UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

Commission File Number 1-38143

Baker Hughes Company

(Exact name of registrant as specified in its charter)

Delaware	**81-4403168**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17021 Aldine Westfield	
Houston, Texas	**77073-5101**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, par value $0.0001 per share	BKR	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files).
Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

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

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

As of October 22, 2019, the registrant had outstanding 649,868,818 shares of Class A Common Stock, $0.0001 par value per share and 377,427,844 shares of Class B Common Stock, $0.0001 par value per share.

Baker Hughes Company
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ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Baker Hughes Company

Condensed Consolidated Statements of Income (Loss)

(Unaudited)

(In millions, except per share amounts)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenue:				
Sales of goods	$ 3,339	$ 3,142	$ 9,886	$ 9,421
Sales of services	2,543	2,523	7,604	7,191
Total revenue	5,882	5,665	17,490	16,612
Costs and expenses:				
Cost of goods sold	2,901	2,819	8,647	8,371
Cost of services sold	1,880	1,873	5,705	5,491
Selling, general and administrative	679	608	2,083	1,944
Restructuring, impairment and other	71	66	183	374
Separation and merger related	54	17	128	113
Total costs and expenses	5,585	5,383	16,746	16,293
Operating income	297	282	744	319
Other non operating income (loss), net	(14)	6	(124)	51
Interest expense, net	(59)	(55)	(174)	(164)
Income before income taxes and equity in loss of affiliate	224	233	446	206
Equity in loss of affiliate	—	(85)	—	(139)
Provision for income taxes	(107)	(110)	(269)	(86)
Net income (loss)	117	38	177	(19)
Less: Net income (loss) attributable to noncontrolling interests	60	25	97	(83)
Net income attributable to Baker Hughes Company	$ 57	$ 13	$ 80	$ 64
Per share amounts:				
Basic and diluted earnings per Class A common stock	$ 0.11	$ 0.03	$ 0.15	$ 0.15
Cash dividend per Class A common stock	$ 0.18	$ 0.18	$ 0.54	$ 0.54

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2019**	**2018**	**2019**	**2018**
Net income (loss)	$ 117	$ 38	$ 177	$ (19)
Less: Net income (loss) attributable to noncontrolling interests	60	25	97	(83)
Net income attributable to Baker Hughes Company	57	13	80	64
Other comprehensive income (loss):				
Investment securities	(1)	(1)	—	(3)
Foreign currency translation adjustments	(123)	(88)	(96)	(312)
Cash flow hedges	2	(2)	3	(1)
Benefit plans	7	1	(6)	3
Other comprehensive loss	(115)	(90)	(99)	(313)
Less: Other comprehensive loss attributable to noncontrolling interests	(42)	(56)	(33)	(195)
Other comprehensive loss attributable to Baker Hughes Company	(73)	(34)	(66)	(118)
Comprehensive income (loss)	2	(52)	78	(332)
Less: Comprehensive income (loss) attributable to noncontrolling interests	18	(31)	64	(278)
Comprehensive income (loss) attributable to Baker Hughes Company	$ (16)	$ (21)	$ 14	$ (54)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Baker Hughes Company
Condensed Consolidated Statements of Financial Position
(Unaudited)

(In millions, except par value)	**September 30, 2019**	**December 31, 2018**
ASSETS		
Current assets:		
Cash and cash equivalents [1]	$ 2,808	$ 3,723
Current receivables, net	6,165	5,969
Inventories, net	4,739	4,620
All other current assets	1,057	659
Total current assets	14,769	14,971
Property, plant and equipment (net of accumulated depreciation of $4,160 and $3,625)	6,141	6,228
Goodwill	20,654	20,717
Other intangible assets, net	5,431	5,719
Contract and other deferred assets	1,851	1,894
All other assets	2,760	1,838
Deferred income taxes	943	1,072
Total assets [1]	$ 52,549	$ 52,439
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,870	$ 4,025
Short-term debt and current portion of long-term debt [1]	694	942
Progress collections and deferred income	2,436	1,765
All other current liabilities	2,332	2,288
Total current liabilities	9,332	9,020
Long-term debt	6,313	6,285
Deferred income taxes	74	143
Liabilities for pensions and other postretirement benefits	977	1,018
All other liabilities	1,417	960
Equity:		
Class A Common Stock, $0.0001 par value - 2,000 authorized, 649 and 513 issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Class B Common Stock, $0.0001 par value - 1,250 authorized, 377 and 522 issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Capital in excess of par value	23,570	18,659
Retained earnings	—	25
Accumulated other comprehensive loss	(1,694)	(1,219)
Baker Hughes Company equity	21,876	17,465
Noncontrolling interests	12,560	17,548
Total equity	34,436	35,013
Total liabilities and equity	$ 52,549	$ 52,439

[1] Total assets include $647 million and $896 million of assets held on behalf of General Electric Company, of which $528 million and $747 million is cash and cash equivalents and $119 million and $149 million is investment securities at September 30, 2019 and December 31, 2018, respectively, and a corresponding amount of liability is reported in short-term borrowings. See "Note 16. Related Party Transactions" for further details.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In millions, except per share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at December 31, 2018	$ —	$ —	$ 18,659	$ 25	$ (1,219)	$ 17,548	$ 35,013
Comprehensive income (loss):							
Net income				80		97	177
Other comprehensive loss					(66)	(33)	(99)
Cash dividends to Class A common stock ($0.54 per share)			(172)	(106)			(278)
Distribution to noncontrolling interests						(282)	(282)
Effect of exchange of Class B common stock and associated BHGE LLC Units			4,740		(332)	(4,408)	—
Repurchase and cancellation of Class B common stock and associated BHGE LLC Units			107		(18)	(339)	(250)
Stock-based compensation cost			136				136
Net activity related to noncontrolling interests			91		(59)	16	48
Other			9	1		(39)	(29)
Balance at September 30, 2019	$ —	$ —	$ 23,570	$ —	$ (1,694)	$ 12,560	$ 34,436

(In millions, except per share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at June 30, 2019	$ —	$ —	$ 18,668	$ (9)	$ (1,271)	$ 17,393	$ 34,781
Comprehensive income (loss):							
Net income				57		60	117
Other comprehensive loss					(73)	(42)	(115)
Cash dividends to Class A Common Stock ($0.18 per share)			(45)	(48)			(93)
Distribution to noncontrolling interests						(94)	(94)
Effect of exchange of Class B common stock and associated BHGE LLC Units			4,740		(332)	(4,408)	—
Repurchase and cancellation of Class B common stock and associated BHGE LLC Units			107		(18)	(339)	(250)
Stock-based compensation cost			50				50
Net activity related to noncontrolling interests			39			23	62
Other			11			(33)	(22)
Balance at September 30, 2019	$ —	$ —	$ 23,570	$ —	$ (1,694)	$ 12,560	$ 34,436

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In millions, except per share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at December 31, 2017	$ —	$ —	$ 15,083	$ (103)	$ (703)	$ 24,133	$ 38,410
Effect of adoption of ASU 2016-16 on taxes				25		42	67
Comprehensive income (loss):							
Net income (loss)				64		(83)	(19)
Other comprehensive loss					(118)	(195)	(313)
Cash dividends to Class A Common Stock ($0.54 per share)			(224)				(224)
Repurchase and cancellation of Class A and Class B common stock			(374)			(626)	(1,000)
Distribution to noncontrolling interests						(400)	(400)
Stock-based compensation cost			90				90
Other						(48)	(48)
Balance at September 30, 2018	$ —	$ —	$ 14,575	$ (14)	$ (821)	$ 22,823	$ 36,563

(In millions, except per share amounts)	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance at June 30, 2018	$ —	$ —	$ 14,625	$ (27)	$ (787)	$ 23,006	$ 36,817
Comprehensive income (loss):							
Net income				13		25	38
Other comprehensive loss					(34)	(56)	(90)
Cash dividends to Class A Common Stock ($0.18 per share)			(74)				(74)
Distribution to noncontrolling interests						(147)	(147)
Stock-based compensation cost			31				31
Other			(7)			(5)	(12)
Balance at September 30, 2018	$ —	$ —	$ 14,575	$ (14)	$ (821)	$ 22,823	$ 36,563

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
(In millions)	**2019**	**2018**
Cash flows from operating activities:		
Net income (loss)	$ 177	$ (19)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	1,065	1,133
Loss on sale of business	138	—
Benefit for deferred income taxes	(46)	(312)
Changes in operating assets and liabilities:		
Current receivables	(375)	(36)
Inventories	(324)	(335)
Accounts payable	(51)	458
Progress collections and deferred income	710	(198)
Contract and other deferred assets	(46)	53
Other operating items, net	(479)	(71)
Net cash flows from operating activities	769	673
Cash flows from investing activities:		
Expenditures for capital assets	(873)	(653)
Proceeds from disposal of assets	201	330
Net cash paid for business interests and acquisitions	(69)	(20)
Other investing items, net	82	139
Net cash flows used in investing activities	(659)	(204)
Cash flows from financing activities:		
Net repayments of short-term debt and other borrowings	(191)	(319)
Repayment of long-term debt	(36)	(673)
Dividends paid	(278)	(224)
Distributions to noncontrolling interests	(282)	(400)
Repurchase of Class A common stock	—	(387)
Repurchase of common units from GE by BHGE LLC	(250)	(638)
Other financing items, net	41	(6)
Net cash flows used in financing activities	(996)	(2,647)
Effect of currency exchange rate changes on cash and cash equivalents	(29)	(87)
Decrease in cash and cash equivalents	(915)	(2,265)
Cash and cash equivalents, beginning of period	3,723	7,030
Cash and cash equivalents, end of period	$ 2,808	$ 4,765
Supplemental cash flows disclosures:		
Income taxes paid	$ 286	$ 305
Interest paid	$ 196	$ 218

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

DESCRIPTION OF THE BUSINESS

Baker Hughes Company (Baker Hughes, the Company, we, us, or, our) is an energy technology company with a diversified portfolio of technologies and services that span the entire energy value chain. We conduct business in more than 120 countries and employ approximately 68,000 employees. The Company was formed as the result of a combination between Baker Hughes Incorporated (BHI) and the oil and gas business (GE O&G) of General Electric Company (GE). As of September 16, 2019, GE ceased to hold more than 50% of the voting power of all classes of our outstanding voting stock. Subsequently, on October 17, 2019, the Company changed its name from Baker Hughes, a GE company to Baker Hughes Company. On October 18, 2019, the Company began trading as BKR on the New York Stock Exchange.

BASIS OF PRESENTATION

On July 3, 2017, we closed the business combination (the Transactions) of GE O&G and BHI. As a result, substantially all of the businesses of GE O&G and of BHI were transferred to a subsidiary of the Company, Baker Hughes, a GE company, LLC (BHGE LLC). Following the Transactions, we held a minority economic interest in BHGE LLC. However, we conducted and exercised full control over all activities of BHGE LLC without the approval of any other member. Accordingly, we consolidated the financial results of BHGE LLC and reported a noncontrolling interest in our consolidated financial statements for the economic interest in BHGE LLC not held by us.

In June 2018, GE announced their intention to pursue an orderly separation from Baker Hughes over time. To that end, in November 2018, we completed an underwritten secondary public offering in which GE and its affiliates sold 101.2 million shares of our Class A common stock. We did not receive any proceeds from the shares sold by GE and its affiliates. The offering included the exchange by GE and its affiliates of common units of BHGE LLC (LLC Units) (together with the corresponding shares of our Class B common stock) for our Class A common stock. Also, in November 2018, we repurchased 65 million LLC Units (together with the corresponding shares of our Class B common stock) from GE and its affiliates for $1.5 billion. In connection with the repurchase, the corresponding shares of Class B common stock held by GE and its affiliates were canceled. As a result of this secondary offering and repurchase, GE's economic interest in BHGE LLC was reduced from approximately 62.5% to approximately 50.4%.

On September 16, 2019, we completed a second underwritten secondary public offering in which GE and its affiliates sold 132.3 million shares of our Class A common stock. We did not receive any proceeds from the shares sold by GE and its affiliates in this offering. The offering included the exchange by GE and its affiliates of LLC Units, together with the corresponding shares of our Class B common stock, for our Class A common stock. Also, on September 16, 2019, we repurchased approximately 11.9 million of our Class B common stock, together with an equal number of associated LLC Units, from GE and its affiliates for approximately $250 million. In connection with this repurchase, the corresponding shares of Class B common stock and LLC Units were canceled. As a result of this secondary offering and the repurchase, GE's interest in Baker Hughes was reduced from approximately 50.3% to approximately 36.8%, and therefore, GE ceased to hold more than 50% of the voting power of all classes of our outstanding voting stock. As of September 30, 2019, GE's interest in us remains at approximately 36.8%.

We are a holding company and have no material assets other than our ownership interest in BHGE LLC and certain intercompany and tax related balances. BHGE LLC is a Securities and Exchange Commission (SEC) Registrant with separate filing requirements with the SEC and its separate financial information can be obtained from www.sec.gov.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. and such principles, U.S. GAAP) and pursuant to the rules and regulations of the SEC for interim financial information. Accordingly, certain information and disclosures normally included in our annual financial statements have been condensed or omitted. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated and combined financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Annual Report).

