

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-9397

Baker Hughes Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

76-0207995

(I.R.S. Employer Identification No.)

2929 Allen Parkway, Suite 2100, Houston, Texas

(Address of principal executive offices)

77019-2118

(Zip Code)

Registrant's telephone number, including area code: (713) 439-8600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of July 17, 2014, the registrant has outstanding 435,042,740 shares of Common Stock, \$1 par value per share.

Baker Hughes Incorporated
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Baker Hughes Incorporated
Consolidated Condensed Statements of Income
(Unaudited)

<i>(In millions, except per share amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Sales	\$ 1,975	\$ 1,869	\$ 3,832	\$ 3,618
Services	3,960	3,618	7,834	7,099
Total revenue	5,935	5,487	11,666	10,717
Costs and expenses:				
Cost of sales	1,530	1,467	3,031	2,851
Cost of services	3,215	3,124	6,434	6,066
Research and engineering	159	131	302	258
Marketing, general and administrative	338	329	654	651
Litigation settlements	62	—	62	—
Total costs and expenses	5,304	5,051	10,483	9,826
Operating income	631	436	1,183	891
Interest expense, net	(59)	(60)	(116)	(115)
Income before income taxes	572	376	1,067	776
Income taxes	(213)	(131)	(372)	(263)
Net income	359	245	695	513
Net income attributable to noncontrolling interests	(6)	(5)	(14)	(6)
Net income attributable to Baker Hughes	\$ 353	\$ 240	\$ 681	\$ 507
<hr/>				
Basic earnings per share attributable to Baker Hughes	\$ 0.81	\$ 0.54	\$ 1.56	\$ 1.14
Diluted earnings per share attributable to Baker Hughes	\$ 0.80	\$ 0.54	\$ 1.55	\$ 1.14
Cash dividends per share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Statements of Comprehensive Income (Loss)
(Unaudited)

<i>(In millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 359	\$ 245	\$ 695	\$ 513
Other comprehensive income (loss):				
Foreign currency translation adjustments during the period	29	(30)	3	(110)
Pension and other postretirement benefits, net of tax	(4)	3	(8)	13
Hedge transactions, net of tax	—	(3)	—	(3)
Other comprehensive income (loss)	25	(30)	(5)	(100)
Comprehensive income	384	215	690	413
Comprehensive income attributable to noncontrolling interests	(6)	(5)	(14)	(6)
Comprehensive income attributable to Baker Hughes	\$ 378	\$ 210	\$ 676	\$ 407

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Balance Sheets
(Unaudited)

<i>(In millions)</i>	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,163	\$ 1,399
Accounts receivable - less allowance for doubtful accounts (2014 - \$215; 2013 - \$238)	5,361	5,138
Inventories, net	4,075	3,884
Deferred income taxes	392	380
Other current assets	556	494
Total current assets	11,547	11,295
Property, plant and equipment - less accumulated depreciation (2014 - \$7,815; 2013 - \$7,219)	9,087	9,076
Goodwill	5,999	5,966
Intangible assets, net	836	883
Other assets	808	714
Total assets	\$ 28,277	\$ 27,934
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 2,536	\$ 2,574
Short-term debt and current portion of long-term debt	657	499
Accrued employee compensation	569	778
Income taxes payable	306	213
Other accrued liabilities	527	514
Total current liabilities	4,595	4,578
Long-term debt	3,900	3,882
Deferred income taxes and other tax liabilities	773	821
Liabilities for pensions and other postretirement benefits	577	583
Other liabilities	181	158
Commitments and contingencies		
Equity:		
Common stock	435	438
Capital in excess of par value	7,123	7,341
Retained earnings	10,988	10,438
Accumulated other comprehensive loss	(509)	(504)
Baker Hughes stockholders' equity	18,037	17,713
Noncontrolling interests	214	199
Total equity	18,251	17,912
Total liabilities and equity	\$ 28,277	\$ 27,934

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Statements of Changes in Equity
(Unaudited)

(In millions, except per share amounts)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance at December 31, 2013	\$ 438	\$ 7,341	\$ 10,438	\$ (504)	\$ 199	\$ 17,912
Comprehensive income:						
Net income			681		14	695
Other comprehensive loss				(5)		(5)
Activity related to stock plans	3	113				116
Repurchase and retirement of common stock	(6)	(394)				(400)
Stock-based compensation		63				63
Cash dividends (\$0.30 per share)			(131)			(131)
Net activity related to noncontrolling interests					1	1
Balance at June 30, 2014	\$ 435	\$ 7,123	\$ 10,988	\$ (509)	\$ 214	\$ 18,251

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance at December 31, 2012	\$ 441	\$ 7,495	\$ 9,609	\$ (476)	\$ 199	\$ 17,268
Comprehensive income:						
Net income			507		6	513
Other comprehensive loss				(100)		(100)
Activity related to stock plans	2	22				24
Stock-based compensation		60				60
Cash dividends (\$0.30 per share)			(132)			(132)
Net activity related to noncontrolling interests					(6)	(6)
Balance at June 30, 2013	\$ 443	\$ 7,577	\$ 9,984	\$ (576)	\$ 199	\$ 17,627

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Statements of Cash Flows
(Unaudited)

<i>(In millions)</i>	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 695	\$ 513
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	891	839
Other noncash items	(48)	(107)
Changes in operating assets and liabilities:		
Accounts receivable	(349)	(494)
Inventories	(192)	(89)
Accounts payable	(31)	502
Other operating items, net	(270)	(86)
Net cash flows provided by operating activities	696	1,078
Cash flows from investing activities:		
Expenditures for capital assets	(863)	(1,041)
Proceeds from disposal of assets	203	183
Other investing items, net	(26)	(4)
Net cash flows used in investing activities	(686)	(862)
Cash flows from financing activities:		
Net proceeds (repayments) of commercial paper borrowings and other debt with original maturity of three months or less	190	(40)
Net (repayments) proceeds of short-term debt with original maturity greater than three months	(12)	40
Repurchase of common stock	(400)	—
Proceeds from issuance of common stock	129	43
Dividends paid	(131)	(132)
Other financing items, net	(21)	(14)
Net cash flows used in financing activities	(245)	(103)
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	(5)
(Decrease) increase in cash and cash equivalents	(236)	108
Cash and cash equivalents, beginning of period	1,399	1,015
Cash and cash equivalents, end of period	\$ 1,163	\$ 1,123
Supplemental cash flows disclosures:		
Income taxes paid, net of refunds	\$ 360	\$ 343
Interest paid	\$ 124	\$ 121
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable	\$ 119	\$ 102

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Baker Hughes Incorporated ("Baker Hughes," "Company," "we," "our," or "us,") is a leading supplier of oilfield services, products, technology and systems used for drilling, formation evaluation, completion and production, pressure pumping, and reservoir development in the worldwide oil and natural gas industry. We also provide products and services for other businesses including downstream chemicals, and process and pipeline services.

Basis of Presentation

Our unaudited consolidated condensed financial statements included herein have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America ("U.S.") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, certain information and disclosures normally included in our annual financial statements have been condensed or omitted. These unaudited consolidated condensed financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report"). We believe the unaudited consolidated condensed financial statements included herein reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. In the Notes to Unaudited Consolidated Condensed Financial Statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

New Accounting Standards Updates

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. We are currently evaluating the impact the pronouncement will have on our consolidated financial statements and related disclosures.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. The ASU will also require entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The pronouncement is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted. We adopted the ASU in the second quarter of 2014 and it did not impact our consolidated financial statements or the notes to our financial statements.

NOTE 2. VENEZUELAN CURRENCY DEVALUATION

In January 2014, the Venezuelan government modified the currency exchange system whereby the official exchange rate of 6.3 Bolivares Fuertes ("BsF") to the U.S. Dollar ("USD") would only apply to certain economic sectors related to purchases of "essential goods and services" while other sectors of the economy would apply a new exchange rate, SICAD 1, determined by an auction process conducted by Venezuela's Complimentary System of Foreign Currency Administration. Participation in the SICAD 1 mechanism is controlled by the Venezuelan government and is limited to certain companies that operate in designated industry sectors. As of June 30, 2014, we have not been able to participate in any SICAD 1 auctions.

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In March 2014, another currency exchange mechanism was established by the Venezuelan government that allows other economic sectors and companies to participate in the auction process ("SICAD 2") and during the second quarter of 2014, we successfully participated in SICAD 2 auctions.

We have not been eligible to apply for exchange at the official rate nor do we expect to be allowed to participate in the SICAD 1 auctions. We are both eligible and have successfully participated in SICAD 2 auctions. As a result, during the second quarter of 2014, we adopted the SICAD 2 exchange rate of approximately 50 BsF per USD for purposes of remeasuring BsF denominated assets and liabilities and revenue and expenses because we believe the SICAD 2 rate is the rate most representative of the economics in which we operate. Prior to this change, we were using the official exchange rate of 6.3 BsF per USD. The impact of this change was a loss of \$12 million resulting from the write down of our BsF denominated monetary assets and liabilities. This loss was recorded in marketing, general and administrative expense in the second quarter of 2014.

In February 2013, Venezuela's currency was devalued from the prior official exchange rate of 4.3 BsF per USD to 6.3 BsF per USD, which applied to our BsF denominated monetary assets and liabilities. The impact of this devaluation was a loss of \$23 million and was recorded in marketing, general and administrative expense in the first quarter of 2013.

NOTE 3. EARNINGS PER SHARE

A reconciliation of the number of shares used for the basic and diluted earnings per share ("EPS") computations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average common shares outstanding for basic EPS	437	443	438	443
Adjustment for effect of dilutive securities - stock plans	3	1	2	1
Weighted average common shares outstanding for diluted EPS	440	444	440	444
Future potentially dilutive shares excluded from diluted EPS:				
Options with an exercise price greater than the average market price for the period	2	7	2	7

NOTE 4. INVENTORIES

Inventories, net of reserves, are comprised of the following:

	June 30, 2014	December 31, 2013
Finished goods	\$ 3,616	\$ 3,438
Work in process	237	215
Raw materials	222	231
Total inventories	\$ 4,075	\$ 3,884

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NOTE 5. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	June 30, 2014			December 31, 2013		
	Gross Carrying Amount	Less: Accumulated Amortization	Net	Gross Carrying Amount	Less: Accumulated Amortization	Net
Technology	\$ 817	\$ 364	\$ 453	\$ 814	\$ 337	\$ 477
Customer relationships	496	177	319	494	157	337
Trade names	120	87	33	120	82	38
Other ⁽¹⁾	43	12	31	43	12	31
Total intangible assets	\$ 1,476	\$ 640	\$ 836	\$ 1,471	\$ 588	\$ 883

⁽¹⁾ Includes indefinite-lived intangibles of \$27 million at June 30, 2014 and December 31, 2013 related to in-process research and development projects.

Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 3 to 30 years. Amortization expense included in net income for the three and six months ended June 30, 2014 was \$27 million and \$53 million, respectively, as compared to \$30 million and \$59 million reported in 2013 for the same period.

Amortization expense of these intangibles over the remainder of 2014 and for each of the subsequent five fiscal years is expected to be as follows:

Year	Estimated Amortization Expense
Remainder of 2014	\$ 52
2015	98
2016	96
2017	93
2018	87
2019	84

NOTE 6. FINANCIAL INSTRUMENTS

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt and foreign currency forward contracts. Except as described below, the estimated fair value of such financial instruments at June 30, 2014 and December 31, 2013 approximates their carrying value as reflected in our unaudited consolidated condensed balance sheets.

The estimated fair value of total debt at June 30, 2014 and December 31, 2013 was \$5,218 million and \$4,857 million, respectively, which differs from the carrying amounts of \$4,557 million and \$4,381 million, respectively, included in our unaudited consolidated condensed balance sheets. The fair value was determined using quoted period-end market prices.

NOTE 7. SEGMENT INFORMATION

We are a supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas business, referred to as oilfield operations, which are managed through operating segments that are aligned with our geographic regions. We also provide services and products to the downstream chemicals, and process and pipeline industries, referred to as Industrial Services.

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The performance of our operating segments is evaluated based on profit before tax, which is defined as income before income taxes and before the following: net interest expense, corporate expenses and certain gains and losses not allocated to the operating segments.

Summarized financial information is shown in the following table:

Segments	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Revenue	Profit (Loss) Before Taxes	Revenue	Profit (Loss) Before Taxes
North America	\$ 2,843	\$ 340	\$ 2,677	\$ 211
Latin America	544	46	557	(18)
Europe/Africa/Russia Caspian	1,066	178	966	151
Middle East/Asia Pacific	1,149	168	971	115
Industrial Services	333	34	316	39
Total Operations	5,935	766	5,487	498
Corporate and other	—	(73)	—	(62)
Interest expense, net	—	(59)	—	(60)
Litigation settlements	—	(62)	—	—
Total	\$ 5,935	\$ 572	\$ 5,487	\$ 376

Segments	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Revenue	Profit (Loss) Before Taxes	Revenue	Profit (Loss) Before Taxes
North America	\$ 5,619	\$ 598	\$ 5,280	\$ 446
Latin America	1,074	101	1,147	31
Europe/Africa/Russia Caspian	2,062	320	1,820	244
Middle East/Asia Pacific	2,257	303	1,865	231
Industrial Services	654	61	605	63
Total Operations	11,666	1,383	10,717	1,015
Corporate and other	—	(138)	—	(124)
Interest expense, net	—	(116)	—	(115)
Litigation settlements	—	(62)	—	—
Total	\$ 11,666	\$ 1,067	\$ 10,717	\$ 776

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Notes to Unaudited Consolidated Condensed Financial Statements

NOTE 8. EMPLOYEE BENEFIT PLANS

We have both funded and unfunded noncontributory defined benefit pension plans ("Pension Benefits") covering certain employees primarily in the U.S., the United Kingdom, Germany and Canada. We also provide certain postretirement health care benefits ("Other Postretirement Benefits"), through an unfunded plan, to a closed group of U.S. employees who, when they retire, have met certain age and service requirements.

The components of net periodic cost are as follows for the three months ended June 30:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013	2014	2013
Service cost	\$ 18	\$ 16	\$ 4	\$ 4	\$ 2	\$ 2
Interest cost	7	5	9	8	1	1
Expected return on plan assets	(11)	(10)	(10)	(10)	—	—
Amortization of prior service credit	—	—	—	—	(2)	(2)
Amortization of net actuarial loss	2	4	1	2	—	1
Other	—	—	—	—	1	—
Net periodic cost	\$ 16	\$ 15	\$ 4	\$ 4	\$ 2	\$ 2

The components of net periodic cost are as follows for the six months ended June 30:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013	2014	2013
Service cost	\$ 35	\$ 32	\$ 7	\$ 8	\$ 3	\$ 4
Interest cost	14	11	18	16	3	2
Expected return on plan assets	(22)	(20)	(20)	(20)	—	—
Amortization of prior service credit	—	—	—	—	(3)	(4)
Amortization of net actuarial loss	4	7	2	4	1	2
Other	—	—	—	—	(3)	—
Net periodic cost	\$ 31	\$ 30	\$ 7	\$ 8	\$ 1	\$ 4

NOTE 9. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are subject to a number of lawsuits and claims arising out of the conduct of our business. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. We record a liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, including accruals for self-insured losses which are calculated based on historical claim data, specific loss development factors and other information. A range of total possible losses for all litigation matters cannot be reasonably estimated. Based on a consideration of all relevant facts and circumstances, we do not expect the ultimate outcome of any currently pending lawsuits or claims against us will have a material adverse effect on our financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters.

We insure against risks arising from our business to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending or future legal proceedings or other claims.

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Most of our insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. In determining the amount of self-insurance, it is our policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability, general liability and workers compensation.

We are a defendant in various labor claims including the following matters. On April 28, 2014, a collective action lawsuit alleging that we failed to pay an as-yet-undetermined class of workers overtime in compliance with the Fair Labor Standards Act ("FLSA") was filed titled Michael Ciamillo, individually, etc., et al. vs. Baker Hughes Incorporated in the U.S. District Court for the District of Alaska. On December 10, 2013, a class and collective action lawsuit alleging that we failed to pay a nationwide class of workers overtime in compliance with the FLSA and certain state laws was filed titled Lea et al. v. Baker Hughes, Inc. in the U.S. District Court for the Southern District of Texas, Galveston Division ("Lea"). On October 21, 2013, a collective action lawsuit alleging that we failed to pay an as-yet-undetermined class of workers overtime in compliance with the FLSA was filed titled Zamora et al. v. Baker Hughes Incorporated in the U.S. District Court for the Southern District of Texas, Corpus Christi Division.

During the second quarter of 2014, the parties agreed to settle the Lea lawsuit, subject to final court approval, and we recorded a charge of \$62 million, which includes the Lea settlement amount and associated costs and an amount for settlement of another wage and hour lawsuit. As it relates to the Zamora and Ciamillo lawsuits, we are evaluating the background facts and at this time are not able to predict the outcome of these lawsuits or the amount of any loss that may arise from them.

On May 30, 2013, we received a Civil Investigative Demand ("CID") from the U.S. Department of Justice ("DOJ") pursuant to the Antitrust Civil Process Act. The CID seeks documents and information from us for the period from May 29, 2011 through the date of the CID in connection with a DOJ investigation related to pressure pumping services in the U.S. We are working with the DOJ to provide the requested documents and information. We are not able to predict what action, if any, might be taken in the future by the DOJ or other governmental authorities as a result of the investigation.

OTHER

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as surety bonds for performance, letters of credit and other bank issued guarantees, which totaled approximately \$1.5 billion at June 30, 2014. It is not practicable to estimate the fair value of these financial instruments. None of the off-balance sheet arrangements either has, or is likely to have, a material effect on our financial position, results of operations or cash flows.

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables present the changes in accumulated other comprehensive loss, net of tax:

	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2013	\$ (217)	\$ (287)	\$ (504)
Other comprehensive (loss) income before reclassifications	(8)	3	(5)
Amounts reclassified from accumulated other comprehensive loss	1	—	1
Deferred taxes	(1)	—	(1)
Balance at June 30, 2014	\$ (225)	\$ (284)	\$ (509)

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	Hedge Transactions	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2012	\$ —	\$ (250)	\$ (226)	\$ (476)
Other comprehensive (loss) income before reclassifications	(3)	7	(110)	(106)
Amounts reclassified from accumulated other comprehensive loss	—	9	—	9
Deferred taxes	—	(3)	—	(3)
Balance at June 30, 2013	\$ (3)	\$ (237)	\$ (336)	\$ (576)

The amounts reclassified from accumulated other comprehensive loss during the six months ended June 30, 2014 and 2013 represent the amortization of prior service credit, net actuarial loss, and other which are included in the computation of net periodic cost (see Note 8. Employee Benefit Plans for additional details). Net periodic cost is recorded in cost of sales and services, research and engineering, and marketing, general and administrative expenses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited consolidated condensed financial statements and the related notes included in Item 1 thereto, as well as our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report"). As used herein, phrases such as "Baker Hughes," "Company," "we," "our" and "us" intend to refer to Baker Hughes Incorporated when used.

