

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

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

Commission file number 1-9397

Baker Hughes Incorporated
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

76-0207995

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

2929 Allen Parkway, Suite 2100, Houston, Texas

(Address of principal executive offices)

77019-2118

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1 Par Value per Share	New York Stock Exchange SWX Swiss Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter (based on the closing price on June 30, 2012 reported by the New York Stock Exchange) was approximately \$17,960,459,000.

As of February 4, 2013, the registrant has outstanding 441,808,100 shares of common stock, \$1 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Definitive Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Baker Hughes Incorporated

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PART I

ITEM 1. BUSINESS

Baker Hughes Incorporated is a Delaware corporation engaged in the oilfield services industry. As used herein, “Baker Hughes,” “Company,” “we,” “our” and “us” may refer to Baker Hughes Incorporated and/or its subsidiaries. The use of these terms is not intended to connote any particular corporate status or relationships.

AVAILABILITY OF INFORMATION FOR STOCKHOLDERS

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are made available free of charge on our Internet website at www.bakerhughes.com as soon as reasonably practicable after these reports have been electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). Information contained on or connected to our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report or any other filing we make with the SEC.

We have adopted a Business Code of Conduct to provide guidance to our directors, officers and employees on matters of business conduct and ethics, including compliance standards and procedures. We have also required our principal executive officer, principal financial officer and principal accounting officer to sign a Code of Ethical Conduct Certification.

Our Business Code of Conduct and Code of Ethical Conduct Certifications are available on the Investor Relations section of our website at www.bakerhughes.com. We will disclose on a current report on Form 8-K or on our website information about any amendment or waiver of these codes for our executive officers and directors. Waiver information disclosed on our website will remain on the website for at least 12 months after the initial disclosure of a waiver. Our Corporate Governance Guidelines and the charters of our Audit/Ethics Committee, Compensation Committee, Executive Committee, Finance Committee and Governance Committee are also available on the Investor Relations section of our website at www.bakerhughes.com. In addition, a copy of our Business Code of Conduct, Code of Ethical Conduct Certifications, Corporate Governance Guidelines and the charters of the committees referenced above are available in print at no cost to any stockholder who requests them by writing or telephoning us at the following address or telephone number:

Baker Hughes Incorporated
2929 Allen Parkway, Suite 2100
Houston, TX 77019-2118
Attention: Investor Relations
Telephone: (713) 439-8600

ABOUT BAKER HUGHES

Baker Hughes is a leading supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas industry. We also provide industrial products and services to the downstream refining, and process and pipeline industries. Baker Hughes was formed as a corporation in April 1987 in connection with the combination of Baker International Corporation and Hughes Tool Company. We may conduct our operations through subsidiaries, affiliates, ventures and alliances. We operate in more than 80 countries around the world and our corporate headquarters is in Houston, Texas. As of December 31, 2012, we had approximately 58,800 employees, of which approximately 58% work outside the United States (“U.S.”).

Our global oilfield operations are organized into a number of geomarket organizations, which are combined into eight geographic regions, each with its own president who in turn reports to one of two hemisphere presidents. In addition, certain support operations are organized at the enterprise level and include the product line marketing and technology, supply chain, and information technology organizations, which comprise the Global Products and Services group.

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Through the geographic organization, we have placed our management close to our customers, facilitating stronger customer relationships and allowing us to react quickly to local market conditions and customer needs. The geographic organization supports our oilfield operations and is responsible for sales, field operations and well site execution. Western Hemisphere operations consist of three regions - Canada, headquartered in Calgary, Alberta; and U.S. and Latin America regions, both headquartered in Houston, Texas. Eastern Hemisphere operations consist of five regions - Europe, headquartered in London, England; Africa, headquartered in Paris, France; Russia Caspian, headquartered in Moscow, Russia; Middle East, headquartered in Dubai, United Arab Emirates; and Asia Pacific, headquartered in Kuala Lumpur, Malaysia.

Within the Global Products and Services group, the product line marketing and technology organization is responsible for product development, technology, marketing and delivery of innovative and reliable solutions for our customers to advance their reservoir performance. This enterprise organization facilitates cross-product line technology development, sales processes and integrated operations capabilities. The supply chain organization is responsible for development of cost-effective procurement and manufacturing of our products and services. The supply chain organization also focuses on product reliability and quality, process efficiency and increased tool utilization.

We report financial results for five segments. Four of these segments represent our oilfield operations and their geographic organization as detailed below:

- North America (U.S. and Canada)
- Latin America
- Europe/Africa/Russia Caspian
- Middle East/Asia Pacific

In addition to the above, our Industrial Services and Other segment includes our downstream refining, and process and pipeline services businesses.

Further information about our segments is set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 9 of the Notes to Consolidated Financial Statements in Item 8 herein.

PRODUCTS AND SERVICES

Oilfield Operations

We offer a full suite of products and services to our customers around the world. Our oilfield products and services fall into one of two groups, Drilling and Evaluation or Completion and Production. This classification is based on the two major phases of constructing an oil and/or natural gas well and how our products and services are utilized for each phase.

- **The Drilling and Evaluation group** consists of the following products and services:
 - **Drill Bits** - includes Tricone™, PDC or "diamond", and Kymera™ hybrid drill bits used for performance drilling, hole enlargement and coring.
 - **Drilling Services** - includes conventional and rotary steerable systems used to drill wells directionally and horizontally; measurement-while-drilling and logging-while-drilling systems used to perform reservoir navigation services; drilling optimization services; tools for coil tubing drilling and wellbore re-entry systems; coring drilling systems; and surface logging.
 - **Wireline Services** - includes tools for both open hole and cased hole well logging used to gather data to perform petrophysical and geophysical analysis; reservoir evaluation coring; casing perforation; fluid characterization; production logging; well integrity testing; pipe recovery; and seismic and microseismic services.
 - **Drilling and Completion Fluids** - includes emulsion and water-based drilling fluids systems; reservoir drill-in fluids; and fluids environmental services.

- **The Completion and Production group** consists of the following products and services:
 - **Completion Systems** - includes products and services used to control the flow of hydrocarbons within a wellbore including sand control systems; liner hangers; wellbore isolation; expandable tubulars; multilaterals; safety systems; packers and flow control; and tubing conveyed perforating.
 - **Wellbore Intervention** - includes products and services used in existing wellbores to improve their performance including thru-tubing fishing; thru-tubing inflatables; conventional fishing; casing exit systems; production injection packers; remedial and stimulation tools; and wellbore cleanup.
 - **Intelligent Production Systems** - includes products and services used to monitor and dynamically control the production from individual wells or fields including production decisions services; chemical injection services; well monitoring services; intelligent well systems; and artificial lift monitoring.
 - **Artificial Lift** - includes electric submersible pump systems; progressing cavity pump systems; gas lift systems; and surface horizontal pumping systems used to lift large volumes of oil and water when a reservoir is no longer able to flow on its own.
 - **Upstream Chemicals** - includes chemicals and chemical application systems to provide flow assurance, integrity management and production management for upstream hydrocarbon production.
 - **Pressure Pumping** - includes cementing, stimulation, including hydraulic fracturing, and coil tubing services used in the completion of new oil and natural gas wells and in remedial work on existing wells, both onshore and offshore. Hydraulic fracturing is the practice of pumping fluid through a wellbore at pressures and rates sufficient to crack rock in the target formation, extend the cracks, and leave behind a propping agent to keep the cracks open after pumping ceases. The purpose of the cracks is to provide a pathway that allows for the passage of hydrocarbons from the rock to the wellbore, thus improving the production of hydrocarbons to the surface.

Additional information regarding our oilfield products and services can be found on the Company's website at www.bakerhughes.com. Our website also includes details of our hydraulic fracturing operations, including the chemical content of our fluids systems, our support of the Chemical Disclosure Registry at www.fracfocus.org, and information on our SmartCare™ qualified systems and products, which are intended to maximize performance while minimizing our impact on the community and environment.

Industrial Services and Other

Industrial Services and Other consists primarily of our downstream refining, and process and pipeline services businesses. Downstream refining services provides products and services that help to increase refinery production, as well as improve plant safety and equipment reliability. Process and pipeline services works to improve efficiency and reduce downtime with inspection, pre-commissioning and commissioning of new and existing pipeline systems and process plants.

MARKETING, CONTRACTING AND COMPETITION

We market our products and services within our geomarkets on a product line basis primarily through our own sales organizations. We ordinarily provide technical and advisory services to assist in our customers' use of our products and services. Stock points and service centers for our products and services are located in areas of drilling and production activity throughout the world.

Our customers include the large integrated major and super-major oil and natural gas companies, U.S. and international independent oil and natural gas companies, and the national or state-owned oil companies. No single customer accounts for more than 10% of our business. While we may have contracts with customers that include multiple well projects and that may extend over a period of time ranging from two to four years, our services and products are generally provided on a well-by-well basis. Most contracts cover our pricing of the products and services, but do not necessarily establish an obligation to use our products and services.

Our primary competitors include the major diversified oilfield service companies such as Schlumberger, Halliburton and Weatherford International, where the breadth of service capabilities as well as competitive position of each product line are the keys to differentiation in the market. We also compete with other companies who may participate in only a few product lines, for example, National Oilwell Varco, Ecolab, Newpark Resources, and FTS International.

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Our products and services are sold in highly competitive markets, and revenue and earnings can be affected by changes in commodity prices, fluctuations in the level of drilling, workover and completion activity in major markets, general economic conditions, foreign currency exchange fluctuations and governmental regulations. We believe that the principal competitive factors in our industries are product and service quality, availability and reliability, health, safety and environmental standards, technical proficiency and price.

We strive to negotiate the terms of our customer contracts consistent with what we consider to be best practices. The general industry practice is for oilfield service providers, like us, to be responsible for their own products and services and for our customers to retain liability for drilling and related operations. Consistent with this practice, we generally take responsibility for our own people and property while our customers, such as the operator of a well, take responsibility for their own people, property and all liabilities related to the well and subsurface operations, regardless of either party's negligence. In general, any material limitations on indemnifications to us from our customers in support of this allocation of responsibility arise only by applicable statutes. Certain states such as Texas, Louisiana, Wyoming, and New Mexico have enacted oil and natural gas specific statutes that void any indemnity agreement that attempts to relieve a party from liability resulting from its own negligence ("anti-indemnity statutes"). These statutes can void the allocation of liability agreed to in a contract; however, both the Texas and Louisiana anti-indemnity statutes include important exclusions. The Louisiana statute does not apply to property damage, and the Texas statute allows mutual indemnity agreements that are supported by insurance and has exclusions, which include, among other things, loss or liability for property damage that results from pollution and the cost of control of a wild well.

Because both Baker Hughes and our customers generally prefer to contract on the basis as we mutually agree, we negotiate with our customers in the U.S. to include a choice of law provision adopting the law of a state that does not have an anti-indemnity statute. When this does not occur, we will generally use Texas law. With the exclusions contained in the Texas anti-indemnity statute, we are usually able to structure the contract such that the limitation on the indemnification obligations of the customer is limited and should not have a material impact on the terms of the contract.

State law, laws or public policy in countries outside the U.S., or the negotiated terms of our agreement with the customer may also limit the customer's indemnity obligations in the event of the gross negligence or willful misconduct of a Company employee. The Company and the customer may also agree to other limitations on the customer's indemnity obligations in the contract.

The Company maintains a commercial general liability insurance policy program that covers against certain operating hazards, including product liability claims and personal injury claims, as well as certain limited environmental pollution claims for damage to a third party or its property arising out of contact with pollution for which the Company is liable, but clean up and well control costs are not covered by such program. All of the insurance policies purchased by the Company are subject to self-insured retention amounts for which we are responsible for payment, specific terms, conditions, limitations and exclusions. There can be no assurance that the nature and amount of Company insurance will be sufficient to fully indemnify us against liabilities related to our business.

RESEARCH AND DEVELOPMENT AND PATENTS

Our products and technology organization engages in research and development activities directed primarily toward the improvement of existing products and services, the design of specialized products to meet specific customer needs and the development of new products, processes and services. We have technology centers located in the U.S. (Claremore, Oklahoma; and several in Houston, Texas and surrounding areas), Germany (Celle), Brazil (Rio de Janeiro), Russia (Novosibirsk), and Saudi Arabia (Dhahran). For information regarding the amounts of research and development expense in each of the three years in the period ended December 31, 2012, see Note 1 of the Notes to Consolidated Financial Statements in Item 8 herein.

We have followed a policy of seeking patent and trademark protection in numerous countries and regions throughout the world for products and methods that appear to have commercial significance. We believe our patents and trademarks are adequate for the conduct of our business, and aggressively pursue protection of our patents against patent infringement worldwide. No single patent or trademark is considered to be critical to our business.

SEASONALITY

Our operations can be affected by seasonal weather, which can temporarily affect the delivery and performance of our products and services, as well as customers' budgetary cycles. The widespread geographic locations of our operations and the timing and location of seasonal events serve to reduce the impact to us of any individual event. Examples of seasonal events which can impact our business include:

- The severity and duration of both the summer and the winter in North America can have a significant impact on natural gas storage levels and drilling activity for natural gas.
- In Canada, the timing and duration of the spring thaw directly affects activity levels, which reach seasonal lows during the second quarter and build through the third and fourth quarters to a seasonal high in the first quarter.
- Hurricanes and typhoons can disrupt coastal and offshore drilling and production operations.
- Severe weather during the winter months normally results in reduced activity levels in the North Sea and Russia generally in the first quarter.
- Scheduled repair and maintenance of offshore facilities in the North Sea can reduce activity in the second and third quarters.
- Many of our international oilfield customers increase orders for certain products and services in the fourth quarter.
- Our Industrial and Other segment typically experiences lower sales during the first and fourth quarters of the year due to the Northern Hemisphere winter.

RAW MATERIALS

We purchase various raw materials and component parts for use in manufacturing our products and delivering our services. The principal materials we purchase include, but are not limited to, steel alloys (including chromium and nickel), titanium, barite, beryllium, copper, lead, tungsten carbide, synthetic and natural diamonds, gels, sand and other proppants, printed circuit boards and other electronic components and hydrocarbon-based chemical feed stocks. These materials are generally available from multiple sources and may be subject to price volatility. While we generally do not experience significant shortages of these materials, we have from time to time experienced temporary shortages of particular raw materials. In addition, we normally do not carry inventories of such materials in excess of those reasonably required to meet our production schedules. We do not expect significant interruptions in the supply of raw materials, but there can be no assurance that there will be no price or supply issues over the long term.

EMPLOYEES

As of December 31, 2012, we had approximately 58,800 employees, of which the majority are outside the U.S. Less than 10% of these employees are represented under collective bargaining agreements or similar-type labor arrangements. Based upon the geographic diversification of these employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

EXECUTIVE OFFICERS OF BAKER HUGHES INCORPORATED

The following table shows, as of February 13, 2013, the name of each of our executive officers, together with his or her age and all offices presently held.

Name	Age	
Martin S. Craighead	53	Chief Executive Officer since January 2012 and President since 2010. Director of the Company since 2011. Chief Operating Officer from 2010 to 2012. Senior Vice President from 2009 to 2010. Group President of Drilling and Evaluation since 2007 and Vice President of the Company from 2005 until 2009. President of INTEQ from 2005 to 2007. President of Baker Atlas from February 2005 to August 2005. Vice President of Worldwide Operations for Baker Atlas from 2003 to 2005 and Vice President, Marketing and Business Development for Baker Atlas from 2001 to 2003; Region Manager for Baker Atlas in Latin America and Asia and Region Manager for E&P Solutions from 1995 to 2001. Employed by the Company in 1986. Mr. Craighead will become Chairman of the Board on April 25, 2013, in addition to his current role as President and Chief Executive Officer.
Peter A. Ragauss	55	Senior Vice President and Chief Financial Officer of the Company since 2006. Segment Controller of Refining and Marketing for BP plc from 2003 to 2006. Mr. Ragauss joined BP plc in 1998 as Assistant to the Group Chief Executive until 2000 when he became Chief Executive Officer of Air BP. Vice President of Finance and Portfolio Management for Amoco Energy International immediately prior to its merger with BP in 1998. Vice President of Finance for El Paso Energy International from 1996 to 1998 and Vice President of Corporate Development for Tenneco Energy in 1996. Employed by the Company in 2006.
Chad C. Deaton	60	Executive Chairman of the Board of the Company since January 2012 and Chairman of the Board from 2004 to January 2012. Chief Executive Officer of the Company from 2004 to 2012 and President of the Company from 2008 to 2010. President and Chief Executive Officer of Hanover Compressor Company from 2002 to 2004. Senior Advisor to Schlumberger Oilfield Services from 1999 to 2001 and Executive Vice President of Schlumberger from 1998 to 1999. Employed by the Company in 2004. Mr. Deaton has announced he will retire on April 25, 2013.
Russell J. Cancilla	61	Vice President and Chief Security Officer, Health, Safety, Environment and Security of the Company since 2009. Chief Security Officer from June 2006 to January 2009. Vice President and Chief Security Officer of Innovene from 2005 to 2006; Vice President, Resources & Capabilities for HSSE for BP from 2003 to 2005 and Vice President, Real Estate and Management Services for BP from 1998 to 2003. Employed by the Company in 2006.
Belgacem Chariag	50	Vice President of the Company and President Eastern Hemisphere Operations since 2009. Vice President/Director HSE of Schlumberger Limited from May 2008 to May 2009. President of Well Services, a Schlumberger product line, from 2006 to 2008. Vice President Strategic Marketing Oilfield Services for Europe, Africa and CIS of Schlumberger from 2004 to 2006. Various other positions at Schlumberger from 1989 to 2008. Employed by the Company in 2009.
Didier Charreton	49	Vice President, Human Resources of the Company since 2007. Group Human Resources Director of Coats Plc, a global company engaged in the sewing thread and needlecrafts industry, from 2002 to 2007. Business Development of ID Applications for Gemplus S.A., a global company in the Smart Card industry, from 2000 to 2001. Various human resources positions at Schlumberger from 1989 to 2000. Employed by the Company in 2007.

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Alan R. Crain	61	Senior Vice President and General Counsel of the Company since 2007. Vice President and General Counsel from 2000 to 2007. Executive Vice President, General Counsel and Secretary of Crown, Cork & Seal Company, Inc. from 1999 to 2000. Vice President and General Counsel from 1996 to 1999, and Assistant General Counsel from 1988 to 1996, of Union Texas Petroleum Holdings, Inc. Employed by the Company in 2000.
Archana Deskus	47	Vice President and Chief Information Officer of the Company since 2013. Vice President and Chief Information Officer for Ingersoll-Rand from 2011 to 2012. Senior Vice President and Chief Information Officer for Timex Group from 2007 to 2011 and Vice President and Chief Information Officer for Carrier North America from 2003 to 2006. Employed by the Company in 2013.
Alan J. Keifer	58	Vice President and Controller of the Company since 1999. Western Hemisphere Controller of Baker Oil Tools from 1997 to 1999 and Director of Corporate Audit for the Company from 1990 to 1996. Employed by the Company in 1990.
Jay G. Martin	61	Vice President, Chief Compliance Officer and Senior Deputy General Counsel of the Company since 2004. Shareholder at Winstead Sechrest & Minick P.C. from 2001 to 2004. Partner, Phelps Dunbar from 2000 to 2001 and Partner, Andrews & Kurth from 1996 to 2000. Employed by the Company in 2004.
Derek Mathieson	42	Vice President of the Company since December 2008 and President Western Hemisphere Operations since January 2012. President, Products and Technology from May 2009 to January 2012. Chief Technology and Marketing Officer of the Company from December 2008 to May 2009. Chief Executive Officer of WellDynamics, Inc. from May 2007 to November 2008. Vice President Business Development, Technology and Marketing of WellDynamics, Inc. from April 2006 to May 2007; Technology Director and Chief Technology Officer from January 2004 to April 2006; Research and Development Manager from August 2002 to January 2004 and Reliability Assurance Engineer from April 2001 to August 2002 of WellDynamics, Inc. Well Engineer, Shell U.K. Exploration and Production 1997 to 2001. Employed by the Company in 2008.
John A. O'Donnell	64	Vice President, Office of the CEO since January 2012. Vice President of the Company since 1998 and President Western Hemisphere Operations from May 2009 to January 2012. President of BJ Services LLC from 2009 to 2010. President of Baker Petrolite Corporation from 2005 to May 2009. President of Baker Hughes Drilling Fluids from 2004 to 2005. Vice President, Business Process Development of the Company from 1998 to 2002; Vice President, Manufacturing, of Baker Oil Tools from 1990 to 1998 and Plant Manager of Hughes Tool Company from 1988 to 1990. Employed by the Company in 1975.
Mario Ruscev	56	Vice President and Chief Technology Officer of the Company since August 2012. Chief Executive Officer of Geotech Seismic Services from January 2012 to August 2012 and Chief Executive Officer of FormFactor from 2008 to 2010. Various positions at Schlumberger for 20 years. Employed by the Company in 2012.
Arthur L. Soucy	50	Vice President of the Company since April 2009 and President Global Products and Services since January 2012. Vice President Supply Chain of the Company from April 2009 to January 2012. Vice President, Global Supply Chain for Pratt and Whitney from 2007 to 2009. Sloan Fellows Program, Innovation and Global Leadership at Massachusetts Institute of Technology from 2006 to 2007. General Manager, Combustors, Augmenters and Nozzles of Pratt and Whitney from 2005 to 2006. Various managerial positions at Pratt and Whitney from 1995 to 2006. Employed by the Company in 2009.

There are no family relationships among our executive officers.

ENVIRONMENTAL MATTERS

We are committed to the health and safety of people, protection of the environment and compliance with laws, regulations and our policies. Our past and present operations include activities that are subject to domestic (including U.S. federal, state and local) and international regulations with regard to air and water quality and other environmental matters. We believe we are in substantial compliance with these regulations. Regulation in this area continues to evolve, and changes in standards of enforcement of existing regulations, as well as the enactment and enforcement of new legislation, may require us and our customers to modify, supplement or replace equipment or facilities or to change or discontinue present methods of operation. Our environmental compliance expenditures and our capital costs for environmental control equipment may change accordingly.

We are involved in voluntary remediation projects at some of our present and former manufacturing locations or other facilities, the majority of which relate to properties obtained in acquisitions or to sites no longer actively used in operations. On rare occasions, remediation activities are conducted as specified by a government agency-issued consent decree or agreed order. Estimated remediation costs are accrued using currently available facts, existing environmental permits, technology and presently enacted laws and regulations. For sites where we are primarily responsible for the remediation, our cost estimates are developed based on internal evaluations and are not discounted. We record accruals when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related activities, and such amounts can be reasonably estimated. In general, we seek to accrue costs for the most likely scenario, where known. Accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Ongoing environmental compliance costs, such as obtaining environmental permits, installation of pollution control equipment and waste disposal, are expensed as incurred.

The Comprehensive Environmental Response, Compensation and Liability Act (known as "Superfund") imposes liability for the release of a "hazardous substance" into the environment. Superfund liability is imposed without regard to fault, even if the waste disposal was in compliance with laws and regulations. The U.S. Environmental Protection Agency (the "EPA") and appropriate state agencies supervise investigative and cleanup activities at Superfund sites.

We have been identified as a potentially responsible party ("PRP") in remedial activities related to various Superfund sites, and we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste we contributed to the site to the total volume of waste disposed at the site. PRPs in Superfund actions have joint and several liability for all costs of remediation. Accordingly, a PRP may be required to pay more than its proportional share of such costs. For some projects, it is not possible to quantify our ultimate exposure because the projects are either in the investigative or early remediation stage, or allocation information is not yet available. However, based upon current information, we do not believe that probable or reasonably possible expenditures in connection with the sites are likely to have a material adverse effect on our consolidated financial statements because we have recorded adequate reserves to cover the estimate we presently believe will be our ultimate liability in the matter. Further, other PRPs involved in the sites have substantial assets and may reasonably be expected to pay their share of the cost of remediation, and, in some circumstances, we have insurance coverage or contractual indemnities from third parties to cover a portion of the ultimate liability.

Based upon current information, we believe that our overall compliance with environmental regulations, including routine environmental compliance costs and capital expenditures for environmental control equipment, will not have a material adverse effect upon our capital expenditures, earnings or competitive position because we have either established adequate reserves or our cost for that compliance is not expected to be material to our consolidated financial statements. Our total accrual for environmental remediation is \$32 million and \$29 million, which includes accruals of \$4 million and \$5 million for the various Superfund sites, at December 31, 2012 and 2011, respectively.

We are subject to various other governmental proceedings and regulations, including foreign regulations, relating to environmental matters, but we do not believe that any of these matters is likely to have a material adverse effect on our consolidated financial statements. We continue to focus on reducing future environmental liabilities by maintaining appropriate company standards and improving our assurance programs.

ITEM 1A. RISK FACTORS

An investment in our common stock involves various risks. When considering an investment in Baker Hughes, one should carefully consider all of the risk factors described below, as well as other information included and incorporated by reference in this report. There may be additional risks, uncertainties and matters not listed below, that we are unaware of, or that we currently consider immaterial. Any of these may adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in Baker Hughes.

Risk Factors Related to the Worldwide Oil and Natural Gas Industry

Our business is focused on providing products and services to the worldwide oil and natural gas industry; therefore, our risk factors include those factors that impact, either positively or negatively, the markets for oil and natural gas. Expenditures by our customers for exploration, development and production of oil and natural gas are based on their expectations of future hydrocarbon demand, the risks associated with developing the reserves, their ability to finance exploration for and development of reserves, and the future value of the reserves. Their evaluation of the future value is based, in part, on their expectations for global demand, global supply, excess production capacity, inventory levels, and other factors that influence oil and natural gas prices. The key risk factors we believe are currently influencing the worldwide oil and natural gas markets are discussed below.

Demand for oil and natural gas is subject to factors beyond our control, which may adversely affect our operating results. Changes in the global economy could impact our customers' spending levels and our revenue and operating results.

Demand for oil and natural gas, as well as the demand for our services, is highly correlated with global economic growth, and in particular by the economic growth of countries such as the U.S., India, China, and developing countries in Asia and the Middle East who are either significant users of oil and natural gas or whose economies are experiencing the most rapid economic growth compared to the global average. The most recent slowdown in global economic growth and recession in the developed economies resulted in reduced demand for oil and natural gas, increased spare productive capacity and lower energy prices. Weakness or deterioration of the global economy or credit markets or a continuation of the European sovereign debt crisis could reduce our customers' spending levels and reduce our revenue and operating results. Incremental weakness in global economic activity, particularly in China, India, Europe, the Middle East and developing countries in Asia, will reduce demand for oil and natural gas and result in lower oil and natural gas prices. Incremental strength in global economic activity in such areas will create more demand for oil and natural gas and support higher oil and natural gas prices. In addition, demand for oil and natural gas could be impacted by environmental regulation, including "cap and trade" legislation, regulation of hydraulic fracturing, carbon taxes and the cost for carbon capture and sequestration related regulations.

Volatility of oil and natural gas prices can adversely affect demand for our products and services.

Volatility in oil and natural gas prices can also impact our customers' activity levels and spending for our products and services. Current energy prices are important contributors to cash flow for our customers and their ability to fund exploration and development activities. Expectations about future prices and price volatility are important for determining future spending levels.

Lower oil and natural gas prices generally lead to decreased spending by our customers. While higher oil and natural gas prices generally lead to increased spending by our customers, sustained high energy prices can be an impediment to economic growth, and can therefore negatively impact spending by our customers. Our customers also take into account the volatility of energy prices and other risk factors by requiring higher returns for individual projects if there is higher perceived risk. Any of these factors could affect the demand for oil and natural gas and could have a material adverse effect on our results of operations.

Our customers' activity levels and spending for our products and services and ability to pay amounts owed us could be impacted by the ability of our customers to access equity or credit markets.

Our customers' access to capital is dependent on their ability to access the funds necessary to develop economically attractive projects based upon their expectations of future energy prices, required investments and

resulting returns. Limited access to external sources of funding has and may continue to cause customers to reduce their capital spending plans to levels supported by internally-generated cash flow. In addition, a reduction of cash flow resulting from declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities or the lack of available debt or equity financing may impact the ability of our customers to pay amounts owed to us.

Supply of oil and natural gas is subject to factors beyond our control, which may adversely affect our operating results.

Productive capacity for oil and natural gas is dependent on our customers' decisions to develop and produce oil and natural gas reserves and on the regulatory environment in which our customers and we operate. The ability to produce oil and natural gas can be affected by the number and productivity of new wells drilled and completed, as well as the rate of production and resulting depletion of existing wells. Advanced technologies, such as horizontal drilling and hydraulic fracturing, improve total recovery but also result in a more rapid production decline and may become subject to more stringent regulation in the future.

Access to prospects is also important to our customers and such access may be limited because host governments do not allow access to the reserves or because another oil and natural gas exploration company owns the rights to develop the prospect.

Government regulations and the costs incurred by oil and natural gas exploration companies to conform to and comply with government regulations may also limit the quantity of oil and natural gas that may be economically produced.

Supply can also be impacted by the degree to which individual Organization of Petroleum Exporting Countries ("OPEC") nations and other large oil and natural gas producing countries, including, but not limited to, Norway and Russia, are willing and able to control production and exports of oil, to decrease or increase supply and to support their targeted oil price while meeting their market share objectives. Any of these factors could affect the supply of oil and natural gas and could have a material adverse effect on our results of operations.

Changes in spare productive capacity or inventory levels can be indicative of future customer spending to explore for and develop oil and natural gas which in turn influences the demand for our products and services.

Spare productive capacity and oil and natural gas storage inventory levels are an indicator of the relative balance between supply and demand. High or increasing storage or inventories generally indicate that supply is exceeding demand and that energy prices are likely to soften. Low or decreasing storage or inventories are an indicator that demand is growing faster than supply and that energy prices are likely to rise. Measures of maximum productive capacity compared to demand ("spare productive capacity") are also an important factor influencing energy prices and spending by oil and natural gas exploration companies. When spare productive capacity is low compared to demand, energy prices tend to be higher and more volatile, reflecting the increased vulnerability of the entire system to disruption.

Seasonal and weather conditions could adversely affect demand for our services and operations.

Variation from normal weather patterns, such as cooler or warmer summers and winters, can have a significant impact on demand. Adverse weather conditions, such as hurricanes in the Gulf of Mexico, may interrupt or curtail our operations, or our customers' operations, cause supply disruptions and result in a loss of revenue and damage to our equipment and facilities, which may or may not be insured. Extreme winter conditions in Canada, Russia or the North Sea may interrupt or curtail our operations, or our customers' operations, in those areas and result in a loss of revenue.

Risk Factors Related to Our Business

Our expectations regarding our business are affected by the following risk factors and the timing of any of these risk factors:

We operate in a highly competitive environment, which may adversely affect our ability to succeed.

We operate in a highly competitive environment for marketing oilfield services and securing equipment and trained personnel. Our ability to continually provide competitive products and services can impact our ability to defend, maintain or increase prices for our products and services, maintain market share and negotiate acceptable contract terms with our customers. In order to be competitive, we must provide new technologies, reliable products and services that perform as expected and that create value for our customers, and successfully recruit and train competent personnel. Our ability to defend, maintain or increase prices for our products and services is in part dependent on the industry's capacity relative to customer demand, and on our ability to differentiate the value delivered by our products and services from our competitors' products and services.

Managing development of competitive technology and new product introductions on a forecasted schedule and at forecasted costs can impact our financial results. Development of competing technology that accelerates the obsolescence of any of our products or services can have a detrimental impact on our financial results.

We may be disadvantaged competitively and financially by a significant movement of exploration and production operations to areas of the world in which we are not currently active.

The high cost or unavailability of infrastructure, materials, equipment, supplies and personnel, particularly in periods of rapid growth, could adversely affect our ability to execute our operations on a timely basis.

Our manufacturing operations are dependent on having sufficient raw materials, component parts and manufacturing capacity available to meet our manufacturing plans at a reasonable cost while minimizing inventories. Our ability to effectively manage our manufacturing operations and meet these goals can have an impact on our business, including our ability to meet our manufacturing plans and revenue goals, control costs, and avoid shortages of raw materials and component parts. Raw materials and components of particular concern include steel alloys (including chromium and nickel), titanium, barite, beryllium, copper, lead, tungsten carbide, synthetic and natural diamonds, gels, sand and other proppants, printed circuit boards and other electronic components and hydrocarbon-based chemical feed stocks. Our ability to repair or replace equipment damaged or lost in the well can also impact our ability to service our customers. A lack of manufacturing capacity could result in increased backlog, which may limit our ability to respond to short lead time orders.

People are a key resource to developing, manufacturing and delivering our products and services to our customers around the world. Our ability to manage the recruiting, training, retention and efficient usage of the highly skilled workforce required by our plans and to manage the associated costs could impact our business. A well-trained, motivated workforce has a positive impact on our ability to attract and retain business. Periods of rapid growth present a challenge to us and our industry to recruit, train and retain our employees, while managing the impact of wage inflation and potential lack of available qualified labor in the markets where we operate. Likewise, when there is a downturn in the economy or our markets, we may have to adjust our workforce to control costs and yet not lose our skilled and diverse workforce. Labor-related actions, including strikes, slowdowns and facility occupations can also have a negative impact on our business.

Our business is subject to geopolitical and terrorism threats.

Geopolitical and terrorism risks continue to grow in a number of key countries where we do business. Geopolitical and terrorism risks could lead to, among other things, a loss of our investment in the country, impairment of the safety of our employees and impairment of our ability to conduct our operations.

Uncertainties in Venezuela have impacted the collection of accounts receivable and could further impact our business operations.