In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary by management to fairly state our results of operations, financial position and cash flows of the Company and its subsidiaries for the periods presented and are not indicative of the results that may be expected for a full year. The Company's financial statements have been prepared on a consolidated basis. Under this basis of presentation, our financial statements consolidate all of our subsidiaries (entities in which we have a controlling financial interest, most often because we hold a majority voting interest). All intercompany accounts and transactions have been eliminated.

In the Company's financial statements and notes, certain amounts have been reclassified to conform with the current year presentation. In the notes to unaudited condensed consolidated financial statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated. Certain columns and rows in our financial statements and notes thereto may not add due to the use of rounded numbers.

In the three and nine months ended September 30, 2019, separation and merger related costs include costs incurred in connection with the separation from GE and the finalization of the Master Agreement Framework. In the three and nine months ended September 30, 2018, separation and merger related costs are comprised solely of costs associated with the Transactions. See "Note 16. Related Party Transactions" for further information on the Master Agreement Framework.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Please refer to "Note 1. Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated financial statements from our 2018 Annual Report for the discussion of our significant accounting policies. Please refer to the "New Accounting Standards Adopted" section of this Note for changes to our accounting policies.

Cash and Cash Equivalents

As of September 30, 2019 and December 31, 2018, we had $1,157 million and $1,208 million, respectively, of cash held in bank accounts that cannot be released, transferred or otherwise converted into a currency that is regularly transacted internationally, due to lack of market liquidity, capital controls or similar monetary or exchange limitations limiting the flow of capital out of the jurisdiction. These funds are available to fund operations and growth in these jurisdictions, and we do not currently anticipate a need to transfer these funds to the U.S. Included in these amounts are $378 million and $461 million, as of September 30, 2019 and December 31, 2018, respectively, held on behalf of GE.

Cash and cash equivalents includes a total of $528 million and $747 million of cash at September 30, 2019 and December 31, 2018, respectively, held on behalf of GE, and a corresponding liability is reported in short-term borrowings. See "Note 16. Related Party Transactions" for further details.

NEW ACCOUNTING STANDARDS ADOPTED

Leases

On January 1, 2019, we adopted Accounting Standards Update (ASU) No. 2016-02, *Leases,* and the related amendments (ASC 842). This ASU requires lessees to recognize an operating lease asset and a lease liability on the balance sheet, with the exception of short-term leases. We adopted the standard using the modified retrospective approach under which leases existing at, or entered into after January 1, 2019 were required to be recognized and measured. Prior period amounts have not been adjusted and continue to be reflected in accordance with our historical accounting. The Company has elected the practical expedients upon transition that allow entities not to reassess lease identification, classification and initial direct costs for leases that existed prior to adoption.

The most significant impact of the standard is the recognition of right-of-use (ROU) assets and operating lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We implemented internal controls and key system functionality to enable the preparation of financial information on adoption.

We determine if an arrangement is a lease at inception. ROU assets are included in "All other assets" and operating lease liabilities are included in "All other current liabilities" and "All other liabilities" on our consolidated statement of financial position. Finance lease assets are included in "Property, plant and equipment," and finance lease liabilities are included in "Short-term debt," and "Long-term debt" on our consolidated statement of financial position.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at the later of the lease commencement date or the effective date of adoption of ASC 842 on January 1, 2019, based on the present value of lease payments over the remaining lease term. Finance lease ROU assets and liabilities are recognized at commencement date. As most of our leases do not provide an implicit rate, we use our incremental collateralized borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Short-term leases under one year do not result in a ROU asset, but are recognized in the income statement only on a straight-line basis over the lease term. The Company has made an election to include within our operating lease liability future payments for both lease and non-lease components. See "Note 8. Leases" for additional information.

The adoption of this standard resulted in the recording of ROU assets and operating lease liabilities of $844 million as of January 1, 2019 on our consolidated statements of financial position with an immaterial impact on our consolidated statements of equity and no related impact on our consolidated statements of income (loss). Short-term leases have not been recorded on the consolidated statements of financial position. Our accounting for finance leases remained substantially unchanged.

Derivatives and Hedging

On January 1, 2019, we adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. Since there was no impact from the new guidance to our consolidated financial statements, no transition adjustments were recorded. ASU 2017-12 simplifies the application of hedge accounting and expands the strategies that qualify for hedge accounting. In accordance with the ASU, both the effective and ineffective portion of a cash flow hedge are initially reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings when the forecasted transaction affects earnings. The ASU requires certain changes to the presentation of hedge accounting in the financial statements and some new or modified disclosures. See "Note 14. Financial Instruments" for additional information.

NEW ACCOUNTING STANDARDS TO BE ADOPTED

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses*. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses and additional disclosures related to credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current U.S. GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables and is effective for fiscal years beginning after December 15, 2019. We continue to evaluate the effect of the standard on our consolidated financial statements.

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

NOTE 2. REVENUE RELATED TO CONTRACTS WITH CUSTOMERS

DISAGGREGATED REVENUE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Total Revenue	**2019**	**2018**	**2019**	**2018**
U.S.	$ 1,500	$ 1,675	$ 4,621	$ 4,718
Non-U.S.	4,382	3,990	12,869	11,894
Total	$ 5,882	$ 5,665	$ 17,490	$ 16,612

REMAINING PERFORMANCE OBLIGATIONS

As of September 30, 2019 and 2018, the aggregate amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations was $22.2 billion and $20.8 billion, respectively. As of September 30, 2019, we expect to recognize revenue of approximately 49%, 65% and 90% of the total remaining performance obligations within 2, 5, and 15 years, respectively, and the remaining thereafter. Contract modifications could affect both the timing to complete as well as the amount to be received as we fulfill the related remaining performance obligations.

NOTE 3. CURRENT RECEIVABLES

Current receivables are comprised of the following:

	September 30, 2019	December 31, 2018
Customer receivables	$ 5,253	$ 4,974
Related parties	494	653
Other	766	669
Total current receivables	6,513	6,296
Less: Allowance for doubtful accounts	(348)	(327)
Total current receivables, net	$ 6,165	$ 5,969

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

NOTE 4. INVENTORIES

Inventories, net of reserves of $424 million and $430 million as of September 30, 2019 and December 31, 2018, respectively, are comprised of the following:

	September 30, 2019	December 31, 2018
Finished goods	$ 2,707	$ 2,575
Work in process and raw material	2,032	2,045
Total inventories, net	$ 4,739	$ 4,620

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL

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

	Oilfield Services	Oilfield Equipment	Turbo-machinery & Process Solutions	Digital Solutions	Total
Balance at December 31, 2017, gross	$ 15,838	$ 3,901	$ 1,906	$ 2,036	$ 23,681
Accumulated impairment at December 31, 2017	(2,633)	(867)	—	(254)	(3,754)
Balance at December 31, 2017	13,205	3,034	1,906	1,782	19,927
Purchase accounting adjustments (1)	(136)	293	394	429	980
Currency exchange and others	(26)	(17)	(114)	(33)	(190)
Balance at December 31, 2018	13,043	3,310	2,186	2,178	20,717
Currency exchange and others	—	(15)	(23)	(25)	(63)
Balance at September 30, 2019	$ 13,043	$ 3,295	$ 2,163	$ 2,153	$ 20,654

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

During the third quarter of each fiscal year, in conjunction with our annual strategic planning process, we perform a quantitative goodwill impairment test for each of our reporting units. Our reporting units are the same as our four reportable segments. In performing this quantitative assessment, we determine the fair value of each of our reporting units using a combination of the income approach and the market approach by assessing each of these valuation methodologies based upon availability and relevance of comparable company data and determining the appropriate weighting.

Under the income approach, the fair value for each of our reporting units was determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We used our internal forecasts to estimate future cash flows, including an estimate of long-term future growth rates, based on our most recent views of the long-term outlook for each reporting unit, which includes assumptions about future commodity pricing and expected demand for our goods and services. Due to the inherent uncertainties involved in making estimates and assumptions, actual results may differ from those assumed in our forecasts.

We derived our discount rates using a capital asset pricing model and analyzing published rates for industries relevant to our reporting units to estimate the cost of equity financing. We used discount rates that are commensurate with the risks and uncertainties inherent in the respective businesses and in our internally developed forecasts. Discount rates used in our reporting unit valuations ranged from 10.0% to 11.5% as of our testing date and these rates may change in future periods based on changes in the U.S. Treasury rate, inflation or other factors.

Valuations using the market approach were derived from metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses was based on the markets in which the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services.

After quantifying the fair value, the carrying value of each reporting unit is then compared to its fair value and if the carrying value is more than its fair value, a step two analysis is performed. In the step two analysis, the amount of goodwill impairment, if any, is derived by deducting the fair value of the reporting unit's assets and liabilities from the fair value of its equity, and comparing that amount with the carrying amount of goodwill.

Our annual impairment test of goodwill was completed as of July 1, 2019 for all four of our reporting units. The step one impairment test performed included key assumptions related to macroeconomic and industry conditions, overall financial performance of the reporting unit, short and long-term forecasts, the impact, if any, of the separation from GE, among other factors, all of which require considerable judgment. In addition, we also considered the declines in our market capitalization below our book value including the magnitude and duration of those declines.

Based on the results of our step one testing, the fair values of each of the four reporting units exceeded their carrying values; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized. The Turbomachinery & Process Solutions and Digital Solutions reporting units had fair values that were substantially in excess of their carrying values. The Oilfield Services (OFS) and Oilfield Equipment (OFE) reporting units had fair values that exceeded their carrying values by 8.0% and 10.0%, respectively.

As of September 30, 2019, the OFS and OFE reporting units remain at-risk for future goodwill impairments as it is reasonably possible that judgments and estimates of certain key assumptions could change in future periods and may result in a reduction in fair value. Therefore, we performed sensitivity analyses for two key assumptions, discount rate and long-term growth rate for the OFS and OFE reporting units. We assumed a hypothetical 100-basis-point decrease in the expected long-term growth rate or a hypothetical 100-basis-point increase in the discount rate. Both scenarios independently yielded an estimated fair value for both the OFS and OFE reporting units below their carrying value. In future periods, we will perform qualitative assessments of our key assumptions to determine whether a triggering event has occurred which may require us to perform a quantitative test of the at-risk reporting units at that time. Any significant adverse changes in future periods to our internal forecasts or the external market conditions, including any negative impact as a result of the separation from GE, if any, could reasonably be expected to negatively affect our key assumptions and may result in future goodwill impairment charges which could be material.

Our stock price has historically experienced volatility as a result of industry-wide and macroeconomic factors, including global oil prices. In addition, more recently, we believe that our stock price has been subject to increased volatility resulting from, among other things, uncertainty around the impact, if any, of GE's separation from Baker Hughes and consequential secondary offering of our Class A common stock. While we believe that our stock price reflects transitory circumstances/conditions as described above, any future sustained declines in our stock price could be a triggering event which may require us to perform a quantitative test at that time.

OTHER INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$ 3,016	$ (1,010)	$ 2,006	$ 3,085	$ (944)	$ 2,141
Technology	1,063	(592)	471	1,107	(526)	581
Trade names and trademarks	690	(246)	444	698	(229)	469
Capitalized software	1,165	(897)	268	1,118	(824)	294
Other	1	(1)	—	14	(2)	12
Finite-lived intangible assets	5,935	(2,746)	3,189	6,022	(2,525)	3,497
Indefinite-lived intangible assets (1)	2,242	—	2,242	2,222	—	2,222
Total intangible assets	$ 8,177	$ (2,746)	$ 5,431	$ 8,244	$ (2,525)	$ 5,719

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

Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 1 to 30 years. Amortization expense for the three months ended September 30, 2019 and 2018 was $85 million and $112 million, respectively, and $278 million and $352 million, respectively, for the nine months ended September 30, 2019 and 2018.

Estimated amortization expense for the remainder of 2019 and each of the subsequent five fiscal years is expected to be as follows:

Year	Estimated Amortization Expense
Remainder of 2019	$ 86
2020	325
2021	279
2022	239
2023	226
2024	219

NOTE 6. CONTRACT AND OTHER DEFERRED ASSETS

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

	September 30, 2019	December 31, 2018
Long-term product service agreements	$ 576	$ 609
Long-term equipment contracts [1]	1,098	1,085
Contract assets (total revenue in excess of billings) [2]	1,674	1,694
Deferred inventory costs [3]	130	179
Non-recurring engineering costs	47	21
Contract and other deferred assets	$ 1,851	$ 1,894

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

(2) Contract assets (total revenue in excess of billings) were $1,684 million as of January 1, 2018.

(3) Deferred inventory costs were $360 million as of January 1, 2018, which represents cost deferral for shipped goods and other costs where the criteria for revenue recognition has not yet been met.

Revenue recognized during the three months ended September 30, 2019 and 2018 from performance obligations satisfied (or partially satisfied) in previous periods related to our long-term service agreements was $(31) million and $3 million, respectively, and $(9) million and $25 million during nine months ended September 30, 2019 and 2018, respectively. This includes revenue recognized from revisions to cost or billing estimates that may affect a contract's total estimated profitability resulting in an adjustment of earnings.

