

Tax Information on BJ Services Stock Upon Exchange Into Baker Hughes Stock

March 14, 2011

THIS SUMMARY IS NOT A SUBSTITUTE FOR AN INDIVIDUAL ANALYSIS OF THE TAX CONSEQUENCES OF THE MERGER TO YOU. WE URGE YOU TO CONSULT YOUR TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE MERGER AND THE OWNERSHIP AND DISPOSITION OF SHARES OF BAKER HUGHES COMMON STOCK RECEIVED IN THE MERGER IN LIGHT OF YOUR OWN SITUATION.

This information applies only to stockholders who are U.S. holders in connection with the Baker Hughes Incorporated ("BHI") acquisition of BJ Services Company ("BJ") on April 28, 2010. Stockholders who are subject to the taxes of other countries should obtain advice from their own tax advisors as to the proper reporting in those countries. In addition, stockholders who are subject to U.S. tax, including those who are not U.S. holders, are urged to consult their own tax advisors for advice applicable to their particular circumstances. For other types of taxpayers and for a complete description of the tax consequences of the merger, please see proxy statement pp. 88-91.

Pursuant to the previously announced merger agreement, each BJ stockholder will receive 0.40035 shares of BHI common stock, par value \$1.00 per share, and \$2.69 in cash in return for each share of BJ common stock held, and cash reflecting the value of any fractional shares. Gain or loss is computed separately with respect to each block of BJ common stock (that is, stock acquired at the time for the same price).

For example, assume you held 100 shares of BJ common stock with an adjusted basis of \$18.00 per share for a total basis of \$1,800.00. The basis in the block of BJ shares is as follows:

$.035/40.035 * \$1,800.00 = \1.57 for the BJ shares associated with the fractional BHI shares, and
 $40/40.035 * \$1,800.00 = \$1,798.43$ for the BJ shares associated with the 40 BHI shares.

A. You would have received \$2,320.39 in value upon the merger calculated as follows:

1. 100 shares of BJ stock held * \$2.69 per BJ stock = \$269 cash received.
2. .40035 shares of BHI stock exchanged * 100 shares of BJ shares owned = 40 shares of BHI stock + .035 fractional shares of BHI stock to be considered as follows:
 - a. 40 shares of BHI stock * \$51.24 = \$2,049.60 of value for whole shares of BHI stock
.035 fractional shares of BHI stock * \$51.24 = \$1.79 cash received.
 - b. \$269.00 cash received + \$2,049.60 of value received + \$1.79 cash received = \$2,320.39 in value received.

Generally, the U.S. tax consequences will be as follows:

- B. For the 40 shares of BHI stock received, you would recognize capital gain, but not loss, for the lesser of:
1. The amount of cash received pursuant to the merger (excluding cash received in lieu of fractional shares) = \$269.00, or
 2. The amount, if any, by which the sum of the fair market value of the shares of BHI stock and the amount of cash received pursuant to the merger exceeds the adjusted tax basis in those BJ shares =

$$(\$2,049.60 + \$269.00) - (\text{adjusted basis in BJ shares})$$

$$(\$2,049.60 + \$269.00) - \$1,798.43 = \$520.17$$

Therefore, you would recognize capital gain of \$269.00 with regard to the 40 shares received, which would be treated as short-term or long-term depending on the holding period (see item E below). A loss computed from above is not recognized.

- C. For the .035 fractional shares of BHI stock received, you would recognize capital gain or loss for the cash received in lieu of that fractional share = \$1.79, in excess of the portion of adjusted tax basis in BJ shares surrendered for that fractional share = \$1.57. Therefore, you would recognize gain of \$0.22 with regard to the fractional shares. The deductibility of capital losses, if any, is subject to limitations.
- D. The aggregate tax basis in the BHI shares, including the fractional shares is equal to the adjusted tax basis in the BJ shares surrendered in the merger = \$1,800.00, reduced by the amount of cash received in the merger for BJ shares, excluding cash in lieu of fractional BHI shares = \$269.00, and increased by the amount of gain recognized in the merger (excluding any gain recognized related to the fractional shares) = \$269.00.

Therefore, the aggregate tax basis in the 40.035 shares of BHI stock is \$1,800.00. Of this, \$1.57 is attributable to the .035 fractional shares deemed sold as described above in item B, and \$1,798.43 is attributable to the 40 shares of BHI stock.

$$.035/40.035 * \$1,800.00 = \$1.57, \text{ and}$$

$$40/40.035 * \$1,800.00 = \$1798.43.$$

- E. The holding period of the BHI shares received in the BHI-BJ merger generally will include the holding period of the shares of the BJ common stock exchanged.

BJ stockholders holding BJ shares with differing basis or holding periods should consult their tax advisors with regard to identifying the basis of holding periods of the BHI shares received in the merger.