

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 March 31, 2003

OR

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

Commission File Number 1-9397

BAKER HUGHES INCORPORATED  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE  
(State or Other Jurisdiction  
of Incorporation or Organization)

76-0207995  
(IRS Employer Identification No.)

3900 ESSEX LANE, SUITE 1200, HOUSTON, TEXAS  
(Address of Principal Executive Offices)  
77027  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (713) 439-8600

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

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As of May 1, 2003, the registrant has outstanding 336,645,783 shares of Common Stock, \$1 par value.

INDEX

PAGE NO. PART  
I - FINANCIAL  
INFORMATION -  
----- Item  
1. Financial  
Statements  
Consolidated  
Condensed  
Statements of  
Operations -  
Three months  
ended March  
31, 2003 and  
2002 2  
Consolidated  
Condensed  
Balance  
Sheets -  
March 31,  
2003 and  
December 31,  
2002 3  
Consolidated  
Condensed  
Statements of  
Cash Flows -  
Three months  
ended March  
31, 2003 and  
2002 4 Notes  
to  
Consolidated  
Condensed  
Financial  
Statements 5  
Item 2.  
Management's  
Discussion  
and Analysis  
of Financial  
Condition and  
Results of  
Operations 12  
Item 3.  
Quantitative  
and  
Qualitative  
Disclosures  
About Market  
Risk 20 Item  
4. Controls  
and  
Procedures 20  
PART II -  
OTHER  
INFORMATION  
Item 1. Legal  
Proceedings  
21 Item 2.  
Changes in  
Securities  
and Use of  
Proceeds 21  
Item 3.  
Defaults Upon  
Senior  
Securities 21  
Item 4.  
Submission of  
Matters to a  
Vote of  
Security  
Holders 21  
Item 5. Other  
Information

22 Item 6.  
Exhibits and  
Reports on  
Form 8-K 22  
Signatures 23  
Certifications  
24

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BAKER HUGHES INCORPORATED  
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
 (In millions, except per share amounts)  
 (Unaudited)

THREE MONTHS ENDED MARCH 31, ----- ----- ----- 2003 2002 --- ----- -----
Revenues \$
1,226.5 \$
1,203.0 Costs
and expenses:
Cost of
revenues
923.3 875.2
Selling,
general and
administrative
201.8 205.0 -
-----
-----
Total 1,125.1
1,080.2 -----
-----
-----
Operating
income 101.4
122.8 Equity
in income
(loss) of
affiliates
(0.4) 13.1
Interest
expense
(28.4) (28.4)
Interest
income 2.6
1.1 -----
---
Income
from
continuing
operations
before income
taxes 75.2
108.6 Income
taxes (27.8)
(38.0) -----
-----
Income
from
continuing
operations
47.4 70.6
Income from
discontinued
operations,
net of tax
2.7 5.2 -----
-----
-----
Income before
cumulative
effect of
accounting
change 50.1

75.8  
Cumulative  
effect of  
accounting  
change, net  
of tax (5.6)  
(42.5) -----  
-----

----- Net  
income \$ 44.5  
\$ 33.3  
=====

-----  
Basic  
earnings per  
share: Income  
from  
continuing  
operations \$  
0.14 \$ 0.21  
Income from  
discontinued  
operations  
0.01 0.02  
Cumulative  
effect of  
accounting  
change (0.02)  
(0.13) -----  
-----

----- Net  
income \$ 0.13  
\$ 0.10  
=====

-----  
Diluted  
earnings per  
share: Income  
from  
continuing  
operations \$  
0.14 \$ 0.21  
Income from  
discontinued  
operations  
0.01 0.02  
Cumulative  
effect of  
accounting  
change (0.02)  
(0.13) -----  
-----

----- Net  
income \$ 0.13  
\$ 0.10  
=====

-----  
Cash  
dividends per  
share \$ 0.115  
\$ 0.115  
=====

See accompanying notes to consolidated condensed financial statements.

BAKER HUGHES INCORPORATED  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(In millions)

MARCH 31,  
DECEMBER 31,  
2003 2002  
(UNAUDITED)  
(AUDITED) --  
-----

ASSETS

CURRENT

ASSETS: Cash  
and cash  
equivalents  
\$ 51.7 \$

143.9

Accounts  
receivable,  
net 1,133.5  
1,110.6

Inventories  
1,053.8  
1,032.0

Other  
current  
assets 210.9  
204.7

Assets  
of  
discontinued  
operations -  
- 64.3 -----

Total  
current  
assets

2,449.9

2,555.5 -----

Investment  
in  
affiliates  
870.8 872.0

Property,  
net 1,342.6  
1,354.7

Goodwill

1,228.5

1,226.6

Intangible  
assets, net  
135.5 136.8

Other assets  
260.0 255.2  
-----

Total assets  
\$ 6,287.3 \$

6,400.8  
=====

LIABILITIES

AND

STOCKHOLDERS'  
EQUITY

CURRENT

LIABILITIES:  
Accounts  
payable \$  
382.0 \$

389.2 Short-  
term

borrowings  
and current

portion of	
93.8	123.5
long-term	
debt	Accrued
employee	compensation
213.9	254.0
Other	
accrued	
liabilities	
249.9	267.4
Liabilities	
of	
discontinued	
operations	-
-	46.0
-----	-----
-----	
Total	
current	
liabilities	
939.6	
1,080.1	-----
-----	
-----	
Long-term	
debt	1,423.4
1,424.3	
Deferred	
income taxes	
151.5	166.7
Other long-	
term	
liabilities	
347.6	332.5
Stockholders'	
equity:	
Common stock	
336.6	335.8
Capital in	
excess of	
par value	
3,131.3	
3,111.6	
Retained	
earnings	
202.2	196.3
Accumulated	
other	
comprehensive	
loss (244.9)	
(246.5)	-----
-----	
-----	
Total	
stockholders'	
equity	
3,425.2	
3,397.2	-----
-----	
-----	
Total	
liabilities	
and	
stockholders'	
equity \$	
6,287.3	\$
6,400.8	
=====	
=====	

See accompanying notes to consolidated condensed financial statements.

BAKER HUGHES INCORPORATED  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(In millions)  
(Unaudited)

THREE MONTHS ENDED MARCH 31, ----- ----- ----- - 2003 2002 ----- -----	
---	Cash
	flows from
	operating
	activities:
	Income from
	continuing
	operations
	\$ 47.4 \$
	70.6
	Adjustments
	to
	reconcile
	income from
	continuing
	operations
	to net cash
	flows from
	operating
	activities:
	Depreciation
	and
	amortization
	79.5 73.6
	Benefit for
	deferred
	income
	taxes
	(13.4)
	(13.0) Gain
	on disposal
	of assets
	(5.6) (9.6)
	Equity in
	(income)
	loss of
	affiliates
	0.4 (13.1)
	Change in
	accounts
	receivable
	(4.5) 56.8
	Change in
	inventories
	(24.1)
	(8.7)
	Change in
	accounts
	payable
	(5.5)
	(38.2)
	Change in
	accrued
	employee
	compensation
	and other
	accrued
	liabilities
	(52.7)
	(145.0)
	Change in
	other long-
	term
	liabilities



2.9	0.1
Changes in	
other	
assets and	
liabilities	
(4.3)	23.8
-----	
-	
-----	
---	
Net	
cash flows	
from	
continuing	
operations	
20.1	(2.7)
Net cash	
flows from	
discontinued	
operations	
1.6	16.1
--	
-----	
-	
-----	
-	
Net cash	
flows from	
operating	
activities	
21.7	13.4
-	
-----	
-	
-----	
-	
Cash	
flows from	
investing	
activities:	
Expenditures	
for capital	
assets	
(76.2)	
(62.1)	
Acquisition	
of	
businesses,	
net of cash	
acquired --	
(30.6)	
Investment	
in	
affiliate	
(1.3)	
(11.3)	
Proceeds	
from	
disposal of	
assets	12.4
17.4	-----
-----	
-----	
Net cash	
flows from	
continuing	
operations	
(65.1)	
(86.6)	
Net	
cash flows	
from	
discontinued	
operations	
--	(0.2)
--	
-----	
-	
-----	
-	
Net cash	
flows from	
investing	
activities	
(65.1)	
(86.8)	----
-----	
-----	
Cash flows	
from	
financing	
activities:	
Net	

borrowings of commercial paper and other short-term debt	68.5	
	77.8	
Repayment of indebtedness	(100.0)	--
Proceeds from issuance of common stock	29.2	
	33.2	
Repurchase of common stock	(8.6)	--
Dividends	(38.6)	
	(38.7)	----
-----		
Net cash flows from continuing operations	(49.5)	72.3
Net cash flows from discontinued operations	--	--
-----		
Net cash flows from financing activities	(49.5)	72.3
-----		
--- Effect of foreign exchange rate changes on cash	0.7	
	(1.1)	-----
-----		
Decrease in cash and cash equivalents	(92.2)	
(2.2) Cash and cash equivalents, beginning of period	143.9	38.7
-----		
--- Cash and cash equivalents, end of period	\$ 51.7	\$ 36.5
=====		
=====		
Income taxes paid	\$ 36.4	\$
	36.8	
Interest		

paid \$ 37.5  
\$ 35.6

See accompanying notes to consolidated condensed financial statements.

BAKER HUGHES INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. GENERAL

NATURE OF OPERATIONS

Baker Hughes Incorporated ("Baker Hughes") is engaged primarily in the oilfield services industry. Baker Hughes is a major supplier of wellbore related products, technology services and systems to the oil and gas industry on a worldwide basis and provides products and services for drilling, formation evaluation, completion and production of oil and gas wells. Baker Hughes also participates in the continuous process industry where it manufactures and markets a broad range of continuous and batch centrifuges and specialty filters.

BASIS OF PRESENTATION

The unaudited consolidated condensed financial statements of Baker Hughes Incorporated and its subsidiaries (the "Company") included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the presentations and disclosures herein are adequate to make the information not misleading. The unaudited consolidated condensed financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods. These unaudited consolidated condensed financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2002. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

In the notes to the unaudited consolidated condensed financial statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

NOTE 2. DISCONTINUED OPERATIONS

In November 2002, the Company sold EIMCO Process Equipment ("EIMCO"), a division of the Process segment, and received total proceeds of \$48.9 million, of which \$4.9 million was held in escrow pending completion of final adjustments of the purchase price. Subsequent to the end of the first quarter of 2003, all purchase price adjustments were completed resulting in the release of the escrow balance, of which \$2.9 million was returned to the buyer and \$2.0 million was received by the Company. The Company also recorded an additional loss on sale due to purchase price adjustments of \$2.5 million, net of tax of \$1.3 million. In addition, in December 2002, the Company entered into exclusive negotiations for the sale of the Company's interest in its oil producing operations in West Africa and received \$10.0 million as a deposit. This transaction was effective as of January 1, 2003, and resulted in a gain of \$4.1 million, net of a tax benefit of \$0.2 million. The Company received the remaining \$22.0 million in proceeds upon closing, which occurred in April 2003. In accordance with generally accepted accounting principles, the Company has reclassified the consolidated financial statements for all prior periods to present both of these operations as discontinued.

BAKER HUGHES INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

Summarized financial information from discontinued operations is as follows:

THREE  
MONTHS  
ENDED MARCH  
31, -----  
-----  
- 2003 2002  
-----  
- -----

---  
Revenues:  
EIMCO \$ --  
\$ 44.9 Oil  
producing  
operations  
4.2 13.0 --  
-----  
- Total \$  
4.2 \$ 57.9  
=====

=====

Income  
before  
income  
taxes:  
EIMCO \$ --  
\$ 1.7 Oil  
producing  
operations  
1.8 5.4 ---  
-----  
Total 1.8  
7.1 -----  
-----

Income  
taxes:  
EIMCO --  
(0.6) Oil  
producing  
operations  
(0.7) (1.3)  
-----  
--- Total  
(0.7) (1.9)  
-----

Income  
before gain  
(loss) on  
disposal:  
EIMCO --  
1.1 Oil  
producing  
operations  
1.1 4.1 ---  
-----  
Total 1.1  
5.2 -----  
-----

Gain (loss)  
on  
disposal,  
net of tax:  
EIMCO (2.5)  
-- Oil  
producing

operations  
4.1 -- ----  
-----  
-----  
Total 1.6 -  
-----  
-----  
-----  
Income from  
discontinued  
operations  
\$ 2.7 \$ 5.2  
=====

NOTE 3. ACQUISITIONS

In the first quarter of 2002, the Company made three small acquisitions within its Oilfield segment having an aggregate purchase price of \$51.7 million, of which \$30.6 million was paid in cash. As a result of these acquisitions, the Company recorded approximately \$34.9 million of goodwill in the first quarter of 2002. The purchase prices are allocated based on fair values of the acquisitions. The purchase price allocation of one of the acquisitions may be subject to change pending the final outcome of arbitration proceedings. Pro forma results of operations have not been presented because the effects of these acquisitions were not material to the Company's consolidated financial statements on either an individual or aggregate basis.

NOTE 4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes all changes in equity during a period except those resulting from investments by and distributions to owners. The components of the Company's comprehensive income (loss), net of related tax, are as follows:

THREE MONTHS ENDED MARCH 31, -----	
2003	2002
----	----
Net income \$	
44.5	\$ 33.3
Other comprehensive income (loss):	
Foreign currency translation adjustments	
1.6	(1.4)
-----	-----
Total comprehensive income \$	
46.1	\$ 31.9
=====	=====

Total accumulated other comprehensive loss consisted of the following:

MARCH 31, DECEMBER 31, -----	
2003	2002
----	----
Foreign currency translation adjustments	
\$ (201.5)	\$ (203.1)
Pension	

adjustment  
(43.4)  
(43.4) -----  
-----  
-----  
Total  
accumulated  
other  
comprehensive  
loss \$  
(244.9) \$  
(246.5)  
=====  
=====

BAKER HUGHES INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. STOCK-BASED COMPENSATION

As allowed for under Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, the Company has elected to account for its stock-based compensation using the intrinsic value method of accounting in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Under this method, no compensation expense is recognized when the number of shares granted is known and the exercise price of the stock option is equal to or greater than the market price of the Company's common stock on the grant date. The Company has no stock-based compensation expense associated with stock options reflected in its consolidated statements of operations.

If the Company had recognized compensation expense as if the fair value based method had been applied to all awards as provided for under SFAS No. 123, the Company's pro forma net income, earnings per share ("EPS") and stock-based compensation cost would have been as follows:

THREE		
MONTHS		
ENDED MARCH		
31, -----		
-----		
-----		
- 2003 2002		
-----		
- -----		
---	Net	
	income, as	
	reported \$	
44.5	\$ 33.3	
Add: Stock-		
based		
compensation		
for		
restricted		
stock		
awards		
included in		
reported		
net income,		
net of tax		
0.7	0.4	
Deduct:		
Stock-based		
compensation		
determined		
under the		
fair value		
method, net		
of tax		
(5.7)	(5.2)	
-----		
- -----		
---	Pro	
	forma net	
	income \$	
39.5	\$ 28.5	
=====		
=====		
Basic EPS		
As reported		
\$ 0.13	\$	
0.10	Pro	
forma 0.12		
0.08		
Diluted EPS		
As reported		
\$ 0.13	\$	
0.10	Pro	
forma 0.12		
0.08		



These pro forma calculations may not be indicative of future amounts since the pro forma disclosure does not apply to options granted prior to 1996 and additional awards in future years are anticipated.

