Fourth Quarter & Full Year 2021 – Earnings Conference Call Prepared Remarks

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thank you.

Good morning everyone, and welcome to the Baker Hughes Fourth Quarter and Full Year 2021 Earnings Conference Call. Here with me are our Chairman and CEO, Lorenzo Simonelli; and our CFO, Brian Worrell. The earnings release we issued earlier today can be found on our website at bakerhughes.com.

As a reminder, during the course of this conference call, we will provide forward-looking statements. These statements are not guarantees of future performance and involve a number of risks and assumptions. Please review our SEC filings and website for a discussion of some of the factors that could cause actual results to differ materially.

As you know, reconciliations of operating income and other GAAP to non-GAAP measures can be found in our earnings release.

With that I will turn the call over to Lorenzo.

Lorenzo Simonelli *Baker Hughes – Chairman & CEO*

Thank you, Jud. Good morning everyone and thanks for joining us.

We are pleased with our fourth quarter results as we generated another quarter of strong free cash flow, solid margin rate improvement, and strong orders performance from TPS. During the quarter, TPS continued to operate at a high level, OFE successfully executed on its cost improvement initiatives, and OFS performed extremely well despite continued pressure on supply chain and commodity inflation.

For the full year, we were pleased with our financial performance. We took several steps in 2021 to accelerate our strategy and help position the company for the future. Last year proved to be successful on many fronts for Baker Hughes, with key commercial successes and developments in the LNG and new energy markets, as well as record free cash flow generation and peer-leading capital allocation.

After a quiet start to the year, LNG activity played an important role in helping TPS book almost $7.7 billion in orders in 2021, which was just below the record levels achieved in 2019. Perhaps more importantly, we believe that the step-up in LNG order activity provides a solid indication that a new LNG cycle is beginning to take shape. We also believe that the uptick in orders, along with other recent policy movements, particularly in Europe, confirms that natural gas is gradually gaining greater acceptance as a transition and destination fuel for a net zero world.

In new energy frontiers, we started to see more pronounced commercial successes from our energy transition efforts, generating approximately $250 million in new orders across our TPS, OFS, and DS product companies, primarily in the areas of hydrogen and CCUS. We remain confident in our ability to grow this business over the next decade to ultimately total $6 to $7 billion of orders by 2030.

I am also very pleased to report that Baker Hughes delivered its strongest ever free cash flow year generating over $1.8 billion in 2021, which represents almost 70% conversion from adjusted EBITDA. We are pleased to see this performance, as our cash restructuring and separation payments wound down and we continued to make progress on improving our working capital and broader cash processes.

Our strong free cash flow profile provides the company with ample flexibility and optionality when it comes to our broader capital allocation strategy. As evidence of this, we returned almost $1.2 billion back to shareholders through dividends and buybacks in 2021, while also making multiple acquisitions and investments across the industrial and new energy spaces.

On the industrial front, we completed the acquisition of ARMS Reliability and a major investment in Augury, which will help Baker Hughes continue to build out its industrial asset management platform and deliver an expanded set of asset performance capabilities.

On the new energy front, we were active this year in pursuing early-stage technologies in CCUS and in hydrogen. In CCUS, we acquired a position in Electrochaea, a bio-methanation company, and also entered into an exclusive license with SRI for the mixed salt process. In hydrogen, we made an investment in Ekona, a growth stage company developing novel turquoise hydrogen production technology, as well as Nemesys, a technology company focused on a range of early-stage hydrogen technologies.

While 2021 saw many positive achievements, the year was also not without its challenges. We saw continued disruptions from the COVID-19 pandemic, which continued to impact our operations. Supply chain and inflationary pressures also drove higher costs and delivery issues primarily across our OFS and DS product companies. Our teams have continued to work to offset some of these pressures, but we expect to continue to see some level of tension and disruption in these areas potentially through the first half of the year.

As we look ahead to 2022, we expect the pace of global economic growth to remain strong. However, growth rates are likely to moderate from 2021 levels as central banks are expected to begin tightening monetary policy in order to reduce COVID-related stimulus plans and quell growing inflationary pressures.

Despite the expected slowdown in the pace of growth, we believe the continuing broader macro recovery will translate into rising energy demand in 2022, with oil demand likely recovering to pre-pandemic levels by the end of the year. Pairing this demand scenario with continued OPEC Plus, IOC and E&P spending discipline, we expect the oil markets to remain tight for some time. We believe that this will provide an attractive investment environment for our customers and a strong tailwind for many of our product companies.