EXECUTIVE SUMMARY

Baker Hughes is a leading supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas industry, referred to as our oilfield operations. We manage our oilfield operations through four geographic segments consisting of North America, Latin America, Europe/Africa/Russia Caspian, and Middle East/Asia Pacific. Our Industrial Services businesses are reported in a fifth segment.

The main products and services provided by oilfield operations fall into one of two categories, Drilling and Evaluation, or Completion and Production. This classification is based on the two major phases of constructing an oil and/or natural gas well, the drilling phase and the completion phase, and how our products and services are utilized in each phase. We also provide products and services to the downstream chemicals, and process and pipeline industries, referred to as Industrial Services.

Within our oilfield operations, the primary driver of our businesses is our customers' capital and operating expenditures dedicated to oil and natural gas exploration, field development and production. Our business is cyclical and is dependent upon our customers' expectations for future oil and natural gas prices, economic growth, hydrocarbon demand and estimates of current and future oil and natural gas production.

For the second quarter of 2014, we generated revenue of \$5.94 billion, an increase of \$448 million, or 8%, compared to the second quarter of 2013, and an increase of \$204 million, or 4%, compared to the first quarter of 2014, or sequentially. Net income attributable to Baker Hughes was \$353 million for the second quarter of 2014 compared to \$240 million for the second quarter of 2013, and \$328 million for the first quarter of 2014.

North America oilfield revenue for the second quarter of 2014 was \$2.84 billion, an increase of \$166 million, or 6%, compared to the second quarter of 2013, and an increase of \$67 million, or 2%, compared to the first quarter of 2014. North America oilfield profit before tax for the second quarter of 2014 was \$340 million compared to \$211 million for the second quarter of 2013, and \$258 million for the first quarter of 2014. Our revenue in the second quarter of 2014 compared to the same quarter a year ago increased as a result of strong activity growth, mainly in our drilling services, drill bits and artificial lift product lines. Profitability in North America increased \$129 million, or 61%, year over year primarily attributed to operational leverage from activity growth, higher margin on the increase in revenue from recently introduced well construction and production technologies, and continued improvement of our pressure pumping business. Sequentially, our North America oilfield revenue and profit margins improved due to increased activity in the U.S. onshore business, which more than offset the seasonal decline in Canada. U.S. offshore operations also grew sequentially with increased drilling and well completion activity in the quarter.

Oilfield revenue outside of North America for the second quarter of 2014 was \$2.76 billion, an increase of \$265 million, or 11%, compared to the second quarter of 2013, and an increase of \$125 million, or 5%, sequentially. Oilfield profitability outside of North America for the second quarter of 2014 was \$392 million compared to \$248 million for the second quarter of 2013, and \$332 million for the first quarter of 2014. The increase in revenue in the second quarter of 2014 compared to the same quarter a year ago was driven by strong growth in both the Europe/Africa/Russia Caspian ("EARC") and Middle East/Asia Pacific ("MEAP") segments, predominately in Saudi Arabia, Africa and Russia. Profitability increased in all three geographic segments outside of North America compared to the second quarter of 2013, but particularly in Latin America due to continued focus on operational efficiencies and favorable geographic mix. Profitability in the second quarter of 2014 was impacted by a foreign exchange loss of \$12 million related to the Venezuela currency devaluation. Sequentially, oilfield revenue outside of North America increased as a result of the rebound of activity in Russia and the North Sea following adverse weather conditions in the first quarter, strong drilling services activity in Saudi Arabia with a historical high rig count, increased activity and

share in Africa as a result of recently awarded contracts, and increased product sales in Australia, China and South East Asia. Sequentially, our profitability increased primarily due to revenue growth in the EARC and MEAP segments.

In March 2014, we announced that we have signed an agreement for the purchase of Weatherford International Ltd.'s pipeline and specialty services business for a total consideration of \$250 million, comprised of \$241 million in cash and \$9 million in working capital, subject to adjustments. This business will be included in our Industrial Services segment. The sale is still pending antitrust approval by regulatory authorities in various countries.

As of June 30, 2014, we had approximately 59,200 employees compared to approximately 59,400 employees as of December 31, 2013.

BUSINESS ENVIRONMENT

In North America, rig counts increased 7% in the second quarter of 2014 compared to the same period a year ago, comprised of a 9% increase in the oil-directed rig count and a flat natural gas-directed rig count. In the U.S., the oil-directed rig count increased 10% as higher West Texas Intermediate ("WTI") oil prices and modest economic growth predictions have contributed to increased customer spending in oil basins, such as the Permian and Eagle Ford. In Canada, the oil-directed rig count is up 5% where oil drilling activity resumed at an accelerated pace after the seasonal spring break up. The natural gas-directed rig count had a decrease of 11% in the U.S. during the second quarter of 2014 compared to the same period a year ago reaching a 21 year low at 310 rigs. This rig count decrease was offset by a 69% increase in the natural gas-directed rig count in Canada which was driven by drilling in condensate rich zones in Alberta to service activity in the oil sands. This increase in the natural gas-directed rig count combined with a short spring break up ultimately resulted in a 31% increase in total Canadian rig activity in the second quarter of 2014 compared to the same quarter in 2013.

Outside of North America, customer spending is most heavily influenced by Brent oil prices. Due to the long-term planning cycles associated with many international projects, customers do not tend to react to short-term movements in oil prices. On average, Brent oil prices were up 7% in the second quarter of 2014 compared to the same period a year ago driven by supply concerns over instability in Iraq and Ukraine. Despite higher oil prices, the international rig count only grew by 3% in the second quarter of 2014 compared to the same quarter in 2013, with the largest gains seen in the Middle East, Europe and Africa.

Oil and Natural Gas Prices

Oil and natural gas prices are summarized in the table below as averages of the daily closing prices during each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Brent oil price (\$/Bbl) ⁽¹⁾	\$ 109.77	\$ 103.00	\$ 108.85	\$ 107.87
WTI oil price (\$/Bbl) ⁽²⁾	103.11	94.13	100.88	94.24
Natural gas price (\$/mmBtu) ⁽³⁾	4.59	4.02	4.86	3.76

⁽¹⁾ Bloomberg Dated Brent ("Brent") Oil Spot Price per Barrel

⁽²⁾ Bloomberg WTI Cushing Crude Oil Spot Price per Barrel

⁽³⁾ Bloomberg Henry Hub Natural Gas Spot Price per million British Thermal Unit

Brent oil prices averaged \$109.77/Bbl in the second quarter of 2014, increasing steadily throughout the period as a result of lingering concerns that violence in Iraq, OPEC's (Organization of the Petroleum Exporting Countries) second-largest producer, might lead to supply disruptions. Additionally, continued record-high levels of Chinese crude oil imports in 2014, and ongoing delays to Libyan oil exports have contributed to upward price pressure. During the quarter, Brent oil prices ranged from a low of \$103.95/Bbl at the beginning of April 2014 to a nine month high of \$115.00/Bbl towards the end of June 2014. Brent oil prices closed the quarter slightly down at \$112.09/Bbl

as worries about an immediate disruption of Iraqi oil supply continued to recede as output from Iraq's southern oilfields, which produce most of the nation's 3.3 million barrels per day ("bpd"), remained unaffected by fighting in the north and west. According to the June 2014 Oil Market Report published by the International Energy Agency ("IEA"), recent demand growth has raised the 2014 oil demand forecast marginally upward to 92.8 million bpd from 92.7 million bpd in March 2014, which is an increase of 1.4 million bpd over 2013. Much of this growth is anticipated in emerging markets, most notably in Asia.

WTI oil prices averaged \$103.11/Bbl in the second quarter of 2014. During the quarter, WTI prices rose roughly in line with Brent oil prices as concerns persisted that an insurgency in Iraq could disrupt oil exports. The January 2014 startup of TransCanada's Marketlink pipeline, moving crude oil from Cushing, Oklahoma to the Gulf Coast, and strong refinery runs also contributed to an increase in the WTI crude oil price. Overall, prices ranged from a low of \$99.42/Bbl in early May 2014 to a high of \$107.26/Bbl in late June 2014. WTI prices closed the quarter slightly down at \$105.37/Bbl due to reduced concerns over exports from strife-torn Iraq as the situation tempered.

In North America, natural gas prices, as measured by the Henry Hub Natural Gas Spot Price, averaged \$4.59/mmBtu in the second quarter of 2014. Natural gas prices increased slightly during the quarter as natural gas storage levels continue to drop below five year averages as a result of the cold weather in the first quarter of 2014 in many parts of the U.S. which contributed to significant withdrawals of natural gas from storage. Overall for the quarter, prices ranged from a low of \$4.35/mmBtu in early April 2014 to a high of \$4.83/mmBtu in early May 2014. Henry Hub Natural Gas Spot prices closed the quarter at \$4.42/mmBtu as expectations for a bigger-than-normal storage build offset short-term forecasts for hot weather and strong air conditioning demand in key consuming regions. According to the U.S. Department of Energy, working natural gas in storage at the end of the second quarter of 2014 was 1,929 billion cubic feet ("Bcf"), which was 26%, or 676 Bcf, below the corresponding period in 2013 but a 1,107 Bcf, or 135%, above the end of the first quarter of 2014.

Baker Hughes Rig Count

Baker Hughes has been providing rig counts to the public since 1944. We gather all relevant data through our field service personnel, who obtain the necessary data from routine visits to the various rigs, customers, contractors and/or other outside sources. We base the classification of a well as either oil or natural gas primarily upon filings made by operators in the relevant jurisdiction. This data is then compiled and distributed to various wire services and trade associations and is published on our website. We believe the counting process and resulting data is reliable; however, it is subject to our ability to obtain accurate and timely information. Rig counts are compiled weekly for the U.S. and Canada and monthly for all international rigs. Published international rig counts do not include rigs drilling in certain locations, such as Russia, the Caspian, Iran and onshore China because this information is not readily available.

Rigs in the U.S. and Canada are counted as active if, on the day the count is taken, the well being drilled has been started but drilling has not been completed and the well is anticipated to be of sufficient depth to be a potential consumer of drill bits. In international areas, rigs are counted on a weekly basis and deemed active if drilling activities occurred during the majority of the week. The weekly results are then averaged for the month and published accordingly. The rig count does not include rigs that are in transit from one location to another, rigging up, being used in non-drilling activities, including production testing, completion and workover, and are not expected to be significant consumers of drill bits.

The Baker Hughes Rig Counts are an important business barometer for the drilling industry and its suppliers. When drilling rigs are active they consume products and services produced by the oil service industry. Rig count trends are governed by the exploration and development spending by oil and gas companies, which in turn is influenced by current and future price expectations for oil and gas. Therefore, the counts may reflect the relative strength and stability of energy prices and overall market activity. However, these counts should not be solely relied on as other specific and pervasive conditions may exist that affects overall energy prices and market activity.

The rig counts are summarized in the table below as averages for each of the periods indicated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
U.S. - land and inland waters	1,796	1,710	5%	1,760	1,708	3%
U.S. - offshore	56	52	8%	56	52	8%
Canada	199	152	31%	362	342	6%
North America	2,051	1,914	7%	2,178	2,102	4%
Latin America	402	425	(5%)	402	426	(6%)
North Sea	44	42	5%	41	45	(9%)
Continental Europe	105	91	15%	101	88	15%
Africa	133	127	5%	137	121	13%
Middle East	415	369	12%	408	362	13%
Asia Pacific	249	252	(1%)	253	248	2%
Outside North America	1,348	1,306	3%	1,342	1,290	4%
Worldwide	3,399	3,220	6%	3,520	3,392	4%

The rig count in North America increased 7% in the second quarter of 2014 compared to the same period a year ago as oil-directed rig counts increased 9%, while natural gas-directed rig counts remained flat. The oil-directed rig count increased 10% in the U.S. as activity increased in the Permian basin and South East Texas. Canada had a 5% increase due to a quicker recovery in the Canadian rig activity following the spring break up this year. This increase in oil directed rig counts in North America is driven predominately by an increase of investment in oil exploration and production as a result of the WTI oil price averaging 10% higher than the same period last year. The natural gas-directed rig count reflected an 11% decrease in the U.S. Although U.S. natural gas prices were above the average for the same period last year, overall prices remain below levels that are considered to be economic for new investments in many natural gas fields. However, this rig count decrease in the U.S. was fully offset by a 69% increase in Canada primarily resulting from increased drilling in condensate rich zones in Alberta to service oil sands drilling activity.

Outside North America, the rig count in the second quarter of 2014 increased 3% compared to the same period a year ago. The rig count in Latin America decreased 5% primarily due to reduced offshore rig activity in Brazil, lower land and offshore activity in Mexico and a slight decline in rig activity in Venezuela. This was partially offset by increased land rig activity in Argentina. In Europe, the rig count in the North Sea increased 5% primarily due to increased offshore rig activity in the Netherlands while in Continental Europe, the rig count increased 15% primarily due to higher activity in Turkey and Romania. The rig count increased 5% in Africa primarily due to increased drilling activities in Kenya, Chad and offshore Angola, partially offset by decreased drilling in the north in Nigeria, Libya and Tunisia. In the Middle East, the rig count increased 12% primarily due to increased activity in Saudi Arabia, Oman and Iraq. In Asia Pacific, the rig count decreased 1% as a result of reduced drilling activity in Indonesia, Malaysia and New Zealand, partially offset by increased activity in India and offshore China.

Baker Hughes Well Count

Baker Hughes began providing U.S. well count data to the oil and natural gas industry in July 2013. The Baker Hughes Well Count is an extension of the Baker Hughes Rig Count, and provides a quarterly census of the number of new onshore oil and natural gas wells where drilling began, or spud, in the U.S. The Baker Hughes Well Count includes wells that are identified to be significant consumers of oilfield services and supplies, and excludes wells categorized as workover, plugged and abandoned or completed. Well count trends are governed by oil company exploration and development spending in the U.S., which in turn is influenced by the current and expected price of oil and natural gas. Well counts therefore may reflect the strength and stability of energy prices. However, there are many other factors that can influence the well count, including new technologies, pad drilling, weather, seasonal spending and changes to local regulations. We believe the counting process and resulting data is reliable; however, it is subject to our ability to obtain accurate and timely information due to the limited time between the end of the

quarter and our publish date. Well count data may be subsequently revised as additional information is accumulated and analyzed.

During the second quarter of 2014, 9,394 wells were spud on land in the U.S. This compares to 9,011 wells spud in the second quarter of 2013, or an increase of 4%. For the six months ended June 30, 2014, 18,360 wells were spud on land in the U.S. This compares to 17,545 wells spud during the first six months of 2013, an increase of 5%. This increase is primarily associated with well count growth in the Permian and Eagle Ford basins.

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our unaudited consolidated condensed statements of income are based on available information and represent our analysis of significant changes or events that impact the comparability of reported amounts. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where reasonably practicable, have quantified the impact of such items. In addition, the discussions below for revenue and cost of revenue are on a total basis as the business drivers for product sales and services are similar. All dollar amounts in tabulations in this section are in millions of dollars, unless otherwise stated.

Revenue and Profit Before Tax

Revenue and profit before tax for each of our five operating segments is provided below. The performance of our segments is evaluated based on profit before tax, which is defined as income before income taxes and before the following: net interest expense, corporate expenses, and certain gains and losses not allocated to the segments.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
Revenue:								
North America	\$ 2,843	\$ 2,677	\$ 166	6%	\$ 5,619	\$ 5,280	\$ 339	6%
Latin America	544	557	(13)	(2%)	1,074	1,147	(73)	(6%)
Europe/Africa/Russia Caspian	1,066	966	100	10%	2,062	1,820	242	13%
Middle East/Asia Pacific	1,149	971	178	18%	2,257	1,865	392	21%
Industrial Services	333	316	17	5%	654	605	49	8%
Total	\$ 5,935	\$ 5,487	\$ 448	8%	\$ 11,666	\$ 10,717	\$ 949	9%

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
Profit Before Tax:								
North America	\$ 340	\$ 211	\$ 129	61%	\$ 598	\$ 446	\$ 152	34%
Latin America	46	(18)	64	N/M	101	31	70	226%
Europe/Africa/Russia Caspian	178	151	27	18%	320	244	76	31%
Middle East/Asia Pacific	168	115	53	46%	303	231	72	31%
Industrial Services	34	39	(5)	(13%)	61	63	(2)	(3%)
Total Operations	766	498	268	54%	1,383	1,015	368	36%
Corporate and other	(73)	(62)	(11)	18%	(138)	(124)	(14)	11%
Interest expense, net	(59)	(60)	1	(2%)	(116)	(115)	(1)	1%
Litigation settlements	(62)	—	(62)	—%	(62)	—	(62)	—%
Total	\$ 572	\$ 376	\$ 196	52%	\$ 1,067	\$ 776	\$ 291	38%

"N/M" represents not meaningful.

Second Quarter of 2014 Compared to the Second Quarter of 2013

Revenue for the second quarter of 2014 increased \$448 million, or 8%, compared to the second quarter of 2013. International revenue increased 11% as a result of strong growth in MEAP and to a lesser extent EARC. North America revenue increased 6% due to activity growth in the U.S. onshore business primarily in the drilling services, drill bits, and artificial lift product lines, all of which achieved record revenue in the quarter.

Profit before tax for the second quarter of 2014 increased \$196 million, or 52%, compared to the second quarter of 2013. This improvement can be attributed primarily to revenue growth and favorable sales mix in North America, EARC, and MEAP, as well as improved operating efficiencies in the U.S. and Latin America. Profit for the second quarter was negatively impacted by a charge of \$62 million related to certain litigation settlements for wage and hour lawsuits and a \$12 million foreign exchange loss in Venezuela.

North America

North America revenue increased \$166 million, or 6%, in the second quarter of 2014 compared to the second quarter of 2013, consistent with the 7% increase in the rig count. The increase in North America revenue is primarily attributed to the U.S., where our onshore business experienced significant activity growth with record revenue in our drilling services, drill bits and artificial lift product lines. Increased demand for newly introduced well construction and well production technologies across the region also contributed to the increase. Additionally, a quicker recovery in the Canadian rig activity following the spring break up favorably impacted our revenue in Canada. These increases were partially offset by reduced deepwater activity in the Gulf of Mexico for drilling and completion fluids.