We are not able to predict how uncertainties in Venezuela may impact further collection of accounts receivable

and our ability to continue operations. We continue to experience delays in receiving payments from our customers in Venezuela. As of December 31, 2012, our accounts receivable in Venezuela were approximately 6% of our total accounts receivable (after any provision for doubtful accounts). For the year ended December 31, 2012, revenue in Venezuela was approximately 2% of our total consolidated revenue. In addition, our operations in Venezuela could be impacted by any further devaluation of the local currency or other action of the Venezuelan government that impedes our ability to conduct operations, which could have a material adverse effect on our results of operations.

Our business is subject to cybersecurity risks and threats.

Threats to our information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. It is also possible that breaches to our systems could go unnoticed for some period of time. Risks associated with these threats include, among other things, loss of intellectual property, impairment of our ability to conduct our operations, disruption of our customers' operations, loss or damage to our customer data delivery systems, and increased costs to prevent, respond to or mitigate cybersecurity events.

Our failure to comply with the Foreign Corrupt Practices Act ("FCPA") would have a negative impact on our ongoing operations.

We entered into settlements with the U.S. Department of Justice ("DOJ") and the SEC in April 2007 relating to violations of the FCPA by the Company. Our ability to comply with the FCPA is dependent on the success of our ongoing compliance program, including our ability to continue to manage our agents and business partners, and supervise, train and retain competent employees. Our compliance program is also dependent on the efforts of our employees to comply with applicable law and the Baker Hughes Business Code of Conduct. We could be subject to sanctions and civil and criminal prosecution as well as fines and penalties in the event of a finding of an additional violation of the FCPA by us or any of our employees.

Compliance with and changes in laws could be costly and could affect operating results.

We have operations in the U.S. and in more than 80 countries that can be impacted by expected and unexpected changes in the legal and business environments in which we operate. Our ability to manage our compliance costs and compliance programs will impact our ability to meet our earnings goals. Compliance related issues could also limit our ability to do business in certain countries. Changes that could impact the legal environment include new legislation, new regulations, new policies, investigations and legal proceedings and new interpretations of existing legal rules and regulations, in particular, changes in export control laws or exchange control laws, additional restrictions on doing business in countries subject to sanctions, and changes in laws in countries where we operate or intend to operate.

Changes in tax laws or tax rates, adverse positions taken by taxing authorities and tax audits could impact operating results.

Changes in tax laws or tax rates, the resolution of tax assessments or audits by various tax authorities, and the ability to fully utilize our tax loss carryforwards and tax credits could impact operating results. In addition, we may periodically restructure our legal entity organization. If taxing authorities were to disagree with our tax positions in connection with any such restructurings, our effective tax rate could be materially impacted.

Our tax filings for various periods are subject to audit by the tax authorities in most jurisdictions where we conduct business. We have received tax assessments from various taxing authorities and are currently at varying stages of appeals and/or litigation regarding these matters. These audits may result in assessment of additional taxes that are resolved with the authorities or through the courts. We believe these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. Resolution of any tax matter involves uncertainties and there are no assurances that the outcomes will be favorable.

Changes in and compliance with restrictions or regulations on offshore drilling has and may continue to adversely affect our business and operating results and reduce the need for our services in those areas.

New and proposed legislation and regulation in the U.S. and other parts of the world of the offshore oil and natural gas industry may result in substantial increases in costs or delays in drilling or other operations in the Gulf of

Mexico and other parts of the world, oil and natural gas projects becoming potentially non-economic, and a corresponding reduced demand for our services. We cannot predict with any certainty the impact of the prior moratorium or the substance or effect of any new or additional regulations. If the U.S. or other countries where we operate, enact stricter restrictions on offshore drilling or further regulate offshore drilling or contracting services operations, including without limitation cementing, higher operating costs could result and adversely affect our business and operating results.

If the Company were to be involved in a future incident similar to the 2010 Deepwater Horizon accident, the Company could suffer significant financial losses that could severely impair the Company. Protections available to the Company through contractual terms and insurance coverage may not be sufficient to protect the Company in the event we were involved in that type of an incident.

Uninsured claims and litigation against us could adversely impact our operating results.

We could be impacted by the outcome of pending litigation as well as unexpected litigation or proceedings. We have insurance coverage against operating hazards, including product liability claims and personal injury claims related to our products, to the extent deemed prudent by our management and to the extent insurance is available; however, 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 and future claims and litigation. This insurance has deductibles or self-insured retentions and contains certain coverage exclusions. The insurance does not cover damages from breach of contract by us or based on alleged fraud or deceptive trade practices. In addition, the following risks apply with respect to our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may be faced with types of liabilities that will not be covered by our insurance;
- our insurance carriers may not be able to meet their obligations under the policies; or
- the dollar amount of any liabilities may exceed our policy limits.

Whenever possible, we obtain agreements from customers that limit our liability. However, state law, laws or public policy in countries outside the U.S., or the negotiated terms of the agreement with the customer may not recognize those limitations of liability and/or limit the customer's indemnity obligations to the Company. In addition, insurance and customer agreements do not provide complete protection against losses and risks from an event, like a well blow out that can lead to property damage, personal injury, death or the discharge of hazardous materials into the environment. Our results of operations could be adversely affected by unexpected claims not covered by insurance.

Compliance with, and rulings and litigation in connection with, environmental regulations and the environmental impacts of our or our customers' operations may adversely affect our business and operating results.

Our business is impacted by unexpected outcomes or material changes in environmental laws, rulings and litigation. Our expectations regarding our compliance with environmental laws and our expenditures to comply with environmental laws, including (without limitation) our capital expenditures for environmental control equipment, are only our forecasts regarding these matters. These forecasts may be substantially different from actual results, which may be affected by factors such as: changes in law that impose new restrictions on air emissions, wastewater management, waste disposal, hydraulic fracturing, or wetland and land use practices; more stringent enforcement of existing environmental regulations; a change in our allocation or other unexpected, adverse outcomes with respect to sites where we have been named as a PRP, including (without limitation) Superfund sites; the discovery of other sites where additional expenditures may be required to comply with environmental legal obligations; and the accidental discharge of hazardous materials.

International, national, and state governments and agencies are currently evaluating and promulgating legislation and regulations that are focused on restricting emissions commonly referred to as greenhouse gas ("GHG") emissions. In the U.S., the EPA has taken steps to regulate GHGs as pollutants under the Clean Air Act. The EPA's "Mandatory Reporting of Greenhouse Gases" rule established in 2010 provided a comprehensive scheme of regulations that require monitoring and reporting of GHG emissions. Furthermore, the EPA has issued additional GHG reporting rules specifically for the oil and natural gas industry, which now include mobile as well as stationary GHG emission sources. These rules are expected to apply to some of our wellsite equipment and

operations in the future. The EPA has also published a final rule, the “Endangerment Finding,” indicating that GHGs in the atmosphere endanger public health and welfare, and that emissions of GHGs from mobile sources also contribute. Following issuance of the Endangerment Finding, the EPA also promulgated final motor vehicle GHG emission standards on April 1, 2010.

International developments focused on restricting the emission of carbon dioxide and other gases include the United Nations Framework Convention on Climate Change, also known as the “Kyoto Protocol” (an internationally applied protocol, which has been ratified in Canada) and the European Union’s Emission Trading System. The Carbon Reduction Commitment in the United Kingdom (“U.K.”) is the first cap and trade scheme to affect Baker Hughes’ facilities. Domestic cap and trade programs include the Regional Greenhouse Gas Initiative in the northeastern U.S. and the Western Regional Climate Action Initiative in the western U.S.

Current or future legislation, regulations and developments may curtail production and demand for hydrocarbons such as oil and natural gas in areas of the world where our customers operate and thus adversely affect future demand for our services, which may in turn adversely affect future results of operations.

Demand for pressure pumping services could be reduced or eliminated by governmental regulation or a change in the law.

Some federal, state and foreign governmental bodies have adopted laws and regulations or are considering legislative and regulatory proposals that, if signed into law, would among other things require the public disclosure of chemicals used in hydraulic fracturing operations and would subject hydraulic fracturing to more stringent regulation with respect to, for example, construction standards for wells intended for hydraulic fracturing, certifications concerning the conduct of hydraulic fracturing operations, management of flowback waters from hydraulic fracturing operations, or other measures intended to prevent operational hazards. Such federal, state or foreign legislation and/or regulations could impair our operations, increase our operating costs, and/or greatly reduce or eliminate demand for the Company’s pressure pumping services. The EPA and other governmental bodies are studying hydraulic fracturing operations. Government actions relating to the development of unconventional oil and natural gas resources may impede the development of these resources by our customers, delaying or reducing the demand for our services. We are unable to predict whether the proposed changes in laws or regulations or any other governmental proposals or responses will ultimately occur, and accordingly, we are unable to assess the potential financial or operational impact they may have on our business.

Control of oil and natural gas reserves by state-owned oil companies may impact the demand for our services and create additional risks in our operations.

Much of the world’s oil and natural gas reserves are controlled by state-owned oil companies. State-owned oil companies may require their contractors to meet local content requirements or other local standards, such as joint ventures, that could be difficult or undesirable for the Company to meet. The failure to meet the local content requirements and other local standards may adversely impact the Company’s operations in those countries. In addition, our ability to work with state-owned oil companies is subject to our ability to negotiate and agree upon acceptable contract terms.

In addition, many state-owned oil companies may require integrated contracts or turnkey contracts that could require the Company to provide services outside its core business. Providing services on an integrated or turnkey basis generally requires the Company to assume additional risks.

Currency fluctuations may impact our operating results.

Fluctuations in foreign currencies relative to the U.S. Dollar can impact our revenue and our costs of doing business. Most of our products and services are sold through contracts denominated in U.S. Dollars or local currency indexed to U.S. Dollars; however, some of our revenue, local expenses and manufacturing costs are incurred in local currencies and therefore changes in the exchange rates between the U.S. Dollar and foreign currencies can increase or decrease our revenue and expenses reported in U.S. Dollars and may impact our results of operations.

Changes in economic conditions may impact our ability to borrow and/or cost of borrowing.

The condition of the capital markets and equity markets in general can affect the price of our common stock and our ability to obtain financing, if necessary. If the Company's credit rating is downgraded, this would increase borrowing costs under our credit facility and commercial paper program, as well as the cost of renewing or obtaining, or make it more difficult to renew or obtain or issue new debt financing.

Changes in market conditions may impact any stock repurchases.

To the extent the Company engages in stock repurchases, such activity is subject to market conditions, such as the trading prices for our stock, as well as the terms of any stock purchase plans intended to comply with Rule 10b5-1 or Rule 10b-18 of the Exchange Act. Management, in its discretion, may engage in or discontinue stock repurchases at any time.

Over one-half of the Company's revenue and profit before tax are attributable to North America.

During the year ended December 31, 2012, over one-half of our revenue and profit before tax were attributable to North America. In North America, a decrease in demand for energy or in oil and natural gas exploration and production, or an increase in competition could result in a significant adverse effect on our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease numerous properties throughout the world. We consider our manufacturing plants, equipment assembly, maintenance, and overhaul facilities, grinding plants, drilling fluids and chemical processing centers, and research and technology centers to be our principal properties. The following sets forth the location of our principal owned or leased facilities for our oilfield operations by geographic segment:

North America:

Houston, Pasadena, Tomball, and The Woodlands, Texas; Barnsdall, Broken Arrow, Claremore, Tulsa and Sand Springs, Oklahoma; Bossier City, Broussard, and Lafayette, Louisiana.

Latin America:

Maracaibo, Venezuela; Macae (Rio de Janeiro), Brazil.

Europe/Africa/Russia Caspian:

Aberdeen, Scotland; Liverpool, England; Celle, Germany; Tananger, Norway; Port Harcourt, Nigeria.

Middle East/Asia Pacific:

Dubai, United Arab Emirates; Dhahran, Saudi Arabia; Singapore, Singapore; Chonburi, Thailand.

Principal properties for the Industrial Services and Other segment include locations in Houston, Texas and Barnsdall, Oklahoma.

We own or lease numerous other facilities such as service centers, shops and sales and administrative offices throughout the geographic regions in which we operate. We also have a significant investment in service vehicles, tools and manufacturing and other equipment. All of our owned properties are unencumbered. We believe that our facilities are well maintained and suitable for their intended purposes.

ITEM 3. LEGAL PROCEEDINGS

The information with respect to Item 3. Legal Proceedings is contained in Note 11 of the Notes to Consolidated Financial Statements in Item 8 herein.

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 report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, \$1.00 par value per share, is principally traded on the New York Stock Exchange. Our common stock is also traded on the SWX Swiss Exchange. As of February 4, 2013, there were approximately 188,800 stockholders and approximately 10,800 stockholders of record.

For information regarding quarterly high and low sales prices on the New York Stock Exchange for our common stock during the two years ended December 31, 2012, and information regarding dividends declared on our common stock during the two years ended December 31, 2012, see Note 14 of the Notes to Consolidated Financial Statements in Item 8 herein.

The following table contains information about our purchases of equity securities during the fourth quarter of 2012.

Issuer Purchases of Equity Securities

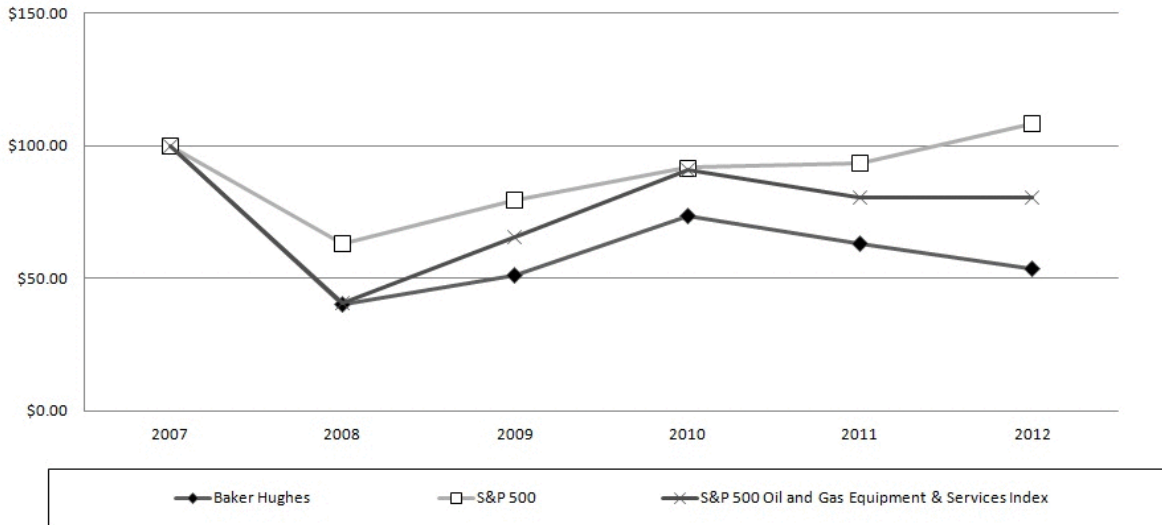
Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽²⁾	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased in the Aggregate	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program ⁽³⁾
October 1-31, 2012	3,268	\$ 44.73	—	\$ —	3,268	\$ —
November 1-30, 2012	553	41.91	—	—	553	—
December 1-31, 2012	—	—	—	—	—	—
Total	3,821	\$ 44.32	—	\$ —	3,821	\$ 1,197,127,803

- (1) Represents shares purchased from employees to pay the option exercise price related to stock-for-stock exchanges in option exercises or to satisfy the tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock units.
- (2) There were no share repurchases during the fourth quarter of 2012 as part of a publicly announced program.
- (3) Our Board of Directors has authorized a program to repurchase our common stock from time to time. During the fourth quarter of 2012, we did not repurchase any shares of our common stock under the program. We had authorization remaining to repurchase up to a total of \$1,197 million of our common stock.

Corporate Performance Graph

The following graph compares the yearly change in our cumulative total stockholder return on our common stock (assuming reinvestment of dividends into common stock at the date of payment) with the cumulative total return on the published Standard & Poor's ("S&P") 500 Stock Index and the cumulative total return on the S&P 500 Oil and Gas Equipment and Services Index over the preceding five-year period.

**Comparison of Five-Year Cumulative Total Return *
Baker Hughes Incorporated; S&P 500 Index and S&P 500 Oil and Gas Equipment and Services Index**



	2007	2008	2009	2010	2011	2012
Baker Hughes	\$ 100.00	\$ 39.96	\$ 51.28	\$ 73.37	\$ 63.08	\$ 53.73
S&P 500 Index	100.00	63.06	79.70	91.68	93.63	108.55
S&P 500 Oil and Gas Equipment and Services Index	100.00	40.83	65.41	91.07	80.49	80.52

* Total return assumes reinvestment of dividends on a quarterly basis.

The comparison of total return on investment (change in year-end stock price plus reinvested dividends) assumes that \$100 was invested on December 31, 2007 in Baker Hughes common stock, the S&P 500 Index and the S&P 500 Oil and Gas Equipment and Services Index.

The corporate performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that Baker Hughes specifically incorporates it by reference into such filing.

ITEM 6. SELECTED FINANCIAL DATA

The Selected Financial Data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data, both contained herein.

<i>(In millions, except per share amounts)</i>	Year Ended December 31,				
	2012 ⁽¹⁾	2011 ⁽¹⁾	2010 ⁽¹⁾	2009	2008
Revenue	\$ 21,361	\$ 19,831	\$ 14,414	\$ 9,664	\$ 11,864
Operating income ⁽²⁾	2,192	2,600	1,417	732	2,376
Non-operating expense, net	(210)	(261)	(135)	(121)	(57)
Income before income taxes	1,982	2,339	1,282	611	2,319
Income taxes ⁽³⁾	(665)	(596)	(463)	(190)	(684)
Net income	1,317	1,743	819	421	1,635
Net (income) loss attributable to noncontrolling interests	(6)	(4)	(7)	—	—
Net income attributable to Baker Hughes	\$ 1,311	\$ 1,739	\$ 812	\$ 421	\$ 1,635
Per share of common stock:					
Net income attributable to Baker Hughes:					
Basic	\$ 2.98	\$ 3.99	\$ 2.06	\$ 1.36	\$ 5.32
Diluted	2.97	3.97	2.06	1.36	5.30
Dividends	0.60	0.60	0.60	0.60	0.56
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 1,015	\$ 1,050	\$ 1,706	\$ 1,595	\$ 1,955
Working capital (current assets minus current liabilities)	6,293	6,295	5,568	4,612	4,634
Total assets	26,689	24,847	22,986	11,439	11,861
Long-term debt	3,837	3,845	3,554	1,785	1,775
Total equity	17,268	15,964	14,286	7,284	6,807

Notes To Selected Financial Data

- (1) We acquired BJ Services on April 28, 2010, and accordingly, the financial results of BJ Services are included only from the date of acquisition.
- (2) Operating income for 2011 includes a charge of \$315 million before-tax (\$220 million net of tax), the majority of which relates to the impairment associated with the decision to minimize the use of the BJ Services trade name. For further discussion, see Note 7 of the Notes to Consolidated Financial Statements in Item 8 herein.
- (3) Income taxes for 2011 include a tax benefit of \$214 million associated with the reorganization of certain foreign subsidiaries. For further discussion, see Note 3 of the Notes to Consolidated Financial Statements in Item 8 herein.

ITEM 7. 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 consolidated financial statements of Item 8. Financial Statements and Supplementary Data contained herein.

EXECUTIVE SUMMARY

Baker Hughes is a leading supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas industry. We provide products and services for:

- drilling and evaluation of oil and natural gas wells;
- completion and production of oil and natural gas wells; and
- other businesses, including downstream refining, and process and pipeline services.

We operate our business primarily through geographic regions that have been aggregated into five reportable segments: North America, Latin America, Europe/Africa/Russia Caspian, Middle East/Asia Pacific and Industrial Services and Other. The four geographical segments represent our oilfield operations.

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

For 2012, we generated revenue of \$21.36 billion, an increase of \$1.53 billion or 8% compared to 2011. North America oilfield revenue for 2012 was \$10.84 billion, an increase of 5% compared to 2011. Oilfield revenue outside of North America was \$9.30 billion, an increase of 11% compared to 2011. Industrial Services and Other revenue was \$1.22 billion, an increase of 7% compared to 2011. These increases are primarily due to increases in activity for our product lines outside of pressure pumping in North America, driven by oil-directed drilling mainly in unconventional reservoirs, activity improvements in the Gulf of Mexico, and increased activity in our international markets, particularly the Middle East, Latin America and Africa.

Net income attributable to Baker Hughes was \$1.31 billion for 2012 compared to \$1.74 billion for 2011. Profitability in North America was adversely impacted by the volatility experienced within our pressure pumping product line related to both pricing pressure, as a result of the increasing supply of pressure pumping capacity in the market, and increased personnel and raw material costs. Our other product lines in the U.S., particularly drilling services, upstream chemicals, artificial lift and completions, experienced increased demand in 2012. International profitability increased in 2012 compared to 2011, driven primarily by the activity increases described above in the Middle East and Africa as well improved profitability in Europe and Russia Caspian.

As of December 31, 2012, Baker Hughes had approximately 58,800 employees compared to approximately 57,700 employees as of December 31, 2011.

BUSINESS ENVIRONMENT

In North America, customer spending decreased in 2012 compared to 2011, resulting in a 1% decrease in the North America rig count. Natural gas-directed drilling activity decreased 36% in 2012 compared to 2011 as a warm winter and increased production in unconventional natural gas shale basins contributed to high natural gas working inventories and ultimately lower commodity prices. This was largely offset by a 28% increase in oil-directed drilling in 2012 compared to 2011, as high oil prices during the year supported increased rig activity. In the U.S., customer spending in the natural gas shale basins declined throughout 2012 due to low natural gas prices, resulting in a 37% reduction in natural gas-directed rig activity in 2012 compared to 2011. This was offset by a 38% increase in oil-directed rig activity for the same time period. In Canada, low natural gas prices and high oil price differentials primarily due to constrained refinery and pipeline capacity resulted in reduced customer spending. These issues ultimately resulted in a 13% reduction in Canadian rig activity in 2012 compared to 2011.

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Outside of North America, customer spending is most heavily influenced by Brent oil prices. On average, Brent oil prices were flat in 2012 compared to 2011. During 2012, upward pricing pressure resulting from geopolitical tensions in the Middle East was offset by weak European demand caused by Europe's economic downturn, uncertainty regarding future economic growth in China and increasing global oil supplies. Despite overall flat oil prices, our customers' activity and spending levels increased moderately in 2012 compared to 2011. Due to the long-term planning cycles associated with many international projects, customers do not tend to react to short-term movements in oil prices. As a result, the international rig count grew by 6% in 2012 compared to 2011, with the largest gains seen in the Middle East and Africa. Excluding Iraq, which Baker Hughes resumed publishing in June 2012, the international rig count grew by 2%.

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.

	2012	2011	2010
Brent oil prices (\$/Bbl) ⁽¹⁾	\$ 111.96	\$ 111.05	\$ 79.73
WTI oil prices (\$/Bbl) ⁽²⁾	94.12	95.08	79.51
Natural gas prices (\$/mmBtu) ⁽³⁾	2.76	3.99	4.37

(1) Bloomberg Dated Brent ("Brent")

(2) Bloomberg West Texas Intermediate ("WTI") Cushing Crude Oil Spot Price

(3) Bloomberg Henry Hub Natural Gas Spot Price

Brent oil prices averaged \$111.96/Bbl in 2012. Brent oil prices fluctuated throughout the year, with the highest prices being seen in the first quarter as geopolitical disputes in the Middle East and Africa reduced output and threatened future production. Prices fell sharply in May and June as global oil supplies rose and economic concerns increased in Europe and China. Brent oil prices rebounded in July back above \$100/Bbl, where they remained for the rest of the year, as geopolitical tensions increased in the Middle East. Overall, prices ranged from a high of \$126.65/Bbl in February 2012 to a low of \$88.74/Bbl in June 2012. The International Energy Agency ("IEA") estimated in its January 2013 Oil Market Report that worldwide demand would increase 0.9 million barrels per day, or 1%, to 90.8 million barrels per day in 2013, up from 89.9 million barrels per day in 2012.

WTI oil prices averaged \$94.12/Bbl in 2012. Similar to Brent oil prices, WTI oil prices fluctuated throughout the year, with the highest prices being recorded early in the year, followed by a steep decline mid-year. Prices later rebounded in the third quarter. Overall, WTI oil prices ranged from a high of \$109.49/Bbl in February 2012 to a low of \$77.69/Bbl in June 2012.

In North America, natural gas prices, as measured by the Henry Hub Natural Gas Spot Price, averaged \$2.76/mmBtu in 2012. Natural gas prices, which declined sharply in late 2011, remained low throughout much of 2012 due to strong natural gas production levels, particularly in the unconventional natural gas shale plays in North America. Natural gas prices declined throughout the first quarter and bottomed early in the second quarter following a mild winter across much of the U.S. and Canada. Prices later increased due to a hotter than normal summer and colder than normal fall in the key consuming areas of the U.S. However, prices started to fall in December as temperatures were warmer than normal, and natural gas storage injections remained high despite a 13 year low in the U.S. natural gas rig count. Overall, natural gas prices ranged from a low of \$1.84/mmBtu in April 2012 to a high of \$3.77/mmBtu in November 2012. According to the U.S. Department of Energy ("DOE"), working natural gas in storage at the end of 2012 was 3,517 Bcf, which was 1% or 45 Bcf above the corresponding week in 2011.

Rig Counts

Baker Hughes has been providing rig counts to the public since 1944. We gather all relevant data through our field service personnel, who obtain the necessary data from routine visits to the various rigs, customers, contractors and/or other outside sources. 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;

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however, it is subject to our ability to obtain accurate and timely information. Rig counts are compiled weekly for the U.S. and Canada and monthly for all international rigs. Published international rig counts do not include rigs drilling in certain locations, such as Russia, the Caspian, Iran and onshore China because this information is not readily available. Baker Hughes resumed publication in June 2012 of the rig count in Iraq for the first time since August 1990.

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.

	2012	2011	2010
U.S. - land and inland waters	1,871	1,846	1,514
U.S. - offshore	47	32	31
Canada	364	418	348
North America	2,282	2,296	1,893
Latin America	423	424	383
North Sea	40	38	43
Continental Europe	79	80	51
Africa	96	78	83
Middle East	356	291	265
Asia Pacific	241	256	269
Outside North America	1,235	1,167	1,094
Worldwide	3,517	3,463	2,987

2012 Compared to 2011

The rig count in North America decreased 1% in 2012 compared to 2011 as natural gas-directed rig counts declined 36%, largely offset by an increase in oil-directed rig counts of 28%. The natural gas-directed rig count reflected a 37% decrease in the U.S. and a 27% decrease in Canada. The oil-directed rig count increased 38% in the U.S., but was slightly offset by a 6% decrease in Canada. Natural gas-directed drilling was negatively impacted by the continued weakness in North America natural gas prices which discouraged new investment in natural gas fields. The growth in oil-directed drilling in the U.S. was primarily a result of strong oil prices and the industry's ability to apply drilling and completion techniques to unconventional oil reservoirs that were originally applied to similar natural gas reservoirs. In Canada, many operators curtailed their drilling plans in the second half of 2012 due to reduced cash flows from natural gas activities and high oil price differentials as compared to WTI. Overall, Canada rig counts declined 13% in 2012 compared to 2011.

Outside North America, the rig count increased 6% in 2012 compared to 2011. Starting June 2012, the Middle East rig count included Iraq. Excluding Iraq, which had an average of 43 rigs in 2012, the international rig count increased 2%. The rig count in Latin America was relatively flat as increased rig activity in Mexico and Ecuador was offset by reductions in Colombia and Venezuela. The rig count in Europe was also flat, with gains in the North Sea due to higher activity in the U.K. offset by reductions in Continental Europe. In Africa, the rig count increased primarily due to the resumption of drilling activities in Libya, as well as higher activity in Algeria. The rig count increased in the Middle East due to higher activity in Saudi Arabia, Oman and Abu Dhabi, as well as the inclusion of Iraq. In Asia Pacific, the rig count decreased as a result of decreased activity in Indonesia and offshore China, partially offset by increased activity in Malaysia and Australia.

RESULTS OF OPERATIONS

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

We conduct our business through operating segments that are aligned with our geographic regions, which have been aggregated into five reportable segments. Prior to 2012, our reservoir development services business ("RDS"), consisting of consulting services provided to third parties and internal support to our oilfield operations, was included within the Industrial Services and Other segment. In the first quarter of 2012, we changed our reporting structure to include RDS within our four oilfield geographic segments, and accordingly, all prior period segment disclosures for revenue and profit before tax have been reclassified. The impact of these changes to the Industrial Services and Other segment was to reduce revenue by \$108 million and \$92 million for the year ended December 31, 2011 and 2010, respectively; and increase profit before tax by \$42 million and \$28 million for the year ended December 31, 2011 and 2010, respectively.

Revenue and Profit Before Tax

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

2012 Compared to 2011

	Year Ended December 31,		\$ Change	% Change
	2012	2011		
Revenue:				
North America	\$ 10,836	\$ 10,279	\$ 557	5 %
Latin America	2,399	2,190	209	10 %
Europe/Africa/Russia Caspian	3,634	3,372	262	8 %
Middle East/Asia Pacific	3,275	2,852	423	15 %
Industrial Services and Other	1,217	1,138	79	7 %
Total	\$ 21,361	\$ 19,831	\$ 1,530	8 %
Profit Before Tax:				
	Year Ended December 31,		\$ Change	% Change
	2012	2011		
North America	\$ 1,268	\$ 1,908	\$ (640)	(34)%
Latin America	197	223	(26)	(12)%
Europe/Africa/Russia Caspian	586	336	250	74 %
Middle East/Asia Pacific	313	310	3	1 %
Industrial Services and Other	131	95	36	38 %
Total Operations	2,495	2,872	(377)	(13)%
Corporate and Other	(513)	(533)	20	(4)%
Total	\$ 1,982	\$ 2,339	\$ (357)	(15)%

Revenue for 2012 increased \$1.53 billion, or 8%, compared to 2011, with growth coming from all operating segments. Revenue growth in North America was driven by increased demand in the U.S. for product lines other than pressure pumping and increased activity in deepwater drilling in the Gulf of Mexico. International revenue increased primarily as a result of increased activity in the Middle East, Latin America and Africa.

Profit before tax from operations for 2012 decreased \$377 million, or 13%, compared to 2011. Despite the increase in revenue, our profit before tax was significantly impacted by reduced prices, increased raw material expenses and higher personnel costs in our pressure pumping product line in North America. Additional provisions for doubtful accounts in Latin America and high operating costs and third party expenses related to new integrated operations contracts in the Middle East impacted profits in the Latin America and Middle East/Asia Pacific ("MEAP") segments. The Europe/Africa/Russia Caspian ("EARC") segment experienced improved profitability driven by increased activity throughout the entire geographic region as well as improved market conditions in Africa. In 2012, we incurred a charge of \$43 million before-tax related to the impairment of certain information technology assets primarily associated with internally developed software and other assets, and a charge of \$20 million before-tax related to the closure of a chemical manufacturing facility in the U.K. As our information technology and supply chain organizations support our global operations, these charges have been allocated to all segments. In 2011, profit before tax includes a charge of \$315 million related to the impairment of trade names. For further discussion of the trade name impairments see Note 7. Goodwill and Intangible Assets. The amount of the trade name impairment charge recorded by segment was as follows: North America - \$105 million; Latin America - \$64 million; Europe/Africa/Russia Caspian - \$48 million; Middle East/Asia Pacific - \$47 million; and Industrial Services and Other - \$51 million.

North America

North America revenue increased 5% in 2012 compared to 2011, despite rig counts declining 1%. The primary catalysts for the revenue growth in North America include sustained high oil prices during 2012 compared to historical prices and new innovative technologies for drilling and completion systems and wireline services that have resulted in increased revenue, particularly in the unconventional reservoirs in U.S. Land and deepwater of the Gulf of Mexico. Additionally, the continuing shift of drilling activities from the natural gas-directed unconventional reservoirs to the oil-directed reservoirs in U.S. Land resulted in significant increases in activity particularly for our production product lines, artificial lift and upstream chemicals. In the Gulf of Mexico, revenue increased 32% in 2012 compared to 2011 as rig counts increased 47%, driven primarily by increased deepwater activity. These increases in revenue were offset by reduced demand and pricing in our pressure pumping product line in the U.S. and Canada primarily due to an oversupply of pressure pumping capacity in the industry. Additionally, as a result of reduced customer spending in Canada, oil-directed rig counts decreased 6% and natural gas-directed rig counts were down 27% compared to 2011. Overall, this resulted in a 10% reduction in our Canadian revenue during 2012 compared to 2011.

North America profit before tax was \$1.27 billion in 2012, a decrease of \$640 million, or 34%, compared to 2011. Despite higher revenue, profits in U.S. Land and Canada were impacted significantly by decreased fleet utilization and lower pricing, higher personnel costs, increased costs for critical raw materials, and higher depreciation expenses primarily in our pressure pumping product line. Profit before tax in Canada was further impacted by the reduced customer spending. These reductions were partially offset by increased activity by our U.S. Land product lines other than pressure pumping and improved profits in the Gulf of Mexico, where both revenue and profit margins have returned to pre-moratorium levels as activity has increased substantially. During 2012, deepwater drilling activity increased significantly compared to shelf drilling activity. The shift from shelf activity to deepwater activity led to a favorable change in sales mix to products and services with higher margins. The improved margins in drilling and wireline services in the deepwater resulted in a significant increase in profits in the Gulf of Mexico during 2012 compared to 2011. North America profit before tax in 2012 was negatively impacted by a \$33 million charge associated with the information technology expenses and the facility closure, while 2011 profit before tax was impacted by the trade name impairment charge discussed previously.

