UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2002

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ---- to ----

Commission File Number 1-3492

HALLIBURTON COMPANY
(Exact name of registrant as specified in its charter)

Delaware	75-2677995
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4100 Clinton Drive, Houston, Texas 77020
(Address of principal executive offices)
Telephone Number - Area code (713) 676-3011

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

Title of each class	Name of each Exchange on which registered
Common Stock par value $2.50 per share	New York Stock Exchange
Baroid Corporation 8% Guaranteed Senior Notes due 2003	New York Stock Exchange

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

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 X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes X No
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The aggregate market value of Common Stock held by nonaffiliates on June 28, 2002, determined using the per share closing price on the New York Stock Exchange Composite tape of $15.94 on that date was approximately $6,928,000,000.

As of February 28, 2003, there were 437,160,510 shares of Halliburton Company Common Stock $2.50 par value per share outstanding.

Portions of the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), are incorporated by reference into Part III of this report.

PART I

Item 1. Business.

General description of business. Halliburton Company's predecessor was established in 1919 and incorporated under the laws of the State of Delaware in 1924. Halliburton Company provides a variety of services, products, maintenance, engineering and construction to energy, industrial and governmental customers.

We operate in two business segments:
- Energy Services Group; and
- Engineering and Construction Group.

Dresser Equipment Group is presented as discontinued operations through March 31, 2001 as a result of the sale in April 2001 of this business unit. See Note 4 to the financial statements for financial information about our business segments.

Proposed global settlement. On December 18, 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a global settlement of all asbestos and silica personal injury claims against DII Industries, LLC (DII Industries), Kellogg, Brown & Root, Inc. (Kellogg, Brown & Root) and their current and former subsidiaries.

The agreement in principle provides that:
- up to $2.775 billion in cash, 59.5 million Halliburton shares (valued at $1.1 billion using the stock price at December 31, 2002 of $18.71) and notes with a net present value expected to be less than $100 million will be paid to a trust for the benefit of current and future asbestos personal injury claimants and current silica personal injury claimants upon

receiving final and non-appealable court confirmation of a plan of reorganization;

- DII Industries and Kellogg, Brown & Root will retain rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3.0 billion going to the trust;
- the agreement is to be implemented through a pre-packaged Chapter 11 filing for DII Industries, Kellogg, Brown & Root and some of their subsidiaries; and
- the funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganization of DII Industries and Kellogg, Brown & Root and their subsidiaries in the Chapter 11 proceeding.

Subsequently, as of March 2003, DII Industries and Kellogg, Brown & Root have entered into definitive written agreements finalizing the terms of the agreement in principle.

In March 2003, we agreed with Harbison-Walker and the asbestos creditors committee in the Harbison-Walker bankruptcy to consensually extend the period of the stay contained in the Bankruptcy Court's temporary restraining order until July 21, 2003. The court's temporary restraining order, which was originally entered on February 14, 2002, stays more than 200,000 pending asbestos claims against DII Industries. The agreement provides that if the pre-packaged Chapter 11 filing by DII Industries, Kellogg, Brown & Root and their subsidiaries is not made by July 14, 2003, the Bankruptcy Court will hear motions to lift the stay on July 21, 2003. The asbestos creditors committee also reserves the right to monitor progress toward the filing of the Chapter 11 proceeding and seek an earlier hearing to lift the stay if satisfactory progress toward the Chapter 11 filing is not being made.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Proposed global settlement" and Note 12 to the financial statements.

Description of services and products. We offer a broad suite of products and services through the two business segments. The following summarizes our services and products for each business segment.

ENERGY SERVICES GROUP

The Energy Services Group segment consists of Halliburton Energy Services, Landmark Graphics and various other product service lines. This segment provides a wide range of discrete services and products, as well as integrated solutions to customers for the exploration, development and production of oil and gas. The segment serves major, national and independent oil and gas companies throughout the world.

Halliburton Energy Services provides discrete services and products and integrated solutions ranging from the initial evaluation of producing formations to drilling, completion, production and well maintenance. Major product and service line offerings include:

- pressure pumping, including:
  - cementing,
  - production enhancement (fracturing and acidizing), and
  - tools and testing;
- drilling and formation evaluation, including:
  - drilling systems and services,
  - drill bits, and
  - logging and perforating;
- drilling fluids systems;
- completion products; and
- integrated solutions.