North America profit before tax was \$340 million in the second quarter of 2014, an increase of \$129 million, or 61%, compared to the second quarter of 2013. The increase was primarily driven by the continued improvement in our onshore U.S. pressure pumping business, which resulted from higher asset utilization, better supply chain efficiencies, and reduced consumption of certain raw materials. North America profitability was also favorably impacted by higher margin on the increase in revenue in our drilling services, drill bits and artificial lift product lines.

Latin America

Latin America revenue decreased \$13 million, or 2%, in the second quarter of 2014 compared to the second quarter of 2013, primarily due to reduced revenue in Venezuela, partially offset by increased revenue in Argentina and Mexico. Revenue in Venezuela declined across most product lines as contracts expired and were not renewed. These reductions were partially offset by increased activity and share gains in Argentina for our pressure pumping, drill bits and wireline product lines, and increased drilling activity in Mexico's marine region.

Latin America profit before tax was \$46 million in the second quarter of 2014, an increase of \$64 million compared to the second quarter of 2013 despite the revenue decline. Incremental profitability can be primarily attributed to cost reduction strategies implemented in the region in the second half of 2013 with particular focus on Brazil. Profit before tax in the second quarter of 2013 had declined primarily due to Brazil where activity and market share had decreased as we transitioned to a new drilling services contract at lower prices. Increased activity in Argentina and Mexico also contributed to the profitability improvement in the second quarter of 2014.

Profitability was negatively impacted by a \$12 million foreign exchange loss due to a currency devaluation in Venezuela. During the second quarter, we adopted the SICAD 2 exchange rate of approximately 50 Bolivares Fuertes ("BsF") per U.S. Dollar ("USD"). Prior to this change, we were using the official exchange rate of 6.3 BsF per USD.

Europe/Africa/Russia Caspian

EARC revenue increased \$100 million, or 10%, in the second quarter of 2014 compared to second quarter of 2013 due primarily to strong growth across Africa, as well as improvements in Russia. In Africa, revenue increases are a result of activity growth and share gains across all our product lines in both the onshore and offshore market, primarily in Central and West Africa. In Russia, strong growth was experienced in our drilling services and

completion product lines as we expand our business in this region. Revenue growth in Continental Europe was driven by strong completion and production activity and in the United Kingdom revenue increased due to strong wireline services activity. These increases were partially offset by a decline in activity in Norway primarily for our drilling services and drilling and completion fluids products and services.

EARC profit before tax was \$178 million, an increase of \$27 million, or 18%, in the second quarter of 2014 compared to the second quarter of 2013. The improvement in profitability is due to our ability to maintain a fixed cost base with increased revenues, improved market conditions and improved sales mix throughout the segment with strong growth in wireline, completions and pressure pumping product lines.

Middle East/Asia Pacific

MEAP revenue increased \$178 million, or 18%, in the second quarter of 2014 compared to the second quarter of 2013. The strong revenue increase in this segment was largely attributable to solid growth in Saudi Arabia, South East Asia, China and United Arab Emirates ("UAE"). In Saudi Arabia, revenue increases were primarily related to growth with our integrated operations contracts with strong demand for our drilling services and pressure pumping product lines as the rig count reached record levels. In South East Asia, growth was led by increased activity and new contracts in our drilling services and wireline services product lines in Malaysia and Vietnam. In both the UAE and China, activity growth was led by our drilling and completion services product lines.

MEAP profit before tax was \$168 million, an increase of \$53 million, or 46%, in the second quarter of 2014 compared to the second quarter of 2013. In addition to the increase in revenue, profit before tax was favorably impacted by strong incremental margins on increased revenue in our drilling services and wireline services product lines. Profitability was negatively impacted by third party costs associated with our integrated operations turnkey contracts in Iraq where we began to demobilize on one of our contracts.

Industrial Services

For Industrial Services, revenue increased \$17 million and profit before tax decreased \$5 million in the second quarter of 2014 compared to the second quarter of 2013. The increase in revenue was primarily driven by increased activity in our process and pipeline services business. The decrease in profit before tax was due to increased product costs.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Revenue for the six months ended June 30, 2014 increased \$949 million, or 9%, compared to the six months ended June 30, 2013. Revenue increased in all segments except for Latin America which was impacted by reductions in both Venezuela and Brazil. The reduction in Brazil is attributed primarily to reduced drilling activity and pricing deterioration in the country. Revenue in Venezuela declined across most product lines as contracts expired and were not renewed.

Profit before tax for the six months ended June 30, 2014 increased \$291 million, or 38%, compared to the six months ended June 30, 2013. North America profit increased \$152 million, or 34%, as a result of efficiency gains in the pressure pumping product line, activity growth in U.S. onshore and increased demand for new innovative technology. The Latin America segment, despite lower revenue, experienced an increase in profit of \$70 million, or 226%, due to cost reduction initiatives throughout the region and favorable geographic mix. The EARC segment experienced an increase in profit of \$76 million, or 31%, due to increased revenues across almost all product lines, primarily in Africa and Russia Caspian. The MEAP segment experienced an increase in profit of \$72 million, or 31%, as revenue increased across all product lines. MEAP profitability was negatively impacted by increased losses in Iraq.

Profit before tax for the six months ended June 30, 2014 was negatively impacted by a \$12 million foreign exchange loss due to a currency devaluation in Venezuela; \$29 million of severance charges in North America; and \$29 million of costs associated with a technology royalty agreement. The costs related to the technology royalty agreement pertain to our global operations and therefore have been allocated to each segment as follows: North

America - \$13 million; Latin America - \$3 million; Europe/Africa/Russia Caspian - \$6 million; Middle East/Asia Pacific - \$6 million; and Industrial Services - \$1 million.

Profit before tax for the six months ended June 30, 2013 was negatively impacted by a \$23 million foreign exchange loss due to a currency devaluation in Venezuela.

Costs and Expenses

The table below details certain unaudited consolidated condensed statement of income data and as a percentage of revenue.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	\$	%	\$	%	\$	%	\$	%
Revenue	\$ 5,935	100%	\$ 5,487	100%	\$ 11,666	100%	\$ 10,717	100%
Cost of revenue	4,745	80%	4,591	84%	9,465	81%	8,917	83%
Research and engineering	159	3%	131	2%	302	3%	258	2%
Marketing, general and administrative	338	6%	329	6%	654	6%	651	6%

Cost of Revenue

Cost of revenue as a percentage of revenue was 80% and 81% for the three and six months ended June 30, 2014, respectively, and 84% and 83% for the same periods a year ago. The improvement in cost of revenue as a percentage of revenue for the six months ended June 30, 2014 was due primarily to the continued improvement in our onshore U.S. pressure pumping business, which resulted in higher asset utilization and organizational efficiencies. In Latin America, margins improved due to cost reduction strategies implemented in the second half of 2013 throughout the region and favorable geographic mix. Margins also improved in Russia, Africa, Saudi Arabia and South East Asia. These improvements were partially offset by severance charges of \$29 million in North America as a result of a realignment of our business to match current market conditions and costs associated with a technology royalty agreement of \$29 million, both incurred in the first quarter of 2014.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses increased 3% and were flat for the three and six months ended June 30, 2014, respectively, compared to the same periods a year ago. Included in MG&A expenses for the three and six months ended June 30, 2014, is a foreign exchange loss of \$12 million in Venezuela due to our decision to adopt the SICAD 2 exchange rate of approximately 50 BsF per USD for purposes of remeasuring BsF denominated net monetary assets. We believe the SICAD 2 rate is the rate most representative of the economics in which we operate. Prior to this change, we were using the official exchange rate of 6.3 BsF per USD. In the first six months of 2013, we had foreign exchange losses of \$23 million due to the currency devaluation in Venezuela that occurred in February 2013.

Litigation Settlements

During the second quarter of 2014, we recorded a charge of \$62 million related to litigation settlements for wage and hour lawsuits. For further discussion, see Note 9. "Commitments and Contingencies - Litigation" in the Notes to Unaudited Consolidated Condensed Financial Statements in Item 1 herein.

Income Taxes

Total income tax expense was \$213 million and \$372 million for the three and six months ended June 30, 2014, respectively. Our effective tax rate on income before income taxes for the three and six months ended June 30, 2014 was 37.2% and 34.9%, respectively. The tax rate for the three months ended June 30, 2014 is higher than the U.S. statutory income tax rate of 35% primarily due to geographical mix of earnings, losses in certain jurisdictions with no tax relief and state income taxes.

OUTLOOK

This section should be read in conjunction with the factors described in “Part II, Item 1A. Risk Factors” and in the “Forward-Looking Statements” section in this Part I, Item 2, both contained herein. These factors could impact, either positively or negatively, our expectation for: oil and natural gas demand; oil and natural gas prices; exploration and development spending and drilling activity; and production spending.

Our industry is cyclical, and past cycles have been driven primarily by alternating periods of ample supply or shortage of oil and natural gas relative to demand. As an oilfield services company, our revenue is dependent on spending by our customers for oil and natural gas exploration, field development and production. This spending is dependent on a number of factors, including our customers' forecasts of future energy demand, their expectations for future energy prices, their access to resources to develop and produce oil and natural gas, their ability to fund their capital investment programs and the impact of new government regulations.

Our outlook for exploration and development spending is based upon our expectations for customer spending in the global markets in which we operate, and is driven primarily by our perception of industry expectations for oil and natural gas prices, and their likely impact on customer capital and operating budgets as well as other factors that could impact the economic return oil and natural gas companies expect for developing oil and natural gas reserves. Our forecasts are based on evaluating a number of external sources as well as our internal estimates. External sources include publications by the International Energy Agency (“IEA”), Organization of Petroleum Exporting Countries (“OPEC”), the Energy Information Administration (“EIA”), and the Organization for Economic Cooperation and Development (“OECD”). We acknowledge that there is a substantial amount of uncertainty regarding these forecasts, thus, while we have internal estimates regarding economic expansion, hydrocarbon demand and overall oilfield activity, we position ourselves to be flexible and responsive to a wide range of potential outcomes.

We consider the primary drivers impacting the 2014 business environment to include the following:

- **Worldwide Economic Growth** - In general, there is a strong correlation between overall economic growth and global demand for hydrocarbons. The economic outlook for 2014 includes strengthened economic activity growth but also some embedded risks. A major driver to global growth has come from the advanced economies, although their recoveries remain uneven. In the U.S., the International Monetary Fund (“IMF”) forecasts a 2.8% growth in 2014, an increase over 2013, driven by continued strong private demand, and in particular, a recovering housing market. This is expected to continue with a 3% growth rate projected for 2015. In Europe, growth has turned positive but is expected to remain weak and fragile as high debt and fragmented financial markets hold back domestic demand. In addition, the lingering geopolitical risks around the Ukraine and the possibility of additional sanctions against Russia continue to bring uncertainty to this region. The growth in the emerging markets and developing economies, contributing more than two-thirds of global growth, is projected to increase from 4.7% in 2013 to 4.9% in 2014 and 5.3% in 2015. China's economy is experiencing a slowdown in growth, but will remain the most significant driver of global growth in 2014. Since the recession of 2008/2009, China's rapid development and industrialization has been a major factor in driving up worldwide economic growth; however, China's economic growth rates have slowed in recent years to as low as 7.7% in 2013. The IMF estimates China's economic growth will be even lower at 7.5% for 2014 and 7.3% for 2015. For India, economic growth is expected to strengthen to 5.4% in 2014 and 6.4% in 2015, assuming government efforts to revive investment growth succeed and export growth strengthens after recent rupee depreciation.

- Demand for Hydrocarbons - In its June 2014 Oil Market Report, the IEA revised its global oil demand forecast marginally upward for 2014 to 92.8 million barrels per day (“bpd”), from the 92.7 million bpd projected in March. The expected increase is mainly driven by emerging market countries outside the OECD and should support upstream investment in oil and natural gas production around the world. In addition to the global growth in oil demand, natural gas will remain important in meeting the world’s energy needs. In its July 2014 Short-Term Energy Outlook, the EIA estimated that gas demand in the U.S. will see a 1.7% annual increase due to increased industrial demand for natural gas in the U.S. being only partially offset by declines in gas-fired power output and a decline in residential and commercial consumption. Overall, U.S. natural gas demand is expected to reach around 72.5 billion cubic feet per day (“bcfd”) in 2014.
- Oil Production - The IEA projects a growth in oil supply driven by non-OPEC countries with production expected to grow by 1.7 million bpd in 2014. This increase is largely due to continued production growth from U.S. unconventional oil formations and Canadian oil sands, fostered by sustained higher oil prices. Further, in May 2014, the U.S. oil output averaged 8.4 million bpd, the highest average since 1988, U.S. total crude oil production, which averaged 7.4 million bpd in 2013, is expected to average 8.5 million bpd in 2014 and 9.3 million bpd in 2015. The 2015 forecast represents the highest annual average level of oil production since 1972. On the other hand, OPEC oil production has been decreasing primarily reflecting production declines in Iran, increased unplanned outages in Libya, Nigeria, and Iraq, and strong non-OPEC supply growth. EIA expects crude oil production to decline 0.1 million bpd in 2014 and an additional 0.1 million bpd in 2015. Militant unrest in Iraq continues to be a concern, with approximately 300 thousand bpd of northern Iraqi production already off the global market, and further supply outages possible if disruption impacts southern Iraq where most of the oil production resides.
- Natural Gas Production - Natural gas production continues to grow worldwide, including in North America even though drilling activity has slowed. U.S. natural gas production continues to increase despite natural gas-directed rig counts being down 31% in 2013 compared to 2012 and reaching 21-year lows in April 2014. In its July 2014 Short-Term Energy Outlook, the EIA published that total gas production in April reached a record high at 73.5 bcfd, according to EIA's most recent data, with the largest increases coming from areas in Texas. EIA expects natural gas marketed production to grow by an average rate of 4.1% in 2014 and 1.2% in 2015. Overall, global natural gas output will tend to be up in 2014 due to the increased production in the U.S., as well as in the Eastern Hemisphere as high natural gas prices in Europe and Asia should encourage growth.
- Oil Prices - With WTI oil prices trading between \$99.42/Bbl and \$107.26/Bbl, and Brent trading between \$103.95/Bbl and \$115.00/Bbl during the second quarter of 2014, most global oil activity will continue to provide adequate returns to encourage incremental investment. Based on oil supply forecasts and modest anticipated economic growth globally, oil prices are expected to remain relatively stable throughout 2014, barring any major macroeconomic or geopolitical changes. EIA projects Brent crude oil prices to average \$110/Bbl in 2014 and \$105/Bbl in 2015.
- Natural Gas Prices - Henry Hub natural gas prices traded between \$4.35/mmBtu and \$4.83/mmBtu during the second quarter of 2014, as gas prices stabilized after the extremely cold and long winter season. EIA expects spot prices will remain near current levels until the start of the next winter heating season. According to the EIA, they projected in their July 2014 Short-Term Energy Outlook an average price of \$4.77/mmBtu in 2014 and \$4.50/mmBtu in 2015. Based on this, we estimate that the economics of most dry natural gas-directed investments in North America will likely continue to be marginal. This is primarily due to the abundant supplies from unconventional plays in North America, including associated gas produced at liquids-rich unconventional plays.

Activity and Spending Outlook for North America - Overall customer spending in North America is expected to increase in 2014 compared to 2013, with the average annual rig count expected to grow 5%. Overall service activity has increased in North America as customers demand robust technologies such as advanced directional drilling, complex completion systems and pressure pumping to develop liquids-rich unconventional plays such as the Permian and the Eagle Ford basins. Drilling activity in the Gulf of Mexico is expected to increase in 2014, with the addition of 2 or 3 new deepwater exploration rigs in the remainder of the year. Completions and development

activity in the Gulf of Mexico will also continue to grow in 2014, as we begin to see a greater proportion of deepwater rigs performing completion work. In Canada, overall rig activity in 2014 is expected to be up approximately 8% as compared to 2013, an increase from our earlier estimate of 5%.

Activity and Spending Outlook Outside North America - International activity is driven primarily by the oil and gas price environment, which currently provides attractive economic returns in almost every geographic region and is strong enough to support major natural gas export projects, in particular via liquefied natural gas ("LNG"). Customers are expected to increase spending to develop new resources and offset declines from existing producing fields, relying on advanced drilling techniques to support exploration and production activities in deepwater, heavy or viscous oils and tight reservoirs. For 2014, we anticipate an 8% increase in international rig activity relative to 2013, with improvements anticipated in all international regions. This is down slightly from our original estimate of 10% due to less onshore activity in Latin America, most notably in Mexico and Venezuela. Areas that are expected to see the largest increases include the Middle East, in particular Saudi Arabia, the Gulf States; Africa and Asia Pacific. Looking beyond 2014, one potential major change is the planned opening of Mexico's oil and gas resources to foreign investors, which could lead to a surge in new spending and new investment upstream in Mexico, both onshore and offshore.

Around the world, the drivers of oil and gas commercialization have changed. Within South East Asia, there is an increased focus on exploration and development of oil and natural gas resources to meet high local demand growth rather than the historic focus on exports. In Africa, traditional growth areas such as Angola and Nigeria are being augmented by new producers such as Ghana, Uganda, Mozambique and Tanzania. Russia is striving to maintain 10 million barrels of oil production per day through 2020 by investing in Eastern Siberia and eventually in technically challenging offshore Arctic deposits. Efforts in Russia at developing tight oil using vertical drilling are already underway, and the government provided support for pilot projects in 2013 featuring more complex horizontal drilling and completions. In natural gas, Australia is leading the expansion of LNG export projects, using offshore gas drilling in the northwest shelf as well as onshore coal-bed methane operations. Large-scale gas pipeline exports from the Caspian region to China and Europe are expected to grow significantly in the next five years, spurring drilling for deeper targets, both onshore and offshore, and increased natural gas process plant capacity for sour gas.