NOTE 6. FINANCIAL INSTRUMENTS

At March 31, 2003, the Company had entered into several foreign currency forward contracts with notional amounts aggregating \$90.5 million to hedge exposure to currency fluctuations in various foreign currencies, including the British Pound Sterling, the Euro and the Norwegian Krone. These contracts are designated as fair value hedges. Based on quoted market prices as of March 31, 2003 for contracts with similar terms and maturity dates, the Company recorded a loss of \$0.6 million which is reported in selling, general and administrative expense in the consolidated condensed statement of operations.

NOTE 7. EARNINGS PER SHARE

A reconciliation of the number of shares used for the basic and diluted EPS calculation is as follows:

THREE	
MONTHS	
ENDED MARCH	
31, -----	
-----	
2003 2002 -	
-----	
- Weighted	
average	
common	
shares	
outstanding	
for basic	
EPS 336.7	
336.8	
Effect of	
dilutive	
securities	
- stock	
plans 1.0	
1.3 -----	
-----	
Adjusted	
weighted	
average	
common	
shares	
outstanding	
for diluted	
EPS 337.7	
338.1	
=====	
=====	

Due to their antidilutive effect, 5.9 million and 5.0 million stock options were excluded from the computation of diluted EPS for the three months ended March 31, 2003 and 2002, respectively.

BAKER HUGHES INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. INVENTORIES

Inventories are comprised of the following:

MARCH 31,					
DECEMBER					
31, 2003					
2002 -----					
-----					
-----					
Finished					
goods \$					
860.0 \$					
842.7 Work					
in process					
111.2 96.7					
Raw					
materials					
82.6 92.6 -					
-----					
-----					
- Total \$					
1,053.8 \$					
1,032.0					
=====					
=====					

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

On January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of SFAS No. 142 required the Company to cease amortizing goodwill and to perform a transitional impairment test of goodwill in each of its reporting units as of January 1, 2002. The Company's reporting units were based on its organizational and reporting structure. Corporate and other assets and liabilities were allocated to the reporting units to the extent that they related to the operations of those reporting units. Valuations of the reporting units were performed by an independent third party. The goodwill in both the EIMCO and BIRD Machine operating divisions of the Company's Process segment was determined to be impaired using a combination of a market value and discounted cash flows approach to estimate fair value. Accordingly, the Company recognized transitional impairment losses of \$42.5 million, net of tax of \$20.4 million. The transitional impairment losses were recorded in the first quarter of 2002 as the cumulative effect of accounting change in the consolidated condensed statement of operations.

The changes in the carrying amount of goodwill (net of accumulated amortization) for the three months ended March 31, 2003 relate to the Oilfield segment and are as follows:

Balance as of December 31, 2002	\$ 1,226.6
Foreign currency translation adjustments and other	1.9
	-----
Balance as of March 31, 2003	\$ 1,228.5
	=====

The Company has intangible assets which continue to be amortized and are comprised of the following:

MARCH 31,					
2003					
DECEMBER					
31, 2002 --					
-----					
-----					
-----					
-----					
-----					
-----					
GROSS GROSS					
CARRYING					

ACCUMULATED  
 CARRYING  
 ACCUMULATED  
 AMOUNT  
 AMORTIZATION  
 NET AMOUNT  
 AMORTIZATION  
 NET -----  
 - -----  
 -----  
 -----  
 -----  
 -----

Technology-	
based \$	
171.8 \$	
(41.6) \$	
130.2 \$	
169.4 \$	
(38.6) \$	
130.8	
Marketing-	
related 5.7	
(4.8) 0.9	
5.7 (4.8)	
0.9	
Contract-	
based 10.0	
(7.3) 2.7	
10.3 (7.2)	
3.1	
Customer-	
based 0.3	
(0.1) 0.2	
0.6 (0.1)	
0.5 Other	
4.3 (2.8)	
1.5 4.2	
(2.7) 1.5 -	
-----	
-----	
-----	
-----	
----- Total	
\$ 192.1 \$	
(56.6) \$	
135.5 \$	
190.2 \$	
(53.4) \$	
136.8	
=====	
=====	
=====	
=====	
=====	
=====	

Amortization expense for intangible assets for the three months ended March 31, 2003 was \$3.3 million and is estimated to be \$12.1 million for 2003. Estimated amortization expense for each of the subsequent five fiscal years is expected to be within the range of \$10.0 million to \$12.0 million.

BAKER HUGHES INCORPORATED  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10. SEGMENT AND RELATED INFORMATION

The Company currently has seven operating divisions that have separate management teams and are engaged in the oilfield services and continuous process industries. The divisions have been aggregated into two reportable segments, "Oilfield" and "Process". The consolidated results for these segments are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Oilfield segment consists of six operating divisions -- Baker Atlas, Baker Oil Tools, Baker Petrolite, Centrilift, Hughes Christensen and INTEQ. They have been aggregated into one reportable segment because they have similar economic characteristics and because the long-term financial performance of these divisions is affected by similar economic conditions. These six operating divisions manufacture and sell products and provide services used in the oil and gas exploration industry, including drilling, completion, production and maintenance of oil and gas wells and in reservoir measurement and evaluation. They also operate in the same markets and have substantially the same customers. The principal markets for this segment include all major oil and gas producing regions of the world, including North America, South America, Europe, Africa, the Middle East and the Far East. Customers include major multi-national, independent and national or state-owned oil companies. The Oilfield segment also includes the Company's investment in WesternGeco, a seismic venture between the Company and Schlumberger Limited ("Schlumberger"), and other similar businesses. The Company and Schlumberger own 30% and 70%, respectively, of WesternGeco.

The Process segment consists of one operating division, BIRD Machine, and the Company's investment in the Petreco venture, a venture between the Company and Sequel Holdings, Inc. BIRD Machine manufactures and sells a broad range of continuous and batch centrifuges and specialty filters for separating, dewatering or classifying process and waste streams. The principal markets for this segment include all regions of the world where there are significant industrial, municipal and chemical wastewater applications. Customers include municipalities, contractors, pharmaceuticals and industrial companies.

The Company evaluates the performance of its Oilfield and Process segments based on income from continuing operations before income taxes, accounting changes, restructuring charges and interest income and expense. Intersegment sales and transfers are not significant.

Summarized financial information is shown in the following table. The "Other" column includes corporate-related items, results of insignificant operations and, as it relates to segment profit (loss), income and expense not allocated to reportable segments. The "Other" column also includes assets of discontinued operations.

OILFIELD  
 PROCESS  
 OTHER  
 TOTAL -  
 -----  
 -- ----  
 --- ---  
 -----  
 -----  
 --

REVENUES  
 Three  
 months  
 ended  
 March  
 31,  
 2003 \$  
 1,200.1  
 \$ 26.4  
 \$ -- \$  
 1,226.5  
 Three  
 months  
 ended  
 March  
 31,  
 2002  
 1,176.1

26.9 --  
 1,203.0  
 SEGMENT  
 PROFIT  
 (LOSS)  
 Three  
 months  
 ended  
 March  
 31,  
 2003 \$  
 140.1 \$  
 (4.8) \$  
 (60.1)  
 \$ 75.2  
 Three  
 months  
 ended  
 March  
 31,  
 2002  
 174.0  
 (3.3)  
 (62.1)  
 108.6  
 TOTAL  
 ASSETS  
 As of  
 March  
 31,  
 2003 \$  
 5,687.1  
 \$ 150.6  
 \$ 449.6  
 \$  
 6,287.3  
 As of  
 December  
 31,  
 2002  
 5,648.1  
 163.0  
 589.7  
 6,400.8

The following table presents the details of "Other" segment loss:

THREE  
 MONTHS  
 ENDED  
 MARCH  
 31, ----  
 -----  
 -----  
 -----  
 2003  
 2002 ---  
 ----- --  
 -----  
 Corporate  
 expenses  
 \$ (34.3)  
 \$ (34.8)  
 Interest,  
 net  
 (25.8)  
 (27.3) -  
 -----  
 -----  
 Total \$  
 (60.1) \$  
 (62.1)  
 =====  
 =====

BAKER HUGHES INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. GUARANTEES

In the normal course of business with customers, vendors and others, the Company is contingently liable for performance under letters of credit and other bank issued guarantees totaling approximately \$207.8 million at March 31, 2003. In addition, at March 31, 2003, the Company has guaranteed debt and other obligations of third parties totaling \$133.1 million, which includes \$91.6 million for a lease on a seismic vessel. This lease was transferred to WesternGeco at the time of the formation of the venture and Schlumberger has indemnified the Company for 70% of the total lease obligation.

The Company sells certain of its products to customers with a product warranty that provides that customers can return a defective product during a specified warranty period following the purchase in exchange for a replacement product, repair at no cost to the customer or the issuance of a credit to the customer. The Company accrues its estimated exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The changes in the aggregate product warranty liabilities for the three months ended March 31, 2003 are as follows:

Balance as of December 31, 2002	\$	12.2
Claims paid		(1.9)
Additional warranties issued		1.6
Revisions in estimates for previously issued warranties		0.2
Other		1.1
		-----
Balance as of March 31, 2003	\$	13.2
		=====

NOTE 12. NEW ACCOUNTING STANDARDS

Effective January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement obligation ("ARO") be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability for the ARO is revised each subsequent period due to the passage of time and changes in estimates. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the estimated useful life of the asset.

The adoption of SFAS No. 143 in the first quarter of 2003 resulted in a charge of \$5.6 million, net of tax of \$2.8 million, recorded as the cumulative effect of accounting change in the consolidated condensed statement of operations. In conjunction with the adoption, the Company recorded ARO liabilities of \$11.4 million primarily for anticipated costs of legal obligations associated with the future disposal of power source units at certain of its Oilfield divisions and refurbishment costs associated with certain leased facilities in Europe and with a fleet of leased railcars and tanks.

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and requires a guarantor to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The adoption of the provisions of FIN 45 relating to the initial recognition and measurement of guarantor liabilities, which were effective for qualifying guarantees entered into or modified after December 31, 2002, did not have a material impact on the consolidated condensed financial statements of the Company. The Company adopted the new disclosure requirements in 2002.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities. An entity is subject to the consolidation rules of FIN 46 and is referred to as a variable interest entity if the entity's equity investors lack the characteristics of a controlling

financial interest or do not have sufficient equity at risk for the entity to finance its operations without additional financial support. FIN 46 applies immediately to variable interest entities created or acquired after January 31, 2003. The Company has no such newly created or acquired entities. FIN 46 will apply after July 1, 2003 for variable interest entities created or acquired prior to February 1, 2003. The Company is reviewing the provisions of FIN 46 but does not expect the adoption to have a material impact, if any, on the consolidated condensed financial statements.

BAKER HUGHES INCORPORATED  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13. SUBSEQUENT EVENTS

In April 2003, the Company completed the formation of the QuantX Wellbore Instrumentation venture with Expro International Group ("Expro"). The venture will be engaged in the permanent in-well monitoring market and was formed by combining Expro's existing permanent monitoring business with one of the Company's product lines. The Company also paid Expro \$30.0 million and owns 50% of the venture. This venture will be included in the Oilfield segment.

Also in April 2003, the Company entered into an interest rate swap agreement for a notional amount of \$325.0 million associated with the Company's 6.25% Notes due January 2009. Under this agreement, the Company receives interest at a fixed rate of 6.25% and pays interest at a floating rate of six-month LIBOR plus a spread of 2.689%. This interest rate swap will settle semi-annually and terminates in January 2009. The interest rate swap agreement has been designated and qualified as a fair value hedging instrument. The interest rate swap agreement will be fully effective, resulting in no gain or loss recorded in the consolidated condensed statement of operations. In the unlikely event that the counterparty fails to meet the terms of the interest rate swap agreement, the Company's exposure is limited to the interest rate differential.

Subsequent to the end of the quarter through May 12, 2003, the Company repurchased 2.0 million shares of its common stock at an average cost of \$28.56 per share, for a total of \$58.2 million. Upon repurchase, the shares were retired. The Company has authorization remaining to repurchase up to \$159.1 million in common stock.



## 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 Company's consolidated condensed financial statements and the related notes thereto.

### FORWARD-LOOKING STATEMENTS

MD&A and certain statements in the Notes to Consolidated Condensed Financial Statements include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (each a "Forward-Looking Statement"). The words "anticipate," "believe," "expect," "intend," "estimate," "project," "forecasts," "outlook," "will," "could," "may," "suggest" and similar expressions, and the negative thereof, are intended to identify forward-looking statements. Baker Hughes' expectations regarding its business outlook, customer spending, oil and gas prices and the business environment for the Company and the industry in general are only its forecasts regarding these matters. These forecasts may be substantially different from actual results, which are affected by the following risk factors: the level of petroleum industry exploration and production expenditures; drilling rig and oil and gas industry manpower and equipment availability; the Company's ability to implement and effect price increases for its products and services; the Company's ability to control its costs; the availability of sufficient manufacturing capacity and subcontracting capacity at forecasted costs to meet the Company's revenue goals; the ability of the Company to introduce new technology on its forecasted schedule and at its forecasted cost; the ability of the Company's competitors to capture market share; the Company's ability to retain or increase its market share; world economic conditions; the price of, and the demand for, crude oil and natural gas; drilling activity; weather conditions that affect the demand for energy and severe weather conditions that affect exploration and production activities; the legislative and regulatory environment in the U.S. and other countries in which the Company operates; Organization of Petroleum Exporting Countries ("OPEC") policy and the adherence by OPEC nations to their OPEC production quotas; war, military action or extended period of international conflict, particularly involving the U.S., Middle East or other major petroleum-producing or consuming regions; any future acts of war, armed conflicts or terrorist activities; civil unrest or in-country security concerns where the Company operates; the development of technology by Baker Hughes or its competitors that lowers overall finding and development costs; new laws and regulations that could have a significant impact on the future operations and conduct of all businesses as a result of the financial deterioration and bankruptcies of large U.S. entities; labor-related actions, including strikes, slowdowns and facility occupations; the condition of the capital and equity markets in general, including interest rates; adverse foreign exchange fluctuations and adverse changes in the capital markets in international locations where the Company operates; and the timing of any of the foregoing. See "Business Environment" for a more detailed discussion of certain of these risk factors.

Baker Hughes' expectations regarding its level of capital expenditures described in "Liquidity and Capital Resources" below are only its forecasts regarding these matters. In addition to the factors described in the previous paragraph and in "Business Environment," these forecasts may be substantially different from actual results, which are affected by the following factors: the accuracy of the Company's estimates regarding its spending requirements; regulatory, legal and contractual impediments to spending reduction measures; the occurrence of any unanticipated acquisition or research and development opportunities; changes in the Company's strategic direction; and the need to replace any unanticipated losses of capital assets.