We also expect continued momentum in the global gas markets in 2022, building on a strong 2021. A combination of demand and supply factors converged in 2021, pushing natural gas and LNG prices to record breaking levels in both Europe and in Asia. The gas price spikes also highlighted the fragility of the global energy system as the world transitions to net zero.

Looking ahead, we expect a number of additional LNG FIDs in 2022 and beyond, supported by the growing appetite for longer-term LNG purchase agreements. As we have previously mentioned, we see significant structural demand growth for LNG in the coming decades. Our positive long-term view is also supported by the recent improvements in policy sentiment in certain parts of the world towards natural gas' role within the energy transition.

Against this constructive macro backdrop, Baker Hughes remains focused on executing our strategy across the three pillars of transform the core, invest for growth, and position for new energy frontiers. Importantly, we also continue to work towards aligning Baker Hughes across the two business areas that we outlined in the third quarter of last year – Oilfield Services & Equipment and Industrial Energy Technology, or OFSE and IET.

Since we unveiled our vision of ultimately executing across these two broad business areas, we have been evaluating all aspects of the company in order to determine the most efficient organizational and corporate structure. Our goal is to find the right structure that properly aligns our internal resources and helps accelerate growth in key strategic areas, while also enhancing our profitability and returns, and increasing shareholder value.

We have reached some early conclusions and have started to implement changes internally. Most notably, we recently created the Climate Technology Solutions group and the Industrial Asset Management group, which will both report to Rod Christie, Executive Vice President of TPS.

Climate Technology Solutions, or CTS, will encompass CCUS, hydrogen, emissions management, and clean and integrated power solutions. Industrial Asset Management, or IAM, will bring together key digital capabilities, software, and hardware from across the company to help customers increase efficiencies, improve performance, and reduce emissions for their energy and industrial assets.

We believe that the creation of these two groups will help accelerate the speed of commercial development for solutions-based business models across our new energy and industrial asset management offerings. Importantly, it will not change any of our reporting structure today.

Overall, we are very excited with the strategic direction of Baker Hughes and believe the company is well placed to capitalize on near-term cyclical recovery and well positioned for the long-term structural change in the energy markets.

Now, I will give you an update on each of our segments.

In **Oilfield Services**, activity levels ended the year on a positive note in both the international and North American markets and all signs point to a strong year of growth in 2022. Additionally, the OFS team had to navigate an increasingly difficult supply chain environment over the second half of 2021 and ended the year on a high note with a strong fourth quarter margin performance.

Looking into 2022, we expect a strong, broad based recovery across the international markets, led by Latin America and the Middle East. While Latin America should see the second consecutive year of double-digit growth, the Middle East is in the very early stages of what we expect to be a multi-year growth cycle. Capital is being deployed in the region to restore near-term production levels and lay the foundation for longer term capacity expansion.

In North America, we expect another year of impressive growth in the US land market, as well as a recovery offshore. Based on conversations with our customers, we expect the underlying trends in North America to remain the same as 2021, with public E&Ps and IOCs remaining disciplined in deploying capital, while private E&Ps will remain more active.

While we were pleased to achieve 10% operating margin rates in OFS in the fourth quarter, margins are still below our broader objectives, namely due to the recent negative impacts of commodity price inflation and supply chain disruptions. That being said, our OFS team is working extremely hard to offset these headwinds, with successful pricing increases across multiple product lines and continued progress in mitigating some of the logistics constraints.

Based on the actions being taken by our OFS team and assuming the gradual normalization of the current state of supply chain disorder, we remain focused on achieving 20% EBITDA levels in OFS by the end of 2022.

Moving to **TPS**, the outlook remains constructive driven by opportunities in LNG, onshore/offshore production, and new energy initiatives.

I would like to thank Rod and the TPS team for an exceptional year in 2021, which exemplified the strength of the TPS business. TPS booked almost $7.7 billion of orders, which included 22 MTPA of LNG orders across 4 projects and 9 FPSOs and offshore topside project awards. On the execution side, TPS generated over $1 billion of operating income, representing over 16% in operating margin rate, despite revenue growth in equipment significantly outpacing services. We are excited about what the future holds for TPS across multiple fronts.