NOTE 7. PROGRESS COLLECTIONS AND DEFERRED INCOME

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

	September 30, 2019	December 31, 2018
Progress collections	$ 2,313	$ 1,600
Deferred income	123	165
Progress collections and deferred income (contract liabilities) [(1)]	$ 2,436	$ 1,765

(1) Progress collections and deferred income (contract liabilities) were $1,775 million at January 1, 2018.

Revenue recognized during the three months ended September 30, 2019 and 2018 that was included in the contract liabilities at the beginning of the period was $156 million and $281 million, respectively, and $1,004 million and $1,287 million, respectively, during the nine months ended September 30, 2019 and 2018.

NOTE 8. LEASES

Our leasing activities primarily consist of operating leases for administrative offices, manufacturing facilities, research centers, service centers, sales offices and certain equipment.

Operating Lease Expense	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Long-term fixed lease	$ 61	$ 169
Long-term variable lease	13	37
Short-term lease [(1)]	202	544
Total operating lease expense	$ 276	$ 750

(1) Includes leases with a term of one month or less

For the three and nine months ended September 30, 2018, total operating lease expense was $184 million and $558 million, respectively. Cash flows used in operating activities for operating leases approximates our expense for the three and nine months ended September 30, 2019 and 2018.

As of September 30, 2019, maturities of our operating lease liabilities are as follows:

Year	Operating Leases
Remainder of 2019	$ 55
2020	208
2021	152
2022	122
2023	83
Thereafter	369
Total lease payments	989
Less: imputed interest	174
Total	$ 815

Amounts recognized in the condensed consolidated statement of financial position as of September 30, 2019:

	Operating Leases
All other current liabilities	$ 188
All other liabilities	627
Total	$ 815

Right-of-use assets of $809 million as of September 30, 2019 were included in "All other assets" in our condensed consolidated statements of financial position.

The weighted-average remaining lease term as of September 30, 2019 was approximately eight years for our operating leases. The weighted-average discount rate used to determine the operating lease liability as of September 30, 2019 was 4.3%.

NOTE 9. BORROWINGS

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

	September 30, 2019	December 31, 2018
Short-term borrowings		
Short-term borrowings from GE	$ 647	$ 896
Other borrowings	47	46
Total short-term borrowings	694	942
Long-term borrowings		
3.2% Senior Notes due August 2021	520	523
2.773% Senior Notes due December 2022	1,246	1,245
8.55% Debentures due June 2024	128	131
3.337% Senior Notes due December 2027	1,343	1,343
6.875% Notes due January 2029	290	294
5.125% Senior Notes due September 2040	1,303	1,306
4.08% Senior Notes due December 2047	1,337	1,336
Other long-term borrowings	146	107
Total long-term borrowings	6,313	6,285
Total borrowings	$ 7,008	$ 7,227

BHGE LLC has a $3 billion committed unsecured revolving credit facility (the 2017 Credit Agreement) with commercial banks maturing in July 2022. The 2017 Credit Agreement contains certain customary representations and warranties, certain affirmative covenants and no negative covenants. Upon the occurrence of certain events of default, our obligations under the 2017 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2017 Credit Agreement, and other customary defaults. No such events of default have occurred. At September 30, 2019 and December 31, 2018, there were no borrowings under the 2017 Credit Agreement.

BHGE LLC has a commercial paper program under which it may issue from time to time up to $3 billion in commercial paper with maturities of no more than 397 days. At September 30, 2019 and December 31, 2018, there were no borrowings outstanding under the commercial paper program.

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

Certain Senior Notes contain covenants that restrict BHGE LLC's ability to take certain actions, including, but not limited to, the creation of certain liens securing debt, the entry into certain sale-leaseback transactions and engaging in certain merger, consolidation and asset sale transactions in excess of specified limits.

The estimated fair value of total borrowings at September 30, 2019 and December 31, 2018 was $7,159 million and $6,629 million, respectively. For a majority of our borrowings the fair value was determined using quoted period-end market prices. Where market prices are not available, we estimate fair values based on valuation methodologies using current market interest rate data adjusted for our non-performance risk.

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

NOTE 10. EMPLOYEE BENEFIT PLANS

Historically, we were allocated relevant participation costs for certain employees who participated in GE employee benefit plans as part of multi-employer plans. Certain of our U.S. employees were covered under various U.S. GE employee benefit plans, including GE's retirement plans (pension, retiree health and life insurance, and savings benefit plans). From January 1, 2019, these U.S. employees ceased to participate in the GE U.S. plans. In addition, certain United Kingdom (UK) employees participated in the GE UK Pension Plan. From May 1, 2019, these UK employees ceased to participate in the GE UK Pension Plan. Therefore, we incurred no expense for the three months ended September 30, 2019. Expense was $46 million for the three months ended September 30, 2018. Expenses associated with these plans were $3 million and $126 million in the nine months ended September 30, 2019 and 2018, respectively. During the second quarter of 2019, substantially all of the assets and liabilities of the GE UK Pension Plan related to the oil & gas businesses have been transferred to us on a fully funded basis.

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

The components of net periodic cost (benefit) of plans sponsored by us are as follows for the three and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Service cost	$ 4	$ 5	$ 14	$ 15
Interest cost	24	18	65	54
Expected return on plan assets	(33)	(30)	(88)	(90)
Amortization of net actuarial loss	5	2	14	6
Curtailment loss	—	—	7	—
Net periodic cost (benefit)	$ —	$ (5)	$ 12	$ (15)

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

NOTE 11. INCOME TAXES

For the quarter ended September 30, 2019, income tax expense was $107 million compared to a tax expense of $110 million for the prior year quarter. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate of 48% is primarily related to the geographical mix of earnings and losses, coupled with $47 million related to losses with no tax benefit due to valuation allowances.

For the nine months ended September 30, 2019, income tax expense was $269 million compared to a tax expense of $86 million for the nine months ended September 30, 2018. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate of 60% is primarily related to the geographical mix of earnings and losses, coupled with $137 million related to losses with no tax benefit due to valuation allowances.

NOTE 12. EQUITY

COMMON STOCK

We are authorized to issue 2 billion shares of Class A common stock, 1.25 billion shares of Class B common stock and 50 million shares of preferred stock each of which have a par value of $0.0001 per share. The number of Class A common stock and Class B common stock shares outstanding as of September 30, 2019 is 649 million and 377 million, respectively. We have not issued any preferred stock. GE owns all the issued and outstanding Class B common stock. Each share of Class A and Class B common stock and the associated membership interest in BHGE LLC form a paired interest. While each share of Class B common stock has equal voting rights to a share of Class A common stock, it has no economic rights, meaning holders of Class B common stock have no right to dividends or any assets in the event of liquidation of the Company. GE is entitled through BHGE LLC Units (LLC Units) to receive distributions on an equal amount of any dividend paid by the Company.

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

	Class A Common Stock	Class B Common Stock
Balance at December 31, 2018	513,399	521,543
Issue of shares upon vesting of restricted stock units [(1)]	1,852	—
Issue of shares on exercises of stock options [(1)]	350	—
Issue of shares for employee stock purchase plan	1,329	—
Exchange of Class B common stock for Class A common stock [(2)]	132,250	(132,250)
Repurchase and cancellation of Class B common stock[(3)]	—	(11,865)
Balance at September 30, 2019	649,181	377,428

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

(2) In September 2019, we completed an underwritten secondary public offering in which GE and its affiliates sold 132.3 million shares of our Class A common stock for $21.07 per share, net of discounts and commissions. We did not receive any proceeds from the shares sold by GE and its affiliates in this offering. The offering included the exchange by GE and its affiliates of LLC Units, together with the corresponding shares of our Class B common stock, for our Class A common stock. When shares of Class B common stock, together with associated LLC Units, are exchanged for shares of Class A common stock pursuant to the Exchange Agreement, such shares of Class B common stock are canceled.

(3) In September 2019, we also repurchased approximately 11.9 million shares of Class B common stock, together with an equal number of associated LLC Units, from GE and its affiliates for an aggregate of approximately $250 million, or $21.07 per share, which is the same per share price paid by the underwriters to GE and its affiliates in the underwritten public offering. In connection with this repurchase, the corresponding shares of Class B common stock held by GE and its affiliates were canceled.

As a result of the exchange of shares in the secondary offering and the Class B common stock, together with associated LLC Units repurchased in September 2019, GE's interest was reduced during the third quarter of 2019 from approximately 50.3% to approximately 36.8%. The effect of this change in ownership resulted in a decrease in noncontrolling interests of $4,747 million and accumulated other comprehensive income of $350 million with a corresponding increase in capital in excess of par value totaling $4,847 million.

ACCUMULATED OTHER COMPREHENSIVE LOSS (AOCL)

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

	Investment Securities	Foreign Currency Translation Adjustments	Cash Flow Hedges	Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2018	$ —	$ (1,152)	$ (1)	$ (66)	$ (1,219)
Other comprehensive income (loss) before reclassifications	—	(96)	2	(22)	(116)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	2	19	21
Deferred taxes	—	—	(1)	(3)	(4)
Other comprehensive income (loss)	—	(96)	3	(6)	(99)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	1	(32)	2	(4)	(33)
Less: Reallocation of AOCL based on change in ownership of BHGE LLC Units	(1)	314	—	37	350
Less: Other adjustments	—	—	—	59	59
Balance at September 30, 2019	$ —	$ (1,530)	$ —	$ (164)	$ (1,694)

	Investment Securities	Foreign Currency Translation Adjustments	Cash Flow Hedges	Benefit Plans	Accumulated Other Comprehensive Loss
Balance at December 31, 2017	$ 1	$ (682)	$ 1	$ (23)	$ (703)
Other comprehensive income (loss) before reclassifications	(2)	(312)	(1)	5	(310)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—	—
Deferred taxes	(1)	—	—	(2)	(3)
Other comprehensive income (loss)	(3)	(312)	(1)	3	(313)
Less: Other comprehensive income (loss) attributable to noncontrolling interests	(2)	(195)	—	2	(195)
Balance at September 30, 2018	$ —	$ (799)	$ —	$ (22)	$ (821)

The amounts reclassified from accumulated other comprehensive loss during the nine months ended September 30, 2019 represent amortization of net actuarial gain (loss) which are included in the computation of net periodic pension cost (see "Note 10. Employee Benefit Plans" for additional details). These reclassifications are recorded across the various cost and expense line items within the condensed consolidated statements of income (loss).

NONCONTROLLING INTEREST

Noncontrolling interests represent the portion of net assets in consolidated entities that are not owned by the Company. As of September 30, 2019 and December 31, 2018, GE owned approximately 36.8% and 50.4%, respectively, of BHGE LLC and this represents the majority of the noncontrolling interest balance reported within equity.

	September 30, 2019	December 31, 2018
GE's interest in BHGE LLC	$ 12,456	$ 17,438
Other noncontrolling interests	104	110
Total noncontrolling interests	$ 12,560	$ 17,548

NOTE 13. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	**2019**	**2018**	**2019**	**2018**
Net income (loss)	$ 117	$ 38	$ 177	$ (19)
Less: Net income (loss) attributable to noncontrolling interests	60	25	97	(83)
Net income attributable to Baker Hughes Company	$ 57	$ 13	$ 80	$ 64
Weighted average shares outstanding:				
Class A basic	538	412	523	416
Class A diluted	541	414	525	417
Net income per share attributable to common stockholders:				
Class A basic	$ 0.11	$ 0.03	$ 0.15	$ 0.15
Class A diluted	$ 0.11	$ 0.03	$ 0.15	$ 0.15

Under the Exchange Agreement between GE and us, GE is entitled to exchange its holding in our Class B common stock, and associated LLC Units, for Class A common stock on a one-for-one basis (subject to adjustment in accordance with the terms of the Exchange Agreement) or, at the option of Baker Hughes, an amount of cash equal to the aggregate value (determined in accordance with the terms of the Exchange Agreement) of the shares of Class A common stock that would have otherwise been received by GE in the exchange. In computing the dilutive effect, if any, that the aforementioned exchange would have on net income (loss) per share, net income (loss) attributable to holders of Class A common stock would be adjusted due to the elimination of the noncontrolling interests associated with the Class B common stock (including any tax impact). For the three and nine months ended September 30, 2019 and 2018, such exchange is not reflected in diluted net income (loss) per share as the assumed exchange is not dilutive.

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

For the three and nine months ended September 30, 2019 and 2018, Class A diluted shares include the dilutive impact of equity awards. For the three and nine months ended September 30, 2019 and 2018, there were approximately six million and four million options, respectively, that were excluded from our diluted EPS calculation because their effect is antidilutive. These options were outstanding but excluded from the calculation because the exercise price exceeded the average market price of the Class A common stock.

NOTE 14. FINANCIAL INSTRUMENTS

RECURRING FAIR VALUE MEASUREMENTS

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

	September 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Net Balance	Level 1	Level 2	Level 3	Net Balance
Assets								
Derivatives	$ —	$ 51	$ —	$ 51	$ —	$ 74	$ —	$ 74
Investment securities	39	—	265	304	39	—	288	327
Total assets	39	51	265	355	39	74	288	401
Liabilities								
Derivatives	—	(44)	—	(44)	—	(82)	—	(82)
Total liabilities	$ —	$ (44)	$ —	$ (44)	$ —	$ (82)	$ —	$ (82)

There were no transfers between Level 1, 2 and 3 during the nine months ended September 30, 2019.

