Transforming
Executing
Performing

2010 annual report to stockholders

BAKER HUGHES

Transforming… Executing… Performing

We have embarked on a multi-year strategy to transform Baker Hughes into a stronger oilfield service company. As a result, we believe we have the most promising opportunities for improved financial performance of any major oil service company.

- Beginning in 2008, we acquired several reservoir-consulting firms and have consolidated them into Baker Hughes Reservoir Development Services including Gaffney, Cline & Associates. With the 2010 acquisitions of Meyer and Associates and JewelSuite,™ we can now offer our customers reservoir consulting and software for the life of the reservoir.
- In 2009, we reorganized around geographies to build stronger relationships with our customers, improve operational effectiveness and optimize our product lines.
- Also in 2009, we began a multi-year initiative to optimize our supply chain to reduce costs, improve performance and move closer to our customers.
- And, in 2010, we acquired BJ Services, adding pressure pumping, coiled tubing and cementing as our newest, and largest, product line. We undertook this transformation to increase market share and realize long-term profitable growth.

In 2011, our focus is on moving beyond transformation to execution and delivering on the promise of our new capabilities.

- We are leveraging our product lines to provide customers with a full suite of services from reservoir analysis to advanced directional drilling to advanced completions to pressure pumping and real time microseismic and reservoir monitoring.
- Our geomarket managers are building stronger relationships with their customers, developing more holistic views of the market, communicating priorities to the Products and Technology organization that reflect new insight, and maintaining excellent rig site performance and a strong safety record.
- Our Products and Technology organization is centralized, more efficient and focused on commercializing innovative technology and services.
- And our enterprise functions are organized to efficiently support our new global organization.

We have made specific commitments to improve top- and bottom-line performance. We have developed detailed plans to meet these goals and are executing our plans one quarter at a time. As an organization we understand that execution is the key to performance.

This Annual Report to Stockholders, including the letter to stockholders from Chairman Chad C. Deaton, contains 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 "will," "expect," "should," "scheduled," "plan," "aim," "ensure," "believe," "promise," "anticipate," "could" and similar expressions are intended to identify forward-looking statements. Baker Hughes' expectations regarding these matters are only its forecasts. These forecasts may be substantially different from actual results, which are affected by many factors, including those listed in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Items 1A and 7 of the Annual Report on Form 10-K of Baker Hughes Incorporated for its year ended December 31, 2010. The use of "Baker Hughes," "our," "we" and similar terms are not intended to describe or imply particular corporate organizations or relationships.

Additional information about the company is available on our website at http://investor.bakerhughes.com/annuals.cfm

Selected Financial Highlights

(In millions, except per share amounts)	2010[1]	2009	2008	2007	2006
	Year Ended December 31,				
As Reported:					
Revenues	**$ 14,414**	$ 9,664	$ 11,864	$ 10,428	$ 9,027
Operating income	**1,417**	732	2,376	2,278	1,934
Income from continuing operations	**819**	421	1,635	1,514	2,399
Income before cumulative effect of accounting change	**819**	421	1,635	1,514	2,419
Net Income	**819**	421	1,635	1,514	2,419
Net Income attributable to Baker Hughes	**812**	421	1,635	1,514	2,419
Per share of common stock:					
Income from continuing operations:					
Basic	**$ 2.07**	$ 1.36	$ 5.32	$ 4.76	$ 7.26
Diluted	**2.07**	1.36	5.30	4.73	7.21
Net Income:					
Basic	**$ 2.06**	$ 1.36	$ 5.32	$ 4.76	$ 7.32
Diluted	**2.06**	1.36	5.30	4.73	7.27
Dividends	**$ 0.60**	$ 0.60	$ 0.56	$ 0.52	$ 0.52
Number of shares:					
Weighted average common shares diluted	**395**	311	309	320	333
Reconciliation from As Reported to operating profit:					
Net income attributable to Baker Hughes	**812**	421	1,635	1,514	2,419
Non-operational items, net of tax[2]	**–**	–	–	–	(1,035)
Discontinued operations, net of tax[3]	**–**	–	–	–	(20)
Operating profit after tax[4]	**$ 812**	$ 421	$ 1,635	$ 1,514	$ 1,364
Per share of common stock:					
Operating profit after tax:					
Basic	**$ 2.06**	$ 1.36	$ 5.32	$ 4.76	$ 4.12
Diluted	**2.06**	1.36	5.30	4.73	4.10
Cash, cash equivalents and short-term investments	**$ 1,706**	$ 1,595	$ 1,955	$ 1,054	$ 1,104
Working capital	**5,568**	4,612	4,634	3,837	3,346
Total assets	**22,986**	11,439	11,861	9,857	8,706
Total debt	**3,885**	1,800	2,333	1,084	1,075
Stockholders' equity	**14,286**	7,284	6,807	6,306	5,243
Total debt/capitalization	**21%**	20%	26%	15%	17%
Number of employees (thousands)	**53.1**	34.4	39.8	35.8	34.6