In LNG, we were pleased to book two awards in the fourth quarter.

We announced a major LNG award for the 5 MTPA Pluto Train 2 Project in Western Australia, which is operated by Woodside, and also received a large-scale LNG equipment award in the Eastern Hemisphere.

Additionally, we were awarded an order to deliver power generation equipment for a major LNG project in North America.

We continue to be optimistic on the outlook for LNG and remain confident on the potential for 100 to 150 MTPA of awards over the next two to three years. Based on the continued pace of discussions with multiple customers and the positive fundamentals in the global gas markets, we have a general bias towards the upper end of this range.

For the non-LNG segments of our TPS portfolio, we see multiple opportunities for continued growth, and we were pleased to book a number of awards in new energy during the quarter.

In hydrogen, we booked an award for advanced compression technology for the NEOM carbon-free hydrogen project in the Kingdom of Saudi Arabia, building on the announcement we made with Air Products in the second quarter of 2021. We will be providing our HPRC solutions to the NEOM project, which will enable a lower cost of production and accelerate the adoption of hydrogen as a zero-carbon fuel. Our collaboration with Air Products will be critical for a net-zero future, and the award is a good example of how Baker Hughes' proven technology is helping to accelerate the hydrogen economy.

In CCUS, we received an order from Santos to supply turbomachinery equipment for the Moomba Carbon Capture and Storage project in South Australia. Baker Hughes will provide gas turbine, compressor and heat recovery steam generator technologies to compress the carbon dioxide. The project will serve a gas processing plant and permanently store 1.7 million tons of carbon dioxide annually in depleted natural gas reservoirs in the onshore Cooper Basin.

Even though 2021 order activity came in well ahead of our expectations, we still expect to see a similar level of orders for TPS in 2022, driven primarily by LNG.

Next, on **Oilfield Equipment**, we are pleased with the overall trends in this business as order activity is becoming more favorable and we continue to show progress in taking costs out.

At a macro level, trends in the subsea and offshore markets are anticipated to continue to improve in 2022 after gaining modest traction over the course of 2021. In the subsea tree market, we expect industry awards to take another step higher in 2022 but likely remain below pre-pandemic levels for the foreseeable future. Outside of the tree market, we continue to see a strong pipeline of flexibles order opportunities. We are also seeing improving market conditions in our international wellhead and subsea services businesses.

In the fourth quarter, we were pleased to announce a major 10-year contract for surface wellheads and tree systems in the UAE. As part of ADNOC's largest ever wellhead award, this important win will further enhance our partnership with this key customer, as well as strengthen our footprint in the region.

Our subsea services business saw some good traction in the fourth quarter with a strong orders performance, driven by increased activity in the North Sea and Sub-Saharan Africa.

Although OFE is showing signs of a path to recovery, we still believe the offshore markets will remain structurally challenged as the energy markets and our customers' budgets evolve. As a result, we remain focused on right-sizing the business, improving profitability, and optimizing the portfolio. The merger of Subsea Drilling Systems with MHWirth to create HMH is an excellent example of how we are continuing to transform the OFE portfolio.

Finally, in **Digital Solutions**, overall market conditions are improving. We experienced solid growth across our industrial end markets through 2021 and are starting to see a pick-up in markets that lagged – particularly the oil and gas, transportation, and aviation end markets. Additionally, the DS business continues to be impacted by the supply chain challenges and chip shortages that began earlier in the year.

During the quarter, DS continued to secure important contracts with key customers for condition monitoring and industrial asset management solutions.

Bently Nevada secured a contract with Yara to enable digital transformation and improve asset reliability and efficiency. The enterprise-wide contract will enable data availability between Yara's plant operations and the cloud across 23 sites, using Bently Nevada's latest System 1 Evo asset management software.

Bently Nevada also secured a contract with a major oil company to deploy System 1 asset management software as a standardized platform for enterprise-wide condition monitoring across 28 facilities worldwide. In addition, Bently Nevada secured a five-year services agreement to support the operator's digital transformation by providing maintenance services and supporting the customer's goal to move conditioning monitoring data out of its localized facilities network and into a cloud environment.

Going forward, DS will play an important role in the growth of our industrial franchise and the overall success of our strategy in Industrial Asset Management.

