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, 2018

OR

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

Commission File Number 1-38143

Baker Hughes, a GE company

(Exact name of registrant as specified in its charter)

Delaware	**81-4403168**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

17021 Aldine Westfield, Houston, Texas - 77073-5101
(Address of principal executive offices)

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 o

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 o

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

Large accelerated filer ☑	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ☑

As of July 19, 2018, the registrant had outstanding 411,651,545 shares of Class A Common Stock, $0.0001 par value per share and 687,743,095 shares of Class B Common Stock, $0.0001 par value per share.

Baker Hughes, a GE company
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Baker Hughes, a GE company

Condensed Consolidated and Combined Statements of Income (Loss)

(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenue:				
Sales of goods	$ 3,119	$ 2,270	$ 6,279	$ 4,509
Sales of services	2,429	745	4,668	1,570
Total revenue	5,548	3,015	10,947	6,079
Costs and expenses:				
Cost of goods sold	2,752	1,944	5,552	3,790
Cost of services sold	1,860	532	3,618	1,064
Selling, general and administrative expenses	662	461	1,336	953
Restructuring, impairment and other	146	59	308	101
Merger and related costs	50	85	96	151
Total costs and expenses	5,470	3,081	10,910	6,059
Operating income (loss)	78	(66)	37	20
Other non operating income, net	43	50	45	58
Interest expense, net	(63)	(14)	(109)	(34)
Income (loss) before income taxes and equity in loss of affiliate	58	(30)	(27)	44
Equity in loss of affiliate	(34)	—	(54)	—
Benefit (provision) for income taxes	(62)	10	24	2
Net income (loss)	(38)	(20)	(57)	46
Less: Net income (loss) attributable to GE O&G pre-merger	—	(26)	—	42
Less: Net income (loss) attributable to noncontrolling interests	(19)	6	(108)	4
Net income (loss) attributable to Baker Hughes, a GE company	$ (19)	$ —	$ 51	$ —
Per share amounts:				
Basic earnings per Class A common stock	$ (0.05)		$ 0.12	
Diluted earnings per Class A common stock	(0.05)		0.12	
Cash dividend per Class A common stock	$ 0.18		$ 0.36	

See accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

Baker Hughes, a GE company
Condensed Consolidated and Combined Statements of Comprehensive Income (Loss)
(Unaudited)

(In millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income (loss)	$ (38)	$ (20)	$ (57)	$ 46
Less: Net income (loss) attributable to GE O&G pre-merger	—	(26)	—	42
Less: Net income (loss) attributable to noncontrolling interests	(19)	6	(108)	4
Net income (loss) attributable to Baker Hughes, a GE company	(19)	—	51	—
Other comprehensive income (loss):				
Investment securities	(2)	(25)	(2)	1
Foreign currency translation adjustments	(536)	(119)	(224)	(73)
Cash flow hedges	(6)	5	1	9
Benefit plans	5	(2)	2	(3)
Other comprehensive loss	(539)	(141)	(223)	(66)
Less: Other comprehensive loss attributable to GE O&G pre-merger	—	(142)	—	(69)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(337)	1	(139)	3
Other comprehensive loss attributable to Baker Hughes, a GE company	(202)	—	(84)	—
Comprehensive loss	(577)	(161)	(280)	(20)
Less: Comprehensive loss attributable to GE O&G pre-merger	—	(168)	—	(27)
Less: Comprehensive income (loss) attributable to noncontrolling interests	(356)	7	(247)	7
Comprehensive loss attributable to Baker Hughes, a GE company	$ (221)	$ —	$ (33)	$ —

See accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

Baker Hughes, a GE company
Condensed Consolidated and Combined Statements of Financial Position
(Unaudited)

(In millions, except par value)	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash [(1)]	$ 4,879	$ 7,030
Current receivables, net	6,038	6,015
Inventories, net	4,675	4,507
All other current assets	850	872
Total current assets	16,442	18,424
Property, plant and equipment (net of accumulated depreciation of $3,348 and $2,817)	6,335	6,959
Goodwill	20,758	19,927
Other intangible assets, net	5,973	6,358
Contract and other deferred assets	1,911	2,044
All other assets	1,484	2,073
Deferred income taxes	1,187	715
Total assets [(1)]	$ 54,090	$ 56,500
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,574	$ 3,377
Short-term debt and current portion of long-term debt [(1)]	1,067	2,037
Progress collections and deferred income	1,630	1,775
All other current liabilities	2,362	2,038
Total current liabilities	8,633	9,227
Long-term debt	6,319	6,312
Deferred income taxes	148	490
Liabilities for pensions and other postretirement benefits	1,100	1,172
All other liabilities	1,073	889
Equity:		
Class A Common Stock, $0.0001 par value - 2,000 authorized, 412 issued and outstanding as of June 30, 2018	—	—
Class B Common Stock, $0.0001 par value - 1,250 authorized, 688 issued and outstanding as of June 30, 2018	—	—
Capital in excess of par value	14,625	15,083
Retained loss	(27)	(103)
Accumulated other comprehensive loss	(787)	(703)
Baker Hughes, a GE company equity	13,811	14,277
Noncontrolling interests	23,006	24,133
Total equity	36,817	38,410
Total liabilities and equity	$ 54,090	$ 56,500

(1) Total assets include $939 million and $1,124 million of assets held on behalf of GE, of which $783 million and $997 million is cash and cash equivalents and $156 million and $127 million is investment securities at June 30, 2018 and December 31, 2017, respectively, and a corresponding amount of liability is reported in short-term borrowings. See "Note 16. Related Party Transactions" for further details.

See accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

Baker Hughes, a GE company
Condensed Consolidated and Combined Statements of Changes in Equity
(Unaudited)

(In millions, except per share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Parent's Net Investment	Retained Loss	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at December 31, 2017	$ —	$ —	$ 15,083	$ —	$ (103)	$ (703)	$ 24,133	$ 38,410
Effect of adoption of ASU 2016-16 on taxes [(1)]					25		42	67
Comprehensive income (loss):								
Net income (loss)					51		(108)	(57)
Other comprehensive loss						(84)	(139)	(223)
Cash dividend ($0.36 per share)			(150)				(253)	(403)
Repurchase and cancellation of Class A and Class B common stock			(374)				(626)	(1,000)
Stock-based compensation cost			60					60
Other			6				(43)	(37)
Balance at June 30, 2018	$ —	$ —	$ 14,625	$ —	$ (27)	$ (787)	$ 23,006	$ 36,817

(1) See "Note 1. Basis of Presentation and Summary of Significant Accounting Policies" for further details.

(In millions)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Parent's Net Investment	Retained Loss	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at December 31, 2016	$ —	$ —	$ —	$ 16,001	$ —	$ (1,888)	$ 167	$ 14,280
Comprehensive income (loss):								
Net income				42			4	46
Other comprehensive income (loss)						(69)	3	(66)
Changes in Parent's net investment				1,939				1,939
Other							4	4
Balance at June 30, 2017	$ —	$ —	$ —	$ 17,982	$ —	$ (1,957)	$ 178	$ 16,203

See accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

Baker Hughes, a GE company
Condensed Consolidated and Combined Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income (loss)	$ (57)	$ 46
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	780	290
Provision for deferred income taxes	(300)	(29)
Changes in operating assets and liabilities:		
Current receivables	(35)	(101)
Inventories	(282)	176
Accounts payable	318	78
Progress collections and deferred income	(137)	(166)
Contract and other deferred assets	126	(217)
Other operating items, net	20	(466)
Net cash flows from (used in) operating activities	433	(389)
Cash flows from investing activities:		
Expenditures for capital assets	(411)	(143)
Proceeds from disposal of assets	181	12
Other investing items, net	68	1
Net cash flows used in investing activities	(162)	(130)
Cash flows from financing activities:		
Net repayments of short-term debt and other borrowings	(300)	(45)
Repayment of long-term debt	(648)	—
Net transfer from Parent	—	1,575
Dividends paid	(150)	—
Distributions to noncontrolling interest	(253)	—
Repurchase of Class A common stock	(387)	—
Repurchase of GE common units by BHGE LLC	(638)	—
Other financing items, net	4	14
Net cash flows from (used in) financing activities	(2,372)	1,544
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	(50)	17
Increase (decrease) in cash, cash equivalents and restricted cash	(2,151)	1,041
Cash, cash equivalents and restricted cash, beginning of period	7,030	981
Cash, cash equivalents and restricted cash, end of period	$ 4,879	$ 2,021
Supplemental cash flows disclosures:		
Income taxes paid	$ 218	$ 129
Interest paid	$ 157	$ 14

See accompanying Notes to Unaudited Condensed Consolidated and Combined Financial Statements.

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE BUSINESS

Baker Hughes, a GE company (the Company, BHGE, we, us, or our), was formed on October 28, 2016, for the purpose of facilitating the combination of Baker Hughes Incorporated, a Delaware corporation (Baker Hughes), and the oil and gas business (GE O&G) of General Electric Company (GE). On July 3, 2017, we completed the combination of GE O&G and Baker Hughes (the Transactions) resulting in substantially all of the business of GE O&G and of Baker Hughes being transferred to a subsidiary of the Company, Baker Hughes, a GE company, LLC (BHGE LLC). GE has approximately 62.5% of economic interest in BHGE LLC and the Company has approximately 37.5% economic interest in BHGE LLC, held indirectly. We are a world-leading, fullstream oilfield technology provider that has a unique mix of equipment and service capabilities. We conduct business in more than 120 countries and employ approximately 64,000 employees.

BASIS OF PRESENTATION

BHGE, through two wholly owned subsidiaries, holds a minority economic interest in BHGE LLC, however, we conduct and exercise full control over all activities of BHGE LLC, without the approval of any other member. Accordingly, we consolidate the financial results of BHGE LLC and report a noncontrolling interest in our condensed consolidated and combined financial statements for the economic interest in BHGE LLC not held by us. We consider BHGE LLC to be a consolidated variable interest entity (VIE). We are a holding company and have no material assets other than our ownership interest in BHGE LLC and certain intercompany and tax related balances. BHGE LLC is a Securities and Exchange Commission (SEC) Registrant with separate filing requirements with the SEC and its separate financial information can be obtained from www.sec.gov. The current period results of operations may not be comparable to prior periods as the current period includes the results of Baker Hughes.

The accompanying unaudited condensed consolidated and combined financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. and such principles, U.S. GAAP) and pursuant to the rules and regulations of the SEC for interim financial information. All intercompany accounts and transactions have been eliminated. In the opinion of management, the condensed consolidated and combined financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows of the Company and its subsidiaries for the periods presented and are not indicative of the results that may be expected for a full year.

The Company's financial statements have been prepared on a consolidated basis, effective July 3, 2017, following consummation of the Transactions. Under this basis of presentation, our financial statements consolidate all of our subsidiaries (entities in which we have a controlling financial interest, most often because we hold a majority voting interest). All subsequent periods will also be presented on a consolidated basis. For all periods prior to July 3, 2017, the Company's financial statements were prepared on a combined basis. The combined financial statements combine certain accounts of GE and its subsidiaries that were historically managed as part of its Oil & Gas business and contributed to BHGE LLC as part of the Transactions (refer to "Note 3. Business Acquisition" for further details on the Transactions). Additionally, it also includes certain assets, liabilities and results of operations of other businesses of GE that were also contributed to BHGE LLC as part of the Transactions on a fully retrospective basis (in accordance with the guidance applicable to transactions between entities under common control) based on their carrying values, as reflected in the accounting records of GE. The condensed consolidated and combined statements of income reflect intercompany expense allocations made to us by GE for certain corporate functions and for shared services provided by GE. See "Note 16. Related Party Transactions" for further information on expenses allocated by GE. The historical financial results in the condensed consolidated and combined financial statements presented may not be indicative of the results that would have been achieved had GE O&G operated as a separate, stand-alone entity during those periods.

The GE O&G numbers in the condensed consolidated and combined statements of income (loss) have been reclassed to conform to the current presentation. We believe that the current presentation is a more appropriate presentation of the combined businesses. Merger and related costs includes all costs associated with the Transactions. Refer to "Note 3. Business Acquisition" for further details.

In the notes to unaudited condensed consolidated and combined financial statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated. Certain columns and rows in our financial statements and notes thereto may not add due to the use of rounded numbers.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Please refer to "Note 1. Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated and combined financial statements from our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Annual Report) for the discussion of our significant accounting policies. Please refer to the 'New Accounting Standards Adopted' section of this Note for changes to our accounting policies.

Cash, Cash Equivalents and Restricted Cash

As of June 30, 2018, and December 31, 2017, we had $975 million and $1,190 million, respectively, of cash held in bank accounts that cannot be released, transferred or otherwise converted into a currency that is regularly transacted internationally, due to lack of market liquidity, capital controls or similar monetary or exchange limitations limiting the flow of capital out of the jurisdiction. These funds are available to fund operations and growth in these jurisdictions and we do not currently anticipate a need to transfer these funds to the U.S. Included in these amounts is $604 million and $764 million, as of June 30, 2018 and December 31, 2017, respectively, held on behalf of GE.

Cash, cash equivalents and restricted cash includes a total of $783 million and $997 million of cash at June 30, 2018 and December 31, 2017, respectively, held on behalf of GE, and a corresponding liability is reported in short-term borrowings. See "Note 16. Related Party Transactions" for further details.

As a result of adopting Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows: Restricted Cash*, we reclassified our restricted cash of $7 million from ‘all other assets’ to cash, cash equivalents and restricted cash as of December 31, 2017. At June 30, 2018, such cash is no longer considered restricted in nature.

NEW ACCOUNTING STANDARDS ADOPTED

On January 1, 2018, we adopted the FASB ASU No. 2014-09, *Revenue from Contracts with Customers,* and the related amendments (ASC 606). We elected to adopt the new standard using the full retrospective method, where the standard was applied to each prior reporting period presented and the cumulative effect of applying the standard was recognized at January 1, 2016. This standard requires us to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time based on when control of goods and services transfer to a customer. As a result, we changed the presentation of our financial statements, including: (1) timing of revenue recognition, and (2) changes in classification between revenue and costs. The standard has no cash impact and, as such, does not affect the economics of our underlying customer contracts. Our policy on recognizing revenue is as follows:

Revenue from Sale of Equipment

Performance Obligations Satisfied Over Time

We recognize revenue on agreements for sales of goods manufactured to unique customer specifications, including long-term construction projects, on an over-time basis utilizing cost inputs as the measurement criteria in assessing the progress toward completion. Our estimate of costs to be incurred to fulfill our promise to a customer is based on our history of manufacturing or constructing similar assets for customers and is updated routinely to reflect changes in quantity or pricing of the inputs. We begin to recognize revenue on these contracts when the contract specific inventory becomes customized for a customer, which is reflective of our initial transfer of control of the incurred costs. We provide for potential losses on any of these agreements when it is probable that we will incur the loss.

