodwill and goodwill associated with equity method investments.

(in millions, except earnings per share) UNAUDITED		Operating Profit before Tax	Income Taxes	Operating Profit after Tax	Diluted Earnings per Share
Q1 2001	Operating profit	\$ 113.1	\$ (37.9)	\$ 75.2	\$ 0.22
	Goodwill amortization	10.8	(1.3)	9.5	0.03
	Goodwill amortization associated with equity method investments	2.0	(0.1)	1.9	0.01
	Pro forma operating profit	<u>125.9</u>	<u>(39.3)</u>	<u>86.6</u>	<u>0.26</u>
Q2 2001	Operating profit	158.4	(53.1)	105.3	0.31
	Goodwill amortization	10.8	(1.3)	9.5	0.03
	Goodwill amortization associated with equity method investments	2.0	(0.1)	1.9	0.01
	Pro forma operating profit	<u>171.2</u>	<u>(54.5)</u>	<u>116.7</u>	<u>0.35</u>
Q3 2001	Operating profit	202.5	(67.8)	134.7	0.40
	Goodwill amortization	10.7	(1.3)	9.4	0.03
	Goodwill amortization associated with equity method investments	1.9	(0.1)	1.8	-
	Pro forma operating profit	<u>215.1</u>	<u>(69.2)</u>	<u>145.9</u>	<u>0.43</u>
Q4 2001	Operating profit	199.7	(66.9)	132.8	0.39
	Goodwill amortization	12.3	(1.4)	10.9	0.03
	Goodwill amortization associated with equity method investments	2.0	(0.1)	1.9	0.01
	Pro forma operating profit	<u>214.0</u>	<u>(68.4)</u>	<u>145.6</u>	<u>0.43</u>
2001	Operating profit	673.7	(225.7)	448.0	1.33
	Goodwill amortization	44.6	(5.3)	39.3	0.12
	Goodwill amortization associated with equity method investments	7.9	(0.4)	7.5	0.02
	Pro forma operating profit	<u>726.2</u>	<u>(231.4)</u>	<u>494.8</u>	<u>1.47</u>





## Reconciliation of GAAP Results and Operating Results

The following tables reconcile GAAP and operating results referenced in this news release. Reconciliations of other prior periods can be found on the company's website at [www.bakerhughes.com/investor](http://www.bakerhughes.com/investor).

### Reconciliation of GAAP Results and Operating Results for the 3 Months Ended December 31, 2001

UNAUDITED (in millions except earnings per share)	Recorded As	Profit Before Tax	Tax	Profit After Tax	Diluted Earnings Per Share
Net income		\$ 191.4	\$ (65.4)	\$ 126.0	\$ 0.37
Non-operational items:					
Reversal of excess E&P unusual charges	unusual credit	(4.2)	-	(4.2)	(0.01)
Charge related to E&P ceiling test	unusual charge	2.2	(1.5)	0.7	-
WesternGeco non-recurring charge	equity in income of affiliates	10.3	-	10.3	0.03
Operating profit, excluding impact of non-operational items		\$ 199.7	\$ (66.9)	\$ 132.8	\$ 0.39

### Reconciliation of GAAP Results and Operating Results for the 3 Months Ended March 31, 2001

UNAUDITED (in millions except earnings per share)	Recorded As	Profit Before Tax	Tax	Profit After Tax	Diluted Earnings Per Share
Income before cumulative effect of accounting change		\$ 106.1	\$ (35.8)	\$ 70.3	\$ 0.21
Non-operational items:					
Severance at Baker Process Germany	unusual charge	6.0	(2.2)	3.8	0.01
Loss on sale of Baker Atlas product line	unusual charge	1.0	0.1	1.1	-
Operating profit, excluding impact of non-operational items		\$ 113.1	\$ (37.9)	\$ 75.2	\$ 0.22



## **Conference Call**

The company has scheduled a conference call to discuss the results of today's earnings announcement. The call will begin at 8:30 A.M. Eastern time, 7:30 A.M. Central time on Tuesday, April 23, 2002. To access the call, which is open to the public, please contact the conference call operator at (630) 395 - 0017, 20 minutes prior to the scheduled start time, and ask for the "Baker Hughes Conference Call." A replay will be available through Tuesday, April 30, 2002. The number for the replay is (402) 220 - 4625. The call and replay will also be webcast on [www.bakerhughes.com/investor](http://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," "should," "will," and similar expressions are intended to identify forward-looking statements.

**General Outlook – Oilfield Operations:** Baker Hughes' expectation regarding its outlook for its oilfield businesses (including, without limitation, the company's oilfield operations and its minority interest in its production and refining process equipment venture), 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 and regulatory environment in the United States and other countries in which the company operates; OPEC policy; war or extended period of conflict involving the United States, Middle East or other major petroleum-producing or consuming regions; 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 Segment," as well as existing legal and contractual commitments to which the company is subject.

**General Outlook – Process Operations:** Baker Hughes' expectations in this news release regarding its outlook for its process segment and improvement and growth in Process' businesses 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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