Cementing is the process used to bond the well and well casing while isolating fluid zones and maximizing wellbore stability. This is accomplished by pumping cement and chemical additives to fill the space between the casing and the side of the wellbore. Our cementing service line also provides casing equipment and services.

Production enhancement optimizes oil and gas reservoirs through a variety of pressure pumping services, including fracturing and acidizing, sand control, coiled tubing, well control, nitrogen services and specialty services. These services are used to clean out a formation or to fracture formations to allow increased oil and gas production.

Tools and testing includes tubing-conveyed perforating products and services, drill stem and other well testing tools, data acquisition services and production applications.

Sperry-Sun provides drilling systems and services. These services include directional and horizontal drilling, measurement-while-drilling, logging-while-drilling, multilateral wells and related completion systems, and rig site information systems. Our drilling systems feature bit stability, directional control, borehole quality, low vibration and high rates of penetration while drilling directional wells.

Drill bits, offered by Security DBS, include roller cone rock bits, fixed cutter bits, coring equipment and services and other downhole tools used to drill wells.

Logging products and services include our Magnetic Resonance Imaging Logging (MRIL(R)), high-temperature logging, as well as traditional open-hole and cased-hole logging tools. MRIL(R) tools apply magnetic resonance imaging technology to the evaluation of subsurface rock formations in newly drilled oil and gas wells. Open-hole tools provide information on well visualization, formation evaluation (including resistivity, porosity, lithology and temperature), rock mechanics and sampling. Cased-hole tools provide cementing evaluation, reservoir monitoring, pipe evaluation, pipe recovery and perforating.

Baroid provides drilling fluid systems and performance additives for oil and gas drilling, completion and workover operations. In addition, Baroid sells products to a wide variety of industrial customers. Drilling fluids usually contain bentonite or barite in a water or oil base. Drilling fluids primarily improve wellbore stability and facilitate the transportation of cuttings from the bottom of a wellbore to the surface. The fluids also help cool the drill bit, seal porous well formations and assist in pressure control within a wellbore. Fluids are often customized by onsite engineers for optimum stability and enhanced oil production.

Completion products include subsurface safety valves and flow control equipment, surface safety systems, packers and specialty completion equipment, production automation, well screens, well control services and slickline equipment and services.

Integrated solutions provides value-added oilfield project management and solutions to independent, integrated and national oil companies. Integrated solutions enhance field deliverability and maximize a customer's return on investment. These services leverage all Halliburton Energy Services' product service lines and technologies, as well as project management capabilities.

Landmark Graphics is the leading supplier of integrated exploration and production software information systems as well as professional and data management services for the upstream oil and gas industry. Landmark's software transforms vast quantities of seismic, well log and other data into detailed computer models of petroleum reservoirs to achieve optimal business and technical decisions in exploration, development and production activities. Landmark's broad range of professional services enables our worldwide customers to optimize technical, business and decision processes. Data management services provides efficient storage, browsing and retrieval of large volumes of exploration and petroleum data. The products and services offered by Landmark integrate data workflows and operational processes across disciplines including geophysics, geology, drilling, engineering, production, economics, finance and corporate planning, and key partners and suppliers.

Other product service lines provide installation and servicing of subsea facilities and pipelines.

ENGINEERING AND CONSTRUCTION GROUP

The Engineering and Construction Group segment, operating as KBR, provides a wide range of services to energy and industrial customers and government entities worldwide.

KBR offers the following five product lines:

- Onshore operations consist of engineering and construction activities, including engineering and construction of liquefied natural gas, ammonia and crude oil refineries and natural gas plants;
- Offshore operations include specialty offshore deepwater engineering and marine technology and worldwide fabrication capabilities;
- Government operations provide operations, construction, maintenance and logistics activities for government facilities and installations;
- Operations and maintenance services include plant operations, maintenance and start-up services for both upstream and downstream oil, gas and petrochemical facilities as well as operations, maintenance and logistics services for the power, commercial and industrial markets; and
- Infrastructure provides civil engineering, consulting and project management services.

Dispositions in 2002. During 2002, we disposed of non-core businesses in our Energy Services Group listed below:

- in January 2002, we sold our 50% interest in European Marine Contractors Limited, which provided offshore pipeline services, to our joint venture partner, Saipem;
- in August 2002, we sold several Integrated Solutions properties that were located in the United States; and
- in September 2002, we sold our 50% interest in Bredero-Shaw, a pipecoating joint venture, to our partner ShawCor Ltd.