Our billing terms for these over-time contracts vary, but are generally based on achieving specified milestones. The differences between the timing of our revenue recognized (based on costs incurred) and customer billings (based on contractual terms) results in changes to our contract asset or contract liability positions.

Performance Obligations Satisfied at a Point In Time

We recognize revenue for non-customized equipment at the point in time that the customer obtains control of the good, which is no earlier than when the customer has physical possession of the product. Equipment for which we recognize revenue at a point in time include goods we manufacture on a standardized basis for sale to the market. We use proof of delivery for certain large equipment with more complex logistics associated with the shipment, whereas the delivery of other equipment is determined based on historical data of transit times between regions.

On occasion we sell products with a right of return. We use our accumulated experience to estimate and provide for such returns when we record the sale. In situations where arrangements include customer acceptance provisions based on seller or customer-specified objective criteria, we recognize revenue when we have concluded that the customer has control of the goods and that acceptance is likely to occur.

Our billing terms for these point in time equipment contracts vary, but are generally based on shipment of the goods to the customer.

Revenue from Sale of Services

Performance Obligations Satisfied Over Time

We sell product services under long-term product maintenance or extended warranty agreements in our Turbomachinery & Process Solutions and Oilfield Equipment segments. These agreements require us to maintain the customers' assets over the service agreement contract terms, which generally range from 10 to 20 years. In general, these are contractual arrangements to provide services, repairs, and maintenance of a covered unit (gas turbines for mechanical drive or power generation, primarily on LNG applications, drilling rigs). These services are performed at various times during the life of the contract, thus the costs of performing services are incurred on other than a straight-line basis. We recognize related sales based on the extent of our progress toward completion measured by actual costs incurred in relation to total expected costs. We provide for any loss that we expect to incur on any of these agreements when that loss is probable. BHGE utilizes historical customer data, prior product performance data, statistical analysis, third-party data, and internal management estimates to calculate contract-specific margins. In certain contracts, the total transaction price is variable based on customer utilization, which is excluded from the contract margin until the period that the customer has utilized to appropriately reflect the revenue activity in the period earned.

Our billing terms for these contracts are generally based on the occurrence of a major maintenance event within the contract or asset utilization (i.e. usage per hour). The differences between the timing of our revenue recognized (based on costs incurred) and customer billings (based on contractual terms) results in changes to our contract asset or contract liability positions.

Performance Obligations Satisfied at a Point In Time

We sell certain tangible products, largely spare equipment, through our services business. We recognize revenues for this equipment at the point in time that the customer obtains control of the good, which is at the point in time we deliver the spare part to the customer. Our billing terms for these point in time service contracts vary, but are generally based on shipment of the goods to the customer.

Impact of Adoption

As a result of the adoption of the standard, the timing of revenue recognition on our long-term product service agreements is affected. Although we continue to recognize revenue over time on these contracts, there are changes to how contract modifications, termination clauses and purchase options are accounted for by us. In particular, under the previous standard, the cumulative impact from a contract modification on revenue already recorded is recognized in the period in which the modification is agreed. Under the new standard, the impact from certain types of modifications is recognized over the remaining life of the contract.

The change in historical periods to our statements of income (loss) related to the adoption of the standard is summarized below (in millions, except per share amounts):

	Three Months Ended				Year Ended	
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2017	December 31, 2016
Revenue:						
Sales of goods	$ 86	$ 13	$ 37	$ 27	$ 163	$ (26)
Sales of services	(50)	(86)	(33)	(74)	(243)	(161)
Total revenue	36	(73)	4	(47)	(80)	(187)
Operating loss	(14)	(64)	(6)	(91)	(175)	(226)
Net income (loss)	1	(84)	(10)	(57)	(150)	(149)
Net income (loss) attributable to BHGE	1	(31)	—	—	(30)	—
Per share amounts:						
Basic and diluted loss per Class A common stock	—	(0.07)			(0.07)	

The increase (decrease) to our statement of financial position related to the adoption of the standard is summarized below:

	December 31, 2017
ASSETS	
Current receivables, net	$ 1
Inventories, net	(83)
Contract and other deferred assets	(701)
Deferred income taxes	233
LIABILITIES AND EQUITY	
Progress collections and deferred income	$ 394
All other current liabilities	(64)
Deferred income taxes	(34)
All other liabilities	(83)
Baker Hughes, a GE company equity	(432)
Noncontrolling interests	(331)

The cumulative impact to our retained earnings (included in our net parent investment) as of January 1, 2016 was a reduction of $432 million.

On January 1, 2018, we adopted the FASB ASU No. 2016-16, *Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory*. The ASU eliminated the deferral of tax effects of intra-entity asset transfers other than inventory. As a result, the tax expense from the intercompany sale of assets, other than inventory, and associated changes to deferred taxes are recognized when the sale occurs even though the pre-tax effects of the transaction have not been recognized. The effect of the adoption of the standard was an increase to retained earnings of $25 million and an increase to noncontrolling interest of $42 million as of January 1, 2018 with no other impact to our financial statements. Future earnings will be reduced in total by this amount. The effect of the change on future transactions will depend on the nature and amount of future transactions as it will affect the timing of recognition of both tax expenses and tax benefits, with no change in the associated cash flows.

On January 1, 2018, we adopted the FASB ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changed the income statement presentation of net periodic benefit cost by requiring separation between the service cost component and all other components. The service cost component is presented as an operating expense with other similar compensation costs arising for services rendered by the pertinent employees during the period. The non operating components are presented outside of income from operations.

The change in historical periods to our statements of income (loss) related to the adoption of ASU No. 2017-07 is summarized below:

	Three Months Ended				Year Ended	
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2017	December 31, 2016
Operating income (loss)	(5)	(7)	9	2	(1)	24
Non operating income (loss)	5	7	(9)	(2)	1	(24)

NEW ACCOUNTING STANDARDS TO BE ADOPTED

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*: *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU provides that the stranded tax effects from the Tax Cuts and Jobs Act on the balance of other comprehensive earnings may be reclassified to retained earnings. The ASU is effective for periods beginning after December 15, 2018, with an election to adopt early. We are evaluating the effect of the standard on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Similarly, lessors will be required to classify leases as sales-type, finance or operating, with classification affecting the pattern of income recognition. Classification for both lessees and lessors will be based on an assessment of whether risks and rewards as well as substantive control have been transferred through a lease contract. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. In January 2018, the FASB issued a draft ASU that proposed an alternative transition method, which allows companies to apply the provisions of the new leasing standard on January 1, 2019 through recognition of a cumulative-effect adjustment to retained earnings as of January 1, 2019 (i.e. without retrospectively adjusting comparative periods). We will conclude on the transition method once this draft ASU is finalized. We are currently in the process of evaluating our existing lease portfolios, including accumulating all the necessary information required to properly account for the leases under the new standard. Additionally, we are implementing an enterprise-wide lease management system to assist in the accounting and are evaluating additional changes to our processes and internal controls to ensure we meet the standard’s reporting and disclosure requirements. While we continue to evaluate the effect of the standard on our ongoing financial reporting, we anticipate that the adoption of the ASU will result in the recognition of a material right of use asset and related liability with an immaterial effect to our retained earnings.

All other new accounting pronouncements that have been issued but not yet effective are currently being evaluated and at this time are not expected to have a material impact on our financial position or results of operations.

NOTE 2. REVENUE RELATED TO CONTRACTS WITH CUSTOMERS

DISAGGREGATED REVENUE

We disaggregate our revenue from contracts with customers by primary geographic markets.

	Three Months Ended June 30,		Six Months Ended June 30,	
Total Revenue	**2018**	**2017**	**2018**	**2017**
U.S.	$ 1,560	$ 700	$ 3,043	$ 1,421
Non-U.S.	3,988	2,315	7,904	4,658
Total	$ 5,548	$ 3,015	$ 10,947	$ 6,079

REMAINING PERFORMANCE OBLIGATIONS

As of June 30, 2018, the aggregate amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations was $20.9 billion. We expect to recognize revenue of approximately 44%, 62% and 89% of the total remaining performance obligations within 2, 5, and 15 years, respectively, and the remaining thereafter.

As part of our adoption of ASC 606, we elected to not disclose the amount of transaction price allocated to remaining performance obligations for the periods prior to adoption.

NOTE 3. BUSINESS ACQUISITION

On July 3, 2017, we closed the Transactions to combine GE O&G and Baker Hughes. The Transactions were executed using a partnership structure, pursuant to which GE O&G and Baker Hughes each contributed their operating assets to a newly formed partnership, BHGE LLC. The fair value of the consideration exchanged was $24,798 million.

The tables below present the fair value of assets acquired and liabilities assumed and the associated fair value of the noncontrolling interest related to the acquired net assets of Baker Hughes. The final determination of the fair value of assets and liabilities was concluded in the second quarter of 2018.

Identifiable assets acquired and liabilities assumed	**Fair value at July 3, 2017**
Assets	
Cash and equivalents	$ 4,133
Current receivables	2,342
Inventories	1,712
Property, plant and equipment	4,514
Intangible assets (1)	4,005
All other assets	1,335
Liabilities	
Accounts payable	(1,213)
Borrowings	(3,370)
Deferred income taxes (2)	(258)
Liabilities for pension and other postretirement benefits	(654)
All other liabilities	(1,676)
Total identifiable net assets	$ 10,870
Noncontrolling interest associated with net assets acquired	(35)
Goodwill (3)	13,963
Total purchase consideration	$ 24,798

(1) Intangible assets, as provided in the table below, are recorded at fair value, as determined by management based on available information. The estimated useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. We consider the Baker Hughes trade name to be an indefinite life intangible asset, which will not be amortized and will be subject to an annual impairment test.

	Fair Value	Estimated Weighted Average Life (Years)
Trade name - Baker Hughes	$ 2,100	Indefinite life
Customer relationships	1,240	15
Patents and technology	465	10
In-process research and development	70	Indefinite life
Capitalized software	64	2
Trade names - other	45	10
Favorable lease contracts & others	21	10
Total	$ 4,005	

(2) Includes approximately $500 million of net deferred tax liabilities related to the fair value of intangible assets included in the purchase consideration and approximately $242 million of other net deferred tax assets, including non-U.S. loss carryforwards net of valuation allowances partially offset by liabilities for unrecognized benefits.

(3) Goodwill represents the excess of the total purchase consideration over fair value of the net assets recognized and represents the future economic benefits that we believe will result from combining the operations of GE O&G and Baker Hughes, including expected future synergies and operating efficiencies. Goodwill resulting from the Transactions has been primarily allocated to the Oilfield Services segment, of which $67 million is deductible for tax purposes. See "Note 6. Goodwill and Other Intangible Assets" for allocation of goodwill to all the segments.

During the six months ended June 30, 2018, the Company made measurement period adjustments to reflect facts and circumstances in existence as of the acquisition date. These adjustments resulted in an increase in goodwill from 2017 year end of $911 million primarily due to a reduction in the fair value of property, plant and equipment of $362 million, equity method investments of $228 million, intangible assets of $123 million and an increase in other liabilities of $314 million primarily related to uncertain tax positions, warranty, and other sundry liabilities. As a result of the decrease in property, plant and equipment and intangible assets during the six months ended June 30, 2018, we recorded a cumulative decrease to depreciation and amortization expense of $33 million. We reclassified certain balances to conform to our current presentation.

INCOME TAXES

BHGE LLC is treated as a partnership for U.S. federal income tax purposes. As such, BHGE LLC is not itself subject to U.S. federal income tax under current U.S. tax laws. BHGE LLC's foreign subsidiaries, however, have incurred current and deferred foreign income taxes. The members of BHGE LLC are each required to take into account for U.S. federal income tax purposes their distributive share of the items of income, gain, loss and deduction of BHGE LLC, which generally includes our U.S. operations. BHGE and GE are each taxed on their distributive share of income and gain, whether or not a corresponding amount of cash or other property is distributed to them. For assets held indirectly by BHGE LLC through subsidiaries, the taxes attributable to those subsidiaries will be reflected in our condensed consolidated and combined financial statements.

MERGER AND RELATED COSTS

Acquisition costs of $50 million and $85 million, during the three months ended June 30, 2018 and 2017, respectively, and $96 million and $151 million during the six months ended June 30, 2018 and 2017, respectively, were expensed as incurred and were reported as merger and related costs. Such costs include professional fees of advisors and integration and synergy costs related to the combination of Baker Hughes and GE O&G.

UNAUDITED PRO FORMA INFORMATION

The following unaudited pro forma information has been presented as if the Transactions occurred on January 1, 2016. This information has been prepared by combining the historical results of GE O&G and historical results of Baker Hughes. The unaudited pro forma combined financial data for all periods presented were adjusted to give effect to pro forma events that 1) are directly attributable to the Transactions, 2) factually supportable, and 3) expected to have a continuing impact on the consolidated results of operations. The adjustments are based on information available to the Company at this time. Accordingly, the adjustments are subject to change and the impact of such changes may be material. The unaudited pro forma results do not include any incremental cost savings that may result from the integration.

The unaudited combined pro forma information is for informational purposes only and is not necessarily indicative of what the combined company's results actually would have been had the acquisition been completed as of the beginning of the periods as indicated. In addition, the unaudited pro forma information does not purport to project the future results of the combined company.

Significant adjustments to the pro forma information below include recognition of non-recurring direct incremental acquisition costs in 2016 and exclusion of those costs from all other periods presented; amortization associated with an estimate of the acquired intangible assets; depreciation associated with an estimate of the fair value step-up of property, plant and equipment; and reduction of interest expense for fair value adjustments to debt.

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenue	$ 5,417	$ 10,741
Net loss	(184)	(193)
Net loss attributable to the Company	(34)	(31)
Basic earnings per Class A common stock	(0.08)	(0.07)
Diluted earnings per Class A common stock [1]	(0.08)	(0.07)

[1] The calculation of diluted loss per Class A common stock excludes shares potentially issuable under stock-based incentive compensation plans and the exchange of Class B common stock with Class A common stock under the Exchange Agreement, as their effect, if included, would be anti-dilutive.

NOTE 4. CURRENT RECEIVABLES

Current receivables are comprised of the following:

	June 30, 2018	December 31, 2017
Customer receivables	$ 4,891	$ 4,700
Related parties	744	801
Other	736	844
Total current receivables	6,371	6,345
Less: Allowance for doubtful accounts	(333)	(330)
Total current receivables, net	$ 6,038	$ 6,015

Customer receivables are recorded at the invoiced amount. Related parties primarily consists of amounts owed to us by GE. The "Other" category primarily consists of advance payments to suppliers, indirect taxes and other tax receivables.