Latin America

Latin America revenue increased 10% in 2012 compared to 2011. The primary driver was higher activity benefiting our drilling services, artificial lift, completion systems and pressure pumping product lines in Brazil and

the Andean region, improved pricing and increased activity in the pressure pumping product line in Argentina and higher land activity in Mexico.

Latin America profit before tax decreased 12% in 2012 compared to 2011. Despite the increase in revenue, profits were negatively impacted by an increase of \$85 million in our allowance for doubtful accounts and higher personnel costs. Latin America profit before tax in 2012 was also negatively impacted by a \$7 million charge associated with the information technology expenses and the facility closure, while 2011 profit before tax was impacted by the trade name impairment charge discussed previously.

In February 2013, Venezuela's currency was devalued from the prior exchange rate of 4.3 Bolivars Fuertes per U.S. Dollar to 6.3 Bolivars Fuertes per U.S. Dollar to apply to our local currency denominated balances and transactions. We estimate the impact of this devaluation to be a loss of approximately \$25 million, which will be recorded in the first quarter of 2013. Going forward, although this devaluation will result in a reduction in the U.S. Dollar reported amount of local currency denominated revenues and expenses, we do not believe the impact will be material to our consolidated financial statements.

Europe/Africa/Russia Caspian

EARC revenue increased 8% in 2012 compared to 2011. Strong growth was seen in Africa, particularly with drilling systems in Mozambique and Nigeria, completion systems in Nigeria and Angola, wireline services in Nigeria, Uganda and Angola and resumed operations in Libya. Revenue increases in Africa were augmented by increases in our Europe region due primarily to increased wireline services activity in Norway, the U.K. and Eastern Mediterranean as well as increased drilling fluids activity in the U.K. and Eastern Mediterranean. Revenue also increased in Russia, with sizable growth in our artificial lift, drilling services and drilling fluids product lines.

EARC profit before tax increased 74% in 2012 compared to 2011. A favorable change in sales mix in Russia and Sub Sahara Africa, particularly in Uganda and Angola, as well as increased activity in Mozambique, Nigeria and Libya contributed to improved margins and increased profitability. The activity gains in Europe further increased profitability for 2012. EARC profit before tax in 2012 was negatively impacted by a \$11 million charge associated with the information technology expenses and the facility closure. In 2011, EARC profit before tax was negatively impacted by a \$70 million charge associated with the cessation of operations due to civil unrest in Libya in addition to the trade name impairment charge discussed previously.

Middle East/Asia Pacific

MEAP revenue increased 15% in 2012 compared to 2011. The increase in this segment was attributable to significant growth for our completions systems, drilling services and drilling fluids product lines in Saudi Arabia, as well as new integrated operations contracts and increased wireline services and upstream chemicals activity in Iraq. In Asia Pacific, increased activity, particularly for completions systems in Australia and pressure pumping in Malaysia and Thailand, was partially offset by reduced activity for pressure pumping and drilling fluids in India.

MEAP profit before tax remained relatively flat in 2012 compared to 2011. While revenue increased, profit before tax was impacted by high operating and third party costs associated with the new integrated operations activities in Iraq and increased personnel costs. In 2012, MEAP profit before tax was also negatively impacted by a \$10 million charge associated with the information technology expenses and the facility closure, while 2011 profit before tax was impacted by the trade name impairment charge discussed previously.

Industrial Services and Other

For Industrial Services and Other, revenue increased 7% and profit before tax increased 38% in 2012 compared to 2011. The increase in revenue was primarily driven by increased demand for our process and pipeline business and downstream chemical products in North America. The increase in profit before tax in 2012 compared to 2011 is mainly attributable to the \$51 million trade name impairment charge recorded in 2011, which did not recur in 2012. Industrial Services and Other profit before tax in 2012 was negatively impacted by a \$2 million charge associated with the information technology expenses and the facility closure.

2011 Compared to 2010

	Year Ended December 31,		\$ Change	% Change
	2011	2010		
Revenue:				
North America	\$ 10,279	\$ 6,642	\$ 3,637	55 %
Latin America	2,190	1,576	614	39 %
Europe/Africa/Russia Caspian	3,372	3,050	322	11 %
Middle East/Asia Pacific	2,852	2,267	585	26 %
Industrial Services and Other	1,138	879	259	29 %
Total	\$ 19,831	\$ 14,414	\$ 5,417	38 %
Profit Before Tax:				
Year Ended December 31,				
	2011	2010	\$ Change	% Change
North America	\$ 1,908	\$ 1,146	\$ 762	66 %
Latin America	223	74	149	201 %
Europe/Africa/Russia Caspian	336	257	79	31 %
Middle East/Asia Pacific	310	169	141	83 %
Industrial Services and Other	95	127	(32)	(25)%
Total Operations	2,872	1,773	1,099	62 %
Corporate and Other	(533)	(491)	(42)	9 %
Total	\$ 2,339	\$ 1,282	\$ 1,057	82 %

Revenue for 2011 increased \$5.42 billion or 38% compared to 2010. The primary drivers of the change included increased activity and improved pricing in the U.S. Land and Canada markets and to a lesser extent, increased activity in our international segments. We acquired BJ Services in April of 2010, and the financial results of its operations since the acquisition date are included in each of the five reportable segments. The increase in revenue is also due to the acquisition of BJ Services.

Profit before tax from operations for 2011 increased \$1.10 billion or 62% compared to 2010. The primary driver of this increase was the growth in revenue from all areas, but in particular in the North America segment where increased service intensity in the unconventional markets has led to increased efficiency, utilization, and pricing improvement. Additionally, profit before tax also benefited from worldwide cost management initiatives and improved absorption of manufacturing and other overhead costs. The increase is also due to the acquisition of BJ Services. The increase in profit before tax was partially offset by the impairment of certain trade names.

North America

North America revenue increased 55% in 2011 compared to 2010. Revenue and pricing increases were supported by a 22% increase in the U.S. land and inland waters rig count and a 20% increase in the Canada rig count. The unconventional reservoirs continue to be the primary catalyst for the rapid growth seen in North America. The unconventional reservoirs require a substantially higher proportion of services from Baker Hughes across all product lines. Revenue in the Gulf of Mexico increased compared to 2010 as permitting modestly improved, but still lagged meaningfully behind pre-moratorium levels.

North America profit before tax was \$1.91 billion in 2011, an increase of \$762 million, or 66%, compared to 2010. The higher revenue for this segment, driven by activity and pricing, was the primary reason for this increase in profitability. Other drivers of the increase included improved tool utilization and improved absorption of manufacturing and other overhead. This improvement was offset by a decline in the fourth quarter of 2011 in the

profitability of our pressure pumping services where we incurred increased costs related to shortages of raw materials, logistical inefficiencies and higher labor costs. Although there is positive progress in the Gulf of Mexico, the pace of re-permitting has not enabled activity to return to pre-moratorium levels. North America profit before tax was negatively impacted by a \$105 million charge associated with the impairment of trade names.

Latin America

Latin America revenue increased 39% in 2011 compared to 2010. The primary drivers of the increase were the acceleration of activity benefiting our drilling fluids and artificial lift product lines in the Andean area as well as robust deep water growth through the use of our drilling services in Brazil, and to a lesser extent, modest pricing improvements.

Latin America profit before tax increased 201% in 2011 compared to 2010. While increased revenue was a contributor to the increased profitability, the primary factors included cost containment initiatives, which improved overhead cost absorption, as well as meaningful operational improvements to lower our internal operating costs, a favorable change in the mix of the products and services sold to higher margin activity, and the completion of certain low margin contracts in early 2011. Latin America profit before tax was negatively impacted by a \$64 million charge associated with the impairment of trade names.

Europe/Africa/Russia Caspian

EARC revenue increased 11% in 2011 compared to 2010. The primary drivers of the increase were sales of completion tools and drilling fluids in Norway; increased drilling services activity in the Eastern Mediterranean; modestly improving market conditions across Europe and Russia and higher drilling fluids, wireline services and drilling services activities in Nigeria. These increases were partially offset by the impact of decreased sales in Libya where our operations ceased during the second quarter of 2011 as a result of the civil unrest with minimal operational activity resuming during the remainder of the year.

EARC profit before tax increased 31% in 2011 compared to 2010 primarily as a result of our increased focus on cost management initiatives and operating efficiencies. In addition, profitability improved as a result of increased activity and more favorable sales mix toward products and services with higher margins. EARC profit before tax was negatively impacted by a \$70 million charge associated with increasing the allowance for doubtful accounts and reserves for inventory and certain other assets as a result of the civil unrest in Libya and by a \$48 million charge associated with the impairment of trade names.

Middle East/Asia Pacific

MEAP revenue increased 26% in 2011 compared to 2010. The increase in this segment was attributable to higher activity in directional drilling and artificial lift systems in Saudi Arabia, as well as significant revenue gains in Kuwait, Iraq and Southeast Asia on production enhancement activity. Additionally, wireline and completions activity increased in Southeast Asia.

MEAP profit before tax increased 83% in 2011 compared to 2010 primarily as a result of our increased focus on cost management initiatives and operating efficiencies. In addition, profitability improved as a result of increased activity and more favorable sales mix, partially offset by costs for start-up activities in Iraq and elsewhere. MEAP profit before tax was negatively impacted by a \$47 million charge associated with the impairment of trade names.

Industrial Services and Other

Industrial Services and Other revenue increased 29% in 2011 compared to 2010. Industrial Services and Other profit before tax decreased 25% in 2011 compared to 2010 primarily driven by a \$51 million charge associated with the impairment of trade names and from an overall increase in cost of goods and services sold. This was partially offset by increased revenue and related profitability.

Costs and Expenses

The table below details certain consolidated statement of income data and their percentage of revenue.

	2012		2011		2010	
	\$	%	\$	%	\$	%
Revenue	\$ 21,361	100%	\$ 19,831	100%	\$ 14,414	100%
Cost of revenue	17,356	81%	15,264	77%	11,184	78%
Research and engineering	497	2%	462	2%	429	3%
Marketing, general and administrative	1,316	6%	1,190	6%	1,250	9%

Cost of Revenue

Cost of revenue as a percentage of revenue was 81% and 77% for 2012 and 2011, respectively. The increase in cost of revenue as a percentage of revenue was due primarily to lower pricing and higher costs with respect to our pressure pumping product line in North America, start-up and third party costs associated with the new integrated operations activities in Iraq, as well as increased amortization expense. In 2012, we recorded charges totaling \$85 million to increase our allowance for doubtful accounts in Latin America and a charge of \$20 million related to the closure of a chemical manufacturing facility as part of our supply chain cost saving initiative.

Cost of revenue as a percentage of revenue was 77% and 78% for 2011 and 2010, respectively. The slight decrease was due primarily to improved pricing in North America coupled with improved operational efficiency and cost management initiatives implemented globally, which was offset by higher raw material, logistics and labor costs. In addition, cost of revenue was impacted by a \$70 million charge in Libya where our operations ceased during the second quarter of 2011 with minimal operational activity resuming during the remainder of the year.

Research and Engineering

Research and engineering expenses increased 8% in both 2012 and 2011 when compared to the corresponding previous year. The increase in research and engineering expenses was driven by the ramp-up of activity and staffing at our technology centers in Brazil and Saudi Arabia, which opened in the fourth quarter of 2011. Additionally, research and engineering expenses were impacted by increasing material costs and higher material usage related to research and development activities. We continue to be committed to developing and commercializing new technologies as well as investing in our core product offering.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses increased 11% in 2012 compared to 2011. The increase in MG&A expenses was primarily due to a charge of \$43 million related to the impairment of certain information technology assets primarily associated with internally developed software and other assets. In addition to these costs, the increase in MG&A expenses resulted from ongoing activities to further improve productivity and efficiency through the coordination and integration of our worldwide operations, including software implementations and enhancements, partially offset by decreased personnel costs.

MG&A expenses decreased 5% in 2011 compared to 2010. The decrease in expenses resulted from cost reduction and management measures implemented in the latter half of 2010 and synergies we realized through the continued integration of BJ Services into our operations.

Impairment of Trade Names

In 2011, we recognized a charge of \$315 million related to the impairment of certain trade names, the majority of which related to the BJ Services trade name. The impairment of the BJ Services trade name was due to the decision to minimize the use of the BJ Services trade name as part of our overall branding strategy for Baker Hughes.

Interest Expense, net

Interest expense, net of interest income, decreased \$11 million in 2012 compared to 2011. The decrease was primarily due to the repayment of our 5.75% notes in the second quarter of 2011, the early extinguishment in the third quarter of 2011 of our 6.5% senior notes due in November 2013 and the increase in capitalized interest in 2012 associated with the increase in our capital expenditures. The decrease in interest expense was partially offset by the issuance of \$750 million 3.2% senior notes in August 2011, the inception of two capital leases in the second and third quarters of 2011 for pumping vessels and increased borrowings under our commercial paper program in 2012.

Interest expense, net of interest income, increased \$80 million in 2011 compared to 2010. The increase was primarily due to the assumption of \$500 million of debt associated with the acquisition of BJ Services in April 2010, issuance of \$1.5 billion of debt in August 2010 and the issuance of \$750 million of debt in August 2011. The increase in interest expense was partially offset by the repayment of \$250 million of debt and the early extinguishment of \$500 million of debt in the second and third quarters of 2011, respectively.

Loss on Early Extinguishment of Debt

In 2011, we redeemed in full \$500 million of debt maturing November 2013 and paid a redemption premium of \$63 million. The redemption resulted in a pre-tax loss of \$40 million on the early extinguishment of debt, which included the redemption premium and the write off of the remaining original debt issuance costs and debt discount, partially offset by the \$25 million gain from the termination of two related interest rate swap agreements.

Income Taxes

Total income tax expense was \$665 million, \$596 million and \$463 million for 2012, 2011 and 2010, respectively. Income tax expense in 2011 includes a \$214 million tax benefit associated with the reorganization of certain foreign subsidiaries. Excluding the impact of the reorganization in 2011, our effective tax rate on operating profits in 2012, 2011, and 2010 was 33.6%, 34.6% and 36.1%, respectively. The 2012 effective tax rate is lower than the U.S. statutory income tax rate of 35% due to lower rates of tax on certain international operations and adjustments to prior years' tax positions partially offset by state income taxes. The 2011 effective tax rate is lower than the U.S. statutory income tax rate of 35% due to lower rates of tax on certain international operations partially offset by state income taxes. The 2010 effective tax rate was higher than the U.S. statutory income tax rate of 35% due to higher rates of tax on certain international operations and state income taxes partially offset by tax benefits arising from the repatriation of foreign earnings.

On January 2, 2013, the retroactive extension of the research and development credit and other favorable tax benefits were enacted as part of the American Taxpayer Relief Act of 2012. We are currently evaluating the financial impact of this legislation. We expect to record a discrete benefit in the first quarter of 2013 for the 2012 full year impact, and we expect to record the 2013 benefit throughout the year 2013 as a decrease in the annual effective tax rate.

OUTLOOK

This section should be read in conjunction with the factors described in "Part I, Item 1A. Risk Factors" and in the "Forward-Looking Statements" section in this Part II, Item 7, both contained herein. These factors could impact, either positively or negatively, our expectation for: oil and natural gas demand; oil and natural gas prices; exploration and development spending and drilling activity; and production spending.

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

Our outlook for exploration and development spending is based upon our expectations for customer spending in the markets in which we operate, and is driven primarily by our perception of industry expectations for oil and

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

The primary drivers expected to impact the 2013 business environment include the following:

- **Worldwide Economic Growth** - In general there is a strong linkage between overall economic activity, growth and the demand for hydrocarbons. The outlook for 2013 is one of gradual strengthening of economic activity amidst ongoing concerns fueled by sovereign debt issues in Europe, a slowdown in the Chinese economy, and the moderate rate of the economic growth in the U.S. The European sovereign debt crisis and the reduction in economic activity have impacted the economies of major exporters, including the U.S. and China. Although steps have been taken by governments to resolve this issue, the crisis in the Euro area remains a threat to the global economic outlook. China's rapid economic growth and industrialization has been a major factor in driving up world-wide economic growth since the recession of 2008/2009. While China's growth rate slowed down sharply in 2012, activity is expected to pick up in 2013 in response to measures supporting domestic demand. In the U.S., there has been a slow recovery from the recession of 2008/2009 as the economy continues to deal with the effects of the financial crisis, and the expectation is for only modest economic growth in the U.S. throughout 2013. However, this growth may be hampered by weakness or further deterioration of the global economy, particularly in China and Europe.
- **Demand for Hydrocarbons** - In its January 2013 Oil Market Report, the IEA said that it expects global demand for oil to increase 0.9 million barrels per day in 2013. This expected increase in demand for oil, mainly driven by countries outside the OECD, should support higher expenditures within the oil and gas sector. In addition, natural gas is an increasingly important hydrocarbon to meet the world's energy needs. In its January 2013 Short-Term Energy Outlook, the EIA stated that U.S. natural gas demand would be 69.7 billion cubic feet per day in 2013, which is unchanged from 2012.
- **Oil Production** - The EIA January 2013 Short-Term Energy Outlook projects non-OPEC production to increase by 1.4 million barrels per day in 2013 over 2012. This increase is largely due to continued production growth from U.S. tight oil formations and Canadian oil sands, fostered by sustained higher oil prices. Global OPEC surplus capacity, overwhelmingly concentrated in Saudi Arabia, is anticipated to increase from approximately 0.8 million barrels per day to 3.1 million barrels per day in 2013. At the same time, OPEC production is anticipated to fall by 0.6 million barrels per day in 2013 to approximately 30 million barrels per day. While significant investments are expected to be required to support increases in production capacity, price volatility driven by global economic and geopolitical uncertainties may lead to delays in operator investment decisions across the rest of the world.
- **Natural Gas Production** - Worldwide natural gas production continues to grow. Despite this overall trend, low natural gas prices in North America have resulted in a reduction in the natural gas-directed rig and completion activity in this region. This began to impact North America natural gas production in 2012, resulting in a gradual increase in Henry Hub spot gas prices in the second half of 2012, but a relatively mild winter season in key consuming regions in the U.S. has pressured natural gas prices downward since November 2012. Overall, worldwide natural gas production will, however, tend to be more stable as high natural gas prices in places such as Europe and Asia encourage sustained global growth of natural gas production. In addition, the announced shift away from nuclear power generation by several countries and the development of natural gas projects in the OECD outside North America is expected to further support natural gas prices.
- **Oil Prices** - With WTI oil prices trading between \$77.69/Bbl and \$109.49/Bbl, and Brent trading between \$88.74/Bbl and \$126.65/Bbl during 2012, we believe most oil developments globally will continue to provide adequate returns to encourage incremental investment. New midstream infrastructure in the U.S. is expected during 2013 which should help to narrow the price gap between WTI and Brent. Based on oil supply forecasts and modest anticipated economic growth globally, we would expect oil prices to remain relatively strong throughout 2013 barring any major macro-economic events.
- **Natural Gas Prices** - With natural gas prices trading between \$1.84/mmBtu and \$3.77/mmBtu during 2012, which are particularly low when compared to oil on a Btu equivalent basis, we believe that the economics of

most dry natural gas-directed investments in North America have become marginal. This is primarily due to the abundant supplies available from the unconventional plays in North America, including natural gas produced in association with unconventional oil wells, which is expected to remain high in 2013. The EIA said in its January 2013 Short-term Energy Outlook that working natural gas inventories remain at near record high levels. The EIA, however, expects natural gas prices in North America to increase to an average of \$3.74/mmBtu in 2013 as a result of the reduction in natural gas-directed drilling activity.

Activity and Spending Outlook for North America - Overall customer spending in North America is expected to increase in 2013 compared to 2012, but the average annual rig count is expected to remain close to the levels in the fourth quarter of 2012, in part reflecting improved efficiencies in drilling performance. The slowdown in the spending directly related to natural gas development has been largely offset by incremental investment to develop unconventional plays with crude oil and natural gas liquids content. In the unconventional dry gas plays, while investment declined throughout most of 2012 due to historically low natural gas pricing levels, the rig count for gas drilling stabilized in the fourth quarter of 2012 as gas prices have rebounded moderately. Overall service intensity has increased in North America during the year as customers are demanding key technologies, such as advanced directional drilling, more complex completion systems and pressure pumping to develop the unconventional plays with liquids content. Despite this increase in demand, however, pricing has declined in some basins, particularly for hydraulic fracturing where current pressure pumping capacity exceeds demand. This pricing pressure is expected to continue into early 2013. In the Gulf of Mexico, the active rig count has increased to near pre-moratorium levels. Activity on the continental shelf has been strong, and there has been a steady increase in the granting of new deepwater permits. It is expected that exploration drilling as well as completions and development activity in the Gulf of Mexico will continue to increase throughout 2013, with additional deepwater rigs being added. In Canada, overall rig activity in 2013 is expected to decline approximately 8% compared to 2012.

Activity and Spending Outlook Outside North America - International activity is driven primarily by the price of oil, which is currently high enough to provide attractive economic returns in almost every region and to support some major gas export projects. Customers are expected to increase spending to develop new resources and offset declines from existing developed reserves, increasingly relying on higher technology services to support exploration and production activities in deep water, heavy or viscous oils and tight reservoirs. Areas that are expected to see increased spending in 2013 include: the Middle East, in particular Iraq, including the Kurdistan province, and Saudi Arabia; and Latin America, with the largest growth expected in Mexico, Brazil and Colombia. Within Southeast Asia, there is an increased focus on exploring and developing indigenous oil and natural gas resources to meet rapid local demand growth rather than the historic role of meeting exports. In Africa, traditional growth areas such as Angola and Nigeria are being augmented by new provinces such as Ghana, Uganda and Mozambique. Russia is striving to maintain 10 million barrels of oil per day until the end of the decade by investing in Eastern Siberia and eventually in the Arctic offshore. Efforts in Russia at developing tight oil using vertical drilling are already underway with potential for pilot projects in 2013 and beyond for more complex horizontal drilling and completions. Australia is leading the expansion of export liquefied natural gas ("LNG") projects, requiring conventional offshore gas drilling in the northwest shelf as well as coal bed methane operations onshore Queensland. While overall unconventional drilling outside North America is still at its infancy, activities in Australia, China, Saudi Arabia and Argentina are showing early promise, with active interest at ministry and national oil company level in defining unconventional resource potential in almost all countries with active oil and natural gas industries. The globalization of natural gas trade via rapid expansion in LNG as well as major gas pipelines will spur drilling for natural gas in all regions, but most specifically for the fast growing Asian energy markets.

Capital Expenditures - Our capital expenditures, excluding any potential acquisitions, are expected to be approximately \$2.0 billion, a reduction of approximately 30% compared to 2012. The reduction in 2013 is primarily related to pressure pumping horsepower and infrastructure spending in North America. A portion of our planned capital expenditures can be adjusted to reflect changes in our expectations for future customer spending.

COMPLIANCE

We do business in more than 80 countries, including approximately 19 of the 40 countries having the lowest scores in the Transparency International's Corruption Perception Index survey for 2012, which indicates high levels of corruption. We devote significant resources to the development, maintenance, communication and enforcement of our Business Code of Conduct, our anti-bribery compliance policies, our internal control processes and procedures, and other compliance related policies. Notwithstanding the devotion of such resources, and in part as a consequence thereof, from time to time we discover or receive information alleging potential violations of laws and

regulations, including the FCPA and our policies, processes and procedures. We conduct timely internal investigations of these potential violations and take appropriate action depending upon the outcome of the investigation.

We anticipate that the devotion of significant resources to compliance-related issues, including the necessity for investigations, will continue to be an aspect of doing business in a number of the countries in which oil and natural gas exploration, development and production take place and in which we conduct operations. Compliance-related issues have limited our ability to do business and/or have raised the cost of operating in these countries. In order to provide products and services in some of these countries, we may in the future utilize ventures with third parties, sell products to distributors or otherwise modify our business approach in order to improve our ability to conduct our business in accordance with applicable laws and regulations and our Business Code of Conduct.

Our Best-in-Class Global Ethics and Compliance Program (“Compliance Program”) is based on (i) our Core Values of Integrity, Performance, Teamwork and Learning; (ii) the standards contained in our Business Code of Conduct; and (iii) the laws of the countries where we operate. Our Compliance Program is referenced within the Company as “C 2” or “Completely Compliant.” The Completely Compliant theme is intended to establish the proper Tone-at-the-Top throughout the Company. Employees are consistently reminded that they play a crucial role in ensuring that the Company always conducts its business ethically, legally and safely.

Highlights of our Compliance Program include the following:

- We have comprehensive internal policies over such areas as facilitating payments; travel, entertainment, gifts and charitable donations connected to non-U.S. government officials; payments to non-U.S. commercial sales representatives; and the use of non-U.S. police or military organizations for security purposes. In addition, we have country-specific guidance for customs standards, export and re-export controls, economic sanctions and antiboycott laws.
- We have a comprehensive employee compliance training program covering substantially all employees.
- We have a due diligence procedure for commercial sales, processing and professional agents, an enhanced process for classifying distributors and are creating a formal policy to guide business personnel in determining when subcontractors should be subjected to compliance due diligence.
- We have a special compliance committee, which is made up of senior officers, that meets no less than once a year to review the oversight reports for all active commercial sales representatives.
- We have continued our reduction of the use of commercial sales representatives and processing agents, including the reduction of customs agents.
- We use technology to monitor and report on compliance matters, including a web-based antiboycott reporting tool and a global trade management software tool.
- We have a program designed to encourage reporting of any ethics or compliance matter without fear of retaliation including a worldwide Business Helpline operated by a third party and currently available toll-free in 150 languages to ensure that our helpline is easily accessible to employees in their own language.
- We have continued to expand the use and scope of our centralized finance organization including further implementation of our enterprise-wide accounting system and company-wide policies. In addition, the corporate audit function has incorporated additional anti-corruption procedures in audits of certain countries. We are also continuing to refine and enhance our procedures for FCPA risk assessments and legal audit procedures.
- We continue to work to ensure that we have adequate legal compliance coverage around the world, including the coordination of compliance advice and training across all regions and countries where we do business.
- We are continuing to centralize our human resources function, including creating consistent standards for pre-hire screening of employees, the screening of existing employees prior to promoting them to positions where they may be exposed to corruption-related risks, and creating a uniform policy for new hire training.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain adequate financial resources and access to sufficient liquidity. At December 31, 2012, we had cash and cash equivalents of \$1.02 billion, of which substantially all was held by foreign subsidiaries. A substantial portion of the cash held by foreign subsidiaries at December 31, 2012 was reinvested in our international operations as our intent is to use this cash to, among other things, fund the

operations of our foreign subsidiaries. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds based on applicable U.S. tax rates net of foreign taxes. In addition, we have a \$2.5 billion committed revolving credit facility with commercial banks and a commercial paper program under which we may issue up to \$2.5 billion. The maximum combined borrowing at any time under both the credit facility and the commercial paper program is \$2.5 billion. At December 31, 2012, we had commercial paper outstanding of \$925 million; therefore, the amount available for borrowing under the facility as of December 31, 2012 was \$1.575 billion. We believe that cash on hand, cash flows from operations and the available credit facility, including the issuance of commercial paper, will provide sufficient liquidity to manage our global cash needs.

Our capital planning process is focused on utilizing cash flows generated from operations in ways that enhance the value of our Company. In 2012, we used cash to pay for a variety of activities including working capital needs, capital expenditures, and payment of dividends.

Cash Flows

Cash flows provided (used) by type of activity were as follows for the years ended December 31:

<i>(In millions)</i>	2012	2011	2010
Operating activities	\$ 1,835	\$ 1,507	\$ 856
Investing activities	(2,521)	(1,891)	(2,376)
Financing activities	646	(30)	1,366

Operating Activities

Cash flows from operating activities provided \$1.84 billion and \$1.51 billion for the year ended December 31, 2012 and 2011, respectively. Cash flows from operating activities increased \$328 million in 2012 primarily due to the change in net operating assets and liabilities, which used less cash in 2012 compared to 2011.

The underlying drivers in 2012 compared to 2011 of the changes in operating assets and liabilities are as follows:

- The change in accounts receivable provided cash of \$16 million and used cash of \$1.02 billion in 2012 and 2011, respectively. The slight change in accounts receivable in 2012 was primarily due to improved collections over the prior year partially offset by an increase in activity. The change in accounts receivable in 2011 was primarily due to an increase in activity as well as an increase in days sales outstanding (defined as the average number of days our net trade receivables are outstanding based on quarterly revenue) due to temporary invoicing delays resulting from the implementation of our enterprise wide software system for BJ Services in North America.
- An increase in inventory used cash of \$547 million and \$641 million in 2012 and 2011, respectively, driven by an increase in activity levels.
- Accrued employee compensation and other accrued liabilities used cash of \$90 million and provided cash of \$58 million in 2012 and 2011, respectively. The net change of \$148 million was due primarily to an increase in payments related to employee bonuses earned in 2011 but paid in 2012 coupled with lower employee compensation accruals in 2012.
- Income taxes payable used cash of \$56 million and \$121 million in 2012 and 2011, respectively. The change of \$65 million was primarily due to a decrease in income taxes paid in 2012 compared to 2011.
- Other operating items used cash of \$213 million and \$19 million in 2012 and 2011, respectively. The net change of \$194 million was primarily due to an increase in payments for prepaid assets in line with increased activity and an increase in contributions to our pension plans.

Cash flows from operating activities provided \$1.51 billion and \$856 million for the year ended December 31, 2011 and 2010, respectively. This increase in cash flows of \$651 million is primarily due to an increase in net income offset by the change in net operating assets and liabilities, which used more cash in 2011 compared to 2010.

The underlying drivers in 2011 compared to 2010 of the changes in operating assets and liabilities are as follows:

- An increase in accounts receivable used cash of \$1.02 billion and \$702 million in 2011 and 2010, respectively. The change in accounts receivable was primarily due to an increase in activity and the corresponding revenue growth as well as an increase in the days sales outstanding.
- An increase in inventory used cash of \$641 million and \$243 million in 2011 and 2010, respectively, driven by activity increases.
- An increase in accounts payable provided cash of \$314 million and \$292 million in 2011 and 2010, respectively, resulting from an increase in operating assets to support increased activity.
- Accrued employee compensation and other accrued liabilities provided cash of \$58 million in 2011 and used cash of \$182 million in 2010. The increase in cash provided in 2011 was due primarily to increased employee bonus accruals for 2011, partially offset by employee bonuses paid in 2011 but earned and accrued for in 2010.

Investing Activities

Our principal recurring investing activity is the funding of capital expenditures to ensure that we have the appropriate levels and types of machinery and equipment in place to generate revenue from operations. Expenditures for capital assets totaled \$2.91 billion, \$2.46 billion and \$1.49 billion for 2012, 2011 and 2010, respectively. While the majority of these expenditures were for machinery and equipment, we have continued our spending on new facilities, expansions of existing facilities and other infrastructure projects.

Proceeds from the disposal of assets were \$389 million, \$311 million and \$208 million for 2012, 2011 and 2010, respectively. These disposals related to equipment that was lost-in-hole; and property, machinery, and equipment no longer used in operations that was sold throughout the year.

During 2010, we purchased \$250 million of short-term investments consisting of U.S. Treasury Bills. The U.S. Treasury Bills matured in May 2011, and we received proceeds of \$250 million.

We routinely evaluate potential acquisitions of businesses of third parties that may enhance our current operations or expand our operations into new markets or product lines. We may also from time to time sell business operations that are not considered part of our core business. During 2010, we paid cash of \$680 million, net of cash acquired of \$113 million, related to the BJ Services acquisition, and we paid \$208 million, net of cash acquired of \$4 million, for other acquisitions.

Financing Activities

We had net borrowings of commercial paper and other short-term debt of \$847 million, \$125 million and \$52 million in 2012, 2011 and 2010, respectively. In 2011, we completed a private placement of \$750 million 3.2% senior notes that will mature in August 2021, resulting in net proceeds of approximately \$742 million after deducting the underwriting discounts and expenses of the offering and used \$563 million of the net proceeds to redeem our 6.5% notes in full. The remaining net proceeds from the senior notes were used for general corporate purposes. In addition in 2011, we repaid \$250 million of our 5.75% notes that matured.

In March 2012, pursuant to a registration rights agreement, we filed a registration statement with the SEC that became effective with respect to an offer to exchange the unregistered 3.2% senior notes for substantially identical registered notes without the existing transfer restrictions. The offer closed in May 2012 with all notes exchanged. This exchange had no impact to our financial statements or cash flows.

Total debt outstanding at December 31, 2012 was \$4.92 billion, an increase of \$847 million compared to December 31, 2011. The total debt to total capitalization (defined as total debt plus equity) ratio was 0.22 at December 31, 2012 and 0.20 at December 31, 2011.

In 2010, we sold \$1.5 billion of 5.125% senior notes that will mature in September 2040. Net proceeds from the offering were approximately \$1.48 billion after deducting the underwriting discounts and expenses of the offering. We used \$511 million of the net proceeds to repay our outstanding commercial paper. We used \$250 million of the

net proceeds to purchase U.S. Treasury Bills, which were used to repay the BJ Services 5.75% notes that matured in June 2011. The remaining net proceeds from the offering were used for general corporate purposes.

We received proceeds of \$81 million, \$183 million and \$74 million in 2012, 2011 and 2010, respectively, from the issuance of common stock through the exercise of stock options and the employee stock purchase plan.

Our Board of Directors has authorized a program to repurchase our common stock from time to time. During 2012, 2011 and 2010, we did not repurchase any shares of common stock. We had authorization remaining to repurchase approximately \$1.2 billion in common stock at the end of 2012.