While the development of unconventional oil and natural gas deposits is still in its infancy outside North America, there is a general consensus that unconventional resources will play a growing role in the future of global energy supply. Countries taking active steps to develop their unconventional reserves base include Australia, China, Saudi Arabia, Argentina and Poland. However, there is demonstrated interest at ministry and national oil company levels in defining unconventional resource potential in almost all countries with active hydrocarbon industries.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain sufficient liquidity, adequate financial resources and financial flexibility in order to fund the requirements of our business. At June 30, 2014, we had cash and cash equivalents of \$1.16 billion, compared to \$1.40 billion of cash and cash equivalents held at December 31, 2013. Substantially all of the consolidated cash balances were held by foreign subsidiaries. A substantial portion of the cash held by foreign subsidiaries at June 30, 2014 was reinvested in our international operations as our intent is to use this cash to, among other things, fund the operations of our foreign subsidiaries. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds based on applicable U.S. tax rates net of foreign taxes. In addition, we have a \$2.50 billion committed revolving credit facility with commercial banks and a commercial paper program under which we may issue up to \$2.50 billion. The maximum combined borrowing at any time under both the credit facility and commercial paper program is \$2.50 billion. At June 30, 2014, we had outstanding commercial paper of \$453 million; therefore, the amount available for borrowing under the facility as of June 30, 2014 was \$2.05 billion. We believe that cash on hand, cash flows generated from operations and the available credit facility, including the issuance of commercial paper, will provide sufficient liquidity to manage our global cash needs. In the six months ended June 30, 2014, we used cash to fund a variety of activities including working capital needs, capital expenditures, repurchase of our common stock and payment of dividends.

Cash Flows

Cash flows provided by (used in) each type of activity were as follows for the six months ended June 30:

<i>(In millions)</i>	2014	2013
Operating activities	\$ 696	\$ 1,078
Investing activities	(686)	(862)
Financing activities	(245)	(103)

Operating Activities

Cash flows from operating activities provided \$696 million in the six months ended June 30, 2014. Before changes in operating assets and liabilities, the major source of funds was net income, including noncontrolling interests, of \$695 million. Net changes in operating assets and liabilities used cash of \$842 million in the six months ended June 30, 2014. This was primarily the result of an increase in accounts receivable of \$349 million due to increased activity and slower collections, an increase in inventory of \$192 million due to increased activity, a decrease in net other operating items of \$270 million primarily due to an increase in payments of accrued employee compensation, and a decrease in accounts payable of \$31 million.

Investing Activities

Our principal recurring investing activity is the funding of capital expenditures to ensure that we have the appropriate levels and types of machinery and equipment in place to generate revenue from operations. Expenditures for capital assets totaled \$863 million in the six months ended June 30, 2014. While the majority of these expenditures were for machinery and equipment, it also includes spending on new facilities, expansions of existing facilities and other infrastructure projects.

Proceeds from the disposal of assets were \$203 million in the six months ended June 30, 2014, which related primarily to equipment that was lost-in-hole, and to a lesser extent, property, machinery and equipment no longer used in operations that was sold throughout the period.

Financing Activities

We had net proceeds from commercial paper and other short-term debt of \$178 million in the six months ended June 30, 2014. Total debt outstanding at June 30, 2014 was \$4.56 billion, an increase of \$176 million compared to December 31, 2013. The total debt-to-capital (defined as total debt plus equity) ratio was 0.20 at June 30, 2014 and December 31, 2013. We paid dividends of \$131 million in the six months ended June 30, 2014.

We received proceeds of \$129 million in the six months ended June 30, 2014 from the issuance of common stock through the exercise of stock options and the employee stock purchase plan.

Our Board of Directors has previously authorized a program to repurchase our common stock from time to time. In the six months ended June 30, 2014, we repurchased 6.2 million shares of our common stock at an average price of \$64.30 per share, for a total of \$400 million. We had authorization remaining to repurchase approximately \$1.25 billion in common stock at June 30, 2014. During the six months ended June 30, 2013, we did not repurchase any shares of common stock.

Available Credit Facility

We have a \$2.50 billion committed revolving credit facility with commercial banks that matures in September 2016. At June 30, 2014, we were in compliance with all of the facility's covenants. There were no direct borrowings under the committed credit facility during the quarter ended June 30, 2014. We also have a commercial paper program under which we may issue from time to time up to \$2.50 billion in commercial paper with maturity of no more than 270 days. The maximum combined borrowing at any point in time under both the commercial paper program and the credit facility is \$2.50 billion. At June 30, 2014, we had \$453 million of commercial paper outstanding resulting in \$2.05 billion available under the credit facility.

If market conditions were to change and our revenue was reduced significantly or operating costs were to increase, our cash flows and liquidity could be reduced. Additionally, it could cause the rating agencies to lower our credit rating. There are no ratings triggers that would accelerate the maturity of any borrowings under our committed credit facility. However, a downgrade in our credit ratings could increase the cost of borrowings under the facility and could also limit or preclude our ability to issue commercial paper. Should this occur, we would seek alternative sources of funding, including borrowing under the facility.

We believe our current credit ratings would allow us to obtain interim financing over and above our existing credit facility for any currently unforeseen significant needs or growth opportunities. We also believe that such interim financings could be funded with subsequent issuances of long-term debt or equity, if necessary.

Cash Requirements

In 2014, we believe cash on hand, cash flows from operating activities and the available credit facility will provide us with sufficient capital resources and liquidity to manage our working capital needs, meet contractual obligations, fund capital expenditures, and support the development of our short-term and long-term operating strategies. If necessary, we may issue commercial paper or other short-term debt to fund cash needs in the U.S. in excess of the cash generated in the U.S.

In 2014, we expect our capital expenditures to be approximately \$1.9 billion, excluding any amount related to acquisitions. The expenditures are expected to be used primarily for normal, recurring items necessary to support our business and operations. A significant portion of our capital expenditures can be adjusted and managed by us to match market demand and activity levels. In 2014, we also expect to make interest payments of between \$240 million to \$250 million, based on debt levels as of June 30, 2014. We anticipate making income tax payments of between \$0.9 billion to \$1.0 billion in 2014.

We may repurchase our common stock depending on market conditions, applicable legal requirements, our liquidity and other considerations. In May 2014, the Board of Directors approved a \$0.02 per share increase in the quarterly cash dividend to \$0.17 per share of common stock for the August 2014 holders of record over the previous quarter's dividend of \$0.15 per share of common stock. We anticipate paying dividends of between \$277 million and \$281 million in 2014; however, the Board of Directors can change the dividend policy at any time.

During the six months ended June 30, 2014, we contributed approximately \$234 million to our defined benefit, defined contribution and other postretirement plans. We expect to make additional contributions in the range of \$140 million to \$170 million to these plans for the remainder of 2014.

FORWARD-LOOKING STATEMENTS

MD&A and certain statements in the Notes to Unaudited Consolidated Condensed Financial Statements, includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act (each a “forward-looking statement”). The words “anticipate,” “believe,” “ensure,” “expect,” “if,” “intend,” “estimate,” “probable,” “project,” “forecasts,” “predict,” “outlook,” “aim,” “will,” “could,” “should,” “would,” “potential,” “may,” “likely” and similar expressions, and the negative thereof, are intended to identify forward-looking statements. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. The statements do not include the potential impact of future transactions, such as an acquisition, disposition, merger, joint venture or other transactions that could occur. We undertake no obligation to publicly update or revise any forward-looking statement. Our expectations regarding our business outlook, including changes in revenue, pricing, capital spending, profitability, strategies for our operations, impact of any common stock repurchases, oil and natural gas market conditions, the business plans of our customers, market share and contract terms, costs and availability of resources, legal, economic and regulatory conditions, and environmental matters are only our forecasts regarding these matters.

All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors identified in “Part II, Item 1A. Risk Factors” section contained herein, as well as the risk factors described in our 2013 Annual Report, this filing and those set forth from time to time in our filings with the SEC. These documents are available through our website or through the SEC’s Electronic Data Gathering and Analysis Retrieval (“EDGAR”) system at <http://www.sec.gov>.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the six months ended June 30, 2014, does not differ materially from that discussed under Part II, Item 7(a), “Quantitative and Qualitative Disclosures About Market Risk,” in our 2013 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act of 1934, as amended (the “Exchange Act”). This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that, as of June 30, 2014, our disclosure controls and procedures, as defined by Rule 13a-15(e) of the Exchange Act, are effective at a reasonable assurance level. There has been no change in our internal controls over financial reporting during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

See discussion of legal proceedings in Note 9 of the Notes to Unaudited Consolidated Condensed Financial Statements in this Quarterly Report, Item 3 of Part I of our 2013 Annual Report and Note 11 of the Notes to Consolidated Financial Statements included in Item 8 of our 2013 Annual Report.

ITEM 1A. RISK FACTORS

As of the date of this filing, the Company and its operations continue to be subject to the risk factors previously disclosed in our "Risk Factors" in the 2013 Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains information about our purchases of equity securities during the three months ended June 30, 2014.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽³⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program ⁽⁴⁾
April 1-30, 2014	193	\$ 70.38	—	
May 1-31, 2014	2,059,611	69.83	2,009,814	
June 1-30, 2014	843,777	70.73	843,777	
Total	2,903,581	\$ 70.09	2,853,591	\$ 1,249,826,401

⁽¹⁾ Includes shares purchased from employees to pay the option exercise price related to stock-for-stock exchanges in option exercises; shares purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock units; and shares purchased in the open market under our publicly announced purchase program.

⁽²⁾ Average price paid includes commissions for shares purchased in the open market under our publicly announced purchase program.

⁽³⁾ Repurchases were made under our previously announced purchase program under a Letter Agreement with an agent that complied with the requirements of Rule 10b-18 of the Exchange Act (the "Agreement"). Shares were repurchased under the Agreement by the agent at the prevailing market prices, in open market transactions.

⁽⁴⁾ During the three months ended June 30, 2014, we repurchased 2.9 million shares of our common stock at an average price of \$70.09 per share (including commissions), for a total of \$200 million. We had authorization remaining to repurchase up to a total of approximately \$1.25 billion of our common stock as of June 30, 2014.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Our barite mining operations, in support of our drilling fluids products and services business, are subject to regulation by the federal Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report.

ITEM 5. OTHER INFORMATION

On July 14, 2014, the Compensation Committee of the Board of Directors of the Company approved modifications to the Company's various forms of award agreements for grants under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan and the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan. Each form of the new award agreements is consistent with the terms of the applicable plan and past award practices and has been amended to include technical revisions, including a removal of contingency language related to stockholder approval of increases in dedicated shares under the plans (which approval was obtained on April 24, 2014). Copies of the new forms of award agreements are attached as Exhibits 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.9 and 10.10, respectively, to this Quarterly Report on Form 10-Q and are incorporated herein by reference.

ITEM 6. EXHIBITS

Each exhibit identified below is filed as a part of this report. Exhibits designated with an “+” are filed as an exhibit to this Quarterly Report on Form 10-Q. Exhibits designated with a “+” are identified as management contracts or compensatory plans or arrangements. Exhibits previously filed as indicated below are incorporated by reference.

3.1	Restated Bylaws of Baker Hughes Incorporated effective as of June 5, 2014 (filed as Exhibit 3.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on June 10, 2014).
10.1+	The Amended and Restated Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan effective April 24, 2014 (filed as Exhibit 10.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on April 29, 2014).
10.2+	The Amended and Restated Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan effective April 24, 2014 (filed as Exhibit 10.2 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on April 29, 2014).
10.3 +*	Form of Baker Hughes Incorporated Performance Unit Award Agreement and Terms and Conditions payable in cash for certain officers pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
10.4 +*	Form of Baker Hughes Incorporated Performance Unit Award Agreement and Terms and Conditions payable in shares for certain officers pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
10.5 +*	Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for officers pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
10.6 +*	Form of Baker Hughes Incorporated Nonqualified Stock Option Award Agreement and Terms and Conditions for officers pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
10.7 +*	Form of Baker Hughes Incorporated Incentive Stock Option Award Agreement and Terms and Conditions for officers pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
10.8 +*	Form of Baker Hughes Incorporated Performance Unit Award Agreement and Terms and Conditions payable in cash for certain employees pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan.
10.9 +*	Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for employees pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan.
10.10 +*	Form of Baker Hughes Incorporated Nonqualified Stock Option Award Agreement and Terms and Conditions for employees pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan.
31.1*	Certification of Martin S. Craighead, Chairman and Chief Executive Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Peter A. Ragauss, Senior Vice President and Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32*	Statement of Martin S. Craighead, Chairman and Chief Executive Officer, and Peter A. Ragauss, Senior Vice President and Chief Financial Officer, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
95*	Mine Safety Disclosure.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BAKER HUGHES INCORPORATED
(Registrant)**

Date: July 22, 2014

By: /s/ PETER A. RAGAUS

Peter A. Ragauss

Senior Vice President and Chief Financial Officer

Date: July 22, 2014

By: /s/ ALAN J. KEIFER

Alan J. Keifer

Vice President and Controller

BAKER HUGHES INCORPORATED

PERFORMANCE UNIT AWARD AGREEMENT

AWARD OF PERFORMANCE UNITS

PAYABLE IN CASH

The Compensation Committee (the “*Committee*”) of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”), hereby awards to you, the above named Participant, effective as of the Grant Date set forth above (the “*Grant Date*”), that number of Performance Units set forth above (each, a “*Performance Unit*”, and collectively, the “*Performance Units*”), on the terms and conditions set forth in this Performance Unit Award Agreement (this “*Agreement*”).

Each Performance Unit provides you an opportunity to earn a cash payment based upon the achievement of certain performance goals established by the Committee (the “*Performance Goals*”) for the three-year period beginning January 1 of the year of the Grant Date and ending December 31 of the year containing the third anniversary of the Grant Date (the “*Performance Period*”). The Performance Goals and the formulas for determining the amounts payable under this Agreement established by the Compensation Committee are available for your review on the Baker Hughes Direct website at www.bakerhughesdirect.com. The Committee may not increase the amount payable under this Agreement.

If the Performance Goals are not achieved at a minimum level of performance and a Change in Control of the Company has not occurred on or before the last day of the Performance Period, then the award pursuant to this Agreement will lapse and be forfeited as of the end of the Performance Period.

The Committee’s determination of whether the Performance Goals applicable to this Agreement are achieved will be binding upon all persons.

Any amount payable to you pursuant to this Agreement will be paid to you by the Employer by March 15, after the end of the Performance Period (the “*Scheduled Payment Date*”), unless otherwise provided under the attached Terms and Conditions of Performance Unit Award Agreements (the “*Terms and Conditions*”). Such payment will be made to you in exchange for the Performance Units and thereafter you will have no further rights with respect to such Performance Units or this Agreement.

If a Change in Control of the Company occurs or your employment with the Company and Affiliates terminates (a “*Termination of Employment*”) on or before the last day of the Performance Period, your rights to the Performance Units and a payment under this Agreement will be determined as provided in the Terms and Conditions.

The Performance Units that are awarded hereby to you will be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Performance Units and the obligation to forfeit and surrender such Performance Units.

The Performance Units and your rights under this Agreement may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution). Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement will be void and the Company Group will not be bound thereby.

Capitalized terms that are not defined herein will have the meaning ascribed to such terms in the Plan or the Terms and Conditions.

In accepting the award of Performance Units set forth in this Agreement you accept and agree to be bound by all the terms and conditions of the Plan, this Agreement and the Terms and Conditions. The shares of Common Stock (the "shares") that may be issued under this Plan are registered with the Securities and Exchange Commission ("SEC") under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS
OF
PERFORMANCE UNIT AWARD AGREEMENTS

These Terms and Conditions are applicable to a performance unit granted pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Performance Unit Agreement setting forth the terms of such performance unit (the “*Agreement*”).

1. CHANGE IN CONTROL/TERMINATION OF EMPLOYMENT. The following provisions will apply in the event a Change in Control of the Company occurs, or your employment with the Company and all Affiliates (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”), before the last day of the Performance Period (as that term is defined in the Performance Unit Agreement awarded to you (the “*Agreement*”).

1.1 Termination Generally. If you incur a Termination of Employment on or before the last day of the Performance Period for any reason other than one of the reasons described in Sections 1.2 through 1.5 below, all of your rights in the Agreement, including all rights to the Performance Units granted to you, will lapse and be completely forfeited on the date your employment terminates.

1.2 Change in Control. If a Change in Control of the Company occurs on or before the last day of the Performance Period and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Company will pay to you in cash an amount determined under the following formula in lieu of any other amounts under the Agreement:

(1) multiplied by (2) multiplied by (3) divided by (4)

where (1) is \$100, (2) is the number of Performance Units that were awarded to you under the Agreement, (3) is the number of days from (and including) the first day of the Performance Period to (and including) the date the Change in Control of the Company occurs, and (4) is the number of days during the Performance Period. Any amount payable to you pursuant to this Section 1.2 will be paid by the Company to you (a) ten (10) business days after the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended and the Department of Treasury rules and regulations issued thereunder, or (b) on the Scheduled Payment Date if the Change in Control of the Company does not so qualify. Such payment will be made to you in exchange for the Performance Units and thereafter you will have no further rights with respect to such Performance Units or the Agreement and the Company

Group will have no further obligations to you pursuant to the Performance Units or the Agreement.

1.3 Disability. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Disability Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the day you become permanently disabled, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Disability Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to your becoming permanently disabled. Any amount payable to you pursuant to this Section 1.3 will be paid on the Scheduled Payment Date.

For purposes of this Section 1.3, you will be “*permanently disabled*” if you (a) are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) are, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company Group.

1.4 Death. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Deceased Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your death, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Deceased Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to death. Any amount payable to you pursuant to this Section 1.4 will be paid on the Scheduled Payment Date. Such payment

will be made in exchange for the Performance Units and thereafter your estate and heirs, executors, administrators will have no further rights with respect to such Performance Units or the Agreement and the Company Group will have no further obligations pursuant to the Performance Units or the Agreement.

1.5 **Retirement.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you incur a Termination of Employment due to your Retirement before the last day of the Performance Period, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without further action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Retirement Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were originally awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your Termination of Employment due to Retirement, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Retirement Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment with the Company Group due to Retirement. Any amount payable to you pursuant to this Section 1.5 will be paid on the Scheduled Payment Date. For purposes of this Section 1.5, the term “*Retirement*” means the your Termination of Employment on or after the date on which you are at least 55 years of age (not rounded up) and you have completed at least ten whole Years of Service with the Company Group (not rounded up). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, during the Performance Period or within two years after the date of your Termination of Employment, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information

by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group, wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Baker Hughes Group.

3. **TAX WITHHOLDING.** To the extent that the receipt of the Performance Units or any payment pursuant to the Agreement results in income, wages or other compensation to you for any income, employment or other tax purposes with respect to which the Company has a withholding obligation, you will deliver to the Company at the time of such receipt or payment, as the case may be, such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company is authorized to withhold from any payment under the Agreement or from any cash or stock remuneration or other payment then or thereafter payable to you any tax required to be withheld by reason of such taxable income, wages or compensation.
4. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
5. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Performance Units will not affect in any way the right or power of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
6. **PERFORMANCE UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You will not have the voting rights or any of the other rights, powers or privileges of a holder of the stock of the Company with respect to the Performance Units that are awarded hereby.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any Affiliate or guarantee the right to remain employed by the Company or any Affiliate for any specified term.
9. **LIMIT OF LIABILITY.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan.