NOTE 5. INVENTORIES

Inventories, net of reserves of $413 million and $360 million as of June 30, 2018 and December 31, 2017, respectively, are comprised of the following:

	June 30, 2018	December 31, 2017
Finished goods	$ 2,656	$ 2,577
Work in process and raw material	2,019	1,930
Total inventories, net	$ 4,675	$ 4,507

We recorded $15 million and $4 million during the three months ended June 30, 2018 and 2017, respectively, and $76 million and $19 million during the six months ended June 30, 2018 and 2017, respectively, of inventory impairments as a result of certain restructuring activities initiated by the Company. Charges for inventory impairments are reported in the "Cost of goods sold" caption of the condensed consolidated and combined statements of income (loss).

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

The changes in the carrying value of goodwill are detailed below by segment:

	Oilfield Services	Oilfield Equipment	Turbo-machinery & Process Solutions	Digital Solutions	Total
Balance at December 31, 2016, gross	$ 2,779	$ 3,852	$ 1,814	$ 1,989	$ 10,434
Accumulated impairment at December 31, 2016	(2,633)	(867)	—	(254)	(3,754)
Balance at December 31, 2016	146	2,985	1,814	1,735	6,680
Acquisition (1)	13,052	—	—	—	13,052
Currency exchange and others	7	49	92	47	195
Balance at December 31, 2017	13,205	3,034	1,906	1,782	19,927
Purchase accounting adjustments (1)	(154)	242	394	429	911
Currency exchange and others	(16)	(36)	(23)	(5)	(80)
Balance at June 30, 2018	$ 13,035	$ 3,240	$ 2,277	$ 2,206	$ 20,758

(1) Includes goodwill associated with the acquisition of Baker Hughes. The final determination of fair value of the assets and liabilities and the related goodwill associated with the acquisition of Baker Hughes was concluded in the second quarter of 2018. Of the total goodwill of $13,963 million resulting from the acquisition of Baker Hughes, $12,898 million is allocated to our Oilfield Services segment and the remainder to our other segments based on the expected benefit from the synergies of the acquisition.

In addition to our annual impairment testing on July 1 each year, we also test goodwill for impairment between annual impairment testing dates whenever events or circumstances occur that, in our judgment, could more likely than not reduce the fair value of one or more reporting units below its carrying amount. In assessing the possibility that a reporting unit's fair value has been reduced below its carrying amount due to the occurrence of events or circumstances between annual impairment testing dates, we consider all available evidence, including (but not limited to) (i) the results of our impairment testing at the prior annual impairment testing date (in particular, the magnitude of the excess of fair value over carrying value observed), (ii) downward revisions to internal forecasts (and the magnitude thereof), if any, and (iii) declines in our market capitalization below our book value (and the magnitude and duration of those declines), if any.

Since the merger with Baker Hughes, our Oilfield Equipment (OFE) reporting unit has had consecutive quarters of operating losses, which prompted the Company to evaluate whether circumstances had changed that would more likely than not reduce the fair value of the reporting unit below its carrying amount. While conducting this evaluation, the Company considered macroeconomic and industry conditions, overall financial performance of the reporting unit and preliminary long-term forecasts, among other factors, all of which require considerable judgment. After considering the totality of the events and circumstances, the Company concluded that an interim impairment test was not required. The Company will perform its annual goodwill impairment test during the third quarter of 2018 and there can be no assurance that the estimates and assumptions made for purposes of this qualitative evaluation will prove to be an accurate prediction of future results. Factors that could impact the final determination of fair value in connection with the completion of the annual goodwill impairment process include a sustained decline in market capitalization, changes in the estimated fair values of OFE’s assets and liabilities, changes in projected future earnings and net cash flows, changes in market related multiples, and changes in valuation related assumptions such as discount rates and perpetual growth rates.

As of June 30, 2018, we believe that the goodwill is recoverable for all four reporting units, however, there can be no assurances that the goodwill will not be impaired in future periods.

OTHER INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology	$ 1,102	$ (496)	$ 606	$ 1,177	$ (440)	$ 737
Customer relationships	3,169	(899)	2,270	3,202	(819)	2,383
Capitalized software	1,114	(762)	352	1,130	(697)	433
Trade names and trademarks	726	(223)	503	757	(159)	598
Other	14	(1)	13	10	—	10
Finite-lived intangible assets	6,125	(2,381)	3,744	6,276	(2,115)	4,161
Indefinite-lived intangible assets [(1)]	2,229	—	2,229	2,197	—	2,197
Total intangible assets	$ 8,354	$ (2,381)	$ 5,973	$ 8,473	$ (2,115)	$ 6,358

(1) Indefinite-lived intangible assets are principally comprised of the Baker Hughes trade name.

Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 1 to 30 years. Amortization expense for the three months ended June 30, 2018 and 2017 was $101 million and $86 million, respectively, and $240 million and $149 million, respectively, for the six months ended June 30, 2018 and 2017. During the six months ended June 30, 2018, we incurred additional amortization expense of $68 million due to the acquisition of Baker Hughes. In addition, we incurred $32 million and $69 million of accelerated amortization during the three and six months ended June 30, 2018 related to trade names and technology that we ceased to use during the second quarter of 2018 as a result of the combination of Baker Hughes and GE O&G.

Estimated amortization expense for the remainder of 2018 and each of the subsequent five fiscal years is expected to be as follows:

Year	Estimated Amortization Expense
Remainder of 2018	$ 185
2019	367
2020	331
2021	283
2022	247
2023	226

NOTE 7. CONTRACT AND OTHER DEFERRED ASSETS

A majority of our long-term product service agreements relate to our Turbomachinery & Process Solutions segment. Contract assets reflect revenue earned in excess of billings on our long-term contracts to construct technically complex equipment, long-term product maintenance or extended warranty arrangements and other deferred contract related costs. Contract assets are comprised of the following:

	June 30, 2018	December 31, 2017
Long-term product service agreements	$ 593	$ 589
Long-term equipment contract revenue [(1)]	1,059	1,095
Contract assets (total revenue in excess of billings) [(2)]	1,652	1,684
Deferred inventory costs [(3)]	245	360
Non-recurring engineering costs	14	—
Contract and other deferred assets	$ 1,911	$ 2,044

(1) Reflects revenue earned in excess of billings on our long-term contracts to construct technically complex equipment.

(2) Contract assets (total revenue in excess of billings) were $1,233 million as of January 1, 2017.

(3) Deferred inventory costs were $276 million as of January 1, 2017, which represents cost deferral for shipped goods and other costs where the criteria for revenue recognition has not yet been met.

Revenue recognized during the three months ended June 30, 2018 and 2017 from performance obligations satisfied (or partially satisfied) in previous periods related to our long-term service agreements was $12 million and $10 million, respectively, and $22 million and $40 million during the six months ended June 30, 2018 and 2017, respectively. This includes revenue recognized from revisions to cost or billing estimates that may affect a contract’s total estimated profitability resulting in an adjustment of earnings.

NOTE 8. PROGRESS COLLECTIONS AND DEFERRED INCOME

Contract liabilities include progress collections, which reflects billings in excess of revenue, and deferred income on our long-term contracts to construct technically complex equipment, long-term product maintenance or extended warranty arrangements. Contract liabilities are comprised of the following:

	June 30, 2018	December 31, 2017
Progress collections	$ 1,466	$ 1,456
Deferred income	164	319
Progress collections and deferred income (contract liabilities) [(1)]	$ 1,630	$ 1,775

(1) Progress collections and deferred income (contract liabilities) were $2,038 million at January 1, 2017.

Revenue recognized during the three months ended June 30, 2018 and 2017 that was included in the contract liabilities at the beginning of the period was $404 million and $506 million, respectively, and $1,006 million and $1,035 million, respectively, during the six months ended June 30, 2018 and 2017.

NOTE 9. BORROWINGS

Short-term and long-term borrowings are comprised of the following:

	June 30, 2018	December 31, 2017
Short-term borrowings		
Short-term bank borrowings	$ 55	$ 171
Current portion of long-term borrowings	—	639
Short-term borrowings from GE	939	1,124
Other borrowings	73	103
Total short-term borrowings	$ 1,067	$ 2,037
Long-term borrowings		
3.2% Senior Notes due August 2021	$ 525	$ 526
2.773% Senior Notes due December 2022	1,244	1,244
8.55% Debentures due June 2024	133	135
3.337% Senior Notes due December 2027	1,342	1,342
6.875% Notes due January 2029	302	308
5.125% Notes due September 2040	1,309	1,311
4.08% Senior Notes due December 2047	1,336	1,337
Capital leases	111	87
Other long-term borrowings	17	22
Total long-term borrowings	6,319	6,312
Total borrowings	$ 7,386	$ 8,349

BHGE LLC has a five-year $3 billion committed unsecured revolving credit facility (the 2017 Credit Agreement) with commercial banks maturing in July 2022. The 2017 Credit Agreement contains certain customary representations and warranties, certain affirmative covenants and no negative covenants. Upon the occurrence of certain events of default, our obligations under the 2017 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2017 Credit Agreement, and other customary defaults. No such events of default have occurred. During the six months ended June 30, 2018, there were no borrowings under the 2017 Credit Agreement.

BHGE LLC has a commercial paper program under which it may issue from time to time up to $3 billion in commercial paper with maturities of no more than 397 days. At June 30, 2018, we had no borrowings outstanding under the commercial paper program. The maximum combined borrowing at any time under both the 2017 Credit Agreement and the commercial paper program is $3 billion.

Concurrent with the Transactions associated with the acquisition of Baker Hughes on July 3, 2017, Baker Hughes Co-Obligor, Inc. became a co-obligor, jointly and severally with BHGE LLC, on our registered debt securities. This co-obligor is a 100%-owned finance subsidiary of BHGE LLC that was incorporated for the sole purpose of serving as a co-obligor of debt securities and has no assets or operations other than those related to its sole purpose. Baker Hughes Co-Obligor, Inc. is also a co-obligor of the $3,950 million senior notes issued in December 2017 by BHGE LLC in a private placement and subsequently registered in January 2018.

The estimated fair value of total borrowings at June 30, 2018 and December 31, 2017 was $7,061 million and $8,466 million, respectively. For a majority of our borrowings the fair value was determined using quoted period-end market prices. Where market prices are not available, we estimate fair values based on valuation methodologies using current market interest rate data adjusted for our non-performance risk.

See "Note 16. Related Party Transactions" for additional information on the short-term borrowings from GE.

NOTE 10. EMPLOYEE BENEFIT PLANS

Certain of our U.S. employees are covered under various U.S. GE employee benefit plans, including GE's retirement plans (pension, retiree health and life insurance, and savings benefit plans). In addition, certain United Kingdom (UK) employees participate in the GE UK Pension Plan. We are allocated relevant participation costs for these GE employee benefit plans as part of multi-employer plans. As such, we have not recorded any liabilities associated with our participation in these plans. Expenses associated with our participation in these plans was $43 million and $45 million in the three months ended June 30, 2018 and 2017, respectively, and $80 million and $71 million in the six months ended June 30, 2018 and 2017, respectively.

In addition to these GE plans, certain of our employees are also covered by company sponsored employee defined benefit plans. These defined benefit plans include seven U.S. plans and six non-U.S. plans, primarily in the UK, Germany, and Canada, all with plan assets or obligations greater than $20 million. We use a December 31 measurement date for these plans. These defined benefit plans generally provide benefits to employees based on formulas recognizing length of service and earnings.

The components of net periodic cost (benefit) of plans sponsored by us are as follows for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost	$ 5	$ 5	$ 10	$ 8
Interest cost	18	7	36	14
Expected return on plan assets	(30)	(10)	(60)	(20)
Amortization of net actuarial loss	2	2	4	5
Net periodic cost (benefit)	$ (5)	$ 4	$ (10)	$ 7

The service cost component of the net periodic cost (benefit) is included in operating income (loss) and all other components are included in non operating income (loss) in our condensed consolidated and combined statements of income (loss).

NOTE 11. INCOME TAXES

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (U.S. tax reform). In 2017, the impact of U.S. tax reform was recorded on a provisional basis as the legislation provides for additional guidance to be issued by the U.S. Department of the Treasury on several provisions including the computation of the transition tax which could impact the calculation of the transition tax charge and the revaluation of deferred taxes. In addition, analysis performed and conclusions reached as part of the tax return filing process and additional guidance on accounting for tax reform could affect the provisional amount.

Additionally, as part of U.S. tax reform, the U.S. has enacted a tax on "base eroding" payments from the U.S. (i.e. Base Erosion Anti-Abuse Tax (“BEAT”)) and a minimum tax on foreign earnings (global intangible low-taxed income). Due to the fact certain aspects of the new law and the effect on our operations are uncertain and the accounting rules associated with this provision have not been resolved, we did not make a provisional accrual for the deferred tax aspects of this provision and have not yet made an accounting policy election on the deferred tax treatment of this tax.

For the quarter ended June 30, 2018, income tax expense was $62 million compared to a tax benefit of $10 million for the prior year quarter. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate is primarily due to $46 million related to losses with no tax benefit due to valuation allowances and $10 million of withholding taxes in certain jurisdictions. The prior year quarter reflects 100% of the taxes associated with U.S. and non-U.S. earnings of the GE O&G business.

For the six months ended June 30, 2018, income tax benefit was $24 million compared to a tax benefit of $2 million for the six months ended June 30, 2017. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate is primarily due to the net tax benefit of $124 million related to U.S. tax reform, partially offset by $96 million related to losses with no tax benefit due to valuation allowances and $17 million of withholding taxes in certain jurisdictions. The prior year period reflects 100% of the taxes associated with U.S. and non-U.S. earnings of the GE O&G business.

NOTE 12. EQUITY

COMMON STOCK

We are authorized to issue 2 billion shares of Class A common stock, 1.25 billion shares of Class B common stock and 50 million shares of preferred stock each of which have a par value of $0.0001 per share. The number of Class A common stock and Class B common stock shares outstanding as of June 30, 2018 is 412 million and 688 million, respectively. We have not issued any preferred stock. GE owns all the issued and outstanding Class B common stock. Each share of Class A and Class B common stock and the associated membership interest in BHGE LLC form a paired interest. While each share of Class B common stock has equal voting rights to a share of Class A common stock, it has no economic rights, meaning holders of Class B common stock have no right to dividends or any assets in the event of liquidation of the Company.

During the quarter, the Company declared and paid a regular dividend of $0.18 per share to holders of record of the Company's Class A common stock.