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

	2019	2018
Balance at January 1	$ 288	$ 304
Purchases	7	47
Proceeds at maturity	(31)	(55)
Balance at September 30	$ 265	$ 296

The most significant unobservable input used in the valuation of our Level 3 instruments is the discount rate. Discount rates are determined based on inputs that market participants would use when pricing investments, including credit and liquidity risk. An increase in the discount rate would result in a decrease in the fair value of our investment securities. There are no unrealized gains or losses recognized in the condensed consolidated statement of income (loss) on account of any Level 3 instrument still held at the reporting date. At September 30, 2019 and December 31, 2018, we held $119 million and $149 million, respectively, of these investment securities on behalf of GE.

	September 30, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities								
Non-U.S. debt securities (1)	$ 264	$ 1	$ —	$ 265	$ 288	$ —	$ —	$ 288
Equity securities (2)	39	—	—	39	39	—	—	39
Total	$ 303	$ 1	$ —	$ 304	$ 327	$ —	$ —	$ 327

(1) All of our investment securities are classified as available for sale instruments. Non-U.S. debt securities mature within four years.

(2) Gains (losses) recorded to earnings related to these securities were nil and $(6) million for the three months ended September 30, 2019 and 2018, respectively, and $1 million and $(9) million for the nine months ended September 30, 2019 and 2018, respectively.

FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

Our financial instruments include cash, cash equivalents, current receivables, certain investments, accounts payable, short and long-term debt, and derivative financial instruments. Except for long-term debt, the estimated fair value of these financial instruments at September 30, 2019 and December 31, 2018 approximates their carrying value as reflected in our condensed consolidated financial statements. For further information on the fair value of our debt, see "Note 9. Borrowings."

DERIVATIVES AND HEDGING

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

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

	September 30, 2019		December 31, 2018	
	Assets	(Liabilities)	Assets	(Liabilities)
Derivatives accounted for as hedges				
Currency exchange contracts	$ 2	$ (3)	$ —	$ (7)
Derivatives not accounted for as hedges				
Currency exchange contracts	49	(41)	74	(75)
Total derivatives	$ 51	$ (44)	$ 74	$ (82)

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

As of September 30, 2019 and December 31, 2018, $45 million and $67 million of derivative assets are recorded in "All other current assets" and $6 million and $7 million are recorded in "All other assets" of the condensed consolidated statements of financial position, respectively. As of September 30, 2019 and December 31, 2018, $41 million and $79 million of derivative liabilities are recorded in "All other current liabilities" and $3 million and $3 million are recorded in "All other liabilities" of the condensed consolidated statements of financial position, respectively.

RISK MANAGEMENT STRATEGY

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

FORMS OF HEDGING

Cash Flow Hedges

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

Economic Hedges

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

NOTIONAL AMOUNT OF DERIVATIVES

The notional amount of a derivative is the number of units of the underlying (for example, the notional principal amount of the debt in an interest rate swap). A substantial majority of the outstanding notional amount of $4.9 billion and $6.4 billion at September 30, 2019 and December 31, 2018, respectively, is related to hedges of anticipated sales and purchases in foreign currency, commodity purchases, and contractual terms in contracts that are considered embedded derivatives and for intercompany borrowings in foreign currencies. We generally disclose derivative notional amounts on a gross basis to indicate the total counterparty risk. Where we have gross purchase and sale derivative contracts for a particular currency, we look to execute these contracts with the same counterparty to reduce our exposure. The corresponding net notional amounts were $2.4 billion and $2.8 billion at September 30, 2019 and December 31, 2018, respectively.

CASH FLOW HEDGES

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI to Earnings		Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI to Earnings	
	2019	2018	2019	2018	2019	2018	2019	2018
Currency exchange contracts	$ 1	$ (2)	$ (1)	$ —	$ 2	$ (1)	$ (2)	$ —

We expect to transfer $1 million to earnings as an expense in the next 12 months contemporaneously with the earnings effects of the related forecast transactions. At September 30, 2019 and December 31, 2018, the maximum term of derivative instruments that hedge forecast transactions was two years and two years, respectively.

ECONOMIC HEDGES

The following table summarizes the gains (losses) from derivatives not designated as hedges on the condensed consolidated statements of income (loss).

Derivatives not designated as hedging instruments	Condensed consolidated statement of income caption	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Currency exchange contracts [1]	Cost of goods sold	$ (8)	$ (4)	$ (13)	$ —
Currency exchange contracts	Selling, general and administrative	(7)	(6)	(11)	(4)
Commodity derivatives	Cost of goods sold	2	(3)	2	(2)
Other derivatives	Other non operating income (loss), net	(1)	—	1	—
Total [2]		$ (14)	$ (13)	$ (21)	$ (6)

[1] Excludes gains on embedded derivatives of $1 million and $3 million for the three months ended September 30, 2019 and 2018, respectively, and losses of nil and $6 million during the nine months ended September 30, 2019 and 2018, respectively, as embedded derivatives are not considered to be hedging instruments in our economic hedges.

[2] The effect on earnings of derivatives not designated as hedges is substantially offset by change in fair value of the economically hedged items in the current and future periods.

COUNTERPARTY CREDIT RISK

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

OTHER EQUITY INVESTMENTS

As of September 30, 2019 and December 31, 2018, the carrying amount of equity securities without readily determinable fair values was $633 million and $542 million, respectively. During the three months ended September 30, 2019, certain of these equity instruments were remeasured to fair value as of the date that an observable transaction occurred. This resulted in the Company recording an unrealized gain of $19 million.

NOTE 15. SEGMENT INFORMATION

Our operating segments are organized based on the nature of markets and customers. We report our operating results through four operating segments that consists of similar products and services within each segment as described below.

OILFIELD SERVICES (OFS)

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

OILFIELD EQUIPMENT (OFE)

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

TURBOMACHINERY & PROCESS SOLUTIONS (TPS)

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

DIGITAL SOLUTIONS (DS)

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

SEGMENT RESULTS

Segment revenue and profit are determined based on the internal performance measures used by the Company to assess the performance of each segment in a financial period. Summarized financial information is shown in the following tables. Consistent accounting policies have been applied by all segments within the Company, for all reporting periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Segments revenue	**2019**	**2018**	**2019**	**2018**
Oilfield Services	$ 3,348	$ 2,993	$ 9,597	$ 8,554
Oilfield Equipment	728	631	2,156	1,912
Turbomachinery & Process Solutions	1,197	1,389	3,904	4,233
Digital Solutions	609	653	1,833	1,913
Total	$ 5,882	$ 5,665	$ 17,490	$ 16,612

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Segment income (loss) before income taxes	**2019**	**2018**	**2019**	**2018**
Oilfield Services	$ 274	$ 231	$ 683	$ 561
Oilfield Equipment	14	6	40	(12)
Turbomachinery & Process Solutions	161	132	414	364
Digital Solutions	82	106	234	275
Total segment	531	475	1,370	1,189
Corporate	(109)	(98)	(314)	(294)
Inventory impairments [1]	—	(12)	—	(88)
Restructuring, impairment and other	(71)	(66)	(183)	(374)
Separation and merger related	(54)	(17)	(128)	(113)
Other non operating income (loss), net	(14)	6	(124)	51
Interest expense, net	(59)	(55)	(174)	(164)
Total	$ 224	$ 233	$ 446	$ 206

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

NOTE 16. RELATED PARTY TRANSACTIONS

GE is our largest shareholder, and we enter into various related party transactions with it. On September 16, 2019, as a result of the secondary offering and the repurchase of Class B common stock and associated LLC Units, GE's ownership in us was reduced from approximately 50.3% to approximately 36.8% (the Trigger Date), and GE ceased to be our controlling shareholder.

Following the Transactions, we have entered into various agreements with GE and its affiliates that govern our relationship with GE including an Intercompany Services Agreement pursuant to which GE and its affiliates and the Company provide certain services to each other. GE provides certain administrative services, GE proprietary technology and use of certain GE trademarks for an annual intercompany services fee of $55 million. Under the terms of the Master Agreement Framework, entered into on November 13, 2018, the annual intercompany services fee of $55 million that we agreed to pay GE was reduced by 50% to $27.5 million per year beginning on January 1, 2019. The Intercompany Services Agreement will terminate on December 15, 2019, which is 90 days following the Trigger Date (except with respect to certain tools access).

We incurred costs of $7 million and $14 million related to the Intercompany Services Agreement during the three months ended September 30, 2019 and 2018, respectively, and $21 million and $42 million during the nine months ended September 30, 2019 and 2018, respectively. In addition, we provide GE and its affiliates with confidential access to certain of our proprietary technology and related developments and enhancements thereto related to GE's operations, products or service offerings.

We sold $71 million and $74 million of products and services to GE and its affiliates during the three months ended September 30, 2019 and 2018, respectively, and $260 million and $258 million, during the nine months ended September 30, 2019 and 2018, respectively. Purchases from GE and its affiliates were $336 million and $347 million during the three months ended September 30, 2019 and 2018, respectively, and $1,215 million and $1,273 million during the nine months ended September 30, 2019 and 2018, respectively.

MASTER AGREEMENT FRAMEWORK

In June 2018, GE announced their intention to pursue an orderly separation from us over time. On November 13, 2018, we entered into a Master Agreement and a series of related ancillary agreements and binding term sheets (which were later negotiated into definitive agreements) with GE and BHGE LLC (collectively, the Master Agreement Framework) designed to further solidify the commercial and technological collaborations between us and GE and to facilitate our ability to transition from operating as a controlled company. In particular, the Master Agreement Framework contemplates long-term agreements between us, BHGE LLC and GE on technology, fulfillment and other key areas to provide greater clarity to customers, employees and shareholders.

Key elements of the Master Agreement Framework include:

Secured long-term collaboration on critical rotating equipment

Under the terms of the Master Agreement Framework, we have defined the parameters for a long-term collaboration and strategic relationship with GE on certain critical rotating equipment products.

We entered into an aero-derivative joint venture (JV) agreement with GE to form a JV relating to the parties' respective aero-derivative gas turbine products and services. These jet engine aero-derivative products are mainly used in our Turbomachinery & Process Solutions segment. GE and we will contribute certain assets, inventory and service facilities into the JV and both companies will jointly control operations. In addition to the contributions to the JV, we agreed to pay $60 million to GE, subject to certain working capital adjustments, in order to equalize each party's interests in the JV at 50%. The JV will have a supply and technology development agreement with GE's aviation business, which will revise and extend pricing arrangements as compared to Baker Hughes' existing supply agreement, and which became effective at the Trigger Date. The JV is expected to become effective in the fourth quarter of 2019 subject to regulatory clearances and other customary closing conditions.

Additionally, effective May 1, 2019, we closed on the previously announced transfer of our assets, liabilities and employees related to our prior business of developing, designing, engineering, marketing, supplying, installing and servicing certain industrial steam turbine product lines (IST) to GE pursuant to the Stock and Asset Purchase Agreement. In addition and in connection with the transfer of the IST business, we made a cash payment of $13 million, in addition to working capital adjustments, to GE at the closing of the transaction.

In parallel, we have also entered into an agreement for the long-term supply and related distribution arrangement with GE for heavy-duty gas turbine technology at the current pricing levels, which are effective at the Trigger Date. Under this agreement, BHGE LLC is appointed as GE's exclusive distributor (with limited exceptions) within the oil and gas industry with respect to the heavy-duty gas turbine units for an initial term of 5 years and associated services (including parts and components) for an initial term of 20 years or the operating service life of the relevant gas turbine, whichever is more. The heavy-duty gas turbine technologies are important components of TPS' offerings and the long-term agreements provide greater clarity on the commercial approach and customer fulfillment, and will enable Baker Hughes and GE to jointly innovate on leading technology.

Access to GE Digital software & technology

As part of the Master Agreement Framework, BHGE LLC agreed with GE Digital to maintain, subject to certain conditions, BHGE LLC's status as the exclusive reseller of GE Digital offerings in the oil & gas space. As part of such agreement, BHGE LLC and GE Digital also revised and extended certain pricing arrangements and established service level obligations. However, these commercial arrangements were further modified pursuant to the Omnibus Agreement, described below, including by modifying the relationship between BHGE LLC and GE Digital to be non-exclusive with respect to digital offerings in the oil and gas space.

Other key agreements

• GE and we agreed to maintain current operations and pricing levels with regards to Control upgrade services we offer through our Digital Solutions segment division for the 4 years commencing on the Trigger Date.

• During the second quarter of 2019, GE transferred to us certain UK pension liabilities related to our oil and gas businesses and certain specified former oil and gas businesses of GE. The assets associated with these liabilities were also substantially transferred on that date based on a preliminary valuation of the liabilities. On the completion of the final valuation of the liabilities, GE will transfer any remaining assets on what is intended to be a fully funded basis (using agreed upon actuarial assumptions). The completion of the final valuation and transfer of remaining assets associated with the UK pension liabilities is expected to be completed in the fourth quarter of 2019. No liabilities associated with GE's broad-based U.S. defined benefit pension plan will be transferred to us.