### BUSINESS ENVIRONMENT

The Company currently has seven operating divisions each with separate management teams that are engaged in the oilfield services and continuous process industries. The divisions have been aggregated into two reportable segments - "Oilfield" and "Process".

The Oilfield segment consists of six operating divisions - Baker Atlas, Baker Oil Tools, Baker Petrolite, Centrilift, Hughes Christensen and INTEQ - that manufacture and sell products and provide services used in the oil and gas exploration industry, including drilling, formation evaluation, completion and production of oil and gas wells. The Oilfield segment also includes the Company's investment in WesternGeco, a seismic venture between the Company and Schlumberger Limited ("Schlumberger"), and other similar businesses. The Company and Schlumberger own 30% and 70%, respectively, of WesternGeco.

The Process segment consists of one operating division, BIRD Machine, and the Company's investment in the Petreco venture, a venture between the Company and Sequel Holdings, Inc. BIRD Machine manufactures and sells a broad range of continuous and batch centrifuges and specialty filters for separating, dewatering or classifying process and waste streams.

The business environment for the Company's Oilfield segment and its corresponding operating results can be significantly affected by the level of energy industry capital expenditures for the exploration and production ("E&P") of oil and gas reserves. These

expenditures are influenced strongly by expectations about the supply and demand for crude oil and natural gas products and by the energy price environment.

The Company does business in approximately 70 countries. According to Transparency International's annual Corruption Perceptions Index ("CPI") survey, a high degree of corruption is perceived to exist in many of these countries. For example, the Company does business in about one-half of the 30 countries having the worst scores in Transparency International's CPI survey for 2002. The Company devotes significant resources to the development, maintenance and enforcement of its Business Code of Conduct policy, its Foreign Corrupt Practices Act (the "FCPA") policy, its internal control processes and procedures, as well as other compliance related policies. Notwithstanding the devotion of such resources, and in part as a consequence thereof, the Company, from time to time, discovers or receives information alleging potential violations of the FCPA and the Company's policies, processes and procedures. The Company conducts internal investigations of these potential violations. The Company anticipates that the devotion of significant resources to compliance related issues, including the necessity for such internal investigations, will continue to be an aspect of doing business in a number of the countries in which oil and gas exploration, development and production take place and the Company is requested to conduct operations.

Key risk factors currently influencing the worldwide crude oil and gas markets are:

- o Production control - the degree to which individual OPEC nations and other large oil and gas producing countries, including, but not limited to, Mexico, Norway and Russia, are willing and able to control production and exports of crude oil to decrease or increase supply and support their targeted oil price while meeting their market share objectives. Key measures of production control include actual production levels compared with target or quota production levels, oil price compared with targeted oil price and changes in each country's market share.
- o Global economic growth - particularly the impact of the U.S. and Western European economies and the economic activity in Japan, China, South Korea and the developing areas of Asia where the correlation between energy demand and economic growth is strong. An important factor in the global economic growth in 2003 will be the strength and timing of a U.S. economic recovery. Key measures include U.S. and global economic activity, global energy demand and forecasts of future demand by governments and private organizations.
- o Oil and gas storage inventory levels - a measure of the balance between supply and demand. A key measure of U.S. natural gas inventories is the storage level reported weekly by the U.S. Department of Energy compared with historic levels. Key measures for oil inventories include U.S. inventory levels reported by the U.S. Department of Energy and American Petroleum Institute and worldwide estimates reported by the International Energy Agency, again compared with historic levels.
- o Ability to produce natural gas - the amount of natural gas that can be produced is a function of the number of new wells drilled, completed and connected to pipelines as well as the rate of reservoir depletion and production from existing wells. Advanced technologies, such as horizontal drilling, result in improved total recovery, but also result in a more rapid production decline.
- o Technological progress - in the design and application of new products that allow oil and gas companies to drill fewer wells and to drill, complete and produce wells faster, recover more hydrocarbons and to do so at lower cost. Also key are the overall levels of research and engineering spending and the pace at which new technology is introduced commercially and accepted by customers.
- o Maturity of the resource base - of known hydrocarbon reserves in the North Sea, U.S., Canada and Latin America.
- o Pace of new investment - access to capital and the reinvestment of available cash flow into existing and emerging markets. Key measures of access to capital include cash flow, interest rates, analysis of oil and gas company leverage and equity offering activity. Access to capital is particularly important for smaller independent oil and gas companies.
- o Energy prices and price volatility - the impact of widely fluctuating commodity prices on the stability of the market and subsequent impact on customer spending. Sustained higher energy prices can be an impediment to economic growth. While current energy prices are important contributors to

positive cash flow at E&P companies, expectations for future prices are more important for determining future E&P spending.

- o Access to prospects - which are economically attractive to individual oil and gas companies based on their expectations of required returns, forecasted energy prices and required investment. Access to prospects may be limited because host governments do not allow access to the reserves or because another oil and gas company owns the rights to develop the prospect.

- o Possible supply disruptions - from key oil exporting countries, including, but not limited to, Iraq, Saudi Arabia, Nigeria and other Middle Eastern countries and Venezuela, due to political instability, civil unrest or military activity. In addition, adverse weather such as hurricanes could impact production facilities, causing supply disruptions.
- o Weather - the impact of variations in temperatures as compared with normal weather patterns and the related effect on demand for oil and natural gas. A key measure of the impact of weather on energy demand is population-weighted heating and cooling degree days as reported by the U.S. Department of Energy and forecasts of warmer than normal or cooler than normal temperatures.

#### OIL AND GAS PRICES

Generally, customers' expectations about their prospects from oil and gas sales and customers' expenditures to explore for or produce oil and gas rise or fall with corresponding changes in the prices of oil or gas. Accordingly, changes in these expenditures will normally result in increased or decreased demand for the Company's products and services in its Oilfield segment. West Texas Intermediate ("WTI") crude 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	
MARCH	
31, ----	
-----	
-----	
-----	
2003	
2002 ---	
-----	
---	WTI
	crude
	oil
	(\$/bbl)
	\$ 33.96
	\$ 21.58
	U.S.
	Spot
	Natural
	Gas
	(\$/MMBtu)
	6.38
	2.53

WTI crude oil prices averaged \$33.96/bbl in the first quarter of 2003, rising from \$30.56/bbl in early January to a high for the quarter of \$37.83/bbl in early March, before falling to a low for the quarter of \$27.36/bbl in late March. In January and February, oil prices rose due to the impact of the general strike in Venezuela that began in December 2002. The strike resulted in decreased oil production and exports from Venezuela and in lower inventories in the U.S. Also in January and February, oil prices rose above what the historical relationship between oil price and inventories would suggest was appropriate. This "war premium" was driven by concerns of a possible supply disruption resulting from military action in the Middle East. Prices fell throughout March as military action in Iraq did not produce a significant disruption; as the general strike in Venezuela subsided, allowing oil production and exports to begin to recover; and as Saudi Arabia and other OPEC countries increased production to compensate for the loss of Venezuelan and Iraqi crude.

During the first quarter of 2003, natural gas prices averaged \$6.38/MMBtu. Natural gas prices were volatile during the quarter, trading between a low of \$4.89/MMBtu and a high of \$19.38/MMBtu, and averaged almost \$10.00/MMBtu during a period of colder weather in late February and early March. The rise in natural gas prices was driven by tight supply, created by falling production, and increased demand due to a winter that was colder than the prior year, but warmer than normal. Prices rose to a level high enough to curtail enough demand to allow the market to balance with less supply. The year over year natural gas storage deficit grew throughout the quarter and storage levels reached record lows in April 2003.

#### RIG COUNTS

The Company is engaged in the oilfield service industry providing products and services that are used in exploring for, developing and producing oil and gas reservoirs. When drilling or workover rigs are active, they consume many of the products and services provided by the oilfield service industry. The rig counts act as a leading indicator of consumption of products and services used in drilling, completing, producing and processing hydrocarbons. Rig count trends are governed by the exploration and development spending by oil and gas companies, which in turn is influenced by current and future price expectations for oil and natural gas. Rig counts therefore generally reflect the relative strength and stability of energy prices.

The Company has been providing rig counts to the public since 1944. The Company gathers all relevant data through its field service personnel worldwide who obtain this information from various sources. This data is then compiled and distributed to various wire services and trade associations and is published on the Company's website. Rig counts are compiled weekly for the U.S. and Canada and monthly for all international and workover rigs. North American rigs are counted as active if the well being drilled has been started and drilling has not been completed on the day the count is taken. For an international rig to be counted as active on a monthly basis, drilling operations must comprise at least 15 days during the month. Published international rig counts do not include rigs drilling in certain countries, such as Russia and onshore China, because this information is extremely difficult to obtain. The Company's rig counts are summarized in the table below as averages for each of the periods indicated.

THREE	
MONTHS	
ENDED MARCH	
31, -----	
-----	
-----	
2003 2002 -	
-----	
-----	
- U.S. -	
Land 788	
693 U.S. -	
Offshore	
109 121	
Canada 492	
377 -----	
-----	
-----	
North	
America	
1,389 1,191	
-----	
- -----	
--- Latin	
America 217	
225 North	
Sea 44 55	
Other	
Europe 38	
39 Africa	
54 55	
Middle East	
213 193	
Asia	
Pacific 178	
165 -----	
-----	
-----	
Outside	
North	
America 744	
732 -----	
-----	
-----	
Worldwide	
2,133 1,923	
=====	
=====	
U.S.	
Workover	
Rigs 1,049	
991	
=====	
=====	

INDUSTRY OUTLOOK

Caution is advised that the factors described above in "Forward Looking Statements" and "Business Environment" could negatively impact the Company's expectations for oil and gas demand, oil and gas prices and drilling activity.

Oil - The balance between oil supply and oil demand remained tight as the second quarter of 2003 began. The supply disruptions caused by military action in Iraq and the general strike in Venezuela tested, but did not exceed, OPEC's ability to increase supply to stabilize the market. As a result, oil prices are expected to trade between \$23/bbl and \$28/bbl for the balance of 2003. Prices could move above this trading range if supply is disrupted in the Middle East, Africa or Venezuela again. Prices could move below this trading range if OPEC proves unwilling or unable to restrain production to match market demand or if the U.S. and/or world economy slows.

North America Natural Gas - Prices are expected to trade between \$4.00/MMBtu and \$6.00/MMBtu, as higher prices will be required to discourage some industrial demand and increase the amount of gas that can be injected into storage before the start of the 2003/2004 heating season. Prices could move to the top of this trading range and spike above it if warmer than normal weather drives demand

higher or if supply is disrupted - e.g., by a Gulf of Mexico hurricane.

Customer Spending - Based upon the Company's discussions with its major customers, its review of published industry reports and the Company's outlook for oil and gas prices described above, the anticipated customer spending trends are as follows:

- o North America - Spending in North America, primarily towards developing natural gas supplies, is expected to increase approximately 10% to 15% in 2003 compared with 2002.
- o Outside North America - Customer spending, primarily directed at developing oil supplies, is expected to be flat to up by 5% in 2003 compared with 2002.
- o Total spending is expected to be up 4% to 6% in 2003 compared with 2002.

Drilling Activity - Based upon the Company's outlooks for oil and natural gas prices and customer spending described above, the Company's outlook for drilling activity, as measured by the Baker Hughes rig count, is as follows:

- o The North American rig count is expected to increase approximately 8% to 10% in 2003 compared with 2002. The U.S. rig count is expected to rise throughout the year and end the year at approximately 950 to 1,100 rigs.
- o Drilling activity outside of North America, excluding Venezuela, is expected to remain steady in 2003 and is expected to increase as much as 3% to 5% compared with 2002.



## COMPANY OUTLOOK

The Company expects that 2003 will be stronger than 2002, with revenues expected to increase by approximately 4% to 6% as compared with 2002, with related improvements in operating results, primarily in the second half of the year. Activity is expected to improve in the second half of 2003 as a result of anticipated increased drilling activity in the U.S., primarily due to relatively higher commodity prices. Activity outside of the U.S. is also expected to increase as a result of the relatively high crude oil prices. The Company expects the second quarter of 2003 activity to be up 2% to 4% compared with the first quarter of 2003 due to a steady post-strike recovery in Venezuela, a return to normal activity levels in Nigeria and the Middle East by the end of the second quarter, steady improvement in U.S. land gas-directed drilling and the beginnings of an increase in U.S. offshore gas-directed drilling. These improvements will be partially offset by the seasonal decline in Canadian drilling.

Nigeria held national elections in April 2003. Civil unrest related to electoral issues in Nigeria resulted in a number of operators curtailing operations in Nigeria in March 2003 and the delay of several export-direct customer orders for Nigerian customers. Activity is expected to return to normal in the second quarter.

The military action in Iraq impacted the Company's operations in the Middle East in the first quarter and resulted in delays affecting several export-direct customer orders. The military action in Iraq is entering a new phase and the Company expects most orders delayed in the first quarter to be shipped during the second quarter.

Activity in the North Sea, particularly in the U.K. sector, is expected to be depressed for the next 12 to 18 months. Although activity is expected to increase seasonally, a meaningful increase in activity levels is probably dependent upon a large number of assets being sold by the major oil and gas companies and independents. As a result, the Company is taking steps to reduce its cost structure in the North Sea.

## NEW ACCOUNTING STANDARDS

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement obligation ("ARO") be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability for the ARO is revised each subsequent period due to the passage of time and changes in estimates. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the estimated useful life of the asset.

The adoption of SFAS No. 143 in the first quarter of 2003 resulted in a charge of \$5.6 million, net of tax of \$2.8 million, recorded as the cumulative effect of accounting change in the consolidated condensed statement of operations. In conjunction with the adoption, the Company recorded ARO liabilities of \$11.4 million primarily for anticipated costs of legal obligations associated with the future disposal of power source units at certain of its Oilfield divisions and refurbishment costs associated with certain leased facilities in Europe and with a fleet of leased railcars and tanks.

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on required disclosures by a guarantor in its financial statements about obligations under certain guarantees that it has issued and requires a guarantor to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The adoption of the provisions of FIN 45 relating to the initial recognition and measurement of guarantor liabilities, which were effective for qualifying guarantees entered into or modified after December 31, 2002, did not have a material impact on the consolidated condensed financial statements of the Company. The Company adopted the new disclosure requirements in 2002.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities. An entity is subject to the consolidation rules of FIN 46 and is referred to as a variable interest entity if the entity's equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its operations without additional financial support. FIN 46 applies

immediately to variable interest entities created or acquired after January 31, 2003. The Company has no such newly created or acquired entities. FIN 46 will apply after July 1, 2003 for variable interest entities created or acquired prior to February 1, 2003. The Company is reviewing the provisions of FIN 46 but does not expect the adoption to have a material impact, if any, on the consolidated condensed financial statements.

