Second Quarter 2023 – Earnings Conference Call Prepared Remarks

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thank you.

Good morning everyone, and welcome to the Baker Hughes Second Quarter 2023 Earnings Conference Call. Here with me are our Chairman and CEO, Lorenzo Simonelli; and our CFO, Nancy Buese. The earnings release we issued earlier today can be found on our website at bakerhughes.com. We will also be using a presentation with our prepared remarks during this webcast, which can also be found on our investor website.

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

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

With that I will turn the call over to Lorenzo.

Lorenzo Simonelli *Baker Hughes – Chairman & CEO*

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

We were pleased with our second quarter results and remain optimistic on the outlook for 2023. As you can see on slide 4, we maintained our order momentum in IET and SSPS. We also delivered strong operating results at the higher end of our guidance in both business segments, booked almost $150 million of New Energy orders and generated approximately $620 million of free cash flow.

Turning to slide 5, growing economic uncertainty continues to drive commodity price volatility globally. However, despite lower oil prices over the first half of the year, we maintain a constructive outlook for global upstream spending in 2023. Market softness in North America is expected to be more than offset by strength in international and offshore markets.

As we have said previously, we expect this spending cycle to be more durable and less sensitive to commodity price swings relative to prior cycles. This is due to strong balance sheets across the industry, disciplined capital spending that is based on low asset break evens and a focus on returns versus growth. We are seeing this in North America where, despite the decline in WTI prices, IOCs and large independent E&P companies have yet to deviate from development plans.

It is also evident in international and offshore markets, where we continue to see steady activity increases from NOCs and IOCs and production discipline from large producers.

Outside of the upstream markets, we remain optimistic on the LNG outlook, with solid demand growth this year led by Europe and Asia. In fact, despite a 50% decline in LNG prices over the first half of the year, contracted long-term offtake agreements of over 45 MTPA are slightly above contracting levels over the same period in 2022.

The continued strength in long-term LNG contracts has been a key driver of the momentum in industry FIDs, which have now totaled 53 MTPA so far this year. This includes the recent FIDs for Phase 1 of Next Decade's 17.6 MTPA Rio Grande project and QatarEnergy's 16 MTPA North Field South project.

Based on the continued development of the LNG project pipeline, we still expect the market to exceed 65 MTPA of FIDs this year and should see a similar level of activity in 2024. We continue to see the potential for this LNG cycle to extend for several years with a pipeline of new international opportunities expanding project visibility out to 2026 and beyond.

As we have stated consistently, we fully expect natural gas and LNG to play a key role in the energy transition as a baseload fuel to help balance against intermittent renewable energy sources. We believe the expanding pipeline of LNG opportunities is tied to the growing recognition of this reality and that the transition will take more time and must be financially viable.

As we highlight on slide 6, Baker Hughes' unique portfolio enables us to weather a choppy macro environment. We have a diverse mix of long and short cycle businesses with leading technologies that play across value chains within today's energy and industrial complex, and are well positioned to play a leading role into the future.

In addition to the earnings and cash flow durability of our portfolio, we continue to drive actions to optimize our corporate structure and drive higher margins and returns. While reducing costs is one lever, we are also fundamentally re-wiring the organization to simplify reporting lines, eliminate duplication, and taking measured steps to upgrade our financial reporting systems. We believe this will lead to more standardization, increase automation, and provide greater real-time information and analytical capabilities around our business performance.

We have now completed the actions required to achieve the first $150 million of our cost-out target by the end of 2023 and believe there are additional opportunities for further cost reductions in 2024 and beyond. As we continue to redesign our organization and install new processes and systems, our goal is to drive continued cost productivity, with the ultimate objective of exceeding 20% EBITDA levels for each business segment over the next few years.

As we work to optimize our organizational structure, we are also focused on capitalizing on favorable market trends across both business segments in the near-term, as well as the long-term.

In the near-term, both IET and OFSE are well positioned to capitalize on multiple growth vectors, most notably the multi-year upstream growth cycle in international and offshore, the wave of LNG sanctions expected through this decade, and the New Energy opportunities that utilize our existing core technologies.

Longer term, we believe that our unique portfolio positions us well to capitalize on the Energy Transition, which is driving fundamental changes to the energy landscape, our customer base, and how they operate. Given our position as a strategic supplier for both subsurface and surface solutions, our portfolio is increasingly aligned to our customers' capital allocation decisions, and provides a unique vantage point as we work with them on planning and developing the next generation of energy projects.