The following table presents the changes in number of shares outstanding (in thousands):

	Class A Common Stock	Class B Common Stock
Balance at December 31, 2017	422,208	706,985
Issue of shares upon vesting of restricted stock units [1]	374	—
Issue of shares on exercises of stock options[1]	551	—
Stock repurchase program [2] [3]	(11,501)	(19,241)
Balance at June 30, 2018	411,631	687,743

(1) Share amounts reflected above are net of shares withheld to satisfy the employee's tax withholding obligation.

(2) On November 2, 2017, our board of directors authorized BHGE LLC to repurchase up to $3 billion of its common units from the Company and GE. The proceeds of this repurchase are to be used by BHGE to repurchase Class A common stock of the Company on the open market, which if fully implemented would result in the repurchase of approximately $1.1 billion of Class A common stock. The Class B common stock of the Company, paired with common units, will be repurchased by the Company at par value. The $3 billion repurchase authorization is the aggregate authorization for repurchases of Class A common stock and Class B common stock together with its paired common unit. At June 30, 2018, BHGE LLC had authorization remaining to repurchase up to approximately $1.5 billion of its common units from BHGE and GE.

(3) During the three months and six months ended June 30, 2018, we repurchased and canceled 5,210,572 and 11,500,992 shares of Class A common stock for a total of $187 million and $374 million, respectively. We also repurchased and canceled 8,717,287 and 19,241,160 shares of Class B common stock from GE together with the paired common units of BHGE LLC for $313 million and $626 million for the three and six months ended June 30, 2018, respectively.

ACCUMULATED OTHER COMPREHENSIVE LOSS (AOCL)

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

	Investment Securities	Foreign Currency Translation Adjustments	Cash Flow Hedges	Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2017	$ 1	$ (682)	$ 1	$ (23)	$ (703)
Other comprehensive income (loss) before reclassifications	(1)	(224)	1	4	(220)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—	—
Deferred taxes	(1)	—	—	(2)	(3)
Other comprehensive income (loss)	(2)	(224)	1	2	(223)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(1)	(139)	—	1	(139)
Balance at June 30, 2018	$ —	$ (767)	$ 2	$ (22)	$ (787)

	Investment Securities	Foreign Currency Translation Adjustments	Cash Flow Hedges	Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2016	$ —	$ (1,795)	$ (10)	$ (83)	$ (1,888)
Other comprehensive income (loss) before reclassifications	39	(63)	2	(5)	(27)
Amounts reclassified from accumulated other comprehensive income (loss)	(38)	—	9	(2)	(31)
Deferred taxes	—	(10)	(2)	4	(8)
Other comprehensive income (loss)	1	(73)	9	(3)	(66)
Less: Other comprehensive income attributable to noncontrolling interests	1	1	—	1	3
Balance at June 30, 2017	$ —	$ (1,869)	$ (1)	$ (87)	$ (1,957)

The amounts reclassified from accumulated other comprehensive loss during the six months ended June 30, 2018 and 2017 represent realized gains on investment securities, foreign exchange contracts on our cash flow hedges (see "Note 14. Financial Instruments" for additional details) and amortization of net actuarial gain (loss) and prior service credit, which are included in the computation of net periodic pension cost (see "Note 10. Employee Benefit Plans" for additional details). These reclassifications are recorded across the various cost and expense line items within the condensed consolidated and combined statements of income (loss).

NONCONTROLLING INTEREST

Noncontrolling interests represent the portion of net assets in consolidated entities that are not owned by the Company. As of June 30, 2018, GE owned approximately 62.5% of BHGE LLC and this represents the majority of the noncontrolling interest balance reported within equity.

	June 30, 2018	December 31, 2017
GE's interest in BHGE LLC	$ 22,897	$ 23,993
Other noncontrolling interests	109	140
Total noncontrolling interests	$ 23,006	$ 24,133

NOTE 13. EARNINGS PER SHARE

Basic and diluted net income (loss) per share of Class A common stock is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	**2018**	**2017**	**2018**	**2017**
Net income (loss)	$ (38)	$ (20)	$ (57)	$ 46
Less: Net income (loss) attributable to GE O&G pre-merger	—	(26)	—	42
Less: Net income (loss) attributable to noncontrolling interests	(19)	6	(108)	4
Net income (loss) attributable to BHGE	$ (19)	$ —	$ 51	$ —
Weighted average shares outstanding:				
Class A basic	414		417	
Class A diluted	414		419	
Net income (loss) per share attributable to common stockholders:				
Class A basic	$ (0.05)		$ 0.12	
Class A diluted	$ (0.05)		$ 0.12	

The allocation of net income (loss) to holders of shares of Class A common stock began following the close of the Transactions on July 3, 2017. Therefore, earnings attributable to Class A common stock for any period prior to July 3, 2017 will be nil. Please refer to "Note 3. Business Acquisition" for proforma earnings per share.

As of July 3, 2017, GE, BHGE and BHGE LLC entered into an Exchange Agreement under which GE is entitled to exchange its holding in Class B common stock and units of BHGE LLC for Class A common stock on a one-for-one basis (subject to adjustment in accordance with the terms of the Exchange Agreement) or, at the option of BHGE, an amount of cash equal to the aggregate value (determined in accordance with the terms of the Exchange Agreement) of the shares of Class A common stock that would have otherwise been received by GE in the exchange. In computing the dilutive effect, if any, that the aforementioned exchange would have on net income (loss) per share, net income (loss) attributable to holders of Class A common stock would be adjusted due to the elimination of the noncontrolling interests associated with the Class B common stock (including any tax impact). For the three and six months ended June 30, 2018, such exchange is not reflected in diluted net income (loss) per share as the assumed exchange is not dilutive.

Shares of our Class B common stock do not share in earnings or losses of the Company and are not considered in the calculation of basic or diluted earnings per share (EPS). As such, separate presentation of basic and diluted EPS of Class B under the two class method has not been presented.

There were approximately five million options that were excluded from our diluted EPS calculation because their effect is antidilutive. These options were outstanding but excluded from the calculation because the exercise price exceeded the average market price of the Class A common shares.

NOTE 14. FINANCIAL INSTRUMENTS

RECURRING FAIR VALUE MEASUREMENTS

Our assets and liabilities measured at fair value on a recurring basis consists of derivative instruments and investment securities.

	June 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Net Balance	Level 1	Level 2	Level 3	Net Balance
Assets								
Derivatives	$ —	$ 221	$ —	$ 221	$ —	$ 150	$ —	$ 150
Investment securities	66	—	310	376	81	8	304	393
Total assets	66	221	310	597	81	158	304	543
Liabilities								
Derivatives	—	(248)	—	(248)	—	(95)	—	(95)
Total liabilities	$ —	$ (248)	$ —	$ (248)	$ —	$ (95)	$ —	$ (95)

There were no transfers between Level 1, 2 and 3 during the six months ended June 30, 2018.

The following table provides a reconciliation of recurring Level 3 fair value measurements for investment securities:

Balance at December 31, 2017	$ 304
Purchases	36
Proceeds at maturity	(30)
Balance at June 30, 2018	$ 310

The most significant unobservable input used in the valuation of our Level 3 instruments is the discount rate. Discount rates are determined based on inputs that market participants would use when pricing investments, including credit and liquidity risk. An increase in the discount rate would result in a decrease in the fair value of our investment securities. There are no unrealized gains or losses recognized in the condensed consolidated and combined statement of income (loss) on account of any Level 3 instrument still held at the reporting date. At June 30, 2018 and December 31, 2017, we held $156 million and $127 million, respectively, of these investment securities on behalf of GE.

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities								
Non-U.S. debt securities	$ 309	$ 1	$ —	$ 310	$ 310	$ 2	$ —	$ 312
Equity securities	66	—	—	66	81	—	—	81
Total	$ 375	$ 1	$ —	$ 376	$ 391	$ 2	$ —	$ 393

All of our non-U.S. debt securities are classified as available for sale instruments and mature within three years.

FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

Our financial instruments include cash, cash equivalents and restricted cash, current receivables, investments, accounts payable, short and long-term debt, and derivative financial instruments. Except for long-term debt, the estimated fair value of these financial instruments at June 30, 2018 and December 31, 2017 approximates their carrying value as reflected in our condensed consolidated and combined financial statements. For further information on the fair value of our debt, see "Note 9. Borrowings."

DERIVATIVES AND HEDGING

We use derivatives to manage our risks and do not use derivatives for speculation.

The table below summarizes the fair value of all derivatives, including hedging instruments and embedded derivatives.

	June 30, 2018		December 31, 2017	
	Assets	(Liabilities)	Assets	(Liabilities)
Derivatives accounted for as hedges				
Currency exchange contracts	$ 2	$ (1)	$ 6	$ —
Derivatives not accounted for as hedges				
Currency exchange contracts	219	(247)	144	(95)
Total derivatives	$ 221	$ (248)	$ 150	$ (95)

Derivatives are classified in the captions "All other current assets," "All other assets," "All other current liabilities," and "All other liabilities" depending on their respective maturity date.

RISK MANAGEMENT STRATEGY

We buy, manufacture and sell components and products as well as provide services across global markets. These activities expose us to changes in foreign currency exchange rates and commodity prices, which can adversely affect revenues earned and costs of operating our business. When the currency in which we sell equipment differs from the primary currency (known as its functional currency) and the exchange rate fluctuates, it will affect the revenue we earn on the sale. These sales and purchase transactions also create receivables and payables denominated in foreign currencies, along with other monetary assets and liabilities, which expose us to foreign currency gains and losses based on changes in exchange rates. Changes in the price of a raw material that we use in manufacturing can affect the cost of manufacturing. We use derivatives to mitigate or eliminate these exposures.

FORMS OF HEDGING

Cash Flow Hedges

We use cash flow hedging primarily to reduce or eliminate the effects of foreign exchange rate changes on purchase and sale contracts. Accordingly, the vast majority of our derivative activity in this category consists of currency exchange contracts. We also use commodity derivatives to reduce or eliminate price risk on raw materials purchased for use in manufacturing.

Economic Hedges

These derivatives are not designated as hedges from an accounting standpoint (and therefore we do not apply hedge accounting to the relationship) but otherwise serve the same economic purpose as other hedging arrangements. Some economic hedges are used when changes in the carrying amount of the hedged item are already recorded in earnings in the same period as the derivative, making hedge accounting unnecessary. For some other types of economic hedges, changes in the fair value of the derivative are recorded in earnings currently but changes in the value of the forecasted foreign currency cash flows are only recognized in earnings when they occur. As a result, even though the derivative is an effective economic hedge, there is a net effect on earnings in each period due to differences in the timing of earnings recognition between the derivative and the hedged item. These derivatives are marked to fair value through earnings each period.

NOTIONAL AMOUNT OF DERIVATIVES

The notional amount of a derivative is the number of units of the underlying (for example, the notional principal amount of the debt in an interest rate swap). A substantial majority of the outstanding notional amount of $10.5 billion and $10.2 billion at June 30, 2018 and December 31, 2017, respectively, is related to hedges of anticipated sales and purchases in foreign currency, commodity purchases, and contractual terms in contracts that are considered embedded derivatives and for intercompany borrowings in foreign currencies. We generally disclose derivative notional amounts on a gross basis to indicate the total counterparty risk. Where we have gross purchase and sale derivative contracts for a particular currency, we look to execute these contracts with the same counterparty to reduce our exposure. The corresponding net notional amounts were $2.8 billion and $3.3 billion at June 30, 2018 and December 31, 2017, respectively.

The table below provides additional information about how derivatives are reflected in our condensed consolidated and combined financial statements.

Carrying amount related to derivatives	June 30, 2018	December 31, 2017
Derivative assets	$ 221	$ 150
Derivative liabilities	(248)	(95)
Net derivatives	$ (27)	$ 55

EFFECTS OF DERIVATIVES ON EARNINGS

All derivatives are marked to fair value on our condensed consolidated and combined statement of financial position, whether they are designated in a hedging relationship for accounting purposes or are used as economic hedges. As discussed in the previous sections, each type of hedge affects the financial statements differently. In some economic hedges, both the hedged item and the hedging derivative offset in earnings in the same period. In other economic hedges, the hedged item and the hedging derivative offset in earnings in different periods. In cash flow, the effective portion of the hedging derivative is offset in separate components of equity and ineffectiveness is recognized in earnings. The table below summarizes these offsets and the net effect on pre-tax earnings.

	Three Months Ended June 30,				Six Months Ended June 30,			
	Cash Flow Hedges		Economic Hedges		Cash Flow Hedges		Economic Hedges	
	2018	2017	2018	2017	2018	2017	2018	2017
Effect on hedging instrument	$ (7)	$ 4	$ (10)	$ 9	$ 1	$ 2	$ 7	$ 1
Effect on underlying	7	(4)	(9)	(9)	(1)	(2)	(24)	—
Effect on earnings [(1)]	$ —	$ —	$ (19)	$ —	$ —	$ —	$ (17)	$ 1

(1) For cash flow hedges, the effect on earnings, if any, is primarily related to ineffectiveness. For economic hedges on forecasted transactions, the effect on earnings is substantially offset by future earnings on economically hedged items.

Changes in the fair value of cash flow hedges are recorded in a separate component of equity (referred to below as Accumulated Other Comprehensive Income, or AOCI) and are recorded in earnings in the period in which the hedged transaction occurs. The table below summarizes this activity by hedging instrument.

	Three Months Ended June 30,				Six Months Ended June 30,			
	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI to Earnings		Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI to Earnings	
	2018	2017	2018	2017	2018	2017	2018	2017
Currency exchange contracts	$ (7)	$ 4	$ —	$ (2)	$ 1	$ 2	$ —	$ (8)

We expect to transfer $2 million to earnings as an expense in the next 12 months contemporaneously with the earnings effects of the related forecast transactions. At June 30, 2018 and December 31, 2017, the maximum term of derivative instruments that hedge forecast transactions was two-years and three-years, respectively. See "Note 12. Equity" for additional information about reclassification out of accumulated other comprehensive income.

For cash flow hedges, the amount of ineffectiveness in the hedging relationship and amount of the changes in fair value of the derivatives that are not included in the measurement of ineffectiveness were insignificant for each reporting period.

COUNTERPARTY CREDIT RISK

Fair values of our derivatives can change significantly from period to period based on, among other factors, market movements and changes in our positions. We manage counterparty credit risk (the risk that counterparties will default and not make payments to us according to the terms of our agreements) on an individual counterparty basis.

NOTE 15. SEGMENT INFORMATION

Our operating segments are organized based on the nature of markets and customers. We report our operating results through four operating segments as described below.

