

Baker Hughes Limited
Annual report and financial statements for the year ended 31 December 2020
Strategic report (continued)

Review of developments and future prospects (continued)

The theme of growing integrated projects continues stretching across well construction, well abandonment and intervention with new interest from independent operators as they begin to understand and see cost synergies compared to the traditional models of discreet contracting. Baker Hughes have current and new industry partners creating alliances to offer complete solutions to customers in this space as operators turn ‘one provider’ contracting models in an attempt to share risk and lower costs. In parallel to this operators are exploring new avenues for cost reductions, as well as strengthening their decarbonization efforts. The use of and interest in Remote Operating technologies and centres, technology automation, as well as other alternative solutions are now rising, with the view of minimizing the need to mobilize equipment and personnel to well sites to greatly reduce costs and carbon footprint associated with this. Furthermore the growing pressure to reduce carbon emissions, and carbon footprint, progressing to net zero means this will enhance quickly over the next few years. Baker Hughes is already in a leading position deploying such products and services. There is agreement in the market that energy transition will play an integral role in the pursuit of net-zero targets. A growing number of energy transition projects are supported by the UK Government, especially implementing the NSTD (North Sea Transition Deal) with views to accelerate the development and deployment of Carbon Capture Use and Storage (CCUS), as well as Hydrogen technologies, supported by funding of up to £3billion on CCUS projects and £10billion on Hydrogen projects. An example of which is the Northern Endurance project to develop what would be the UK’s largest blue hydrogen facility – H2Teeside and to transport CO₂ offshore for storage in existing fields where drilling wells to store the gas is required. Feasibility studies are underway, with final investment decisions (FID) due in early 2024 and first production in 2027, if not sooner.

Baker Hughes’ oilfield services portfolio is well positioned to take on and support growing CCUS and geothermal projects, as it already provides equipment and services in these areas. As this trend accelerates teams and SME’s are already in place to engage customers and deploy new technologies to potentially bring forward and accelerate plans whilst lowering overall project costs using pre-existing knowledge and experience in service delivery.

HSE

The HSE function continues to align to support the Baker Hughes organisation in order to drive an interdependent safety culture. The function continues to consider the following areas, legal / regulatory, customer, operational, organisational, compliance, audit, commercial / customer support, process safety, and transportation safety.

The leadership team continues to focus on delivering an HSE Perfect Year. The Baker Hughes key HSE leadership skills workshop has been evolved as the group further develops its leaders’ skills by incorporating in-depth task reviews called Walk Through Talk Through aimed at identifying gaps in how work is actually done vs how it is perceived to be done.

The health and safety of employees is paramount and the company has led a number of initiatives to ensure we achieve the Perfect HSE day, as well as learn and embed lessons from those non-Perfect HSE days. Due to the continuing presence of COVID-19, the company, adhering to government advice, still adopts a work from home where possible stance. As the Oil & Gas industry has been identified as a critical one, those employees identified as critical workers can continue to work as normal to ensure customer obligations are met. Facilities that are required to remain open and operational follow strict government and company protocols to ensure the wellbeing of those that are required to be physically present at the worksite.

Key performance indicators

The following key performance indicators are used to monitor performance:

- Turnover £363,928,000 (2019: £464,329,000), being turnover as shown in the profit and loss account
- Loss before taxation of £77,452,000 (2019: £26,848,000 loss), as shown in the profit and loss account, and
- Gross profit margin of 8.3% (2019: 12.3%), shown in the profit and loss account.

The directors have reviewed and understand the underlying dynamics impacting on the entity's results.

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Policy on the payment of creditors

The company does not follow a published code or standard on payment practice. The company's policy is to align terms of payment with each supplier in accordance with its requirements and financial procedures, to ensure that suppliers are aware of those terms, and to abide by them subject to the resolution of any disagreement regarding the supply. Trade creditor days of the company at 31 December 2020 were 55 days (2019: 61 days).

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

KPMG LLP have indicated their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be deemed to be re-appointed in the absence of an Annual General Meeting.