These dispositions will have an immaterial impact on our future operations. In addition, in May 2002, we contributed substantially all of our Halliburton Subsea assets for 50% of the ownership in a newly formed company, Subsea 7, Inc.

See Note 2 to the financial statements for additional information related to 2002 dispositions and the creation of Subsea 7.

Business strategy. Our business strategy is to maintain global leadership in providing energy services and products and engineering and construction services. We provide these services and products to our customers as discrete services and products and, when combined with project management services, as integrated solutions. Our ability to be a global leader depends on meeting four key goals:

- establishing and maintaining technological leadership;
- achieving and continuing operational excellence;
- creating and continuing innovative business relationships; and
- preserving a dynamic workforce.

Markets and competition. We are one of the world's largest diversified energy services and engineering and construction services companies. We believe that our future success will depend in large part upon our ability to offer a wide array of services and products on a global scale. Our services and products are sold in highly competitive markets throughout the world. Competitive factors impacting sales of our services and products include: price, service delivery (including the ability to deliver services and products on an "as needed, where needed" basis), service quality, product quality, warranty and technical proficiency. While we provide a wide range of discrete services and products, a number of customers have indicated a preference for integrated services and solutions. In the case of the Energy Services Group, integrated services and solutions relate to all phases of exploration, development and production of oil, natural gas and natural gas liquids. In the case of the Engineering and Construction Group, integrated services and solutions relate to all phases of design, procurement, construction, project management and maintenance of facilities primarily for energy and government customers.

We conduct business worldwide in over 100 countries. For 2002, the United States represented 33% of our total revenue and the United Kingdom represented 12%. No other country accounted for more than 10% of our total revenue. Since the markets for our services and products are vast and cross numerous geographic lines, a meaningful estimate of the total number of competitors cannot be made. The industries we serve are highly competitive and we have many substantial competitors. Substantially all of our services and products are marketed through our servicing and sales organizations.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, expropriation or other governmental actions and exchange control and currency problems. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be material to the conduct of our operations taken as a whole. While Venezuela accounted for less than two percent of our 2002 revenues, the current economic and political instability in Venezuela will negatively impact our operations until resolved. In addition, as a result of the breadth of our businesses and the inherently unpredictable impact of the armed conflict in the Middle East, we are unable to predict their impact on our results of operations. Moreover, due to rising levels of civil disturbance, a number of our customers has ceased operations in the Nigerian Delta region. Energy services operations in Nigeria accounted for approximately 2% of our revenues in 2002, and these developments could negatively impact our operations in 2003. Information regarding our exposures to foreign currency fluctuations, risk concentration and financial instruments used to minimize risk is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Instrument Market Risk" and in Note 19 to the financial statements.

Customers and backlog. Our revenues from continuing operations during the past three years were mainly derived from the sale of services and products to the energy industry. Sales of services and products to the energy industry in 2002 represented 86% of revenues from continuing operations compared to 85% in 2001 and 84% in 2000.

The following schedule summarizes the backlog from continuing operations of engineering and construction projects at December 31, 2002 and 2001:

Millions of dollars	2002	2001
Firm orders	$ 8,704	$ 8,118
Government orders firm but not yet funded, letters of intent and contracts awarded but not signed	1,330	1,794
Total	$ 10,034	$ 9,912

Of the total backlog at December 31, 2002, $9,776 million relates to KBR operations with the remainder arising from our Energy Services Group. We estimate that 43% of the total backlog existing at December 31, 2002 will be completed during 2003. Approximately 37% of total backlog relates to fixed-price contracts with the remaining 63% relating to cost reimbursable contracts. In addition, backlog relating to engineering, procurement, installation and commissioning contracts for the offshore oil and gas industry totaled $904 million at December 31, 2002. For contracts that are not for a specific amount, backlog is estimated as follows:

- operations and maintenance contracts that cover multiple years are included in backlog based upon an estimate of the work to be provided over the next twelve months; and
- government contracts that cover a broad scope of work up to a maximum value are included in backlog at the estimated amount of work to be completed under the contract based upon periodic consultation with the customer.