OILFIELD SERVICES

Oilfield Services provides products and services for onshore and offshore operations across the lifecycle of a well, ranging from drilling, evaluation, completion, production and intervention. Products and services include diamond and tri-cone drill bits, drilling services, including directional drilling technology, measurement while drilling & logging while drilling, downhole completion tools and systems, wellbore intervention tools and services, wireline services, drilling and completions fluids, oilfield and industrial chemicals, pressure pumping, and artificial lift technologies, including electrical submersible pumps.

OILFIELD EQUIPMENT

Oilfield Equipment provides a broad portfolio of products and services required to facilitate the safe and reliable flow of hydrocarbons from the subsea wellhead to the surface. Products and services include pressure control equipment and services, subsea production systems and services, drilling equipment, and flexible pipeline systems. Oilfield Equipment designs and manufactures onshore and offshore drilling and production systems and equipment for floating production platforms and provides a full range of services related to onshore and offshore drilling activities.

TURBOMACHINERY & PROCESS SOLUTIONS

Turbomachinery & Process Solutions provides equipment and related services for mechanical-drive, compression and power-generation applications across the oil and gas industry as well as products and services to serve the downstream segments of the industry including refining, petrochemical, distributed gas, flow and process control and other industrial applications. The Turbomachinery & Process Solutions portfolio includes drivers (aero-derivative gas turbines, heavy-duty gas turbines and synchronous and induction electric motors), compressors (centrifugal and axial, direct drive high speed, integrated, subsea compressors, turbo expanders and reciprocating), turn-key solutions (industrial modules and waste heat recovery), pumps, valves, and compressed natural gas (CNG) and small-scale liquefied natural gas (LNG) solutions used primarily for shale oil and gas field development.

DIGITAL SOLUTIONS

Digital Solutions provides equipment and services for a wide range of industries, including oil & gas, power generation, aerospace, metals, and transportation. The offerings include sensor-based measurement, non-destructive testing and inspection, turbine, generator and plant controls and condition monitoring, as well as pipeline integrity solutions.

SEGMENT RESULTS

Summarized financial information is shown in the following tables. Consistent accounting policies have been applied by all segments within the Company, for all reporting periods. The current period results may not be comparable to prior periods as the current period includes the results of Baker Hughes.

	Three Months Ended June 30,		Six Months Ended June 30,	
Segments revenue	**2018**	**2017**	**2018**	**2017**
Oilfield Services	$ 2,884	$ 228	$ 5,562	$ 440
Oilfield Equipment	617	681	1,281	1,397
Turbomachinery & Process Solutions	1,385	1,586	2,845	3,230
Digital Solutions	662	520	1,260	1,011
Total	$ 5,548	$ 3,015	$ 10,947	$ 6,079

The performance of our operating segments is evaluated based on segment operating income (loss), which is defined as income (loss) before income taxes and equity in loss of affiliate and before the following: net interest expense, net other non operating income (loss), corporate expenses, restructuring, impairment and other charges, inventory impairments, merger and related costs and certain gains and losses not allocated to the operating segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
Segment income (loss) before income taxes	**2018**	**2017**	**2018**	**2017**
Oilfield Services	$ 189	$ (66)	$ 330	$ (123)
Oilfield Equipment	(12)	17	(18)	67
Turbomachinery & Process Solutions	113	122	232	374
Digital Solutions	96	79	169	163
Total segment	387	152	714	481
Corporate	(98)	(70)	(196)	(190)
Inventory impairment (1)	(15)	(4)	(76)	(19)
Restructuring, impairment and other	(146)	(59)	(308)	(101)
Merger and related costs	(50)	(85)	(96)	(151)
Other non operating income, net	43	50	45	58
Interest expense, net	(63)	(14)	(109)	(34)
Total	$ 58	$ (30)	$ (27)	$ 44

(1) Charges for inventory impairments are reported in the "Cost of goods sold" caption of the condensed consolidated and combined statements of income (loss).

NOTE 16. RELATED PARTY TRANSACTIONS

Following the Transactions, GE and its affiliates have provided and continue to provide a variety of services to us.

In connection with the Transactions on July 3, 2017, we entered into various agreements with GE and its affiliates that govern our relationship with GE following the Transactions including an Intercompany Services Agreement pursuant to which GE and its affiliates and the Company provide certain services to each other. GE provides certain administrative services, GE proprietary technology and use of certain GE trademarks in consideration for a payment of $55 million per year. Costs of $14 million and $28 million, respectively, related to the Intercompany Services Agreement were incurred during the three and six months ended June 30, 2018. GE may also provide us with certain additional administrative services under the Intercompany Services Agreement, not included as consideration for the $55 million per year payment, and the fees for such services are based on actual usage of such services and historical GE intercompany pricing. In addition, we provide GE and its affiliates with confidential access to certain of our proprietary technology and related developments and enhancements thereto related to GE's operations, products or service offerings.

Prior to the Transactions, GE and its affiliates provided a variety of services and funding to us. The cost of these services was either (a) recognized through our allocated portion of GE's corporate overhead; or (b) billed directly to us. Costs of $38 million and $76 million for the three and six months ended June 30, 2017 were recorded in our condensed consolidated and combined statement of income (loss) in respect of services provided by GE and its affiliates prior to the close of the Transactions.

We sold $84 million and $225 million of products and services to GE and its affiliates during the three months ended June 30, 2018 and 2017 respectively, and $184 million and $374 million, during the six months ended June 30, 2018 and 2017, respectively. Purchases from GE and its affiliates were $523 million and $335 million during the three months ended June 30, 2018 and 2017, respectively, and $926 million and $681 million during the six months ended June 30, 2018 and 2017, respectively.

EMPLOYEE BENEFITS

Certain of our employees are covered under various GE sponsored employee benefit plans, including GE's retirement plans (pension, retiree health and life insurance, and savings benefit plans) and active health and life insurance benefit plans. Further details are provided in "Note 10. Employee Benefit Plans."

RELATED PARTY BALANCES

In connection with the Transactions, we were required to repay any cash in excess of $100 million, net of any third-party debt in GE O&G, to GE. We continue to hold this cash on behalf of GE as such cash cannot be released, transferred or otherwise converted into a non-restricted market currency due to the lack of market liquidity, capital controls or similar monetary or exchange limitations by a Government entity of the jurisdiction in which such cash is situated. Accordingly, on July 3, 2017, we executed a promissory note with GE. There is no maturity date on the promissory note, but we remain obligated to repay GE such excess cash together with any income or loss we may incur on it, therefore, this obligation is reflected as short-term borrowings. As of June 30, 2018, of the amount due to GE of $939 million, $783 million was held in the form of cash and $156 million was held in the form of investment securities. A corresponding liability is reported in short-term borrowings in the condensed consolidated and combined statements of financial position.

Additionally, the Company has $583 million and $575 million of accounts payable at June 30, 2018 and December 31, 2017, respectively, for services provided by GE in the ordinary course of business.

TRADE PAYABLES ACCELERATED PAYMENT PROGRAM

Our North American operations participate in accounts payable programs with GE Capital. Invoices are settled with vendors per our payment terms to obtain cash discounts. GE Capital provides funding for the period from the date at which an invoice is eligible for a cash discount through the final termination date for invoice settlement. Our liability associated with the funded participation in the accounts payable programs, which is presented as accounts payable within the condensed consolidated and combined statements of financial position, was $417 million and $293 million as of June 30, 2018 and December 31, 2017, respectively.

PARENT'S NET INVESTMENT

At June 30, 2017, the remainder of GE's total investment, in excess of our debt from GE, is reflected as equity under the caption "Parent's net investment" in our condensed consolidated and combined statements of changes in equity. At June 30, 2018, GE's equity ownership is reflected in noncontrolling interest in our condensed consolidated and combined statements of changes in equity and financial position.

OTHER

Prior to the Transactions, GE provided guarantees, letters of credit, and other support arrangements on our behalf. We provide guarantees to GE Capital on behalf of some customers who have entered into financing arrangements with GE Capital.

INCOME TAXES

At closing, BHGE, GE and BHGE LLC entered into a Tax Matters Agreement. The Tax Matters Agreement governs the administration and allocation between the parties of tax liabilities and benefits arising prior to, as a result of, and subsequent to the Transactions, including certain restructuring transactions in connection therewith, and the respective rights, responsibilities and obligations of GE and BHGE, with respect to various other tax matters. GE is responsible for certain taxes related to the formation of the transaction undertaken by GE and Baker Hughes and their respective subsidiaries. GE has assumed approximately $33 million of tax obligations of Baker Hughes related to the formation of the transaction.

Following the closing of the Transactions, BHGE or BHGE LLC (or their respective subsidiaries) may be included in group tax returns with GE. To the extent included in such group tax returns, (i) BHGE or BHGE LLC is required to make tax sharing payments to GE in an amount intended to approximate the amount that such entity would have paid if it had not been included in such group tax returns and had filed separate tax returns, and (ii) GE is required to pay BHGE or BHGE LLC to the extent such separate tax returns include net operating losses that are used to reduce taxes payable by GE with respect to the applicable group tax return.

The Tax Matters Agreement also provides for the sharing of certain tax benefits (i) arising from the Transactions, including restructuring transactions, and (ii) resulting from allocations of tax items by BHGE LLC. GE is entitled to 100% of these tax benefits to the extent that GE has borne certain taxes related to the formation of the transaction. Thereafter, these tax benefits will be shared by GE and BHGE in accordance with their economic ownership of BHGE LLC, which will initially be approximately 62.5% and approximately 37.5%, respectively. The sharing of tax benefits generally is expected to result in cash payments by BHGE LLC to its members. Any such cash payments may be subject to adjustment based on certain subsequent events, including tax audits or other determinations as to the availability of the tax benefits with respect to which such cash payments were previously made.

NOTE 17. 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 currently pending lawsuits or claims against us, other than those discussed below, 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.

With respect to the litigation matters below, if there was an adverse outcome individually or collectively, there could be a material impact on our business, financial condition and results of operations expected for the year. These litigation matters are subject to inherent uncertainties and management's view of these matters may change in the future. Therefore, there can be no assurance as to the ultimate outcome of these matters.

During 2014, we received notification from a customer related to a possible equipment failure in a natural gas storage system in Northern Germany, which includes certain of our products. The customer initiated arbitral proceedings against us on June 19, 2015, under the rules of the German Institute of Arbitration e.V. (DIS). On August 3, 2016, the customer amended its claims and alleged damages of €202 million plus interest at an annual rate of prime + 5%. Hearings before the arbitration panel were held January 16, 2017 through January 23, 2017, and March 20, 2017 through March 21, 2017. In addition, on September 21, 2015, TRIUVA Kapitalverwaltungsgesellschaft mbH filed a lawsuit in the United States District Court for the Southern District of Texas, Houston Division against the Company and Baker Hughes Oilfield Operations, Inc. alleging that the plaintiff is the owner of gas storage caverns in Etzel, Germany in which the Company provided certain equipment in connection with the development of the gas storage caverns. The plaintiff further alleges that the Company supplied equipment that was either defectively designed or failed to warn of risks that the equipment posed, and that these alleged defects caused damage to the plaintiff's property. The plaintiff seeks recovery of alleged compensatory and punitive damages of an unspecified amount, in addition to reasonable attorneys' fees, court costs and pre-judgment and post-judgment interest. The allegations in this lawsuit are related to the claims made in the June 19, 2015 German arbitration referenced above. On June 7, 2018, the DIS arbitration panel issued a confidential Arbitration Ruling which addressed all claims asserted by the customer. The financial impact of the Arbitration Ruling is not expected to have a material impact on the Company’s financial statements. The Company is vigorously contesting the claims made by TRIUVA in the Houston Federal Court. At this time, we are not able to predict the outcome of the claims asserted in the Houston Federal Court.

On July 31, 2015, Rapid Completions LLC filed a lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc., and others claiming infringement of U.S. Patent Nos. 6,907,936; 7,134,505; 7,543,634; 7,861,774; and 8,657,009. On August 6, 2015, Rapid Completions amended its complaint to allege infringement of U.S. Patent No. 9,074,451. On September 17, 2015, Rapid Completions and Packers Plus Energy Services Inc. sued Baker Hughes Canada Company in the Canada Federal Court on the related Canadian patent 2,412,072. On April 1, 2016, Rapid Completions removed U.S. Patent No. 6,907,936 from its claims in the lawsuit. On April 5, 2016, Rapid Completions filed a second lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc. and others claiming infringement of U.S. Patent No. 9,303,501. These patents relate primarily to certain specific downhole completions equipment. The plaintiff has requested a permanent injunction against further alleged infringement, damages in an unspecified amount, supplemental and enhanced damages, and additional relief such as attorney's fees and costs. During August and September 2016, the United States Patent and Trademark Office (USPTO) agreed to institute an inter-partes review of U.S. Patent Nos 7,861,774; 7,134,505; 7,543,634; 6,907,936; 8,657,009; and 9,074,451. On August 29, 2017, the USPTO issued its final written decisions in the inter-partes reviews of U.S. Patent Nos. 8,657,009 and 9,074,451 finding that all claims of those patents were unpatentable. On August 31, 2017, the USPTO issued its final written decision in the inter-partes review of U.S. Patent 6,907,936 - the patent dropped from the lawsuit by the plaintiffs - finding that all claims of this patent were patentable. On October 27, 2017, Rapid Completions filed its notices of appeal of the USPTO’s final written decision in the inter-partes review of U.S. Patent Nos. 8,657,009 and 9,074,451. Trial on the validity of asserted claims from Canada patent 2,412,072, was completed March 9, 2017. On December 7, 2017, the Canadian Court issued its judgment finding the patent claims asserted from Canada patent 2,412,072 against Baker Hughes Canada Company were invalid. On January 5, 2018, Rapid Completions filed its Notice of Appeal of the Canadian Court’s judgment of invalidity. At this time, we are not able to predict the outcome of these claims.

Following consummation of the Transactions, two purported holders of shares of Baker Hughes common stock, representing a total of 1,875,000 shares of common stock of Baker Hughes, filed petitions in the Court of Chancery of the State of Delaware seeking appraisal for their shares pursuant to Section 262 of the Delaware General Corporation Law. The action is captioned as follows: *GKC Strategic Value Master Fund, LP F/K/A GKC Appraisal Rights Master Fund, LP and Walleye Trading LLC v. Baker Hughes Incorporated*, Case No. 2017-0769. On July 12, 2018, the parties entered a Confidential Settlement Agreement and Release of all claims asserted by the two shareholders. The Settlement Agreement does not have a material impact on the Company's financial statements.