Greenhouse Gas Emissions and Energy Use data for the year

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") implement the government's policy on Streamlined Energy and Carbon Reporting (SECR). Large unquoted companies and large LLPs are obliged to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports.

Our greenhouse gas emissions arise primarily from facilities located in Aberdeen, used in the provision of services to our customers. UK energy use includes purchased electricity, gas, and fuel paid directly in relation to company transport.

The following table details the emissions by category for the current year (comparative information will be presented in the financial statements for the year ended 31 December 2021 and onwards):

Streamlined Energy & Carbon Reporting (SECR)	Unit	Current Year 2020
Energy consumption used to calculate emissions	kWh	60,817,337.68
Emissions from combustion of gas (Scope 1)	tCO2e	8,026.84
Emissions from combustion of fuel for transport purposes (Scope 1)	tCO2e	294.02
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	tCO2e	59.07
Emissions from purchased electricity	tCO2e	3,684.59
Total gross CO2e based on the above	tCO2e	12,064.52
Intensity ratio: tCO2e gross figure based on the above	tCO2e / £m UK Turnover	33.15

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Greenhouse gas emissions and Energy Use data for the year (continued)

Methodology

- The data has been gathered following the guiding principles of the Greenhouse Gas Protocol Corporate Standard
- Much of scope 3 transport emissions has been extrapolated from spend data, due to insufficient information on fuel type and quantities.
- Emissions Factors used are the UK Governments published figures for 2019. If these have not been sufficient, then other reputable sources have been used.
- For unquoted companies, fugitive emissions from refrigerants do not require to be reported under SECR and these have not been included.

Energy efficiency action

The Company had energy audits carried out as part of the ESOS reporting requirements in 2019, and as such had a number of energy efficiency actions that have been considered since. Actions have been assessed for suitability along with future plans at each site, and a number of energy management actions have been completed, including an ongoing program of replacement LED lighting, compressed air leak detection, and improved management of heating controls and baseload energy which has resulted in better management of AC and equipment out of hours at certain sites. A number of other initiatives are currently under review with appropriate suppliers being invited to make proposals. At our largest energy consuming site in Kirkby, fine tuning of process temperature control recommended in the ESOS audit for the site, resulted in gas and cost savings.

The ultimate parent company - Baker Hughes Company supports the objectives of the Paris Agreement to limit global temperature increases to well below 2 degrees Celsius and preferably to 1.5 degrees Celsius, compared to the pre-industrial levels. In 2019, to show support for the Paris Agreement, Baker Hughes set an ambitious commitment of net-zero operational emissions by 2050, with an interim goal of a 50% scope 1 and 2 emissions reduction by 2030. In 2019, we reduced our scope 1 and 2 emission by 31.6% compared to our 2012 baseline and we sourced 14.5% of our electricity consumption from renewable energy. Following the announcement of the net-zero commitment, we initiated a project to quantify an expanded set of Scope 3.

Approved by the Board of Directors and signed on behalf of the Board.



A Makram
Director
19 November 2021

PART I

ITEM 1. 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 energy and industrial value chain. We conduct business in more than 120 countries. The Company was formed in July 2017 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) (the Transactions). As a result of the Transactions, substantially all of the business of GE O&G and of BHI was transferred to a subsidiary of the Company, Baker Hughes Holdings LLC (BHH LLC). In 2019, we accelerated our separation efforts from GE and in September 2019, GE sold down its stake in Baker Hughes to below 50%. In July 2020, GE launched a program to fully divest of its ownership in Baker Hughes over approximately three years. As of December 31, 2020, GE's economic interest in BHH LLC was 30.1%.

OUR VISION

With the breadth of our portfolio, leading technology, and unique partnership models, we are positioned to deliver outcome-based solutions across the industry. By integrating health, safety & environment (HSE) into everything we do, we protect our people, our customers, and the environment. We believe in doing the right thing every time, and delivering the best quality and safest products, services, processes, solutions, and technologies in the industry.