For projects where we act as project manager, we only include our scope of each project in backlog. For projects related to unconsolidated joint ventures, we only include our percentage ownership of each joint venture's backlog. Our backlog excludes contracts for recurring hardware and software maintenance and support services offered by Landmark. Backlog is not indicative of future operating results because backlog figures are subject to substantial fluctuations. Arrangements included in backlog are in many instances extremely complex, nonrepetitive in nature and may fluctuate in contract value and timing. Many contracts do not provide for a fixed amount of work to be performed and are subject to modification or termination by the customer. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on backlog.

Raw materials. Raw materials essential to our business are normally readily available. Where we rely on a single supplier for materials essential to our business, we are confident that we could make satisfactory alternative arrangements in the event of an interruption in supply.

Research and development costs. We maintain an active research and development program. The program improves existing products and processes, develops new products and processes and improves engineering standards and practices that serve the changing needs of our customers. Our expenditures for research and development activities totaled $233 million in both 2002 and 2001 and $231 million in 2000. Further information relating to our expenditures for research and development is included in Note 1 and Note 4 to the financial statements.

Patents. We own a large number of patents and have pending a substantial number of patent applications covering various products and processes. We are also licensed to utilize patents owned by others. Included in "Other assets" are patents, net of accumulated amortization, totaling $58 million as of December 31, 2002 and $49 million as of December 31, 2001. We do not consider any particular patent or group of patents to be material to our business operations.

Seasonality. Weather and natural phenomena can temporarily affect the performance of our services, but the widespread geographical locations of our operations serve to mitigate those effects. Examples of how weather can impact our business include:

- the severity and duration of the winter in North America can have a significant impact on gas storage levels and drilling activity for natural gas;
- the timing and duration of the spring thaw in Canada directly affects activity levels due to road restrictions;
- typhoons and hurricanes can disrupt offshore operations; and
- severe weather during the winter months normally results in reduced activity levels in the North Sea.

Employees. At December 31, 2002, we employed approximately 83,000 people worldwide compared to 85,000 at December 31, 2001. At December 31, 2002, approximately five percent of our employees were subject to collective bargaining agreements. Based upon the geographic diversification of these employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

Environmental regulation. We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act and the Toxic Substances Control Act, among others. In addition to the federal laws and regulations, states where we do business may have equivalent laws and regulations with which we must abide.

We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. On occasion we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. We have subsidiaries that have been named as potentially responsible parties along with other third parties for ten federal and state superfund sites for which we have established a liability. As of December 31, 2002, those ten sites accounted for $8 million of our total $48 million liability. See Note 12 to the financial statements.

Website access. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 are made available free of charge on the Company's internet website at www.halliburton.com as soon as reasonably practicable after the Company has electronically filed such material with, or furnished it to, the Securities and Exchange Commission.

Item 2. Properties.

We own or lease numerous properties in domestic and foreign locations. The following locations represent our major facilities:

Location	Owned/ Leased	Sq. Footage	Description
Energy Services Group			
North America			
Duncan, Oklahoma	Owned	1,275,000	Four locations which include manufacturing capacity totaling 655,000 square feet. The manufacturing facility is the main manufacturing site for the cementing, fracturing and acidizing equipment used by our pressure pumping product service line. The Duncan facilities also include a technology and research center, training facility, administrative offices and warehousing.
Houston, Texas	Owned	690,000	Two suburban campus locations. One campus is on 89 acres consisting of office, training, test well, warehouse, manufacturing and laboratory facilities. The manufacturing facility, which occupies 115,000 square feet, produces highly specialized downhole equipment for our logging and drilling systems product service lines. The other campus is a manufacturing facility with limited office, laboratory and warehouse space that primarily produces fixed cutter drill bits.
Houston, Texas	Owned	593,000	A campus facility that is the home office for the Energy Services Group.
Carrollton, Texas	Owned	792,000	Manufacturing facility including warehouses, engineering and sales, testing, training and research. The manufacturing plant produces equipment for the completion products product service line, including surface and subsurface safety valves and packer assemblies.
Dallas, Texas	Owned	352,000	Manufacturing facility includes office, laboratory and warehouse space that primarily produces roller cone drill bits. In 2002, we announced plans to move production from this facility to a new facility in The Woodlands, Texas. The planned move is expected in 2003.
Alvarado, Texas	Owned	238,000	Manufacturing facility including some office and warehouse space. The manufacturing facility produces perforating products and exploratory and formation evaluation tools for the tools, testing and tubing conveyed perforating and logging product service lines.

