

Review

During a year with record financial results, Baker Hughes continued to invest in people, technology and infrastructure to help oil and gas companies advance reservoir performance. We delivered advanced technology and services to support unconventional gas and deepwater projects in North America, geared up for growing activity in Latin America, and expanded our capabilities to meet client needs in the Eastern Hemisphere. Below are highlights from Baker Hughes operations around the world.

Canada

In Canada, total rig count was up 11% from 2007, as oil-directed drilling increased 33%. Our horizontal well technology helped operators exploit the Williston basin oil plays in Saskatchewan. We introduced our casing drilling technology in the arctic Mckenzie delta and in the Canadian Rockies. We also provided drill bits, chemical services, completion tools and high temperature ESP systems for oil sand and Steam Assisted Gravity Drainage projects.

U.S. Land

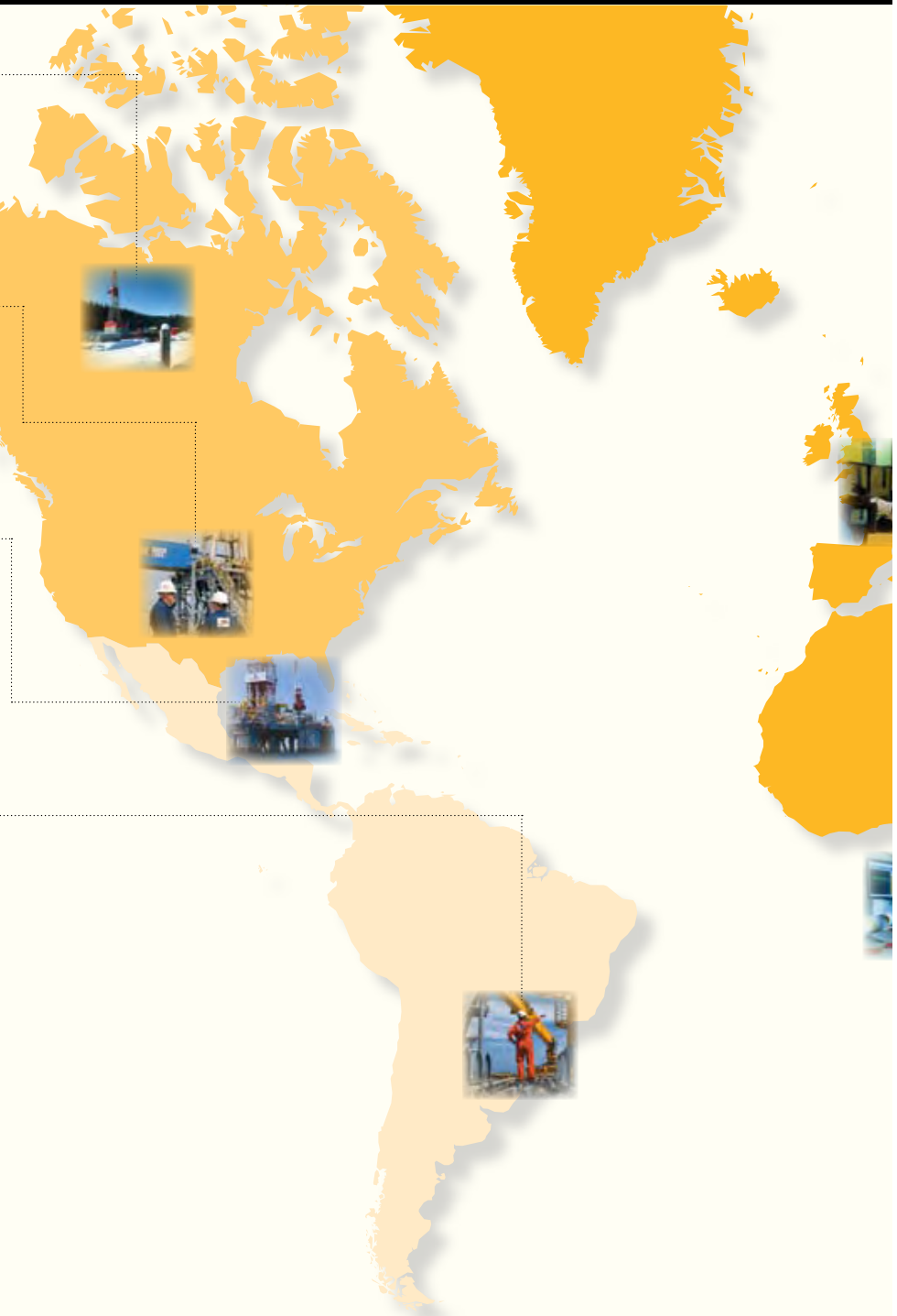
In the U.S. land market, Baker Hughes was well positioned to support operators in unconventional gas basins with horizontal drilling, evaluation and completion technology. Our artificial lift, specialty chemical and permanent monitoring product lines helped optimize production from mature fields. We inaugurated our new Center for Technology Innovation in Houston, and opened a number of new operations facilities across the country.