DISCONTINUED OPERATIONS

In November 2002, the Company sold EIMCO Process Equipment ("EIMCO"), a division of the Process segment, and received total proceeds of \$48.9 million, of which \$4.9 million was held in escrow pending completion of final adjustments of the purchase price. Subsequent to the end of the first quarter of 2003, all purchase price adjustments were completed resulting in the release of the escrow balance, of which \$2.9 million was returned to the buyer and \$2.0 million was received by the Company. The Company also recorded an additional loss on sale due to purchase price adjustments of \$2.5 million, net of tax of \$1.3 million. In addition, in December 2002, the Company entered into exclusive negotiations for the sale of the Company's interest in its oil producing operations in West Africa and received \$10.0 million as a deposit. This transaction was effective as of January 1, 2003, and resulted in a gain on sale of \$4.1 million, net of a tax benefit of \$0.2 million. The Company received the remaining \$22.0 million in proceeds upon closing, which occurred in April 2003. In accordance with generally accepted accounting principles, the Company has reclassified the consolidated financial statements for all prior periods to present both of these operations as discontinued.

Summarized financial information from discontinued operations is as follows:

THREE	
MONTHS	
ENDED MARCH	
31, -----	
-----	
- 2003 2002	
-----	
- -----	
---	
Revenues:	
EIMCO \$ --	
\$ 44.9 Oil	
producing	
operations	
4.2 13.0 --	
-----	
- Total \$	
4.2 \$ 57.9	
=====	
=====	
Income	
before	
income	
taxes:	
EIMCO \$ --	
\$ 1.7 Oil	
producing	
operations	
1.8 5.4 ---	
-----	
-----	
Total 1.8	
7.1 -----	
-----	
-----	
Income	
taxes:	
EIMCO --	
(0.6) Oil	
producing	
operations	
(0.7) (1.3)	
-----	
- -----	
--- Total	
(0.7) (1.9)	
-----	
- -----	
--- Income	
before gain	
(loss) on	
disposal:	
EIMCO --	

1.1 Oil producing operations	1.1 4.1 --- ----- ----- -----
Total 1.1	5.2 ----- ----- -----
Gain (loss) on disposal, net of tax:	
EIMCO (2.5)	
-- Oil producing operations	4.1 -- ---- ----- -----
Total 1.6 -	- ----- ----- -----
Income from discontinued operations	
\$ 2.7 \$ 5.2	=====
	=====

#### RESULTS OF OPERATIONS

The Company is primarily engaged in the oilfield service industry, which accounted for 97.8% of total revenues for the three months ended March 31, 2003 and 2002. As a result, the discussion regarding the consolidated results of operations is primarily focused on the Company's Oilfield segment.

#### REVENUES

Revenues for the three months ended March 31, 2003 were \$1,226.5 million, an increase of 2.0% compared with the three months ended March 31, 2002. Oilfield revenues were \$1,200.1 million, an increase of 2.0% compared with the three months ended March 31, 2002. Oilfield revenues in North America, which account for 43.9% of total Oilfield revenues, increased 9.0% for the three months ended March 31, 2003 compared with the three months ended March 31, 2002. This increase reflects increased activity in U.S. land operations, as evidenced by a 13.7% increase in the U.S. land rig count, partially offset by decreased performances in the deepwater Gulf of Mexico. Outside North America, Oilfield revenues decreased 2.8% for the three months ended March 31, 2003 compared with the three months ended March 31, 2002. This decrease reflects a slower than expected recovery in Venezuela, civil unrest in Nigeria, weakening North Sea markets and associated price erosion, as well as product shipment delays to Russia and the Middle East.

## COST OF REVENUES

Cost of revenues for the three months ended March 31, 2003 was \$923.3 million, an increase of 5.5% compared with the three months ended March 31, 2002. Cost of revenues as a percentage of consolidated revenues for the three months ended March 31, 2003 and 2002 was 75.3% and 72.8%, respectively. The increase is primarily the result of pricing pressures and a change in the geographic and product mix from the sale of the Company's products and services.

## SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2003 were \$201.8 million, a decrease of 1.6% compared with the three months ended March 31, 2002. SG&A expenses as a percentage of consolidated revenues for the three months ended March 31, 2003 and 2002 were 16.5% and 17.0%, respectively. This reflects the impact of the Company's cost control measures and a more stable SG&A cost structure.

## EQUITY IN INCOME (LOSS) OF AFFILIATES

Equity in income (loss) of affiliates relates to the Company's share of the income (loss) of affiliates accounted for using the equity method of accounting. Equity in income (loss) of affiliates for the three months ended March 31, 2003 decreased \$13.5 million compared with the three months ended March 31, 2002. The Company's most significant equity method investment is its 30% interest in WesternGeco. The operating results of WesternGeco were adversely affected by the continuing weakness in the seismic industry.

## INTEREST EXPENSE AND INTEREST INCOME

Interest expense for the three months ended March 31, 2003 was unchanged compared with the three months ended March 31, 2002. Interest expense was impacted by lower total debt levels resulting from cash flow from operations and the repayment of \$100.0 million of long-term debt coupled with lower average interest rates on the Company's short-term debt. The approximate average interest rate on short-term debt was 1.3% for the three months ended March 31, 2003 compared with 1.8% for the three months ended March 31, 2002. Interest expense was also impacted by the final settlement of outstanding obligations with a related party.

Interest income for the three months ended March 31, 2003 compared with the three months ended March 31, 2002, increased \$1.5 million primarily due to the final settlement of outstanding obligations due to the Company from a related party.

## INCOME TAXES

The Company's effective tax rates differ from the statutory income tax rate of 35% due to lower effective rates on international operations offset by higher taxes within the WesternGeco venture that arose due to: (i) the venture being taxed in certain foreign jurisdictions based on a deemed profit basis, which is a percentage of revenues rather than profits and (ii) unbenefitted foreign losses of the venture, which are operating losses in certain foreign jurisdictions where there was no current tax benefit and where a deferred tax asset was not recorded due to the uncertainty of realization.

## CUMULATIVE EFFECT OF ACCOUNTING CHANGE

On January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of SFAS No. 142 required the Company to cease amortizing goodwill and to perform a transitional impairment test of goodwill in each of its reporting units as of January 1, 2002. The Company's reporting units were based on its organizational and reporting structure. Corporate and other assets and liabilities were allocated to the reporting units to the extent that they related to the operations of those reporting units. Valuations of the reporting units were performed by an independent third party. The goodwill in both the EIMCO and BIRD Machine operating divisions of the Company's Process segment was determined to be impaired using a combination of a market value and discounted cash flows approach to estimate fair value. Accordingly, the Company recognized transitional impairment losses of \$42.5 million, net of tax of \$20.4 million. The transitional impairment losses were recorded in the first quarter of 2002 as the cumulative effect of accounting change in the consolidated condensed statement of operations.

On January 1, 2003, the Company adopted SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement obligation ("ARO") be recognized in the period in which it



incurred if a reasonable estimate of fair value can be made. The liability for the ARO is revised each subsequent period due to the passage of time and changes in estimates. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the estimated useful life of the asset.

The adoption of SFAS No. 143 in the first quarter of 2003 resulted in a charge of \$5.6 million, net of tax of \$2.8 million, recorded as the cumulative effect of accounting change in the consolidated condensed statement of operations. In conjunction with the adoption, the Company recorded ARO liabilities of \$11.4 million primarily for anticipated costs of legal obligations associated with the future disposal of power source units at certain of its Oilfield divisions and refurbishment costs associated with certain leased facilities in Europe and with a fleet of leased railcars and tanks.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements have principally related to working capital needs, payment of dividends and capital expenditures. These requirements have been met through a combination of commercial paper borrowings and internally generated funds.

In the three months ended March 31, 2003, net cash inflows from operating activities of continuing operations totaled \$20.1 million, an increase of \$22.8 million compared with the three months ended March 31, 2002. This increase was primarily due to a decrease in working capital, partially offset by lower income from continuing operations.

Expenditures for capital assets totaled \$76.2 million and \$62.1 million for the three months ended March 31, 2003 and 2002, respectively. The majority of these expenditures were for machinery and equipment and rental tools. During the three months ended March 31, 2003 and 2002, the Company received proceeds of \$12.4 million and \$17.4 million, respectively, from the disposal of assets.

During 2002, the Company's Board of Director's authorized the Company to repurchase up to \$275.0 million of its common stock. During the three months ended March 31, 2003, the Company repurchased 0.3 million shares at an average cost of \$28.69 per share, for a total of \$8.6 million. Subsequent to the end of the quarter through May 12, 2003, the Company repurchased 2.0 million shares at an average cost of \$28.56 per share, for a total of \$58.2 million. Upon repurchase, the shares were retired. The Company has authorization remaining to repurchase up to \$159.1 million in common stock.

Total debt outstanding at March 31, 2003 was \$1,517.2 million, a decrease of \$30.6 million compared with December 31, 2002. The Company repaid \$100.0 million of its 5.8% Notes due February 2003. The repayment was funded through cash flow from operations and the issuance of commercial paper. The debt to equity ratio was 0.44 at March 31, 2003 compared with 0.46 at December 31, 2002. The Company's long-term objective is to maintain a debt to equity ratio between 0.40 and 0.60.

At March 31, 2003, the Company had \$977.5 million of credit facilities with commercial banks, of which \$594.0 million was committed. The committed facilities expire in September 2003 (\$56 million) and October 2003 (\$538 million). There were no direct borrowings under these facilities during the three months ended March 31, 2003; however, to the extent the Company has outstanding commercial paper, available borrowings under the committed credit facilities are reduced. At March 31, 2003, the Company had \$50.0 million in commercial paper outstanding. At December 31, 2002, the Company had no outstanding commercial paper.

Cash flows from continuing operations are expected to be the principal sources of liquidity in 2003. The Company believes that cash flows from continuing operations, combined with existing credit facilities, will provide the Company with sufficient capital resources and liquidity to manage its operations, meet debt obligations and fund projected capital expenditures. The Company currently expects 2003 capital expenditures to be between \$310.0 million and \$330.0 million, excluding acquisitions. The expenditures are expected to be used primarily for normal, recurring items necessary to support the growth of the Company.

If the Company incurred a reduction in its debt ratings or stock price, there are no provisions in the Company's debt or lease agreements that would accelerate their repayment, require collateral or require material changes in terms. Other than normal operating leases, the Company does not have any off-balance sheet financing arrangements such as securitization agreements, liquidity trust vehicles or special purpose entities. As such, the Company is

not materially exposed to any financing, liquidity, market or credit risk that could arise if the Company had engaged in such financing arrangements.

In the normal course of business with customers, vendors and others, the Company is contingently liable for performance under letters of credit and other bank issued guarantees totaling approximately \$207.8 million at March 31, 2003. In addition, at March 31, 2003, the Company has guaranteed debt and other obligations of third parties totaling \$133.1 million, which includes \$91.6



million for a lease on a seismic vessel. This lease was transferred to WesternGeco at the time of the formation of the venture and Schlumberger has indemnified the Company for 70% of the total lease obligation.

The words "believes," "will," "expected" and "expects" are intended to identify Forward-Looking Statements in "Liquidity and Capital Resources". See "Forward-Looking Statements" and "Business Environment" above for a description of risk factors related to these Forward-Looking Statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations are conducted around the world in a number of different currencies. The majority of the Company's significant foreign subsidiaries have designated the local currency as their functional currency. As such, future earnings are subject to change due to changes in foreign currency exchange rates when transactions are denominated in currencies other than the Company's functional currencies. To minimize the need for foreign currency contracts, the Company's objective is to manage its foreign currency exposure by maintaining a minimal consolidated net asset or net liability position in a currency other than the functional currency.

At March 31, 2003, the Company had entered into several foreign currency forward contracts with notional amounts aggregating \$90.5 million to hedge exposure to currency fluctuations in various foreign currencies, including the British Pound Sterling, the Euro and the Norwegian Krone. These contracts are designated as fair value hedges. Based on quoted market prices as of March 31, 2003 for contracts with similar terms and maturity dates, the Company recorded a loss of \$0.6 million.

The counterparties to the Company's forward contracts are major financial institutions. The credit ratings and concentration of risk of these financial institutions are monitored on a continuing basis. In the unlikely event that the counterparties fail to meet the terms of a foreign currency contract, the Company's exposure is limited to the foreign currency rate differential.

In April 2003, the Company entered into an interest rate swap agreement for a notional amount of \$325.0 million associated with the Company's 6.25% Notes due January 2009. Under this agreement, the Company receives interest at a fixed rate of 6.25% and pays interest at a floating rate of six-month LIBOR plus a spread of 2.689%. This interest rate swap will settle semi-annually and terminates in January 2009. The interest rate swap agreement has been designated and qualified as a fair value hedging instrument. The interest rate swap agreement will be fully effective, resulting in no gain or loss recorded in the consolidated condensed statement of operations. In the unlikely event that the counterparty fails to meet the terms of the interest rate swap agreement, the Company's exposure is limited to the interest rate differential.

### ITEM 4. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing of this Quarterly Report on Form 10-Q, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation was carried out under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of the Company's disclosure controls and procedures are effective. There were no significant changes to the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation. No significant deficiencies or material weaknesses in the internal controls were identified during the evaluation and, as a consequence, no corrective action is required to be taken.

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



PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On March 25, 2002, a former employee alleging improper activities relating to Nigeria filed a civil complaint against the Company in the 281st District Court in Harris County, Texas, seeking back pay and damages, including future lost wages. On August 2, 2002, the same former employee filed substantially the same complaint against the Company in the federal district court for the Southern District of Texas. The state court case has been stayed pending the outcome of the federal suit. Discovery in the federal suit is in the preliminary stages.

On March 29, 2002, the Company announced that it had been advised that the Securities and Exchange Commission ("SEC") and the Department of Justice ("DOJ") are conducting investigations into allegations of violations of law relating to Nigeria and other related matters. The SEC has issued a formal order of investigation into possible violations of provisions under the Foreign Corrupt Practices Act ("FCPA") regarding anti-bribery, books and records and internal controls, and the DOJ has asked to interview current and former employees. Prior to the filing of the former employee's complaint, the Company had independently initiated an investigation regarding its operations in Nigeria, which is ongoing. The Company is providing documents to and cooperating fully with the SEC and the DOJ.

The Company's ongoing internal investigation has identified apparent deficiencies with respect to certain operations in Nigeria in its books and records and internal controls, and potential liabilities to governmental authorities in Nigeria. The investigation was substantially completed during the first quarter of 2003. Based upon current information, the Company does not expect that any such potential liabilities will have a material adverse effect on the Company's results of operations or financial condition.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on April 23, 2003 (1) to elect four Class III members of the Board of Directors to serve for three-year terms, (2) to approve the amendment of the Baker Hughes Incorporated Employee Stock Purchase Plan, (3) to consider a stockholder proposal regarding poison pills, (4) to consider a stockholder proposal regarding classified boards, (5) to consider a stockholder proposal regarding prohibition of stock option grants to senior executives and (6) to consider a stockholder proposal on implementation of the MacBride Principles in Northern Ireland. Following are the final results of the Annual Meeting, which supersede the preliminary results reported under Item 5 of the Current Report on Form 8-K filed with the SEC on April 25, 2003.