Turning to slide 7, Baker Hughes' portfolio and our customer relationships have never been stronger. Since 2017, we have significantly enhanced our size and scale in key regions like the Middle East, as well as our relationships with key customers. By selling a range of solutions that includes LNG, power generation and compression solutions for onshore and offshore production applications, and integrated solutions for well construction and production, we are able to offer capabilities that uniquely position us for today and the future.

Today, our wide range of core competencies are being utilized in select areas like deepwater projects, where we provide power generation and compression for FPSOs, in addition to subsea equipment and flexible risers. We are also seeing growth opportunities through further investment in natural gas value chains, increasing investment in New Energy, and higher demand for integrated solutions. Some of these unique and emerging solutions play to our strengths as they combine subsurface capabilities with highly engineered surface technologies that also layer in digital offerings across the scope of work.

As we look to the future, it is clear that almost all energy companies are transitioning, and while the pace of change may differ, the direction of travel is clear. We believe that as the need to decarbonize becomes more widespread, the demand for integrated solutions across these areas will grow. In fact, we are in the early stages of collaborating with key customers on a range of future opportunities that leverage our unique set of technologies for New Energy applications.

For example, in CCUS we can evaluate and drill reservoirs for CO2 storage and provide CO2 compression expertise. Other solutions include geothermal power, where we drill geothermal wells and provide steam turbines, and blue ammonia projects, where we provide ammonia and CO2 compression solutions, as well as the drilling and monitoring of CO2 storage wells.

Overall, I am extremely excited about the multitude of new opportunities developing for solutions that leverage our unique portfolio. We believe, combining these growth opportunities with our business transformation objectives provides attractive upside for our margins and returns going forward.

Turning to slide 8, I will provide an update on each of our business segments.

In **Oilfield Services & Equipment,** we continue to be encouraged by the multi-year cycle unfolding in international markets, particularly in offshore basins. With approximately 70% of our OFSE business internationally focused, and around 40% exposed to offshore, we remain well positioned to benefit from these market dynamics.

On a regional basis, we are experiencing strong growth in most areas, with particular strength in Latin America and the Middle East. We see no change to the pace of activity across international markets and continue to see promising signs in markets such as West Africa and the Eastern Mediterranean. One area that continues to lag is the North Sea, where UK fiscal uncertainty is hampering developments.

In North America, the market continues to trend softer on lower oil and gas prices. However, the impact of price volatility in the first half of the year has largely been limited to the activity of private operators and in gas basins.

Our OFSE business in North America is production-levered and the majority of our customer base is made up of major oil companies and public E&Ps, which have yet to deviate from plans laid out at the start of the year. This portfolio and customer mix results in a business that is generally less volatile than fluctuations in North America activity and rig count. This resiliency was evident during the second quarter, where our OFSE North America revenue was modestly higher despite a 15% sequential decline in the North America rig count.

Within our OFSE product lines, we continue to experience strong growth across the portfolio, which was led in the second quarter by Completions, Intervention & Measurements. We also continue to develop new technologies for the CIM portfolio with innovations like SONUS, the industry's only acoustic set liner hanger system, which can cut the time taken to set a liner hanger from hours to minutes.

In Production Solutions, we continue to see solid growth in artificial lift globally. During the quarter, we had early commercial success with our recently acquired AccessESP technology, winning two awards with key customers in the Middle East. The AccessESP system offers an efficient alternative to conventional ESP installations without the need for a heavy workover rig, which reduces time, costs and emissions while boosting well performance.

In Subsea & Surface Pressure Systems, we continue to experience positive order momentum. We booked a major award during the second quarter with Eni for the Baleine field offshore Ivory Coast, providing eight subsea trees and three Aptara manifolds. Operationally, we are encouraged by the early success of repositioning the Subsea Projects & Services business to focus on selected key markets with a leaner cost base.

While top line trends for OFSE remain strong and should maintain strong momentum into 2024, we remain equally committed to translating higher revenue growth into higher margins and returns. For 2023, this will translate into double-digit revenue growth and an expansion of EBITDA margins by 150 to 200 basis points.