We paid dividends of \$263 million, \$261 million and \$241 million in 2012, 2011 and 2010, respectively.

Available Credit Facility

At December 31, 2012, we had a \$2.5 billion committed revolving credit facility with commercial banks that matures in September 2016. This facility contains certain covenants which, among other things, restrict certain merger transactions or the sale of all or substantially all of our assets or a significant subsidiary and limit the amount of subsidiary indebtedness. Upon the occurrence of certain events of default, our obligations under the facility may be accelerated. Such events of default include payment defaults to lenders under the facility, covenant defaults and other customary defaults. At December 31, 2012, we were in compliance with all of the facility's covenants. There were no direct borrowings under the committed credit facility in 2012. We also have a commercial paper program under which we may issue from time to time up to \$2.5 billion in commercial paper with maturity of no more than 270 days. The maximum combined borrowing at any point in time under both the commercial paper program and the credit facility is \$2.5 billion. At December 31, 2012, we had \$925 million of commercial paper outstanding; therefore, the amount available for borrowing under the facility as of December 31, 2012 was \$1.575 billion.

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

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

Cash Requirements

In 2013, we believe cash on hand, cash flows from operating activities and the available credit facility will provide us with sufficient capital resources and liquidity to manage our working capital needs, meet contractual obligations, fund capital expenditures, and support the development of our short-term and long-term operating strategies. We may issue commercial paper or other short-term debt to fund cash needs in the U.S. in excess of the cash generated in the U.S.

In 2013, we expect our capital expenditures to be approximately \$2.0 billion, excluding any amount related to acquisitions. The expenditures are expected to be used primarily for normal, recurring items necessary to support our business and operations. A significant portion of our capital expenditures can be adjusted based on future activity of our customers, and accordingly, we will manage our capital expenditures to match market demand. In 2013, we also expect to make interest payments of between \$225 million and \$240 million, based on debt levels as of December 31, 2012. We anticipate making income tax payments of between \$800 million and \$900 million in 2013.

We may repurchase our common stock depending on market conditions, applicable legal requirements, our liquidity and other considerations. We anticipate paying dividends of between \$263 million and \$273 million in 2013; however, the Board of Directors can change the dividend policy at any time.

For all defined benefit, defined contribution and other postretirement plans, we expect to contribute between \$385 million and \$420 million to these plans in 2013. See Note 10 of the Notes to Consolidated Financial Statements in Item 8 herein for further discussion of our employee benefit plans.

Contractual Obligations

In the table below, we set forth our contractual cash obligations as of December 31, 2012. Certain amounts included in this table are based on our estimates and assumptions about these obligations, including their duration, anticipated actions by third parties and other factors. The contractual cash obligations we will actually pay in future periods may vary from those reflected in the table because the estimates and assumptions are subjective.

<i>(In millions)</i>	Payments Due by Period				
	Total	Less Than 1 Year	2 - 3 Years	4 - 5 Years	More Than 5 Years
Total debt and capital lease obligations ⁽¹⁾	\$ 4,945	\$ 1,079	\$ 23	\$ 23	\$ 3,820
Estimated interest payments ⁽²⁾	3,438	225	445	436	2,332
Operating leases ⁽³⁾	676	204	255	98	119
Purchase obligations ⁽⁴⁾	1,482	496	711	261	14
Income tax liabilities for uncertain tax positions ⁽⁵⁾	267	49	121	40	57
Other long-term liabilities	145	29	49	19	48
Total	\$ 10,953	\$ 2,082	\$ 1,604	\$ 877	\$ 6,390

- (1) Amounts represent the expected cash payments for the principal amounts related to our debt, including outstanding commercial paper of \$925 million, and capital lease obligations. Amounts for debt do not include any unamortized discounts or deferred issuance costs. Expected cash payments for interest are excluded from these amounts.
- (2) Amounts represent the expected cash payments for interest on our long-term debt and capital lease obligations.
- (3) We enter into operating leases, some of which include renewal options. We have excluded renewal options from the table above.
- (4) Purchase obligations include capital improvements as well as agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.
- (5) The estimated income tax liabilities for uncertain tax positions will be settled as a result of expiring statutes, audit activity, competent authority proceedings related to transfer pricing, or final decisions in matters that are the subject of litigation in various taxing jurisdictions in which we operate. The timing of any particular settlement will depend on the length of the tax audit and related appeals process, if any, or an expiration of a statute. If a liability is settled due to a statute expiring or a favorable audit result, the settlement of the tax liability would not result in a cash payment.

Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as letters of credit and other bank issued guarantees, which totaled approximately \$1.5 billion at December 31, 2012. 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 consolidated financial statements.

Other than normal operating leases, we do not have any off-balance sheet financing arrangements such as securitization agreements, liquidity trust vehicles, synthetic leases or special purpose entities. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures as well as disclosures about any contingent assets and liabilities. We base these estimates and judgments on historical experience and other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects are subject to uncertainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

We have defined a critical accounting estimate as one that is both important to the portrayal of either our financial condition or results of operations and requires us to make difficult, subjective or complex judgments or estimates about matters that are uncertain. The Audit/Ethics Committee of our Board of Directors has reviewed our critical accounting estimates and the disclosure presented below. During the past three fiscal years, we have not made any material changes in the methodology used to establish the critical accounting estimates, and we believe that the following are the critical accounting estimates used in the preparation of our consolidated financial statements. There are other items within our consolidated financial statements that require estimation and judgment but they are not deemed critical as defined above.

Allowance for Doubtful Accounts

The determination of the collectability of amounts due from our customers requires us to make judgments and estimates regarding our customers' ability to pay amounts due us in order to determine the amount of valuation allowances required for doubtful accounts. We monitor our customers' payment history and current credit worthiness to determine that collectability is reasonably assured. We also consider the overall business climate in which our customers operate. Provisions for doubtful accounts are recorded when it becomes evident that the customer will not make the required payments at either contractual due dates or in the future. At December 31, 2012 and 2011, the allowance for doubtful accounts totaled \$308 million, or 6%, and \$229 million, or 4%, of total gross accounts receivable, respectively. We believe that our allowance for doubtful accounts is adequate to cover potential bad debt losses under current conditions; however, uncertainties regarding changes in the financial condition of our customers, either adverse or positive, could impact the amount and timing of any additional provisions for doubtful accounts that may be required. A five percent change in the allowance for doubtful accounts would have had an impact on income before income taxes of approximately \$15 million in 2012.

Inventory Reserves

Inventory is a significant component of current assets and is stated at the lower of cost or market. This requires us to record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine these reserve amounts, we regularly review inventory quantities on hand and compare them to estimates of future product demand, market conditions, production requirements and technological developments. These estimates and forecasts inherently include uncertainties and require us to make judgments regarding potential future outcomes. At December 31, 2012 and 2011, inventory reserves totaled \$346 million, or 8%, and \$304 million, or 9%, of gross inventory, respectively. We believe that our reserves are adequate to properly value potential excess, slow moving and obsolete inventory under current conditions. Significant or unanticipated changes to our estimates and forecasts could impact the amount and timing of any additional provisions for excess or obsolete inventory that may be required. A five percent change in this inventory reserve balance would have had an impact on income before income taxes of approximately \$17 million in 2012.

Goodwill and Other Long-Lived Assets

The purchase price of acquired businesses is allocated to its identifiable assets and liabilities based upon estimated fair values as of the acquisition date. Goodwill is the excess of the consideration transferred over the fair value of the tangible and identifiable intangible assets and liabilities recognized. In determining estimated fair values, we use various sources and types of information, including, but not limited to, quoted market prices, replacement cost estimates, accepted valuation techniques such as discounted cash flows, and existing carrying value of acquired assets. As necessary, we utilize third-party appraisal firms to assist us in determining fair value of inventory, identifiable intangible assets, and any other significant assets or liabilities. The judgments, assumptions

and estimates used or made in determining the estimated fair value assigned to assets acquired and liabilities assumed, as well as future asset lives, can materially impact our results of operations. We perform an annual assessment of goodwill for impairment as of October 1 of each year for each of our reporting units, which are generally based on our regional structure. These assessments include both qualitative and quantitative factors. When necessary, we calculate the fair value of a reporting unit using different valuation techniques, including a market approach, comparable transactions and discounted cash flow methodology, all of which include, but are not limited to, assumptions regarding matters such as discount rates, anticipated growth rates and expected profitability rates and similar items. The results of the 2012 assessment indicated that there were no impairments of goodwill. Unanticipated changes, including even small revisions, to these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and time-frames, it is not possible to reasonably quantify the impact of changes in these assumptions.

Long-lived assets, which include property and equipment, intangible assets other than goodwill, and certain other assets, comprise a significant amount of our total assets. We review the carrying values of these assets for impairment periodically, and at least annually for certain intangible assets, or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires us to make judgments regarding long-term forecasts of future revenue and costs related to the assets subject to review. These forecasts are uncertain in that they require assumptions about demand for our products and services, future market conditions and technological developments.

Income Taxes

The liability method is used for determining our income tax provisions, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for valuation allowances, we have considered and made judgments and estimates regarding estimated future taxable income and ongoing prudent and feasible tax planning strategies. These estimates and judgments include some degree of uncertainty and changes in these estimates and assumptions could require us to adjust the valuation allowances for our deferred tax assets. Historically, changes to valuation allowances have been caused by major changes in the business cycle in certain countries and changes in local country law. The ultimate realization of the deferred tax assets depends on the generation of sufficient taxable income in the applicable taxing jurisdictions.

We operate in more than 80 countries under many legal forms. As a result, we are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Our operations in these different jurisdictions are taxed on various bases: actual income before taxes, deemed profits (which are generally determined using a percentage of revenue rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact on the amount of income taxes that we provide during any given year.

Our tax filings for various periods are subject to audit by the tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are resolved with the authorities or through the courts. We believe these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. Resolution of these situations inevitably includes some degree of uncertainty; accordingly, we provide taxes only for the amounts we believe will ultimately result from these proceedings. The resulting change to our tax liability, if any, is dependent on numerous factors including, among others, the amount and nature of additional taxes potentially asserted by local tax authorities; the willingness of local tax authorities to negotiate a fair settlement through an administrative process; the impartiality of the local courts; the number of countries in which we do business; and the potential for changes in the tax paid to one country to either produce, or fail to produce, an offsetting tax change in other countries. Our experience has been that the estimates and

assumptions we have used to provide for future tax assessments have proven to be appropriate. However, past experience is only a guide, and the potential exists that the tax resulting from the resolution of current and potential future tax controversies may differ materially from the amount accrued.

In addition to the aforementioned assessments that have been received from various tax authorities, we also provide for taxes for uncertain tax positions where formal assessments have not been received. The determination of these liabilities requires the use of estimates and assumptions regarding future events. Once established, we adjust these amounts only when more information is available or when a future event occurs necessitating a change to the reserves such as changes in the facts or law, judicial decisions regarding the application of existing law or a favorable audit outcome. We believe that the resolution of tax matters will not have a material effect on the consolidated financial condition of the Company, although a resolution could have a material impact on our consolidated statements of income for a particular period and on our effective tax rate for any period in which such resolution occurs.

Pensions and Postretirement Benefit Obligations

Pensions and postretirement benefit obligations and the related expenses are calculated using actuarial models and methods. This involves the use of two critical assumptions, the discount rate and the expected rate of return on assets, both of which are important elements in determining pension expense and in measuring plan liabilities. We evaluate these critical assumptions at least annually, and as necessary, we utilize third party actuarial firms to assist us. Although considered less critical, other assumptions used in determining benefit obligations and related expenses, such as demographic factors like retirement age, mortality and turnover, are also evaluated periodically and are updated to reflect our actual and expected experience.

The discount rate enables us to determine expected future cash flows at a present value on the measurement date. The development of the discount rate for our largest plans was based on a bond matching model whereby the cash flows underlying the projected benefit obligation are matched against a yield curve constructed from a bond portfolio of high-quality, fixed-income securities. Use of a lower discount rate would increase the present value of benefit obligations and increase pension expense. We used a weighted average discount rate of 4.6% in 2012, 5.2% in 2011 and 5.9% in 2010 to determine pension expense. A 50 basis point reduction in the weighted average discount rate would have decreased income before income taxes by approximately \$2 million in 2012.

To determine the expected rate of return on plan assets, we consider the current and target asset allocations, as well as historical and expected future returns on various categories of plan assets. A lower rate of return would decrease plan assets which results in higher pension expense. We assumed a weighted average rate of return on our plan investments of 7.0% in 2012, 7.2% in 2011 and 7.1% in 2010. A 50 basis point reduction in the weighted average expected rate of return on assets of our principal plans would have decreased income before income taxes by approximately \$4 million in 2012.

NEW ACCOUNTING STANDARDS UPDATES

In June 2011, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 220, *Comprehensive Income*. This Accounting Standards Update ("ASU") requires entities to present components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that would include reclassification adjustments by component for items that are reclassified from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued an update to this ASU indefinitely deferring the implementation of the reclassification adjustments by component requirement of the ASU issued in June 2011. We adopted the new presentation requirement in the first quarter of 2012 and are using the two-statement approach.

In September 2011, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other*. This ASU amends the guidance in ASC 350-20 on testing for goodwill impairment. The revised guidance allows entities testing for goodwill impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test annually for impairment. The ASU is limited to goodwill and does not amend the annual requirement for testing other indefinite-lived intangible assets for impairment. The ASU is effective for

goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this ASU effective January 1, 2012, with no impact to our consolidated financial statements.

In July 2012, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other*. This ASU amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The ASU is effective for impairment tests performed for fiscal years beginning after September 15, 2012. We will adopt this ASU for our 2013 impairment testing and do not expect it to have a material impact, if any, on our consolidated financial statements.

RELATED PARTY TRANSACTIONS

There were no significant related party transactions during the three years ended December 31, 2012.

FORWARD-LOOKING STATEMENTS

This Form 10-K, including MD&A and certain statements in the Notes to Consolidated Financial Statements, includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act (each a “forward-looking statement”). The words “anticipate,” “believe,” “ensure,” “expect,” “if,” “intend,” “estimate,” “probable,” “project,” “forecasts,” “predict,” “outlook,” “aim,” “will,” “could,” “should,” “would,” “potential,” “may,” “likely” and similar expressions, and the negative thereof, are intended to identify forward-looking statements. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. The statements do not include the potential impact of future transactions, such as an acquisition, disposition, merger, joint venture or other transaction that could occur. We undertake no obligation to publicly update or revise any forward-looking statement. Our expectations regarding our business outlook, including changes in revenue, pricing, capital spending, profitability, strategies for our operations, impact of any common stock repurchases, oil and natural gas market conditions, the business plans of our customers, market share and contract terms, costs and availability of resources, legal, economic and regulatory conditions, and environmental matters are only our forecasts regarding these matters.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks that are inherent in our financial instruments and arise from changes in interest rates and foreign currency exchange rates. We may enter into derivative financial instrument transactions to manage or reduce market risk but do not enter into derivative financial instrument transactions for speculative purposes. A discussion of our primary market risk exposure in financial instruments is presented below.

INTEREST RATE RISK

We are subject to interest rate risk on our debt and investment portfolio. We maintain an interest rate risk management strategy, which primarily uses a mix of fixed and variable rate debt that is intended to mitigate the risk exposure to changes in interest rates in the aggregate. We may use interest rate swaps to manage the economic effect of fixed rate obligations associated with certain debt.

In September 2011, we redeemed in full our \$500 million 6.5% fixed rate senior notes maturing November 2013. Consequently, we terminated two related interest rate swap agreements resulting in a net gain on the swap agreements of \$25 million. The two swap agreements were entered into in June 2009 for a notional amount of \$250 million each in order to hedge changes in the fair market value of the debt. The swap agreements had been designated and each qualified as a fair value hedging instrument.

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We had fixed rate long-term debt aggregating \$3.8 billion at December 31, 2012 and December 31, 2011. The following table sets forth our fixed rate long-term debt and the related weighted average interest rates by expected maturity dates as of December 31, 2012 and 2011.

<i>(In millions)</i>	2012	2013	2014	2015	2016	2017	Thereafter	Total
As of December 31, 2012								
Long-term debt ⁽¹⁾⁽²⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,800	\$ 3,800
Weighted average interest rates	—	—	—	—	—	—	5.72%	5.72%
As of December 31, 2011								
Long-term debt ⁽¹⁾⁽²⁾	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,800	\$ 3,800
Weighted average interest rates	—	—	—	—	—	—	5.72%	5.72%

(1) Amounts do not include any unamortized discounts or deferred issuance costs.

(2) Fair market value of our fixed rate long-term debt was \$4,684 million at December 31, 2012 and \$4,611 million at December 31, 2011.

FOREIGN CURRENCY EXCHANGE RISK

We conduct our operations around the world in a number of different currencies, and we are exposed to market risks resulting from fluctuations in foreign currency exchange rates. Many of our significant foreign subsidiaries have designated the local currency as their functional currency. As such, future earnings are subject to change due to fluctuations in foreign currency exchange rates when transactions are denominated in currencies other than our functional currencies. To minimize the need for foreign currency forward contracts to hedge this exposure, our objective is to manage foreign currency exposure by maintaining a minimal consolidated net asset or net liability position in a currency other than the functional currency.

At December 31, 2012 and 2011, we had outstanding foreign currency forward contracts with notional amounts aggregating \$207 million and \$117 million, respectively, to hedge exposure to currency fluctuations in various foreign currencies. The notional amounts of our foreign exchange contracts do not generally represent amounts exchanged by the parties and, thus are not a measure of the cash requirements related to these contracts or of any possible loss exposure. The amounts actually exchanged are calculated by reference to the notional amounts and by other terms of the derivative contracts, such as exchange rates. Based on quoted market prices as of December 31, 2012 and 2011 for contracts with similar terms and maturity dates, we recorded a loss of \$1 million each year, to adjust these foreign currency forward contracts to their fair market value. These losses offset designated foreign currency exchange gains resulting from the underlying exposures and are included in MG&A expenses in the consolidated statements of income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control over financial reporting is a process designed 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.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our principal executive officer and principal financial officer concluded that our internal control over financial reporting was effective as of December 31, 2012. This conclusion is based on the recognition that there are inherent limitations in all systems of internal control. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.

/s/ MARTIN S. CRAIGHEAD
Martin S. Craighead
President and
Chief Executive Officer

/s/ PETER A. RAGAUSS
Peter A. Ragauss
Senior Vice President and
Chief Financial Officer

/s/ ALAN J. KEIFER
Alan J. Keifer
Vice President and
Controller

Houston, Texas
February 13, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Baker Hughes Incorporated
Houston, Texas

We have audited the accompanying consolidated balance sheets of Baker Hughes Incorporated and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included financial statement schedule II, valuation and qualifying accounts, listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Baker Hughes Incorporated and subsidiaries as of December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP
Houston, Texas
February 13, 2013

BAKER HUGHES INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME

<i>(In millions, except per share amounts)</i>	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Sales	\$ 7,274	\$ 6,382	\$ 5,516
Services	14,087	13,449	8,898
Total revenue	21,361	19,831	14,414
Costs and expenses:			
Cost of sales	5,758	5,122	4,359
Cost of services	11,598	10,142	6,825
Research and engineering	497	462	429
Marketing, general and administrative	1,316	1,190	1,250
Impairment of trade names	—	315	—
Acquisition-related costs	—	—	134
Total costs and expenses	19,169	17,231	12,997
Operating income	2,192	2,600	1,417
Gain on investments	—	—	6
Interest expense, net	(210)	(221)	(141)
Loss on early extinguishment of debt	—	(40)	—
Income before income taxes	1,982	2,339	1,282
Income taxes	(665)	(596)	(463)
Net income	1,317	1,743	819
Net (income) loss attributable to noncontrolling interests	(6)	(4)	(7)
Net income attributable to Baker Hughes	\$ 1,311	\$ 1,739	\$ 812
Basic earnings per share attributable to Baker Hughes	\$ 2.98	\$ 3.99	\$ 2.06
Diluted earnings per share attributable to Baker Hughes	\$ 2.97	\$ 3.97	\$ 2.06

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In millions)</i>	Year Ended December 31,		
	2012	2011	2010
Net income	\$ 1,317	\$ 1,743	\$ 819
Other comprehensive income (loss):			
Foreign currency translation adjustments during the period	78	(44)	(41)
Pension and other postretirement benefits, net of tax (2012 - \$(13); 2011 - \$44; 2010 - \$(5))	1	(92)	35
Other comprehensive income (loss)	79	(136)	(6)
Comprehensive income	1,396	1,607	813
Comprehensive (income) loss attributable to noncontrolling interests	(6)	(3)	(7)
Comprehensive income attributable to Baker Hughes	\$ 1,390	\$ 1,604	\$ 806

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED
CONSOLIDATED BALANCE SHEETS

<i>(In millions, except par value)</i>	December 31,	
	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,015	\$ 1,050
Accounts receivable - less allowance for doubtful accounts (2012 - \$308; 2011 - \$229)	4,815	4,878
Inventories, net	3,781	3,222
Deferred income taxes	266	251
Other current assets	540	396
Total current assets	10,417	9,797
Property, plant and equipment - less accumulated depreciation (2012 - \$6,315; 2011 - \$5,251)	8,707	7,415
Goodwill	5,958	5,956
Intangible assets, net	993	1,143
Other assets	614	536
Total assets	\$ 26,689	\$ 24,847
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,737	\$ 1,810
Short-term debt and current portion of long-term debt	1,079	224
Accrued employee compensation	646	704
Income taxes payable	226	289
Other accrued liabilities	436	475
Total current liabilities	4,124	3,502
Long-term debt	3,837	3,845
Deferred income taxes and other tax liabilities	745	810
Liabilities for pensions and other postretirement benefits	579	578
Other liabilities	136	148
Commitments and contingencies		
Equity:		
Common stock, one dollar par value (shares authorized - 750; issued and outstanding: 2012 - 441; 2011 - 437)	441	437
Capital in excess of par value	7,495	7,303
Retained earnings	9,609	8,561
Accumulated other comprehensive loss	(476)	(555)
Baker Hughes stockholders' equity	17,069	15,746
Noncontrolling interests	199	218
Total equity	17,268	15,964
Total liabilities and equity	\$ 26,689	\$ 24,847

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(In millions, except per share amounts)</i>	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2009	\$ 312	\$ 874	\$ 6,512	\$ (414)	\$ —	\$ 7,284
Comprehensive income:						
Net income			812		7	819
Other comprehensive (loss)				(6)		(6)
Issuance of common stock to acquire						
BJ Services	118	5,986				6,104
Activity related to stock plans	2	58				60
Stock-based compensation cost		87				87
Cash dividends (\$0.60 per share)			(241)			(241)
Net activity related to noncontrolling interests					179	179
Balance at December 31, 2010	\$ 432	\$ 7,005	\$ 7,083	\$ (420)	\$ 186	\$ 14,286
Comprehensive income:						
Net income			1,739		4	1,743
Other comprehensive (loss)				(135)	(1)	(136)
Activity related to stock plans	5	179				184
Stock-based compensation cost		108				108
Cash dividends (\$0.60 per share)			(261)			(261)
Net activity related to noncontrolling interests		11			29	40
Balance at December 31, 2011	\$ 437	\$ 7,303	\$ 8,561	\$ (555)	\$ 218	\$ 15,964
Comprehensive income:						
Net income			1,311		6	1,317
Other comprehensive income				79		79
Activity related to stock plans	4	55				59
Stock-based compensation cost		115				115
Cash dividends (\$0.60 per share)			(263)			(263)
Net activity related to noncontrolling interests		22			(25)	(3)
Balance at December 31, 2012	\$ 441	\$ 7,495	\$ 9,609	\$ (476)	\$ 199	\$ 17,268

See Notes to Consolidated Financial Statements

BAKER HUGHES INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In millions)</i>	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 1,317	\$ 1,743	\$ 819
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	1,568	1,321	1,069
Benefit for deferred income taxes	(114)	(492)	(188)
Impairment of trade names	—	315	—
Gain on disposal of assets	(222)	(179)	(119)
Stock-based compensation cost	115	108	87
Loss on early extinguishment of debt	—	40	—
Provision for doubtful accounts	100	84	39
Loss on impairment of assets	55	—	—
Changes in operating assets and liabilities:			
Accounts receivable	16	(1,024)	(702)
Inventories	(547)	(641)	(243)
Accounts payable	(94)	314	292
Accrued employee compensation and other accrued liabilities	(90)	58	(182)
Income taxes payable	(56)	(121)	23
Other operating items, net	(213)	(19)	(39)
Net cash flows from operating activities	1,835	1,507	856
Cash flows from investing activities:			
Expenditures for capital assets	(2,910)	(2,461)	(1,491)
Purchase of short-term investments	—	—	(250)
Proceeds from maturities of short-term investments	—	250	—
Proceeds from disposal of assets	389	311	208
Acquisition of businesses, net of cash acquired	—	(5)	(888)
Other investing items, net	—	14	45
Net cash flows from investing activities	(2,521)	(1,891)	(2,376)
Cash flows from financing activities:			
Net proceeds of commercial paper borrowings and other debt with three months or less original maturity	764	125	52
Repayment of short-term debt	(92)	—	—
Proceeds of short-term debt	175	—	—
Proceeds of long-term debt	—	742	1,479
Repayment of long-term debt	—	(813)	—
Proceeds from issuance of common stock	81	183	74
Dividends paid	(263)	(261)	(241)
Other financing items, net	(19)	(6)	2
Net cash flows from financing activities	646	(30)	1,366
Effect of foreign exchange rate changes on cash	5	8	15
Decrease in cash and cash equivalents	(35)	(406)	(139)
Cash and cash equivalents, beginning of period	1,050	1,456	1,595
Cash and cash equivalents, end of period	\$ 1,015	\$ 1,050	\$ 1,456
Supplemental cash flows disclosures:			
Income taxes paid, net of refunds	\$ 941	\$ 1,192	\$ 637
Interest paid	\$ 241	\$ 237	\$ 154
Supplemental disclosure of noncash investing activities:			
Capital expenditures included in accounts payable	\$ 140	\$ 111	\$ 64

See Notes to Consolidated Financial Statements



Baker Hughes Incorporated
Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

The consolidated financial statements include the accounts of Baker Hughes and all of our subsidiaries where we exercise control. For investments in subsidiaries that are not wholly-owned, but where we exercise control, the equity held by the minority owners and their portion of net income (loss) are reflected as noncontrolling interests. Investments over which we have the ability to exercise significant influence over operating and financial policies, but do not hold a controlling interest, are accounted for using the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation. In the Notes to Consolidated Financial Statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S.”) requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. While we believe that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts and inventory valuation reserves; recoverability of long-lived assets; useful lives used in depreciation and amortization; income taxes and related valuation allowances; accruals for contingencies and actuarial assumptions to determine costs and liabilities related to employee benefit plans; stock-based compensation and fair value of assets acquired and liabilities assumed in acquisitions.

Revenue Recognition

Our products and services are sold based upon purchase orders, contracts or other agreements with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post-delivery obligations. Our products are produced in a standard manufacturing operation, even if produced to our customer’s specifications. We recognize revenue for these products upon delivery, when title passes, when collectability is reasonably assured and there are no further significant obligations for future performance. Provisions for estimated warranty returns or similar types of items are made at the time the related revenue is recognized. Revenue for services is recognized as the services are rendered and when collectability is reasonably assured. Rates for services are typically priced on a per day, per meter, per man hour or similar basis. In certain situations, revenue is generated from transactions that may include multiple products and services under one contract or agreement and which may be delivered to the customer over an extended period of time. Revenue from these arrangements is recognized in accordance with the above criteria and as each item or service is delivered based on their relative fair value.

Research and Engineering

Research and engineering expenses are expensed as incurred and include costs associated with the research and development of new products and services, and costs associated with sustaining engineering of existing

Baker Hughes Incorporated
Notes to Consolidated Financial Statements

products and services. Costs for research and development were \$337 million, \$324 million and \$283 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Cash, Cash Equivalents and Short-term Investments

Cash equivalents include only those investments with an original maturity of three months or less. Short-term investments have an original maturity of greater than three months but less than one year. We maintain cash deposits with financial institutions that may exceed federally insured limits. We monitor the credit ratings and our concentration of risk with these financial institutions on a continuing basis to safeguard our cash deposits.

Allowance for Doubtful Accounts

We establish an allowance for doubtful accounts based on various factors including historical experience, current aging status of the customer accounts, and the payment history and financial condition of our customers. Provisions for doubtful accounts are recorded when it becomes evident that the customer will not make the required payments at either contractual due dates or in the future.

Concentration of Credit Risk

We grant credit to our customers, which operate primarily in the oil and natural gas industry. Although this concentration could affect our overall exposure to credit risk, we believe that our risk is minimized because the majority of our business is conducted with major companies many of which are geographically diverse, thus spreading the credit risk. To manage this risk, we perform periodic credit evaluations of our customers' financial condition, including monitoring our customers' payment history and current credit worthiness. We do not generally require collateral in support of our trade receivables, but we may require payment in advance or security in the form of a letter of credit or bank guarantee. During 2012, 2011 and 2010, no individual customer accounted for more than 10% of our consolidated revenue.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method or the average cost method, which approximates FIFO, and includes the cost of materials, labor and manufacturing overhead. As necessary, we record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine these reserve amounts, we regularly review inventory quantities on hand and compare them to estimates of future product demand, market conditions, production requirements and technological developments.

Property, Plant and Equipment and Accumulated Depreciation

Property, plant and equipment ("PP&E") is stated at cost less accumulated depreciation, which is generally provided by using the straight-line method over the estimated useful lives of the individual assets. Significant improvements and betterments are capitalized if they extend the useful life of the asset. We manufacture a substantial portion of our tools and equipment and the cost of these items, which includes direct and indirect manufacturing costs, is capitalized and carried in inventory until it is completed. When complete, the cost is reflected in capital expenditures and is classified as machinery, equipment and other in PP&E. Maintenance and repairs are charged to expense as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the balance sheet and the net amount, less proceeds from disposal, is charged or credited to income. The capitalized costs of computer software developed or purchased for internal use are classified in machinery, equipment and other.

Goodwill, Intangible Assets and Amortization

Goodwill is the excess of the consideration transferred over the fair value of the tangible and identifiable intangible assets and liabilities recognized. Goodwill and intangible assets with indefinite lives are not amortized. Intangible assets with finite useful lives are amortized on a basis that reflects the pattern in which the economic

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benefits of the intangible assets are realized, which is generally on a straight-line basis over the asset's estimated useful life.

Impairment of PP&E, Goodwill, Intangibles and Other Long-lived Assets

We review PP&E, intangible assets and certain other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and at least annually for certain intangible assets. The determination of recoverability is made based upon the estimated undiscounted future net cash flows. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related assets.

We perform an annual impairment test of goodwill for each of our reporting units as of October 1, or more frequently if circumstances indicate that an impairment may exist. Our reporting units are based on our organizational and reporting structure. Corporate and other assets and liabilities are allocated to the reporting units to the extent that they relate to the operations of those reporting units in determining their carrying amount. The determination of impairment is made by comparing the carrying amount of each reporting unit with its fair value, which is generally calculated using a combination of market, comparable transaction and discounted cash flow approaches.

Income Taxes

We use the liability method in determining our provision and liabilities for our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Deferred tax liabilities and assets, which are computed on the estimated income tax effect of temporary differences between financial and tax bases in assets and liabilities, are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We intend to indefinitely reinvest certain earnings of our foreign subsidiaries in operations outside the U.S., and accordingly, we have not provided for U.S. income taxes on such earnings. We do provide for the U.S. and additional non-U.S. taxes on earnings anticipated to be repatriated from our non-U.S. subsidiaries.

Our tax filings for various periods are subject to audit by tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are resolved with the authorities or through the courts. We have provided for the amounts we believe will ultimately result from these proceedings. In addition to the assessments that have been received from various tax authorities, we also provide for taxes for uncertain tax positions where formal assessments have not been received. We classify interest and penalties related to uncertain tax positions as income taxes in our financial statements.

Environmental Matters

Estimated remediation costs are accrued using currently available facts, existing environmental permits, technology and enacted laws and regulations. For sites where we are primarily responsible for the remediation, our cost estimates are developed based on internal evaluations and are not discounted. Accruals are recorded when it is probable that we will be obligated to pay for environmental site evaluation, remediation or related activities, and such costs can be reasonably estimated. As additional information becomes available, accruals are adjusted to reflect current cost estimates. Ongoing environmental compliance costs, such as obtaining environmental permits, installation of pollution control equipment and waste disposal, are expensed as incurred. Where we have been identified as a potentially responsible party in a U.S. federal or state "Superfund" site, we accrue our share of the estimated remediation costs of the site. This share is based on the ratio of the estimated volume of waste we contributed to the site to the total volume of waste disposed at the site.

Foreign Currency

A number of our significant foreign subsidiaries have designated the local currency as their functional currency and, as such, gains and losses resulting from balance sheet translation of foreign operations are included as a

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separate component of accumulated other comprehensive loss within stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of receivables or payables in the non-functional currency, are included in marketing, general and administrative ("MG&A") expenses in the consolidated statements of income as incurred. For those foreign subsidiaries that have designated the U.S. Dollar as the functional currency, monetary assets and liabilities are remeasured at period-end exchange rates, and nonmonetary items are remeasured at historical exchange rates. Gains and losses resulting from this balance sheet remeasurement are also included in MG&A expenses in the consolidated statements of income as incurred.

Financial Instruments

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt, and derivative financial instruments. Except for debt, the estimated fair value of our financial instruments at December 31, 2012 and 2011 approximates their carrying value as reflected in our consolidated balance sheets.