On February 17, 2017, GE Infrastructure Sensing, Inc. (now known as GE Infrastructure Sensing, LLC) (GEIS), a subsidiary of the Company, was served with a lawsuit filed in the Eastern District of New York by a company named Saniteq LLC claiming compensatory damages totaling $500 million plus punitive damages of an unspecified amount. The complaint is captioned *Saniteq LLC v. GE Infrastructure Sensing, Inc*., No. 17-cv-771 (E.D.N.Y 2017). The complaint generally alleges that GEIS breached a contract being negotiated between the parties and misappropriated unspecified trade secrets. At this time, we are not able to predict the outcome of these claims.

In January 2013, INEOS and Naphtachimie initiated expertise proceedings in Aix-en-Provence, France arising out of a fire at a chemical plant owned by INEOS in Lavera, France, which resulted in a 15-day plant shutdown and destruction of a steam turbine, which was part of a compressor train owned by Naphtachimie. The most recent quantification of the alleged damages is €250 million. Two of the Company's subsidiaries (and 17 other companies) were notified to participate in the proceedings. The proceedings are ongoing, and at this time, there is no indication that the Company's subsidiaries were involved in the incident. Although the outcome of the claims remains uncertain, BHGE's insurer has accepted coverage and is defending the Company in the expertise proceeding.

In late November 2017, staff of the Boston office of the SEC notified GE that they are conducting an investigation of GE’s revenue recognition practices and internal controls over financial reporting related to long-term service agreements. The scope of the SEC’s request may include some BHGE contracts, expected to be mainly in our TPS business. We have provided documents to GE and are cooperating with them in their response to the SEC. At this time, we are not able to predict the outcome of this review.

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. 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.

PRODUCT WARRANTIES

We provide for estimated product warranty expenses when we sell the related products. Because warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, claims costs may differ from amounts provided. An analysis of changes in the liability for product warranties are as follows:

	2018	2017
Balance at December 31, 2017, and 2016, respectively	$ 164	$ 74
Provisions	18	18
Expenditures	(15)	(26)
Other [1]	119	1
Balance at June 30, 2018, and 2017, respectively	$ 286	$ 67

[1] Primarily related to the acquisition of Baker Hughes.

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 $3.4 billion at June 30, 2018. 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 18. RESTRUCTURING, IMPAIRMENT AND OTHER

We recorded restructuring, impairment and other charges of $146 million and $59 million during the three months ended June 30, 2018 and 2017, respectively, and $308 million and $101 million during the six months ended June 30, 2018 and 2017. Details of these charges are discussed below.

RESTRUCTURING AND IMPAIRMENT CHARGES

In the current and prior periods, we approved various restructuring plans globally, mainly to consolidate manufacturing and service facilities, rationalize product lines and rooftops, and reduce headcount across various functions. As a result, we recognized a charge of $68 million and $38 million for the three months ended June 30, 2018 and 2017, respectively, and $193 million and $73 million for the six months ended June 30, 2018 and 2017, respectively. These restructuring initiatives will generate charges post June 30, 2018, and the related estimated remaining charges are approximately $151 million.

The amount of costs not included in the reported segment results is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Oilfield Services	$ 40	$ 11	$ 99	$ 23
Oilfield Equipment	6	9	18	10
Turbomachinery & Process Solutions	11	12	39	22
Digital Solutions	7	4	16	14
Corporate	4	2	21	4
Total	$ 68	$ 38	$ 193	$ 73

These costs were primarily related to product line terminations, plant closures and related expenses such as property, plant and equipment impairments, contract terminations and costs of assets' and employees' relocation, employee-related termination benefits, and other incremental costs that were a direct result of the restructuring plans.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Property, plant & equipment, net	$ 18	$ 2	$ 37	$ 12
Employee-related termination expenses	16	24	99	39
Asset relocation costs	8	2	13	5
Environmental remediation costs	—	4	3	7
Contract termination fees	21	4	28	5
Other incremental costs	5	2	13	5
Total	$ 68	$ 38	$ 193	$ 73

OTHER CHARGES

Other charges included in "Restructuring, impairment and other" of the condensed consolidated and combined statements of income (loss) were $78 million and $21 million in the three months ended June 30, 2018 and 2017, respectively, and $115 million and $28 million in the six months ended June 30, 2018 and 2017, respectively. Other charges comprised of accelerated amortization of $32 million and $69 million for the three and six months ended June 30, 2018, respectively, related to trade names and technology in our Oilfield Services segment that we ceased to use at the end of the second quarter of 2018 as a result of the combination of Baker Hughes and GE O&G. During the three and six months ended June 30, 2018, other charges also includes $25 million related to litigation matters recorded at Corporate and costs of $12 million to exit certain operations that impacted our TPS and OFS segments. During the three and six months ended June 30, 2017, other charges include currency devaluation charges of $6 million and $12 million, respectively, largely driven by significant currency devaluations in Angola and Nigeria.

NOTE 19. SUBSEQUENT EVENTS

On July 18, 2018, the Company announced the agreement to sell its Natural Gas Solution (NGS) business to two separate entities for a combined sales price of $375 million. NGS is part of our TPS segment and provides commercial and industrial products such as gas meters, chemical injection pumps, pipeline repair products and electric actuators. The transactions are expected to close in the second half of 2018, subject to customary closing conditions and appropriate regulatory approvals.

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 condensed consolidated and combined financial statements and the related notes included in Item 1 thereto.

EXECUTIVE SUMMARY

On July 3, 2017, we closed the Transactions to combine GE O&G and Baker Hughes, creating a fullstream oilfield technology provider that has a unique mix of integrated oilfield products, services and digital solutions. The Transactions were executed using a partnership structure, pursuant to which GE O&G and Baker Hughes each contributed their operating assets to a newly formed partnership, BHGE LLC. GE holds an approximate 62.5% controlling interest in this partnership and former Baker Hughes stockholders hold an approximate 37.5% interest through the ownership of 100% of our Class A common stock. The results of operations for the Company include the results of Baker Hughes from July 3, 2017 onward, therefore, the current period results and balances may not be comparable to prior periods. The majority of the Baker Hughes business operations are included in the Oilfield Services segment. We operate through our four business segments: Oilfield Services (OFS), Oilfield Equipment (OFE), Turbomachinery & Processing Solutions (TPS), and Digital Solutions (DS). As of June 30, 2018, BHGE employs approximately 64,000 employees and operates in more than 120 countries.

In the second quarter of 2018, we generated revenue of $5,548 million, compared to $3,015 million for the second quarter of 2017. The increase in revenue was driven by OFS as a result of the acquisition of Baker Hughes, and to a lesser extent, by DS partially offset by declines in our longer cycle businesses, TPS and OFE. Income before income taxes and equity in loss of affiliate was $58 million for the second quarter of 2018, and included restructuring and impairment charges of $146 million and merger and related costs of $50 million. These restructuring and impairment charges were recorded as a result of our continued actions to adjust our operations and cost structure to reflect reduced activity levels. For the second quarter of 2017, loss before income taxes and equity in loss of affiliate was $30 million, which also included restructuring and impairment charges of $59 million, and merger and related costs of $85 million.

In June 2018, GE announced their intention for a full separation from BHGE in an orderly fashion over the next 2 to 3 years.

OUTLOOK

Our business is exposed to a number of different macro factors, which influence our expectations and outlook. All of our outlook expectations are purely based on the market as we see it today, and are subject to changing conditions in the industry.

- North America onshore activity: in the second quarter of 2018, we experienced an increase in the rig count, as compared to the second quarter of 2017. We expect the increased activity in North America to continue to grow in 2018. We remain optimistic about the outlook.

- International onshore activity: we have seen a moderate increase in rig count activity in the second quarter of 2018 and expect this growth to continue for the remainder of the year, at a moderate rate. We have seen signs of improvement with the increase in commodity prices, but due to continued volatility, we remain cautious as to growth expectations.

- Offshore projects: although commodity prices increased in the current quarter, we have yet to see a significant change in customer spending behavior, as a result of continued oil price volatility. We expect the timing of final investment decisions to continue to remain fluid. Subsea tree awards increased in 2017, and we expect tree awards to increase in 2018 and 2019, but still at levels significantly below prior 2012 & 2013 peaks, as customers continue to remain cautious with regards to major capital expenditures for the near term. We expect this growth in offshore projects to positively impact on- and offshore production orders.

- Liquefied Natural Gas (LNG) projects: we believe the market continues to be oversupplied, and will remain in its current state for the next few years. We expect some final investment decisions to move forward in the short term. We do, however, view the long term economics of the LNG industry as positive given our outlook for supply and demand.

- Refinery, petrochemical and industrial projects: in refining, we believe large, complex refineries should gain advantage in a more competitive, oversupplied landscape in 2018 as the industry globalizes and refiners position to meet local demand and secure export potential. In petrochemicals, we continue to see healthy demand and cost-advantaged supply driving projects forward in 2018. The industrial market continues to grow as outdated infrastructure is replaced, policy changes come into effect and power is decentralized. We continue to see growing demand across these markets in 2018.

We have other segments in our portfolio that are more correlated with different industrial metrics such as our Digital Solutions business, which we expect to grow at or above global Gross Domestic Product (GDP). Overall, we believe our portfolio is uniquely positioned to compete across the value chain, and deliver unique solutions for our customers. We remain optimistic about the long-term economics of the industry, but are continuing to operate with flexibility given our expectations for volatility and changing assumptions in the near term.

In 2016, solar and wind net additions exceeded coal and gas for the first time. This also occurred in 2017. Governments may change or may not continue incentives for renewable energy additions. In the long term, renewables' cost decline may accelerate to compete with new-built fossil capacity, however, we do not anticipate any significant impacts to our business in the foreseeable future.

Despite the near-term volatility, the long-term outlook for our industry remains strong. We believe the world’s demand for energy will continue to rise, and the supply of energy will continue to increase in complexity, requiring greater service intensity and more advanced technology from oilfield service companies. As such, we remain focused on delivering innovative cost-efficient solutions that deliver step changes in operating and economic performance for our customers.

BUSINESS ENVIRONMENT

The following discussion and analysis summarizes the significant factors affecting our results of operations, financial condition and liquidity position as of and for the six months ended June 30, 2018 and 2017, and should be read in conjunction with the condensed consolidated and combined financial statements and related notes of the Company.

We operate in more than 120 countries helping customers find, evaluate, drill, produce, transport and process hydrocarbon resources. Our revenue is predominately generated from the sale of products and services to major, national, and independent oil and natural gas companies worldwide, and is dependent on spending by our customers for oil and natural gas exploration, field development and production. This spending is driven by a number of factors, including our customers' forecasts of future energy demand and supply, their access to resources to develop and produce oil and natural gas, their ability to fund their capital programs, the impact of new government regulations and most importantly, their expectations for oil and natural gas prices as a key driver of their cash flows.

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,	
	2018	2017	2018	2017
Brent oil price ($/Bbl) (1)	$ 74.53	$ 49.55	$ 70.67	$ 51.57
WTI oil price ($/Bbl) (2)	68.07	48.10	65.55	49.85
Natural gas price ($/mmBtu) (3)	2.85	3.08	2.96	3.05

(1) Energy Information Administration (EIA) Europe Brent Spot Price per Barrel

(2) EIA Cushing, OK WTI (West Texas Intermediate) spot price

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

Outside North America, customer spending is most heavily influenced by Brent oil prices, which increased throughout the quarter, ranging from a low of $66.04/Bbl in April 2018 to a high of $80.42/Bbl in May 2018. For the six months ended June 30, 2018, Brent oil prices averaged $70.67/Bbl, which represented an increase of $19.10/Bbl from the same period last year.

In North America, customer spending is highly driven by WTI oil prices, which, similar to Brent oil prices, increased throughout the quarter. Overall, WTI oil prices ranged from a low of $62.03/Bbl in April 2018 to a high of $77.41/Bbl in June 2018. For the six months ended June 30, 2018, WTI oil prices averaged $65.55/Bbl, which represented an increase of $15.70/Bbl from the same period last year.

In North America, natural gas prices, as measured by the Henry Hub Natural Gas Spot Price, averaged $2.85/mmBtu in the second quarter of 2018, representing a 7.47% decrease over the prior year. Throughout the quarter, Henry Hub Natural Gas Spot Prices ranged from a low of $2.74/mmBtu in April 2018 to a high of $3.08/mmBtu in June 2018. For the six months ended June 30, 2018, natural gas prices averaged $2.96/mmBtu, which represented a decrease of $0.09/mmBtu from the same period last year.

Baker Hughes Rig Count

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 driven by the exploration and development spending by oil and natural gas companies, which in turn is influenced by current and future price expectations for oil and natural gas. 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 affect overall energy prices and market activity.

We have 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 other outside sources as necessary. 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 region, 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 our 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 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,**		
	2018	**2017**	**% Change**	**2018**	**2017**	**% Change**
North America	1,147	1,012	13%	1,191	1,025	16%
International	968	957	1%	969	949	2%
Worldwide	2,115	1,969	7%	2,160	1,974	9%

Overall rig count was 2,115 for the second quarter of 2018, an increase of 7% as compared to the same period last year due primarily to North America activity, and a slower increase internationally. Within North America, the increase was primarily driven by the land rig count, which was up 14%, partially offset by a decrease in the offshore rig count of 7%. Internationally, the rig count increase was driven primarily by increases in the Asia-Pacific region of 9% and Africa of 9%, partially offset by Europe and Latin America, which were down 11% and 4%, respectively.

Overall rig count was 2,160 for the six months ended June 30, 2018, an increase of 9% as compared to the same period last year due primarily to North America activity, and a slower increase internationally. Within North America, the increase was primarily driven by the land rig count, which was up 17%, partially offset by a decrease in the offshore rig count of 13%. Internationally, the rig count increase was driven primarily by increases in the Asia-Pacific region of 8% and Africa of 8%, partially offset by Europe, which was down 13%.

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our condensed consolidated and combined statements of income (loss) 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. All dollar amounts in tabulations in this section are in millions of dollars, unless otherwise stated. Certain columns and rows may not add due to the use of rounded numbers.

Our condensed consolidated and combined statement of income (loss) displays sales and costs of sales in accordance with SEC regulations under which "goods" is required to include all sales of tangible products and "services" must include all other sales, including other service activities. For the amounts shown below, we distinguish between "equipment" and "product services", where product services refer to sales under product services agreements, including sales of both goods (such as spare parts and equipment upgrades) and related services (such as monitoring, maintenance and repairs), which is an important part of its operations. We refer to "product services" simply as "services" within the Business Environment section of Management's Discussion and Analysis.

In evaluating the segment performance, the Company primarily uses the following:

Volume: Volume is the increase or decrease in products and/or services sold period-over-period excluding the impact of foreign exchange and price. The volume impact on profit is calculated by multiplying the prior period profit rate by the change in revenue volume between the current and prior period. It also includes price, defined as the change in sales price for a comparable product or service period-over-period and is calculated as the period-over-period change in sales prices of comparable products and services.