The four Class III directors who were so elected are Claire W. Gargalli, James A. Lash, James F. McCall and Michael E. Wiley. The directors whose term of office continued after the Annual Meeting are Clarence P. Cazalot, Jr., Edward P. Djerejian, Anthony G. Fernandes, Richard D. Kinder, J. Larry Nichols, H. John Riley, Jr. and Charles L. Watson. The number of affirmative votes and the number of votes withheld for the directors so elected were:

Number of Affirmative Number of Names Votes	Withheld -
-----	-----
-----	-----
-----	-----
Claire W. Gargalli	
223,495,560	
76,221,399	

James A.  
Lash  
223,295,560  
76,421,399  
James F.  
McCall  
223,306,094  
76,410,865  
Michael E.  
Wiley  
223,506,038  
76,210,921

The number of affirmative votes, the number of negative votes, the number of abstentions and the number of broker non-votes with respect to the amendment of the Baker Hughes Incorporated Employee Stock Purchase Plan were as follows:

Number of Affirmative Number of Broker Votes Negative Votes Abstentions Non-votes	
-	-----
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-----	
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292,947,391	
4,846,295	
1,923,273	
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The number of affirmative votes, the number of negative votes, the number of abstentions and the number of broker non-votes with respect to the approval of the stockholder proposals were as follows:

Number of Number of Affirmative Negative Broker Votes Votes Abstentions Non-votes	
-----	
-	-----
-----	
-----	
-----	
-----	
-----	
Proposal regarding poison pills	
203,440,221	
67,426,808	
2,289,674	
26,560,256	
Proposal regarding classified boards	
231,857,567	
38,887,118	
2,411,477	
26,560,797	
Proposal regarding prohibition of stock option grants to senior executives	
8,359,833	
262,268,111	
2,528,219	
26,560,796	
Proposal regarding MacBride Principles	
16,783,790	
243,602,899	

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 10.1 Baker Hughes Incorporated Employee Stock Purchase Plan, as amended and restated effective as of March 5, 2003.
- 10.2 Interest Rate Swap Confirmation, dated April 8, 2003, and Schedule to the Master Agreement (Multicurrency-Cross Border), dated as of March 6, 2000.
- 99.1 Statement of Michael E. Wiley, Chief Executive Officer, and G. Stephen Finley, Chief Financial Officer, dated May 13, 2003 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed with the SEC on April 15, 2003, to furnish under "Item 9. Regulation FD Disclosure" pursuant to "Item 12. Results of Operations and Financial Condition" (in accordance with SEC Release No. 33-8216) the Company's updated outlook for the three months ended March 31, 2003.

A Current Report on Form 8-K was filed with the SEC on April 25, 2003, (a) to report under "Item 5. Other Events and Required FD Disclosure" the preliminary results of the Company's Annual Meeting of Stockholders and the election of certain members of the Board of Directors and stockholder proposals and (b) to furnish under "Item 9. Regulation FD Disclosure" pursuant to "Item 12. Results of Operations and Financial Condition" (in accordance with SEC Release No. 33-8216) the Company's announcement of financial results for the first quarter of 2003.

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 INCORPORATED  
(REGISTRANT)

Date: May 13, 2003

By: /s/G. STEPHEN FINLEY

-----  
G. Stephen Finley  
Sr. Vice President - Finance and  
Administration and Chief Financial Officer

Date: May 13, 2003

By: /s/ALAN J. KEIFER

-----  
Alan J. Keifer  
Vice President and Controller

CERTIFICATIONS

I, Michael E. Wiley, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/MICHAEL E. WILEY

-----  
Michael E. Wiley  
Chairman of the Board, President and  
Chief Executive Officer



I, G. Stephen Finley, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/G. STEPHEN FINLEY

-----  
G. Stephen Finley  
Sr. Vice President - Finance and  
Administration and Chief Financial Officer

INDEX TO  
EXHIBITS (a)  
Exhibits: 10.1  
Baker Hughes  
Incorporated  
Employee Stock  
Purchase Plan,  
as amended and  
restated  
effective as of  
March 5, 2003  
10.2 Interest  
Rate Swap  
Confirmation,  
dated April 8,  
2003, and  
Schedule to the  
Master  
Agreement  
(Multicurrency-  
Cross Border),  
dated as of  
March 6, 2000.  
99.1 Statement  
of Michael E.  
Wiley, Chief  
Executive  
Officer, and G.  
Stephen Finley,  
Chief Financial  
Officer, dated  
May 13, 2003  
pursuant to  
Section 906 of  
the Sarbanes-  
Oxley Act of  
2002.

BAKER HUGHES INCORPORATED  
EMPLOYEE STOCK PURCHASE PLAN,  
(AS AMENDED AND RESTATED MARCH 5, 2003)

BAKER HUGHES INCORPORATED  
EMPLOYEE STOCK PURCHASE PLAN,  
AS AMENDED AND RESTATED EFFECTIVE AS OF MARCH 5, 2003

TABLE OF CONTENTS PAGE ARTICLE 1

PURPOSE.....	1	1.1
Purpose .....	1	
ARTICLE 2 DEFINITIONS.....		
1 2.1		
Definitions.....		
1 2.2 Number and		
Gender.....	3	2.3
Headings .....		
3 ARTICLE 3 ELIGIBILITY AND		
PARTICIPATION.....	3	3.1
Eligibility.....		
3 3.2		
Participation.....		
3 3.3 Termination of		
Participation.....	4	ARTICLE 4
GRANT OF OPTIONS AND EXERCISE OF OPTIONS.....	5	4.1
Grant of		
Options.....	5	4.2
Limitations on the Grant of		
Options.....	5	4.3 Insufficient Number
of Shares.....	5	4.4 Restriction
Upon Assignment.....	6	4.5
Exercise of Options; ESPP		
Accounts.....	6	4.6 Withholding
Obligations.....	6	4.7
Notice of		
Disposition.....	6	4.8
Dispositions in Compliance with Securities		
Laws.....	6	ARTICLE 5 PROVISIONS RELATED TO COMMON
STOCK.....	6	5.1 Shares
Reserved.....	6	5.2
No Rights of Stockholder Until		
Exercise.....	7	5.3 Registration of Shares
of Common Stock.....	7	5.4 Certificates
for Shares.....	7	5.5
Changes in Common Stock and		
Adjustments.....	7	ARTICLE 6 ADMINISTRATION
OF PLAN.....	8	6.1 Plan
Administrator.....	8	
6.2 Resignation and		
Removal.....	8	6.3 Records
and Procedures.....	8	6.4
Self-Interest of Plan		
Administrator.....	8	6.5 Compensation
and Bonding.....	8	6.6 Plan
Administrator Powers and Duties.....	8	
6.7 Reliance on Documents, Instruments,		
etc.....	9	ARTICLE 7 EXTENSION OF PLAN TO
EMPLOYERS.....	9	7.1 Adoption by
Employers.....	9	7.2
Single		
Plan.....	9	7.3
No Joint Venture		
Implied.....	9	ARTICLE 8
MISCELLANEOUS.....	9	8.1 Use
of Funds; No Interest Paid.....	9	
8.2 Amendment to the		
Plan.....	10	8.3 Plan Not
an Employment Contract.....	10	8.4
Beneficiary(ies).....		
10 8.5		
Severability.....		
10 8.6 Binding		
Effect.....	10	8.7
Limitation on		
Liability.....	10	8.8
Arbitration.....		
10 8.9 Governing		
Law.....	10	



BAKER HUGHES INCORPORATED  
EMPLOYEE STOCK PURCHASE PLAN,  
AS AMENDED AND RESTATED EFFECTIVE AS OF MARCH 5, 2003

ARTICLE 1: PURPOSE

1.1 PURPOSE. The purpose of the EMPLOYEE STOCK PURCHASE PLAN (the "Plan") of BAKER HUGHES INCORPORATED (the "Company") is to encourage and enable Eligible Employees (defined below) to voluntarily acquire proprietary interests in the Company through the ownership of the Company's Common Stock (defined below) at a favorable price and upon favorable terms and to furnish to the Eligible Employees an incentive to advance the best interests of the Company for the mutual benefit of the Eligible Employees, the Company and the Company's stockholders. The Plan is intended to qualify as an "employee stock purchase plan" under section 423 of the Code (defined below). Accordingly, the provisions of the Plan shall be construed in a manner consistent with the requirements of that Code section.

Subject to approval by the Company's stockholders, the provisions of Section 5.1 of this Plan shall become effective as of March 5, 2003.

ARTICLE 2: DEFINITIONS

2.1 DEFINITIONS.

"AFFILIATE" means any entity which is a member of (i) of the same controlled group of corporations within the meaning of section 414(b) of the Code, (ii) a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), or (iii) an affiliated service group (within the meaning of section 414(m) of the Code) with the Company.

"BENEFICIARY" or "BENEFICIARIES" shall be as determined pursuant to the provisions of Section 8.4.

"BOARD" means the Board of Directors of the Company.

"CODE" means the Internal Revenue Code of 1986, as amended. References to sections of the Code shall include the regulations issued thereunder.

"COMMITTEE" means the Administrative Committee that may be appointed by the Compensation Committee of the Board as a Plan Administrator.

"COMMON STOCK" means the \$1 par value common stock of the Company.

"COMPANY" means Baker Hughes Incorporated, a Delaware corporation.

"COMPENSATION COMMITTEE" means the Compensation Committee of the Board.

"DATE OF EXERCISE" means, for each Option Period, the last day that the principal securities exchange on which the Common Stock is listed is open for trading.

"DATE OF GRANT" means the date on which Options are granted, as such date is determined by the Board or the Compensation Committee.

"ELIGIBLE COMPENSATION" means a Participant's base salary or wages measured on an annual basis (as defined in section 3401(a) of the Code for purposes of federal income tax withholding) from the Company, modified by including any portion thereof that such Participant could have received in cash in lieu of (i) any deferrals made by the Participant pursuant to the Baker Hughes Incorporated Supplemental Retirement Plan or (ii) elective contributions made on his behalf by the Company pursuant to a qualified cash or deferred arrangement described in section 401(k) of the Code and any elective contributions under a cafeteria plan described in section 125, and modified further by excluding any bonus, incentive compensation,

commissions, expense reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation (other than elective contributions to the Company's qualified cash or deferred arrangement described in section 401(k) of the Code), welfare benefits as defined in ERISA, overtime pay, special performance compensation amounts and severance compensation.

"ELIGIBLE EMPLOYEE" means each Employee who is scheduled to work at least 20 hours per pay period during the Option Period and is an Employee at the beginning of the Option Period; provided, that the following Employees shall not be eligible to participate in the Plan:

(i) an Employee who is a citizen of a foreign country that prohibits foreign corporations from granting stock options to any of its citizens; and

(ii) an Employee if such Employee, immediately after the Option is granted, owns stock (as defined by sections 423(b)(3) and 424(d) of the Code) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of a subsidiary.

"EMPLOYEE" means each individual employed by an Employer.

"EMPLOYER" means the Company and each entity that has adopted the Plan pursuant to the provisions of Article 7.

"ESPP ACCOUNT" means the individual account established by the ESPP Administrator for each Participant in the Plan.

"ESPP ADMINISTRATOR" means the stock brokerage or other financial services firm designated or approved by the Plan Administrator to hold shares purchased under the Plan for the ESPP Accounts of Participants.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, or any successor act.

"FAIR MARKET VALUE" means the per share price of the last sale of the Common Stock on the "composite tape" on the trading day prior to the date on which the value is being determined. The "composite tape" is the composite transactions in the Common Stock as reported by The Wall Street Journal.

"OPTION" means an option to purchase shares of Common Stock under the terms and provisions of the Plan.

"OPTION PERIOD" means the 12-month period commencing on January 1 of each calendar year, unless the Board or the Compensation Committee changes the duration of the Option Period with respect to future Options, and except as modified by Sections 3.3(c)(2) and 3.3(c)(4). An Option Period may not exceed 27 months.

"OPTION PRICE" means the price per share to be paid by each Participant on each exercise of his Option and shall be a sum equal to 85% of the Fair Market Value of a share of Common Stock on the Date of Exercise or on the Date of Grant, whichever amount is lesser, unless the Board or the Compensation Committee changes the Option Price with respect to future Options. Prior to the commencement of any future Option Period, the Board or the Compensation Committee may, in lieu of the Option Price specified in the preceding sentence, establish an Option Price that is a sum equal to 85% (or any higher percentage) of the Fair Market Value of a share of Common Stock on the Date of Exercise.

"PARTICIPANT" means each Eligible Employee who elects to participate in the Plan.

"PLAN" means the Baker Hughes Incorporated Employee Stock Purchase Plan, as amended from time to time.

"PLAN ADMINISTRATOR" means the Company, acting through its delegates. Such delegates shall include the Administrative Committee and any individual Plan Administrator appointed by the Board with respect to the

employee benefit plans of the Company and its Affiliates, each of which shall have the duties and responsibilities assigned to it from time to time by the Board. As used in the Plan, the term "Plan Administrator" shall refer to the applicable delegate of the Company as determined pursuant to the actions of the Board.

"SECURITIES ACT" means the Securities Act of 1933, as amended, or any successor statute.

2.2 NUMBER AND GENDER. Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in this Plan, shall be deemed to include the feminine gender.

2.3 HEADINGS. The headings of Articles and Sections herein are included solely for convenience and if there is any conflict between such headings and the text of the Plan, the text shall control.

### ARTICLE 3: ELIGIBILITY AND PARTICIPATION

3.1 ELIGIBILITY. All Eligible Employees shall be eligible to participate in the Plan for an Option Period, provided that the Eligible Employee's employment with an Employer continues uninterrupted throughout the Option Period. A transfer between or among Employers shall not be treated as an interruption of the Eligible Employee's employment.

#### 3.2 PARTICIPATION.

(a) ELECTION TO PARTICIPATE. An Eligible Employee shall become a Participant after satisfying the eligibility requirements and delivering to the Plan Administrator during the enrollment period established by the Plan Administrator an enrollment form that (1) indicates the Eligible Employee's election to participate in the Plan as of the next following Date of Grant; (2) authorizes the payroll deduction and states the amount to be deducted regularly from the Participant's Eligible Compensation and to be accrued under the Plan for his benefit; and (3) authorizes the purchase of the Common Stock at the end of the Option Period. The effective date of a Participant's participation shall be the Date of Grant following the Plan Administrator's receipt of the Participant's authorization. The procedure established by the Plan Administrator for an Eligible Employee to enroll in the Plan may be through any written form or any telephonic, electronic mail, intranet, internet or any other electronic process established by the Plan Administrator from time to time.

(b) CONTINUING ELECTION. A Participant's election to participate in the Plan with respect to an Option Period shall continue for each successive Option Period at the same payroll deduction percentage as in effect at the termination of the prior Option Period unless the Participant amends or cancels his participation pursuant to Section 3.2(d).