We monitor our exposure to various business risks including commodity prices, foreign currency exchange rates and interest rates and regularly use derivative financial instruments to manage these risks. Our policies do not permit the use of derivative financial instruments for speculative purposes. At the inception of a new derivative, we designate the derivative as a hedge or we determine the derivative to be undesignated as a hedging instrument as the facts dictate. We document the relationships between the hedging instruments and the hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item at both the inception of the hedge and on an ongoing basis.

We have a program that primarily utilizes foreign currency forward contracts to reduce the risks associated with the effects of certain foreign currency exposures. Under this program, our strategy is to have gains or losses on the foreign currency forward contracts mitigate the foreign currency transaction gains or losses to the extent practical. These foreign currency exposures typically arise from changes in the value of assets and liabilities which are denominated in currencies other than the functional currency. Our foreign currency forward contracts generally settle in less than 180 days. We record all derivatives as of the end of our reporting period in our consolidated balance sheet at fair value. For those forward contracts designated as fair value hedging instruments or held as undesignated hedging instruments, we record changes in fair value in our consolidated statements of income along with the change in fair value of the hedged item. Changes in the fair value of forward contracts designated as cash flow hedging instruments are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. Recognized gains and losses on derivatives entered into to manage foreign currency exchange risk are included in MG&A expenses in the consolidated statements of income.

We had outstanding foreign currency forward contracts with notional amounts aggregating \$207 million and \$117 million to hedge exposure to currency fluctuations in various foreign currencies at December 31, 2012 and 2011, respectively. These contracts are either undesignated hedging instruments or designated and qualify as fair value hedging instruments. The fair value was determined using quoted market prices for contracts with similar terms and maturity dates and was not material at either December 31, 2012 or 2011. The effects of our derivative instruments in our consolidated statements of income were not material in each of the three years ended December 31, 2012.

New Accounting Standards Updates

In June 2011, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 220, *Comprehensive Income*. This Accounting Standards Update ("ASU") requires entities to present components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that would include reclassification adjustments by component for items that are reclassified from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued an update to this ASU indefinitely deferring the implementation of the reclassification adjustments by component requirement of the ASU issued in June 2011. We adopted the new presentation requirement in the first quarter of 2012 and are using the two-statement approach.

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In September 2011, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other*. This ASU amends the guidance in ASC 350-20 on testing for goodwill impairment. The revised guidance allows entities testing for goodwill impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test annually for impairment. The ASU is limited to goodwill and does not amend the annual requirement for testing other indefinite-lived intangible assets for impairment. The ASU is effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this ASU effective January 1, 2012, with no impact to our consolidated financial statements.

In July 2012, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other*. This ASU amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The ASU is effective for impairment tests performed for fiscal years beginning after September 15, 2012. We will adopt this ASU for our 2013 impairment testing and do not expect it to have a material impact, if any, on our consolidated financial statements.

NOTE 2. STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the date of grant, based on the calculated fair value of the award, and is generally recognized on a straight-line basis over the vesting period of the equity grant net of forfeitures. The compensation cost is determined based on awards ultimately expected to vest; therefore, we have reduced the cost for estimated forfeitures based on historical forfeiture rates. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods to reflect actual forfeitures. There were no stock-based compensation costs capitalized as the amounts were not material.

Stock-based compensation costs are as follows for the years ended December 31:

	2012	2011	2010
Stock-based compensation cost	\$ 115	\$ 108	\$ 87
Tax benefit	(20)	(22)	(18)
Stock-based compensation cost, net of tax	\$ 95	\$ 86	\$ 69

For our stock options and restricted stock awards and units, we currently have 32.5 million authorized for issuance and as of December 31, 2012, approximately 7 million shares were available for future grants. Our policy is to issue new shares for exercises of stock options, when restricted stock awards are granted, at vesting of restricted stock units, and issuances under the employee stock purchase plan.

Stock Options

Our stock option plans provide for the issuance of stock options to directors, officers and other key employees at an exercise price equal to the fair market value of the stock at the date of grant. Although subject to the terms of the stock option agreement, substantially all of the stock options become exercisable in three equal annual installments, beginning a year from the date of grant, and generally expire ten years from the date of grant. The stock option plans provide for the acceleration of vesting upon the employee's retirement; therefore, the service period is reduced for employees that are or will become retirement eligible during the vesting period, and accordingly, the recognition of compensation expense for these employees is accelerated.

The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. The following table presents the weighted average assumptions used in the option pricing model for options granted. The expected life of the options represents the period of time the options are expected to be outstanding. The expected life is based on our historical exercise trends and post-vest termination data incorporated into a forward-looking stock price model. The expected volatility is based on our implied volatility, which is the volatility forecast that is implied by the prices of actively traded options to purchase our stock observed in the market. The risk-free

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interest rate is based on the observed U.S. Treasury yield curve in effect at the time the options were granted. The dividend yield is based on our history of dividend payouts.

	2012	2011	2010
Expected life (years)	5.4	5.0	5.0
Risk-free interest rate	0.9%	1.8%	2.2%
Volatility	41.4%	40.8%	39.8%
Dividend yield	1.4%	0.9%	1.2%
Weighted average fair value per share at grant date	\$ 14.51	\$ 24.20	\$ 16.24

The following table presents the changes in stock options outstanding and related information (in thousands, except per option prices):

	Number of Options	Weighted Average Exercise Price Per Option
Outstanding at December 31, 2011	9,432	\$ 55.34
Granted	2,624	43.16
Exercised	(209)	32.18
Forfeited	(65)	51.49
Expired	(626)	75.00
Outstanding at December 31, 2012	11,156	\$ 51.79
Exercisable at December 31, 2012	7,535	\$ 53.13

The weighted average remaining contractual term for options outstanding and options exercisable at December 31, 2012 was 5.8 years and 5.3 years, respectively.

The total intrinsic value of stock options (defined as the amount by which the market price of our common stock on the date of exercise exceeds the exercise price of the option) exercised in 2012, 2011 and 2010 was \$3 million, \$74 million and \$18 million, respectively. The income tax benefit realized from stock options exercised was \$0.8 million, \$20 million and \$0.9 million in 2012, 2011 and 2010, respectively.

The total fair value of options vested in 2012, 2011 and 2010 was \$28 million, \$22 million and \$20 million, respectively. As of December 31, 2012, there was \$18 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of two years.

The total intrinsic value of stock options outstanding at December 31, 2012 was \$21 million, of which \$19 million relates to options vested and exercisable. The intrinsic value for stock options outstanding is calculated as the amount by which the quoted price of \$40.85 of our common stock as of the end of 2012 exceeds the exercise price of the options.

Restricted Stock Awards and Units

In addition to stock options, officers, directors and key employees may be granted restricted stock awards ("RSA"), which is an award of common stock with no exercise price, or restricted stock units ("RSU"), where each unit represents the right to receive, at the end of a stipulated period, one unrestricted share of stock with no exercise price. RSAs and RSUs are subject to cliff or graded vesting, generally ranging over a three to five year period. We determine the fair value of restricted stock awards and restricted stock units based on the market price of our common stock on the date of grant.

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The following table presents the combined changes of RSAs and RSUs and related information (in thousands, except per share/unit prices):

	Number of Awards	Weighted Average Grant Date Fair Value Per Share
Unvested balance at December 31, 2011	2,252	\$ 51.70
Granted	1,561	47.10
Vested	(1,156)	47.54
Forfeited	(246)	51.83
Unvested balance at December 31, 2012	2,411	\$ 50.71

The weighted average grant date fair value per share for RSAs and RSUs granted in 2012, 2011 and 2010 was \$47.10, \$63.01 and \$47.46, respectively. The total fair value of RSAs and RSUs vested in 2012, 2011 and 2010 was \$55 million, \$52 million and \$36 million, respectively. As of December 31, 2012, there was \$72 million of total unrecognized compensation cost related to unvested RSAs and RSUs, which is expected to be recognized over a weighted average period of two years.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") provides for eligible employees to purchase shares on an after-tax basis in an amount between 1% and 10% of their annual pay: (i) on June 30 of each year at a 15% discount of the fair market value of our common stock on January 1 or June 30, whichever is lower, and (ii) on December 31 of each year at a 15% discount of the fair market value of our common stock on July 1 or December 31, whichever is lower. An employee may not purchase more than \$5,000 in either of the six-month measurement periods described above or \$10,000 annually.

We currently have 22.5 million shares authorized for issuance, and at December 31, 2012, there were 1.9 million shares reserved for future issuance. Compensation cost for the years ended December 31, was calculated using the Black-Scholes option pricing model with the following assumptions:

	2012	2011	2010
Expected life (years)	0.5	0.5	0.5
Risk-free interest rate	0.1%	0.1%	0.2%
Volatility	44.1%	36.6%	44.2%
Dividend yield	1.3%	1.0%	1.5%
Fair value per share of the 15% cash discount	\$ 6.71	\$ 9.62	\$ 6.16
Fair value per share of the look-back provision	5.46	6.50	4.98
Total weighted average fair value per share at grant date	\$ 12.17	\$ 16.12	\$ 11.14

We calculated estimated volatility using historical daily prices based on the expected life of the stock purchase plan. The risk-free interest rate is based on the observed U.S. Treasury yield curve in effect at the time the ESPP shares were granted. The dividend yield is based on our history of dividend payouts.

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NOTE 3. INCOME TAXES

The provision for income taxes is comprised of the following for the years ended December 31:

	2012	2011	2010
Current:			
U.S.	\$ 251	\$ 609	\$ 179
Foreign	528	479	472
Total current	779	1,088	651
Deferred:			
U.S.	(57)	(315)	(107)
Foreign	(57)	(177)	(81)
Total deferred	(114)	(492)	(188)
Provision for income taxes	\$ 665	\$ 596	\$ 463

The geographic sources of income before income taxes are as follows for the years ended December 31:

	2012	2011	2010
U.S.	\$ 700	\$ 1,466	\$ 534
Foreign	1,282	873	748
Income before income taxes	\$ 1,982	\$ 2,339	\$ 1,282

The provision for income taxes differs from the amount computed by applying the U.S. statutory income tax rate to income before income taxes for the reasons set forth below for the years ended December 31:

	2012	2011	2010
Statutory income tax at 35%	\$ 694	\$ 819	\$ 449
Effect of foreign operations	(40)	(11)	(54)
Net tax charge related to foreign losses	17	51	64
Adjustments of prior years' tax positions	(57)	(51)	(35)
State income taxes - net of U.S. tax benefit	36	40	19
Impact of reorganization of foreign subsidiaries	—	(214)	—
Other - net	15	(38)	20
Provision for income taxes	\$ 665	\$ 596	\$ 463

During 2011, we reorganized certain of our foreign subsidiaries. As a result of the reorganization, previously accrued U.S. deferred income taxes related to those subsidiaries were reduced by \$214 million to account for certain foreign tax credits that existed prior to the acquisition of BJ Services and are now available to offset future U.S. taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards.

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The tax effects of our temporary differences and carryforwards are as follows at December 31:

	2012	2011
Deferred tax assets:		
Receivables	\$ 76	\$ 42
Inventory	250	228
Employee benefits	125	131
Other accrued expenses	154	173
Operating loss carryforwards	245	228
Tax credit carryforwards	460	372
Other	70	84
Subtotal	1,380	1,258
Valuation allowances	(389)	(318)
Total	991	940
Deferred tax liabilities:		
Goodwill and other intangibles	385	423
Property	355	273
Undistributed earnings of foreign subsidiaries	374	366
Other	27	42
Total	1,141	1,104
Net deferred tax liability	\$ (150)	\$ (164)

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We have provided a valuation allowance for operating loss and foreign tax credit carryforwards in certain non-U.S. jurisdictions. The increase in the valuation allowances of \$71 million resulted primarily from net tax charges related to foreign losses. The operating loss carryforwards without a valuation allowance will expire in varying amounts over the next twenty years.

We have provided relevant U.S. and foreign taxes for the anticipated repatriation of certain earnings of our foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries above the amount for which taxes have already been provided to be indefinitely reinvested, as we have no current intention to repatriate these earnings. As such, deferred income taxes are not provided for temporary differences of approximately \$2.6 billion at December 31, 2012, representing earnings of non-U.S. subsidiaries intended to be indefinitely reinvested. These additional foreign earnings could become subject to additional tax, if remitted, or deemed remitted, as a dividend. Computation of the potential deferred tax liability associated with these undistributed earnings and any other basis differences, is not practicable.

At December 31, 2012, we had approximately \$109 million of foreign tax credits which may be carried forward indefinitely under applicable foreign law and \$349 million of foreign tax credits available to offset future payments of U.S. federal income taxes, primarily expiring in 2019 through 2023. In addition, at December 31, 2012, we had approximately \$2 million of state tax credits expiring in varying amounts between 2016 and 2021.

At December 31, 2012, we had \$267 million of tax liabilities for gross unrecognized tax benefits, which includes liabilities for interest and penalties of \$47 million and \$24 million, respectively. If we were to prevail on all uncertain tax positions, the net effect would be a decrease to our income tax provision of approximately \$243 million. The remaining approximately \$24 million is offset by deferred tax assets that represent tax benefits that would be received in different taxing jurisdictions in the event that we did not prevail on all uncertain tax positions.

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The following table presents the changes in our unrecognized tax benefits and associated interest and penalties included in the consolidated balance sheets.

	Gross Unrecognized Tax Benefits, Excluding Interest and Penalties	Interest and Penalties	Total Gross Unrecognized Tax Benefits
Balance at December 31, 2009	\$ 250	\$ 89	\$ 339
Acquisition of BJ Services	102	28	130
Increase (decrease) in prior year tax positions	(16)	4	(12)
Increase in current year tax positions	4	3	7
Decrease related to settlements with taxing authorities	(7)	(5)	(12)
Decrease related to lapse of statute of limitations	(6)	(1)	(7)
Decrease due to effects of foreign currency translation	(3)	(4)	(7)
Balance at December 31, 2010	324	114	438
Increase (decrease) in prior year tax positions	(5)	12	7
Increase in current year tax positions	8	11	19
Decrease related to settlements with taxing authorities	(3)	(1)	(4)
Decrease related to lapse of statute of limitations	(38)	(38)	(76)
Decrease due to effects of foreign currency translation	(3)	(2)	(5)
Balance at December 31, 2011	283	96	379
Increase (decrease) in prior year tax positions	(18)	(5)	(23)
Increase in current year tax positions	6	1	7
Decrease related to settlements with taxing authorities	(34)	(9)	(43)
Decrease related to lapse of statute of limitations	(38)	(9)	(47)
Decrease due to effects of foreign currency translation	(3)	(3)	(6)
Balance at December 31, 2012	\$ 196	\$ 71	\$ 267

It is expected that the amount of unrecognized tax benefits will change in the next twelve months due to expiring statutes, audit activity, tax payments, competent authority proceedings related to transfer pricing, or final decisions in matters that are the subject of litigation in various taxing jurisdictions in which we operate. At December 31, 2012, we had approximately \$29 million of tax liabilities, net of \$20 million of tax assets, related to uncertain tax positions, each of which are individually insignificant, and each of which are reasonably possible of being settled within the next twelve months.

At December 31, 2012, approximately \$218 million of total gross unrecognized tax benefits were included in the noncurrent portion of our income tax liabilities, for which the settlement period cannot be determined; however, it is not expected to be within the next twelve months.

We operate in more than 80 countries and are subject to income taxes in most taxing jurisdictions in which we operate. The following table summarizes the earliest tax years that remain subject to examination by the major taxing jurisdictions in which we operate. These jurisdictions are those we project to have the highest tax liability for 2013.

Jurisdiction	Earliest Open Tax Period	Jurisdiction	Earliest Open Tax Period
Canada	2004	Norway	1999
Germany	2003	U.K.	2010
Netherlands	2006	U.S.	2008

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NOTE 4. EARNINGS PER SHARE

A reconciliation of the number of shares used for the basic and diluted earnings per share ("EPS") computations is as follows for the years ended December 31:

	2012	2011	2010
Weighted average common shares outstanding for basic EPS	440	436	394
Effect of dilutive securities - stock plans	1	2	1
Adjusted weighted average common shares outstanding for diluted EPS	441	438	395
Future potentially dilutive shares excluded from diluted EPS:			
Options with an exercise price greater than the average market price for the period	7	3	7

NOTE 5. INVENTORIES

Inventories, net of reserves of \$346 million and \$304 million in 2012 and 2011, respectively, are comprised of the following at December 31:

	2012	2011
Finished goods	\$ 3,336	\$ 2,830
Work in process	228	231
Raw materials	217	161
Total	\$ 3,781	\$ 3,222

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following at December 31:

	Useful Life	2012	2011
Land		\$ 253	\$ 193
Buildings and improvements	5 - 30 years	2,408	1,998
Machinery, equipment and other	1 - 20 years	12,361	10,475
Subtotal		15,022	12,666
Less: Accumulated depreciation		6,315	5,251
Total		\$ 8,707	\$ 7,415

Depreciation expense relating to property, plant and equipment was \$1,427 million, \$1,221 million and \$991 million in 2012, 2011 and 2010, respectively.

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NOTE 7. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are detailed below by reportable segment.

	North America	Latin America	Europe/ Africa/ Russia Caspian	Middle East/ Asia Pacific	Industrial Services and Other	Total
Balance at December 31, 2011	\$ 3,075	\$ 586	\$ 1,031	\$ 858	\$ 406	\$ 5,956
Reclassification and other	(6)	—	(13)	(6)	27	2
Balance at December 31, 2012	\$ 3,069	\$ 586	\$ 1,018	\$ 852	\$ 433	\$ 5,958

We perform an annual impairment test of goodwill as of October 1 of every year. There were no impairments of goodwill in any of the three years ended December 31, 2012 related to the annual impairment test.

Intangible assets are comprised of the following at December 31:

	2012			2011		
	Gross Carrying Amount	Less: Accumulated Amortization	Net	Gross Carrying Amount	Less: Accumulated Amortization	Net
Definite lived intangibles:						
Technology	\$ 787	\$ 282	\$ 505	\$ 755	\$ 231	\$ 524
Contract-based	16	10	6	17	9	8
Trade names	121	60	61	121	16	105
Customer relationships	494	117	377	497	77	420
Subtotal	1,418	469	949	1,390	333	1,057
Indefinite lived intangibles:						
IPR&D	44	—	44	86	—	86
Total	\$ 1,462	\$ 469	\$ 993	\$ 1,476	\$ 333	\$ 1,143

During 2011, we recognized impairments of certain trade names, the majority of which related to the impairment of the BJ Services trade name. As a result, we recorded a charge of \$315 million before-tax (\$220 million net of tax) in net income. The BJ Services trade name was classified as an indefinite lived intangible asset and, therefore, was not being amortized. The impairment of the BJ Services trade name was due to the decision to minimize the use of the BJ Services trade name as part of our overall branding strategy. The BJ Services trade name was revalued resulting in a revised fair value of \$61 million, with a remaining useful life of three years, which we began amortizing in 2012 on an accelerated basis.

The following table details the impairment charge by reportable segment.

	2011
North America	\$ 105
Latin America	64
Europe/Africa/Russia Caspian	48
Middle East/Asia Pacific	47
Industrial Services and Other	51
Total	\$ 315

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Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 2 to 30 years. Amortization expense included in net income for the years ended December 31, 2012, 2011 and 2010 was \$140 million, \$96 million and \$76 million, respectively. Estimated amortization expense for each of the subsequent five fiscal years is expected to be as follows: 2013 - \$116 million; 2014 - \$101 million; 2015 - \$94 million; 2016 - \$92 million; and 2017 - \$88 million.

NOTE 8. INDEBTEDNESS

Total debt consisted of the following at December 31, net of unamortized discount and debt issuance cost:

	2012	2011
6.0% Notes due June 2018 with an effective interest rate of 6.29%	\$ 263	\$ 265
7.5% Senior Notes due November 2018 with an effective interest rate of 7.61%	744	743
3.2% Senior Notes due August 2021 with an effective interest rate of 3.32%	743	742
8.55% Debentures due June 2024 with an effective interest rate of 8.76%	148	148
6.875% Notes due January 2029 with an effective interest rate of 7.08%	393	393
5.125% Notes due September 2040 with an effective interest rate of 5.22%	1,480	1,479
Commercial paper with an effective interest rate of 0.24%	925	130
Other debt	220	169
Total debt	4,916	4,069
Less: short-term debt and current portion of long-term debt	1,079	224
Long-term debt	\$ 3,837	\$ 3,845

The estimated fair value of total debt at December 31, 2012 and 2011 was \$5,829 million and \$4,910 million, respectively, which differs from the carrying amounts of \$4,916 million and \$4,069 million, respectively, included in our consolidated balance sheets. The fair value was determined using quoted period end market prices.

At December 31, 2012 we had a \$2.5 billion committed revolving credit facility maturing in September 2016. As of December 31, 2012, we were in compliance with all of the facility's covenants. There were no direct borrowings under the committed revolving credit facility during 2012. We also have a commercial paper program under which we may issue up to \$2.5 billion in commercial paper with maturities of no more than 270 days. The maximum combined borrowing at any point in time under both the commercial paper program and the credit facility is \$2.5 billion. At December 31, 2012, we had \$925 million of commercial paper outstanding. Maturities of debt at December 31, 2012 are as follows: 2013 - \$1,079 million; 2014 - \$10 million; 2015 - \$13 million; 2016 - \$15 million; 2017 - \$8 million; and \$3,791 million thereafter.

In 2011, we redeemed in full our 6.5% Senior Notes due in November 2013, which resulted in the payment of a redemption premium of \$63 million and in a pre-tax loss on the early extinguishment of this debt of \$40 million, which included the redemption premium and the write off of the remaining original debt issuance cost and debt discount, partially offset by a gain of \$25 million from the termination of two related interest rate swap agreements.

NOTE 9. SEGMENT INFORMATION

We conduct our business primarily through operating segments that are aligned with our geographic regions, which have been aggregated into the following five reportable segments:

- North America (U.S. and Canada)
- Latin America
- Europe/Africa/Russia Caspian
- Middle East/Asia Pacific
- Industrial Services and Other

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We aggregate our operating segments within each reportable segment because they have similar economic characteristics and because the long-term financial performance of the operating segments is affected by similar economic conditions. The performance of our operating segments is evaluated based on profit before tax, which is defined as income before income taxes and before the following: net interest expense, corporate expenses, and certain gains and losses not allocated to the operating segments.

In the first quarter of 2012, we changed our reporting structure to include the reservoir development services business (“RDS”) within our four oilfield geographic segments. All prior period segment disclosures for revenue and profit before tax have been reclassified to include RDS within our four oilfield geographic segments. The impact of these changes to the Industrial Services and Other segment was to reduce revenue by \$108 million and \$92 million for the year ended December 31, 2011 and 2010, respectively; and increase profit before tax by \$42 million and \$28 million for the year ended December 31, 2011 and 2010, respectively. For 2011, segment profit before tax includes the charge of \$315 million related to the impairment of trade names. For further discussion of the trade name impairments and breakdown by reportable segment, see Note 7. Goodwill and Intangible Assets.

Summarized financial information is shown in the following table.

Segments	2012		2011		2010	
	Revenue	Profit (Loss) Before Tax	Revenue	Profit (Loss) Before Tax	Revenue	Profit (Loss) Before Tax
North America	\$ 10,836	\$ 1,268	\$ 10,279	\$ 1,908	\$ 6,642	\$ 1,146
Latin America	2,399	197	2,190	223	1,576	74
Europe/Africa/Russia Caspian	3,634	586	3,372	336	3,050	257
Middle East/Asia Pacific	3,275	313	2,852	310	2,267	169
Industrial Services and Other	1,217	131	1,138	95	879	127
Total Operations	21,361	2,495	19,831	2,872	14,414	1,773
Corporate and Other	—	(513)	—	(533)	—	(491)
Total	\$ 21,361	\$ 1,982	\$ 19,831	\$ 2,339	\$ 14,414	\$ 1,282

The following table presents the details of “Corporate and Other” segment loss for the years ended December 31:

	2012	2011	2010
Corporate and other expenses	\$ (303)	\$ (272)	\$ (222)
Interest expense, net	(210)	(221)	(141)
Loss on early extinguishment of debt	—	(40)	—
Gain on investments	—	—	6
Acquisition-related costs	—	—	(134)
Total	\$ (513)	\$ (533)	\$ (491)

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The following tables present capital expenditures and depreciation and amortization by segment for the years ended December 31 and total assets by segment at December 31:

Segments	2012		2011		2010	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
North America	\$ 1,373	\$ 750	\$ 1,243	\$ 625	\$ 599	\$ 437
Latin America	234	225	274	202	191	174
Europe/Africa/Russia Caspian	374	257	357	236	312	231
Middle East/Asia Pacific	345	234	228	207	206	187
Industrial Services and Other	563	55	325	49	177	37
Total Operations	2,889	1,521	2,427	1,319	1,485	1,066
Corporate and Other	21	47	34	2	6	3
Total	\$ 2,910	\$ 1,568	\$ 2,461	\$ 1,321	\$ 1,491	\$ 1,069

Total Assets	2012	2011	2010
North America	\$ 10,176	\$ 9,809	\$ 8,266
Latin America	2,898	2,730	2,728
Europe/Africa/Russia Caspian	3,896	3,848	3,550
Middle East/Asia Pacific	3,685	3,321	3,139
Industrial Services and Other	4,792	4,227	3,543
Total Operations	25,447	23,935	21,226
Corporate and Other	1,242	912	1,760
Total	\$ 26,689	\$ 24,847	\$ 22,986

Assets of our Global Products and Services group, which includes product line marketing and technology, supply chain, and information technology organizations, are included in the Industrial Services and Other segment. All costs and expenses, including depreciation and amortization, for the Global Products and Services group have been allocated to our segments as these enterprise organizations support our global operations. Corporate assets include cash, certain property, plant and equipment, and certain other noncurrent assets.

The following tables present geographic consolidated revenue and consolidated revenue for each group of similar products and services for the years ended December 31:

	2012	2011	2010
U.S.	\$ 9,903	\$ 9,131	\$ 6,043
Canada and other	1,598	1,768	1,186
North America	11,501	10,899	7,229
Latin America	2,436	2,220	1,583
Europe/Africa/Russia Caspian	3,981	3,671	3,218
Middle East/Asia Pacific	3,443	3,041	2,384
Total	\$ 21,361	\$ 19,831	\$ 14,414

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	2012	2011	2010
Completion and Production	\$ 12,949	\$ 12,469	\$ 8,548
Drilling and Evaluation	7,195	6,224	4,987
Industrial Services and Other	1,217	1,138	879
Total	\$ 21,361	\$ 19,831	\$ 14,414

The following table presents net property, plant and equipment by its geographic location at December 31:

	2012	2011	2010
U.S.	\$ 4,627	\$ 3,752	\$ 3,023
Canada and other	642	529	467
North America	5,269	4,281	3,490
Latin America	912	891	788
Europe/Africa/Russia Caspian	1,419	1,325	1,118
Middle East/Asia Pacific	1,107	918	914
Total	\$ 8,707	\$ 7,415	\$ 6,310

NOTE 10. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLANS

We have both funded and unfunded noncontributory defined benefit pension plans ("Pension Benefits") covering certain employees primarily in the U.S., the U.K., Germany and Canada. Under the provisions of the U.S. qualified pension plan (the "U.S. Plan"), a hypothetical cash balance account is established for each participant. Such accounts receive quarterly credits based on a percentage according to the employee's age on the last day of the quarter applied to quarterly eligible compensation and interest credits based on the balance in the account on the last day of the quarter. For the majority of the participants in the U.K. pension plans, we do not accrue benefits as the plans are frozen. The Germany pension plan is an unfunded plan where benefits are based on creditable years of service, creditable pay and accrual rates. The Canada pension plan is frozen, and we no longer accrue on a defined benefit basis. We also provide certain postretirement health care benefits ("other postretirement benefits"), through an unfunded plan, to a closed group of U.S. employees who retire and have met certain age and service requirements. This plan was amended during 2012 and as a result was closed to new participants as of December 31, 2012. This amendment resulted in a reduction in the benefit obligation of \$69 million, which was recorded as a prior service credit in accumulated other comprehensive loss.

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Funded Status

Below is the reconciliation of the beginning and ending balances of benefit obligations, fair value of plan assets and the funded status of our plans.

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 524	\$ 444	\$ 643	\$ 593	\$ 196	\$ 166
Service cost	63	38	8	9	13	8
Interest cost	21	21	32	33	7	8
Actuarial loss	20	43	76	25	16	28
Benefits paid	(34)	(19)	(22)	(16)	(15)	(14)
Plan amendments	—	—	9	—	(69)	—
Settlements	—	—	(23)	—	—	—
Other	(5)	(3)	(8)	(1)	—	—
Exchange rate adjustments	—	—	25	—	—	—
Benefit obligation at end of year	589	524	740	643	148	196
Change in plan assets:						
Fair value of plan assets at beginning of year	433	416	526	474	—	—
Actual return on plan assets	53	(5)	43	38	—	—
Employer contributions	76	43	44	28	15	14
Benefits paid	(34)	(19)	(22)	(16)	(15)	(14)
Settlements	—	—	(23)	—	—	—
Other	(4)	(2)	—	1	—	—
Exchange rate adjustments	—	—	24	1	—	—
Fair value of plan assets at end of year	524	433	592	526	—	—
Funded status - underfunded at end of year	\$ (65)	\$ (91)	\$ (148)	\$ (117)	\$ (148)	\$ (196)
Accumulated benefit obligation	\$ 540	\$ 491	\$ 700	\$ 616	\$ 148	\$ 196

The amounts recognized in the consolidated balance sheets consist of the following at December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Noncurrent assets	\$ —	\$ —	\$ 2	\$ 6	\$ —	\$ —
Current liabilities	(2)	(3)	(8)	(5)	(15)	(16)
Noncurrent liabilities	(63)	(88)	(142)	(118)	(133)	(180)
Net amount recognized	\$ (65)	\$ (91)	\$ (148)	\$ (117)	\$ (148)	\$ (196)

The funded status position represents the difference between the benefit obligation and the plan assets. The projected benefit obligation ("PBO") for pension benefits represents the actuarial present value of benefits attributed to employee services and compensation and includes an assumption about future compensation levels. The accumulated benefit obligation ("ABO") is the actuarial present value of pension benefits attributed to employee

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service to date and present compensation levels. The ABO differs from the PBO in that the ABO does not include any assumptions about future compensation levels.

Information for the plans with ABOs in excess of plan assets is as follows at December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Projected benefit obligation	\$ 19	\$ 524	\$ 395	\$ 345	n/a	n/a
Accumulated benefit obligation	\$ 19	\$ 491	\$ 366	\$ 322	\$ 148	\$ 196
Fair value of plan assets	\$ —	\$ 433	\$ 255	\$ 225	n/a	n/a

Weighted average assumptions used to determine benefit obligations for these plans are as follows for the years ended December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Discount rate	3.6%	4.2%	4.4%	5.0%	3.2%	3.8%
Rate of compensation increase	5.6%	5.4%	4.4%	4.4%	n/a	n/a
Social security increase	2.8%	2.8%	2.1%	2.1%	n/a	n/a

The development of the discount rate for our U.S. plans and substantially all non-U.S. plans was based on a bond matching model, whereby a hypothetical bond portfolio of high-quality, fixed-income securities is selected that will match the cash flows underlying the projected benefit obligation.

Accumulated Other Comprehensive Loss

The amount recorded before-tax in accumulated other comprehensive loss related to employee benefit plans consists of the following at December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Net actuarial loss	\$ 205	\$ 219	\$ 193	\$ 130	\$ 53	\$ 38
Net prior service cost (credit)	2	2	9	—	(95)	(28)
Total	\$ 207	\$ 221	\$ 202	\$ 130	\$ (42)	\$ 10

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss and included in net periodic benefit cost in 2013 are \$21 million and \$1 million, respectively. The estimated net actuarial loss and prior service credit for the other postretirement benefits that will be amortized from accumulated other comprehensive loss and included in net periodic benefit cost in 2013 are \$3 million and \$7 million, respectively.

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Net Periodic Benefit Cost

The components of net periodic cost (benefit) are as follows for the years ended December 31:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Service cost	\$ 63	\$ 38	\$ 32	\$ 8	\$ 9	\$ 8	\$ 13	\$ 8	\$ 10
Interest cost	21	21	22	32	33	26	7	8	9
Expected return on plan assets	(35)	(31)	(28)	(36)	(33)	(23)	—	—	—
Amortization of prior service cost	—	—	—	—	—	—	(2)	(2)	1
Amortization of net actuarial loss	15	10	11	6	4	4	1	—	—
Curtailment/settlements	—	—	—	4	(4)	(1)	—	—	—
Net periodic cost	\$ 64	\$ 38	\$ 37	\$ 14	\$ 9	\$ 14	\$ 19	\$ 14	\$ 20

Weighted average assumptions used to determine net periodic cost (benefit) for these plans are as follows for the years ended December 31:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Discount rate	4.2%	4.9%	5.9%	5.0%	5.5%	5.6%	3.8%	4.9%	5.9%
Expected long-term return on plan assets	7.4%	7.8%	7.8%	6.7%	6.7%	6.6%	n/a	n/a	n/a
Rate of compensation increase	5.4%	5.4%	4.0%	4.4%	4.3%	4.2%	n/a	n/a	n/a
Social security increase	2.8%	2.8%	3.5%	2.1%	2.9%	3.2%	n/a	n/a	n/a

In selecting the expected rate of return on plan assets, we consider the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of these plans. This includes considering the trusts' asset allocation and the expected returns likely to be earned over the life of the plans.