Location	Owned/ Leased	Sq. Footage	Description
Europe/Africa			
Arbroath, United Kingdom	Owned	119,000	Manufacturing site that produces equipment for the completions products product service line.
Aberdeen, United Kingdom	Owned Leased	1,216,000 365,000	A total of 26 sites including 866,000 square feet of manufacturing capacity used by various product service lines.
Montrose, United Kingdom	Owned	213,000	Service operation center for CPS equipment set on a 7.5 acre site including office, workshop, warehouse, and yard used as open storage. Also accommodates a development center with two training wells.
Tananger, Norway	Leased	319,000	Service center with workshops, testing facilities, warehousing and office facilities supporting the Norwegian North Sea operations.
Engineering and Construction Group			
North America			
Houston, Texas	Leased	851,000	Engineering and project support center which occupies 33 full floors in 2 office buildings. One of these buildings is owned by a joint venture in which we have a 50% ownership. The remaining 50% of the joint venture is owned by a subsidiary of Trizec Properties Inc. (NYSE: TRZ). Trizec is not affiliated with Halliburton Company or any of its directors or executive officers.
Houston, Texas	Owned	1,017,000	A campus facility occupying 135 acres utilized primarily for administrative and support personnel. Approximately 221,000 square feet is dedicated to maintenance and warehousing of construction equipment. This campus also serves as office facilities for KBR's headquarters and our temporary corporate headquarters.
Europe/Africa			
Leatherhead, United Kingdom	Owned	226,000	Engineering and project support center on 55 acres in suburban London.

In 2002, we closed our Dallas corporate office and temporarily relocated it to the Houston facility that also serves as headquarters for KBR. In 2003, the corporate headquarters will be moved from this location to offices in downtown Houston which are currently being completed.

In addition, we have 181 international and 108 domestic field camps from which Halliburton Energy Services delivers its products and services. We also have numerous small facilities that include sales offices, project offices and bulk storage facilities throughout the world. We own or lease marine fabrication facilities covering approximately 761 acres in Texas, England and Scotland which are used by the Engineering and Construction Group.

We have mineral rights to proven and probable reserves of barite and bentonite. These rights include leaseholds, mining claims and owned property. We process barite and bentonite for supply to many industrial markets worldwide in addition to using it in our drilling fluids operations. Based on the number of tons of bentonite consumed in fiscal year 2002, we estimate our 22 million tons of proven reserves in areas of active mining are sufficient to fulfill our internal and external needs for the next 15 years. We estimate that our 750,000 tons of proven reserves of barite in areas of active mining equate to a 27 year supply based on current rates of production. These estimates are subject to change based on periodic updates to reserve estimates and to the extent future consumption differs from current levels of consumption.

We believe all properties that we currently occupy are suitable for their intended use.

Item 3. Legal Proceedings.

Information relating to various commitments and contingencies is described in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 12 to the financial statements.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

Executive Officers of the Registrant.

The following table indicates the names and ages of the executive officers of the registrant as of February 1, 2003, along with a listing of all offices held by each during the past five years:

	Name and Age	Offices Held and Term of Office
	Jerry H. Blurton (Age 58)	Vice President and Treasurer of Halliburton Company, since July 1996
	Cedric W. Burgher (Age 42)	Vice President - Investor Relations of Halliburton Company, since September 2001 Vice President of Enron Corp. and Enron Oil & Gas Company, March 1996 to September 2001 Assistant Treasurer of Baker Hughes, Inc., March 1993 to March 1996
	Margaret E. Carriere (Age 51)	Vice President, Secretary and Corporate Counsel of Halliburton Company, since September 2002 Vice President and Corporate Counsel of Halliburton Company, May 2002 to September 2002 Vice President - Human Resources of Halliburton Company, August 2000 to May 2002 Vice President - Legal and Secretary of Halliburton Energy Services, Inc., February 2000 to August 2000 Law Department Manager of Integration & Development of Halliburton Energy Services, Inc., October 1998 to February 2000 Region Chief Counsel (London) Europe/Africa Law Department of Halliburton Energy Services, Inc., May 1994 to September 1998
*	Albert O. Cornelison, Jr. (Age 53)	Executive Vice President and General Counsel of Halliburton Company, since December 2002 Vice President and General Counsel of Halliburton Company, May 2002 to December 2002 Vice President and Associate General Counsel of Halliburton Company, October 1998 to May 2002 Staff Vice President and Associate General Counsel of Dresser Industries, Inc., February 1994 to September 1998
	Charles E. Dominy (Age 62)	Vice President - Government Affairs of Halliburton Company, since December 2000 Vice President, Business Development of Kellogg Brown & Root, Inc., September 1995 to December 2000
*	Douglas L. Foshee (Age 43)	Executive Vice President and Chief Financial Officer of Halliburton Company, since August 2001 Chairman, President and CEO of Nuevo Energy Company, July 1997 to May 2001 President and Chief Executive Officer of Torch Energy Advisors, Inc., May 1995 to July 1997
*	John W. Gibson, Jr. (Age 45)	Chief Executive Officer of Energy Services Group, since January 2003 President of Halliburton Energy Services, March 2002 to December 2002 President and Chief Executive Officer of Landmark, May 2000 to February 2002 Chief Operating Officer of Landmark, July 1999 to April 2000 Executive Vice President of Integrated Products Group, February 1996 to June 1999