U.S. Offshore

Offshore U.S., deepwater operators benefited from Baker Hughes technology and experience. Our drilling fluids experts demonstrated their leadership in deep water with new synthetic fluids and advanced hydraulics engineering. Our directional drilling and LWD experts continued their record of reliability in drilling through and beneath salt formations. Our completions, intelligent well technology, and flow assurance services helped optimize deepwater production. And we installed ESP systems in innovative booster systems for subsea wells.

Latin America

In Latin America, Baker Hughes opened a new facility in Macaé, Brazil and expanded operations there to support deepwater and pre-salt directional drilling and LWD services, while adding capabilities to provide drilling fluids throughout the country. Our artificial lift systems helped clients throughout Latin America maximize oil recovery, and we introduced new pumping systems for water injection. Baker Hughes also managed two integrated operations projects in Colombia during the year and prepared for a major integrated project offshore Mexico to commence in 2009.



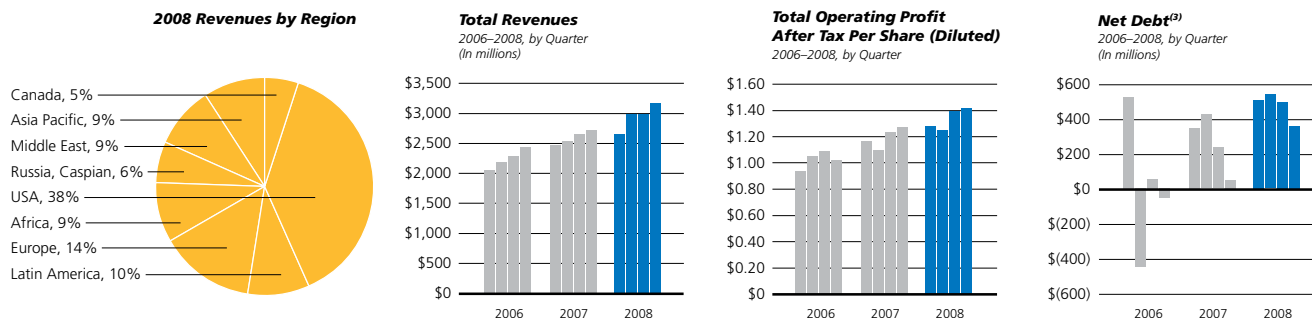
Selected Financial Highlights

(In millions, except per share amounts)	Year Ended December 31,				
	2008	2007	2006	2005	2004
As Reported:					
Revenues	\$ 11,864	\$ 10,428	\$ 9,027	\$ 7,185	\$ 6,080
Operating income	2,376	2,278	1,934	1,233	817
Income from continuing operations	1,635	1,514	2,399	874	526
Income before cumulative effect of accounting change	1,635	1,514	2,419	879	529
Net income	1,635	1,514	2,419	878	529
Per share of common stock:					
Income from continuing operations:					
Basic	\$ 5.32	\$ 4.76	\$ 7.26	\$ 2.58	\$ 1.57
Diluted	5.30	4.73	7.21	2.56	1.57
Net income:					
Basic	\$ 5.32	\$ 4.76	\$ 7.32	\$ 2.59	\$ 1.58
Diluted	5.30	4.73	7.27	2.57	1.58
Dividends	\$ 0.56	\$ 0.52	\$ 0.52	\$ 0.48	\$ 0.46
Number of shares:					
Outstanding at year end	309	315	320	342	337
Average during year	307	318	331	339	334
Reconciliation from As Reported to operating profit:					
Income from continuing operations	\$ 1,635	\$ 1,514	\$ 2,399	\$ 874	\$ 526
Non-operational items, net of tax ⁽¹⁾	–	–	(1,035)	–	–
Operating profit after tax ⁽²⁾	\$ 1,635	\$ 1,514	\$ 1,364	\$ 874	\$ 526
Per share of common stock:					
Operating profit after tax:					
Basic	\$ 5.32	\$ 4.76	\$ 4.12	\$ 2.58	\$ 1.57
Diluted	5.30	4.73	4.10	2.56	1.57
Cash, cash equivalents and short-term investments					
	\$ 1,955	\$ 1,054	\$ 1,104	\$ 774	\$ 319
Working capital	4,634	3,837	3,346	2,479	1,738
Total assets	11,861	9,857	8,706	7,807	6,821
Total debt	2,333	1,084	1,075	1,088	1,162
Stockholders' equity	6,807	6,306	5,243	4,698	3,895
Total debt/equity ratio	34%	17%	21%	23%	30%
Number of Employees (thousands)	39.8	35.8	34.6	29.1	26.9

Note: The above excludes the results of Baker SPD, Baker Hughes Mining Tools, BIRD Machine, EIMCO Process Equipment, and our oil producing operations in West Africa, all discontinued businesses.

(1) Includes gain on sale of our interest in affiliate, restructuring charges and reversals and impairment of investment in affiliate. Additional information of each item can be found on our website at www.bakerhughes.com/investor.

(2) Operating profit after tax is a non-GAAP measure comprised of income from continuing operations excluding the impact of certain non-operational items. We believe that operating profit after tax is useful to investors because it is a consistent measure of the underlying results of our business. Furthermore, management uses operating profit internally as a measure of the performance of our operations.



⁽³⁾ Net debt is a non-GAAP measure comprised of total debt less cash, and cash equivalents. We believe that net debt is useful to investors because it is a consistent measure of the underlying results of our business.

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