Key to the build out of IAM were the investments we executed in 2021 that I previously mentioned; the acquisition of ARMS Reliability early in the year and more recently the alliance we formed with Augury. Both complement our Bently Nevada System 1 cloud-enabled condition monitoring and protection platform and deliver on our strategy of expanding our presence to non-critical assets and developing software capabilities to allow us to cover the entire balance of plant.

As the world strives towards a net zero target in the coming decades, enterprise level industrial asset management capabilities will be a key driver by enabling better operating efficiency, lowering energy consumption, and reducing emissions across multiple industries.

Overall, I am pleased with the progress we made in 2021 in navigating the many challenges presented during the year, while also executing on the commercial opportunities across our portfolio. At the same time, we were able to convert almost 70% of our 2021 adjusted EBITDA into free cash flow. We returned almost two thirds of this free cash flow back to shareholders and made good progress on transforming our company into an energy transition leader.

As we enter 2022, we expect to benefit from solid macro tailwinds across both of our major business areas, with cyclical recovery in OFSE and longer-term structural growth trends in LNG, new energy, and industrial asset management. We look forward to further developing our corporate strategy, building on our commercial success, and focusing on a range of capital allocation opportunities.

I want to conclude by thanking all of our Baker Hughes employees for their hard work in overcoming another year of challenges surrounding the pandemic, and I look forward to their continued commitment to our success in 2022 and beyond.

With that, I will turn the call over to Brian.

Brian Worrell *Baker Hughes – CFO*

Thanks, Lorenzo. I will begin with the total company results and then move into the segment details.

Orders for the quarter were $6.7 billion, up 24% sequentially driven by TPS, Digital Solutions and OFS, partially offset by a decrease in OFE. Year-over-year, orders were up 28% driven by increases in TPS, Digital Solutions and OFS, and a decrease in OFE.

Remaining Performance Obligation was $23.6 billion, up 1% sequentially. Equipment RPO ended at $8.2 billion, up 9% sequentially and services RPO ended at $15.3 billion, down 4% sequentially.

We are pleased with our strong orders performance in the quarter, particularly in TPS, which provides a good level of revenue visibility into 2022 and beyond.

Our total company book-to-bill ratio in the quarter was 1.2 and our equipment book-to-bill in the quarter was 1.4.

Revenue for the quarter was $5.5 billion, up 8% sequentially, driven by increases across all four segments.

Year-over-year, revenue was flat driven by an increase in OFS, and offset by decreases in TPS and OFE.

Operating income for the quarter was $574 million. Adjusted operating income was $571 million.

Adjusted operating income was up 42% sequentially and up 23% year-over-year. Our adjusted operating income rate for the quarter was 10.3%, up 240 basis points sequentially, and up 190 basis points year-over-year.

Adjusted EBITDA in the quarter was $844 million, up 27% sequentially and up 10% year-over-year. Adjusted EBITDA rate was 15.3%, up 130 basis points year-over-year.

We are particularly pleased with the margin improvement in the fourth quarter which was largely driven by increased productivity, higher pricing, and mix. All four of our segments experienced strong improvements in adjusted operating income and adjusted EBITDA rates sequentially.

Corporate costs were $106 million in the quarter. For the first quarter, we expect corporate costs to be roughly flat with fourth quarter levels.

Depreciation and amortization expense was $273 million in the quarter. For the first quarter, we expect D&A to increase slightly from fourth quarter levels.

Interest in the quarter was $95 million, which includes a make-whole premium relating to the debt refinancing we completed during the fourth quarter. We expect interest expense to return to historical levels in the first quarter.

Income tax expense in the quarter was $352 million, which includes $103 million in charges that relate to liabilities indemnified under the Tax Matters Agreement with General Electric. These tax expenses are offset in the other non-operating line of our income statement.

GAAP diluted earnings per share were $0.32 cents. Included in GAAP diluted earnings per share is a $241 million gain from the net change in fair value of our investment in ADNOC Drilling, and a $131 million loss from the net change in fair value of our investment in C3 AI; both are recorded in other non-operating income.

As a reminder, in 2018 we formed our strategic partnership with ADNOC Drilling and invested $500 million for a 5% stake. In October 2021, ADNOC Drilling completed their IPO, which requires us to mark our investment to fair value. Since our investment is recorded as a marketable security on our balance sheet, the change in fair value will be reflected in the other non-operating income line on a quarterly basis going forward.