Executive Officers of the Registrant (continued)

Name and Age	Offices Held and Term of Office
* Robert R. Harl (Age 52)	Chief Executive Officer of Kellogg Brown & Root, Inc., since March 2001 President of Kellogg Brown & Root, Inc., since October 2000 Vice President of Kellogg Brown & Root, Inc., March 1999 to October 2000 Chief Executive Officer and President of Brown & Root Energy Services Division of Kellogg Brown & Root, Inc., April 2000 to February 2001 Chief Executive Officer of Brown & Root Services Division of Kellogg Brown & Root, Inc., January 1999 to April 2000 Chief Executive Officer and President of Brown & Root Services Corporation, November 1996 to January 1999 Vice President of Brown & Root, Inc., July 1989 to July 1998
Arthur D. Huffman (Age 50)	Vice President and Chief Information Officer of Halliburton Company, since August 2000 Chief Information Officer of Group Air Liquide, 1997 to August 2000 Vice President - Information Technology of Air Liquide America Corporation, 1995 to 1997
* David J. Lesar (Age 49)	Chairman of the Board, President and Chief Executive Officer of Halliburton Company, since August 2000 Director of Halliburton Company, since August 2000 President and Chief Operating Officer of Halliburton Company, May 1997 to August 2000 Executive Vice President and Chief Financial Officer of Halliburton Company, August 1995 to May 1997 Chairman of the Board of Kellogg Brown & Root, Inc., January 1999 to August 2000 President and Chief Executive Officer of Brown & Root, Inc., September 1996 to December 1998
Weldon J. Mire (Age 55)	Vice President - Human Resources of Halliburton Company, since May 2002 Division Vice President of Halliburton Energy Services, January 2001 to May 2002 Asia Pacific Sales Manager of Halliburton Energy Services, November 1999 to January 2001 Director of Business Development, September 1999 to November 1999 Global Director of Strategic Business Development, January 1999 to November 1999 Senior Shared Service Manager Houston, November 1998 to January 1999 IS Project Manager III - Venezuela, May 1998 to November 1998 Tools and Testing and TCP Product Manager, July 1997 to May 1998
R. Charles Muchmore, Jr. (Age 49)	Vice President and Controller of Halliburton Company, since August 1996

Executive Officers of the Registrant (continued)

Name and Age	Offices Held and Term of Office
David R. Smith (Age 56)	Vice President - Tax of Halliburton Company, since May 2002 Vice President - Tax of Halliburton Energy Services, Inc., September 1998 to May 2002 Vice President - Tax of Dresser Industries, Inc., 1993 to September 1998

* Members of the Policy Committee of the registrant.
There are no family relationships between the executive officers of the registrant or between any director and any executive officer of the registrant.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Halliburton Company's common stock is traded on the New York Stock Exchange and the Swiss Exchange. Information relating to the high and low market prices of common stock and quarterly dividend payment is included under the caption "Quarterly Data and Market Price Information" on pages 99 and 100 of this annual report. Cash dividends on common stock for 2002 and 2001 were paid in March, June, September, and December of each year. Our Board of Directors intends to consider the payment of quarterly dividends on the outstanding shares of our common stock in the future. The declaration and payment of future dividends, however, will be at the discretion of the Board of Directors and will depend upon, among other things:

- future earnings;
- general financial condition and liquidity;
- success in business activities;
- capital requirements; and
- general business conditions.