• The Tax Matters Agreement with GE that was negotiated at the time of the Transactions will be clarified but otherwise will remain substantially in place and both companies retain the ability to monetize certain tax benefits.

• Under the terms of the Master Agreement Framework, the annual intercompany services fee of $55 million that we agreed to pay GE as part of the Transactions was reduced by 50% to $27.5 million per year beginning on January 1, 2019. The Intercompany Services Agreement will terminate on December 15, 2019, which is 90 days following the Trigger Date (except with respect to certain tools access).

In addition, the Stockholders Agreement was amended and restated to provide that, following the Trigger Date and until GE and its affiliates own less than 20% of the voting power of our outstanding common stock, GE shall be entitled to designate one person for nomination to our board of directors.

OMNIBUS AGREEMENT

On July 31, 2019, we entered into an Omnibus Agreement, a general framework agreement that addresses certain outstanding matters under existing long-term commercial agreements between us and GE. The Omnibus Agreement contains provisions regarding, among other things, (i) the repayment of certain outstanding amounts mutually owed by the parties, (ii) certain employee and assets transfers (including the allocation of costs and expenses associated therewith), and (iii) certain matters related to three international joint ventures.

Material terms agreed to between the parties include:

i. Provision of certain transition services by each of BHGE LLC and GE, including providing for the development and use of certain service related intellectual property at the end of the transition period and the management of certain data and information for future business needs;

ii. Sale of certain digital business assets of Baker Hughes to GE for consideration of $50 million, which closed on September 3, 2019;

iii. Modification of certain sales arrangements between the parties and the ability of each party to directly market offerings of its digital business to customers in the oil and gas industry;

iv. Research and development efforts and the purchase of products and services related to aero-derivative turbines;

v. Supply and distribution terms for certain trailer-mounted gas turbine generator-based engine units and related parts and services; and

vi. Repayment by Baker Hughes to GE of amounts due under the previously disclosed promissory note, net of certain costs and tax adjustments;

Contemporaneously with the execution of the Omnibus Agreement, certain technical amendments were made to the Amended and Restated Stockholders Agreement, dated as of November 13, 2018, and the Registration Rights Agreement, dated as of July 3, 2017.

OTHER RELATED PARTY

In connection with the Transactions, on July 3, 2017, we executed a promissory note with GE (which was amended and restated on July 31, 2019 in connection with the entry into the Omnibus Agreement referenced above) that represents certain cash that we are holding on GE's behalf due to the restricted nature of the cash. The restriction arises as the majority of the cash cannot be released, transferred or otherwise converted into a non-restricted market currency due to the lack of market liquidity, capital controls or similar monetary or exchange limitations by a Government entity of the jurisdiction in which such cash is situated. There is no maturity date on the promissory note, but we remain obligated to repay GE, therefore, this obligation is reflected as short-term borrowings. As of September 30, 2019, of the $647 million due to GE, $528 million was held in the form of cash and $119 million was held in the form of investment securities. As of December 31, 2018, of the $896 million due to GE, $747 million was held in the form of cash and $149 million was held in the form of investment securities. A corresponding liability is reported in short-term borrowings in the condensed consolidated statements of financial position.

Additionally, the Company has $431 million and $538 million of accounts payable at September 30, 2019 and December 31, 2018, respectively, for goods and services provided by GE in the ordinary course of business; this excludes any liability associated with our participation in the trade payables accelerated payment program (see below). The Company has $494 million and $653 million of current receivables at September 30, 2019 and December 31, 2018, respectively, for goods and services provided to GE in the ordinary course of business.

We also provide guarantees to GE Capital on behalf of some customers who have entered into financing arrangements with GE Capital.

TRADE PAYABLES ACCELERATED PAYMENT PROGRAM

Prior to our separation from GE, our North American operations participated in supply chain finance programs funded through GE Capital. Invoices were settled with vendors per our payment terms to obtain cash discounts. GE Capital provided funding for invoices eligible for a cash discount. Our liability associated with the GE Capital funded participation in the accounts payable programs was $312 million and $471 million as of September 30, 2019 and December 31, 2018, respectively.

As a result of separation, our participation in this program ended, and we have begun transitioning to a program administered by a third party. Under these supply chain finance programs, there is no change to our supplier and service provider obligations which arise from our customary contractual supply agreements and these liabilities continue to be presented as accounts payable in our condensed consolidated statements of financial position and reflected as cash flow from operating activities when settled.

NOTE 17. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are subject to a number of lawsuits and claims arising out of the conduct of our business. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. We record a liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, including accruals for self-insured losses which are calculated based on historical claim data, specific loss development factors and other information.

A range of total possible losses for all litigation matters cannot be reasonably estimated. Based on a consideration of all relevant facts and circumstances, we do not expect the ultimate outcome of currently pending lawsuits or claims against us, other than those discussed below, will have a material adverse effect on our financial position, results of operations or cash flows, however, there can be no assurance as to the ultimate outcome of these matters.

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

During 2014, we received notification from a customer related to a possible equipment failure in a natural gas storage system in Northern Germany, which includes certain of our products. The customer initiated arbitral proceedings against us on June 19, 2015, under the rules of the German Institute of Arbitration e.V. (DIS). On August 3, 2016, the customer amended its claims and alleged damages of €202 million plus interest at an annual rate of prime + 5%. Hearings before the arbitration panel were held January 16, 2017 through January 23, 2017, and March 20, 2017 through March 21, 2017. In addition, on September 21, 2015, TRIUVA Kapitalverwaltungsgesellschaft mbH filed a lawsuit in the United States District Court for the Southern District of Texas, Houston Division against the Company and Baker Hughes Oilfield Operations, Inc. alleging that the plaintiff is the owner of gas storage caverns in Etzel, Germany in which the Company provided certain equipment in connection with the development of the gas storage caverns. The plaintiff further alleges that the Company supplied equipment that was either defectively designed or failed to warn of risks that the equipment posed, and that these alleged defects caused damage to the plaintiff's property. The plaintiff seeks recovery of alleged compensatory and punitive damages of an unspecified amount, in addition to reasonable attorneys' fees, court costs and pre-judgment and post-judgment interest. The allegations in this lawsuit are related to the claims made in the June 19, 2015 German arbitration referenced above. On June 7, 2018, the DIS arbitration panel issued a confidential Arbitration Ruling which addressed all claims asserted by the customer. The estimated financial impact of the Arbitration Ruling has been reflected in the Company's financial statements and did not have a material impact. Further, on March 11, 2019, the customer initiated a second arbitral proceeding against us, under the rules of the German Institute of Arbitration e.V. (DIS). The customer alleged damages of €142 million plus interest at an annual rate of prime + 5% since June 20, 2015. The allegations in this second arbitration proceeding are related to the claims made in the June 19, 2015 German arbitration and Houston Federal Court proceedings referenced above. The Company is vigorously contesting the claims made by TRIUVA in the Houston Federal Court and the claims made by the customer in the 2019 arbitration proceeding. At this time, we are not able to predict the outcome of the claims asserted in the Houston Federal Court or the 2019 arbitration proceeding.

On July 31, 2015, Rapid Completions LLC filed a lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc., and others claiming infringement of U.S. Patent Nos. 6,907,936; 7,134,505; 7,543,634; 7,861,774; and 8,657,009. On August 6, 2015, Rapid Completions amended its complaint to allege infringement of U.S. Patent No. 9,074,451. On September 17, 2015, Rapid Completions and Packers Plus Energy Services Inc. sued Baker Hughes Canada Company in the Canada Federal Court on the related Canadian patent 2,412,072. On April 1, 2016, Rapid Completions removed U.S. Patent No. 6,907,936 from its claims in the lawsuit. On April 5, 2016, Rapid Completions filed a second lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc. and others claiming infringement of U.S. Patent No. 9,303,501. These patents relate primarily to certain specific downhole completions equipment. The plaintiff has requested a permanent injunction against further alleged infringement, damages in an unspecified amount, supplemental and enhanced damages, and additional relief such as attorney's fees and costs. During August and September 2016, the United States Patent and Trademark Office (USPTO) agreed to institute an inter-partes review of U.S. Patent Nos 7,861,774; 7,134,505; 7,543,634; 6,907,936; 8,657,009; and 9,074,451. On August 29, 2017, the USPTO issued its final written decisions in the inter-partes reviews of U.S. Patent Nos. 8,657,009 and 9,074,451 finding that all claims of those patents were unpatentable. On August 31, 2017, the USPTO issued its final written decision in the inter-partes review of U.S. Patent 6,907,936 - the patent dropped from the lawsuit by the plaintiffs - finding that all claims of this patent were patentable. On October 27, 2017, Rapid Completions filed its notices of appeal of the USPTO’s final written decision in the inter-partes review of U.S. Patent Nos. 8,657,009 and 9,074,451. On September 26, 2018, the USPTO issued its final written decision in the inter-partes review of U.S. Patent No. 7,134,505 finding all of the challenged claims unpatentable. On September 27, 2018, the USPTO issued its final written decision in the inter-partes review of U.S. Patent No. 7,543,634 finding all of the challenged claims unpatentable. Trial on the validity of asserted claims from Canada patent 2,412,072, was completed March 9, 2017. On December 7, 2017, the Canadian Court issued its judgment finding the patent claims asserted from Canada patent 2,412,072 against Baker Hughes Canada Company were invalid. On January 5, 2018, Rapid Completions filed its Notice of Appeal of the Canadian Court's judgment of invalidity. On November 19, 2018, the U.S. Court of Appeals for the Federal Circuit affirmed the USPTO's unpatentability findings with respect to U.S. Patent Nos. 8,657,009 and 9,074,451. On November 26, 2018, Rapid Completions filed notices of appeal of the USPTO's final written decisions in the inter partes reviews of U.S. Patent No. 7,134,505, and 7,543,634. On April 24, 2019, the Canadian Court of Appeals ruled against Rapid Completions and dismissed Rapid Completion's appeal in Canada. On June 24, 2019, Rapid Completions filed an application for leave to appeal the Court of Appeals decision to the Supreme Court of Canada. On May 2, 2019, the USPTO issued a final written decision in an IPR on US Patent Number 9,303,501 finding all of its claims unpatentable, and Rapid Completions appealed that decision to the Federal Circuit on July 5, 2019. The remaining appeals of the USPTO decisions finding Rapid Completion's U.S. Patent claims unpatentable are still pending and, at this time, we are not able to predict the outcome of these claims.

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

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

On July 31, 2018, International Engineering & Construction S.A. (IEC) initiated arbitration proceedings in New York administered by the International Center for Dispute Resolution (ICDR) against the Company and its subsidiaries arising out of a series of sales and service contracts entered between IEC and the Company's subsidiaries for the sale and installation of LNG plants and related power generation equipment in Nigeria (Contracts). Prior to the filing of the IEC Arbitration, the Company's subsidiaries made demands for payment due under the Contracts. On August 15, 2018, the Company's subsidiaries initiated a separate demand for ICDR arbitration against IEC for claims of additional costs and amounts due under the Contracts. On October 10, 2018, IEC filed a Petition to Compel Arbitration in the United States District Court for the Southern District of New York against the Company seeking to compel non-signatory Baker Hughes entities to participate in the arbitration filed by IEC. The complaint is captioned International Engineering & Construction S.A. et al. v. Baker Hughes, a GE Company LLC, et al. No. 18-cv-09241 (S.D.N.Y 2018); this action was dismissed by the Court on August 13, 2019. In the arbitration, IEC alleges breach of contract and other claims against the Company and its subsidiaries and seeks recovery of alleged compensatory damages, in addition to reasonable attorneys' fees, expenses and arbitration costs. On March 15, 2019, IEC amended its request for arbitration to alleged damages of $591 million of lost profits plus unspecified additional costs based on alleged non-performance of the contracts in dispute. The arbitration hearing is currently scheduled to commence on December 9, 2019. The Company and its subsidiaries have vigorously contested IEC's claims and are pursuing claims for compensation under the contracts. At this time, we are not able to predict the outcome of these claims.

On March 15, 2019 and March 18, 2019, the City of Riviera Beach Pension Fund and Richard Schippnick, respectively, filed in the Delaware Court of Chancery shareholder derivative lawsuits for and on the Company's behalf against GE, the current members of the Board of Directors of the Company and the Company as a nominal defendant, related to the decision to (i) terminate the contractual prohibition barring GE from selling any of the Company's shares before July 3, 2019; (ii) repurchase $1.5 billion in the Company's stock from GE; (iii) permit GE to sell approximately $2.5 billion in the Company's stock through a secondary offering; and (iv) enter into a series of other agreements and amendments that will govern the ongoing relationship between the Company and GE (collectively, the “2018 Transactions”). The complaints in both lawsuits allege, among other things, that GE, as the Company’s controlling stockholder, and the members of the Company’s Board of Directors breached their fiduciary duties by entering into the 2018 Transactions. The relief sought in the complaints includes a request for a declaration that the defendants breached their fiduciary duties, that GE was unjustly enriched, disgorgement of profits, an award of damages sustained by the Company, pre- and post-judgment interest, and attorneys’ fees and costs. On March 21, 2019, the Chancery Court entered an order consolidating the Schippnick and City of Riviera Beach complaints under consolidated C.A. No. 2019-0201-AGB, styled in re Baker Hughes, a GE company derivative litigation. On May 10, 2019, Plaintiffs voluntarily dismissed their claims against the members of the Company’s Conflicts Committee, and on May 15, 2019, Plaintiffs voluntarily dismissed their claims against former Baker Hughes director Martin Craighead. At this time, we are not able to predict the outcome of these claims.