The oil and gas macroeconomic environment continues to be dynamic. We believe the world's reliance on hydrocarbons will not disappear, and oil and gas will continue to play necessary roles in meeting global energy demand. At the same time, the transition to new energy sources is accelerating. We believe the industry is going through a transformation that requires a change in how we work. Irrespective of commodity prices, our customers are focused on reducing both capital and operating expenditures. Our customers expect new models and solutions to deliver sustainable productivity improvements and leverage economies of scale, with a lower carbon footprint. That is why our strategy is focused on improving our core competitiveness and delivering higher-productivity solutions today, while positioning for the energy transition. Our strategy is based on three key pillars:

- **Transform the core:** We are transforming our current business to improve margins and cash flow, which we are achieving through portfolio rationalization, cost improvements, and new business models.
- **Invest for growth:** We are driving organic and inorganic growth in high potential segments where we have a strong position, including industrial power and processes, industrial asset management, non-metallics, and chemicals.
- **Positioning for new energy frontiers:** We are making strategic investments to drive the decarbonization of energy and industry, including hydrogen, geothermal, carbon capture, utilization and storage, and energy storage.

We believe we have an important role to play in society as an industry leader and partner. We view environmental, social, and governance (ESG) as a key lever to transform the performance of our company and our industry. In January 2019, we made a commitment to reduce CO₂ equivalent (eq.) emissions from our operations by 50% by 2030, achieving net-zero CO₂ eq. emissions by 2050. We are investing in our portfolio of advanced technologies to assist customers with reducing their carbon footprint.

We reported in our 2019 Corporate Social Responsibility report a 31% reduction in operating emissions since 2012 through a commitment to new technology and operational efficiencies. We will continue to employ a broad range of emissions reduction initiatives across manufacturing, supply chain, logistics, energy sourcing and generation. We have established a global additive manufacturing technology network with a mission to bring commercial-scale production closer to customers, reducing transportation impact and associated emissions.

We expect to benefit from the following:

- **Scope and scale:** We have global presence and a broad, diversified portfolio. Our products, services, and expertise serve the upstream, midstream/liquefied natural gas (LNG) and downstream sectors of the oil and

Health and Safety

Prioritizing the health and safety of our employees and their families is critical. Our Perfect HSE Day remains the cornerstone of our HSE efforts. We achieved 200 Perfect HSE days in 2020, a 24% increase from the prior year.

Our commitment to HSE goes beyond safety alone. Occupational health and wellness is a key competency managed within our HSE center of excellence. The importance of physical health, ergonomics, preventative health care, and mental wellness cannot be overstated in promoting a healthy, engaged, and productive workplace. We work with our health benefit providers and internal teams to offer employees health and wellness programs, telemedicine access, health screenings, immunizations, fitness reimbursements, and virtual wellness tools.

During 2020, the mental health of our employees became an even greater focus. In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. This includes having the vast majority of our employees work from home, while implementing additional safety measures for employees continuing critical on-site work.

Our Employee Assistance Program (EAP) helps employees navigate daily life to managing remote work, coping with major life events or even dealing with a global pandemic. The EAP gives employees and their family members direct access to professional coaches for in-the-moment counseling or referrals to community experts and extended care providers.

Community Involvement

The Baker Hughes Foundation has been a steward of charitable resources for meaningful community impact. The Foundation seeks to advance environmental quality, education, health, safety, and wellness around the world by supporting organizations with shared values, demonstrated leadership, evidence of impact, financial soundness, and the capacity to implement initiatives and evaluate their success.

Board Oversight of Human Capital Management

From a governance perspective, our Compensation Committee of the Board of Directors provides oversight of our policies, programs, and initiatives focusing on workforce inclusion and diversity as well as executive compensation and benefits. Our Governance & Corporate Responsibility Committee provides oversight of employee health and safety matters.