At December 31, 2002, there were approximately 25,027 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Item 6. Selected Financial Data.

Information relating to selected financial data is included on pages 96 through 98 of this annual report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information relating to Management's Discussion and Analysis of Financial Condition and Results of Operations is included on pages 15 through 46 of this annual report.

Item 7(a). Quantitative and Qualitative Disclosures About Market Risk.

Information relating to market risk is included in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Financial Instrument Market Risk" on page 39 of this annual report.

Item 8. Financial Statements and Supplementary Data.

The related financial statement schedules are included under Part IV, Item 15 of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

In this section, we discuss the business environment, operating results and general financial condition of Halliburton Company and its subsidiaries. We explain:

- factors and risks that impact our business;
- why our earnings and expenses for the year 2002 vary from 2001 and why our earnings and expenses for 2001 vary from 2000;
- capital expenditures;
- factors that impacted our cash flows; and
- other items that materially affect our financial condition or earnings.

BUSINESS ENVIRONMENT

Our business is organized in the following two business segments:

- Energy Services Group; and
- Engineering and Construction Group.

We currently operate in over 100 countries throughout the world, providing a comprehensive range of discrete and integrated products and services to the energy industry and to other industrial and governmental customers. The majority of our consolidated revenues is derived from the sale of services and products, including engineering and construction activities to major, national and independent oil and gas companies. These services and products are used throughout the energy industry from the earliest phases of exploration, development and production of oil and gas resources through refining, processing and marketing.

The industries we serve are highly competitive with many substantial competitors for each segment. In 2002, the United States represented 33% of our total revenue and the United Kingdom represented 12%. No other country accounted for more than 10% of our operations. Unsettled political conditions, social unrest, acts of terrorism, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange controls or currency devaluation may result in increased business risk in any one country. We believe the geographic diversification of our business activities reduces the risk that loss of business in any one country would be material to our consolidated results of operations.

Halliburton Company

Activity levels within our two business segments are significantly impacted by the following:

- spending on upstream exploration, development and production programs by major, national and independent oil and gas companies;
- capital expenditures for downstream refining, processing, petrochemical and marketing facilities by major, national and independent oil and gas companies; and
- government spending levels.

Also impacting our activity is the status of the global economy, which indirectly impacts oil and gas consumption, demand for petrochemical products and investment in infrastructure projects.

Some of the more significant barometers of current and future spending levels of oil and gas companies are oil and gas prices, exploration and production drilling prospects, the world economy and global stability which together drive worldwide drilling activity. As measured by rig count, high levels of worldwide drilling activity during the first half of 2001 began to decline in the latter part of that year. Drilling levels reached a low, particularly in the United States for gas drilling, in April 2002. The decline was partially due to general business conditions caused by global economic uncertainty which was accelerated by the terrorist attacks on September 11, 2001. An abnormally warm 2001/2002 winter season in the United States also resulted in increased working gas in storage. The high level of gas in storage put pressure on gas prices, which resulted in reduced gas drilling activity particularly in the Western portion of the United States.

For the year 2002, natural gas prices at Henry Hub averaged $3.33 per million cubic feet, commonly referred to as mcf, compared to $4.07 per mcf in 2001. Gas prices continued to decline during the first two months of 2002 and then steadily increased throughout the year ending at an average of $4.65 per mcf in December. Based upon data from a leading research association at the end of 2002, the gas price at Henry Hub was expected to average slightly above $3.73 per mcf for all of 2003 and $4.00 per mcf for the 2003 first quarter. However, actual prices have been significantly higher averaging $6.33 per mcf during January and February. These higher gas prices have not translated into significantly increased gas drilling rig activity as of the end of February.

Natural gas prices have been impacted by an abnormally cold 2002/2003 winter season thus far in the United States, resulting in reduced gas storage levels. As of January 31, 2003, working gas in storage was 1,521 billion cubic feet, commonly referred to as bcf, according to Energy Information Administration estimates. These stocks were 811 bcf less than last year at this time and 287 bcf below the 5-year average of 1,808 bcf. At 1,521 bcf, total working gas in storage is within the 5-year historical range. While gas prices in the United States have historically varied somewhat geographically, this winter we have seen significantly higher fluctuations in regional gas prices in the United States. For example, while the price averaged $4.27 per mcf in the fourth quarter at Henry Hub, it was less than $2.00 per mcf in various parts of the Western United States. This is resulting in significant variation in gas drilling activity by region in the United States and much lower drilling and stimulation activity in the gas basins of the Western United States.