(c) PAYROLL DEDUCTIONS. Each Participant will designate in his participation election the stated amount to be deducted from his Eligible Compensation on each payday. A Participant may elect to have deducted from 1% to 10% of his Eligible Compensation, or such other percentages as the Committee may from time to time determine. A Participant's percentage deduction election must be in whole percentages, and a Participant's payroll deductions for the entire Option Period are based on his Eligible Compensation at the beginning of the Option Period. The stated amount may not be less than a sum that will result in the payment into the Plan of at least \$5.00 each payday. The stated amount may not exceed either of (1) 10% of the amount of Eligible Compensation (or such other maximum percentage as determined by the Committee), or (2) an amount which will result in noncompliance with the \$25,000 statutory limitation described in Section 4.2.

Participant payroll deductions are maintained by the Company as an accrual for the benefit of the Participant until the Date of Exercise.

(d) CHANGES IN PAYROLL DEDUCTIONS. By delivering to the Plan Administrator a new written payroll deduction authorization form, a Participant may amend the stated amount of his payroll deduction to reduce the rate of his payroll deductions at any time during an Option Period. A Participant's payroll deduction designation rate may not be increased during an Option Period. The new payroll deduction rate will become





effective for the next payroll period, provided that the next payroll period commences more than 15 days after receipt of the new authorization form. Any change to the rate of payroll deduction will continue for the remainder of the Option Period. Changes in the rate of payroll deductions are limited to one change during any Option Period.

(e) LEAVES OF ABSENCE. During leaves of absence approved by the Plan Administrator and in compliance with the requirements of Treasury Regulation section 1.421-7(h)(2), a Participant may continue participation in the Plan at the stated amount in his payroll deduction election by making cash payments to the Company on his normal paydays equal to any reduction in his payroll deductions caused by his leave.

(f) RE-ADMISSION TO PARTICIPATE AFTER TERMINATION OF PARTICIPATION. If a Participant's participation in the Plan is terminated due to his withdrawal from the Plan in accordance with the provisions of Section 3.3(a), the Participant shall be eligible to participate again in the Plan upon the expiration of the Option Period during which such Participant ceased participation and may participate in any subsequent Option Period by making an election to participate in accordance with the provisions of Section 3.2(a). If a Participant's participation in the Plan is terminated due to his termination of employment and he is subsequently re-employed by an Employer, he may participate in the Plan upon his re-employment if he satisfies the eligibility requirements of Section 3.1 and he elects to participate in the Plan in accordance with the provisions of Section 3.2(a).

### 3.3 TERMINATION OF PARTICIPATION.

(a) WITHDRAWAL FROM PARTICIPATION. A Participant may withdraw completely from participation in the Plan at any time during an Option Period. To withdraw from the Plan, a Participant must deliver to the Plan Administrator a notice of withdrawal in a form and manner authorized by the Plan Administrator, and the notice of withdrawal must be delivered within the time period established by the Plan Administrator. After the Plan Administrator's receipt of the notice of withdrawal, the Participant's payroll deduction authorization and his interest in unexercised options under the Plan will terminate and the Participant's prior payroll deductions made under the Plan will be refunded to the Participant.

(b) VOLUNTARY TERMINATION OF PARTICIPATION. A Participant may voluntarily terminate his participation in the Plan by lowering the rate of his payroll deductions to zero for the remainder of the Option Period, in accordance with the provisions of Section 3.2(d). A Participant who has decreased his rate of payroll deduction to zero will be deemed to continue as a Participant in the Plan until he withdraws from the Plan in accordance with the provisions of Section 3.3(a) or his participation is terminated in accordance with the provisions of Section 3.3(c). As long as the Participant continues as a Participant in the Plan, the amount accrued for the Participant under the Plan will be applied to the purchase of Common Stock at the end of the Option Period.

#### (c) INVOLUNTARY TERMINATION OF PARTICIPATION.

(1) TERMINATION OF EMPLOYMENT OTHER THAN BY RETIREMENT, DEATH OR DISPOSITION OF ASSETS, ETC. If the employment of a Participant terminates other than by retirement, death or as a result of a disposition of assets, a division or an entity or as a result of a plant closing, or if he is no longer eligible to participate in the Plan, his participation in the Plan shall, without any action on his part, automatically terminate as of the date of the termination of his employment or the date of the termination of his eligibility. The Employer will refund to the Participant the amount of the Participant's prior payroll deductions made under the Plan, and his interest in unexercised Options under the Plan shall terminate. A termination of employment does not include a transfer of employment among Employers or a transfer of employment to a venture or entity in which the Company or an Affiliate has an equity interest exceeding 50%.

(2) TERMINATION BY RETIREMENT. If a Participant is at least 55 years of age and has an aggregate of at least ten years of service with all Employers, he may retire from the Plan. The Participant may, at his election by written notice to the Plan

Administrator, either (A) exercise his Option as of his termination date, in which event the Employer shall apply the amount accrued

under the Plan at that time to the purchase at the Option Price of shares of Common Stock, including fractions, or (B) request payment of the Participant's prior payroll deductions made under the Plan at that time, in which event the Employer promptly shall make such payment, and thereupon the Participant's interest in unexercised Options under the Plan shall terminate. If the Participant elects to exercise his Option, the date of his termination shall be deemed to be the Date of Exercise for the purpose of computing the amount of the Option Price of the Common Stock.

(3) TERMINATION BY DEATH. If a Participant's employment is terminated by his death, any accrual under the Plan for the purchase of shares of Common Stock and any shares of Common Stock in the Participant's name shall be distributed to the Participant's Beneficiaries.

(4) TERMINATION AS A RESULT OF A DISPOSITION OF ASSETS, A DIVISION OR AN ENTITY OR A PLANT CLOSING. A Participant whose employment with his Employer is terminated as a result of a disposition of assets, a division or an entity or as a result of a plant closing may, at his election by written notice to the Plan Administrator, either (A) exercise his Option as of his termination date, in which event the Employer shall apply the amount accrued under the Plan at that time to the purchase at the Option Price of shares of Common Stock, including fractions, or (B) request payment of the Participant's prior payroll deductions made under the Plan at that time, in which event the Employer promptly shall make such payment, and thereupon the Participant's interest in unexercised Options under the Plan shall terminate. If the Participant elects to exercise his Option, the date of his termination shall be deemed to be the Date of Exercise for the purpose of computing the amount of the Option Price of the Common Stock. As determined by the Plan Administrator, a Participant shall be deemed to have terminated his employment with all Employers (A) as a result of a disposition of assets, a division or an entity if such employment is terminated coincident with and as a result of the disposition by the Employer, the Company or their subsidiaries or Affiliates of assets, a division or any other business entity (regardless of form) in connection with a sale, exchange, merger or other business transaction, or (B) as a result of a plant closing if such employment is terminated coincident with and as a result of a significant manufacturing plant closing by the Employer, but not as a result of mere district changes or layoffs.

#### ARTICLE 4: GRANT OF OPTIONS AND EXERCISE OF OPTIONS

4.1 GRANT OF OPTIONS. Following the effective date of the Plan and continuing for as long as the Plan remains in force, Options will be offered under the Plan to all Participants to purchase shares of Common Stock. Options shall be granted on the Date of Grant and shall be exercisable on the Date of Exercise. For each Participant, the number of shares of Common Stock, including fractions that may be purchased under his Option shall be the lesser of (a) the aggregate payroll deductions authorized by the Participant in accordance with Section 3.2(c) for the Option Period divided by the Option Price or (b) the amount specified in Section 4.2, subject to the availability of a sufficient number of shares of Common Stock reserved for purchase under the Plan. In the event there are an insufficient number of shares reserved for purchase under the Plan, the number of shares purchased shall be adjusted as provided in Section 4.3.

4.2 LIMITATIONS ON THE GRANT OF OPTIONS. No Participant shall be permitted to purchase Common Stock under the Plan or under any other employee stock purchase plan of the Company or of any of its subsidiaries or related corporations at a rate which exceeds \$25,000 in Fair Market Value of Common Stock (determined at the Date of Grant of the Option), and no Employee shall be granted Options for more than 2,500 shares under the Plan at the time the Option is granted (whether the Option Price is determined with reference to the Date of Grant or the Date of Exercise) for each calendar year in which any such Option granted to such Employee is outstanding at any time.

4.3 INSUFFICIENT NUMBER OF SHARES. If the number of shares of Common Stock reserved for purchase for any Option Period is insufficient to cover the number of shares which Participants elect to purchase during such Option Period, then the number of shares of Common Stock which each Participant has a right to purchase on the Date of Exercise shall be reduced to the number of shares of Common Stock which the Plan Administrator shall determine by multiplying the

number of shares of Common Stock reserved under the Plan for such Option Period by a fraction, the numerator of which shall be the number of shares of Common Stock which the Participant elected to purchase during the Option Period and the denominator of which shall be the total number of shares of Common Stock which all Participants elected to purchase during such Option Period.

4.4 RESTRICTION UPON ASSIGNMENT. An Option shall not be transferable otherwise than by will or the laws of descent and distribution and is exercisable during the Participant's lifetime only by him. An Option may not be exercised to any extent except by the Participant. The Plan Administrator and the ESPP Administrator, if any, will not recognize, and shall be under no duty to recognize, any assignment or purported assignment by a Participant of his Option or of any rights under his Option.

4.5 EXERCISE OF OPTIONS; ESPP ACCOUNTS.

(a) EXERCISE OF OPTIONS. Each Participant will be deemed, automatically, and without any act on his part, to have exercised his Option on each Date of Exercise to the extent that the amount accrued under the Plan is sufficient to purchase at the Option Price whole and fractional shares of the Common Stock, except that the number of shares of Common Stock purchased shall not exceed the limitations set forth in Section 4.2. The issuance of shares of Common Stock may be effected on a noncertificated basis to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(b) ESPP ACCOUNTS. As soon as practicable on or before the Date of Exercise, the Plan Administrator shall deliver, or cause to be delivered, to the ESPP Administrator the information necessary to have the total number of shares of the Common Stock representing exercised Options in the aggregate (for both whole and fractional shares) deposited into the Participants' ESPP Accounts. The shares of Common Stock shall be allocated among the ESPP Accounts based on a fraction, the numerator of which is the amount accrued for a Participant under the Plan on the Date of Exercise and the denominator of which shall be the aggregate of the amounts accrued for all Participants under the Plan on the Date of Exercise. A Participant shall be free to dispose of the shares of Common Stock in his ESPP Account at any time, subject to the provisions of Sections 4.6 and 4.7 and subject to any administrative blackout periods.

Each Participant's ESPP Account shall be administered in accordance with procedures established from time to time by the ESPP Administrator.

4.6 WITHHOLDING OBLIGATIONS. At the time the Option is exercised, or at the time some or all of the Common Stock is disposed of, a Participant shall make adequate provision for local, state, federal and foreign withholding obligations of his Employer, if any, that arise upon exercise of the Option or upon disposition of the Common Stock. The Employer may withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

4.7 NOTICE OF DISPOSITION. By becoming a Participant in the Plan, each Participant agrees to promptly give the ESPP Administrator, or in the absence of the ESPP Administrator, the Plan Administrator, notice of any shares of Common Stock disposed of within the later of (a) one year from the Date of Exercise and (b) two years from the Date of Grant with respect to such Stock, and the notice shall include the number of shares of Common Stock disposed of and the Date of Exercise and the Date of Grant for the Common Stock.

4.8 DISPOSITIONS IN COMPLIANCE WITH SECURITIES LAWS. By becoming a Participant in the Plan, each Participant agrees that any dispositions of shares of Common Stock by such Participant shall be in compliance with the provisions of federal, state and foreign securities laws, including the provisions of Section 16(b) of the Exchange Act.

ARTICLE 5: PROVISIONS RELATED TO COMMON STOCK

5.1 SHARES RESERVED. Subject to the provisions of Section 5.5 (relating to adjustment upon changes in stock), the number of shares of Common Stock which may be sold pursuant to Options under the Plan shall not exceed in the aggregate 14,500,000 shares, and may be unissued shares, reacquired shares or shares bought on the market for purposes of the Plan.

5.2 NO RIGHTS OF STOCKHOLDER UNTIL EXERCISE. With respect to shares subject to an Option, a Participant shall not be deemed to be a stockholder, and he shall not have any of the rights or privileges of a stockholder until the exercise of his Option. After the exercise of the Option, each Participant shall have full stockholder rights with respect to all shares of Common Stock in his ESPP Account, including, but not limited to, voting, dividend and liquidation rights. The ESPP Administrator shall establish procedures to facilitate the Participant's voting rights attributable to the Common Stock in his ESPP Account.

5.3 REGISTRATION OF SHARES OF COMMON STOCK. Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue or deliver any shares of Common Stock under the Plan or make any other distribution of benefits under the Plan unless such issuance, delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act), and the applicable requirements of any securities exchange or similar entity.

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under state securities laws, any shares of Common Stock, or to continue in effect any such registrations or qualifications if made. The Company may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal and state securities laws.

The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon the exercise of the Options. If, after commercially reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of shares of Common Stock in any particular jurisdiction, the Company shall be relieved from liability to any Participant, except to return to him the Participant's prior payroll deductions made under the Plan.

5.4 CERTIFICATES FOR SHARES. For shares of Common Stock maintained in ESPP Accounts, the ESPP Administrator shall establish procedures, including any applicable fees, for the delivery of a certificate representing the aggregate number of whole shares of Common Stock in a Participant's ESPP Account. In the absence of an ESPP Administrator, the Plan Administrator, in its sole discretion, may determine the method for delivering certificates for shares of Common Stock to Participants. At the time of the delivery of a certificate to (a) a Participant, (b) a former Participant or (c) the Participant's or former Participant's Beneficiary or Beneficiaries, any fractional share of Common Stock in the Participant's or former Participant's ESPP Account shall be converted to cash, which shall be distributed to the Participant, former Participant Beneficiary or Beneficiaries.

5.5 CHANGES IN COMMON STOCK AND ADJUSTMENTS. The existence of the Plan and the Options granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the Company's stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the shares of Common Stock issued under the Plan) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

If there shall be any change in the shares of the Common Stock or the capitalization of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, reverse stock split, split up, spin-off, combination of shares, exchange of shares, dividend in kind or other like change in capital structure or distribution (other than normal cash dividends) to stockholders of the Company, the Board, in its sole discretion, to prevent dilution or enlargement of Participants' rights under the Plan, will take appropriate action to adjust accordingly the number of shares subject to the Plan and the number and Option Price of shares subject to existing Options.

## ARTICLE 6: ADMINISTRATION OF PLAN

6.1 PLAN ADMINISTRATOR. The Company shall be the "Plan Administrator."

6.2 RESIGNATION AND REMOVAL. The members of the Committee shall serve at the pleasure of the Board; they may be officers, directors, or employees of the Company or any other individuals. At any time during his term of office, any member of the Committee or any individual serving as Plan Administrator may resign by giving written notice to the Board, such resignation to become effective upon the appointment of a substitute or, if earlier, the lapse of thirty days after such notice is given as herein provided. At any time during its term of office, and for any reason, any member of the Committee or any individual serving as Plan Administrator may be removed by the Board.