In March 2019, the Company received a document request from the United States Department of Justice (the “DOJ”) related to certain of the Company’s operations in Iraq and its dealings with Unaoil Limited and its affiliates. The Company is cooperating with the DOJ in connection with this request and any related matters. In addition, the Company has agreed to toll any statute of limitations in connection with the matters subject to the DOJ’s document request until December 2019.

On May 7, 2019, the Alaska District Attorney filed a Criminal Information against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc., Baker Petrolite Corporation and a Baker Hughes employee alleging that individuals working at a Baker Petrolite Corporation chemical transfer facility in Kenai, Alaska were exposed to hazardous air emissions. The Criminal Information charges six counts of Assault in the Third Degree, three counts of Assault in the Fourth Degree and Negligent Air Emissions. On July 22, 2019, the six counts of Assault in the Third Degree were dismissed, with the Alaska Attorney General’s office indicating their intent to present those charges to the grand jury to obtain an indictment. On or around September 11, 2019, the grand jury issued an indictment on 25 counts, including 10 counts of Assault in the First Degree, 10 counts of Assault in the Second Degree, and 5 counts of Assault in the Third Degree. The Company and other Defendants have pled not guilty and intend to vigorously defend the charges. At this time, we are not able to predict the outcome of the criminal proceeding.

On August 13, 2019, Tri-State Joint Fund filed in the Delaware Court of Chancery, a shareholder class action lawsuit for and on the behalf of itself and all similarly situated public stockholders of Baker Hughes Incorporated (“BHI”) against the General Electric Company, the former members of the Board of Directors of BHI, and certain former BHI Officers alleging breaches of fiduciary duty, aiding and abetting, and other claims in connection with the Transactions. On October 28, 2019, City of Providence filed in the Delaware Court of Chancery a shareholder class action lawsuit for and on behalf of itself and all similarly situated public shareholders of BHI against GE, the former members of the Board of Directors of BHI, and certain former BHI Officers alleging substantially the same claims in connection with the Transactions. The relief sought in these complaints include a request for a declaration that Defendants breached their fiduciary duties, an award of damages, pre- and post-judgment interest, and attorneys’ fees and costs. At this time, we are not able to predict the outcome of these claims.

We insure against risks arising from our business to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending or future legal proceedings or other claims. Most of our insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. In determining the amount of self-insurance, it is our policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability, general liability and workers compensation.

PRODUCT WARRANTIES

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

	2019	2018
Balance at January 1	$ 236	$ 164
Provisions	6	26
Expenditures	(12)	(83)
Other [(1)]	(8)	128
Balance at September 30	$ 222	$ 235

(1) 2018 amount is primarily related to the acquisition of BHI.

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 $4.0 billion at September 30, 2019. It is not practicable to estimate the fair value of these financial instruments. None of the off-balance sheet arrangements either has, or is likely to have, a material effect on our financial position, results of operations or cash flows.

We sometimes enter into consortium or similar arrangements for certain projects primarily in our Oilfield Equipment segment. Under such arrangements, each party is responsible for performing a certain scope of work within the total scope of the contracted work, and the obligations expire when all contractual obligations are completed. These arrangements may subject us to liability outside our scope, and the failure or inability, financially or otherwise, of any of the parties to perform their obligations could impose additional cost and obligations on us. These factors could result in unanticipated costs to complete the project, liquidated damages or contract disputes.

NOTE 18. RESTRUCTURING, IMPAIRMENT AND OTHER

We recorded restructuring, impairment and other charges of $71 million and $66 million during the three months ended September 30, 2019 and 2018, respectively, and $183 million and $374 million during the nine months ended September 30, 2019 and 2018, respectively. Details of these charges are discussed below.

RESTRUCTURING AND IMPAIRMENT

In the current and prior periods, we approved various restructuring plans globally, mainly to consolidate manufacturing and service facilities, rationalize product lines and rooftops, and reduce headcount across various functions. As a result, we recognized a charge of $38 million and $49 million for the three months ended September 30, 2019 and 2018, respectively, and $145 million and $242 million for the nine months ended September 30, 2019 and 2018, respectively. These restructuring initiatives will generate charges post September 30, 2019, and the related estimated remaining charges are approximately $32 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Oilfield Services	$ 27	$ 20	$ 63	$ 119
Oilfield Equipment	1	8	19	26
Turbomachinery & Process Solutions	10	17	39	56
Digital Solutions	—	2	12	18
Corporate	—	2	12	23
Total	$ 38	$ 49	$ 145	$ 242

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Property, plant & equipment, net	$ 6	$ 18	$ 22	$ 55
Employee-related termination expenses	28	15	106	114
Asset relocation costs	1	7	5	20
Environmental remediation costs	1	—	1	3
Contract termination fees	2	5	11	33
Other	—	4	—	17
Total	$ 38	$ 49	$ 145	$ 242

OTHER

Other items included in "Restructuring, impairment and other" of the condensed consolidated statements of income (loss) were $33 million and $17 million for the three months ended September 30, 2019 and 2018, respectively, and $38 million and $132 million for the nine months ended September 30, 2019 and 2018, respectively. For the three and nine months ended September 30, 2019, such items primarily relate to certain contractual matters and currency devaluations in the period. For the three and nine months ended September 30, 2018 such charges relate primarily to accelerated amortization for certain trade names and technology in our Oilfield Services segment. During the nine months ended September 30, 2018, other charges also includes $25 million related to litigation matters recorded at Corporate and costs of $12 million to exit certain operations that impacted our TPS and OFS segments.

NOTE 19. ASSETS AND LIABILITIES OF BUSINESS HELD FOR SALE

On November 13, 2018, we entered into an aero-derivative joint venture (JV) agreement with GE to form a JV relating to the parties' respective aero-derivative gas turbine products and services. These jet engine aero-derivative products are mainly used in our Turbomachinery & Process Solutions segment. GE and we will contribute certain assets, inventory and service facilities into the JV and both companies will jointly control operations. In addition to the contributions to the JV, we agreed to pay $60 million to GE, subject to certain working capital adjustments, in order to equalize each party's interests in the JV at 50%. The JV will have a supply and technology development agreement with GE's aviation business, which, among other things, will revise and extend pricing arrangements for applicable aero-derivative products as compared to Baker Hughes' existing supply agreement. The JV is expected to become effective in the fourth quarter of 2019 subject to regulatory clearances and other customary closing conditions.

The following table presents financial information related to the assets and liabilities of the JV that was classified as held for sale and reported in “All other current assets” and “All other current liabilities” in our condensed consolidated statement of financial position as of September 30, 2019:

Assets and liabilities of business held for sale		**September 30, 2019**
Assets		
Current receivables	$	203
Inventories		56
Property, plant and equipment		3
Total assets of business held for sale		262
Liabilities		
Accounts payable		1
Total net assets of business held for sale	$	261

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the condensed consolidated financial statements and the related notes included in Item 1 thereto.

EXECUTIVE SUMMARY

Baker Hughes was formed through the combination of Baker Hughes Incorporated (BHI) and the oil and gas business (GE O&G) of General Electric Company (GE). We are an energy technology company that has a unique mix of technologies, equipment and service capabilities. We conduct business in more than 120 countries and employ approximately 68,000 employees. We operate through our four business segments: Oilfield Services (OFS), Oilfield Equipment (OFE), Turbomachinery & Processing Solutions (TPS), and Digital Solutions (DS). As of September 16, 2019, GE ceased to hold more than 50% of the voting power of all classes of our outstanding voting stock and as a result, is no longer our controlling shareholder.

In the third quarter of 2019, we generated revenue of $5,882 million, compared to $5,665 million for the third quarter of 2018. The increase in revenue was primarily driven by increased activity in OFS and OFE, partially offset by declines in TPS & DS. Income before income taxes and equity in loss of affiliate was $224 million for the third quarter of 2019 which included restructuring and impairment charges of $71 million and separation and merger related costs of $54 million. For the third quarter of 2018, income before income taxes and equity in loss of affiliate was $233 million, which also included restructuring and impairment charges of $66 million, and separation and merger related costs of $17 million.

In June 2018, GE announced their intention to pursue an orderly separation from us over time. In the fourth quarter of 2018, we entered into a Master Agreement Framework which includes a series of related ancillary agreements and binding term sheets (which were later negotiated into definitive agreements) designed to further solidify the commercial and technological collaboration between us and GE and to position us for the future. The Master Agreement Framework focuses on areas where we work most closely with GE on developing leading technology and executing for customers. First, we defined the parameters for long-term collaboration and partnership with GE on critical rotating equipment technology. Second, for our digital software and technology business we will maintain the status quo as the exclusive supplier of GE Digital oil and-gas applications. Finally, we reached agreements on a number of other areas including our controls business, pension, taxes, and intercompany services. All agreements within the Master Agreement Framework were finalized during the first quarter of 2019.

On July 31, 2019, we also entered into an Omnibus Agreement, a general framework agreement that addresses certain outstanding matters under existing long-term commercial agreements between us and GE. The Omnibus Agreement contains provisions regarding, among other things, (i) the repayment of certain outstanding amounts mutually owed by the parties, (ii) certain employee and assets transfers (including the allocation of costs and expenses associated therewith), and (iii) certain matters related to three international joint ventures. Modifications to the commercial arrangements between us and GE included, among other things, modification of the relationship between BHGE LLC and GE Digital to be non-exclusive with respect to digital offerings in the oil and gas space. For further details on these agreements see "Note 16. Related Party Transactions" of the Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report. On September 16, 2019, certain equity transactions were completed and GE’s ownership of Baker Hughes was reduced from approximately 50.3% to approximately 36.8%.

In aggregate, we anticipate that the net financial impact of the agreements contemplated by the Master Agreement Framework will have a slightly negative impact on our operating margin rates of approximately 20 to 40 basis points. In addition, we expect to incur one-time charges related to separation from GE of approximately $0.2 billion to $0.3 billion over the next three years. We expect these charges to be primarily related to the build-out of information technology infrastructure as well as customary transaction fees.

OUTLOOK

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

- North America onshore activity: in the third quarter of 2019, we experienced a decline in the rig count, as compared to the third quarter of 2018. We expect that in the short-term, North American onshore activity will continue to decline as operators exhaust budgets. Over the long-term, we remain optimistic about the outlook.

- International onshore activity: we have seen an increase in rig count activity in the third quarter of 2019 and expect this growth to continue for the remainder of the year, albeit at a slower rate. We have seen signs of improvement with the increase in commodity prices during the quarter, but due to continued volatility, we remain cautious as to growth expectations.

- Offshore projects: we have begun to see increasing customer activity on offshore projects and more final investment decisions being made. Subsea tree awards increased in 2018 and we expect subsea awards to be roughly flat in 2019, though still at levels well below prior 2012 & 2013 peaks. We expect customers to continue to evaluate the timing of final investment decisions, and in light of increased commodity price volatility, there may be some project delays.

- Liquefied Natural Gas (LNG) projects: while currently oversupplied, we believe a significant number of final investment decisions are needed to fill the projected supply-demand imbalance in the early to middle part of the next decade. Within the first three quarters of 2019, we have seen multiple large-scale LNG projects reach a positive final investment decision. We continue to view the long-term economics of the LNG industry as positive given our outlook for supply and demand.

- Refinery, petrochemical and industrial projects: in refining, we believe large, complex refineries should gain advantage in a more competitive, oversupplied landscape in 2019 as the industry globalizes and refiners position to meet local demand and secure export potential. In petrochemicals, we continue to see healthy demand and cost-advantaged supply driving projects forward in 2019. The industrial market continues to grow as outdated infrastructure is replaced, policy changes come into effect and power is decentralized. We continue to see growing demand across these markets in 2019.

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

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

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

BUSINESS ENVIRONMENT

The following discussion and analysis summarizes the significant factors affecting our results of operations, financial condition and liquidity position as of and for the nine months ended September 30, 2019 and 2018, and should be read in conjunction with the condensed consolidated financial statements and related notes of the Company.

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

Oil and Natural Gas Prices

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Brent oil price ($/Bbl) [(1)]	$ 61.95	$ 75.07	$ 64.65	$ 72.17
WTI oil price ($/Bbl) [(2)]	56.34	69.69	57.04	66.93
Natural gas price ($/mmBtu) [(3)]	2.38	2.93	2.62	2.95

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

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

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

Outside North America, customer spending is most heavily influenced by Brent oil prices, which decreased during the quarter, ranging from a low of $55.03/Bbl in August 2019 to a high of $68.42/Bbl in September 2019. For the nine months ended September 30, 2019, Brent oil prices averaged $64.65/Bbl, which represented a decrease of $7.52/Bbl from the same period last year.