In **Industrial & Energy Technology**, we saw another excellent quarter commercially, with $3.3 billion in orders, maintaining the strong momentum from the first quarter. Gas Tech Equipment achieved $1.6 billion in orders, driven by multiple areas, including almost $900 million of LNG awards in the quarter.

In LNG, Baker Hughes booked an order for three Main Refrigerant Compressors for NextDecade's Rio Grande LNG project in Texas. Baker Hughes will supply Frame 7 turbines paired with centrifugal compressors across Rio Grande's first three LNG trains in a parallel configuration arrangement, providing more operational flexibility.

In Onshore/Offshore Production, we were pleased to be awarded a major order from MODEC to supply gas technology equipment for Equinor's BM-C-33 project in the Brazilian pre-salt Campos area. Baker Hughes will be providing turbomachinery equipment for the FPSO, including LM2500 gas turbine and steam turbine generators, for a combined cycle power generation solution to reduce the project's carbon footprint.

Combined cycle solutions are an important trend in the offshore oil and gas industry, as they enable the reduction of overall FPSO carbon emissions. Baker Hughes expects to reduce carbon emissions by more than 20% for this project versus similar open cycle FPSOs with the same power demand.

On the New Energy front, we booked over $100 million of orders in the quarter in IET, including multiple orders for Air Products to support its Louisiana Clean Energy Complex. These awards included vertical centrifugal pumps for ammonia loading, compression trains for CO2 storage, and a subsurface study undertaken by OFSE to assess the capacity of the reservoir. In addition to the Louisiana project, we also received an award for hydrogen compression equipment for Air Products' New York Green Hydrogen facility.

IET also saw increased traction in the growing blue ammonia space. During the quarter, IET secured multiple orders in the Middle East, including awards to supply syngas and ammonia compressor trains and centrifugal pump trains.

Orders in our Industrial Technology businesses maintained strong momentum in the second quarter with 8% growth year over year led by Pumps, Valves & Gears and Inspection.

In our Condition Monitoring business, we secured an agreement to deliver asset protection and monitoring hardware, software, and services for a floating LNG project offshore Malaysia. The scope includes Bently Nevada's Orbit 60 condition monitoring system, Ranger Pro wireless monitoring systems, System 1 software, and cyber security enhancements, as well as end-to-end project management support and services.

On the operational side, Industrial Tech also continues to benefit from volume and margin improvements in Condition Monitoring and Inspection, as chip shortages and supply chain issues gradually abate. Although there is still work to do, profitability in Industrial Tech is experiencing a solid recovery that we expect to continue over the course of 2023.

IET is also making solid progress on its strategic initiatives around digital and growing outside its traditional customer base into new markets. We received our first major award for Cordant from a large ammonia producer in the Middle East in the first quarter, delivering an integrated suite of solutions for asset performance management, process optimization and digitally enabled services through IET's iCenter.

Building on this award, during the second quarter, we signed a long-term Multi-Maintenance Program contract where we will be providing maintenance planning, project management, and resident engineering on site for the customer's current fleet of steam turbines and centrifugal compressors. This contract demonstrates the full range of capabilities and complementary services of our IET Digital and Gas Tech Services portfolio, providing a blueprint for expanding our digital platform with new and existing customers.

Overall, we are pleased with the continued momentum in IET this year. With a record RPO that now exceeds $27 billion, we expect to generate strong revenue growth over the next few years that will be accompanied by strong margin improvement and higher returns.

I would also like to spend some time on slide 9 to highlight Baker Hughes' 2022 Corporate Sustainability Report, which was published during the second quarter, and shows that the company is on-track to meet its Scope 1 and 2 net-zero emissions goal by 2050. The report also outlined Baker Hughes' progress toward driving more sustainable operations through improved performance in its ESG metrics.

Baker Hughes continues to strive for a diverse and inclusive workplace, as people are at the heart of any company's progress. Fresh perspectives, unique experiences and innovative ideas are critical to driving competitiveness going forward. To this end, Baker Hughes has enhanced its reporting with over 20 new metrics to help drive more transparency and was recognized for attracting, retaining, and developing talent.

As one of the first companies in the industry to announce a net-zero emissions goal, we continued to push forward with reducing our Scope 1 and 2 emissions, which have declined by 28% compared to our 2019 baseline year. We are also now reporting on ten categories of Scope 3 emissions.

Against the backdrop of a challenging and complex global energy environment, I am proud that while we continue supporting our customers on their energy transition journeys, we have not lost sight of our goal to operate in a responsible and more sustainable way.