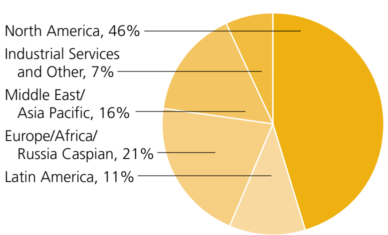
(1) We acquired BJ Services Company on April 28, 2010, and their financial results from the date of acquisition through the end of 2010 are included in our results. 2010 and 2009 income from continuing operations also includes costs incurred by Baker Hughes related to the acquisition and integration of BJ Services.

(2) On April 28, 2006, we sold our 30% interest in WesternGeco, a seismic venture we formed with Schlumberger in 2000, and recorded an after tax gain of $1,035 million.

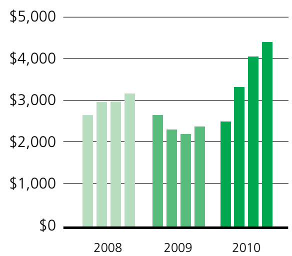
(3) The selected financial data in 2006 includes reclassifications to reflect Baker Supply Products Division as discontinued operations.

(4) 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.

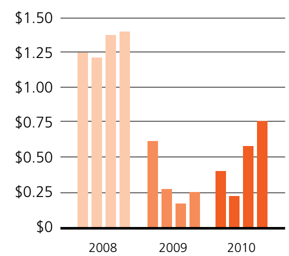
2010 Revenues by Segment



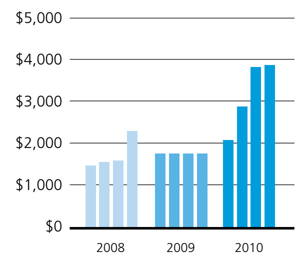
Total Revenues
2008–2010, by Quarter
(In millions)



Total Operating Profit
After Tax Per Share (Diluted)
2008–2010, by Quarter



Total Debt
2008–2010, by Quarter
(In millions)



The accomplishments of 2010 marked a significant milestone in our multi-year efforts to transform Baker Hughes and position the company for growth and long-term profitability.

To Our Stockholders

In 2010, after a year-long effort to obtain full government approval, we completed the acquisition of BJ Services and integrated pressure pumping, coiled tubing and cementing capabilities into our global service offering. We also further reinforced our reservoir capabilities through acquisition and realignment of our consulting services; our geographic and business segment organization became fully functional; and, our enterprise-level supply chain effort began to deliver significant cost savings.

In North America, the "unconventional" gas and oil plays became the foundation of our land business, driving demand for directional drilling, advanced completion systems and pressure pumping.

In April 2010, the industry mourned the loss of 11 men working on the *Deepwater Horizon*. Although we were not involved in the accident, we did provide products and services to help with the capping, relief well and clean-up efforts following the blowout. The accident and associated spill negatively impacted our business in the Gulf of Mexico, as the drilling moratorium, the creation of new regulations, and the pace of permit approval impeded all new drilling activity from late April through the end of the year. Given the difficulty of permitting new wells both in deep water and on the shelf, we saw increased demand for our workover and stimulation services to battle production declines, but not enough to offset the revenue we would have generated from the 33 deepwater rigs that were idled.

The international market entered what we believe to be a multi-year trend of increasing spending as the global industry battles decline curves and invests to satisfy expanding global demand for oil and natural gas.

Financial Results

In 2010, Baker Hughes recorded its highest annual revenue to date, with top-line growth driven by our acquisition of BJ Services. Baker Hughes results for the year include results of BJ Services starting from May 2010.

Revenue for 2010 was $14.41 billion, up 49% compared to $9.66 billion in 2009. Net income attributable to Baker Hughes for 2010 was $812 million or $2.06 per diluted share, compared to $421 million or $1.36 per diluted share for 2009.

Earnings before interest, taxes, depreciation and amortization, or "EBITDA," for 2010 were $6.63 per diluted share, up 41% from $4.70 for 2009.