Adjusted diluted earnings per share were $0.25 cents.

Turning to the cash flow statement, free cash flow in the quarter was $645 million. The sequential improvement was driven by higher adjusted EBITDA, strong cash collections, and modestly higher proceeds from disposal of assets due to increased real estate sales.

We also continued to execute on our $2 billion share repurchase program during the fourth quarter, repurchasing 13.2 million Baker Hughes Class A shares for $328 million at an average price just under $25 per share.

For the first quarter, we expect free cash flow to decline sequentially primarily due to seasonality.

When I look at the total year 2021, I am very pleased with our financial results, particularly with regards to our free cash flow performance and broader margin rate improvements.

Orders for the full year were $21.7 billion, up 5% driven by TPS, Digital Solutions, and OFE, partially offset by OFS. Total company book-to-bill was 1.1 for the year.

Total year revenue of $20.5 billion was down 1%, driven by declines in OFS and OFE, partially offset by increases in TPS and Digital Solutions.

Adjusted operating income of $1.6 billion was up 52% in the year, with total company adjusted operating income margins improving 270 basis points, mainly driven by productivity improvements in TPS and cost out programs and productivity improvements in OFS.

Adjusted EBITDA of $2.7 billion was up 14% in the year. Total company adjusted EBITDA rate improved 170 basis points in 2021.

Corporate costs for the year were $429 million. For 2022, we expect corporate expenses to be approximately in line with 2021 levels.

For the full year, we generated $1.8 billion of free cash flow. Free cash flow includes $175 million of cash payments related to restructuring and separation activities. Our strong free cash flow performance was driven by higher adjusted EBITDA, lower capex, an increase in cash flow generated from working capital, and a significant reduction in cash restructuring and separation charges.

Not included in free cash flow are over $200 million of proceeds from asset or investment sales during the year, which include the sale of a small portion of our C3 AI stake and the proceeds we received from the formation of the HMH joint venture with Akastor.

As Lorenzo mentioned, we returned almost $1.2 billion to shareholders through dividends and share repurchases, and also deployed over $250 million in tuck-in acquisitions and investments in the industrial and new energy sectors.

Our free cash flow in 2021 resulted in 68% conversion from adjusted EBITDA. While our free cash flow conversion was positively impacted by the large cash generation from working capital, we believe that Baker Hughes should be able to generate free cash flow conversion at or above 50% on a multi-year, through the cycle basis.

For 2022, we expect free cash flow conversion from adjusted EBITDA to be around 50%, as working capital should be a use of cash due to expected revenue growth.

Going forward, we expect our strong balance sheet and free cash flow generation to continue to provide us with attractive flexibility and optionality to return cash to shareholders and invest in tuck-in M&A and technology on an opportunistic basis.

Now I will walk you through the segment results in more detail and give you our thoughts on the outlook going forward.

In **Oilfield Services**, the team delivered a strong quarter.

OFS revenue in the quarter was $2.6 billion, up 6% sequentially. International revenue was up 7% sequentially led by increases in Sub-Saharan Africa, the North Sea, Russia, and Latin America. North America revenue increased 4% sequentially with similar growth in both the land and offshore markets. Over 55% of OFS' revenues in North America were in our production-related businesses of Chemicals and Artificial Lift in the fourth quarter.

Operating income in the quarter was $256 million, a 35% increase sequentially and a 210-basis point improvement in margin rate. The improvement in margin was driven by better operating productivity, pricing gains in certain product lines, and favorable product mix. For the total year of 2021 OFS improved operating income margin rate by 320 basis points.

As we look ahead to the first quarter, we expect to see continued growth in international and North American activity offset by typical seasonal softness in the international markets. As a result, we expect our first quarter revenue to decline modestly on a sequential basis along with a modest decline in margin rates.

For the full year 2022, our expectations are largely in line with the view we shared in October on our third quarter earnings call.

In the international market, we expect the continuation of a broad-based recovery with growth in the low-to-mid-double digits.

In North America, we expect a continuation of the ramp-up in activity levels and believe that the broader market could experience strong growth in the 25% to 30% range.

With this type of macro backdrop, we would expect to generate solid double digit revenue growth in 2022 in OFS. Margin rates should also see solid improvement as some of the recent supply chain and cost escalation headwinds normalize and we remain focused on achieving 20% EBITDA margins by the end of the 2022.