6.3 RECORDS AND PROCEDURES. The Plan Administrator shall keep appropriate records of its proceedings and the administration of the Plan and shall make available for examination during business hours to any Participant, former Participant or any Beneficiary of any Participant or former Participant such records as pertain to that individual's interest in the Plan. If the Committee is performing duties as the Plan Administrator, the Committee shall designate the individual or individuals who shall be authorized to sign for the Plan Administrator and, upon such designation, the signature of such individual or individuals shall bind the Plan Administrator.

6.4 SELF-INTEREST OF PLAN ADMINISTRATOR. Neither the members of the Committee nor any individual Plan Administrator shall have any right to vote or decide upon any matter relating solely to himself under the Plan or to vote in any case in which his individual right to claim any benefit under the Plan is particularly involved. In any case in which any Committee member or individual Plan Administrator is so disqualified to act, the other members of the Committee shall decide the matter in which the Committee member or individual Plan Administrator is disqualified.

6.5 COMPENSATION AND BONDING. Neither the members of the Committee nor any individual Plan Administrator shall receive compensation with respect to their services on the Committee or as Plan Administrator. To the extent required by applicable law, or required by the Company, neither the members of the Committee nor any individual Plan Administrator shall furnish bond or security for the performance of their duties hereunder.

6.6 PLAN ADMINISTRATOR POWERS AND DUTIES. The Plan Administrator shall supervise the administration and enforcement of the Plan according to the terms and provisions hereof and shall have all powers necessary to accomplish these purposes, including, but not by way of limitation, the right, power, and authority:

(a) to make rules, regulations, and bylaws for the administration of the Plan that are not inconsistent with the terms and provisions hereof, and to enforce the terms of the Plan and the rules and regulations promulgated thereunder by the Plan Administrator;

(b) to establish procedures for the appointment of designated beneficiaries by Participants and former Participants;

(c) to construe in its discretion all terms, provisions, conditions, and limitations of the Plan;

(d) to correct, subject to the provisions of Section 8.2, any defect or to supply any omission or to reconcile any inconsistency that may appear in the Plan in such manner and to such extent as it shall deem in its discretion expedient to effectuate the purposes of the Plan;

(e) to employ and compensate such accountants, attorneys, investment advisors, and other agents, employees, and independent contractors as the Plan Administrator may deem necessary or advisable for the proper and efficient administration of the Plan;

(f) to determine in its discretion all questions relating to eligibility; and

(g) to determine whether and when a Participant has incurred a termination of employment and the reason for such termination.



6.7 RELIANCE ON DOCUMENTS, INSTRUMENTS, ETC. The Plan Administrator may rely on any certificate, statement or other representation made on behalf of the Company, any Employer, any Employee, any Participant, any former Participant or any Beneficiary, which the Plan Administrator in good faith believes to be genuine, and on any certificate, statement, report or other representation made to it by any agent or any attorney, accountant or other expert retained by it or the Company in connection with the operation and administration of the Plan.

#### ARTICLE 7: EXTENSION OF PLAN TO EMPLOYERS

##### 7.1 ADOPTION BY EMPLOYERS.

(a) With the written approval of the Plan Administrator, any entity that is an Affiliate may adopt the Plan by appropriate action of its board of directors or noncorporate counterpart, as evidenced by a written instrument executed by an authorized officer of such entity or an executed adoption agreement (approved by the board of directors or noncorporate counterpart of the Affiliate), agreeing to be bound by all the terms, conditions and limitations of the Plan except those, if any, specifically described in the adoption instrument, and providing all information required by the Plan Administrator. The Plan Administrator and the adopting Affiliate may agree to incorporate specific provisions relating to the operation of the Plan that apply to the adopting Affiliate only and shall become, as to such adopting Affiliate and its employees, a part of the Plan.

(b) The provisions of the Plan may be modified so as to increase the obligations of an adopting Affiliate only with the consent of such Affiliate, which consent shall be conclusively presumed to have been given by such Affiliate unless the Affiliate gives the Company written notice of its rejection of the amendment within 30 days after the adoption of the amendment.

(c) The provisions of the Plan shall apply separately and equally to each adopting Affiliate and its employees in the same manner as is expressly provided for the Company and its employees, except that the power to appoint or otherwise affect the Plan Administrator and the power to amend or terminate the Plan shall be exercised by the Company. The Plan Administrator shall act as the agent for each Affiliate that adopts the Plan for all purposes of administration thereof.

(d) Any adopting Affiliate may, by appropriate action of its board of directors or noncorporate counterpart, terminate its participation in the Plan. Moreover, the Plan Administrator may, in its discretion, terminate an Affiliate's participation in the Plan at any time.

(e) The Plan will terminate with respect to any Affiliate that has adopted the Plan pursuant to this Section if the Affiliate ceases to be an Affiliate or revokes its adoption of the Plan by resolution of its board of directors or noncorporate counterpart evidenced by a written instrument executed by an authorized officer of the Affiliate. If the Plan terminates with respect to any Affiliate, the employees of that Affiliate will no longer be eligible to be Participants in the Plan.

7.2 SINGLE PLAN. For purposes of the Code, the Plan as adopted by the Affiliates shall constitute a single plan rather than a separate plan of each Affiliate.

7.3 NO JOINT VENTURE IMPLIED. The document which evidences the adoption of the Plan by an Affiliate shall become a part of the Plan. However, neither the adoption of the Plan by an Affiliate nor any act performed by it in relation to the Plan shall ever create a joint venture or partnership relation between it and any other Affiliate.

#### ARTICLE 8: MISCELLANEOUS

8.1 USE OF FUNDS; NO INTEREST PAID. All funds received or held by the Company under the Plan will be included in the general funds of the Company free of any trust or other restriction, and may be used for any corporate purpose. Notwithstanding any other Plan provisions to the contrary, in the event a Participant's employment with his Employer is terminated, and if at the time of such termination, the Participant owes money to any Employer, his Employer shall have the right, at its discretion prior to the exercise of the Participant's Option or the payment of the Participant's prior payroll deductions made under the Plan, to deduct any such monies from the funds to be paid to the Participant.

No interest will be paid to any Participant with respect to funds held in the Plan or funds held in the ESPP Account.

8.2 AMENDMENT TO THE PLAN. The Board or the Compensation Committee may amend the Plan at any time and from time to time, subject to the limitation that approval by the vote of the holders of a majority of the outstanding securities of the Company entitled to vote shall be required to amend the Plan (i) to materially increase the benefits accruing to Participants under the Plan, (ii) to materially increase the number of securities which may be issued under the Plan, or (iii) to materially modify the requirements as to eligibility for participation in the Plan.

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

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

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

8.6 BINDING EFFECT. This Agreement shall be binding upon any successor of the Company.

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

8.8 ARBITRATION. Any controversy arising out of or relating to the Plan, including without limitation, any and all disputes, claims (whether in tort, contract, statutory or otherwise) or disagreements concerning the interpretation or application of the provisions of the Plan, Employer's employment of Participant and the termination of that employment, shall be resolved by arbitration in accordance with the Employee Benefit Plan Claims Arbitration Rules of the American Arbitration Association (the "AAA") then in effect. Within ten (10) business days of the initiation of an arbitration hereunder, the Company and the Participant will each separately designate an arbitrator, and within twenty (20) business days of selection, the appointed arbitrators will appoint a neutral arbitrator from the AAA National Panel of Employee Benefit Plan Claims Arbitrators. The arbitrators shall issue their written decision (including a statement of finding of facts) within thirty (30) days from the date of the close of the arbitration hearing. The decision of the arbitrators selected hereunder will be final and binding on both parties. This arbitration provision is expressly made pursuant to and shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1-16 (or replacement or successor statute). Pursuant to Section 9 of the Federal Arbitration Act, the Company and any Participant agrees that any judgment of the United States District Court for the District in which the headquarters of the Company is located at the time of initiation of an arbitration hereunder shall be entered upon the award made pursuant to the arbitration. Nothing in this Section 8.8 shall be construed to, in any way, limit the scope and effect of Article 6. In any arbitration proceeding full effect shall be given to the rights, powers, and authorities of the Plan Administrator under Article 6.

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



[Bank]

## INTEREST RATE SWAP CONFIRMATION

TO : BAKER HUGHES INC  
HOUSTON, TEXAS  
ATTN : DOUG DOTY  
FAX : 17134398678  
DATE : 8 April 2003  
RE : Transaction Reference No.

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between us on the Trade Date below. It constitutes a "Confirmation" as referred to in the ISDA Master Agreement described below.

The definitions and provisions contained in the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. ("ISDA") are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

1. This Confirmation supplements, forms part of, and is subject to, the Master Agreement dated as of 6 March 2000, as amended and supplemented from time to time (the "Agreement"), between [Bank] and Baker Hughes Inc ("Counterparty"). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

NOTIONAL AMOUNT:	USD 325,000,000.00
TRADE DATE:	8 April 2003
EFFECTIVE DATE:	10 April 2003
TERMINATION DATE:	15 January 2009, subject to adjustment in accordance with the Modified Following Business Day Convention.

Confirmation - Swap Transaction

FLOATING AMOUNTS:  
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FLOATING RATE PAYER: COUNTERPARTY

FLOATING RATE PAYER

PAYMENT DATES: 15 July, 15 January of each year commencing with  
15 July 2003 and ending with, and including, the  
Termination Date, subject to adjustment in  
accordance with the Modified Following Business  
Day Convention.

FLOATING RATE FOR INITIAL

CALCULATION PERIOD: 1.290000 percent (exclusive of spread)

FLOATING RATE OPTION: USD - LIBOR - BBA

SPREAD: plus 2.689000 percent

DESIGNATED MATURITY: 6 Months

RESET DATES: The first day of each Calculation Period.

COMPOUNDING: Not Applicable

FLOATING RATE

DAY COUNT FRACTION: Actual/360

BUSINESS DAYS: London, New York

FIXED AMOUNTS:  
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FIXED RATE PAYER: [Bank]

FIXED RATE PAYER

PAYMENT DATES: 15 July, 15 January of each year commencing with  
15 July 2003 and ending with, and including, the  
Termination Date, subject to adjustment in  
accordance with the Modified Following Business  
Day Convention.

FIXED RATE: 6.250000 percent

FIXED RATE

DAY COUNT FRACTION: 30/360

Confirmation - Swap Transaction

PERIOD END DATE: No Adjustment  
BUSINESS DAYS: London, New York  
CALCULATION AGENT: [Bank]

3. ACCOUNT DETAILS

PAYMENTS TO [Bank Account Information]

PAYMENTS TO COUNTERPARTY: [Bank Account Information]  
ACCT:

4. OFFICE, ADDRESS AND TELEPHONE NUMBER FOR NOTICES IN CONNECTION WITH THIS TRANSACTION

(a) COUNTERPARTY: its Office in  
Baker Hughes Inc  
Houston, Texas

Baker Hughes Incorporated  
3900 Essex Lane, Suite 1200  
Houston, Tx 77027

(b) [Bank]

5. DOCUMENTS TO BE DELIVERED

Each party shall deliver to the other, at the time of its execution of this Confirmation, evidence of the incumbency and specimen signature of the person(s) executing this Confirmation, unless such evidence has been previously supplied and remains true and in effect.

6. RELATIONSHIP BETWEEN PARTIES

Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate

Confirmation - Swap Transaction

or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is capable of assuming, and assumes the risks of that Transaction.

(c) Status of Parties. The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it to us.

Yours sincerely,

[Bank]

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Confirmed as of the date first  
above written:

BAKER HUGHES INC.

By: /s/ DOUGLAS C. DOTY

-----  
Name: Douglas C. Doty

-----  
Title: Vice President & Treasurer

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mng

(MULTICURRENCY-CROSS BORDER)

SCHEDULE TO THE MASTER AGREEMENT  
DATED AS OF MARCH 6, 2000 BETWEEN  
[BANK] ("PARTY A")  
AND  
BAKER HUGHES, INC. ("PARTY B")

PART 1: TERMINATION PROVISIONS AND CERTAIN OTHER MATTERS

(a) "SPECIFIED ENTITY" means, in relation to Party A, for the purpose of:

SECTION 5(a)(v), none;

SECTION 5(a)(vi), none;

SECTION 5(a)(vii), none; and

SECTION 5(b)(iv), none;

and, in relation to Party B, for the purpose of:

SECTION 5(a)(v), none;

SECTION 5(a)(vi), none;

SECTION 5(a)(vii), none; and

SECTION 5(b)(iv), none.

(b) "SPECIFIED TRANSACTION" will have the meaning specified in Section 14.

(c) The "CROSS-DEFAULT" provisions of Section 5(a)(vi) will apply to Party A and Party B. In connection therewith, "SPECIFIED INDEBTEDNESS" will have the meaning specified in Section 14, except that such term shall not include obligations in respect of deposits received in the ordinary course of such party's banking business, and "THRESHOLD AMOUNT" means an amount equal to three percent of such party's shareholders' equity, determined in accordance with generally accepted accounting principles in such party's country of incorporation or organization, consistently applied, as at the end of such party's most recently completed fiscal year. For purposes of this definition, any Specified Indebtedness denominated in a currency other than the currency



in which the financial statements of such party are denominated shall be converted into USD.

(d) The "CREDIT EVENT UPON MERGER" provisions of Section 5(b)(iv) will apply to Party A and Party B; provided, however, that the phrase "materially weaker" means (i) the senior long-term debt or deposits of the resulting, surviving or transferee entity is or are, as the case may be, rated less than investment grade by Standard & Poor's Corporation or Moody's Investors Service, Inc., or (ii) in the event that there are no such Standard & Poor's Corporation or Moody's Investors Service, Inc. ratings, the Policies (as defined below) in effect at the time, of the party which is not the Affected Party, would lead such non-Affected Party, solely as a result of a change in the nature, character, identity or condition of the Affected Party, any Credit Support Provider of the Affected Party or any applicable Specified Entity of the Affected Party, as the case may be, from its state prior to such consolidation, amalgamation, merger or transfer, to decline to make an extension of credit to, or enter into a Transaction with, the resulting, surviving or transferee entity. "Policies", for the purposes of this definition means: (1)(A) internal credit limits applicable to individual entities or (B) other limits on doing business with entities domiciled or doing business in certain jurisdictions or engaging in certain activities, or (2) internal restrictions on doing business with entities with whom the party which is not the Affected Party has had prior adverse business relations.

(e) The "AUTOMATIC EARLY TERMINATION" provision of Section 6(a) will not apply to Party A or Party B.

(f) PAYMENTS ON EARLY TERMINATION. For the purpose of Section 6(e):

(i) Market Quotation will apply.

(ii) The Second Method will apply.

(g) "TERMINATION CURRENCY" means United States Dollars.

(h) ADDITIONAL TERMINATION EVENT. (i) The following shall constitute an Additional Termination Event (with any event specified in the following constituting an "Impossibility"):

Due to the occurrence of a natural or man-made disaster, armed conflict, act of terrorism, riot, labor disruption, act of State, or any other similar circumstance beyond its control after the date on which a Transaction is entered into, it becomes impossible (other than as a result of its own misconduct) for a party (which will be the Affected Party):

(1) to perform any absolute or contingent obligation, to make a payment or delivery or to receive a payment or delivery in respect of a Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party or such Credit Support Provider has under any Credit Support Document relating to a Transaction.