Foreign Exchange (FX): FX measures the translational foreign exchange impact, or the translation impact of the period-over-period change on sales and costs directly attributable to change in the foreign exchange rate compared to the U.S. dollar. FX impact is calculated by multiplying the functional currency amounts (revenue or profit) with the period-over-period FX rate variance, using the average exchange rate for the respective period.

(Inflation)/Deflation: (Inflation)/deflation is defined as the increase or decrease in direct and indirect costs of the same type for an equal amount of volume. It is calculated as the year-over-year change in cost (i.e. price paid) of direct material, compensation & benefits and overhead costs.

Productivity: Productivity is measured by the remaining variance in profit, after adjusting for the period-over-period impact of volume & price, foreign exchange and (inflation)/deflation as defined above. Improved or lower period-over-period cost productivity is the result of cost efficiencies or inefficiencies, such as cost decreasing or increasing more than volume, or cost increasing or decreasing less than volume, or changes in sales mix among segments. This also includes the period-over-period variance of transactional foreign exchange, aside from those foreign currency devaluations that are reported separately for business evaluation purposes.

Orders and Remaining Performance Obligations

Orders: For the three months ended June 30, 2018, we recognized orders of $6.0 billion, an increase of $2.9 billion, or 91%, from the three months ended June 30, 2017. The increase in orders was driven by the acquisition of

Baker Hughes which contributed $2.8 billion. Service orders were up 96% and equipment orders were up 85%. For the six months ended June 30, 2018, we recognized orders of $11.3 billion, an increase of $5.6 billion, or 97%, from the six months ended June 30, 2017. The increase in orders was driven by the acquisition of Baker Hughes which contributed $5.4 billion. Service orders were up 94% and equipment orders were up 103%.

Remaining Performance Obligations (RPO): As of June 30, 2018, the aggregate amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations was $20.9 billion, of which equipment was $5.5 billion and service was $15.4 billion.

Revenue and Segment Operating Income (Loss) Before Tax

Revenue and segment operating income (loss) for each of our four operating segments is provided below.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	**2017**	**$ Change**	**2018**	**2017**	**$ Change**
Revenue:						
Oilfield Services	$ 2,884	$ 228	$ 2,656	$ 5,562	$ 440	$ 5,122
Oilfield Equipment	617	681	(64)	1,281	1,397	(116)
Turbomachinery & Process Solutions	1,385	1,586	(201)	2,845	3,230	(385)
Digital Solutions	662	520	142	1,260	1,011	249
Total	$ 5,548	$ 3,015	$ 2,533	$ 10,947	$ 6,079	$ 4,868

The performance of our operating segments is evaluated based on segment operating income (loss), which is defined as income (loss) before income taxes and equity in loss of affiliate and before the following: net interest expense, net other non operating income (loss), corporate expenses, restructuring, impairment and other charges, inventory impairments, merger and related costs, and certain gains and losses not allocated to the operating segments.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	$ Change	2018	2017	$ Change
Segment operating income (loss):						
Oilfield Services	$ 189	$ (66)	$ 255	$ 330	$ (123)	$ 453
Oilfield Equipment	(12)	17	(29)	(18)	67	(85)
Turbomachinery & Process Solutions	113	122	(9)	232	374	(142)
Digital Solutions	96	79	17	169	163	6
Total segment operating income	387	152	235	714	481	232
Corporate	(98)	(70)	(28)	(196)	(190)	(6)
Inventory impairment	(15)	(4)	(11)	(76)	(19)	(57)
Restructuring, impairment and other	(146)	(59)	(87)	(308)	(101)	(207)
Merger and related costs	(50)	(85)	35	(96)	(151)	55
Operating income (loss)	78	(66)	144	37	20	17
Other non operating income, net	43	50	(7)	45	58	(13)
Interest expense, net	(63)	(14)	(49)	(109)	(34)	(75)
Income (loss) before income taxes and equity in loss of affiliate	58	(30)	88	(27)	44	(71)
Equity in loss of affiliate	(34)	—	(34)	(54)	—	(54)
Benefit (provision) for income taxes	(62)	10	(72)	24	2	22
Net income (loss)	$ (38)	$ (20)	$ (18)	$ (57)	$ 46	$ (103)

Segment Revenues and Segment Operating Income

Second Quarter of 2018 Compared to the Second Quarter of 2017

Revenue increased $2,533 million, or 84%, primarily driven by the acquisition of Baker Hughes. Oilfield Services increased $2,656 million, and Digital Solutions increased $142 million, partially offset with the decrease in our longer cycle businesses, Turbomachinery & Process Solutions of $201 million and Oilfield Equipment of $64 million.

Total segment operating income increased $235 million. The increase was primarily driven by Oilfield Services, which increased $255 million and Digital Solutions, which increased $17 million partially offset by Oilfield Equipment, which decreased $29 million and Turbomachinery & Process Solutions, which decreased $9 million.

Oilfield Services

Oilfield Services revenue increased $2,656 million in the second quarter of 2018 compared to the second quarter of 2017, as a result of the acquisition of Baker Hughes which added $2,696 million of revenue. North America revenue was $1,174 million and International revenue was $1,710 million in the second quarter of 2018.

Oilfield Services segment operating income was $189 million in the second quarter of 2018 compared to a loss of $66 million in the second quarter of 2017. The acquisition of Baker Hughes drove the increase in operating income.

Oilfield Equipment

Oilfield Equipment revenue decreased $64 million, or 9%, in the second quarter of 2018 compared to the second quarter of 2017. The decrease was driven by lower RPO in the Subsea Production Systems business, as well as lower volume across the Drilling Systems and Subsea Services businesses. These declines were partially offset with higher volume in the Surface Pressure Control and Flexible Pipe businesses.

Oilfield Equipment segment operating loss was $12 million in the second quarter of 2018 compared to segment operating income of $17 million in the second quarter of 2017. The loss was driven primarily by lower cost productivity and to a lesser extent by lower volume.

Turbomachinery & Process Solutions

Turbomachinery & Process Solutions revenue of $1,385 million decreased $201 million, or 13%, in the second quarter of 2018 compared to the second quarter of 2017. The decrease was driven by lower volume for new units and contractual services in the upstream business, partially offset by increased volume in transactional services and revenue in the downstream business. Equipment revenue in the quarter represented 38%, and service revenue represented 62% of total revenue. Equipment revenue was down 24%, driven by decreases across all product lines, specifically in onshore and offshore production. Service revenue was down 4% year-over-year.

Turbomachinery & Process Solutions segment operating income was $113 million in the second quarter of 2018 compared to segment operating income of $122 million in the second quarter of 2017. The decline in profitability is driven primarily by lower volume and to a lesser extent by a one-time charge of $30 million to remediate quality issues specific to a long-term equipment project, partially offset by favorable cost productivity.

Digital Solutions

Digital Solutions revenue increased $142 million, or 27%, in the second quarter of 2018 compared to the second quarter of 2017, driven primarily by the acquisition of Baker Hughes which added $109 million of revenue and to a lesser extent by achieving a significant milestone on a large software deal.

Digital Solutions segment operating income was $96 million in the second quarter of 2018 compared to $79 million in the second quarter of 2017. The increase in profitability is driven primarily by improved cost productivity and to a lesser extent by increased volume.

Corporate

Corporate expenses in the second quarter of 2018 totaled $98 million, an increase of $28 million compared to the second quarter of 2017, primarily from the acquisition of Baker Hughes and partially offset by realized synergies and other cost reductions.

Restructuring, Impairment and Other

For the second quarter of 2018, we recognized $146 million in restructuring charges, an increase of $87 million from the second quarter of 2017. This increase was primarily due to costs driven by the implementation of our synergy plans.

Merger and Related Costs

For the second quarter of 2018, we incurred merger and related costs of $50 million, a decrease of $35 million from the second quarter of 2017. Such costs include integration and other costs related to the combination of Baker Hughes and GE O&G.

Equity in Loss of Affiliate

For the second quarter of 2018, we recorded a loss of $34 million for our share of losses in our equity method investment, BJ Services. The loss in the quarter is mainly attributable to adjustments required to properly reflect equipment repair and reactivation costs in the BJ Services financial statements. BJ Services finalized their 2017 audit in early May this year and the adjustments were identified during that process. There is no cash impact to BHGE.

Interest Expense, Net

For the second quarter of 2018, we incurred interest expense, net of interest income, of $63 million, an increase of $49 million from the second quarter of 2017, primarily driven by $3.95 billion of debt issued in the fourth quarter of 2017 and debt obtained in the Baker Hughes acquisition, partially offset by the reduction in interest expense as we ceased participation in the GE monetization program.

Income Taxes

For the second quarter of 2018, income tax expense was $62 million compared to a tax benefit of $10 million for the prior year quarter. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate is primarily due to $46 million related to losses with no tax benefit due to valuation allowances and $10 million of withholding taxes in certain jurisdictions. The prior year quarter reflects 100% of the taxes associated with U.S. and non-U.S. earnings of the GE O&G business.

The First Six Months of 2018 Compared to the First Six Months of 2017

Revenue increased $4,870 million, or 80%, primarily driven by the acquisition of Baker Hughes. Oilfield Services increased $5,122 million, and Digital Solutions increased $249 million, partially offset with the decrease in Turbomachinery & Process Solutions of $385 million and Oilfield Equipment of $116 million.

Total segment operating income increased $232 million. The increase was primarily driven by Oilfield Services, which increased $453 million and Digital Solutions, which increased $6 million, partially offset by Turbomachinery & Process Solutions, which decreased $142 million, and Oilfield Equipment, which decreased $85 million.

Oilfield Services

Oilfield Services revenue increased $5,122 million in the first six months of 2018 compared to the first six months of 2017, as a result of the acquisition of Baker Hughes which added $5,365 million of revenue.

Oilfield Services segment operating income was $330 million in the first six months of 2018 compared to a loss of $123 million in the first six months of 2017. The acquisition of Baker Hughes drove the increase in operating income.

Oilfield Equipment

Oilfield Equipment revenue decreased $116 million, or 8%, in the first six months of 2018 compared to the first six months of 2017. The decrease was driven by lower throughput as a result of decreasing RPO in the Subsea Production Systems business, as well as lower convertible orders across the Drilling Systems and Flexible Pipe businesses, partially offset with higher volume in the Surface Pressure Control and Services businesses.

Oilfield Equipment segment operating loss was $18 million in the first six months of 2018 compared to segment operating income of $67 million in the first six months of 2017. The loss was driven primarily by negative product mix, and to a lesser extent by lower volume and cost productivity.

Turbomachinery & Process Solutions

Turbomachinery & Process Solutions revenue of $2,845 million decreased $385 million, or 12%, in the first six months of 2018 compared to the first six months of 2017. The decrease was driven by lower volume for new units and services in the upstream segment, partially offset by increased volume in the businesses that serve the downstream segments. Equipment revenue in the first six months of 2018 represented 39%, and Service revenue represented 61% of total revenue.

Turbomachinery & Process Solutions segment operating income was $232 million in the first six months of 2018 compared to segment operating income of $374 million in the first six months of 2017. The decline in profitability is driven primarily by lower volume, and to a lesser extent by negative cost productivity, as well as unfavorable equipment and services mix and a one-time charge of $30 million to remediate quality issues specific to a long-term equipment project recorded in the second quarter of 2018.

Digital Solutions

Digital Solutions revenue increased $249 million, or 25%, in the first six months of 2018 compared to the first six months of 2017, driven primarily by the acquisition of Baker Hughes which added $195 million of revenue.

Digital Solutions segment operating income was $169 million in the first six months of 2018 compared to $163 million in first six months of 2017. The increase in profitability is primarily driven by the increase in volume.

Corporate

Corporate expenses in the first six months of 2018 totaled $196 million, an increase of $6 million compared to the first six months of 2017, primarily from the acquisition of Baker Hughes and partially offset by realized synergies and other cost reductions.

Restructuring, Impairment and Other

In the first six months of 2018, we recognized $308 million in restructuring charges, an increase of $207 million from the first six months of 2017. This increase was primarily due to costs driven by the implementation of our synergy plans.

Merger and Related Costs

In the first six months of 2018, we incurred merger and related costs of $96 million, a decrease of $55 million from the first six months of 2017. Such costs include integration and other costs related to the combination of Baker Hughes and GE O&G.

Interest Expense, Net

In the first six months of 2018, we incurred interest expense, net of interest income, of $109 million, an increase of $75 million from the first six months of 2017, primarily driven by $3.95 billion of debt issued in the fourth quarter of 2017 and debt obtained in the Baker Hughes acquisition, partially offset by the reduction in interest expense as we ceased participation in the GE monetization program.

Equity in Loss of Affiliate

In the first six months of 2018, we recorded a loss of $54 million for our share of losses in our equity method investment, BJ Services. The losses are mainly attributable to adjustments required to properly reflect equipment repair and reactivation costs in the BJ Services financial statements. BJ Services finalized their 2017 audit in early May this year and the adjustments were identified during that process. There is no cash impact to BHGE.

Income Taxes

For the six months ended June 30, 2018, income tax benefit was $24 million compared to a tax benefit of $2 million for the six months ended June 30, 2017. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate is primarily due to the net tax benefit of $124 million related to U.S. tax reform, partially offset by $96 million of losses with no tax benefit due to valuation allowances and $17 million of withholding taxes in certain jurisdictions. The prior year quarter reflects 100% of the taxes associated with U.S. and non-U.S. earnings of the GE O&G business.

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, 2018, we had cash, cash equivalents and restricted cash of $4,879 million compared to $7,030 million at December 31, 2017.

At June 30, 2018, approximately $2.9 billion of our cash and equivalents was held by foreign subsidiaries compared to approximately $3.2 billion at December 31, 2017. A substantial portion of the cash held by foreign subsidiaries at June 30, 2018 has been reinvested in active non-U.S. business operations. At June 30, 2018, our intent is, among other things, to use this cash to fund the operations of our foreign subsidiaries, and we have not changed our indefinite reinvestment decision as a result of U.S. tax reform but will reassess this during the course of 2018. 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, however, due to the enactment of U.S. tax reform, repatriations of foreign earnings will generally be free of U.S. federal tax but may incur other taxes such as withholding or state taxes.

BHGE LLC has a five-year $3 billion committed unsecured revolving credit facility (the 2017 Credit Agreement) with commercial banks maturing in July 2022. The 2017 Credit Agreement contains certain customary representations and warranties, certain affirmative covenants and no negative covenants. Upon the occurrence of certain events of default, our obligations under the 2017 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2017 Credit Agreement, and other customary defaults. At June 30, 2018, we were in compliance with all of the credit facility's covenants.