Overall, I remain very excited on the outlook for Baker Hughes and confident we will execute on all the growth opportunities across our business, as well as the structural changes we are implementing across our organization.

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

Nancy Buese *Baker Hughes – CFO*

Thanks, Lorenzo. I will begin on slide 11 with an overview of total company results and then move into the segment details and our forward outlook. We were very pleased with our second quarter results, which exceeded the high end of our adjusted EBITDA guidance range, included another quarter of strong orders in both business segments, and exceeded our expectations on free cash flow.

We are excited with the operational momentum we have at Baker Hughes and the growth opportunities ahead, as well as the progress we are making in removing costs and transforming how the business operates. As we execute on these growth opportunities, we are laser focused on improving our margin and return profile as the company grows.

Orders for both business segments maintain strong momentum with total company orders of $7.5 billion in the second quarter, up 28% year-over-year and driven by an increase in both IET and OFSE.

Remaining Performance Obligation was $31.0 billion, up 5% sequentially. RPO for the company is at record levels and provides strong volume and earnings visibility over the coming years. OFSE RPO ended at $3.5 billion, while IET RPO ended at $27.5 billion.

Our total company book-to-bill ratio in the quarter was 1.2. IET book-to-bill was 1.3, which marks eight consecutive quarters of IET book-to-bill above 1.

Revenue for the quarter was $6.3 billion, up 25% year-over-year, driven by increases in both segments.

Operating income for the quarter was $514 million.

Adjusted operating income was $631 million, which excludes $117 million of restructuring and other charges.

Adjusted operating income was up 23% sequentially and up 68% year-over-year. Our adjusted operating income rate for the quarter was 10%, up 100 basis points sequentially. Year-over-year, our adjusted operating income rate was up 250 basis points.

Adjusted EBITDA in the quarter was $907 million, up 16% sequentially and up 39% year-over-year. Adjusted EBITDA margin rate of 14.4% increased by 70 basis points sequentially and 150 basis points year-over-year due to increased volume leverage, pricing and our cost optimization and simplification efforts.

Corporate costs were $97 million in the quarter, down $3 million sequentially and $11 million year-over-year driven by the realization of savings related to our corporate optimization process. For the third quarter, we expect corporate costs to be roughly flat compared to second quarter levels.

Depreciation and amortization expense was $276 million in the quarter. For the third quarter, we expect D&A to be roughly in line with second quarter levels.

Net interest expense was $58 million.

Income tax expense in the quarter was $200 million.

GAAP earnings per share was $0.40 cents. Included in GAAP earnings per share were $156 million of other income, primarily related to net gains from the change in fair value for certain equity investments, all of which are recorded in other non-operating income.

Adjusted earnings per share were $0.39 cents.

Turning to slide 12, we generated strong free cash flow in the quarter of $623 million, up $426 million sequentially, driven by higher adjusted EBITDA and strong collections in IET. Year-over-year, our free cash flow is up $476 million. First half free cash flow conversion from adjusted EBITDA was 49% and we are very pleased with the team's performance so far this year, as the process changes we are implementing continue to drive better working capital performance.

On the back of strong first half performance, we now expect free cash flow conversion from adjusted EBITDA for the full year to be in the range of 45% to 50%. Driving the improvement in our free cash flow expectations is stronger working capital performance and higher IET orders.

We continue to prioritize a strong balance sheet with total debt of $6.6 billion and net debt of $3.8 billion, which is 1.1 times our trailing 12 months adjusted EBITDA.

We have around $650 million of senior notes maturing in December 2023 and we will most likely refinance this debt based on market conditions.

Turning to slide 13 and capital allocation. We maintained our quarterly dividend at $0.19 per share and also repurchased 3.6 million Class A shares for $99 million at an average price of $27.66 per share.

Our capital allocation philosophy prioritizes a strong balance sheet, adequately reinvesting in our business from both a capex and R&D perspective, and targeting free cash conversion from adjusted EBITDA in excess of 50% on a through-cycle basis. From there, we expect to return 60% to 80% of our free cash flow back to shareholders through dividends and share repurchases.

Turning to slide 14, as Lorenzo mentioned, we have executed all actions necessary to achieve our $150 million cost-out target by the end of 2023 and believe there are additional opportunities for further cost reduction in 2024 and beyond. We view this initial round of cost actions as the first step in a much larger operational and margin optimization process, which we expect to unfold over the next couple of years.