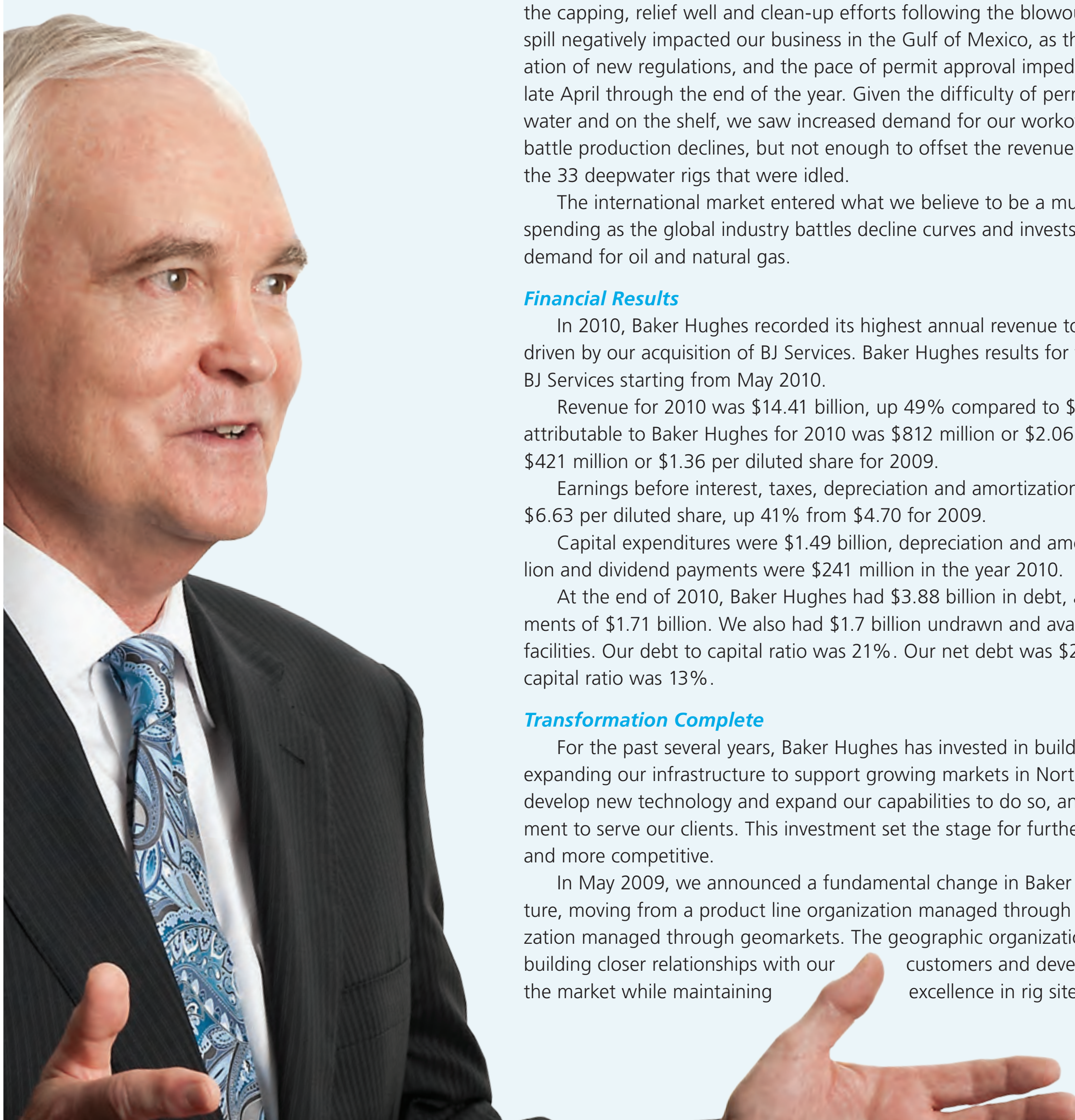
Capital expenditures were $1.49 billion, depreciation and amortization expense was $1.07 billion and dividend payments were $241 million in the year 2010.

At the end of 2010, Baker Hughes had $3.88 billion in debt, and cash and short-term investments of $1.71 billion. We also had $1.7 billion undrawn and available under committed credit facilities. Our debt to capital ratio was 21%. Our net debt was $2.2 billion and our net debt to capital ratio was 13%.