Moving to **Oilfield Equipment**, orders in the quarter were $510 million, down 9% year-over-year. The reduction in orders was driven by SPS as well as the removal of Subsea Drilling Systems from consolidated OFE operations as a result of the merger with MHWirth. These declines were partially offset by growth in Services and Flexibles.

Revenue was $619 million, down 13% year-over-year. The reduction in revenue was driven by the removal of SDS and lower volumes in SPS & SPC Projects, partially offset by growth in Services.

Operating income was $23 million, a 1% improvement year-over-year. This was driven by higher volume in Services and cost productivity, partially offset by lower volume in SPS and the removal of SDS.

For the first quarter, we expect a double-digit sequential decline in revenue driven primarily by seasonality and lower backlog. We expect operating income to also decline sequentially with margin rates in the low single digits.

For the full year 2022, we expect a modest recovery in offshore activity driven by higher oil prices and capital deployment into low-cost basins and projects. We expect OFE revenue to be down double digits, primarily driven by the de-consolidation of SDS, but we expect OFE margins to remain in the low to mid-single digit range, driven by business mix and benefits from the recent cost out actions taken.

Next, I will cover **Turbomachinery**. The team delivered another strong quarter with solid execution.

Orders in the quarter were $3 billion, up 62% year-over-year. Equipment orders were up $1.1 billion year-over-year. As Lorenzo mentioned earlier, orders this quarter were supported by an award to supply power generation for a major LNG project in North America, an order for the Pluto Train 2 LNG project, and an award for a large-scale LNG project in the Eastern Hemisphere.

Service orders in the quarter were up 7% year-over-year, driven by growth in both contractual and transactional services, partially offset by lower volume in upgrades.

Revenue for the quarter was $1.8 billion, down 9% versus the prior year. Equipment revenue was down 30% driven by the timing of our equipment backlog conversion. Services revenue was up 16% versus the prior year.

Operating income for TPS was $346 million, up 4% year-over-year, driven by favorable mix from a strong volume quarter in services. Operating margin was 19.5%, up 240 basis points year-over-year driven by higher services mix.

For the first quarter, we expect revenue to be roughly flat year-over-year with higher service revenues offsetting a decline in equipment revenue.

Based on this revenue outlook, we expect TPS operating income rates to increase slightly on a year-over-year basis.

For the full year, we expect TPS orders in 2022 to be roughly the same as 2021 driven by continued strength in LNG awards. We also continue to see a solid pipeline in our onshore/offshore production segment along with opportunities in pumps, valves, and new energy areas.

We now expect solid revenue growth in 2022, driven by growth in services and strong orders growth in 2021.

On the margin side, we still expect operating income margin rates to be roughly flat year-over-year in 2022, depending on the mix between services and equipment. Included in this framework is an expected increase in investments and R&D expenses that relate to our new energy and industrial growth areas.

Finally, in **Digital Solutions**, orders for the quarter were $605 million, up 14% year-over-year. We saw improvements in orders across most end-markets, most notably in industrial, transportation, and oil and gas. Sequentially, orders were up 16% driven by seasonality in oil and gas, power generation and industrial.

Revenue for the quarter was $558 million, flat year-over-year with higher volumes in Waygate, Reuter-Stokes and PPS, offset by lower volumes in Nexus Controls, Druck, and Bently Nevada. Sequentially, revenue was up 9% with improvements across most product lines.

Operating income for the quarter was $51 million, down 33% year-over-year driven by headwinds from mix and higher R&D costs. Sequentially, operating income was up 97% primarily driven by higher volume.

For the first quarter, we expect to see modest revenue growth year-over-year, supported by a stronger opening backlog. We expect operating margin rates to be down slightly year-over-year, but to remain in the mid-single digits.

For the full year, we expect solid growth in revenue as supply chain constraints begin to ease and orders pick up across Digital Solutions. With higher volumes, we expect strong improvements in DS margins, which could approach double digits for the total year.

Overall, I am very pleased with the execution in the fourth quarter and total year across all the key financials. We are confident in our strategy and our ability to continue to execute as we head into 2022.

With that, I will turn the call back over to Jud.

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thanks, Brian. Operator, let's open the call for questions.