10. **EMPLOYER LIABLE FOR PAYMENT.** Except as specified in Section 1.2, the legal entity that is a member of the Company Group and that is classified by the Company Group as your employer (the “*Employer*”) is liable for the payment of any amounts that become due under the Agreement.
11. **DATA PRIVACY.** The Company’s Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the performance units granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of performance units included in any award (“*Employee Personal Data*”). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the “*Purposes*”), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, “*Data Recipients*”). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the Performance Units set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the Performance Units set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

12. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company’s compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company’s compensation recoupment policy as in effect on January 23, 2014.

13. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
14. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the performance units set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the performance units to the substantive law of another jurisdiction. In accepting the award of the performance units you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the performance units.
15. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.
16. **MISCELLANEOUS.** The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms "you" and "your" refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company's rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED

PERFORMANCE UNIT AWARD AGREEMENT

AWARD OF PERFORMANCE UNITS

PAYABLE IN SHARES

The Compensation Committee (the “*Committee*”) of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”), hereby awards to you, the above named Participant, effective as of the Grant Date set forth above (the “*Grant Date*”), that number of Performance Units set forth above (each, a “*Performance Unit*”, and collectively, the “*Performance Units*”), on the terms and conditions set forth in this Performance Unit Award Agreement (this “*Agreement*”).

Each Performance Unit provides you an opportunity to earn a payment in shares of the Company’s Common Stock, \$1.00 par value per share (the “*Common Stock*”) based upon the achievement of certain performance goals established by the Committee (the “*Performance Goals*”) for the three-year period beginning January 1 of the year of the Grant Date and ending December 31 of the year containing the third anniversary of the Grant Date (the “*Performance Period*”). The Performance Goals and the formulas for determining the amounts payable under this Agreement established by the Compensation Committee are available for your review on the Baker Hughes Direct website at www.bakerhughesdirect.com. The Committee may not increase the amount payable under this Agreement.

If the Performance Goals are not achieved at a minimum level of performance and a Change in Control of the Company has not occurred on or before the last day of the Performance Period, then the award pursuant to this Agreement will lapse and be forfeited as of the end of the Performance Period.

The Committee’s determination of whether the Performance Goals applicable to this Agreement are achieved will be binding upon all persons.

If during the period you hold any Performance Units awarded hereby the Company pays a dividend in shares of the Common Stock with respect to the outstanding shares of the Common Stock, then the Company will increase the Performance Units awarded hereby that have not then been exchanged by the Company for shares of the Common Stock by an amount equal to the product of (a) the Performance Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the number of shares of the Common Stock paid by the Company per share of the Common Stock (collectively, the “*Stock Dividend Performance Units*”). Each Stock Dividend Performance Unit will be subject to same forfeiture restrictions, performance conditions and other restrictions, limitations and conditions applicable to the Performance Unit for which such Stock Dividend Performance Unit was awarded and will be exchanged for shares of the Common Stock at the same time and on the same basis as such Performance Unit.

Any amount payable to you in shares of Common Stock pursuant to this Agreement will be transferred to you on March 15, after the end of the Performance Period (the “*Scheduled Payment Date*”), unless otherwise provided under the attached Terms and Conditions of Performance Unit Award Agreements (the “*Terms and Conditions*”). Such payment will be made to you in exchange for the Performance Units and thereafter you will have no further rights with respect to such Performance Units or this Agreement.

If a Change in Control of the Company occurs or your employment with the Company and Affiliates terminates (a “*Termination of Employment*”) on or before the last day of the Performance Period, your rights to the Performance Units and a payment under this Agreement will be determined as provided in the Terms and Conditions.

The Performance Units that are awarded hereby to you will be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Performance Units and the obligation to forfeit and surrender such Performance Units.

The Performance Units and your rights under this Agreement may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution). Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement will be void and the Company Group will not be bound thereby.

Capitalized terms that are not defined herein will have the meaning ascribed to such terms in the Plan or the Terms and Conditions.

In accepting the award of Performance Units set forth in this Agreement you accept and agree to be bound by all the terms and conditions of the Plan, this Agreement and the Terms and Conditions.

Any shares of the Common Stock issued to you in exchange for the Performance Units awarded hereby may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. You also agree that (a) the Company may refuse to cause the transfer of any such shares of the Common Stock to be registered on the stock register of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable federal or state securities law and (b) the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of such shares of the Common Stock.

The shares of Common Stock (the “shares”) that may be issued under the Plan are registered with the Securities and Exchange Commission (“SEC”) under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

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BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS OF PERFORMANCE UNIT AWARD AGREEMENTS

These Terms and Conditions are applicable to a performance unit granted pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Performance Unit Agreement setting forth the terms of such performance unit (the “*Agreement*”).

1. CHANGE IN CONTROL/TERMINATION OF EMPLOYMENT. The following provisions will apply in the event a Change in Control of the Company occurs, or your employment with the Company and all Affiliates (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”), before the last day of the Performance Period (as that term is defined in the Performance Unit Agreement awarded to you (the “*Agreement*”).

1.1 Termination Generally. If you incur a Termination of Employment on or before the last day of the Performance Period for any reason other than one of the reasons described in Sections 1.2 through 1.5 below, all of your rights in the Agreement, including all rights to the Performance Units granted to you, will lapse and be completely forfeited on the date of your Termination of Employment.

1.2 Change in Control. If a Change in Control of the Company occurs on or before the last day of the Performance Period and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Company will pay to you in shares of Common Stock such number of Shares of Common Stock determined under the following formula in lieu of any other amounts under the Agreement:

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date the Change in Control of the Company occurs, and (3) is the number of days during the Performance Period. Any amount payable to you pursuant to this Section 1.2 will be paid by the Company to you (a) ten (10) business days after the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended and the Department of Treasury rules and regulations issued thereunder, or (b) on the Scheduled Payment Date if the Change in Control of the Company does not so qualify. Such payment will be made to you in exchange for the Performance Units and thereafter you will have no further rights with respect to such Performance Units or the Agreement and the Company Group will have no further obligations to you pursuant to the Performance Units or the Agreement.

1.3 Disability. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Disability Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the day you become permanently disabled, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Disability Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to your becoming permanently disabled. Any amount payable to you pursuant to this Section 1.3 will be paid on the Scheduled Payment Date.

For purposes of this Section 1.3, you will be “*permanently disabled*” if you (a) are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) are, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company Group.

1.4 Death. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Deceased Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your death, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Deceased Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to death. Any amount payable to you pursuant to this Section 1.4 will be paid on the Scheduled Payment Date. Such payment will be made in exchange for the Performance Units and thereafter your estate and heirs, executors, administrators will have no further rights with respect to such Performance Units

or the Agreement and the Company Group will have no further obligations pursuant to the Performance Units or the Agreement.

1.5 **Retirement.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you incur a Termination of Employment due to Retirement before the last day of the Performance Period, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without further action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Retirement Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were originally awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your Termination of Employment due to Retirement, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Retirement Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to Retirement. Any amount payable to you pursuant to this Section 1.5 will be paid on the Scheduled Payment Date. For purposes of this Section 1.5, the term “*Retirement*” means your Termination of Employment on or after the date on which you are at least 55 years of age (not rounded up) and you have completed at least ten whole Years of Service with the Company Group (not rounded up). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, during the Performance Period or within two years after the date of your Termination of Employment, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group,

wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Company Group.

3. **TAX WITHHOLDING.** To the extent that the receipt of the Performance Units or any payment pursuant to the Agreement results in income, wages or other compensation to you for any income, employment or other tax purposes with respect to which the Company has a withholding obligation, you will deliver to the Company at the time of such receipt or payment, as the case may be, such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company is authorized to withhold from any payment under the Agreement or from any cash or stock remuneration or other payment then or thereafter payable to you any tax required to be withheld by reason of such taxable income, wages or compensation.
4. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
5. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Performance Units will not affect in any way the right or power of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
6. **PERFORMANCE UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You will not have the voting rights or any of the other rights, powers or privileges of a holder of the stock of the Company with respect to the Performance Units that are awarded hereby.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any Affiliate or guarantee the right to remain employed by the Company or any Affiliate for any specified term.
9. **LIMIT OF LIABILITY.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan.
10. **EMPLOYER LIABLE FOR PAYMENT.** Except as specified in Section 1.2, the legal entity that is a member of the Company Group and that is classified by the Company Group

as your employer (the “*Employer*”) is liable for the payment of any amounts that become due under the Agreement.

- 11. DATA PRIVACY.** The Company’s Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the performance units granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of performance units included in any award (“*Employee Personal Data*”). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the “*Purposes*”), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, “*Data Recipients*”). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the Performance Units set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the Performance Units set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

- 12. RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company’s compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company’s compensation recoupment policy as in effect on January 23, 2014.

13. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
14. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the performance units set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the performance units to the substantive law of another jurisdiction. In accepting the award of the performance units you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the performance units.
15. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.
16. **MISCELLANEOUS.** The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms "you" and "your" refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company's rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED
RESTRICTED STOCK UNIT AWARD AGREEMENT
AWARD OF RESTRICTED STOCK UNITS

PAYABLE IN SHARES

The Compensation Committee (the “*Committee*”) of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”), hereby awards to you, effective as of Grant Date set forth above (the “*Grant Date*”), that number of restricted stock units set forth above (the “*Restricted Stock Units*”), on the following terms and conditions:

The Restricted Stock Units that are awarded hereby to you will be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Restricted Stock Units and the obligation to forfeit and surrender such Restricted Stock Units to the Company (the “*Forfeiture Restrictions*”). Subject to certain stockholder approval described below, the Forfeiture Restrictions will lapse as to the Restricted Stock Units that are awarded hereby in accordance with the following schedule provided that the termination of your employment with the Company and all Affiliates (a “*Termination of Employment*”) has not occurred prior to the applicable lapse date:

- (a) on the first anniversary of the Grant Date, the Forfeiture Restrictions will lapse as to one-third of the Restricted Stock Units subject to this Agreement; and
- (b) on each succeeding anniversary of the Grant Date, the Forfeiture Restrictions will lapse as to an additional one-third of the Restricted Stock Units subject to this Agreement, so that on the third anniversary of the Grant Date the Forfeiture Restrictions will lapse as to all of the Restricted Stock Units subject to this Agreement.

If a Change in Control of the Company occurs or you incur a Termination of Employment before the third anniversary of the Grant Date, your rights to the Restricted Stock Units under this Agreement will be determined as provided in the attached Terms and Conditions of Restricted Stock Unit Award Agreements (the “*Terms and Conditions*”).

Upon the lapse of the Forfeiture Restrictions applicable to a Restricted Stock Unit that is awarded hereby, the Company will issue to you one share of the Company’s Common Stock, \$1.00 par value per share (the “*Common Stock*”), in exchange for such Restricted Stock Unit and thereafter you will have no further rights with respect to such Restricted Stock Unit. The Company will cause to be delivered to you a stock certificate representing those shares of the Common Stock issued in exchange for Restricted Stock Units awarded hereby, and such shares of the Common Stock will be transferable by you (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable federal or state securities law).

If during the period you hold any Restricted Stock Units awarded hereby the Company pays a dividend in cash with respect to the outstanding shares of the Common Stock (a “*Cash Dividend*”), then the Company will credit to an account established for you by the Company under the Plan (the “*Account*”) an amount equal to the product of (a) the Restricted Stock Units awarded hereby that

have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the amount of the Cash Dividend paid per share of the Common Stock (the “*Dividend Equivalent Credit*”). The Company will pay to you, in cash, an amount equal to the Dividend Equivalent Credits credited to the Account with respect to a Restricted Stock Unit on the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse (and in no case later than the end of the calendar year in which the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse or, if later, the 15th day of the third month following the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse).

If during the period you hold any Restricted Stock Units awarded hereby the Company pays a dividend in shares of the Common Stock with respect to the outstanding shares of the Common Stock, then the Company will increase the Restricted Stock Units awarded hereby that have not then been exchanged by the Company for shares of the Common Stock by an amount equal to the product of (a) the Restricted Stock Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the number of shares of the Common Stock paid by the Company per share of the Common Stock (collectively, the “*Stock Dividend Restricted Stock Units*”). Each Stock Dividend Restricted Stock Unit will be subject to same Forfeiture Restrictions and other restrictions, limitations and conditions applicable to the Restricted Stock Unit for which such Stock Dividend Restricted Stock Unit was awarded and will be exchanged for shares of the Common Stock at the same time and on the same basis as such Restricted Stock Unit.

The Restricted Stock Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution). Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement will be void and the Company Group will not be bound thereby.

Any shares of the Common Stock issued to you in exchange for Restricted Stock Units awarded hereby may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. You also agree that (a) the Company may refuse to cause the transfer of any such shares of the Common Stock to be registered on the stock register of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable federal or state securities law and (b) the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of such shares of the Common Stock.

The shares of Common Stock that may be issued under the Plan are registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares of Common Stock and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

Capitalized terms that are not defined herein will have the meaning ascribed to such terms in the Plan or the Terms and Conditions.

In accepting the award of Restricted Stock Units set forth in this Agreement you accept and agree to be bound by all the terms and conditions of the Plan, this Agreement and the Terms and Conditions.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED
TERMS AND CONDITIONS
OF
RESTRICTED STOCK UNIT AWARD AGREEMENTS

These Terms and Conditions are applicable to a restricted stock unit award granted pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Restricted Stock Unit Award Agreement setting forth the terms of such restricted stock unit award (the “*Agreement*”).

1. TERMINATION OF EMPLOYMENT/CHANGE IN CONTROL. The following provisions will apply in the event your employment with the Company and all Affiliates (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”), or a Change in Control of the Company occurs, before the third anniversary of the Grant Date (the “*Third Anniversary Date*”) under the Restricted Stock Unit Award Agreement awarded to you (the “*Agreement*”):

1.1 Termination Generally. If you incur a Termination of Employment on or before the Third Anniversary Date for any reason other than one of the reasons described in Sections 1.2 through 1.5 below, the Forfeiture Restrictions then applicable to the Restricted Stock Units will not lapse and the number of Restricted Stock Units then subject to the Forfeiture Restrictions will be forfeited to the Company on the date of your Termination of Employment.

1.2 Potential or Actual Change in Control.

(i) Termination of Employment Without Cause or for Good Reason in Connection With a Potential Change in Control on or Before the Third Anniversary Date. If you incur a Termination of Employment without Cause on or before the Third Anniversary Date prior to a Change in Control of the Company (whether or not a Change in Control ever occurs) and such Termination of Employment is at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control of the Company or is otherwise in connection with or in anticipation of a Change in Control of the Company (whether or not a Change in Control ever occurs) or (b) you incur a Termination of Employment for Good Reason on or before the Third Anniversary Date prior to a Change in Control of the Company (whether or not a Change in Control ever occurs), and such Termination of Employment or the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control of the Company or is otherwise in connection with or in anticipation of a Change in Control of the Company (whether or not a Change in Control ever occurs), then all remaining Forfeiture Restrictions will immediately lapse on the date of your Separation From Service if you are not a Specified Employee or on the date that is six months following your Separation From Service if you are a Specified Employee. For purposes of these Terms and Conditions, “*Separation From Service*” has the meaning ascribed to that term in Section 409A

and “*Specified Employee*” means a person who is, as of the date of the person’s Separation From Service, a “specified employee” within the meaning of Section 409A, taking into account the elections made and procedures established in resolutions adopted by the Administrative Committee of Baker Hughes. For purposes of these Terms and Conditions, “*Section 409A*” means section 409A of the Internal Revenue Code of 1986, as amended and the Department of Treasury rules and regulations issued thereunder.

(ii) Termination of Employment Does Not Occur Before a Change in Control on or Before the Third Anniversary Date. If a Change in Control of the Company occurs on or before the Third Anniversary Date and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then all remaining Forfeiture Restrictions will lapse at the time specified below. All remaining Forfeiture Restrictions will lapse on the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Section 409A, or (b) on the Third Anniversary Date, if the Change in Control of the Company does not so qualify.

1.3 Divestiture of Business Unit Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if the Company Group divests its ownership of a business unit of the Company or one or more Affiliates (a “*Unit*”) and your Termination of Employment in connection with such divestiture (other than for Cause or death or due to your becoming permanently disabled within the meaning of Section 1.4), the Forfeiture Restrictions will lapse at the time specified below as to that number of Restricted Stock Units that are then subject to Forfeiture Restrictions on the date of your Termination of Employment equal to:

(1) multiplied by (2) divided by (3)

where (1) is the number of Restricted Stock Units that are then subject to Forfeiture Restrictions on the date of your Termination of Employment, (2) is the number of days during the period commencing on the Grant Date and ending on the date of your Termination of Employment, and (3) is the number of days during the period commencing on the Grant Date and ending on the Third Anniversary Date. Such Forfeiture Restrictions specified in the preceding sentence will lapse on the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Section 409A, or (b) on the Third Anniversary Date, if the Change in Control of the Company does not so qualify. The Forfeiture Restrictions then applicable to all the remaining Restricted Stock Units after the application of the previous provisions of this Section 1.3 will not lapse and such Restricted Stock Units will be immediately forfeited to the Company. A “*Divestiture*” includes the disposition of a Unit to an entity that the Company does not consolidate in its financial statements, whether the disposition is structured as a sale or transfer of stock (or other ownership interest), a merger, a consolidation or a sale or transfer of assets, or a combination thereof, *provided* that a “*Divestiture*” will not include a disposition that constitutes a Change in Control.

1.4 **Disability.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the Third Anniversary Date and while in the active employ of one or more members of the Company Group, all remaining Forfeiture Restrictions will immediately lapse on the date of your Termination of Employment due to your becoming permanently disabled. For purposes of this Section 1.4, you will be “*permanently disabled*” if you (a) are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) are, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company Group.

1.5 **Death.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the Third Anniversary Date and while in the active employ of one or more members of the Company Group, all remaining Forfeiture Restrictions will immediately lapse on the date of your Termination of Employment due to death.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group or within two years after the date of your Termination of Employment, then your right to receive the shares of the Common Stock, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation.
3. **TAX WITHHOLDING.** To the extent that the receipt of the Restricted Stock Units or the lapse of any Forfeiture Restrictions results in income, wages or other compensation to you for any income, employment or other tax purposes with respect to which the Company has a withholding obligation, you will deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company is authorized to withhold from any shares of Common Stock issued under the Agreement or from any cash or stock remuneration or other payment then or thereafter payable to you any tax required to be withheld by reason of such taxable income, wages or compensation including (without limitation) shares of the Common Stock sufficient to satisfy the withholding obligation based on the last per share sales price of the Common Stock for the

trading day immediately preceding the date that the withholding obligation arises, as reported in the New York Stock Exchange Composite Transactions.

4. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
5. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Restricted Stock Units will not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
6. **RESTRICTED STOCK UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You will not have the voting rights or any of the other rights, powers or privileges of a holder of the Common Stock with respect to the Restricted Stock Units that are awarded hereby. Only after a share of the Common Stock is issued in exchange for a Restricted Stock Unit will you have all of the rights of a shareholder with respect to such share of Common Stock issued in exchange for a Restricted Stock Unit.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any Affiliate or guarantee the right to remain employed by the Company or any Affiliate for any specified term.
9. **SECURITIES ACT LEGEND.** If you are an officer or affiliate of the Company under the Securities Act of 1933, you consent to the placing on any certificate for shares of the Common Stock issued under the Agreement an appropriate legend restricting resale or other transfer of such shares except in accordance with such Act and all applicable rules thereunder.
10. **LIMIT OF LIABILITY.** Under no circumstances will the Company or any Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan.
11. **DATA PRIVACY.** The Company's Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the restricted stock units granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of restricted units included in any award (“*Employee Personal Data*”). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the “*Purposes*”), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, “*Data Recipients*”). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the Restricted Stock Units set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the Restricted Stock Units set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

12. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company’s compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company’s compensation recoupment policy as in effect on January 23, 2014.
13. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company’s protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
14. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the restricted stock units set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise

refer construction or interpretation of the Plan, these Terms and Conditions and the award of the restricted stock units to the substantive law of another jurisdiction. In accepting the award of the restricted stock units you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the restricted stock units.

15. SEVERABILITY AND BLUE PENCILING. If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.

16. MISCELLANEOUS. The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms “*you*” and “*your*” refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company’s rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED

STOCK OPTION AGREEMENT

GRANT OF OPTION

The Compensation Committee of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the **Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan** (the “*Plan*”), hereby grants to you, the above-named Participant, effective as of the Grant Date set forth above (the “*Grant Date*”), a nonqualified stock option (the “*Option*”) to purchase the total number of shares of the Company’s \$1.00 par value per share common stock (“*Common Stock*”) at the exercise price set forth above for each share subject to the Option, subject to adjustment as provided in the Plan. The Option is exercisable in installments in accordance with the Vesting Schedule set forth above with the exercise price payable at the time of exercise. To the extent not exercised, installments will be cumulative and may be exercised in whole or in part until the Option terminates.

By your acceptance of the Option, you agree that the Option is granted under, governed by and subject to the terms of the Plan, this Stock Option Agreement and the Terms and Conditions of Option Agreements. The shares of Common Stock (the “*shares*”) that may be issued under this Plan are registered with the Securities and Exchange Commission (“SEC”) under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS OF OPTION AGREEMENTS

These Terms and Conditions are applicable to an option (the “*Option*”) granted pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Stock Option Agreement setting forth the terms of such Option (the “*Agreement*”).

1. TERMINATION OF EMPLOYMENT OR CHANGE IN CONTROL. The following provisions will apply in the event your employment with the Company and all Affiliates of the Company (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”) or a Change in Control of the Company occurs before the Expiration Date set forth in the Agreement:

1.1 **Termination Generally.** If you incur a Termination of Employment before the Expiration Date for any reason other than one of the reasons described in Sections 1.2 through 1.6 below, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three years after the date of your Termination of Employment. In the event you incur a Termination of Employment for any reason, the Option will not continue to vest after such Termination of Employment.

1.2 **Termination for Cause.** If you incur a Termination of Employment by the Company Group for Cause and such Termination of Employment occurs (i) prior to a Change in Control that occurs after the Grant Date or (ii) after the second anniversary of a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date your employment with the Company Group terminates for Cause. Termination for Cause includes (without limitation) fraud, theft, embezzlement committed against the Company Group or a customer of the Company Group or any of its affiliated companies, or for conflict of interest, unethical conduct, dishonesty affecting the assets, properties or business of the Company Group, willful misconduct, or continued material dereliction of duties.

1.3 **Divestiture of Business Unit.** If the Company Group divests its ownership of a business unit of the Company or one or more subsidiaries (a “*Unit*”) and your employment with the Company Group terminates in connection with such Divestiture (other than for Cause or death or due to your disability within the meaning of Section 1.4), then your rights under the Option that have not then vested will vest on the effective date of the Divestiture of the business unit. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three (3) years after the date of your Termination of Employment. For purposes of these Terms and Conditions, a “*Divestiture*” includes the disposition of a Unit to an entity that the Company does not consolidate in its financial statements, whether the disposition is structured as a sale or transfer of stock, a merger, a consolidation or a sale or transfer of assets, or a combination thereof, *provided* that a “*Divestiture*” will not include a disposition that constitutes a Change in Control.

1.4 **Retirement or Disability.** If you incur a Termination of Employment due to your Retirement or disability, then your rights under the Option that have not then vested will vest on the effective date of your Retirement or Termination of Employment due to disability. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or five (5) years after the date of your Termination of Employment as a result of Retirement or a disability. For purposes of this Section 1.4, the term “*Retirement*” means the voluntary termination of your employment relationship with the Company Group on or after the date on which you are at least fifty-five (55) years of age (not rounded up) and you have completed at least ten whole years of service with the Company Group (not rounded up). For purposes of this Section 1.4, you will not be treated as having incurred a Termination of Employment due to Retirement if your employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, the term “*Retirement*” means your Termination of Employment on or after the

date on which the you have both (A) attained the age of at least 55 whole (not rounded up) years and (B) completed at least ten whole (not rounded up) Years of Service. For purposes of these Terms and Conditions, you will not be treated as having incurred a Termination of Employment due to Retirement if his employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan. For purposes of this Section 1.4, you will incur a “*disability*” if you qualify for long-term disability benefits under a long-term disability program sponsored by the Company or an Affiliate.

1.5 **Death.** If you incur a Termination of Employment due to your death, then your rights under the Option that have not then vested will vest on the date of your death. All rights in the Option will terminate and become null and void on the earlier of the Expiration Date or one year after the date of your death. After your death, your executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, will have the right, at any time prior to the termination of the Option to exercise the Option.

1.6 **Change in Control.** If a Change in Control of the Company occurs on or before the third anniversary of the date of grant of the Option and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Option will become fully exercisable on the date the Change in Control of the Company occurs. If you incur a Termination of Employment by the Company Group with or without Cause and such Termination of Employment occurs on the date of a Change in Control or within two years following a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date thirty (30) days after your Termination of Employment for Cause.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, or within two years after the date your employment with the Company Group terminates, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group, wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Company Group.

3. **CASHLESS EXERCISE.** Cashless exercise, in accordance with the terms of the Plan, will be available to you for the shares subject to the Option. In addition to the cashless exercise alternatives expressly listed in the Plan, you may elect a net exercise method of exercise under which the Company will reduce the number of shares issued to you upon the exercise of all or portion of the Option to satisfy your Option Price obligation for such portion of the Option.

4. **AUTOMATIC EXERCISE UPON EXPIRATION DATE.** Notwithstanding any other provision of these Terms and Conditions or the Agreement (other than this Section 4 of these Terms and Conditions), on the last trading day on which all or a portion of the Option may be exercised, if the then Fair Market Value of a share exceeds the per share Option Price by at least \$.01 (such expiring portion of the Option that is so in-the-money, an “*Auto-Exercise Eligible Option*”), you will be deemed to have automatically exercised such Auto-Exercise Eligible Option (to the extent it has not previously been exercised or forfeited) in accordance with the provisions of this Section 4. In the event of an automatic exercise pursuant to this Section 4, the Company

will reduce the number of shares issued to you upon such automatic exercise of the Auto-Exercise Eligible Option to satisfy your Option Price obligation for the Auto-Exercise Eligible Option. Further, the Company will reduce the number of shares issued to the you to satisfy the Minimum Statutory Withholding Obligation arising upon the automatic exercise in accordance with the procedures of Article 16 of the Plan unless the Committee deems that a different method of satisfying the tax withholding obligations is practicable and advisable. You may notify the Plan record-keeper, Fidelity, in writing in advance that you do not wish for the Auto-Exercise Eligible Option to be exercised. This Section 4 will not apply to the Option to the extent that this Section 4 may cause the Option to fail to qualify for favorable tax treatment under applicable law. In its discretion, the Company may determine to cease automatically exercising options at any time.

5. **TAXES AND TAX WITHHOLDING.** You should consult with your tax advisor concerning the tax consequences of exercising your Option. To the extent that the receipt of the Option or the Agreement, the vesting of the Option or the exercise of the Option results in income to you for federal, state or local income, employment or other tax purposes with respect to which the Company Group has a withholding obligation, you will deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company Group may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company Group is authorized to withhold from the shares subject to the Option or from any cash or stock remuneration then or thereafter payable to you any tax required to be withheld by reason of such taxable income, including (without limitation) shares subject to the Option sufficient to satisfy the withholding obligation based on the last per share sales price of the common stock of the Company for the trading day immediately preceding the date that the withholding obligation arises, as reported in the New York Stock Exchange Composite Transactions.
6. **NONTRANSFERABILITY.** Except as specified in these Terms and Conditions, the Option and the Agreement are not transferable or assignable by you other than by will or the laws of descent and distribution, and will be exercisable during your lifetime only by you.
7. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Option will not affect in any way the right or power of the Company or any company the stock of which is issued pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
8. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
9. **NO RIGHTS AS A STOCKHOLDER.** You will not have any rights as a stockholder of the Company with respect to any shares covered by the Option until the date of the issuance of the stock certificate or certificates to you for such shares following exercise of the Option pursuant to the Agreement and the Terms and Conditions and payment for the shares. No adjustment will be made for dividends or other rights for which the record date is prior to the date such certificate or certificates are issued.
10. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any of its Affiliates or guarantee the right to remain employed by the Company or any of its Affiliates for any specified term.
11. **SECURITIES ACT LEGEND.** If you are an officer or affiliate of the Company under the Securities Act of 1933, you consent to the placing on any certificate for the shares of an appropriate legend restricting resale or other transfer of the shares except in accordance with such Act and all applicable rules thereunder.
12. **LIMIT OF LIABILITY.** Under no circumstances will the Company Group be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person,

whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.

13. **DATA PRIVACY.** The Company's Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the stock options granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of shares of stock subject to any stock option award ("*Employee Personal Data*"). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the "*Purposes*"), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, "*Data Recipients*"). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the stock option set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the stock option set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

14. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company's compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company's compensation recoupment policy as in effect on January 23, 2014.

15. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.

16. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the stock option set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the Option to the substantive law of another jurisdiction. In accepting the award of the Option you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the Option.

17. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company

and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.

- 18. MISCELLANEOUS.** The Agreement and the Option are awarded pursuant to and are subject to all of the provisions of the Plan, which are incorporated by reference herein, including all amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms “*you*” and “*your*” refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company’s rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED

STOCK OPTION AGREEMENT

GRANT OF OPTION

The Compensation Committee of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the **Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan** (the “*Plan*”), hereby grants to you, the above-named Participant, effective as of the Grant Date set forth above (the “*Grant Date*”), an **incentive stock option** (the “*Option*”) to purchase the number of shares of the Company’s \$1.00 par value per share common stock at the exercise price set forth above for each share subject to this Option, subject to adjustment as provided in the Plan. The Option is exercisable in installments in accordance with the Vesting Schedule set forth above with the exercise price payable at the time of exercise. To the extent not exercised, installments will be cumulative and may be exercised in whole or in part until the Option terminates.

By your acceptance of the Option, you agree that the Option is granted under, governed by and subject to the terms of the Plan, this Stock Option Agreement and the Terms and Conditions of Option Agreements. The shares of Common Stock (the “*shares*”) that may be issued under this Plan are registered with the Securities and Exchange Commission (“*SEC*”) under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS OF OPTION AGREEMENTS

These Terms and Conditions are applicable to an option (the "Option") granted pursuant to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (the "Plan") and are incorporated as part of the Stock Option Agreement setting forth the terms of such Option (the "Agreement").

1. **TERMINATION OF EMPLOYMENT.** The following provisions will apply in the event your employment with the Company and all Affiliates of the Company (collectively, the "Company Group") terminates (a "Termination of Employment") or a Change in Control of the Company occurs before the Expiration Date set forth in the Agreement:

1.1 **Termination Generally.** If you incur a Termination of Employment before the Expiration Date for any reason other than one of the reasons described in Sections 1.2 through 1.6 below, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three years after the date of your Termination of Employment. In the event you incur a Termination of Employment for any reason, the Option will not continue to vest after such Termination of Employment.

1.2 **Termination for Cause.** If you incur a Termination of Employment by the Company Group for Cause and such Termination of Employment occurs (i) prior to a Change in Control that occurs after the Grant Date or (ii) after the second anniversary of a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date your employment with the Company Group terminates for Cause. Termination for Cause includes (without limitation) fraud, theft, embezzlement committed against the Company Group or a customer of the Company Group or any of its affiliated companies, or for conflict of interest, unethical conduct, dishonesty affecting the assets, properties or business of the Company Group, willful misconduct, or continued material dereliction of duties.

1.3 **Divestiture of Business Unit.** If the Company Group divests its ownership of a business unit of the Company or one or more subsidiaries (a "Unit") and your employment with the Company Group terminates in connection with such Divestiture (other than for Cause or death or due to your disability within the meaning of Section 1.4), then your rights under the Option that have not then vested will vest on the effective date of the Divestiture of the business unit. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three (3) years after the date of your Termination of Employment. For purposes of these Terms and Conditions, a "Divestiture" includes the disposition of a Unit to an entity that the Company does not consolidate in its financial statements, whether the disposition is structured as a sale or transfer of stock, a merger, a consolidation or a sale or transfer of assets, or a combination thereof, *provided* that a "Divestiture" will not include a disposition that constitutes a Change in Control.

1.4 **Retirement or Disability.** If you incur a Termination of Employment due to your Retirement or disability, then your rights under the Option that have not then vested will vest on the effective date of your Retirement or Termination of Employment due to disability. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or five (5) years after the date of your Termination of Employment as a result of Retirement or a disability. For purposes of this Section 1.4, the term "Retirement" means the voluntary termination of your employment relationship with the Company Group on or after the date on which you are at least 55 years of age (not rounded up) and you have completed at least ten whole years of service with the Company Group (not rounded up). For purposes of this Section 1.4, you will not be treated as having incurred a Termination of Employment due to Retirement if your employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, the term "Retirement" means your Termination of Employment on or after the date on which the you have both (A) attained the age of at least 55 whole (not rounded up) years and (B) completed

at least ten whole (not rounded up) Years of Service. For purposes of these Terms and Conditions, you will not be treated as having incurred a Termination of Employment due to Retirement if his employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan. For purposes of this Section 1.4, you will incur a “*disability*” if you qualify for long-term disability benefits under a long-term disability program sponsored by the Company or an Affiliate. Note that if you exercise an incentive stock option more than three months after the date of your Termination of Employment, you may not be entitled to certain favorable federal income tax treatment applicable to incentive stock options.

1.5 **Death.** If you incur a Termination of Employment due to your death, then your rights under the Option that have not then vested will vest on the date of your death. All rights in the Option will terminate and become null and void on the earlier of the Expiration Date or one year after the date of your death. After your death, his or her executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, will have the right, at any time prior to the termination of the Option to exercise the Option.

1.6 **Change in Control.** If a Change in Control of the Company occurs on or before the third anniversary of the date of grant of the Option and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Option will become fully exercisable on the date the Change in Control of the Company occurs. If you incur a Termination of Employment by the Company Group with or without Cause and such Termination of Employment occurs on the date of a Change in Control or within two years following a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date thirty (30) days after your Termination of Employment for Cause.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, or within two years after the date your employment with the Company Group terminates, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group, wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Company Group.
3. **CASHLESS EXERCISE.** Cashless exercise, in accordance with the terms of the Plan, will be available to you for the shares subject to the Option.
4. **TAXES AND TAX WITHHOLDING.** You should consult with your tax advisor concerning the tax consequences of exercising your Option. To the extent that the receipt of the Option or the Agreement, the vesting of the Option or the exercise of the Option results in income to you for federal, state or local income, employment or other tax purposes with respect to which the Company Group has a withholding obligation, you will deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company Group may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company Group is authorized to withhold from the shares subject to the Option or from any cash or stock remuneration then or thereafter payable to you any tax required to be withheld by reason of such taxable income, including (without limitation) shares subject to the Option sufficient

to satisfy the withholding obligation based on the last per share sales price of the common stock of the Company for the trading day immediately preceding the date that the withholding obligation arises, as reported in the New York Stock Exchange Composite Transactions.

5. **NONTRANSFERABILITY.** Except as specified in these Terms and Conditions, the Option and the Agreement are not transferable or assignable by you other than by will or the laws of descent and distribution, and will be exercisable during your lifetime only by you.
6. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Option will not affect in any way the right or power of the Company or any company the stock of which is issued pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NO RIGHTS AS A STOCKHOLDER.** You will not have any rights as a stockholder of the Company with respect to any shares covered by the Option until the date of the issuance of the stock certificate or certificates to you for such shares following exercise of the Option pursuant to the Agreement and the Terms and Conditions and payment for the shares. No adjustment will be made for dividends or other rights for which the record date is prior to the date such certificate or certificates are issued.
9. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any of its Affiliates or guarantee the right to remain employed by the Company or any of its Affiliates for any specified term.
10. **SECURITIES ACT LEGEND.** If you are an officer or affiliate of the Company under the Securities Act of 1933, you consent to the placing on any certificate for the Shares of an appropriate legend restricting resale or other transfer of the Shares except in accordance with such Act and all applicable rules thereunder.
11. **LIMIT OF LIABILITY.** Under no circumstances will the Company Group be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.
12. **DATA PRIVACY.** The Company's Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the stock options granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of shares of stock subject to any stock option award ("*Employee Personal Data*"). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the "*Purposes*"), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, "*Data Recipients*"). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the stock option set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the

Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the stock option set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

13. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company's compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company's compensation recoupment policy as in effect on January 23, 2014.
14. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
15. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the stock option set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the Option to the substantive law of another jurisdiction. In accepting the award of the Option you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the Option.
16. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.
17. **MISCELLANEOUS.** The Agreement and the Option are awarded pursuant to and are subject to all of the provisions of the Plan, which are incorporated by reference herein, including all amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms "you" and "your" refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company's rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED

PERFORMANCE UNIT AWARD AGREEMENT

AWARD OF PERFORMANCE UNITS

PAYABLE IN CASH

The Compensation Committee (the "*Committee*") of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the "*Company*"), pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the "*Plan*"), hereby awards to you, the above named Participant, effective as of the Grant Date set forth above (the "*Grant Date*"), that number of Performance Units set forth above (each, a "*Performance Unit*", and collectively, the "*Performance Units*"), on the terms and conditions set forth in this Performance Unit Award Agreement (this "*Agreement*").