For this next step, we have identified several areas to improve operating efficiency and cost structure through a more simplified organizational design, improving our processes and systems. As we execute on the next phase of this journey, our ultimate objective is to drive EBITDA margins for each business segment above 20%.

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

Starting with **Oilfield Services and Equipment** on slide 15, the segment performed above expectations in the quarter, driven by stronger revenue and margins in SSPS and stronger growth across International OFS markets. SSPS orders also maintain strong momentum as offshore project sanctioning continues at robust levels. Partially offsetting these areas of strength was lower than expected profitability out of our chemicals business. While chemicals did see sequential margin improvement during the quarter, we still have more work to do in order to get margins in line with historical levels, but are confident that we can get there by the end of the year.

OFSE orders in the quarter were $4.2 billion, up 2% sequentially and up 24% year-over-year.

Subsea & Surface Pressure System orders were $1.1 billion, up 48% year-over-year driven by a number of awards, including a major subsea tree order from Eni offshore Ivory Coast, and a number of Flexibles orders. For the first half of 2023, SSPS orders are up 54% year-over-year.

OFSE revenue in the quarter was $3.9 billion, up 8% sequentially and up 20% year-over-year.

International revenue was up 10% sequentially driven by growth in all regions, with notable strength in Europe/CIS/SSA and Middle East/Asia.

North America revenue increased 5% sequentially, driven primarily by growth in SSPS.

Excluding SSPS, international revenue was up 12% sequentially and North American revenue was down 1%, solidly outperforming rig count in both regions.

OFSE Operating Income in the quarter was $417 million, up 12% sequentially and up 68% year-over-year.

Operating Income rate was 10.8%, with margin rates up 40 basis points sequentially. On a year-over-year basis, operating income rate has increased 310 basis points.

OFSE EBITDA in the quarter was $636 million, up 10% sequentially and up 35% year-over-year.

EBITDA margin rate was 16.4%, with margins increasing 20 basis points sequentially and 190 basis points year-over-year. Sequential margin rates were impacted by a higher mix of SSPS equipment revenue, while the year-over-year improvement in margin rates was driven by higher volume, price improvements and our cost-out efforts in SSPS.

If we move to slide 16, **Industrial & Energy Technology** performed above expectations in the quarter despite lower-than-expected backlog conversion from Gas Technology Equipment. The stronger segment performance was primarily due to higher margin rates, which was driven by strength in Industrial Technology revenues and margins as well as stronger growth in Gas Technology Services. IET also had another very strong quarter for orders driven by LNG and Onshore/Offshore awards.

IET orders were $3.3 billion, down 7% sequentially and up 33% on a year-over-year basis.

Gas Technology Equipment orders of $1.6 billion in the quarter were up 87% year-over-year. Major awards during the quarter included equipment for the Rio Grande LNG project, as well as FPSO equipment for the BM-C-33 project in Brazil.

Gas Technology Services orders of $790 million in the quarter were flat year-over-year.

Industrial Technology orders of $880 million were up 8% year-over-year, driven by growth in most product lines as well as the acquisition of Quest Integrity, which was partially offset by the disposition of Nexus Controls.

RPO for IET ended at $27.5 billion, up 4% sequentially. Within IET RPO, Gas Tech Equipment RPO was $11.4 billion and Gas Tech Services RPO was $13.9 billion.

Turning to slide 17, revenue for the quarter was $2.4 billion, up 34% versus the prior year. Gas Tech Equipment revenue was up 80% year-over-year driven by execution of project backlog.

Gas Tech Services revenue was up 21% year-over-year, driven by growth in both upgrades and transactional services, and accounting for impacts related to our exit from Russia during the second quarter of 2022. Excluding these impacts, Gas Tech Services revenue was up 7% year-over-year.

Industrial Tech revenue was up 9% year-over-year driven by growth in all product lines as well as the acquisition of Quest, partially offset by the Nexus Controls disposition. We are pleased to see the supply chain and chip constraints that have negatively impacted this business begin to abate, helping to drive revenues and profitability higher.

Operating Income for IET was $311 million, up 32% year-over-year.

Operating margin rate was 12.8%, down 20 basis points year-over-year.