Health Care Cost Trend Rates

Assumed health care cost trend rates have a significant effect on the amounts reported for other postretirement benefits. As of December 31, 2012, the health care cost trend rate was 8.1% for employees under age 65, declining gradually each successive year until it reaches 4.5%. A one percentage point change in assumed health care cost trend rates would have had the following effects on 2012:

	One Percentage Point Increase		One Percentage Point Decrease	
Effect on total of service and interest cost components	\$	0.3	\$	(0.3)
Effect on postretirement welfare benefit obligation	\$	5.4	\$	(5.2)

Plan Assets

We have investment committees that meet regularly to review the portfolio returns and to determine asset-mix targets based on asset/liability studies. Third-party investment consultants assist us in developing asset allocation strategies to determine our expected rates of return and expected risk for various investment portfolios. The

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investment committees considered these strategies in the formal establishment of the current asset-mix targets based on the projected risk and return levels for all major asset classes.

All investments are held in the form of units of funds. The funds hold underlying securities and are redeemable at the measurement date. Investments in equities and fixed-income funds are generally measured at fair value based on daily closing prices provided by active exchanges or on the basis of observable, market-based inputs. Investments in hedge funds are generally measured at fair value on the basis of their net asset values, which are provided by the investment sponsor or third party administrator. The fair values of investments in real estate funds are based on appraised values developed using comparable market transactions or discounted cash flows.

U.S. Qualified Pension Plan

The investment policy of the U.S. Plan was developed after examining the historical relationships of risk and return among asset classes and the relationship between the expected behavior of the U.S. Plan's assets and liabilities. The investment policy of the U.S. Plan is designed to provide the greatest probability of meeting or exceeding the U.S. Plan's objectives at the lowest possible risk. In evaluating risk, the investment committee for the U.S. Plan ("U.S. Committee") reviews the long-term characteristics of various asset classes, focusing on balancing risk with expected return. Accordingly, the U.S. Committee selected the following five asset classes as allowable investments for the assets of the U.S. Plan: U.S. equities, U.S. fixed-income securities, non-U.S. equities, real estate and hedge funds.

The fair value of the assets in our U.S. Plan at December 31, 2012 and 2011, by asset category, are presented below and were determined based on valuation techniques categorized as follows:

- Level One: The use of quoted prices in active markets for identical financial instruments.
- Level Two: The use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or other inputs that are observable in the market or can be corroborated by observable market data.
- Level Three: The use of significantly unobservable inputs that typically require the use of management's estimates of assumptions that market participants would use in pricing.

Asset Category	2012				2011			
	Total Asset Value	Level One	Level Two	Level Three	Total Asset Value	Level One	Level Two	Level Three
Cash and Cash Equivalents	\$ 3	\$ —	\$ 3	\$ —	\$ 6	\$ —	\$ 6	\$ —
Fixed Income ⁽¹⁾	101	—	101	—	96	—	96	—
Non-U.S. Equity ⁽²⁾	111	—	111	—	104	—	104	—
U.S. Equity ⁽³⁾	106	—	106	—	104	—	104	—
Hedge Funds ⁽⁴⁾	172	—	—	172	110	—	—	110
Real Estate Funds ⁽⁵⁾	7	—	—	7	5	—	—	5
Real Estate Investment Trust Equity	8	—	8	—	8	—	8	—
Private Equity ⁽⁶⁾	16	—	—	16	—	—	—	—
Total	\$ 524	\$ —	\$ 329	\$ 195	\$ 433	\$ —	\$ 318	\$ 115

- (1) A multi-manager strategy investing in fixed income securities. The current allocation includes: 24% in corporate bonds; 20% in mutual funds (government agencies); 18% in mutual funds (corporate bonds); 16% in government mortgage-backed securities; 14% in government bonds; 5% in asset-backed securities; and 3% in cash and other securities.
- (2) Multi-manager strategy investing in common stocks of non-U.S. listed companies using both value and growth approaches.
- (3) Multi-manager strategy investing in common stocks of U.S. listed companies using value and growth approaches.

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- (4) Strategies taking long and short positions in equities, fixed income securities, currencies and derivative contracts.
- (5) Strategy investing in the global private real estate secondary market using a value-based investment approach.
- (6) Partnership making opportunistic investments on a global basis across asset classes, capital structures and geographies.

Non-U.S. Pension Plans

The investment policies of our pension plans with plan assets, which are primarily in Canada and the U.K., (the “Non-U.S. Plans”), cover the asset allocations that the governing boards believe are the most appropriate for these Non-U.S. Plans in the long term, taking into account the nature of the liabilities they expect to incur. The suitability of asset allocations and investment policies are reviewed periodically to ensure alignment with plan liabilities.

The table below presents the fair value of the assets in our Non-U.S. Plans by asset category and by valuation technique at December 31:

Asset Category	2012				2011			
	Total Asset Value	Level One	Level Two	Level Three	Total Asset Value	Level One	Level Two	Level Three
Cash and Cash Equivalents	\$ 14	\$ 14	\$ —	\$ —	\$ 1	\$ —	\$ 1	\$ —
Asset Allocation ⁽¹⁾	136	—	136	—	102	—	102	—
Bonds - U.K. - Corporate ⁽²⁾	72	—	72	—	56	—	56	—
Bonds - U.K. - Government ⁽³⁾	170	—	170	—	154	—	154	—
Equities ⁽⁴⁾	164	—	164	—	179	—	179	—
Real Estate Funds ⁽⁵⁾	20	—	—	20	19	—	—	19
Insurance contracts	16	—	—	16	15	—	—	15
Total	\$ 592	\$ 14	\$ 542	\$ 36	\$ 526	\$ —	\$ 492	\$ 34

- (1) Invests in mixes of global common stocks and bonds to achieve broad diversification.
- (2) Invests passively in Sterling-denominated investment grade corporate bonds.
- (3) Invests passively in Sterling-denominated government issued bonds.
- (4) Invests in broad equity funds based on securities offered in various regions or countries. Equity funds are allocated by region as follows: 57% Global; 15% U.K.; 9% Emerging Markets; 7% North America; 6% Asia Pacific; and 6% Europe.
- (5) Invests in a diversified range of property throughout the U.K., principally in the retail, office and industrial/warehouse sectors.

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The following table presents the changes in the fair value of assets determined using level 3 unobservable inputs:

	U.S. Private Equity Fund	U.S. Property Fund	U.S. Hedge Fund	Non-U.S. Property Fund	Non-U.S. Insurance Contracts	Total
Balance at December 31, 2009	\$ —	\$ 13	\$ —	\$ 19	\$ 7	\$ 39
Unrealized gains	—	1	—	—	—	1
Purchases	—	—	—	—	9	9
Balance at December 31, 2010	—	14	—	19	16	49
Unrealized gains	—	2	5	—	—	7
Unrealized losses	—	—	(5)	—	—	(5)
Sales	—	(15)	—	—	(2)	(17)
Purchases	—	4	110	—	1	115
Balance at December 31, 2011	—	5	110	19	15	149
Unrealized gains	—	—	10	1	4	15
Unrealized losses	(2)	—	—	—	—	(2)
Sales	—	—	—	—	(5)	(5)
Purchases	18	2	52	—	2	74
Balance at December 31, 2012	\$ 16	\$ 7	\$ 172	\$ 20	\$ 16	\$ 231

Expected Cash Flows

For all pension plans, we make annual contributions to the plans in amounts equal to or greater than amounts necessary to meet minimum governmental funding requirements. In 2013, we expect to contribute between \$40 million and \$45 million to our U.S. pension plans and between \$75 million and \$80 million to the non-U.S. pension plans. In 2013, we also expect to make benefit payments related to other postretirement benefits of between \$14 million and \$16 million.

The following table presents the expected benefit payments over the next ten years. The U.S. and non-U.S. pension benefit payments are made by the respective pension trust funds.

Year	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Postretirement Benefits
2013	\$ 32	\$ 22	\$ 15
2014	\$ 35	\$ 22	\$ 15
2015	\$ 39	\$ 25	\$ 14
2016	\$ 42	\$ 29	\$ 14
2017	\$ 46	\$ 34	\$ 14
2018-2022	\$ 274	\$ 220	\$ 66

DEFINED CONTRIBUTION PLANS

During the periods reported, generally all of our U.S. employees were eligible to participate in our sponsored 401(k) plans ("Thrift Plans"). The Thrift Plans allow eligible employees to elect to contribute portions of their salaries to an investment trust. Employee contributions are matched by the Company in cash at the rate of \$1.00 per \$1.00 employee contribution for the first 5% or 6%, dependent on the plan, of the employee's salary and such contributions vest immediately. In addition, we make cash contributions for all eligible employees between 2% and 5% of their salary depending on the employee's age. Such contributions are fully vested to the employee after three years of employment. The Thrift Plans provide several investment options, for which the employee has sole

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investment discretion. The Thrift Plans do not offer the Company's common stock as an investment option. Our contributions to the Thrift Plans and several other non-U.S. defined contribution plans amounted to \$232 million, \$189 million and \$169 million in 2012, 2011 and 2010, respectively.

For certain non-U.S. employees who are not eligible to participate in the Thrift Plans, we provide a non-qualified defined contribution plan that provides basically the same benefits as those provided in the Thrift Plans. In addition, we provide a non-qualified supplemental retirement plan ("SRP") for certain officers and employees whose benefits under the Thrift Plans and/or the U.S. qualified pension plan are limited by federal tax law. The SRP also allows the eligible employees to defer a portion of their eligible compensation and provides for employer matching and base contributions pursuant to limitations. Both non-qualified plans are invested through trusts, and the assets and corresponding liabilities are included in our consolidated balance sheets. Our contributions to these non-qualified plans amounted to \$17 million, \$11 million and \$11 million in 2012, 2011 and 2010, respectively. In 2013, we estimate we will contribute between \$255 million and \$280 million to all of our defined contribution plans.

POSTEMPLOYMENT BENEFITS

We provide certain postemployment disability income, medical and other benefits to substantially all qualifying former or inactive U.S. employees. Income benefits for long-term disability are provided through a fully-insured plan. The continuation of medical and other benefits while on disability ("Continuation Benefits") are provided through a qualified self-insured plan. The accrued postemployment liability for Continuation Benefits at December 31, 2012 and 2011 was \$26 million and \$23 million, respectively, and is included in other liabilities in our consolidated balance sheets.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEASES

At December 31, 2012, we had long-term non-cancelable operating leases covering certain facilities and equipment. The minimum annual rental commitments, net of amounts due under subleases, for each of the five years in the period ending December 31, 2017 are \$204 million, \$156 million, \$99 million, \$63 million and \$35 million, respectively, and \$119 million in the aggregate thereafter. Rent expense was \$559 million, \$401 million and \$355 million for the years ended December 31, 2012, 2011 and 2010, respectively. We have not entered into any significant capital leases during the three years ended December 31, 2012.

LITIGATION

We are involved in litigation or proceedings that have arisen in our ordinary business activities. We insure against these risks 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 and future legal proceedings. Many of these 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. The accruals for losses are calculated by estimating losses for claims using historical claim data, specific loss development factors and other information as necessary.

On September 19, 2012, our subsidiary, Baker Hughes Oilfield Operations, Inc. ("BHOO") terminated a sand supply agreement it had entered into with Hi-Crush Operating, LLC ("Hi-Crush") on October 28, 2011 (as amended by the First Amendment to Supply Agreement on May 10, 2012, collectively the "Supply Agreement") as a result of Hi-Crush's breach of the Supply Agreement. On November 12, 2012, Hi-Crush filed a lawsuit against BHOO in the 129th Judicial District Court in Harris County, Texas., *Cause No. 2012-67261; Hi-Crush Operating, LLC v. Baker Hughes Oilfield Operations, Inc.* In its petition, Hi-Crush claims that BHOO's termination was "invalid" constituting a breach and that BHOO "anticipatorily repudiated the Supply Agreement without just excuse." Hi-Crush claims that it is entitled to recover liquidated damages of \$187 million based on the undelivered Minimum Purchase Requirement provision defined in the Supply Agreement; in the alternative, Hi-Crush seeks an unspecified amount of actual damages. On December 17, 2012, BHOO filed a responsive pleading denying Hi-Crush's allegations and also filed

Baker Hughes Incorporated
Notes to Consolidated Financial Statements

a counter claim for breach of contract. BHOO intends to vigorously defend itself and seeks to recover the damages it has incurred as a result of Hi-Crush's breach of contract. We do not expect the outcome of this matter to 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 this matter.

We were among several unrelated companies who received a subpoena from the Office of the New York Attorney General, dated June 17, 2011. The subpoena received by the Company seeks information and documents relating to, among other things, natural gas development and hydraulic fracturing. We are discussing the subpoena with the New York Attorney General's office.

In February 2012, a subsidiary of the Company entered into a Compromise Agreement with the Pipeline and Hazardous Materials Safety Administration ("PHMSA") within the United States Department of Transportation. In August 2009, the PHMSA alleged nine violations, one of which was subsequently dismissed, of the Hazardous Material Regulations at a facility operated by the subsidiary. In the Compromise Agreement, the PHMSA found that corrective actions taken by the subsidiary have corrected the alleged violations and no further corrective actions are required. The Compromise Agreement provides for civil penalty of \$100,000, which the subsidiary agreed to pay within 30 days of the date of the Compromise Agreement.

ENVIRONMENTAL MATTERS

Our past and present operations include activities which are subject to extensive domestic (including U.S. federal, state and local) and international environmental regulations with regard to air, land and water quality and other environmental matters. Our environmental procedures, policies and practices are designed to ensure compliance with existing laws and regulations and to minimize the possibility of significant environmental damage.

We are involved in voluntary remediation projects at some of our present and former manufacturing locations or other facilities, the majority of which relate to properties obtained in acquisitions or to sites no longer actively used in operations. On rare occasions, remediation activities are conducted as specified by a government agency-issued consent decree or agreed order. Remediation costs are accrued based on estimates of probable exposure using currently available facts, existing environmental permits, technology and presently enacted laws and regulations. Remediation cost estimates include direct costs related to the environmental investigation, external consulting activities, governmental oversight fees, treatment equipment and costs associated with long-term operation, maintenance and monitoring of a remediation project.

We have also been identified as a potentially responsible party ("PRP") in remedial activities related to various Superfund sites. We participate in the process set out in the Joint Participation and Defense Agreement to negotiate with government agencies, identify other PRPs, and determine each PRP's allocation and estimate remediation costs. We have accrued what we believe to be our pro-rata share of the total estimated cost of remediation and associated management of these Superfund sites. This share is based upon the ratio that the estimated volume of waste we contributed to the site bears to the total estimated volume of waste disposed at the site. Applicable U.S. federal law imposes joint and several liability on each PRP for the cleanup of these sites leaving us with the uncertainty that we may be responsible for the remediation cost attributable to other PRPs who are unable to pay their share. No accrual has been made under the joint and several liability concept for those Superfund sites where our participation is de minimis since we believe that the probability that we will have to pay material costs above our volumetric share is remote. We believe there are other PRPs who have greater involvement on a volumetric calculation basis, who have substantial assets and who may be reasonably expected to pay their share of the cost of remediation. For those Superfund sites where we are a significant PRP, remediation costs are estimated to include recalcitrant parties. In some cases, we have insurance coverage or contractual indemnities from third parties to cover a portion of the ultimate liability.

Our total accrual for environmental remediation is \$32 million and \$29 million, which includes accruals of \$4 million and \$5 million for the various Superfund sites, at December 31, 2012 and 2011, respectively. The determination of the required accruals for remediation costs is subject to uncertainty, including the evolving nature of environmental regulations and the difficulty in estimating the extent and type of remediation activity that is necessary.

Baker Hughes Incorporated
Notes to Consolidated Financial Statements

OTHER

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as surety bonds for performance, letters of credit and other bank issued guarantees, which totaled approximately \$1.5 billion at December 31, 2012. 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 consolidated financial statements. We also had commitments outstanding for purchase obligations related to capital expenditures and inventory under contracts of approximately \$1.5 billion at December 31, 2012.

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss, net of tax:

	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2010	\$ (159)	\$ (261)	\$ (420)
Translation adjustments	—	(43)	(43)
Amortization of prior service cost	(2)	—	(2)
Amortization of actuarial net loss	14	—	14
Actuarial net loss arising in the year	(148)	—	(148)
Deferred taxes	44	—	44
Balance at December 31, 2011	(251)	(304)	(555)
Translation adjustments	—	78	78
Amortization of prior service cost	(2)	—	(2)
Amortization of actuarial net loss	22	—	22
Actuarial net loss arising in the year	(66)	—	(66)
Plan amendments	60	—	60
Deferred taxes	(13)	—	(13)
Balance at December 31, 2012	\$ (250)	\$ (226)	\$ (476)

NOTE 13. SUBSEQUENT EVENTS

During 2012, we initiated a plan to sell the Process and Pipeline Services (“PPS”) business, part of the Industrial Services and Other segment, and had previously reported their financial results as discontinued operations. In February 2013, the decision was made to retain the PPS business, and accordingly, we have included the financial results of PPS in continuing operations for all years presented.

In February 2013, Venezuela's currency was devalued from the prior exchange rate of 4.3 Bolivars Fuertes per U.S. Dollar to 6.3 Bolivars Fuertes per U.S. Dollar to apply to our local currency denominated balances and transactions. We estimate the impact of this devaluation to be a loss of approximately \$25 million, which will be recorded in the first quarter of 2013. Going forward, although this devaluation will result in a reduction in the U.S. Dollar reported amount of local currency denominated revenues and expenses, we do not believe the impact will be material to our consolidated financial statements.

Baker Hughes Incorporated
Notes to Consolidated Financial Statements

NOTE 14. QUARTERLY DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter ⁽²⁾	Fourth Quarter ⁽³⁾	Total Year
2012					
Revenue	\$ 5,355	\$ 5,326	\$ 5,355	\$ 5,325	\$ 21,361
Gross Profit ⁽¹⁾	966	944	841	757	3,508
Net income attributable to Baker Hughes	379	439	279	214	1,311
Basic earnings per share attributable to Baker Hughes	0.86	1.00	0.63	0.49	2.98
Diluted earnings per share attributable to Baker Hughes	0.86	1.00	0.63	0.49	2.97
Dividends per share	0.15	0.15	0.15	0.15	0.60
Common stock market prices:					
High	52.40	44.76	50.10	47.10	
Low	40.79	38.13	38.85	39.64	
2011					
Revenue	\$ 4,525	\$ 4,741	\$ 5,178	\$ 5,387	\$ 19,831
Gross Profit ⁽¹⁾	922	909	1,130	1,144	4,105
Net income attributable to Baker Hughes	381	338	706	314	1,739
Basic earnings per share attributable to Baker Hughes	0.88	0.78	1.62	0.72	3.99
Diluted earnings per share attributable to Baker Hughes	0.87	0.77	1.61	0.72	3.97
Dividends per share	0.15	0.15	0.15	0.15	0.60
Common stock market prices:					
High	74.16	78.00	79.94	60.89	
Low	54.83	67.27	46.15	44.47	

(1) Represents revenue less cost of sales, cost of services and research and engineering.

(2) Net income attributable to Baker Hughes for 2011 includes a tax benefit of \$214 million associated with the reorganization of certain foreign subsidiaries. For further discussion, see Note 3. Income Taxes of the Notes to Consolidated Financial Statements.

(3) Net income attributable to Baker Hughes for 2011 includes a charge of \$315 million before-tax (\$220 million net of tax), the majority of which relates to the impairment associated with the decision to minimize the use of the BJ Services trade name. For further discussion, see Note 7. Goodwill and Intangible Assets of the Notes to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that, as of December 31, 2012, our disclosure controls and procedures, as defined by Rule 13a-15(e) of the Exchange Act, are effective at a reasonable assurance level.

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

Design and Evaluation of Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management included a report of their assessment of the design and effectiveness of our internal controls over financial reporting as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Deloitte & Touche LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in Item 8 under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal controls over financial reporting during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the Business Code of Conduct and Code of Ethical Conduct Certificates for our principal executive officer, principal financial officer and principal accounting officer are described in Item 1. Business of this Annual Report. Information concerning our directors is set forth in the sections entitled "Proposal No. 1, Election of Directors," and "Corporate Governance - Committees of the Board - Audit/Ethics Committee" in our Definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be filed with the SEC pursuant to the Exchange Act within 120 days of the end of our fiscal year on December 31, 2012 ("Proxy Statement"), which sections are incorporated herein by reference. For information regarding our executive officers, see "Item 1. Business - Executive Officers" in this Annual Report on Form 10-K. Additional information regarding compliance by directors and executive officers with Section 16(a) of the Exchange Act is set forth under the section entitled "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in our Proxy Statement, which section is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information for this item is set forth in the following sections of our Proxy Statement, which sections are incorporated herein by reference: "Compensation Discussion and Analysis," "Director Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and our management is set forth in the sections entitled "Voting Securities" and "Security Ownership of Management" in our Proxy Statement, which sections are incorporated herein by reference.

Our Board of Directors has approved procedures for use under our Securities Trading and Disclosure Policy to permit our employees, officers and directors to enter into written trading plans complying with Rule 10b5-1 under the Exchange Act. Rule 10b5-1 provides criteria under which such an individual may establish a prearranged plan to buy or sell a specified number of shares of a company's stock over a set period of time. Any such plan must be entered into in good faith at a time when the individual is not in possession of material, nonpublic information. If an individual establishes a plan satisfying the requirements of Rule 10b5-1, such individual's subsequent receipt of material, nonpublic information will not prevent transactions under the plan from being executed. Certain of our officers have advised us that they have and may enter into a stock sales plan for the sale of shares of our common stock which are intended to comply with the requirements of Rule 10b5-1 of the Exchange Act. In addition, the Company has and may in the future enter into repurchases of our common stock under a plan that complies with Rule 10b5-1 or Rule 10b-18 of the Exchange Act.

Equity Compensation Plan Information

The information in the following table is presented as of December 31, 2012 with respect to shares of our common stock that may be issued under our existing equity compensation plans, including the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan, the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan, the BJ Services 1997 Incentive Plan, the BJ Services 2000 Incentive Plan, the BJ Services 2003 Incentive Plan, the Employee Stock Purchase Plan, all of which have been approved by our stockholders (in millions, except per share prices).

Equity Compensation Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Stockholder-approved plans (excluding Employee Stock Purchase Plan)	11.1	\$ 51.81	6.5
Nonstockholder-approved plans ⁽¹⁾	0.1	32.79	0.5
Subtotal (except for weighted average exercise price)	11.2	51.79	7.0
Employee Stock Purchase Plan ⁽²⁾	—	—	1.9
Total	11.2	\$ 51.79	8.9

- (1) The table includes the following nonstockholder-approved plan: the Director Compensation Deferral Plan. A description of this plan is set forth below.
- (2) The per share purchase price under the Baker Hughes Incorporated Employee Stock Purchase Plan is determined in accordance with section 423 of the Code and is 85% of the lower of the fair market value of a share of our common stock on the date of grant or the date of purchase.

Our nonstockholder-approved plan is described below:

Director Compensation Deferral Plan

The Baker Hughes Incorporated Director Compensation Deferral Plan, as amended and restated effective January 1, 2009 (the “Deferral Plan”), is intended to provide a means for members of our Board of Directors to defer compensation otherwise payable and provide flexibility with respect to our compensation policies. Under the provisions of the Deferral Plan, directors may elect to defer income with respect to each calendar year. The compensation deferrals may be stock option-related deferrals or cash-based deferrals. If a director elects a stock option-related deferral, on the last day of each calendar quarter he or she will be granted a nonqualified stock option. The number of shares subject to the stock option is calculated by multiplying the amount of the deferred compensation that otherwise would have been paid to the director during the quarter by 4.4 and then dividing by the fair market value of our common stock on the last day of the quarter. The per share exercise price of the option will be the fair market value of a share of our common stock on the date the option is granted. Stock options granted under the Deferral Plan vest on the first anniversary of the date of grant and must be exercised within ten years of the date of grant. If a director’s directorship terminates for any reason, any options outstanding will expire three years after the termination of the directorship. The maximum aggregate number of shares of our common stock that may be issued under the Deferral Plan is 0.5 million. As of December 31, 2012, options covering approximately 9,000 shares of our common stock were outstanding under the Deferral Plan, there were no shares exercised during fiscal 2012 and approximately 0.5 million shares remained available for future options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information for this item is set forth in the sections entitled “Corporate Governance-Director Independence” and “Certain Relationships and Related Transactions” in our Proxy Statement, which sections are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services is set forth in the section entitled “Fees Paid to Deloitte & Touche LLP” in our Proxy Statement, which section is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) List of Documents filed as part of this Report.

(1) Financial Statements

All financial statements of the Registrant as set forth under Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts

(3) Exhibits

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

- 3.1 Certificate of Amendment dated April 22, 2010 and the Restated Certificate of Incorporation (filed as Exhibit 3.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2010).
- 3.2 Restated Bylaws of Baker Hughes Incorporated effective as of January 25, 2013 (filed as Exhibit 3.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed January 28, 2013).
- 4.1 Rights of Holders of the Company’s Long-Term Debt. The Company has no long-term debt instrument with regard to which the securities authorized there under equal or exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of its long-term debt instruments to the SEC upon request.
- 4.2 Certificate of Amendment dated April 22, 2010 and the Restated Certificate of Incorporation (filed as Exhibit 3.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2010).
- 4.3 Restated Bylaws of Baker Hughes Incorporated effective as of January 25, 2013 (filed as Exhibit 3.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed January 28, 2013).
- 4.4 Indenture dated as of May 15, 1994 between Western Atlas Inc. and The Bank of New York, Trustee, providing for the issuance of securities in series (filed as Exhibit 4.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2004).
- 4.5 Indenture dated October 28, 2008, between Baker Hughes Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.6 First Supplemental Indenture, dated August 17, 2011, between Baker Hughes Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of Notes) (filed as Exhibit 4.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed August 23, 2011).
- 4.7 Officers’ Certificate of Baker Hughes Incorporated dated October 28, 2008 establishing the 6.50% Senior Notes due 2013 and the 7.50% Senior Notes due 2018 (filed as Exhibit 4.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.8 Form of 7.50% Senior Notes Due 2018 (filed as Exhibit 4.4 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.9 Officers’ Certificate of Baker Hughes Incorporated dated August 24, 2010 establishing the 5.125% Senior Notes due 2040 (filed as Exhibit 4.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed August 24, 2010).
- 4.10 Form of 5.125% Senior Notes due 2040 (filed as Exhibit 4.3 to Current Report of Baker Hughes Incorporated on Form 8-K filed August 24, 2010).

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- 4.11 Indenture, dated June 8, 2006, between BJ Services Company, as issuer, and Wells Fargo Bank, N.A., as trustee (filed as Exhibit 4.1 to Current Report on BJ Services Company Form 8-K filed on June 12, 2006).
- 4.12 Third Supplemental Indenture, dated May 19, 2008, between BJ Services Company, as issuer, and Wells Fargo Bank, N.A., as trustee, with respect to the 6% Senior Notes due 2018 (filed as Exhibit 4.2 to Current Report on BJ Services Company Form 8-K filed on May 23, 2008).
- 4.13 Fourth Supplemental Indenture, dated April 28, 2010, between BJ Services Company, as issuer, BSA Acquisition LLC, Baker Hughes Incorporated and Wells Fargo Bank, N.A., as trustee, with respect to the 5.75% Senior Notes due 2011 and the 6% Senior Notes due 2018 (filed as Exhibit 4.4 to Current Report on Baker Hughes Incorporated Form 8-K filed on April 29, 2010).
- 4.14 Fifth Supplemental Indenture, dated June 21, 2011, between BJ Services Company LLC, as company, Western Atlas Inc. as successor company and Wells Fargo Bank, N.A., as trustee, with respect to the 6.00% Senior Notes due 2018 (incorporated by reference to Exhibit 4.4 to Current Report on Baker Hughes Incorporated Form 8-K filed on June 23, 2011).
- 4.15+ Form of Incentive Stock Option Assumption Agreement for BJ Services incentive plans (filed as Exhibit 4.5 to Current Report on Baker Hughes Incorporated Form 8-K filed on April 29, 2010).
- 4.16+ Form of Nonqualified Stock Option Assumption Agreement for BJ Services incentive plans (filed as Exhibit 4.6 to Current Report on Baker Hughes Incorporated Form 8-K filed on April 29, 2010).
- 4.17 Registration Rights Agreement dated August 17, 2011 among Baker Hughes Incorporated and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the several initial purchasers named therein (filed as Exhibit 10.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on August 23, 2011).
- 10.1+ Restated and Superseding Employment Agreement between Chad C. Deaton and Baker Hughes Incorporated dated as of April 28, 2011 (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed May 3, 2011).
- 10.2+ Form of Amended and Restated Change in Control Agreement between Baker Hughes Incorporated and each of the executive officers effective as of January 1, 2009 (filed as Exhibit 10.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
- 10.3+ Form of Change in Control Agreement between Baker Hughes Incorporated and certain of the executive officers effective as of July 16, 2012 (filed as Exhibit 10.1 to the Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2012).
- 10.4+ Form of Executive Loyalty, Confidentiality, Non-Solicitation, and Non-Competition Agreement between Baker Hughes Incorporated and certain of the executive officers (filed as Exhibit 10.3 to the Annual Report on Form 10-K for the year ended December 31, 2011).
- 10.5+ Letter Agreement between Peter A. Ragauss and Baker Hughes Incorporated dated as of March 27, 2006 (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed March 31, 2006).
- 10.6+ Amendment and Restatement of the Baker Hughes Incorporated Change in Control Severance Plan effective as of January 1, 2009 (filed as Exhibit 10.3 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
- 10.7+ Form of Indemnification Agreement between Baker Hughes Incorporated and each of the directors and executive officers (filed as Exhibit 10.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).
- 10.8+ Form of Amendment to the Indemnification Agreement between Baker Hughes Incorporated and each of the directors and executive officers effective as of January 1, 2009 (filed as Exhibit 10.4 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
- 10.9+ Baker Hughes Incorporated Director Retirement Policy for Certain Members of the Board of Directors (filed as Exhibit 10.10 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).
- 10.10+ Baker Hughes Incorporated Director Compensation Deferral Plan, as amended and restated effective as of January 1, 2009 (filed as Exhibit 10.2 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).

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- 10.11+ Amendment to Baker Hughes Incorporated Director Compensation Deferral Plan effective as of January 1, 2009 (filed as Exhibit 10.5 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 19, 2008).
- 10.12+ Baker Hughes Incorporated Executive Severance Plan, as amended and restated on February 7, 2008 (filed as Exhibit 10.17 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
- 10.13+ Amendment to Exhibit A of Baker Hughes Incorporated Executive Severance Plan as of July 20, 2009 (filed as Exhibit 10.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2009).
- 10.14+ Amendment to Baker Hughes Incorporated Executive Severance Plan dated April 22, 2010 (filed as Exhibit 10.1 to Current Report on Baker Hughes Incorporated Form 8-K filed on April 23, 2010).
- 10.15+ Baker Hughes Incorporated Annual Incentive Compensation Plan, as amended and restated on February 20, 2008 (filed as Exhibit 10.18 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
- 10.16+ Amendment to the Baker Hughes Annual Incentive Compensation Plan effective as of January 1, 2009 (filed as Exhibit 10.7 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 19, 2008).
- 10.17+ Baker Hughes Incorporated Supplemental Retirement Plan, as amended and restated effective as of January 1, 2012 (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 20, 2011).
- 10.18+ Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (filed as Exhibit 4.4 to Registration Statement No. 333-87372 of Baker Hughes Incorporated on Form S-8 filed May 1, 2002).
- 10.19+ Amendment to Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan, effective July 24, 2008 (filed as Exhibit 10.4 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
- 10.20+ Amendment to Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan dated March 31, 2010 (filed as Annex H to the Registration Statement No. 333-162463 on Form S-4 filed on February 9, 2010).
- 10.21+ Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.2 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended September 30, 2003).
- 10.22+ Amendment to 2002 Director & Officer Long-Term Incentive Plan, effective as of October 27, 2005 (filed as Exhibit 10.3 of Baker Hughes Incorporated to Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
- 10.23+ Amendment to Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan effective July 24, 2008 (filed as Exhibit 10.3 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
- 10.24+ Amendment to Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan dated March 31, 2010 (filed as Annex G to the Registration Statement No. 333-162463 on Form S-4 filed on February 9, 2010).
- 10.25* Baker Hughes Incorporated Employee Stock Purchase Plan, as amended and restated, effective as of January 1, 2012.
- 10.26+ Form of Baker Hughes Incorporated Incentive Stock Option Agreement with Terms and Conditions for officers (filed as Exhibit 10.33 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2009).
- 10.27+ Form of Baker Hughes Incorporated Nonqualified Stock Option Agreement with Terms and Conditions for officers (filed as Exhibit 10.30 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2009).
- 10.28+ Form of Baker Hughes Incorporated Nonqualified Stock Option Award Agreement and Terms and Conditions for officers (filed as Exhibit 10.70 to Annual Report on Form 10-K for the year ended December 31, 2011).