Transformation Complete

For the past several years, Baker Hughes has invested in building a diverse global workforce, expanding our infrastructure to support growing markets in North America and internationally, to develop new technology and expand our capabilities to do so, and to deliver products and equipment to serve our clients. This investment set the stage for further changes to make us stronger and more competitive.

In May 2009, we announced a fundamental change in Baker Hughes' organizational structure, moving from a product line organization managed through divisions to a geographic organization managed through geomarkets. The geographic organization has met our objectives of building closer relationships with our customers and developing a more holistic view of the market while maintaining excellence in rig site execution and safety.



$14.4B
our revenue in 2010 – the highest in Baker Hughes history

April 28
date BJ Services acquired following DOJ approval

109%
growth of North America revenue in 2010 compared to 2009

In 2010, we also improved our reservoir consulting and engineering capabilities by forming the Reservoir Development Services group that combines several consulting and software firms acquired since 2008 and other Baker Hughes geotechnical professionals.

On April 28, we received approval from the U.S. Department of Justice to complete our acquisition of BJ Services. And on August 28, following the divestiture of certain Gulf of Mexico businesses and assets, the Department of Justice agreed to the lifting of a Hold Separate Order, allowing the full combination of the U.S. businesses of Baker Hughes and BJ Services. International integration was well under way when the divestiture was completed in August, and we were finally able to leverage the full synergies across all product lines globally.

Geographic Highlights

North America

North America revenues were $6.62 billion in 2010, up 109% from $3.17 billion in 2009. Success in our North America land business centers on the unconventional reservoirs and the use of horizontal drilling, advanced completions and pressure pumping to access the reserves. Baker Hughes is a leader in these products and services.

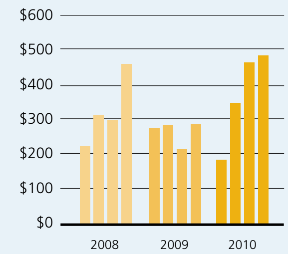
Beginning in September 2010, when BJ Services' U.S. operations were formally merged into Baker Hughes, we moved with agility to leverage the strengths of the legacy Baker Hughes product lines with the newly acquired capabilities of BJ Services. We continue to expand our service capabilities. We opened a new service facility in Westmoreland County, Pennsylvania, and we plan to invest in enough facilities, equipment and personnel to add one additional pumping spread in North America every six weeks.

Service intensity continues to increase as customers are planning longer horizontal wells and tighter spacing between frac stages, resulting in more stages and higher demand for hydraulic fracturing.

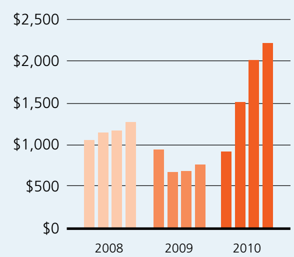
Depending on the basin, pressure pumping capacity remains tight with backlogs stable at 90–180 days. The supply chain for new equipment is stretched, and we believe that it is unlikely that the industry can increase pressure pumping capacity faster than demand in 2011.

In Canada, in addition to delivering drilling and hydraulic fracturing services for unconventional oil, Baker Hughes is active in the oil sands where we provide drilling services, completion chemicals and artificial lift. Our experience in heavy oil treatment, our advanced drilling systems, and our high temperature electric submersible pump (ESP) technology have enabled us to be an important supplier for steam assisted gravity drainage (SAGD) wells.

Capital Expenditures
2008–2010, by Quarter
(In millions)



North American Revenue
2008–2010, by Quarter
(In millions)



Latin America

Revenue in Latin America was up 43% in 2010, reaching $1.57 billion compared to $1.09 billion in 2009, led by strong performance in our Brazil and Andean geomarkets.

In Brazil, in a little more than four years, Baker Hughes has grown from supporting two simultaneous offshore directional drilling jobs to servicing 22 simultaneous jobs today. Baker Hughes also provides complete drill cuttings handling and drying systems on 34 rigs. With the combination of drilling, evaluation and completion technology and the three pumping vessels from BJ Services currently operating in Brazil, Baker Hughes is positioned to be a leading supplier to Petrobras.

Europe/Africa/Russia Caspian

Revenue in the Europe/Africa/Russia Caspian segment was $3.01 billion in 2010, up 8% from $2.77 billion in 2009.

In Europe, Baker Hughes maintained strong positions in the UK and Norway. We opened our EcoCentre in Peterhead, Scotland, which provides comprehensive, environmentally compliant drilling waste management services. A Baker Hughes conducted reservoir study helped the Norway

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