In North America, customer spending is highly driven by WTI oil prices, which decreased during the quarter. Overall, WTI oil prices ranged from a low of $51.14/Bbl in August 2019 to a high of $63.10/Bbl in September 2019. For the nine months ended September 30, 2019, WTI oil prices averaged $57.04/Bbl, which represented a decrease of $9.89/Bbl from the same period last year.

In North America, natural gas prices, as measured by the Henry Hub Natural Gas Spot Price, averaged $2.38/mmBtu in the third quarter of 2019, representing a 19% decrease over the prior year. Throughout the quarter, Henry Hub Natural Gas Spot Prices ranged from a low of $2.02/mmBtu in August 2019 to a high of $2.75/mmBtu in September 2019.

Baker Hughes Rig Count

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

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

Beginning in the second quarter of 2019, Ukraine was added to the Baker Hughes international rig count. The Company will continue tracking active drilling rigs in the country going forward. Historical periods will not be updated.

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

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	**2018**	**% Change**	**2019**	**2018**	**% Change**
North America	1,052	1,260	(17)%	1,117	1,214	(8)%
International	1,144	1,003	14 %	1,094	980	12%
Worldwide	2,196	2,263	(3%)	2,211	2,194	1%

Overall rig count was 2,196 for the third quarter of 2019, a decrease of 3% as compared to the same period last year due primarily to North America activity. Internationally, the rig count increased 14% and the rig count in North America decreased 17% when compared to the same period last year. Excluding Ukraine, the international rig count was up 6% when compared to the same period last year.

Within North America, the decrease was primarily driven by the Canadian rig count, which was down 37% on average when compared to the same period last year, and a decrease in the U.S. rig count, which was down 12% on average. Internationally, the improvement in the rig count was driven primarily by increases in the Europe region of 126%, primarily related to the addition of Ukraine during the second quarter of 2019, the Africa region and Middle East region, were also up by 11% and 6%, respectively.

Overall rig count was 2,211 for the nine months ended September 30, 2019, an increase of 1% as compared to the same period last year due to international activity partially offset by a decrease within North America. Within North America, the decrease was primarily driven by the land rig count, which was down 9%, partially offset by an increase in the offshore rig count of 27%. Internationally, the rig count increase was driven primarily by increases in the Europe region of 75%, primarily related to the addition of Ukraine during the second quarter of 2019, the Africa region and Asia Pacific region, were also up by 23% and 6%, respectively. Excluding Ukraine, the international rig count was up 7% when compared to the same period last year.

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our condensed consolidated statements of income (loss) are based on available information and represent our analysis of significant changes or events that impact the comparability of reported amounts. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where reasonably practicable, have quantified the impact of such items. All dollar amounts in tabulations in this section are in millions of dollars, unless otherwise stated. Certain columns and rows may not add due to the use of rounded numbers.

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

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

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

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

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

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

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

Orders and Remaining Performance Obligations

Orders: For the three months ended September 30, 2019, we recognized orders of $7.8 billion, up 35% compared to the third quarter of 2018. Service orders were up 1% and equipment orders were up 89%. For the nine months ended September 30, 2019, we recognized orders of $20.0 billion, an increase of $3.0 billion, or 18%, from the nine months ended September 30, 2018. The increase in orders was driven by strong order intake in our Turbomachinery & Process Solutions and Oilfield Services segments. Service orders were up 4% and equipment orders were up 39%.

Remaining Performance Obligations (RPO): As of September 30, 2019, the aggregate amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations was $22.2 billion.

Revenue and Segment Operating Income (Loss) Before Tax

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	$ Change	2019	2018	$ Change
Revenue:						
Oilfield Services	$ 3,348	$ 2,993	$ 355	$ 9,597	$ 8,554	$ 1,043
Oilfield Equipment	728	631	97	2,156	1,912	244
Turbomachinery & Process Solutions	1,197	1,389	(192)	3,904	4,233	(329)
Digital Solutions	609	653	(44)	1,833	1,913	(80)
Total	$ 5,882	$ 5,665	$ 217	$ 17,490	$ 16,612	$ 878

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	$ Change	2019	2018	$ Change
Segment operating income (loss):						
Oilfield Services	$ 274	$ 231	$ 43	$ 683	$ 561	$ 122
Oilfield Equipment	14	6	8	40	(12)	52
Turbomachinery & Process Solutions	161	132	29	414	364	50
Digital Solutions	82	106	(24)	234	275	(41)
Total segment operating income	531	475	56	1,370	1,189	181
Corporate	(109)	(98)	(11)	(314)	(294)	(20)
Inventory impairment	—	(12)	12	—	(88)	88
Restructuring, impairment and other	(71)	(66)	(5)	(183)	(374)	191
Separation and merger related	(54)	(17)	(37)	(128)	(113)	(15)
Operating income	297	282	15	744	319	425
Other non operating income (loss), net	(14)	6	(20)	(124)	51	(175)
Interest expense, net	(59)	(55)	(4)	(174)	(164)	(10)
Income (loss) before income taxes and equity in loss of affiliate	224	233	(9)	446	206	240
Equity in loss of affiliate	—	(85)	85	—	(139)	139
Provision for income taxes	(107)	(110)	3	(269)	(86)	(183)
Net income (loss)	$ 117	$ 38	$ 79	$ 177	$ (19)	$ 196

Segment Revenues and Segment Operating Income

Third Quarter of 2019 Compared to the Third Quarter of 2018

Revenue increased $217 million, or 4%, primarily driven by increased activity in Oilfield Services and Oilfield Equipment. Oilfield Services increased $355 million and Oilfield Equipment increased $97 million partially offset by the decrease in Turbomachinery & Process Solutions of $192 million and Digital Solutions of $44 million.

Total segment operating income increased $56 million. The increase was driven by Oilfield Services which increased $43 million, Oilfield Equipment which increased $8 million and Turbomachinery & Process Solutions which increased $29 million, partially offset by Digital Solutions which decreased $24 million.

Oilfield Services

Oilfield Services revenue increased $355 million, or 12% in the third quarter of 2019 compared to the third quarter of 2018, as a result of increased international activity as evidenced by the growth in the international rig count compared to the third quarter of 2018. International revenue was $2,170 million in the third quarter of 2019, an increase of $390 million from the third quarter of 2018. North America revenue was $1,178 million in the third quarter of 2019, a decrease of $34 million from the third quarter of 2018.

Oilfield Services segment operating income was $274 million in the third quarter of 2019 compared to $231 million in the third quarter of 2018, primarily driven by higher volume and increased cost productivity.

Oilfield Equipment

Oilfield Equipment revenue increased $97 million, or 15%, in the third quarter of 2019 compared to the third quarter of 2018. The increase was driven by higher volume in the subsea production systems business and subsea services business. These increases were partially offset by lower volume in the flexible pipe business.

Oilfield Equipment segment operating income was $14 million in the third quarter of 2019 compared to segment operating income of $6 million in the third quarter of 2018. The increase in income was driven primarily by higher volume and better cost productivity.

Turbomachinery & Process Solutions

Turbomachinery & Process Solutions revenue of $1,197 million decreased $192 million, or 14%, in the third quarter of 2019 compared to the third quarter of 2018. The decrease was driven by the sale of the high-speed reciprocating compressor business and the natural gas solutions business, and lower upgrades, partially offset by higher transactional and contractual services revenue. Equipment revenue in the quarter represented 33%, and service revenue represented 67% of total segment revenue. Equipment revenue was down 25% year-over-year, and service revenue was down 7%.

Turbomachinery & Process Solutions segment operating income was $161 million in the third quarter of 2019 compared to $132 million in the third quarter of 2018. The increase in profitability was driven primarily by increased cost productivity and business mix, partially offset by lower volume.

Digital Solutions

Digital Solutions revenue decreased $44 million, or 7%, in the third quarter of 2019 compared to the third quarter of 2018, driven primarily by lower volume in controls, software, and pipeline and process solutions businesses, partially offset by higher volume in the measurement & sensing business.

Digital Solutions segment operating income was $82 million in the third quarter of 2019 compared to $106 million in the third quarter of 2018. The decrease in profitability was driven primarily by lower volume and decreased cost productivity.

Restructuring, Impairment and Other

For the third quarter of 2019, we recognized $71 million in restructuring, impairment and other items, an increase of $5 million from the third quarter of 2018, driven by higher other charges.

Separation and Merger Related

For the third quarter of 2019, we incurred separation and merger related costs of $54 million, an increase of $37 million from the third quarter of 2018. Costs in the third quarter of 2019 primarily relate to the ongoing activities for the separation from GE. In the third quarter of 2018, separation and merger related costs primarily included costs associated with the acquisition of BHI.

Equity in Loss of Affiliate

As we have discontinued applying the equity method on our investment in BJ Services, we did not record any gain or loss during the third quarter of 2019 compared to a loss of $85 million recorded in the third quarter of 2018. We will resume application of the equity method only after our share of unrecognized net income equals our share of net loss not recognized during the period the equity method was suspended.

Interest Expense, Net

For the third quarter of 2019, we incurred interest expense, net of interest income, of $59 million, an increase of $4 million from the third quarter of 2018, primarily driven by lower interest income.

Income Taxes

For the third quarter of 2019, income tax expense was $107 million compared to a tax expense of $110 million for the prior year quarter. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate of 48% is primarily due to the geographical mix of earnings and losses, coupled with $47 million related to losses with no tax benefit due to valuation allowances.

The First Nine Months of 2019 Compared to the First Nine Months of 2018

Revenue increased $878 million, or 5%, primarily driven by increased activity in Oilfield Services and Oilfield Equipment. Oilfield Services increased $1,043 million and Oilfield Equipment increased $244 million, partially offset by the decrease in Turbomachinery & Process Solutions of $329 million and in Digital Solutions of $80 million.

Total segment operating income increased $181 million. The increase was driven by Oilfield Services, which increased $122 million, Oilfield Equipment, which increased $52 million and Turbomachinery & Process Solutions which increased $50 million, partially offset by Digital Solutions which decreased $41 million.

Oilfield Services

Oilfield Services revenue increased $1,043 million, or 12% in the first nine months of 2019 compared to the first nine months of 2018, as a result of increased international activity as evidenced by an increase in the international rig count compared to the first nine months of 2018. International revenue was $6,045 million in the first nine months of 2019, an increase of $970 million from the first nine months of 2018. North America revenue was $3,552 million in the first nine months of 2019, an increase of $73 million from the first nine months of 2018.

Oilfield Services segment operating income was $683 million in the first nine months of 2019 compared to $561 million in the first nine months of 2018. The increase was primarily driven by higher volume and improved cost productivity.

Oilfield Equipment

Oilfield Equipment revenue increased $244 million, or 13%, in the first nine months of 2019 compared to the first nine months of 2018. The increase was driven by higher volume in the subsea production systems business and subsea services business. These increases were partially offset by lower volume in the flexible pipe business.

Oilfield Equipment segment operating income was $40 million in the first nine months of 2019 compared to segment operating loss of $12 million in the first nine months of 2018. The increase in income was driven primarily by higher volume and positive cost productivity.

Turbomachinery & Process Solutions

Turbomachinery & Process Solutions revenue of $3,904 million decreased $329 million, or 8%, in the first nine months of 2019 compared to the first nine months of 2018. The decrease was driven by lower equipment installation volume, the sale of the natural gas solutions business in October 2018 and the sale of high-speed reciprocating business in July 2019, partially offset by higher contractual services revenue. Equipment revenue in the first nine months of 2019 represented 34%, and service revenue represented 66% of total segment revenue. Equipment revenue was down 18% year-over-year, and service revenue was down 1%.

Turbomachinery & Process Solutions segment operating income was $414 million in the first nine months of 2019 compared to $364 million in the first nine months of 2018. The increase in profitability was driven primarily by higher cost productivity and favorable business mix, partially offset by the sale of the natural gas solutions business.

Digital Solutions

Digital Solutions revenue decreased $80 million, or 4%, in the first nine months of 2019 compared to the first nine months of 2018, driven primarily by lower volume in Bently, controls, and software businesses, partially offset with higher volume in the measurement & sensing, and pipeline and process solutions businesses.

Digital Solutions segment operating income was $234 million in the first nine months of 2019 compared to $275 million in the first nine months of 2018. The decrease in profitability was driven by lower volume and unfavorable business mix.

Restructuring, Impairment and Other

For the first nine months of 2019, we recognized $183 million in restructuring, impairment and other items, a decrease of $191 million from the first nine months of 2018, primarily from reduced restructuring activity as we conclude the integration of BHI.

Separation and Merger Related

For the first nine months of 2019, we incurred separation and merger related costs of $128 million, an increase of $15 million from the first nine months of 2018. Costs in the first nine months of 2019 primarily relate to the finalization of the Master Agreement Framework and the ongoing activities for the separation from GE. In the first nine months of 2018, separation and merger related costs primarily included costs associated with the acquisition of BHI.