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- 10.29+ Form of Baker Hughes Incorporated Incentive Stock Option Award Agreement and Terms and Conditions for officers (filed as Exhibit 10.71 to Annual Report on Form 10-K for the year ended December 31, 2011).
- 10.30+ Form of Baker Hughes Incorporated Performance Unit Award Agreement and Terms and Conditions for officers (filed as Exhibit 10.72 to Annual Report on Form 10-K for the year ended December 31, 2011).
- 10.31+ Form of Baker Hughes Incorporated Restricted Stock Award with Terms and Conditions for officers (filed as Exhibit 10.37 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2009).
- 10.32+ Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for officers (filed as Exhibit 10.41 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2009).
- 10.33+ Form of Baker Hughes Incorporated Restricted Stock Award, including Terms and Conditions for directors (filed as Exhibit 10.40 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
- 10.34+* Form of Baker Hughes Incorporated Restricted Stock Unit Award, including Terms and Conditions for directors.
- 10.35+ Form of Baker Hughes Incorporated Stock Option Award Agreement, including Terms and Conditions for directors (filed as Exhibit 10.41 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
- 10.36+ Form of Baker Hughes Incorporated Performance Unit Award Agreement and Terms and Conditions for officers (filed as Exhibit 10.48 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2009).
- 10.37+ Performance Goals adopted October 21, 2010 for the Performance Unit Awards granted in 2010 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 22, 2010).
- 10.38+ Performance Goals adopted October 21, 2010 for the Performance Unit Awards granted in 2011 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.3 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 22, 2010).
- 10.39+* Performance Goals adopted January 25, 2012 for the Performance Unit Awards granted in 2012 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan.
- 10.40+ BJ Services Company 1997 Incentive Plan (filed as Appendix B to BJ Services Company Proxy Statement dated December 22, 1997).
- 10.41+ Amendment effective July 22, 1999 to BJ Services Company 1997 Incentive Plan (filed as Exhibit 10.26 to BJ Services Company Annual Report on Form 10-K for the year ended September 30, 1999).
- 10.42+ Amendment effective January 27, 2000 to BJ Services Company 1997 Incentive Plan (filed as Appendix C to BJ Services Company Proxy Statement dated December 20, 1999).
- 10.43+ Amendment effective May 10, 2001 to BJ Services Company 1997 Incentive Plan (filed as Appendix C to BJ Services Company Proxy Statement dated April 10, 2001).
- 10.44+ Fifth Amendment effective October 15, 2001 to BJ Services Company 1997 Incentive Plan (filed as Exhibit 10.17 to BJ Services Company Annual Report on Form 10-K for the year ended September 30, 2001).
- 10.45+ Eighth Amendment effective November 15, 2006 to BJ Services Company 1997 Incentive Plan (filed as Exhibit 10.3 to BJ Services Company Current Report on Form 8-K filed on December 13, 2006).
- 10.46+ Ninth Amendment effective October 13, 2008 to BJ Services Company 1997 Incentive Plan (filed as Exhibit 10.16 to BJ Services Company's Annual Report on Form 10-K for the year ended September 30, 2008).
- 10.47+ Tenth Amendment effective December 5, 2008 to BJ Services Company 1997 Incentive Plan (filed as Exhibit 10.2 to BJ Services Company Quarterly Report for the quarterly period ended December 31, 2008).

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10.48+	BJ Services Company 2000 Incentive Plan (filed as Appendix B to BJ Services Company Proxy Statement dated December 20, 2000).
10.49+	First Amendment effective March 22, 2001 to BJ Services Company 2000 Incentive Plan (filed as Exhibit 10.2 to BJ Services Company Registration Statement on Form S-8 (Reg. No. 333-73348).
10.50+	Second Amendment effective May 10, 2001 to BJ Services Company 2000 Incentive Plan (filed as Appendix D to BJ Services Company Proxy Statement dated April 10, 2001).
10.51+	Third Amendment effective October 15, 2001 to BJ Services Company 2000 Incentive Plan (filed as Exhibit 10.24 to BJ Services Company Annual Report on Form 10-K for the year ended September 30, 2001).
10.52+	Fifth Amendment effective November 15, 2006 to BJ Services Company 2000 Incentive Plan (filed as Exhibit 10.4 to BJ Services Company Current Report on Form 8-K filed on December 13, 2006).
10.53+	Sixth Amendment effective October 13, 2008 to BJ Services Company 2000 Incentive Plan (filed as Exhibit 10.22 to BJ Services Company Annual Report on Form 10-K for the year ended September 30, 2008).
10.54+	Seventh Amendment effective December 5, 2008 to BJ Services Company 2000 Incentive Plan (filed as Exhibit 10.3 to BJ Services Company Quarterly Report for the quarterly period ended December 31, 2008).
10.55+	Amended and Restated BJ Services Company 2003 Incentive Plan (filed as Appendix A to BJ Services Company Proxy Statement dated December 15, 2008).
10.56+	First Amendment to the Amended and Restated BJ Services Company 2003 Incentive Plan (filed as Exhibit 10.1 to BJ Services Company Quarterly Report for the quarterly period ended March 31, 2009).
10.57	Credit Agreement dated as of September 13, 2011, among Baker Hughes Incorporated, JP Morgan Chase Bank, N.A., as Administrative Agent and twenty-one lenders for \$2.5 billion, in the aggregate for all banks (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed September 14, 2011).
10.58	Plea Agreement between Baker Hughes Services International, Inc. and the United States Department of Justice filed on April 26, 2007, with the United States District Court of Texas, Houston Division (filed as Exhibit 10.5 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
21.1*	Subsidiaries of Registrant.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification of Martin S. Craighead, 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 Peter A. Ragauss, Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32*	Statement of Martin S. Craighead, President and Chief Executive Officer, and Peter A. Ragauss, Chief Financial Officer, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
95*	Mine Safety Disclosures.
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 Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAKER HUGHES INCORPORATED

Date: February 13, 2013

/s/ MARTIN S. CRAIGHEAD

Martin S. Craighead
President and Chief Executive Officer

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Martin S. Craighead and Peter A. Ragauss, each of whom may act without joinder of the other, as their true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 13th day of February 2013.

<u>Signature</u>	<u>Title</u>
<u>/s/ MARTIN S. CRAIGHEAD</u> (Martin S. Craighead)	President and Chief Executive Officer and Director (principal executive officer)
<u>/s/ CHAD C. DEATON</u> (Chad C. Deaton)	Executive Chairman of the Board
<u>/s/ PETER A. RAGAUSS</u> (Peter A. Ragauss)	Senior Vice President and Chief Financial Officer (principal financial officer)
<u>/s/ ALAN J. KEIFER</u> (Alan J. Keifer)	Vice President and Controller (principal accounting officer)

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Signature	Title
<hr/> <i>/s/ LARRY D. BRADY</i> <hr/> (Larry D. Brady)	Director
<hr/> <i>/s/ CLARENCE P. CAZALOT, JR.</i> <hr/> (Clarence P. Cazalot, Jr.)	Director
<hr/> <i>/s/ LYNN L. ELSENHANS</i> <hr/> (Lynn L. Elsenhans)	Director
<hr/> <i>/s/ ANTHONY G. FERNANDES</i> <hr/> (Anthony G. Fernandes)	Director
<hr/> <i>/s/ CLAIRE W. GARGALLI</i> <hr/> (Claire W. Gargalli)	Director
<hr/> <i>/s/ PIERRE H. JUNGELS</i> <hr/> (Pierre H. Jungels)	Director
<hr/> <i>/s/ JAMES A. LASH</i> <hr/> (James A. Lash)	Director
<hr/> <i>/s/ J. LARRY NICHOLS</i> <hr/> (J. Larry Nichols)	Director
<hr/> <i>/s/ H. JOHN RILEY, JR.</i> <hr/> (H. John Riley, Jr.)	Director
<hr/> <i>/s/ JAMES W. STEWART</i> <hr/> (James W. Stewart)	Director
<hr/> <i>/s/ CHARLES L. WATSON</i> <hr/> (Charles L. Watson)	Director

Baker Hughes Incorporated
Schedule II - Valuation and Qualifying Accounts

<i>(In millions)</i>	Balance at Beginning of Period	Charged to Cost and Expenses	Write-offs ⁽¹⁾	Other Changes ⁽²⁾	Balance at End of Period
Year ended December 31, 2012					
Reserve for doubtful accounts receivable	\$ 229	\$ 100	\$ (22)	\$ 1	\$ 308
Reserve for inventories	304	68	(28)	2	346
Year ended December 31, 2011					
Reserve for doubtful accounts receivable	162	84	(18)	1	229
Reserve for inventories	322	16	(36)	2	304
Year ended December 31, 2010					
Reserve for doubtful accounts receivable	157	39	(24)	(10)	162
Reserve for inventories	297	33	(32)	24	322

(1) Represents the elimination of accounts receivable and inventory deemed uncollectible or worthless.

(2) Represents transfers, currency translation adjustments and divestitures.

**BAKER HUGHES INCORPORATED
EMPLOYEE STOCK PURCHASE PLAN**

**(Amendment And Restatement
Effective January 1, 2012)**

WHEREAS, Baker Hughes Incorporated, a Delaware corporation (the “Company”) previously established the Baker Hughes Incorporated Employee Stock Purchase Plan (the “Plan”) to provide employees of the Company and employees of related corporations designated by the Company with an opportunity to purchase common stock of the Company through offerings of options at a discount so as to further incent them to work for the continued success of the Company and its related corporations;

WHEREAS, the Plan has, from time to time, been amended; and

WHEREAS, the Company desires to further amend the Plan as a result of Final Department of Treasury Regulations issued by the Department of Treasury under section 423 of the Internal Revenue Code of 1986, as amended;

NOW THEREFORE, the Plan is hereby amended as follows with no interruption in time, effective as of January 1, 2012 with respect to offering periods under the Plan commencing on or after January 1, 2012, except as otherwise indicated herein:

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ARTICLE I

PURPOSE, SHARE COMMITMENT AND INTENT

1.1 **Purpose.** The purpose of the Plan is to provide Employees of the Company and its Related Corporations that are selected by the Company to participate in the Plan an opportunity to purchase shares of Stock through periodic offerings of options to purchase shares of Stock at a discount and thus develop a stronger incentive to work for the continued success of the Company and its Related Corporations.

1.2 **Share Commitment.** The aggregate number of shares of Stock authorized to be sold pursuant to Options granted under the Plan is 22,500,000, subject to adjustment as provided in Section 4.7. In computing the number of shares of Stock available for grant, any shares of Stock relating to Options which are granted, but which subsequently lapse, are cancelled or are otherwise not exercised by the final date for exercise, shall be available for future grants of Options.

1.3 **Intent.** It is the intention of the Company to have the Plan qualify as an “employee stock purchase plan” under section 423 of the Code. Therefore, the provisions of the Plan are to be construed in a manner that is consistent with the requirements of section 423 of the Code.

ARTICLE II

DEFINITIONS

The words and phrases defined in this Article shall have the meaning set out in these definitions throughout the Plan, unless the context in which any word or phrase appears reasonably requires a broader, narrower, or different meaning.

2.1 **“Account”** means the bookkeeping account maintained by the Administrative Committee that reflects the amount of payroll deductions credited on behalf of a Participant under the Plan.

2.2 **“Administrative Committee”** means the committee appointed by the Compensation Committee to administer the Plan.

2.3 **“Authorized Leave of Absence”** means a bona fide leave of absence from service with the Company or a Related Corporation if the period of the leave does not exceed 90 calendar days, or, if longer, so long as the individual’s right to reemployment with the Company or a Related Corporation is guaranteed either by statute or contract.

2.4 **“Base Compensation”** means regular straight-time earnings or base salary, excluding payments for overtime, shift differentials, incentive compensation, bonuses, and other special payments, fees, allowances or extraordinary compensation.

2.5 **“Beneficiary”** means the person who is entitled to receive amounts under the Plan upon the death of a Participant as determined under Section 11.14.

2.6 “**Board**” means the board of directors of the Company.

2.7 “**Code**” means the United States Internal Revenue Code of 1986, as amended from time to time.

2.8 “**Company**” means Baker Hughes Incorporated, a Delaware corporation.

2.9 “**Compensation Committee**” means the Compensation Committee of the Board.

2.10 “**Corporation**” has the meaning prescribed by section 7701(a)(3) of the Code and Department of Treasury Regulation section 301.7701-2(b). For example, the term Corporation includes a foreign corporation (as defined in section 7701(a)(5) of the Code and a limited liability company that is treated as a corporation for all United States Federal income tax purposes.

2.11 “**Employee**” means any person who is a common-law employee of a Participating Corporation.

2.12 “**Employer Corporation**” means a Corporation that is, at the time the Option is granted, the employer of the Employee.

2.13 “**Exercise Date**” means the last Trading Day of each Offering Period, which is the day that all Options that eligible Employees have elected to exercise are to be exercised.

2.14 “**Fair Market Value**” of one share of Stock means the last reported sale price for a share of Stock on the principal exchange on which the Stock is traded on the last trading day immediately prior to the day for which the Fair Market Value is being determined as reported by *The Wall Street Journal*.

2.15 “**Five Percent Owner**” means an owner of five percent or more of the total combined voting power of all classes of stock of the Employer Corporation or of any Related Corporation. An individual is considered to own any stock that is owned directly or indirectly by or for his brothers and sisters (whether by whole or half-blood), spouse, ancestors and lineal descendants. For purposes of determining whether an Employee is a Five Percent Owner, an Employee is considered to own stock that the Employee may purchase under outstanding options (including incentive stock options, nonqualified stock options, options granted under the Plan or any other stock options). Further, for purposes of determining whether an Employee is a Five Percent Owner, the rules of section 424 of the Code (relating to attribution of stock ownership) shall apply. Accordingly, for purposes of determining whether an Employee is a Five Percent Owner, (i) the Employee is considered as owning the stock owned, directly or indirectly, by or for the Employee’s brothers or sisters (whether by the whole or half blood), spouse, ancestors and lineal descendants and (ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust is considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. The determination of the percentage of the total combined voting power of all classes of stock of the Company or any Related Corporation that is owned by an individual is made by comparing the voting power or value of the shares owned (or treated as owned) by the individual to the aggregate

voting power of all shares actually issued and outstanding immediately after the grant of the Option to the individual. The aggregate voting power or value of all shares actually issued and outstanding immediately after the grant of the Option does not include the voting power or value of treasury shares or shares authorized for issue under outstanding options held by the individual or any other person.

2.16 **“Grant Date”** means the first day of each Offering Period, which is the day all eligible Employees are granted an Option under the Plan.

2.17 **“Highly Compensated Employee”** has the meaning specified in section 414(q) of the Code.

2.18 **“Offering”** means a given offering of Options under a Plan.

2.19 **“Offering Period”** means, with respect to a given Offering, the period beginning on the Grant Date and ending on the Exercise Date. The Offering Periods shall begin and end at such times as are specified by the Administrative Committee. Unless and until the Administrative Committee specifies different Offering Periods in writing, there shall be two Offering Periods during a calendar year, the first of which commences on January 1 and ends on June 30 and the second on which begins on July 1 and ends on December 31. In no event shall an Offering Period exceed 27 months.

2.20 **“Option”** means an option granted under the Plan to purchase shares of Stock at the Option Price on the Exercise Date.

2.21 **“Option Price”** means the price per share of Stock to be paid by each Participant Stock upon exercise of an Option, which, subject to the following sentence, shall be 85 percent of the lesser of (a) the Fair Market Value of a share of Stock on the Grant Date or (b) the Fair Market Value of a share of Stock on the Exercise Date. Prior to the commencement of an Offering Period, the Board, the Compensation Committee or the Administrative Committee may, in lieu of the Option Price specified in the preceding sentence, establish in writing an Option Price for an Offering that is greater than the amount specified in the preceding sentence. The Option Price may be stated as either a percentage or as a dollar amount. The Option Price shall be subject to adjustment under Section 4.7. Unless the Board, the Compensation Committee or the Administrative Committee establishes in writing a different Option Price that will apply with respect to a given Offering Period, the Option Price shall be an amount that is equal to the lesser of 85 percent of the lesser of (a) the Fair Market Value of a share of Stock on the Grant Date or (b) the Fair Market Value of a share of Stock on the Exercise Date. The Administrative Committee has no authority to establish an Option Price than is lower than the amount specified in the preceding sentence unless such lower Option Price is approved by the Board or the Compensation Committee in advance of the applicable Offering Period.

2.22 **“Parent Corporation”** means any Corporation (other than the Employer Corporation) in an unbroken chain of Corporations ending with the Employer Corporation if, at the time of the granting of the Option, each of the Corporations other than the Employer Corporation

owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other Corporations in such chain.

2.23 **“Participant”** means a person who is eligible to be granted an Option under the Plan for the applicable Offering.

2.24 **“Participating Corporation”** means the Company and/or any of its Related Corporations that is selected for participation in the applicable Offering pursuant to Article IX.

2.25 **“Plan”** means the Baker Hughes Incorporated Employee Stock Purchase Plan, as set out in this document and as it may be amended from time to time.

2.26 **“Qualified Employee Stock Purchase Plan”** means a stock purchase plan to the extent that section 423 of the Code applies to the plan.

2.27 **“Related Corporation”** means a Corporation that is either a Parent Corporation or a Subsidiary Corporation with respect to the Company on the Grant Date of an Option.

2.28 **“Stock”** means the common stock of the Company, \$.01 par value per share, or, in the event that the outstanding shares of common stock are later changed into or exchanged for a different class of shares or securities of the Company or another corporation, that other share or security. Shares of Stock, when issued, may be represented by a certificate or by book or electronic entry.

2.29 **“Subsidiary Corporation”** means any Corporation (other than the Employer Corporation) in an unbroken chain of Corporations beginning with the Employer Corporation if, at the time of the granting of the Option, each of the Corporations other than the last Corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other Corporations in the chain.

2.30 **“Trading Day”** means a day on which the principal securities exchange on which the shares of Stock are listed is open for trading.

ARTICLE III

ELIGIBILITY

3.1 **General Requirements.** Subject to Section 3.3, each Employee of each Participating Corporation who is not excluded from participation pursuant to Section 3.2 is eligible to participate in a given Offering if the individual is in the employ of a Participating Corporation on the Grant Date. For purposes of this Section 3.1, the existence of the employment relationship between an individual and a Participating Corporation will be determined under Department of Treasury Regulation section 1.421-1(h). Participation in the Plan by any Employee is voluntary.

3.2 **Exclusions From Participation.** Subject to Section 3.3, under each Offering Options will be granted to all Employees of all Participating Corporations, except that one or more of the following categories of Employees may be excluded from coverage under an Offering:

(a) ***Persons Employed Less Than Two Years.*** Employees who have been employed less than two years (or a lesser period of time) as of the Grant Date may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(b) ***Persons Customarily Employed Less Than 20 Hours Per Week.*** Employees whose customary employment is less than 20 hours per week (or a lesser number of hours per week as may be specified in writing by the Administrative Committee) as of the Grant Date may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(c) ***Persons Customarily Employed for Not More Than Five Months During a Calendar Year.*** Employees whose customary employment is for not more than five months in any calendar year as of the Grant Date (or a lesser number of months as may be specified in writing by the Administrative Committee) may be excluded from an Offering, provided that the exclusion is applied in an identical manner to all Employees of every Participating Corporation whose Employees are granted Options under the Offering.

(d) ***Persons Who Are Highly Compensated Employees.*** Employees who are Highly Compensated Employees as of the Grant Date may be excluded from an Offering. Alternatively, Employees who are Highly Compensated Employees with compensation above a certain level as of the Grant Date may *be* excluded from an Offering. Alternatively, Employees who are both Highly Compensated Employees and officers or subject to the disclosure requirements of section 16(a) of the Securities Exchange Act of 1934 as of the Grant Date may be excluded from an Offering. Any exclusion relating to Highly Compensated Employees must be applied in an identical manner to all Highly Compensated Employees of all Participating Corporations.

(e) ***Certain Residents of Foreign Jurisdictions.*** Employees who are residents of a foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) may be excluded from an Offering if (1) the grant of an Option under the Offering to a citizen or resident of the foreign jurisdiction is prohibited under the laws of such jurisdiction or (2) compliance with the laws of the foreign jurisdiction would cause the Offering to violate the requirements of section 423 of the Code.

(f) ***Default Exclusions From Participation.*** Unless the Administrative Committee specifies in writing different exclusions are applicable with respect to a given Offering, the following persons shall be excluded from participation in an Offering: (1) Employees whose customary employment is 20 hours or less per week and (2) Employees who are residents of a foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) if (a) the grant of an Option under the Offering to a citizen or resident of the foreign jurisdiction is prohibited under the laws of such jurisdiction or (b) compliance with the laws of the foreign jurisdiction would cause the Offering to violate the requirements of section 423 of the Code.

(g) **Use of Exclusions Other Than Default Exclusions From Participation.** If the Administrative Committee determines to apply exclusions from participation with respect to a given Offering that are different than the default exclusions specified in paragraph (f) of this Section 3.2, such **exclusions** shall be specified in writing. Any such exclusions from participation shall be consistent with the provisions of this Section 3.2.

3.3 **Limitations Upon Participation by Certain Stockholders .** No Employee shall be granted an Option to the extent that the Option would cause the Employee to be a Five Percent Owner immediately after the grant. Accordingly, an Employee who is a Five Percent Owner immediately prior to the Date of Grant for an Offering shall not be granted an Option for such Offering. An Employee who would become a Five Percent Owner immediately after the grant of an Option only as a result of the grant of the Option shall be granted an Option to purchase no more than the number of whole shares of Stock as would not cause him to become a Five Percent Owner.

ARTICLE IV

OPTIONS

4.1 **Terms of an Offering.** The terms of an Offering shall be established by the Administrative Committee. The terms shall be set forth in writing and communicated to eligible Employees prior to the Grant Date for the Offering. The terms of an Offering shall include (1) a designation of the Participating Corporations, (2) the identification of any exclusions from participation applicable to the Offering (which exclusions must be permitted under Section 3.2), (3) the Option Period, and (4) the Option Price. Offerings may be consecutive and overlapping, and the terms of each Offering need not be identical provided that the terms of the Plan and the Offering together satisfy the requirements of this Section 4.1 and Department of Treasury Regulations issued under section 423 of the Code.

4.2 **Grant of Option.** Effective as of the Grant Date of each Offering, the Company shall grant an Option to each Participant which shall be exercisable on the Exercise Date through funds accumulated by the Participant through payroll deductions made during the Offering Period. Each Option grant is subject to the availability of a sufficient number of shares of Common Stock reserved for purchase under the Plan. In the event there is an insufficient number of shares reserved for purchase under the Plan, the number of shares purchased shall be adjusted as provided in Section 4.8.

4.3 **Maximum Number of Shares Subject to Option.** An Option granted to an Employee for any Offering shall be for that number of whole shares of Stock equal to the least of the number of whole shares of Stock that may be purchased during the Offering Period (1) at the Option Price with the amount credited to the Participant's Account on the Exercise Date, (2) under limitations established by the Administrative Committee or the Compensation Committee pursuant to Section 4.4, (3) under the limitation set forth in Section 4.5 or (4) without causing the Employee to become a Five Percent Owner. The number of shares of Stock that may be purchased under an Option shall be subject to adjustment under Sections 4.7 and 4.8.

4.4 **Formula or Specific Share Limitation Established by the Company.** The Administrative Committee shall establish and announce to Participants prior to an Offering a maximum number of shares of Stock that may be purchased by a Participant during the Offering Period. The Administrative Committee or the Compensation Committee may specify that the maximum amount of Stock that a Participant may purchase under an Offering is determined on the basis of a uniform relationship to the total compensation or the basic or regular rate of compensation, of all Employees. Notwithstanding any other provision of the Plan, unless the Administrative Committee, with the advance approval of the Compensation Committee, determines otherwise with respect to an Offering the maximum number of shares of Common Stock that that a Participant shall be permitted to purchase during an Option Period is the lesser of (1) 2,500 shares or (2) the number of shares of Common Stock that may be purchased with \$5,000 at a per share price of 85% of the Fair Market Value of a share of Common Stock (determined as of the Date of Grant).

4.5 **Annual \$25,000 Limitation.** No Employee will be permitted to purchase shares of Stock under all Qualified Employee Stock Purchase Plans of the Employer Corporation and its Related Corporations at a rate which exceeds \$25,000 in Fair Market Value of the shares of Stock (determined at the time the Option is granted) for each calendar year in which any option granted to the Employee is outstanding at any time. This limitation shall be applied taking into account the rules set forth in Department of Treasury Regulation section 1.423-2(i) (or a successor regulation). Accordingly, in applying the limitation set forth in this Section 4.5, (1) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, (2) the right to purchase stock under an option accrues at the rate provided in the option, but in no case may such rate exceed \$25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year and (3) a right to purchase stock that has accrued under one option granted pursuant to the plan may not be carried over to any other option.

4.6 **Equal Rights and Privileges.** All Employees who are granted Options under an Offering must have equal rights and privileges within the meaning of section 423 of the Code and Department of Treasury Regulation section 1.423-2(f). An Offering will not fail to satisfy the requirements of this Section 4.6 if, in order to comply with the laws of a foreign jurisdiction, the terms of an Option granted under the Offering to citizens or residents of such foreign jurisdiction (without regard to whether they are also citizens of the United States or resident aliens within the meaning of section 7701(b)(1)(A) of the Code) are less favorable than the terms of Options granted under the Offering to Employees who are resident in the United States.

4.7 **Adjustments of Options.** In the event of any stock dividend, split-up, recapitalization, merger, consolidation, combination or exchange of shares, or the like, as a result of which shares shall be issued in respect of the outstanding shares of Stock, or the shares of Stock shall be changed into the same or a different number of the same or another class of stock, the total number of shares of Stock authorized to be committed to the Plan, the number of shares of Stock subject to each outstanding Option, the Option Price applicable to each Option, and/or the consideration to be received upon exercise of each Option shall be appropriately adjusted by the Administrative Committee or the Compensation Committee. In addition, the Compensation Committee shall, in its sole discretion, have authority to provide for (a) the acceleration of the

Exercise Date of outstanding Options or (b) the conversion of outstanding Options into cash or other property to be received in certain of the transactions specified in this paragraph above upon the completion of the transaction.

4.8 **Insufficient Number of Shares.** If the number of shares of Common Stock reserved for purchase for any Option Period is insufficient to cover the number of shares which Participants elect to purchase during such Option Period, then the number of shares of Common Stock which each Participant has a right to purchase on the Exercise Date shall be reduced to the number of shares of Common Stock which the Administrative Committee shall determine by multiplying the number of shares of Common Stock reserved under the Plan for such Option Period by a fraction, the numerator of which shall be the number of shares of Common Stock which the Participant elected to purchase during the Option Period and the denominator of which shall be the total number of shares of Common Stock which all Participants elected to purchase during such Option Period.

ARTICLE V

PAYROLL DEDUCTIONS

5.1 **Authorization of Payroll Deductions.** For an Employee to participate during a given Offering Period, he must elect to participate in the Offering by authorizing deductions from his Base Compensation prior to the beginning of the Offering Period in accordance with procedures established by the Administrative Committee or the Compensation Committee. Unless the Participant changes the rate of the Participant's payroll deductions, the Participant's payroll deductions shall continue through the last pay date prior to the Exercise Date. A Participant may not make additional payments to the Participant's Account. An Employee who does not authorize payroll deductions from his Base Compensation with respect to a given Offering shall be deemed to have elected to not participate in the Offering.

5.2 **Payroll Deductions Continuing.** A Participant's payroll deduction authorization may remain in effect for all ensuing Offering Periods until changed by the Participant in accordance with procedures established by the Administrative Committee or the Compensation Committee.

5.3 **Right to Stop Payroll Deductions.** Except for a complete cessation of participation pursuant to Section 6.1, a Participant shall have no right to discontinue the Participant's payroll deduction authorization.

5.4 **Accounting for Funds.** As of each payroll deduction period, the Participating Corporation shall cause to be credited to the Participant's Account in a ledger established for that purpose the funds withheld from and attributable to the Participant's cash compensation for that period. No interest shall be credited to the Participant's Account at any time. The obligation of the Participating Corporation to the Participant for this Account shall be a general corporate obligation and shall not be funded through a trust nor secured by any assets which would cause the Participant to be other than a general creditor of the Participating Corporation.

5.5 **Participating Corporation's Use of Funds.** All payroll deductions received or held by a Participating Corporation may be used by the Participating Corporation for any corporate purpose, and the Participating Corporation shall not be obligated to segregate such payroll deductions.

5.6 **Return of Funds.** Except as specified herein, as soon as administratively practicable after the expiration of an Offering Period, payroll deductions that are not used to purchase Stock during such Offering Period will be refunded to the Participants without interest.

ARTICLE VI

IN SERVICE WITHDRAWAL; TERMINATION OF EMPLOYMENT

6.1 **In Service Withdrawal.** A Participant may, at any time on or before 30 calendar days prior to the Exercise Date, or such other date as shall be selected by the Administrative Committee or the Compensation Committee from time to time, elect to withdraw all of the funds then credited to the Participant's Account by giving notice in accordance with the rules established by the Administrative Committee or the Compensation Committee. The amount elected to be withdrawn by the Participant shall be paid to the Participant as soon as administratively feasible. Any election by a Participant to withdraw the Participant's cash balance under the Plan terminates the Participant's right to exercise the Participant's Option on the Exercise Date and the Participant's entitlement to elect any further payroll deductions for the then-current Offering Period. If the Participant wishes to participate in any future Offering Period, he must file a new payroll deduction election within the time frame required by the Administrative Committee or the Compensation Committee for participation for that Offering Period.

6.2 **Termination of Employment Prior to the Exercise Date.** If a Participant's employment with the Company and all Related Corporations is terminated for any reason prior to the Exercise Date, the Option granted to the Participant for that Offering Period shall lapse. If a Participant is on an Authorized Leave of Absence, for purposes of the Plan, the Participant's employment with the Company and all Related Corporations shall be deemed to be terminated on the later of the 91st day of such leave or the date through which the Participant's employment is guaranteed either by statute or contract. The Participant's funds then credited to the Participant's Account shall be returned to the Participant as soon as administratively feasible.

6.3 **Termination of Employment Due to Death.** If a Participant's employment with the Company and all Related Corporations is terminated due to death, the Participant's Beneficiary shall be refunded all of the funds then credited to the Participant's Account as of the date of the Participant's death.

ARTICLE VII

EXERCISE OF OPTION

7.1 **Purchase of Shares of Stock.** Subject to the provisions of the Plan, on the Exercise Date of the applicable Offering Period for an Offering, each Participant's Account shall

be used to purchase the maximum number of whole shares of Stock that can be purchased at the Option Price for that Offering. If in any Offering the total number of shares of Stock to be purchased by all Participants exceeds the number of shares of Stock committed to the Plan, then each Participant shall be entitled to purchase only the Participant's pro rata portion of the shares of Stock remaining available under the Plan based on the balances in each Participant's Account as of the Exercise Date. After the purchase of all shares of Stock available on the Exercise Date, all Options granted for the Offering to the extent not used are terminated because no Option shall remain exercisable after the Exercise Date.

7.2 **Accounting for Shares of Stock.** After the Exercise Date of each Offering, a report shall be given to each Participant stating the amount of the Participant's Account, the number of shares of Stock purchased and the Option Price.

7.3 **Issuance of Shares of Stock.** The Administrative Committee may determine in its discretion the manner of delivery of the shares of Stock purchased under the Plan, which may be by electronic account entry into new or existing accounts, delivery of shares of Stock certificates or any other means as the Administrative Committee, in its discretion, deems appropriate. The Administrative Committee may, in its discretion, hold the shares of Stock certificate for any shares of Stock or cause it to be legended in order to comply with the securities laws of the applicable jurisdiction, or should the shares of Stock be represented by book or electronic account entry rather than a certificate, the Administrative Committee may take such steps to restrict transfer of the shares of Stock as the Administrative Committee considers necessary or advisable to comply with applicable law.

ARTICLE VIII

ADMINISTRATION

8.1 **Powers.** The Administrative Committee has the responsibility for the general administration of the Plan, and has all powers necessary to accomplish that purpose, including but not limited to the following rights, powers, and authorities:

- (a) to make rules for administering the Plan so long as they are not inconsistent with the terms of the Plan;
- (b) to construe all provisions of the Plan;
- (c) to correct any defect, supply any omission, or reconcile any inconsistency which may appear in the Plan;
- (d) to select, employ, and compensate at any time any consultants, accountants, attorneys, and other agents the Administrative Committee believes necessary or advisable for the proper administration of the Plan;

(e) to determine all questions relating to eligibility, Fair Market Value, Option Price and all other matters relating to benefits or Participants' entitlement to benefits;

(f) to determine all controversies relating to the administration of the Plan, including but not limited to any differences of opinion arising between a Participating Corporation and a Participant, and any questions it believes advisable for the proper administration of the Plan; and

(g) to delegate any clerical or recordation duties of the Administrative Committee as the Administrative Committee believes is advisable to properly administer the Plan.

8.2 **Quorum and Majority Action.** A majority of the Administrative Committee constitutes a quorum for the transaction of business. The vote of a majority of the members present at any meeting shall decide any question brought before that meeting. In addition, the Administrative Committee may decide any question by a vote, taken without a meeting, of a majority of its members via telephone, computer, fax or any other media of communication.

8.3 **Standard of Judicial Review of Committee Actions.** The Administrative Committee has full and absolute discretion in the exercise of each and every aspect of its authority under the Plan. Notwithstanding anything to the contrary, any action taken, or ruling or decision made by the Administrative Committee in the exercise of any of its powers and authorities under the Plan shall be final and conclusive as to all parties other than the Company, including without limitation all Participants and their beneficiaries, regardless of whether the Administrative Committee or one or more of its members may have an actual or potential conflict of interest with respect to the subject matter of the action, ruling, or decision. No final action, ruling, or decision of the Administrative Committee shall be subject to de novo review in any judicial proceeding; and no final action, ruling, or decision of the Administrative Committee may be set aside unless it is held to have been arbitrary and capricious by a final judgment of a court having jurisdiction with respect to the issue.

ARTICLE IX

PARTICIPATION IN PLAN BY OTHER RELATED CORPORATIONS

9.1 **Participation Procedure.** The Company, acting through the Compensation Committee or the Administrative Committee, shall designate the Related Corporations of the Company that may participate in a given Offering. A Related Corporation that is selected to participate in an Offering shall provide the Company all information required by the Company in order to administer the Plan.