(ii) The definition of "Affected Transactions" in Section 14 of this Agreement is amended by adding the word "Impossibility" immediately before the word "Illegality" in the first line thereof.

(iii) If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Impossibility, it will be treated as a Termination Event and will not constitute an Event of Default.

PART 2: TAX REPRESENTATIONS

Not applicable.

PART 3: AGREEMENT TO DELIVER DOCUMENTS

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents:

(a) Tax forms, documents or certificates to be delivered are: none.

(b) Other documents to be delivered are:

PARTY REQUIRED TO DELIVER DOCUMENT	FORM/DOCUMENT/ CERTIFICATE	DATE BY WHICH TO BE DELIVERED	COVERED BY SECTION 3(d) REPRESENTATION
----- Party B	Annual Report of Party B containing consolidated financial statements certified by independent certified public accountants and prepared in accordance with GAAP	----- As soon as available and in any event within 120 days after the end of each fiscal year of Party B	----- Yes

Party B	Unaudited consolidated financial statements of Party B for a fiscal quarter prepared in accordance with GAAP and on a basis consistent with that of the annual financial statements of Party B	As soon as available and in any event within 45 days after the end of each fiscal quarter of Party B	Yes
Party B	Certified copies of all corporate authorizations and any other documents with respect to the execution, delivery and performance of this Agreement	Upon execution and delivery of this Agreement	Yes
Party B	Certificate of authority and specimen signatures of individuals executing this Agreement and Confirmations	Upon execution and delivery of this Agreement and thereafter upon request of Party A	Yes

PART 4: MISCELLANEOUS

(a) Address for Notices. For the purpose of Section 12(a) of this Agreement:

Address for notice or communications to Party A:

Any notice relating to a particular Transaction shall be delivered to the address or facsimile or telex number specified in the Confirmation of such Transaction. Any notice delivered for purposes of Sections 5 and 6 of this Agreement shall be delivered to the following address:

[Bank's Contact Information]  
 Attention: Legal Department-Capital Markets Group

Address for notice or communications to Party B:

Baker Hughes, Inc.  
Attention: Gene Shiels, Assistant Treasurer  
3900 Essex Lane  
Houston, Texas 77027  
Telex No.: \_\_\_\_\_; Answerback: \_\_\_\_\_  
Facsimile No.: (713) 439-8678

(b) PROCESS AGENT. For the purpose of Section 13(c):

Party A appoints as its Process Agent: Not applicable.  
Party B appoints as its Process Agent: Not applicable.

(c) OFFICES. The provisions of Section 10(a) will apply to this Agreement.

(d) MULTIBRANCH PARTY. For the purpose of Section 10 of this Agreement:

Party A is a Multibranch Party and may act through any Office specified in a Confirmation.

Party B is not a Multibranch Party.

(e) CALCULATION AGENT. The Calculation Agent is Party A, unless otherwise specified in a Confirmation in relation to the relevant Transaction.

(f) CREDIT SUPPORT DOCUMENT. Details of any Credit Support Document: not applicable.

(g) CREDIT SUPPORT PROVIDER. Credit Support Provider means, in relation to either party: not applicable.

(h) GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

(i) NETTING OF PAYMENTS. Subparagraph (ii) of Section 2(c) will not apply to any Transaction unless specified in the relevant Confirmation.

(j) "AFFILIATE" will have the meaning specified in Section 14 of this Agreement.

PART 5: OTHER PROVISIONS

(a) SET-OFF. Any amount (the "Early Termination Amount") payable to one party (the "Payee") by the other party (the "Payer") under Section 6(e), in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) has occurred, will, at the option of the party ('X') other than the Defaulting Party or the Affected Party (and without prior notice to the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the 'Other Agreement Amount') payable (whether at such time or in the future or upon the occurrence of a contingency) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give notice to the other party of any set-off effected under this section.

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this section shall be effective to create a charge or other security interest. This section shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

(b) Exchange of Confirmations. For each Transaction entered into hereunder, Party A shall promptly send to Party B a Confirmation, via telex or facsimile transmission. Party B agrees to respond to such Confirmation within 10 Business Days (for this purpose, Business Days refers to Business Days in the location of the recipient), either confirming agreement thereto or requesting a correction of any error(s) contained therein. Failure by Party B to respond within such period shall not affect the validity or enforceability of such Transaction and shall be deemed to be an affirmation of the terms contained in such Confirmation, absent manifest error. The parties agree that any such exchange of telexes or facsimile transmissions shall constitute a Confirmation for all purposes hereunder.

(C) WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(d) TELEPHONIC RECORDING. Each party (i) consents to the recording of the telephone conversations of trading, marketing and operations personnel of the parties and their Affiliates in connection with this Agreement or any potential Transaction and (ii) agrees to obtain any necessary consent of, and give notice of such recording to, such personnel of it and its Affiliates.

(e) FURTHER REPRESENTATIONS. (i) Party B represents to Party A (which representations will be deemed to be repeated by Party B on each date on which a Transaction is entered into) that:

NO CHANGE. Since March 31, 1999, there has been no material adverse change in the business, operations, assets or financial or other condition of Party B.

(ii) Each party represents to the other party (which representation will be deemed to be repeated on each date on which a Transaction is entered into) that it is an "eligible swap participant" as such term is defined in Part 35 of Chapter I of Title 17 of the Code of Federal Regulations, promulgated by the Commodity Futures Trading Commission, entitled "Exemption of Swap Agreements."

(f) FURTHER REPRESENTATIONS OF PARTY A AND PARTY B. With respect to commodity swap transactions, commodity cap transactions, commodity floor transactions, commodity collar transactions and commodity option transactions (for purposes of this Part 5(f), "Commodity Transactions"), each party represents to the other (which representations will be deemed to be repeated by each party on each date on which a Commodity Transaction is entered into) that:

(i) it has entered into this Agreement and each Commodity Transaction in conjunction with its line of business (which may include financial intermediation services) or the financing of its business;

(ii) the material terms of this Agreement and each Commodity Transaction have been and will be individually tailored and negotiated;

(iii) the creditworthiness of the other party was or will be a material consideration in its entering into this Agreement and any such Commodity Transaction;

(iv) solely with respect to Party B, it is a producer, processor, or commercial user of, or a merchant handling, the commodity which is the subject of any Commodity Transaction, or the products or by-products thereof, and that it is

entering into any such Commodity Transaction solely for purposes related to its business as such; and

(v) solely with respect to Party A, it shall always be the offeror of each Commodity Transaction and that Party A offered to enter into this Agreement with Party B and initiated their trading relationship.

(g) RELATIONSHIP BETWEEN PARTIES. The following representation shall be inserted as a new Section 3(g) of this Agreement:

"(g) RELATIONSHIP BETWEEN PARTIES. Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(i) NON-RELIANCE. It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(ii) ASSESSMENT AND UNDERSTANDING. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(iii) STATUS OF PARTIES. The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction."

(h) EMU PROVISIONS. (i) 1998 ISDA EURO DEFINITIONS. Unless the parties expressly agree otherwise in the related Confirmation, each Transaction currently existing or to be entered into between the parties will be deemed to incorporate, to the extent applicable, the 1998 ISDA Euro Definitions as published on 25th November 1998 and any subsequent amendments and supplements thereto (the "Euro Definitions"). In the event of any inconsistency between the Euro Definitions and any other provisions or definitions incorporated by reference into the Confirmation in respect of any Transaction, the Euro Definitions shall prevail.

(ii) ISDA EMU PROTOCOL. The parties agree that the definitions and provisions contained in Annexes 1 and 3 and Section 6 of the ISDA EMU Protocol published on 6th May 1998 (the "ISDA Protocol"), are incorporated into and apply to this Agreement and form a part hereof. References in those definitions and provisions to any "ISDA Master Agreement" will be deemed to be references to this Agreement.

(i) NEGATIVE INTEREST RATES. (i) FLOATING AMOUNTS. "Swap Transaction" means, for the purposes of this provision concerning Negative Interest Rates, a rate exchange or swap transaction, including transactions involving a single currency or two or more currencies. Party A and Party B agree that, if with respect to a Calculation Period for a Swap Transaction either party is obligated to pay a Floating Amount that is a negative number (either due to a quoted negative Floating Rate or by operation of a Spread that is subtracted from the Floating Rate), the Floating Amount with respect to that party for that Calculation Period will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Floating Amount as calculated, in addition to any amounts otherwise owed by the other party for that Calculation Period with respect to that Swap Transaction, on the Payment Date that the Floating Amount would have been due if it had been a positive number. Any amounts paid by the other party with respect to the absolute value of a negative Floating Amount will be paid to such account as the receiving party may designate (unless such other party gives timely notice of a reasonable objection to such designation) in the currency in which that Floating Amount would have been paid if it had been a positive number (and without regard to the currency in which the other party is otherwise obligated to make payments).

(ii) COMPOUNDING. Party A and Party B agree that, if with respect to one or more Compounding Periods for a Swap Transaction where "Compounding" or "Flat Compounding" is specified to be applicable the Compounding Period Amount, the Basic Compounding Period Amount or the Additional Compounding Period Amount is a negative number (either due to a quoted negative Floating Rate or by operation of a Spread that is subtracted from the Floating Rate), then the Floating Amount for the Calculation Period in which that Compounding Period or those Compounding Periods occur will be either the sum of all the Compounding Period Amounts or the sum of all the Basic Compounding Period Amounts and all the Additional Compounding Period Amounts in that Calculation Period (whether positive or negative). If such sum is positive, then the Floating Rate Payer with respect to the Floating Amount so calculated will pay that Floating Amount to the other party. If such sum is negative, the Floating Amount with respect to the party that would be obligated to pay that Floating Amount will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Floating Amount as calculated, such payment to be made in accordance with (i) above.

(j) ABSENCE OF LITIGATION. Section 3(c) of this Agreement is amended by deleting the words "or, to its knowledge, threatened" in the first line thereof.



PART 6: FOREIGN EXCHANGE TRANSACTIONS

(a) DEFINITIONS AND APPLICATION. (i) This Agreement is subject to the 1998 FX and Currency Option Definitions (the "FX Definitions"), as published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association, and The Foreign Exchange Committee, as hereinafter amended. In the event of any inconsistency between the FX Definitions and this Agreement, this Agreement will govern. Unless otherwise agreed in writing by the parties, each FX Transaction and Currency Option Transaction, whether now existing or hereafter entered into, between the parties shall be governed by this Agreement, notwithstanding Section 1(b) of this Agreement, the absence of any reference to this Agreement in the Confirmation in respect of any such FX Transaction or Currency Option Transaction, or the reference to any other governing terms or law in such Confirmation.

(ii) Section 3.4 of the FX Definitions is amended by adding the following:

(c) Non-Payment. If any Premium is not received on the Premium Payment Date, the Seller may elect either: (i) to accept a late payment of such Premium; (ii) to give written notice of such non-payment and, if such payment shall not be received within three (3) Local Business Days (as defined in this Agreement) of such notice, treat the related Currency Option Transaction as void; or (iii) if such payment shall not be received within three (3) Local Business Days of such notice, treat such non-payment as an Event of Default under Section 5(a)(i) of this Agreement. If the Seller elects to act under either clause (i) or (ii) of the preceding sentence, the Buyer shall pay all out-of-pocket costs and actual damages incurred in connection with such unpaid or late Premium or void Currency Option Transaction, including, without limitation, interest on such Premium in the same currency as such Premium at the then prevailing market rate and any other costs or expenses incurred by the Seller in covering its obligations (including, without limitation, a delta hedge) with respect to such Currency Option Transaction.

(d) Discharge and Termination. Unless otherwise agreed, any Call or any Put written by a party will automatically be terminated and discharged, in whole or in part, as applicable, against a Call or a Put, respectively, written by the other party, such termination and discharge to occur automatically upon the payment in full of the last Premium payable in respect of such Currency Option Transactions; provided that such termination and discharge may only occur in respect of Currency Option Transactions:

(i) each being with respect to the same Put Currency and the same Call Currency;

(ii) each having the same Expiration Date and Expiration Time;

(iii) each being of the same style, i.e. either both being American style Currency Option Transactions or both being European style Currency Option Transactions;

(iv) each having the same Strike Price;

(v) neither of which shall have been exercised by delivery of a Notice of Exercise; and

(vi) each having been transacted by the same pair of offices of the Buyer and the Seller

and, upon the occurrence of such termination and discharge, neither party shall have any further obligation to the other party in respect of the relevant Currency Option Transactions or, as the case may be, parts thereof so terminated and discharged. In the case of a partial termination and discharge (i.e., where the relevant Currency Option Transactions are for different amounts of the Currency Pair), the remaining portion of the Currency Option Transaction which is partially discharged and terminated shall continue to be a Currency Option Transaction for all purposes of this Agreement, including this Section 3.4(d).

(b) CONFIRMATIONS. In respect of FX Transactions and Currency Option Transactions, the term "Confirmation" means a writing (including telex, facsimile or other electronic means from which it is possible to produce a hard copy) evidencing an FX Transaction or Currency Option Transaction, as the case may be, notwithstanding the absence of any reference to this Agreement therein or the reference therein to any other governing terms or law. In relation to such Confirmations, unless either party objects to the terms contained in any Confirmation within three (3) Business Days in its location of receipt thereof, or such shorter time as may be appropriate given the Settlement Date of an FX Transaction, the terms of such Confirmation shall be deemed correct and accepted absent manifest error, unless a corrected Confirmation is sent by a party within such three (3) Business Days, or shorter period, as appropriate, in which case the party receiving such corrected Confirmation shall have three (3) Business Days in its location, or shorter period, as appropriate, after receipt thereof to object to the terms contained in such corrected Confirmation. In the event of any conflict between the terms of such a Confirmation of an FX Transaction or a Currency Option Transaction, as the case may be, and this Agreement, the terms of this Agreement shall prevail, and the Confirmation shall not modify the terms of this Agreement.

Accepted and agreed:

[Bank]

BAKER HUGHES INCORPORATED

By: -----

By: /s/ DOUGLAS C. DOTY -----

Name:  
Title:

Name: Douglas C. Doty  
Title: Vice President & Treasurer

BAKER HUGHES INCORPORATED

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Baker Hughes Incorporated (the "Company") on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Michael E. Wiley, Chief Executive Officer of the Company, and G. Stephen Finley, 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) 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.

This Certification is given to the knowledge of the undersigned.

By: /s/ MICHAEL E. WILEY

-----  
Name: Michael E. Wiley  
Title: Chief Executive Officer  
Date: May 13, 2003

By: /s/ G. STEPHEN FINLEY

-----  
Name: G. Stephen Finley  
Title: Chief Financial Officer  
Date: May 13, 2003

A signed original of this written statement required by Section 906 has been provided to Baker Hughes Incorporated and will be retained by Baker Hughes Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.