Equity in Loss of Affiliate

As we have discontinued applying the equity method on our investment in BJ Services, we did not record any gain or loss during the first nine months of 2019 compared to a loss of $139 million recorded in the first nine months of 2018. We will resume application of the equity method only after our share of unrecognized net income equals our share of net loss not recognized during the period the equity method was suspended.

Interest Expense, Net

For the first nine months of 2019, we incurred interest expense, net of interest income, of $174 million, an increase of $10 million from the first nine months of 2018, primarily driven by lower interest income.

Income Taxes

For the first nine months of 2019, income tax expense was $269 million compared to a tax expense of $86 million for the first nine months ended 2018. The difference between the U.S. statutory tax rate of 21% and the current effective tax rate of 60% is primarily due to the geographical mix of earnings and losses, coupled with $137 million related to losses with no tax benefit due to valuation allowances.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain sufficient liquidity, adequate financial resources and financial flexibility in order to fund the requirements of our business. At September 30, 2019, we had cash and cash equivalents of $2,808 million compared to $3,723 million at December 31, 2018. Cash and cash equivalents includes $528 million and $747 million of cash held on behalf of GE at September 30, 2019 and December 31, 2018, respectively.

Excluding cash held on behalf of GE, our U.S. subsidiaries held approximately $0.3 billion and $0.7 billion while our foreign subsidiaries held approximately $2.0 billion and $2.3 billion of our cash and cash equivalents as of September 30, 2019 and December 31, 2018, respectively. A substantial portion of the cash held by foreign subsidiaries at September 30, 2019 has been reinvested in active non-U.S. business operations. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds, however, due to the enactment of U.S. tax reform, repatriations of foreign earnings will generally be free of U.S. federal tax but may incur other taxes such as withholding or state taxes.

BHGE LLC has a $3 billion committed unsecured revolving credit facility (the 2017 Credit Agreement) with commercial banks maturing in July 2022. The 2017 Credit Agreement contains certain customary representations and warranties, certain affirmative covenants and no negative covenants. Upon the occurrence of certain events of default, our obligations under the 2017 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2017 Credit Agreement, and other customary defaults. No such events of default have occurred. During the nine months ended September 30, 2019 and 2018, there were no borrowings under the 2017 Credit Agreement.

BHGE LLC has a commercial paper program under which it may issue from time to time up to $3 billion in commercial paper with maturities of no more than 397 days. At September 30, 2019 and December 31, 2018, there were no borrowings outstanding under the commercial paper program.

BHGE LLC intends to redeem all of the outstanding 3.2% Notes due 2021 with an aggregate principal amount of $513 million on November 7, 2019.

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

During the nine months ended September 30, 2019, we used cash to fund a variety of activities including certain working capital needs, restructuring and GE separation related costs, capital expenditures, and the payment of dividends and distributions to noncontrolling interests. We believe that cash on hand, cash flows generated from operations and the available credit facility will provide sufficient liquidity to manage our global cash needs.

Cash Flows

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

(In millions)	**2019**	**2018**
Operating activities	$ 769	$ 673
Investing activities	(659)	(204)
Financing activities	(996)	(2,647)

Operating Activities

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

Cash flows from operating activities generated cash of $769 million and $673 million for the nine months ended September 30, 2019 and 2018, respectively.

For the nine months ended September 30, 2019, cash generated from operating activities were primarily driven by net earnings adjusted for certain noncash items (depreciation, amortization and loss on the sale of our high-speed reciprocating compression business), partially offset by annual payments associated with employee compensation, and cash payments for restructuring and separation related costs. Net working capital usage was $86 million for the nine months ended September 30, 2019, mainly due to net positive customer progress collections and receivables, more than offset by higher inventory to sustain expected volume growth. We also had restructuring and GE separation related payments of $222 million in the nine months ended September 30, 2019.

For the nine months ended September 30, 2018, operating cash inflows were primarily driven by our net loss adjusted for certain noncash items (depreciation, amortization and provision for deferred taxes) partially offset by cash usage of $361 million related to restructuring and merger related payments. Net working capital was $58 million usage in the nine months ended September 30, 2018, mainly due to higher inventory to sustain expected volume growth offset by higher payables to suppliers.

Investing Activities

Cash flows from investing activities used cash of $659 million and $204 million for the nine months ended September 30, 2019 and 2018, respectively.

Our principal recurring investing activity is the funding of capital expenditures including property, plant and equipment and software, to support and generate revenue from operations. Expenditures for capital assets were $873 million and $653 million for the nine months ended September 30, 2019 and 2018, respectively. Proceeds from the sale of property, plant and equipment were $201 million and $330 million for the nine months ended September 30, 2019 and 2018, respectively.

During the nine months ended September 30, 2019, we also received $88 million from the sale of our high-speed reciprocating compression business and the sale of certain digital business assets to GE which is included in the "Other investing items, net" caption in the condensed consolidated statements of cash flows. During the nine months ended September 30, 2018, we received cash proceeds from the sale of businesses of $81 million.

Financing Activities

Cash flows from financing activities used cash of $996 million and $2,647 million for the nine months ended September 30, 2019 and 2018, respectively.

We had net repayments of short-term debt and other borrowings of $191 million and $319 million for the nine months ended September 30, 2019 and 2018, respectively. Repayment of long-term debt in the nine months ended September 30, 2019 was $36 million compared to $673 million in the nine months ended September 30, 2018. There were no repayments of Senior notes in the nine months ended September 30, 2019.

We paid dividends of $278 million to our Class A shareholders, and we made a distribution of $282 million to GE in the nine months ended September 30, 2019. We paid dividends of $224 million to our Class A shareholders, and we made a distribution of $400 million to GE in the nine months ended September 30, 2018.

During the nine months ended September 30, 2019, we used cash of $250 million to repurchase and cancel our Class B common stock and corresponding paired common units of BHGE LLC. During the nine months ended September 30, 2018, we used cash of $387 million and $638 million to repurchase and cancel our Class A and Class B common stock, respectively, and corresponding paired common units in BHGE LLC, on a pro rata basis.

Other Factors Affecting Liquidity

Registration Statements: In November 2018, Baker Hughes filed a universal shelf registration statement on Form S-3ASR (Automatic Shelf Registration) with the SEC to have the ability to sell various types of securities including debt securities, Class A common stock, preferred stock, guarantees of debt securities, purchase contracts and units. The specific terms of any securities to be sold would be described in supplemental filings with the SEC. The registration statement will expire in 2021.

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

Customer receivables: In line with industry practice, we may bill our customers for services provided in arrears dependent upon contractual terms. In a challenging economic environment, we may experience delays in the payment of our invoices due to customers' lower cash flow from operations or their more limited access to credit markets. While historically there have not been material non-payment events, we attempt to mitigate this risk through working with our customers to restructure their debts. A customer's failure or delay in payment could have a material adverse effect on our short-term liquidity and results from operations. As of September 30, 2019, 20% of our gross trade receivables were from customers in the United States. Other than the United States, no other country or single customer accounted for more than 10% of our gross trade receivables at this date. As of December 31, 2018, 24% of our gross trade receivables were from customers in the United States.

International operations: Our cash that is held outside the U.S. is 89% of the total cash balance as of September 30, 2019. We may not be able to use this cash quickly and efficiently due to exchange or cash controls that could make it challenging. As a result, our cash balance may not represent our ability to quickly and efficiently use this cash.

OTHER ITEMS

Brexit

In June 2016, UK voters approved the UK's exit (Brexit) from the EU. The UK was originally due to leave in March 2019 but the EU and UK have agreed a delay to Brexit, which can currently happen up to January 31, 2020 if a withdrawal agreement is ratified by the UK Parliament. There remains significant uncertainty as to whether the withdrawal agreement between the UK government and the EU will be approved, when, if and on what terms Brexit will happen. There is a range of outcomes possible, from no Brexit to an abrupt cut-off of the UK's future trading relationship with the EU. The above withdrawal agreement contemplates a transition period to allow time for a future trade deal to be agreed.

Although our customer base is global with predominant exposure to the U.S. dollar, we have a manufacturing and service base in the UK with some euro procurement, thus we are exposed to fluctuations in value of the British pound versus the U.S. dollar, euro and other currencies. We have a hedging program which looks to accommodate this potential volatility.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, (each a "forward-looking statement"). All statements, other than historical facts, including statements regarding the presentation of the Company's operations in future reports and any assumptions underlying any of the foregoing, are forward-looking statements. Forward-looking statements concern future circumstances and results and other statements that are not historical facts and are sometimes identified by the words "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue," "target" or other similar words or expressions. Forward-looking statements are based upon current plans, estimates and expectations that are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. The inclusion of such statements should not be regarded as a representation that such plans, estimates or expectations will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, the risk factors identified in the "Risk Factors" section of Part II of Item 1A contained herein, the risk factors in the "Risk Factors" section of Part I of Item 1A of our 2018 Annual Report and those set forth from time-to-time in other filings by the Company with the SEC. These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval (EDGAR) system at http://www.sec.gov.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A. “Quantitative and Qualitative Disclosures about Market Risk,” in our 2018 Annual Report. Our exposure to market risk has not changed materially since December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Effective January 1, 2019, we adopted the new lease guidance under ASC Topic 842, Leases, using the modified retrospective method of adoption. The adoption of this guidance required the implementation of new accounting policies and processes, including changes to our information systems, which changed the Company’s internal controls over financial reporting for leases and related disclosures for our current period reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of legal proceedings in "Note 17. Commitments And Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements in this Quarterly Report, Item 3 of Part I of our 2018 Annual Report and Note 19 of the Notes to Consolidated and Combined Financial Statements included in Item 8 of our 2018 Annual Report.

ITEM 1A. RISK FACTORS

As of the date of this filing, the Company and its operations continue to be subject to the risk factors previously disclosed in our "Risk Factors" contained in the 2018 Annual Report.

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

The following table contains information about our purchases of our Class A common stock equity securities during the three months ended September 30, 2019.

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share [2]	Total Number of Shares Purchased as Part of a Publicly Announced Program [3]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program [3]
July 1-31, 2019	60,359	$ 23.58	—	$ 18,690,655
August 1-31, 2019	184,128	$ 25.24	—	$ 18,690,655
September 1-30, 2019	1,644	$ 21.06	—	$ 18,690,655
Total	246,131	$ 24.80	—	

(1) Represents Class A common stock purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock units.

(2) Average price paid for Class A common stock purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock units.

(3) We did not repurchase any shares of Class A common stock in the third quarter of 2019. However, in September 2019, we repurchased and canceled 11.9 million shares of Class B common stock from GE and its affiliates that is paired with common units of BHGE LLC for approximately $250 million. At September 30, 2019, the stock repurchase program has been substantially completed.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

We have no 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 to report for the current quarter.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Each exhibit identified below is filed as a part of this report. Exhibits designated with an "*" are filed as an exhibit to this Quarterly Report on Form 10-Q and Exhibits designated with an "**" are furnished as an exhibit to this Quarterly Report on Form 10-Q. Exhibits previously filed as indicated below are incorporated by reference.

3.1	Second Amended and Restated Certificate of Incorporation of Baker Hughes Company dated October 17, 2019 (incorporated by reference as Exhibit 3.1 to the Current Report of Baker Hughes Company on Form 8-K filed on October 17, 2019).
3.2	Third Amended and Restated Bylaws of Baker Hughes Company (formerly known as Baker Hughes, a GE company) dated October 17, 2019 (incorporated by reference as Exhibit 3.2 to the Current Report of Baker Hughes Company on Form 8-K filed on October 17, 2019).
10.1	Fifth Equity Repurchase Agreement, dated as of September 9, 2019, by and among Baker Hughes Company, Baker Hughes, a GE company, LLC and GE Parties (incorporated by reference as Exhibit 10.1 to the Current Report of Baker Hughes Company on Form 8-K filed on September 10, 2019).
31.1**	Certification of Lorenzo Simonelli, President and Chief Executive Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2**	Certification of Brian Worrell, Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32**	Certification of Lorenzo Simonelli, President and Chief Executive Officer, and Brian Worrell, Chief Financial Officer, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document

SIGNATURES

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

Baker Hughes Company
(Registrant)

Date:	October 30, 2019	By:	/s/ BRIAN WORRELL
			Brian Worrell
			Chief Financial Officer
Date:	October 30, 2019	By:	/s/ KURT CAMILLERI
			Kurt Camilleri
			Vice President, Controller and Chief Accounting Officer

Exhibit 31.1

CERTIFICATION

I, Lorenzo Simonelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	October 30, 2019	By:	/s/ Lorenzo Simonelli
			Lorenzo Simonelli
			President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Brian Worrell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	October 30, 2019	By:	/s/ Brian Worrell
			Brian Worrell
			Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Baker Hughes Company (the “Company”) on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Lorenzo Simonelli, President and Chief Executive Officer of the Company, and Brian Worrell, the Chief Financial Officer of the Company, each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

The certification is given to the knowledge of the undersigned.

	/s/ Lorenzo Simonelli
Name:	Lorenzo Simonelli
Title:	President and Chief Executive Officer
Date:	October 30, 2019
	/s/ Brian Worrell
Name:	Brian Worrell
Title:	Chief Financial Officer
Date:	October 30, 2019