9.2 **No Joint Venture Implied.** Neither the participation in the Plan or an Offering by a Related Corporation nor any act performed by it in relation to the Plan shall create a joint venture or partnership relation between it and the Company or any other Related Corporation.

ARTICLE X

TERMINATION AND AMENDMENT OF THE PLAN

10.1 **Termination.** The Company may, by action of the Board or the Compensation Committee, terminate the Plan at any time and for any reason. The Plan shall automatically terminate upon the purchase by Participants of all shares of Stock committed to the Plan, unless the number of shares of Stock committed to the Plan is increased by the Compensation Committee or the Board and approved by the shareholders of the Company. Upon termination of the Plan, as soon as administratively feasible there shall be refunded to each Participant the remaining funds in the Participant's Account. The termination of the Plan shall not affect the current Options already outstanding under the Plan to the extent there are shares of Stock committed, unless the Participants agree otherwise.

10.2 **Amendment.** The Board or the Compensation Committee has the right to modify, alter or amend the Plan at any time and from time to time to any extent that it deems advisable, including, without limiting the generality of the foregoing, any amendment to the Plan deemed necessary to ensure compliance with section 423 of the Code. The Board or the Compensation Committee may suspend the operation of the Plan for any period as it may deem advisable. However, no amendment or suspension shall operate to reduce any amounts previously allocated to a Participant's Account, reduce a Participant's rights with respect to shares of Stock previously purchased and held on the Participant's behalf under the Plan or adversely affect the current Option a Participant already has outstanding under the Plan without the Participant's agreement. Any amendment changing the aggregate number of shares of Stock to be committed to the Plan and any other change for which stockholder approval is required under regulations issued by the Department of Treasury must be approved by the stockholders of the Company in order to be effective.

ARTICLE XI

MISCELLANEOUS

11.1 **Plan Not An Employment Contract.** The adoption and maintenance of the Plan is not a contract between any Participating Corporation and its Employees which gives any Employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Participating Corporation to discharge any Employee at any time or to interfere with the Employee's right to terminate the Employee's employment at any time.

11.2 **Options Are Not Transferable.** No Option granted a Participant under the Plan is transferable by the Participant other than by will or the laws of descent and distribution, and must be exercisable, during the Participant's lifetime, only by the Participant. In the event any Participant attempts to violate the terms of this Section 11.2, any Option held by the Participant shall be terminated by the Company and, upon return to the Participant of the remaining funds in the Participant's Account, all of the Participant's rights under the Plan will terminate.

11.3 **Voting of Shares of Stock.** Shares of Stock held under the Plan for the account of each Participant shall be voted by the holder of record of those shares of Stock in accordance with the Participant's instructions.

11.4 **No Rights of Shareholder.** No eligible Employee or Participant shall by reason of participation in the Plan have any rights of a shareholder of the Company until he acquires shares of Stock as provided in the Plan.

11.5 **Governmental Regulations.** The obligation to sell or deliver the shares of Stock under the Plan is subject to the approval of all governmental authorities required in connection with the authorization, purchase, issuance or sale of the shares of Stock.

11.6 **Notices.** All notices and other communication in connection with the Plan shall be in the form specified by the Administrative Committee and shall be deemed to have been duly given when sent to the Participant at the Participant's last known address or to the Participant's designated personal representative or beneficiary, or to the Participating Corporation or its designated representative, as the case may be.

11.7 **Indemnification.** In addition to all other rights of indemnification as they may have as directors or as members of the Administrative Committee, the Compensation Committee, the members of the Administrative Committee and the Compensation Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted under the Plan, and against all amounts paid in settlement (provided the settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any action, suit or proceeding, except in relation to matters as to which it is adjudged in the action, suit or proceeding, that the Administrative Committee or Compensation Committee member is liable for gross negligence or willful misconduct in the performance of his duties. Notwithstanding any other provision of this Agreement, to the extent that any payment made pursuant to this Section 11.7 is not exempt from section 409A of the Code and Department of Treasury regulations issued thereunder (a "409A Payment") the following provisions of this Section 11.7 shall apply with respect to such 409A Payment. The Company shall make a 409A Payment due under this Section 11.7 by the last day of the taxable year of the Administrative Committee or Compensation Committee member following the taxable year in which the applicable legal fees and expenses were incurred. The legal fees or expenses that are subject to reimbursement pursuant to this Section 11.7 shall not be limited as a result of when the fees or expenses are incurred. The amounts of legal fees or expenses that are eligible for reimbursement pursuant to this Section 11.7 during a given taxable year of the Administrative Committee or Compensation Committee member shall not affect the amount of expenses eligible for reimbursement in any other taxable year. The right to reimbursement pursuant to this Section 11.7 is not subject to liquidation or exchange for another benefit.

11.8 **Tax Withholding.** At the time a Participant's Option is granted or exercised or at the time a Participant disposes of some or all of the shares of Stock purchased under the Plan, the Participant must make adequate provision for the Participating Corporation's federal, state, foreign

or other tax withholding obligations, if any, which arise upon the grant or exercise of the Option or the disposition of the shares of Stock. At any time, the Participating Corporation may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary for the Participating Corporation to meet applicable withholding obligations.

11.9 Gender and Number. If the context requires it, words of one gender when used in the Plan shall include the other genders, and words used in the singular or plural shall include the other.

11.10 Data Privacy. By participating in the Plan, each Participant agrees to the collection, processing, use and transfer of personal information by the Participating Corporation that employs the Participant, the Company, the Administrative Committee and the Compensation Committee in order to administer the Plan.

11.11 Notice of Disposition. By becoming a Participant in the Plan, each Participant agrees to promptly give the Plan Recordkeeper notice of any shares of Common Stock disposed of within the later of (a) one year from the Exercise Date and (b) two years from the Date of Grant with respect to such Stock, and the notice shall include the number of shares of Common Stock disposed of and the Exercise Date and the Date of Grant for the Common Stock.

11.12 Dispositions in Compliance with Securities Laws . By becoming a Participant in the Plan, each Participant agrees that any dispositions of shares of Common Stock by such Participant shall be in compliance with the provisions of federal, state and foreign securities laws, including the provisions of Section 16(b) of the Exchange Act.

11.13 Plan Not an Employment Contract. The adoption and maintenance of the Plan is not a contract between the Employers and their respective employees that gives any employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Employer to terminate an Employee's employment at any time with or without notice and with or without cause or to interfere with an Employee's right to terminate his employment at any time.

11.14 Beneficiary(ies). At the time of the Participant's or former Participant's death, (a) any cash in the Plan or (b) any cash and shares of Common Stock in the Account shall be distributed to such Participant's or former Participant's (1) executor or administrator or (2) his heirs at law, if there is no administration of such Participant's or former Participant's estate. The Participant's or former Participant's executor or administrator or heirs at law, if there is no administration of such Participant's or former Participant's estate, shall be such Participant's or former Participant's Beneficiaries. Before any distribution is made, the Administrative Committee may require appropriate written documentation of (a) the appointment of the personal representative of the Participant's estate or (b) heirship.

11.15 Severability. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

11.16 **Binding Effect.** This Agreement shall be binding upon any successor of the Company.

11.17 **Limitation on Liability.** Under no circumstances shall the Company incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to this Plan or the Company's role as Plan sponsor.

11.18 **Arbitration.** Any controversy arising out of or relating to the Plan, including without limitation, any and all disputes, claims (whether in tort, contract, statutory or otherwise) or disagreements concerning the interpretation or application of the provisions of the Plan, Employer's employment of Participant and the termination of that employment, shall be resolved by arbitration in accordance with the Employee Benefit Plan Claims Arbitration Rules of the American Arbitration Association (the "AAA") then in effect. Within ten (10) business days of the initiation of an arbitration hereunder, the Company and the Participant will each separately designate an arbitrator, and within twenty (20) business days of selection, the appointed arbitrators will appoint a neutral arbitrator from the AAA National Panel of Employee Benefit Plan Claims Arbitrators. The arbitrators shall issue their written decision (including a statement of finding of facts) within thirty (30) calendar days from the date of the close of the arbitration hearing. The decision of the arbitrators selected hereunder will be final and binding on both parties. This arbitration provision is expressly made pursuant to and shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1-16 (or replacement or successor statute). Pursuant to Section 9 of the Federal Arbitration Act, the Company and any Participant agrees that any judgment of the United States District Court for the District in which the headquarters of the Company is located at the time of initiation of an arbitration hereunder shall be entered upon the award made pursuant to the arbitration. Nothing in this Section 11.18 shall be construed, in any way, to limit the scope and effect of Article VIII. In any arbitration proceeding full effect shall be given to the rights, powers, and authorities of the Plan Administrator under Article VIII.

11.19 **Governing Law.** All provisions of the Plan shall be construed in accordance with the laws of State of Texas, except to the extent preempted by federal law and except to the extent that the conflicts of law provisions of the State of Texas would require the application of the relevant law of another jurisdiction, in which event the relevant law of the State of Texas will nonetheless apply, with venue for litigation being in Houston, Texas.

**BAKER HUGHES INCORPORATED
RESTRICTED STOCK UNIT AWARD AGREEMENT**

Awardee

Date of Award:

Number of Restricted Stock Units:

AWARD OF RESTRICTED STOCK UNITS

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

The Restricted Stock Units that are awarded hereby to you shall be subject to the prohibitions and restrictions set forth herein with respect to the sale or other disposition of such Restricted Stock Units and the obligation to forfeit and surrender such Restricted Stock Units to the Company (the "*Forfeiture Restrictions*"). The Forfeiture Restrictions shall lapse as to the Restricted Stock Units that are hereby awarded on the earlier to occur of:

- (a) the first anniversary of the Date of Award (the "*General Lapse Date*") provided that your service on the Board has not terminated prior to such date; and
- (b) the date of the annual meeting of the stockholders of the Company next following the date of your 72nd birthday, provided that your service on the Board has not terminated prior to such date of annual meeting of the stockholders of the Company.

If a Change in Control of the Company occurs or you cease to be a member of the Board before the General Lapse Date, your rights to the Restricted Stock Units under this Agreement will be determined as provided in the attached Terms and Conditions of Award Agreements dated January 24, 2013 (the "*Terms and Conditions*").

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

If during the period you hold any Restricted Stock Units awarded hereby and the Company pays a dividend in cash with respect to the outstanding shares of the Common Stock (a "*Cash Dividend*"), then the Company will credit to an account established for you by the Company under the Plan (the "*Account*") an amount equal to the product of (a) the Restricted Stock Units awarded hereby that have not been forfeited to the Company or exchanged by the Company for shares of the Common Stock and (b) the amount of the Cash Dividend paid per share of the Common Stock (the "*Dividend Equivalent Credit*"). The Company shall pay to you, in cash, an amount equal to the Dividend Equivalent Credits credited to the Account with respect to a Restricted Stock Unit on the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse (and in no case later than the end of the calendar year in which the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse or, if later, the 15th day of the third month following the date the Forfeiture Restrictions applicable to that Restricted Stock Unit lapse).

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

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

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

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

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

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

BAKER HUGHES INCORPORATED

/s/ Martin S. Craighead

Martin S. Craighead
President and Chief Executive Officer

BAKER HUGHES INCORPORATED
TERMS AND CONDITIONS
OF
AWARD AGREEMENTS

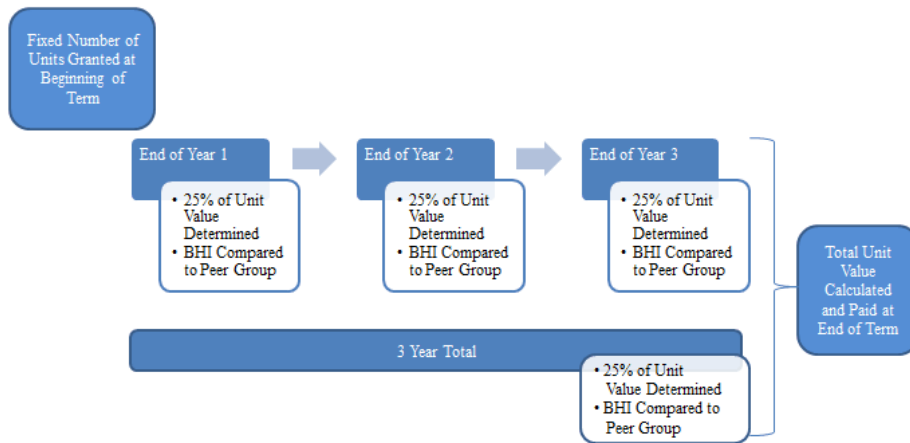
1. **TERMINATION OF SERVICE.** The following provisions will apply in the event your service on the Board terminates before the General Lapse Date set forth under the terms of the Restricted Stock Unit Award Agreement awarded to you (the “*Agreement*”):
- 1.1 **Termination Generally.** Subject to Section 2, if your service on the Board terminates on or before the General Lapse Date for any reason other than one of the reasons described in Sections 1.2 through 1.5, the Forfeiture Restrictions then applicable to the Restricted Stock Units shall not lapse and the number of Restricted Stock Units then subject to the Forfeiture Restrictions shall be forfeited to the Company on the date your service on the Board terminates.
 - 1.2 **Disability.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you become permanently disabled before the General Lapse Date and before your service on the Board terminates, all remaining Forfeiture Restrictions shall immediately lapse on the date your service on the Board terminates due to your becoming permanently disabled. For purposes of this Section 1.2, you will be “*permanently disabled*” if you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.
 - 1.3 **Death.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you die before the General Lapse Date and before your service on the Board terminates, all remaining Forfeiture Restrictions shall immediately lapse on the date your service on the Board terminates due to death.
 - 1.4 **Completion of Term.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you complete before the General Lapse Date the term for which you were elected to the Board (the “*Term*”) and as a result thereof your service on the Board terminates, all remaining Forfeiture Restrictions shall immediately lapse on the last day of the Term.
 - 1.5 **Attainment of Retirement Age.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if you attain the age of 72 and your service on the Board has not terminated prior to the date of the annual meeting of the stockholders of the Company that next follows your 72nd birthday, all remaining forfeiture restrictions shall immediately lapse on such date of annual meeting of the stockholders of the Company.
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2. **CHANGE IN CONTROL.** Notwithstanding any other provision of the Agreement or these Terms and Conditions to the contrary, if a Change in Control of the Company occurs before the General Lapse Date and before you cease to be a member of the Board, then all remaining Forfeiture Restrictions shall immediately lapse on the effective date of the Change in Control of the Company provided that the transaction qualifies as a change in the ownership or effective control of the Company, or in the sale of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended and Department of Treasury regulations issued thereunder.
3. **NONTRANSFERABILITY.** The Agreement is not transferable by you otherwise than by will or by the laws of descent and distribution.
4. **CAPITAL ADJUSTMENTS AND REORGANIZATIONS.** The existence of the Restricted Stock Units shall not affect in any way the right or power of the Company or any company the stock of which is awarded pursuant to the Agreement to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding.
5. **RESTRICTED STOCK UNITS DO NOT AWARD ANY RIGHTS OF A SHAREHOLDER.** You shall not have the voting rights or any of the other rights, powers or privileges of a holder of the Common Stock with respect to the Restricted Stock Units that are awarded hereby. Only after a share of the Common Stock is issued in exchange for a Restricted Stock Unit will you have all of the rights of a shareholder with respect to such share of Common Stock issued in exchange for a Restricted Stock Unit.
6. **SECURITIES ACT LEGEND.** You consent to the placing on any certificate for the shares of Common Stock issued under the Agreement an appropriate legend restricting resale or other transfer of the Shares except in accordance with the Securities Act of 1933, as amended and all applicable rules thereunder.
7. **LIMIT OF LIABILITY.** Under no circumstances will the Company be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.
8. **MISCELLANEOUS.** The Agreement is awarded pursuant to and is subject to all of the provisions of the Plan, including amendments to the Plan, if any. In the event of a conflict between these Terms and Conditions and the Plan provisions, the Plan provisions will control. The term "*you*" and "*your*" refer to the Awardee named in the Agreement. Capitalized terms that are not defined herein shall have the meanings ascribed to such terms in the Plan or the Agreement.

**PERFORMANCE GOALS
FOR PERFORMANCE UNIT AWARDS GRANTED IN 2012 UNDER
THE BAKER HUGHES INCORPORATED 2002 DIRECTOR & OFFICER
LONG-TERM INCENTIVE PLAN AND
THE BAKER HUGHES INCORPORATED 2002 EMPLOYEE
LONG-TERM INCENTIVE PLAN**

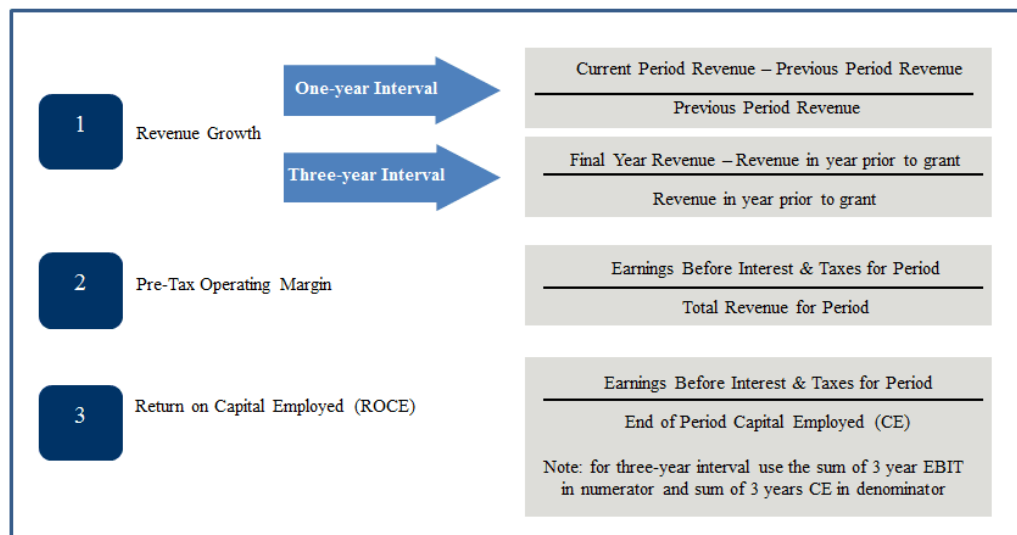
1. 2012 Performance Unit Program.

The Performance Unit Program, a component compensation program established under each of the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan and the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the “PUP”), provides for cash awards for participants if performance goals are met during the term of the PUP. The performance goals are related to the Company’s achievement as compared to a peer group of companies. Achievement is measured over multiple performance periods from the beginning of 2012 to the end of 2014. Twenty-five percent of the Total Unit Value is determined based upon one year performance relative to certain specified performance criteria during each of 2012, 2013, and 2014. The final twenty-five percent of the Total Unit Value is calculated at the end of 2014 based upon the cumulative performance of the Company over the three-year performance period 2012 through 2014.



2. Performance Goals for the Performance Period.

For Performance Unit Awards granted by BHI in 2012 under the Plan, the performance goals are based upon the Company’s (1) change in Revenue as compared to the Peer Group, (2) Pre-Tax Operating Margin for the applicable performance periods as compared to that of the Peer Group, and (3) Return on Capital Employed or ROCE as compared to the Peer Group. For each performance goal, if the Company’s performance as compared to the Peer Group is the highest, the Company’s performance rank shall be first.



(a) **One Year Performance Periods.**

Revenue Growth. For each of the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period the Company's One Year Interval Percentage Increase in Revenue for its 2012, 2013 and 2014 fiscal years, respectively, shall be compared against the One Year Interval Percentage Increase in Revenue for all members of the Peer Group.

Pre-Tax Operating Margin. For each of the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period, the Company's Pre-Tax Operating Margin for its 2012, 2013 and 2014 fiscal years, respectively, shall be compared against the Pre-Tax Operating Margin for all members of the Peer Group during the applicable Current Period.

Return on Capital Employed. For each of the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period, the Company's ROCE for its 2012, 2013 and 2014 fiscal years, respectively, shall be compared against the ROCE for all members of the Peer Group during the applicable Current Period.

(b) **Three-Year Performance Period.**

Revenue Growth. For the Three-Year Performance Period, the Three-Year Percentage Increase in Revenue of the Company shall be compared against the Three-Year Percentage Increase in Revenue for all members of the Peer Group as of December 31, 2014.

Pre-Tax Operating Margin. For the Three-Year Performance Period, the sum of the Pre-Tax Operating Margin of the Company for the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period shall be compared against the sum of the Pre-Tax Operating Margin of the Company for each member of the Peer Group for the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period.

Return on Capital Employed. For the Three-Year Performance Period, the sum of the ROCE of the Company for the 2012 Performance Period, the 2013 Performance Period and the 2014

Performance Period shall be compared against the sum of the ROCE for each member of the Peer Group for the 2012 Performance Period, the 2013 Performance Period and the 2014 Performance Period.

3. Unit Value Based on Peer Group Ranking.

The Unit Value earned during an applicable performance period (the 2012 Performance Period, the 2013 Performance Period, the 2014 Performance Period or the Three-Year Performance Period) for each of the three performance goals is 25 percent the Unit Value Amount listed below. The averages of 25 percent Unit Value Amounts earned during a performance period is used to determine the Period Unit Value for the performance period. The payout under each Performance Unit will be based on 12 measures (three Peer Group Ranking results achieved during four discrete performance periods.)

2012, 2013, 2014, and Three-Year Performance Period					
Peer Group Rank	5 th	4 th	3 rd	2 nd	1 st
Unit Value Amount	\$0	\$45	\$90	\$135	\$200

In the example below, for illustrative purposes, Year 1 Revenue growth rank was 5th and 25 percent of \$0 is \$0. Pre-Tax Operating Margin rank was 2nd and 25 percent of \$135 is \$33.75. ROCE rank was 1st and 25 percent of \$200 is \$50. The average Unit Value based upon the performance in Year 1 is \$27.92. For each Performance Unit awarded, the sum of the Period Unit Values for each of the performance periods equals the Total Unit Value.

Relative Rank of Performance				Periodic Unit Value Added				Total Unit Value
Period	Revenue Growth Rank	Pre-Tax Operating Margin Rank	ROCE Rank	Revenue Growth Value	Pre-Tax Operating Margin Value	ROCE Value	Period Unit Value	
Year 1	5 th	2 nd	1 st	\$0	\$33.75	\$50.00	\$27.92	\$112.09
Year 2	2 nd	3 rd	2 nd	\$33.75	\$22.50	\$33.75	\$30.00	
Year 3	1 st	4 th	3 rd	\$50.00	\$11.25	\$22.50	\$27.92	
3 Year Total	3 rd	3 rd	2 nd	\$22.50	\$22.50	\$33.75	\$26.25	

Note that levels of achievement contained in the foregoing example are not forecasts by the Company of its expected levels of achievement. Rather, the levels of achievement for purposes of the illustrative example were selected at random.

If the Peer Group is reduced by merger(s) or otherwise during the term of the Three-Year Performance Period the Committee shall make such adjustments to the Unit Value Amount chart as it deems appropriate in its sole discretion. Such adjustments shall not increase the amounts that would have been payable under the Unit Value Amount chart absent such adjustments.

4. Peer Group.

The Peer Group is as follows for the performance periods ending in 2012, 2013, and 2014, and for the Three-Year Performance Period.

Peer Group (5 Companies)
Baker Hughes Incorporated
Halliburton Company
National Oilwell Varco Incorporated
Schlumberger Limited
Weatherford International Ltd.

5. General Performance Unit Formula.

Except as otherwise specified in the Terms and Conditions, the aggregate amount payable to a Participant for a Performance Unit Award granted in 2012 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan and the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan shall be equal to the number of Performance Units granted to the Participant multiplied by the Final Performance Unit Award Value.

The Compensation Committee shall determine in writing the extent to which the Performance Goals applicable to the Performance Unit Awards have been satisfied before the Company makes any payments under the Performance Unit Awards.

Subject to the terms of the Plan, the Performance Unit Award and the Terms and Conditions, unless prior to the Scheduled Payment Date a Change in Control (as defined in the Terms and Conditions) occurs or the Participant forfeits his Performance Unit Award, on the Scheduled Payment Date the Company shall pay the Participant an amount equal to the Final Performance Agreement Award Value (prorated in accordance with the Terms and Conditions in the event of the Retirement, death or permanent disability of the Participant within the meaning of the Terms and Conditions).

The Compensation Committee may not increase the Final Performance Unit Award Value for, or otherwise increase the aggregate amount payable to a Participant for the performance period under, a Performance Unit Award Agreement issued by BHI in 2012 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan or the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan.

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

6. Adjustments.

Revenue Growth, Pre-Tax Operating Margin and Return on Capital Employed may be determined by including or excluding, in the Compensation Committee's discretion, items that are determined to be extraordinary, unusual in nature, infrequent in occurrence, related to the disposal or acquisition of a segment of a business, or related to a change in accounting principal, in each case, based on Financial Accounting

Standards Board (FASB) Accounting Standards Codification (ASC) 225-20, *Income Statement, Extraordinary and Unusual Items*, and FASB ASC 830-10, *Foreign Currency Matters, Overall*, or other applicable accounting rules, or consistent with Company accounting policies and practices in effect on the date these Performance Goal are established.

7. Definitions.

For Performance Unit Award Agreements issued by Baker Hughes Incorporated (“*BHI*”) in 2012 under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan and the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan, the terms set forth below shall have the following meanings:

“*Capital Employed*” means an amount equal to the Relevant Company’s total shareholders’ equity at the close of the Current Period plus the Relevant Company’s long-term debt, short-term borrowing and the current portion of long-term debt at the close of the Current Period.

“*Company*” means BHI and all of its Affiliates in which BHI directly or indirectly has a capital investment.

“*Compensation Committee*” means the Compensation Committee of the Board of Directors of the Company.

“*Current Period*” means the fiscal year of the Relevant Company that coincides with or ends within the fiscal year of the Company to which the applicable Performance Goal applies.

“*EBIT*” means earnings before deduction of interest and taxes.

“*Final Performance Unit Award Value*” or “*Total Unit Value*” means the sum of the Unit Values for the 2012 Performance Period, the 2013 Performance Period, the 2014 Performance Period and the Three-Year Performance Period.

“*One Year Interval Percentage Increase in Revenue*” means the result of (a) minus (b), divided by (c), where (a) is the Revenue of the Relevant Company for the Current Period, (b) is the Revenue of the Relevant Company for the Prior Period, and (c) is the Revenue of the Relevant Company for the Prior Period.

“*Participant*” means the person to whom a Performance Unit Award is granted.

“*Peer Group*” means the group identified in Section 4.

“*Performance Units*” means the number of performance units listed in the Participant’s agreement evidencing his or her Performance Unit Award.

“*Performance Unit Award*” means a Performance Unit Award granted under the Plan in 2012.

“*Plan*” means the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan or the Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan, as applicable.

“*Pre-Tax Operating Margin*” means the quotient of the Relevant Company’s EBIT for the Current Period divided by the Relevant Company’s total revenue for the Current Period.

“*Prior Period*” means the fiscal year of the Relevant Company that coincides with or ends within the fiscal year of the Company immediately preceding the fiscal year of the Company to which the applicable Performance Goal applies.

“*Relevant Company*” means the Company or a member of the Peer Group.

“*Return on Capital Employed*” or “*ROCE*” means the Relevant Company’s EBIT for the Current Period, divided by the Relevant Company’s Capital Employed.

“*Revenue*” means the revenue of the Company or the revenue of a particular member of the Peer Group, as applicable.

“*Scheduled Payment Date*” means March 13, 2015.

“*Three-Year Interval Percentage Increase in Revenue*” means the result of (a) minus (b), divided by (c), where (a) is the Revenue for the Relevant Company for the Current Period corresponding to the final fiscal year of the Company ending during the Three-Year Performance Period, (b) is the Revenue of the Relevant Company for the Prior Period corresponding to the fiscal year of the Company immediately prior to the first fiscal year of the Company beginning during the Three -Year Performance Period and (c) is the Revenue of the Relevant Company for the Prior Period corresponding to the fiscal year of the Company immediately prior to the first fiscal year of the Company beginning during the Three -Year Performance Period.

“*Three-Year Performance Period*” means the three-year period beginning January 1, 2012, and ending December 31, 2014.

“*2012 Performance Period*” means the one-year period beginning January 1, 2012, and ending December 31, 2012.

“*2013 Performance Period*” means the one-year period beginning January 1, 2013, and ending December 31, 2013.

“*2014 Performance Period*” means the one-year period beginning January 1, 2014, and ending December 31, 2014.

“*Terms and Conditions*” means the Terms and Conditions of Performance Unit Award Agreements adopted by the Compensation Committee with respect to Performance Unit Awards.

“*Unit Value*” or “*Period Unit Value*” means the averages of the Unit Value Amounts per Performance Unit earned with respect to a performance period as specified in Section 3.

“*Unit Value Amount*” means the applicable dollar amount specified in the first chart in Section 3.

BAKER HUGHES INCORPORATED

SIGNIFICANT SUBSIDIARIES

December 31, 2012

<u>Subsidiary</u>	<u>Jurisdiction</u>	<u>Percentage Ownership</u>
Western Atlas, Inc.	Delaware	100%
Baker Hughes Oilfield Operations, Inc.	California	(1)
Baker Hughes International Branches, Inc.	Delaware	(2)
Baker Hughes EHHHC, Inc.	Delaware	100%
BH International Holdings C.V.	The Netherlands	100%
BH Nederland 3 C.V.	The Netherlands	100%
RH Holdings 5 C.V.	The Netherlands	100%
Baker Hughes International Coöperatief U.A.	The Netherlands	100%
Baker Hughes Holdings I B.V.	The Netherlands	100%
Baker Hughes Luxembourg Holdings S.C.A.	Luxembourg	(3)
Baker Hughes Luxembourg S.a.r.l.	Luxembourg	100%
Oilfield Tool Leasing	United Kingdom	100%
Baker Petrolite Corporation	Delaware	100%
(1) Baker Hughes Oilfield Operations, Inc.		
Western Atlas Inc.		94.08%
Other subsidiaries		5.92%
(2) Baker Hughes International Branches, Inc.		
Baker Hughes Oilfield Operations, Inc.		96.83%
Other subsidiaries		3.17%
(3) Baker Hughes Luxembourg Holdings S.C.A.		
Baker Hughes Holdings I B.V.		57.96%
Other Subsidiaries		42.04%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in

- Registration Statement No. 333-159061 on Form S-8
- Registration Statement No. 333-19771 on Form S-8
- Registration Statement No. 333-103839 on Form S-8
- Registration Statement No. 333-166378 on Form S-8
- Registration Statement No. 333-166020 on Form S-8
- Registration Statement No. 333-166019 on Form S-8

of our report dated February 13, 2013, relating to the consolidated financial statements and financial statement schedule of Baker Hughes Incorporated and subsidiaries (the “Company”) and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2012.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 13, 2013

CERTIFICATION

I, Martin S. Craighead, certify that:

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

Date: February 13, 2013

By: /s/ Martin S. Craighead

Martin S. Craighead
President and
Chief Executive Officer

CERTIFICATION

I, Peter A. Ragauss, certify that:

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

Date: February 13, 2013

By: /s/ Peter A. Ragauss

Peter A. Ragauss
Senior Vice President
and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Baker Hughes Incorporated (the "Company") on Form 10-K for the period ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Martin S. Craighead, Chief Executive Officer of the Company, and Peter A. Ragauss, the Chief Financial Officer of the Company, each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

The certification is given to the knowledge of the undersigned.

	<u>/s/ Martin S. Craighead</u>
Name:	Martin S. Craighead
Title:	Chief Executive Officer
Date:	February 13, 2013

	<u>/s/ Peter A. Ragauss</u>
Name:	Peter A. Ragauss
Title:	Chief Financial Officer
Date:	February 13, 2013

Mine Safety Disclosure

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

The table that follows reflects citations, orders, violations and proposed assessments issued by the Mine Safety and Health Administration (the “MSHA”) for each mine of which Baker Hughes and/or its subsidiaries is an operator. The disclosure is with respect to the full year 2012. 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.

Year Ended December 31, 2012

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	2	0	0	0	0	\$108 ⁽²⁾	0	N	N	0	0	0
Argenta Mine and Mill/2601152	7 ⁽³⁾	0	0	0	0	\$9,969 ⁽⁴⁾	0	N	N	0	0	0
Corpus Christi Grinding Plant/4103112	10 ⁽⁵⁾	0	0	0	0	\$517 ⁽²⁾	0	N	N	0	0	0

- ⁽¹⁾ Amounts included are the total dollar value of proposed assessments received from MSHA on or before December 31, 2012 for citations and orders occurring during the year ended December 31, 2012, regardless of whether the assessment has been challenged or appealed. Citations and orders can be contested and appealed, and as part of that process, are sometimes reduced in severity and amount, and sometimes dismissed. The number of citations, orders, and proposed assessments vary by inspector and also vary depending on the size and type of the operation.
- ⁽²⁾ As of December 31, 2012, the MSHA had not yet proposed assessments on some citations relating to this site.
- ⁽³⁾ Amount includes two Section 104 S&S citations issued to an independent contractor (who is not a subsidiary of Baker Hughes) who is working at the Argenta Mine and Mill.
- ⁽⁴⁾ Amount includes \$7,742 of assessments proposed by MSHA that relate to citations and orders issued to independent contractors (who are not subsidiaries of Baker Hughes) who are working at the Argenta Mine and Mill, of which \$6,235 are being contested as of December 31, 2012.
- ⁽⁵⁾ Amount includes one Section 104 S&S citation issued to an independent contractor (who is not a subsidiary of Baker Hughes) who is working at the Corpus Christi Grinding Plant.