BHGE LLC has a commercial paper program under which it may issue from time to time up to $3 billion in commercial paper with maturities of no more than 397 days. At June 30, 2018, we had no borrowings outstanding under the commercial paper program. The maximum combined borrowing at any time under both the 2017 Credit Agreement and the commercial paper program is $3 billion.

On November 6, 2017, we announced that our board of directors authorized BHGE LLC to repurchase up to $3 billion of its common units from the Company and GE. The proceeds of such repurchase that are distributed to the Company will be used to repurchase Class A shares of the Company on the open market or in privately negotiated transactions. At June 30, 2018, BHGE LLC had authorization remaining to repurchase up to approximately $1.5 billion of its common units from BHGE and GE.

On December 15, 2017, BHGE LLC and Baker Hughes Co-Obligor, Inc. jointly filed a shelf registration statement on Form S-3 with the SEC in order to sell up to $3 billion in debt securities in amounts to be determined at the time of an offering. Any such offering, if it does occur, may happen in one or more transactions. The specific terms of any securities to be sold will be described in supplemental filings with the SEC. The registration statement will expire in 2020.

During the six months ended June 30, 2018, we used cash to fund a variety of activities including certain working capital needs and restructuring costs, capital expenditures, the payment of dividends, distributions to noncontrolling interests and share repurchases. We believe that cash on hand, cash flows generated from operations and the available credit facility will provide sufficient liquidity to manage our global cash needs.

Cash Flows

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

(In millions)	2018	2017
Operating activities	$ 433	$ (389)
Investing activities	(162)	(130)
Financing activities	(2,372)	1,544

Operating Activities

Our largest source of operating cash is payments from customers, of which the largest component is collecting cash related to sales of products and services including advance payments or progress collections for work to be performed. The primary use of operating cash is to pay our suppliers, employees, tax authorities and others for a wide range of material and services.

Cash flows from operating activities generated cash of $433 million in the six months ended June 30, 2018. These cash inflows were primarily driven by our net loss adjusted for certain noncash items (depreciation, amortization and provision for deferred taxes) partially offset by cash usage of approximately $210 million related to restructuring and merger related payments. Net working capital was flat in the six months ended June 30, 2018, mainly due to higher inventory to sustain expected volume growth offset by higher payables to suppliers.

Investing Activities

Cash flows from investing activities used cash of $162 million and $130 million for the six months ended June 30, 2018 and 2017, respectively.

Our principal recurring investing activity is the funding of capital expenditures including property, plant and equipment and software, to support and generate revenue from operations. Expenditures for capital assets were $411 million and $143 million for the six months ended June 30, 2018 and 2017, respectively, partially offset by proceeds from the sale of property, plant and equipment of $181 million and $12 million for the six months ended June 30, 2018 and 2017, respectively. We also received cash proceeds from the sale of businesses of $56 million and $25 million for the six months ended June 30, 2018 and 2017, respectively.

Financing Activities

Cash flows from financing activities used cash of $2,372 million and generated cash of $1,544 million for the six months ended June 30, 2018 and 2017, respectively.

Repayment of long-term debt during the six months ended June 30, 2018, consisted primarily of the repayment of the remaining outstanding 2018 Senior Notes for a total consideration of $637 million.

As part of our $3 billion share buyback authorization, during the six months ended June 30, 2018, we also used cash of $387 million and $638 million, respectively, to repurchase and cancel our Class A and Class B common stock and corresponding paired common units in BHGE LLC, on a pro rata basis. Additionally, we paid dividends of $150 million to our Class A shareholders, and we made a distribution of $253 million to GE.

Other Factors Affecting Liquidity

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 credit facility and could also limit or preclude our ability to issue commercial paper. Should this occur, we could seek alternative sources of funding, including borrowing under the 2017 Credit Agreement.

Customer receivables: In line with industry practice, we may bill our customers for services provided in arrears dependent upon contractual terms. In a challenging economic environment, we may experience delays in the payment of our invoices due to customers' lower cash flow from operations or their more limited access to credit markets. While historically there have not been material non-payment events, we attempt to mitigate this risk through working with our customers to restructure their debts. A customer's failure or delay in payment could have a material adverse effect on our short-term liquidity and results from operations. As of June 30, 2018, 20% of our gross trade receivables were from customers in the United States. Other than the United States, no other country or single customer accounted for more than 10% of our gross trade receivables at this date. As of December 31, 2017, 20% of our gross trade receivables were from customers in the United States.

International operations: Our cash that is held outside the U.S. is 62% of the total cash balance as of June 30, 2018. We may not be able to use this cash quickly and efficiently due to exchange or cash controls that could make it challenging. As a result, our cash balance may not represent our ability to quickly and efficiently use this cash.

OTHER ITEMS

Iran Threat Reduction And Syria Human Rights Act Of 2012

The Company is making the following disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934. Under Section 13(r) of the Securities Exchange Act of 1934, enacted in 2012, BHGE is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in business activities relating to Iran, even if those activities are conducted in accordance with authorizations subsequently issued by the U.S. Government. Reportable activities include investments that significantly enhance Iran’s ability to develop petroleum resources valued at $20 million or more in the aggregate during a twelve-month period. Reporting is also required for transactions related to Iran’s domestic production of refined petroleum products or Iran’s ability to import refined petroleum products valued at $5 million or more in the aggregate during a twelve-month period.

In January 2016, the U.S. Department of Treasury’s Office of Foreign Assets Control (OFAC) issued General License H authorizing U.S.-owned or controlled foreign entities to engage in transactions with Iran if these entities meet the requirements of the general license. On May 8, 2018, President Trump announced that the United States will cease participation in the Joint Comprehensive Plan of Action (JCPOA) and begin re-imposing the U.S. nuclear-related sanctions. On June 27, 2018, OFAC revoked General License H and added Section 560.537 to the Iranian Transactions and Sanctions Regulations (ITSR), which authorizes all transactions and activities that are ordinarily incident and necessary to the winding down of activities previously approved under General License H through November 4, 2018. Prior to May 8, 2018, certain non-U.S. affiliates of BHGE conducted limited activities as described below in accordance with General License H. Non-U.S. affiliates of BHGE expect to wind down activities in Iran by November 4, which may include the collection of payments for previously completed work. All of these activities are conducted in accordance with all applicable laws and regulations.

A non-U.S. affiliate of BHGE received four purchase orders during the second quarter of 2018 for the sale of goods pursuant to General License H. The purchase orders cover the sale of valves and parts for industrial machinery and equipment used in gas plants, petrochemical plants and gas production projects in Iran, and were all received prior to May 8, 2018. The four purchase orders are individually valued at €0.1 million ($0.2 million), less than €0.1 million ($0.1 million), less than €0.1 million ($0.1 million), and less than €0.1 million ($0.1 million). The non-U.S. affiliate has two additional previously unreported purchase orders from the fourth quarter of 2017, valued at €0.1 million ($0.2 million) and less than €0.1 million ($0.1 million). This non-U.S. affiliate attributed €10.5 million ($12.3 million) in gross revenues and €1.4 million ($1.7 million) in net profits during the quarter ending June 30, 2018 against previously reported transactions.

A second non-U.S. affiliate of BHGE received two purchase orders during the second quarter of 2018 covering the sale of valves and other spare parts for use in the petrochemical industry in Iran. These two purchase orders were received prior to May 8, 2018 and are individually valued at €0.1 million ($0.1 million) and less than €0.1 million ($0.1 million). This non-U.S. affiliate attributed less than €0.1 million ($0.1 million) in gross revenues and less than €0.1 million ($0.1 million) in net profits during the quarter ending June 30, 2018 against previously reported transactions.

A third non-U.S. affiliate of BHGE attributed €0.3 million ($0.3 million) in gross revenues and €0.1 million ($0.2 million) in net profits during the quarter ending June 30, 2018 against a previously reported transaction involving the sale of films to be used in the inspection of pipelines in Iran.

These non-U.S. affiliates do not intend to continue the activities described above beyond November 4, 2018. The Company will wind down all of these activities before that date in full compliance with U.S. sanctions.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, (each a "forward-looking statement"). All statements, other than historical facts, including statements regarding the presentation of the Company's operations in future reports and any assumptions underlying any of the foregoing, are forward-looking statements. Forward-looking statements concern future circumstances and results and other statements that are not historical facts and are sometimes identified by the words "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue," "target" or other similar words or expressions. Forward-looking statements are based upon current plans, estimates and expectations that are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. The inclusion of such statements should not be regarded as a representation that such plans, estimates or expectations will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, the risk factors in the "Risk Factors" section of Part I of Item 1A of our 2017 Annual Report and those set forth from time-to-time in other filings by the Company 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.

Any forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. The Company does not undertake any obligation to update any forward-looking statements, whether as a result of new information or developments, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on any of these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A. “Quantitative and Qualitative Disclosures about Market Risk,” in our 2017 Annual Report. Our exposure to market risk has not changed materially since December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 15d-15(e) of the Exchange Act) were effective at a reasonable assurance level.

Effective January 1, 2018, we adopted the new revenue guidance under ASC Topic 606, Revenue from Contracts with Customers, using the full retrospective method of adoption. The adoption of this guidance required the implementation of new accounting policies and processes, including changes to our information systems, which changed the Company’s internal controls over financial reporting for revenue recognition and related disclosures for both our restated historical financial statements and current period reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of legal proceedings in "Note 17. Commitments And Contingencies" of the Notes to Unaudited Condensed Consolidated and Combined Financial Statements in this Quarterly Report, Item 3 of Part I of our 2017 Annual Report and Note 17 of the Notes to Consolidated Financial Statements included in Item 8 of our 2017 Annual Report.

ITEM 1A. RISK FACTORS

As of the date of this filing, in addition to the risk factors contained in the 2017 Annual Report, the Company and its operations are subject to the following risk factor:

Our Remaining Performance Obligation (RPO) is subject to modification, termination or reduction of orders, which could negatively impact our sales.

Our RPO is comprised of unfilled customer orders for products and product services (expected life of contract sales for product services). Our RPO can be significantly affected by the timing of orders for large projects. Although modifications and terminations of orders may be partially offset by cancellation fees, customers can, and sometimes do, terminate or modify orders. Our failure to replace canceled orders could negatively impact our sales and results of operations. The total dollar amount of the Company's RPO as of June 30, 2018 was $20.9 billion.

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

The following table contains information about our purchases of our Class A common stock equity securities during the three months ended June 30, 2018.

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 Dollar Value of Shares that May Yet Be Purchased Under the Program (4)
April 1-30, 2018	973,154	$	35.95	956,240	$	716,054,241
May 1-31, 2018	4,255,450	$	35.87	4,254,332	$	563,438,373
June 1-30, 2018	604	$	34.91	—	$	563,438,373
Total	5,229,208	$	35.89	5,210,572		

(1) Represents Class A common stock purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock units and shares purchased in the open market under our publicly announced purchase program.

(2) Average price paid for Class A common stock purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock units and shares purchased in the open market under our publicly announced purchase program, which includes commissions.

(3) On November 2, 2017, our board of directors authorized BHGE LLC to repurchase up to $3 billion of its common units from the Company and GE. The proceeds of this repurchase are to be used by BHGE to repurchase Class A common stock of the Company on the open market, which if fully implemented would result in the repurchase of approximately $1.1 billion of Class A common stock. The Class B common stock of the Company, paired with common units, will be repurchased by the Company at par value. At June 30, 2018, BHGE LLC had authorization remaining to repurchase up to approximately $1.5 billion of its common units from BHGE and GE.

(4) During the three months ended June 30, 2018, we repurchased and canceled approximately five million shares of Class A common stock at an average price of $35.90 per share (including commissions) for a total of $187 million. We also repurchased and canceled approximately 8.7 million shares of Class B common stock from GE together with each paired common unit of BHGE LLC for $313 million.

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

None.

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 and Exhibits designated with an "**" are furnished as an exhibit to this Quarterly Report on Form 10-Q.

3.1	Amended and Restated Certificate of Incorporation of Baker Hughes, a GE company (filed as Exhibit 3.1 to the Current Report of Baker Hughes, a GE company on Form 8-K12B filed on July 3, 2017).
3.2	Second Amended and Restated Bylaws of Baker Hughes, a GE company dated July 3, 2017 (incorporated by reference as Exhibit 3.2 to the Quarterly Report of Baker Hughes, a GE company on Form 10-Q for the quarter ended September 30, 2017).
10.1	Outperformance Share Unit Award Agreement between Baker Hughes, a GE company and Lorenzo Simonelli dated as of June 1, 2018 (incorporated by reference as Exhibit 10.1 to the Current Report of Baker Hughes, a GE company on Form 8-K filed on June 1, 2018).
10.2	Restricted Stock Unit Award Agreement between Baker Hughes, a GE company and Lorenzo Simonelli dated as of June 1, 2018 (incorporated by reference as Exhibit 10.2 to the Current Report of Baker Hughes, a GE company on Form 8-K filed on June 1, 2018).
31.1**	Certification of Lorenzo Simonelli, President and Chief Executive Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2**	Certification of Brian Worrell, Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32**	Certification of Lorenzo Simonelli, President and Chief Executive Officer, and Brian Worrell, 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, a GE company
(Registrant)

Date:	July 30, 2018	By:	/s/ BRIAN WORRELL
			Brian Worrell
			Chief Financial Officer
Date:	July 30, 2018	By:	/s/ KURT CAMILLERI
			Kurt Camilleri
			Vice President, Controller and Chief Accounting Officer

Exhibit 31.1

CERTIFICATION

I, Lorenzo Simonelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes, a GE company;

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 30, 2018	By:	/s/ Lorenzo Simonelli
			Lorenzo Simonelli
			President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Brian Worrell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes, a GE company;

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 30, 2018	By:	/s/ Brian Worrell
			Brian Worrell
			Chief Financial Officer

Exhibit 32

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, a GE company (the “Company”) on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Lorenzo Simonelli, President and Chief Executive Officer of the Company, and Brian Worrell, 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/ Lorenzo Simonelli
Name:	Lorenzo Simonelli
Title:	President and Chief Executive Officer
Date:	July 30, 2018
	/s/ Brian Worrell
Name:	Brian Worrell
Title:	Chief Financial Officer
Date:	July 30, 2018

Exhibit 95

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, a GE company and/or its subsidiaries is an operator. The disclosure is with respect to the three months ended June 30, 2018. 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, 2018

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	$ —	0	N	N	0	0	0
Corpus Christi Grinding Plant/4103112	0	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, 2018, 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.