Each Performance Unit provides you an opportunity to earn a cash payment based upon the achievement of certain performance goals established by the Committee (the "*Performance Goals*") for the three-year period beginning January 1 of the year of the Grant Date and ending December 31 of the year containing the third anniversary of the Grant Date (the "*Performance Period*"). The Performance Goals and the formulas for determining the amounts payable under this Agreement established by the Compensation Committee are available for your review on the Baker Hughes Direct website at www.bakerhughesdirect.com. The Committee may not increase the amount payable under this Agreement.

If the Performance Goals are not achieved at a minimum level of performance and a Change in Control of the Company has not occurred on or before the last day of the Performance Period, then the award pursuant to this Agreement will lapse and be forfeited as of the end of the Performance Period.

The Committee's determination of whether the Performance Goals applicable to this Agreement are achieved will be binding upon all persons.

Any amount payable to you pursuant to this Agreement will be paid to you by the Employer by March 15, after the end of the Performance Period (the "*Scheduled Payment Date*"), unless otherwise provided under the attached Terms and Conditions of Performance Unit Award Agreements (the "*Terms and Conditions*"). Such payment will be made to you in exchange for the Performance Units and thereafter you will have no further rights with respect to such Performance Units or this Agreement.

If a Change in Control of the Company occurs or your employment with the Company and Affiliates terminates (a "*Termination of Employment*") on or before the last day of the Performance Period, your rights to the Performance Units and a payment under this Agreement will be determined as provided in the Terms and Conditions.

The Performance Units that are awarded hereby to you will be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Performance Units and the obligation to forfeit and surrender such Performance Units.

The Performance Units and your rights under this Agreement may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution). Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement will be void and the Company Group will not be bound thereby.

Capitalized terms that are not defined herein will have the meaning ascribed to such terms in the Plan or the Terms and Conditions.

In accepting the award of Performance Units set forth in this Agreement you accept and agree to be bound by all the terms and conditions of the Plan, this Agreement and the Terms and Conditions. The shares of Common Stock (the "shares") that may be issued under this Plan are registered with the Securities and Exchange Commission ("SEC") under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS OF PERFORMANCE UNIT AWARD AGREEMENTS

These Terms and Conditions are applicable to a performance unit granted pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “Plan”) and are incorporated as part of the Performance Unit Agreement setting forth the terms of such performance unit (the “Agreement”).

1. CHANGE IN CONTROL/TERMINATION OF EMPLOYMENT. The following provisions will apply in the event a Change in Control of the Company occurs, or your employment with the Company and all Affiliates (collectively, the “Company Group”) terminates (a “Termination of Employment”), before the last day of the Performance Period (as that term is defined in the Performance Unit Agreement awarded to you (the “Agreement”)).

1.1 Termination Generally. If you incur a Termination of Employment on or before the last day of the Performance Period for any reason other than one of the reasons described in Sections 1.2 through 1.5 below, all of your rights in the Agreement, including all rights to the Performance Units granted to you, will lapse and be completely forfeited on the date your Termination of Employment.

1.2 Change in Control.

If a Change in Control of the Company occurs on or before the last day of the Performance Period and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Company will pay to you in cash an amount determined under the following formula in lieu of any other amounts under the Agreement:

(1) multiplied by (2) multiplied by (3) divided by (4)

where (1) is \$100, (2) is the number of Performance Units that were awarded to you under the Agreement, (3) is the number of days from (and including) the first day of the Performance Period to (and including) the date the Change in Control of the Company occurs, and (4) is the number of days during the Performance Period. Any amount payable to you pursuant to this Section 1.2) will be paid by the Company to you (a) ten (10) business days after the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended and the Department of Treasury rules and regulations issued thereunder, or (b) on the Scheduled Payment Date if the Change in Control of the Company does not so qualify. Such payment will be made to you in exchange for the Performance Units and thereafter you will have no

further rights with respect to such Performance Units or the Agreement and the Company Group will have no further obligations to you pursuant to the Performance Units or the Agreement.

1.3 Disability. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Disability Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the day you become permanently disabled, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Disability Adjusted Performance Units will be immediately forfeited on the date of the termination of your employment relationship with the Company Group due to your becoming permanently disabled. Any amount payable to you pursuant to this Section 1.3 will be paid on the Scheduled Payment Date.

For purposes of this Section 1.3, you will be “*permanently disabled*” if you (a) are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) are, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company Group.

1.4 Death. Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the last day of the Performance Period and while in the active employ of one or more members of the Company Group, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Deceased Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your death, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Deceased Adjusted Performance Units will be immediately forfeited on the date of the termination of your employment relationship with the Company Group

due to death. Any amount payable to you pursuant to this Section 1.4 will be paid on the Scheduled Payment Date. Such payment will be made in exchange for the Performance Units and thereafter your estate and heirs, executors, administrators will have no further rights with respect to such Performance Units or the Agreement and the Company Group will have no further obligations pursuant to the Performance Units or the Agreement.

1.5 **Retirement.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you incur a Termination of Employment due to Retirement before the last day of the Performance Period, then the number of Performance Units issued to you under the Agreement will automatically be reduced (without further action by you and/or the Company) on the date of your Termination of Employment to that number of Performance Units determined under the following formula (the “*Retirement Adjusted Performance Units*”):

(1) multiplied by (2) divided by (3)

where (1) is the number of Performance Units that were originally awarded to you under the Agreement, (2) is the number of days from (and including) the first day of the Performance Period to (and including) the date of your Termination of Employment due to Retirement, and (3) is the number of days during the Performance Period. The excess of the Performance Units that were originally awarded to you under the Agreement over the Retirement Adjusted Performance Units will be immediately forfeited on the date of your Termination of Employment due to Retirement. Any amount payable to you pursuant to this Section 1.5 will be paid on the Scheduled Payment Date. For purposes of this Section 1.5, the term “*Retirement*” means your Termination of Employment on or after the date on which you are at least 55 years of age (not rounded up) and you have completed at least ten whole Years of Service with the Company Group (not rounded up). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, during the Performance Period or within two years after the date of your Termination of Employment, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information

by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group, wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Company Group.

3. **TAX WITHHOLDING.** To the extent that the receipt of the Performance Units or any payment pursuant to the Agreement results in income, wages or other compensation to you for any income, employment or other tax purposes with respect to which the Company has a withholding obligation, you will deliver to the Company at the time of such receipt or payment, as the case may be, such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company is authorized to withhold from any payment under the Agreement or from any cash or stock remuneration or other payment then or thereafter payable to you any tax required to be withheld by reason of such taxable income, wages or compensation.
4. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
5. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Performance Units will not affect in any way the right or power of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
6. **PERFORMANCE UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You will not have the voting rights or any of the other rights, powers or privileges of a holder of the stock of the Company with respect to the Performance Units that are awarded hereby.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any Affiliate or guarantee the right to remain employed by the Company or any Affiliate for any specified term.
9. **LIMIT OF LIABILITY.** Under no circumstances will the Company or an Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan.

10. **EMPLOYER LIABLE FOR PAYMENT.** Except as specified in Section 1.2, the legal entity that is a member of the Company Group and that is classified by the Company Group as your employer (the “*Employer*”) is liable for the payment of any amounts that become due under the Agreement.
11. **DATA PRIVACY.** The Company’s Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the performance units granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of performance units included in any award (“*Employee Personal Data*”). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the “*Purposes*”), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, “*Data Recipients*”). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the Performance Units set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the Performance Units set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

12. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company’s compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company’s compensation recoupment policy as in effect on January 23, 2014.

13. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
14. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the performance units set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the performance units to the substantive law of another jurisdiction. In accepting the award of the performance units you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the performance units.
15. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.
16. **MISCELLANEOUS.** The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms "you" and "your" refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company's rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED
RESTRICTED STOCK UNIT AWARD AGREEMENT

AWARD OF RESTRICTED STOCK UNITS

PAYABLE IN SHARES

The Compensation Committee (the “*Committee*”) of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “*Plan*”), hereby awards to you, effective as of Grant Date set forth above (the “*Grant Date*”), that number of restricted stock units set forth above (the “*Restricted Stock Units*”), on the following terms and conditions:

The Restricted Stock Units that are awarded hereby to you will be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Restricted Stock Units and the obligation to forfeit and surrender such Restricted Stock Units to the Company (the “*Forfeiture Restrictions*”). Subject to certain stockholder approval described below, the Forfeiture Restrictions will lapse as to the Restricted Stock Units that are awarded hereby in accordance with the following schedule provided that the termination of your employment with the Company and its Affiliates (a “*Termination of Employment*”) has not occurred prior to the applicable lapse date:

- (a) on the first anniversary of the Grant Date, the Forfeiture Restrictions will lapse as to one-third of the Restricted Stock Units subject to this Agreement; and
- (b) on each succeeding anniversary of the Grant Date, the Forfeiture Restrictions will lapse as to an additional one-third of the Restricted Stock Units subject to this Agreement, so that on the third anniversary of the Grant Date the Forfeiture Restrictions will lapse as to all of the Restricted Stock Units subject to this Agreement.

If a Change in Control of the Company occurs or you incur a Termination of Employment before the third anniversary of the Grant Date, your rights to the Restricted Stock Units under this Agreement will be determined as provided in the attached Terms and Conditions of Restricted Stock Unit Award Agreements (the “*Terms and Conditions*”).

Upon the lapse of the Forfeiture Restrictions applicable to a Restricted Stock Unit that is awarded hereby, the Company will issue to you one share of the Company’s Common Stock, \$1.00 par value per share (the “*Common Stock*”), in exchange for such Restricted Stock Unit and thereafter you will have no further rights with respect to such Restricted Stock Unit. The Company will cause to be delivered to you a stock certificate representing those shares of the Common Stock issued in exchange for Restricted Stock Units awarded hereby, and such shares of the Common Stock will be transferable by you (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable federal or state securities law).

If during the period you hold any Restricted Stock Units awarded hereby the Company pays a dividend in cash with respect to the outstanding shares of the Common Stock (a “*Cash Dividend*”), then the Company will credit to an account established for you by the Company under the Plan (the “*Account*”) an amount equal to the product of (a) the Restricted Stock Units awarded hereby that

have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the amount of the Cash Dividend paid per share of the Common Stock (the “*Dividend Equivalent Credit*”). The Company will pay to you, in cash, an amount equal to the Dividend Equivalent Credits credited to the Account with respect to a Restricted Stock Unit on the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse (and in no case later than the end of the calendar year in which the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse or, if later, the 15th day of the third month following the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse).

If during the period you hold any Restricted Stock Units awarded hereby the Company pays a dividend in shares of the Common Stock with respect to the outstanding shares of the Common Stock, then the Company will increase the Restricted Stock Units awarded hereby that have not then been exchanged by the Company for shares of the Common Stock by an amount equal to the product of (a) the Restricted Stock Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the number of shares of the Common Stock paid by the Company per share of the Common Stock (collectively, the “*Stock Dividend Restricted Stock Units*”). Each Stock Dividend Restricted Stock Unit will be subject to same Forfeiture Restrictions and other restrictions, limitations and conditions applicable to the Restricted Stock Unit for which such Stock Dividend Restricted Stock Unit was awarded and will be exchanged for shares of the Common Stock at the same time and on the same basis as such Restricted Stock Unit.

The Restricted Stock Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of (other than by will or the applicable laws of descent and distribution). Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement will be void and the Company Group will not be bound thereby.

Any shares of the Common Stock issued to you in exchange for Restricted Stock Units awarded hereby may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws. You also agree that (a) the Company may refuse to cause the transfer of any such shares of the Common Stock to be registered on the stock register of the Company if such proposed transfer would in the opinion of counsel satisfactory to the Company constitute a violation of any applicable federal or state securities law and (b) the Company may give related instructions to the transfer agent, if any, to stop registration of the transfer of such shares of the Common Stock.

The shares of Common Stock that may be issued under the Plan are registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares of Common Stock and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

Capitalized terms that are not defined herein will have the meaning ascribed to such terms in the Plan or the Terms and Conditions.

In accepting the award of Restricted Stock Units set forth in this Agreement you accept and agree to be bound by all the terms and conditions of the Plan, this Agreement and the Terms and Conditions.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED
TERMS AND CONDITIONS
OF
RESTRICTED STOCK UNIT AWARD AGREEMENTS

These Terms and Conditions are applicable to a restricted stock unit award granted pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Restricted Stock Unit Award Agreement setting forth the terms of such restricted stock unit award (the “*Agreement*”).

1. TERMINATION OF EMPLOYMENT/CHANGE IN CONTROL. The following provisions will apply in the event your employment with the Company and all Affiliates (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”), or a Change in Control of the Company occurs, before the third anniversary of the Grant Date (the “*Third Anniversary Date*”) under the Restricted Stock Unit Award Agreement awarded to you (the “*Agreement*”):

1.1 Termination Generally. If you incur a Termination of Employment on or before the Third Anniversary Date for any reason other than one of the reasons described in Sections 1.2 through 1.5 below, the Forfeiture Restrictions then applicable to the Restricted Stock Units will not lapse and the number of Restricted Stock Units then subject to the Forfeiture Restrictions will be forfeited to the Company on the date of your Termination of Employment.

1.2 Potential or Actual Change in Control.

(i) Termination of Employment Without Cause or for Good Reason in Connection With a Potential Change in Control on or Before the Third Anniversary Date. If (a) you incur a Termination of Employment by the Company Group without Cause on or before the Third Anniversary Date prior to a Change in Control of the Company (whether or not a Change in Control ever occurs) and such Termination of Employment is at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control of the Company or is otherwise in connection with or in anticipation of a Change in Control of the Company (whether or not a Change in Control ever occurs) or (b) you incur a Termination of Employment with the Company Group for Good Reason on or before the Third Anniversary Date prior to a Change in Control of the Company (whether or not a Change in Control ever occurs), and such Termination of Employment or the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control of the Company or is otherwise in connection with or in anticipation of a Change in Control of the Company (whether or not a Change in Control ever occurs), then all remaining Forfeiture Restrictions will immediately lapse on the date of your Separation From Service if you are not a Specified Employee or on the date that is six months following your Separation From Service if you are a Specified Employee. For purposes of these Terms and Conditions, “*Separation From Service*”

has the meaning ascribed to that term in Section 409A and “*Specified Employee*” means a person who is, as of the date of the person’s Separation From Service, a “specified employee” within the meaning of Section 409A, taking into account the elections made and procedures established in resolutions adopted by the Administrative Committee of Baker Hughes. For purposes of these Terms and Conditions, “*Section 409A*” means section 409A of the Internal Revenue Code of 1986, as amended and the Department of Treasury rules and regulations issued thereunder.

(ii) Termination of Employment Does Not Occur Before a Change in Control on or Before the Third Anniversary Date. If a Change in Control of the Company occurs on or before the Third Anniversary Date and your Termination of Employment before the date the Change in Control of the Company occurs, then all remaining Forfeiture Restrictions will lapse at the time specified below. All remaining Forfeiture Restrictions will lapse on the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Section 409A, or (b) on the Third Anniversary Date, if the Change in Control of the Company does not so qualify.

1.3 Divestiture of Business Unit Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if the Company Group divests its ownership of a business unit of the Company or one or more Affiliates (a “*Unit*”) and you incur a Termination of Employment in connection with such divestiture (other than for Cause or death or due to your becoming permanently disabled within the meaning of Section 1.4), the Forfeiture Restrictions will lapse at the time specified below as to that number of Restricted Stock Units that are then subject to Forfeiture Restrictions on the date of your Termination of Employment equal to:

(1) multiplied by (2) divided by (3)

where (1) is the number of Restricted Stock Units that are then subject to Forfeiture Restrictions on the date of your Termination of Employment, (2) is the number of days during the period commencing on the Grant Date and ending on the date of your Termination of Employment, and (3) is the number of days during the period commencing on the Grant Date and ending on the Third Anniversary Date. Such Forfeiture Restrictions specified in the preceding sentence will lapse on the date the Change in Control of the Company occurs if the Change in Control of the Company qualifies as a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation, within the meaning of Section 409A, or (b) on the Third Anniversary Date, if the Change in Control of the Company does not so qualify. The Forfeiture Restrictions then applicable to all the remaining Restricted Stock Units after the application of the previous provisions of this Section 1.3 will not lapse and such Restricted Stock Units will be immediately forfeited to the Company. A “*Divestiture*” includes the disposition of a Unit to an entity that the Company does not consolidate in its financial statements, whether the disposition is structured as a sale or transfer of stock (or other ownership interest), a merger, a consolidation or a sale or transfer of assets, or a combination thereof, *provided* that a “*Divestiture*” will not include a disposition that constitutes a Change in Control.

1.4 **Disability.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the Third Anniversary Date and while in the active employ of one or more members of the Company Group, all remaining Forfeiture Restrictions will immediately lapse on the date of your Termination of Employment due to your becoming permanently disabled. For purposes of this Section 1.4, you will be “*permanently disabled*” if you (a) are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) are, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company Group.

1.5 **Death.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the Third Anniversary Date and while in the active employ of one or more members of the Company Group, all remaining Forfeiture Restrictions will immediately lapse on the date of your Termination of Employment due to death.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group or within two years after the date of your Termination of Employment, then your right to receive the shares of the Common Stock, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you divulge any non-public, confidential or proprietary information of the Company Group, but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation.

3. **TAX WITHHOLDING.** To the extent that the receipt of the Restricted Stock Units or the lapse of any Forfeiture Restrictions results in income, wages or other compensation to you for any income, employment or other tax purposes with respect to which the Company has a withholding obligation, you will deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money as the Company may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company is authorized to withhold from any shares of Common Stock issued under the Agreement or from any cash or stock remuneration or other payment then or thereafter payable to you any tax required to be withheld by reason of such taxable income, wages or compensation including (without limitation) shares of the Common Stock sufficient to satisfy the withholding obligation based on the last per share sales price of the Common Stock for the

trading day immediately preceding the date that the withholding obligation arises, as reported in the New York Stock Exchange Composite Transactions.

4. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
5. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Restricted Stock Units will not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
6. **RESTRICTED STOCK UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You will not have the voting rights or any of the other rights, powers or privileges of a holder of the Common Stock with respect to the Restricted Stock Units that are awarded hereby. Only after a share of the Common Stock is issued in exchange for a Restricted Stock Unit will you have all of the rights of a shareholder with respect to such share of Common Stock issued in exchange for a Restricted Stock Unit.
7. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
8. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any Affiliate or guarantee the right to remain employed by the Company or any Affiliate for any specified term.
9. **SECURITIES ACT LEGEND.** If you are an officer or affiliate of the Company under the Securities Act of 1933, you consent to the placing on any certificate for shares of the Common Stock issued under the Agreement an appropriate legend restricting resale or other transfer of such shares except in accordance with such Act and all applicable rules thereunder.
10. **LIMIT OF LIABILITY.** Under no circumstances will the Company or any Affiliate be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan.
11. **DATA PRIVACY.** The Company's Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the restricted stock units granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of restricted units included in any award (“*Employee Personal Data*”). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the “*Purposes*”), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, “*Data Recipients*”). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the Restricted Stock Units set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the Restricted Stock Units set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

12. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company’s compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company’s compensation recoupment policy as in effect on January 23, 2014.
13. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company’s protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.
14. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the restricted stock units set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise

refer construction or interpretation of the Plan, these Terms and Conditions and the award of the restricted stock units to the substantive law of another jurisdiction. In accepting the award of the restricted stock units you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the restricted stock units.

15. SEVERABILITY AND BLUE PENCILING. If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.

16. MISCELLANEOUS. The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms “*you*” and “*your*” refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company’s rights under these Terms and Conditions and the Agreement may be assigned by the Company.

BAKER HUGHES INCORPORATED

STOCK OPTION AGREEMENT

GRANT OF OPTION

The Compensation Committee of the Board of Directors of Baker Hughes Incorporated, a Delaware corporation (the “*Company*”), pursuant to the **Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan** (the “*Plan*”), hereby grants to you, the above-named Participant, effective as of the Grant Date set forth above (the “*Grant Date*”), a nonqualified stock option (the “*Option*”) to purchase the total number of shares of the Company’s \$1.00 par value per share common stock (“*Common Stock*”) at the exercise price set forth above for each share subject to the option, subject to adjustment as provided in the Plan. The Option is exercisable in installments in accordance with the Vesting Schedule set forth above with the exercise price payable at the time of exercise. To the extent not exercised, installments will be cumulative and may be exercised in whole or in part until the option terminates.

By your acceptance of the Option, you agree that the Option is granted under, governed by and subject to the terms of the Plan, this Stock Option Agreement and the Terms and Conditions of Option Agreements. The shares of Common Stock (the “*shares*”) that may be issued under this Plan are registered with the Securities and Exchange Commission (“*SEC*”) under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares and the Terms and Conditions can be found on the Baker Hughes Direct website at www.bakerhughesdirect.com. You may obtain a copy of the Plan Prospectus by requesting it from the Company.

BAKER HUGHES INCORPORATED

Martin S. Craighead
Chairman and Chief Executive Officer

BAKER HUGHES INCORPORATED

TERMS AND CONDITIONS OF OPTION AGREEMENTS

These Terms and Conditions are applicable to an option (the “*Option*”) granted pursuant to the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “*Plan*”) and are incorporated as part of the Stock Option Agreement setting forth the terms of such Option (the “*Agreement*”).

1. **TERMINATION OF EMPLOYMENT.** The following provisions will apply in the event your employment with the Company and all Affiliates of the Company (collectively, the “*Company Group*”) terminates (a “*Termination of Employment*”) or a Change in Control of the Company occurs before the Expiration Date set forth in the Agreement:

1.1 **Termination Generally.** If you incur a Termination of Employment before the Expiration Date for any reason other than one of the reasons described in Sections 1.2 through 1.6 below, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three years after the date you incur a Termination of Employment. In the event you incur a Termination of Employment for any reason, the Option will not continue to vest after such Termination of Employment.

1.2 **Termination for Cause.** If you incur a Termination of Employment by the Company Group terminates for Cause and such Termination of Employment occurs (i) prior to a Change in Control that occurs after the Grant Date or (ii) after the second anniversary of a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date your employment with the Company Group terminates for Cause. Termination for Cause includes (without limitation) fraud, theft, embezzlement committed against the Company Group or a customer of the Company Group or any of its affiliated companies, or for conflict of interest, unethical conduct, dishonesty affecting the assets, properties or business of the Company Group, willful misconduct, or continued material dereliction of duties.

1.3 **Divestiture of Business Unit.** If the Company Group divests its ownership of a business unit of the Company or one or more subsidiaries (a “*Unit*”) and your employment with the Company Group terminates in connection with such Divestiture (other than for Cause or death or due to your disability within the meaning of Section 1.4), then your rights under the Option that have not then vested will vest on the effective date of the Divestiture of the business unit. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or three (3) years after the date of your Termination of Employment. For purposes of these Terms and Conditions, a “*Divestiture*” includes the disposition of a Unit to an entity that the Company does not consolidate in its financial statements, whether the disposition is structured as a sale or transfer of stock, a merger, a consolidation or a sale or transfer of assets, or a combination thereof, *provided* that a “*Divestiture*” will not include a disposition that constitutes a Change in Control.

1.4 **Retirement or Disability.** If you incur a Termination of Employment due to your Retirement or disability, then your rights under the Option that have not then vested will vest on the effective date of your Retirement or Termination of Employment due to disability. All of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or five (5) years after the date of your Termination of Employment as a result of Retirement or a disability. For purposes of this Section 1.4, the term “*Retirement*” means the voluntary termination of your employment relationship with the Company Group on or after the date on which you are at least 55 years of age (not rounded up) and you have completed at least ten whole years of service with the Company Group (not rounded up). For purposes of this Section 1.4, you will not be treated as having incurred a Termination of Employment due to Retirement if your employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, the term “*Retirement*” means your Termination of Employment on or after the date on

which the you have both (A) attained the age of at least 55 whole (not rounded up) years and (B) completed at least ten whole (not rounded up) Years of Service. For purposes of these Terms and Conditions, you will not be treated as having incurred a Termination of Employment due to Retirement if his employment is terminated by a member of the Company Group for Cause (within the meaning of Section 1.2). For purposes of these Terms and Conditions, “*Years of Service*” means your years of service credited for vesting service purposes under either of the Baker Hughes Incorporated Thrift Plan or the Baker Hughes International Retirement Plan in which you are eligible to participate. If you are eligible to participate in neither of such retirement plans, “*Years of Service*” means the years of service for which you would be credited for vesting purposes under the Baker Hughes Incorporated Thrift Plan if you were eligible to participate in that plan. For purposes of this Section 1.4, you will incur a “*disability*” if you qualify for long-term disability benefits under a long-term disability program sponsored by the Company or an Affiliate.

1.5 **Death.** If you incur a Termination of Employment due to your death, then your rights under the Option that have not then vested will vest on the date of your death. All rights in the Option will terminate and become null and void on the earlier of the Expiration Date or one year after the date your death. After your death, your executors, administrators or any person or persons to whom the Option may be transferred by will or by the laws of descent and distribution, will have the right, at any time prior to the termination of the Option to exercise the Option.

1.6 **Change in Control.** If a Change in Control of the Company occurs on or before the third anniversary of the date of grant of the Option and you do not incur a Termination of Employment before the date the Change in Control of the Company occurs, then the Option will become fully exercisable on the date the Change in Control of the Company occurs. If you incur a Termination of Employment by the Company Group with or without Cause and such Termination of Employment occurs on the date of a Change in Control or within two years following a Change in Control that occurs after the Grant Date, all of your rights in the Option will terminate and become null and void on the earlier of the Expiration Date or the date thirty (30) days after your Termination of Employment for Cause.

2. **PROHIBITED ACTIVITY.** Notwithstanding any other provision of these Terms and Conditions or the Agreement, if you engage in a “Prohibited Activity,” as described below, while employed by one or more members of the Company Group, or within two years after the date your employment with the Company Group terminates, then your right to receive payment under the Agreement, to the extent still outstanding at that time, will be completely forfeited. A “*Prohibited Activity*” will be deemed to have occurred, as determined by the Committee in its sole and absolute discretion, if you (i) divulge any non-public, confidential or proprietary information of the Company Group but excluding information that (a) becomes generally available to the public other than as a result of your public use, disclosure, or fault, or (b) becomes available to you on a non-confidential basis after your employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by you, *provided* that such source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation, or (ii) directly or indirectly, consult with or become affiliated with, conducts, participate or engage in, or becomes employed by, any business that is competitive with the business of any member of the Company Group, wherever from time to time conducted throughout the world, including situations where you solicit or participate in or assist in any way in the solicitation or recruitment, directly or indirectly, of any employees of any member of the Company Group.

3. **CASHLESS EXERCISE.** Cashless exercise, in accordance with the terms of the Plan, will be available to you for the shares subject to the Option. In addition to the cashless exercise alternatives expressly listed in the Plan, you may elect a net exercise method of exercise under which the Company will reduce the number of shares issued to you upon the exercise of all or portion of the Option to satisfy your Option Price obligation for such portion of the Option.

4. **AUTOMATIC EXERCISE UPON EXPIRATION DATE.** Notwithstanding any other provision of these Terms and Conditions or the Agreement (other than this Section 4 of these Terms and Conditions), on the last trading day on which all or a portion of the Option may be exercised, if the then Fair Market Value of a share exceeds the per share Option Price by at least \$.01 (such expiring portion of the Option that is so in-the-money, an “*Auto-Exercise Eligible Option*”), you will be deemed to have automatically exercised such Auto-Exercise Eligible Option (to the extent it has not previously been exercised or forfeited) in accordance with the provisions of this Section 4. In the event of an automatic exercise pursuant to this Section 4, the Company

will reduce the number of shares issued to you upon such automatic exercise of the Auto-Exercise Eligible Option to satisfy your Option Price obligation for the Auto-Exercise Eligible Option. Further, the Company will reduce the number of shares issued to the you to satisfy the Minimum Statutory Withholding Obligation arising upon the automatic exercise in accordance with the procedures of Article 16 of the Plan unless the Committee deems that a different method of satisfying the tax withholding obligations is practicable and advisable. You may notify the Plan record-keeper, Fidelity, in writing in advance that you do not wish for the Auto-Exercise Eligible Option to be exercised. This Section 4 will not apply to the Option to the extent that this Section 4 may cause the Option to fail to qualify for favorable tax treatment under applicable law. In its discretion, the Company may determine to cease automatically exercising options at any time.

5. **TAXES AND TAX WITHHOLDING.** You should consult with your tax advisor concerning the tax consequences of exercising your Option. To the extent that the receipt of the Option or the Agreement, the vesting of the Option or the exercise of the Option results in income to you for federal, state or local income, employment or other tax purposes with respect to which the Company Group has a withholding obligation, you will deliver to the Company at the time of such receipt, vesting or exercise, as the case may be, such amount of money as the Company Group may require to meet its obligation under applicable tax laws or regulations, and, if you fail to do so, the Company Group is authorized to withhold from the shares subject to the Option or from any cash or stock remuneration then or thereafter payable to you any tax required to be withheld by reason of such taxable income, including (without limitation) shares subject to the Option sufficient to satisfy the withholding obligation based on the last per share sales price of the common stock of the Company for the trading day immediately preceding the date that the withholding obligation arises, as reported in the New York Stock Exchange Composite Transactions.
6. **NONTRANSFERABILITY.** Except as specified in these Terms and Conditions, the Option and the Agreement are not transferable or assignable by you other than by will or the laws of descent and distribution, and will be exercisable during your lifetime only by you.
7. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Option will not affect in any way the right or power of the Company or any company the stock of which is issued pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
8. **EMPLOYMENT RELATIONSHIP.** For purposes of the Agreement, you will be considered to be in the employment of the Company Group as long as you have an employment relationship with the Company Group. The Committee will determine any questions as to whether and when there has been a termination of such employment relationship, and the cause of such termination, under the Plan and the Committee's determination will be final and binding on all persons.
9. **NO RIGHTS AS A STOCKHOLDER.** You will not have any rights as a stockholder of the Company with respect to any shares covered by the Option until the date of the issuance of the stock certificate or certificates to you for such shares following exercise of the Option pursuant to the Agreement and the Terms and Conditions and payment for the shares. No adjustment will be made for dividends or other rights for which the record date is prior to the date such certificate or certificates are issued.
10. **NOT AN EMPLOYMENT AGREEMENT.** The Agreement is not an employment agreement, and no provision of the Agreement will be construed or interpreted to create an employment relationship between you and the Company or any of its Affiliates or guarantee the right to remain employed by the Company or any of its Affiliates for any specified term.
11. **SECURITIES ACT LEGEND.** If you are an officer or affiliate of the Company under the Securities Act of 1933, you consent to the placing on any certificate for the shares of an appropriate legend restricting resale or other transfer of the shares except in accordance with such Act and all applicable rules thereunder.
12. **LIMIT OF LIABILITY.** Under no circumstances will the Company Group be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person,

whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.

13. **DATA PRIVACY.** The Company's Human Resources Department in Houston, Texas (U.S.A.) administers and maintains the data regarding the Plan, the awardees and the stock options granted to awardees for all employees in the Company Group worldwide.

The data administered and maintained by the Company includes information that may be considered personal data, including the name of the awardee, the award granted and the number of shares of stock subject to any stock option award ("*Employee Personal Data*"). From time to time during the course of your employment in the Company Group, the Company may transfer certain of your Employee Personal Data to Affiliates as necessary for the purpose of implementation, administration and management of your participation in the Plan (the "*Purposes*"), and the Company and its Affiliates may each further transfer your Employee Personal Data to any third parties assisting the Company in the implementation, administration and management of the Plan (collectively, "*Data Recipients*"). The countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

In accepting the award of the stock option set forth in the Agreement, you hereby expressly acknowledge that you understand that from time to time during the course of your employment in the Company Group the Company may transfer your Employee Personal Data to Data Recipients for the Purposes. You further acknowledge that you understand that the countries to which your Employee Personal Data may be transferred may have data protection standards that are different than those in your home country and that offer a level of data protection that is less than that in your home country.

Further, in accepting the award of the stock option set forth in the Agreement, you hereby expressly affirm that you do not object, and you hereby expressly consent, to the transfer of your Employee Personal Data by the Company to Data Recipients for the Purposes from time to time during the course of your employment in the Company Group.

14. **RECOUPMENTS.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, if you are then a current or former executive officer of the Company you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent specified in any of the Company's compensation recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission Committee under or in connection with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, if the Company is required to prepare an accounting restatement due in whole or in part to your misconduct, you will forfeit and must repay to the Company any compensation awarded under the Agreement to the extent required by the Board of Directors of the Company in accordance with the terms of the Company's compensation recoupment policy as in effect on January 23, 2014.

15. **OTHER AGREEMENTS.** Nothing in these Terms and Conditions is intended to reduce the Company's protections or your obligations under (1) any other agreement between you and the Company or any other member of the Company Group, (2) the common law, or (3) any applicable state, federal or foreign statute.

16. **GOVERNING LAW AND VENUE.** The Plan, these Terms and Conditions and the award of the stock option set forth in the Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan, these Terms and Conditions and the award of the Option to the substantive law of another jurisdiction. In accepting the award of the Option you are deemed to agree to submit to the exclusive jurisdiction and venue of the federal or state courts of Harris County, Texas, to resolve any and all issues that may arise out of or relate to the Plan, these Terms and Conditions and the award of the Option.

17. **SEVERABILITY AND BLUE PENCILING.** If any single Section or clause of these Terms and Conditions should be found unenforceable, it shall be severed and the remaining Sections and clauses of these Terms and Conditions shall be enforced in accordance with the intent of these Terms and Conditions. If any particular provision of these Terms and Conditions shall be adjudicated to be invalid or unenforceable, the Company

and you specifically authorize the court making such determination to edit the invalid or unenforceable provision to allow these Terms and Conditions, and the provisions thereof, to be valid and enforceable to the fullest extent allowed by law or public policy.

- 18. MISCELLANEOUS.** The Agreement and the Option are awarded pursuant to and are subject to all of the provisions of the Plan, which are incorporated by reference herein, including all amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The terms “*you*” and “*your*” refer to the Participant named in the Agreement. Capitalized terms that are not defined herein will have the meanings ascribed to such terms in the Plan or the Agreement. The Company’s rights under these Terms and Conditions and the Agreement may be assigned by the Company.

CERTIFICATION

I, Martin S. Craighead, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 22, 2014

By: /s/ Martin S. Craighead
Martin S. Craighead
Chairman and Chief Executive Officer

CERTIFICATION

I, Peter A. Ragauss, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 22, 2014

By: /s/ Peter A. Ragauss

Peter A. Ragauss

Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Baker Hughes Incorporated (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Martin S. Craighead, Chairman and Chief Executive Officer of the Company, and Peter A. Ragauss, the Chief Financial Officer of the Company, each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

The certification is given to the knowledge of the undersigned.

/s/ Martin S. Craighead

Name: Martin S. Craighead
Title: Chairman and Chief Executive Officer
Date: July 22, 2014

/s/ Peter A. Ragauss

Name: Peter A. Ragauss
Title: Senior Vice President and Chief Financial Officer
Date: July 22, 2014

Mine Safety Disclosure

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K, which require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977.

The table that follows reflects citations, orders, violations and proposed assessments issued by the Mine Safety and Health Administration (the "MSHA") for each mine of which Baker Hughes and/or its subsidiaries is an operator. The disclosure is with respect to the three months ended June 30, 2014. Due to timing and other factors, the data may not agree with the mine data retrieval system maintained by the MSHA at www.MSHA.gov.

Three Months Ended June 30, 2014

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Proposed MSHA Assessments ⁽¹⁾	Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period	Legal Actions Initiated During Period	Legal Actions Resolved During Period
Morgan City Grinding Plant/1601357	0	0	0	0	0	\$ —	0	N	N	0	0	0
Argenta Mine and Mill/2601152	1	0	0	0	0	\$ 300	0	N	N	0	0	0
Corpus Christi Grinding Plant/4103112	1 ⁽²⁾	0	0	0	0	\$ —	0	N	N	0	0	0

⁽¹⁾ Amounts included are the total dollar value of proposed assessments received from MSHA during the three months ended June 30, 2014, regardless of whether the assessment has been challenged or appealed. Citations and orders can be contested and appealed, and as part of that process, are sometimes reduced in severity and amount, and sometimes dismissed. The number of citations, orders, and proposed assessments vary by inspector and also vary depending on the size and type of the operation.

⁽²⁾ The MSHA has not yet proposed an assessment on this 104 S&S citation.