GOVERNMENTAL REGULATION

Environmental Matters

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

We recognize that environmental challenges including climate change warrant meaningful action. In 2019, we announced our commitment to reduce our carbon equivalent emissions 50% by 2030 and achieve carbon equivalent net zero emissions by 2050. This goal encompasses emissions from our direct operations (Scope 1 and 2 emissions) as compared to our baseline year of 2012 and was set to align with the Paris Accord and the specific recommendations of the United Nations (UN) Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C. We have proactively worked to reduce our greenhouse gas emissions over the last decade and continue efforts to reduce our overall environmental footprint by using materials wisely and preserving land, water, and air quality. Our sustainability commitments include our formal participation in the UN Global

globally. The Company is committed to transparent and comprehensive reporting of our sustainability performance, and considers existing standards such as the Global Reporting Initiative's G4 guidelines, the Sustainability Accounting Standards Board's documentation, International Petroleum Industry Environmental Conservation Association's (IPIECA) Sustainability Reporting Guidance and recommendations issued by the Financial Stability Board's Task Force for Climate-related Financial Disclosures and Science Based Target Initiative. If we are not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, customers or other stakeholders, our business and ability to raise capital may be adversely affected.

International, national, and state governments and agencies continue to evaluate and promulgate legislation and regulations that are focused on restricting greenhouse gas (GHG) emissions. Compliance with climate action regulations applicable to our or our customers' operations may have significant implications that could adversely affect our business and operating results in the fossil-fuel sectors, and boosting demand for technologies contributing to the climate action agenda.

In the United States, the U.S. Environmental Protection Agency (EPA) has taken steps to regulate GHG emissions as air pollutants under the U.S. Clean Air Act of 1970, as amended. The EPA's Greenhouse Gas Reporting Rule requires monitoring and reporting of GHG emissions from, among others, certain mobile and stationary GHG emission sources in the oil and natural gas industry, which in turn may include data from certain of our wellsite equipment and operations. In addition, the U.S. government has proposed rules in the past setting GHG emission standards for, or otherwise aimed at reducing GHG emissions from, the oil and natural gas industry.

Caps or fees on carbon emissions, including in the U.S., have been and may continue to be established and the cost of such caps or fees could disproportionately affect the fossil-fuel sectors. We are unable to predict whether and when the proposed changes in laws or regulations ultimately will occur or what they ultimately will require, and accordingly, we are unable to assess the potential financial or operational impact they may have on our business.

Other developments focused on restricting GHG emissions include the United Nations Framework Convention on Climate Change, which includes implementation of the Paris Agreement and the Kyoto Protocol by the signatories; the European Union Emission Trading System; Article 8 of the European Union Energy Efficiency Directive and the United Kingdom's Streamlined Energy and Carbon Reporting (SECR); the European Commission's proposed carbon border adjustment mechanism (CBAM); and, in the U.S., the Regional Greenhouse Gas Initiative, the Western Climate Action Initiative, and various state programs implementing the California Global Warming Solutions Act of 2006 (known as Assembly Bill 32).

Requirements and voluntary initiatives to reduce greenhouse gas emissions, as well as increased climate change awareness, may result in increased costs for the oil and gas industry to curb greenhouse gas emissions and could have an adverse impact on demand for oil and natural gas.

International, national, and state governments, agencies and bodies continue to evaluate and promulgate regulations and voluntary initiatives that are focused on restricting GHG emissions. These requirements and initiatives are likely to become more stringent over time and to result in increased costs for the oil and gas industry to curb GHG emissions. In addition, these developments, and public perception relating to climate change, may curtail production and demand for hydrocarbons such as oil and natural gas by shifting demand towards and investment in relatively lower carbon energy sources such as wind, solar and alternative energy solutions. If renewable energy becomes more competitive than fossil-fuel energy globally, it could have a material effect on our results of operations.

The potential for climate related changes may pose future risks to our operations and those of our customers.

These changes can include extreme variability in weather patterns such as increased frequency and severity of significant weather events (e.g. flooding, hurricanes and tropical storms), natural hazards (e.g., increased wildfire risk), rising mean temperature and sea levels, and long-term changes in precipitation patterns (e.g. drought, desertification, or poor water quality). Such changes have the potential to affect business continuity and operating results, particularly at facilities in coastal areas or areas prone to chronic water scarcity.