IET EBITDA was $363 million, up 28% year-over-year, driven by increased volume. EBITDA margin was 14.9%, down 80 basis points year-over-year, driven by higher equipment mix and approximately $15 million of higher R&D spend year-over-year related to New Energy investments.

As communicated previously, as part of our broader New Energy strategy, we are increasing our R&D spend to enhance existing core technologies and developing some of the early-stage technologies we have in CCUS, hydrogen and clean power. So far this year in IET, we have spent around $40 million of incremental R&D for New Energy investments and we expect R&D expense to be modestly higher in the second half of the year.

Turning to slide 18, I would like to update you on our outlook for the two business segments.

Overall, we feel optimistic on the outlook for both OFSE and IET with solid growth tailwinds across each business, as well as continued operational enhancements to help drive backlog execution and margin improvement.

For Baker Hughes we expect third quarter revenue to be between $6.4 and $6.6 billion and EBITDA between $930 and $990 million. For the full year, our outlook remains unchanged, and we are raising the low end of our guidance range following our strong performance in the first half, and better visibility for the back half of the year. We now expect revenue to be between $24.8 and $26 billion and EBITDA between $3.65 and $3.8 billion.

For OFSE, we expect third quarter results to reflect growth in international markets and a decline in North American activity, but still expect sequential improvement on both revenue and EBITDA. We therefore expect third quarter revenue for OFSE between $3.8 and $4 billion and EBITDA between $635 and $695 million.

Factors driving this range include the pacing of some international projects, activity in the US land market, backlog conversion in SSPS and the pace of our cost-out initiatives.

For the full year 2023, our outlook for OFSE remains unchanged with international and offshore growth helping to offset second half softness in North America.

We now forecast OFSE revenue between $15.1 and $15.7 billion and EBITDA between $2.5 and $2.7 billion. Factors driving this range include the pace of growth in various international markets, activity in North America, continued improvement in Chemicals, the pace of backlog conversion and restructuring initiatives in the SSPS segment, and our broader cost-out initiatives.

For IET, we expect third quarter results to reflect strong year-over-year revenue growth as we execute our backlog for Gas Technology Equipment as well as continued solid revenue growth for Industrial Technology. We therefore expect third quarter IET revenue between $2.45 and $2.75 billion and EBITDA between $355 and $415 million.

The major factors driving this range will be the pace of backlog conversion in Gas Tech Equipment, the level of R&D spend related to our New Energy investments, and the impact of any supply chain delays in Gas Tech Equipment and Services.

Our full year outlook for IET remains constructive for orders, revenue and EBITDA.

For orders, we have increased our 2023 expectations by $1 billion to a range of $11.5 to $12.5 billion. We feel confident in meeting the upper end of the revised range and see the opportunity to exceed the high end depending on the timing of certain large projects.

We expect full year revenue for IET between $9.65 and $10.35 billion and EBITDA between $1.4 and $1.6 billion. The largest factors driving this range will be the pace of backlog conversion and any impacts associated with supply chain delays. Other factors include foreign currency movements and the level of R&D spend related to our New Energy investments.

Lastly, we are lowering our expected tax rate range by 250 basis points.

Before I turn the call back over to Lorenzo, I wanted to make everyone aware that Jud Bailey will be moving on from the Investor Relations role at the end of this month to become our new VP of Business Development. Replacing Jud is Chase Mulvehill, who is joining Baker Hughes from Bank of America, and started here with us earlier this month. I would like to congratulate Jud on his new role and welcome Chase to Baker Hughes.

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

Lorenzo Simonelli *Baker Hughes – Chairman & CEO*

Thank you, Nancy. I would also like to welcome Chase to Baker Hughes and wish Jud well in his new role. Turning to slide 19, Baker Hughes remains committed to delivering for our customers and our shareholders. We see exciting growth opportunities across our portfolio as well as opportunities to drive higher margins and returns through the simplification and optimization of our organizational structure.

Through these initiatives, our goal is to exceed the 20% EBITDA margin targets in OFSE and IET as well as the ROIC targets in both businesses of 15% and 20% respectively.

And finally, we continue to focus on generating strong free cash flow and returning 60% to 80% of this free cash flow to shareholders, while also investing for growth across our world class business.

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

Jud Bailey *Baker Hughes – VP of Investor Relations*

Thanks, Lorenzo.

Operator, let's open the call for questions.