Crude oil prices for West Texas Intermediate, commonly referred to as WTI, averaged $25.92 per barrel for all of 2002 compared to $26.02 per barrel for 2001. Oil prices have continued to trend upward since the beginning of 2002. Quarterly average WTI increased from $20.52 in the 2001 fourth quarter, to $28.23 in the 2002 third quarter and increased slightly to $28.34 during the 2002 fourth quarter. We believe that current oil prices reflect the disruption of supplies from Venezuela due to political unrest related to the national strike and a war premium due to the risk of supply disruption as a result of the armed conflict in the Middle East. OPEC, on January 12, 2003, agreed to raise its output ceiling by 1.5 million barrels per day or 6.5% to 24.5 million barrels per day. Prices for the first and second quarters of 2003 will be impacted by the length of disruption of Venezuelan crude oil supplies, the ability of OPEC to manage country production quotas, political tensions in the Middle East, global demand and the level of production by major non-OPEC countries, including Norway, Russia and other members of the former Soviet Union.

Energy Services Group

Lower natural gas and crude oil drilling activity since the 2001 third quarter has resulted in decreased demand for the services and products provided by the Energy Services Group. The yearly average and quarterly average rig counts based on the Baker Hughes Incorporated rig count information are as follows:

Average Rig Counts	2002	2001	2000
United States	831	1,155	916
Canada	266	342	344
International (excluding Canada)	732	745	652
Worldwide Total	1,829	2,242	1,912

Average Rig Counts	Fourth Quarter 2002	Third Quarter 2002	Second Quarter 2002	First Quarter 2002	Fourth Quarter 2001	Third Quarter 2001
United States	847	853	806	818	1,004	1,241
Canada	283	250	147	383	278	320
International (excluding Canada)	753	718	725	731	748	757
Worldwide Total	1,883	1,821	1,678	1,932	2,030	2,318

Worldwide rig activity started to decline in the latter part of the third quarter 2001 and averaged 1,829 rigs in 2002 as compared to 2,242 in 2001. The decline in rig activity was most severe in North America, particularly the United States, where the rig count dropped 28% from an average of 1,155 in 2001 to 831 in 2002, with the majority of this decline due to reduced gas drilling. In the past, there has generally been a good correlation between the price of oil and gas in the United States and rig activity. However, this has not been the case in recent months where the rig count has declined as compared to the fourth quarter 2001, while WTI oil and Henry Hub gas prices have increased. We believe this is due to economic uncertainty, which we expect to continue into at least the next quarter or two, created by the following:

- volatility of oil and gas prices;
- disruption of oil supplies from Venezuela;
- differences in gas prices geographically in the United States;
- less spending due to current uncertain global economic environment;
- the armed conflict in the Middle East;
- budgetary constraints of some of our customers;
- focus on debt reduction by some of our customers;
- lack of quality drilling prospects by exploration and production companies; and
- level of United States working gas in storage during the winter heating season.

It is common practice in the United States oilfield services industry to sell services and products based on a price book and then apply discounts to the price book based upon a variety of factors. The discounts applied typically increase to partially or substantially offset price book increases in the weeks immediately following a price increase. The discount applied normally decreases over time if the activity levels remain strong. During periods of reduced activity, discounts normally increase, reducing the net revenue for our services and conversely during periods of higher activity, discounts normally decline resulting in net revenue increasing for our services.

During 2000 and 2001, we implemented several price book increases. In July 2000, as a result of increased consumable materials costs and a tight labor market causing higher labor costs, we increased prices in the United States for most product and service lines on average between 2% and 12%. In January 2001, as a result of continued labor shortages and increased labor and materials costs, we increased prices in the United States on average between 5% and 12%. In July 2001, as a result of continuing personnel and consumable material cost increases, we increased prices on average between 6% and 15%.

The decreased rig activity in 2002 from 2001 in the United States has increased pressure on the oilfield services product service lines to discount prices. The price increases we implemented last year have mostly been eroded by additional discounts. Our pressure pumping product service line has been significantly impacted by the current economic slowdown due to its dependence on United States gas drilling.

Our deepwater activity has not been as adversely impacted as land activity by the downturn in the energy industry, due to the level of investment and the long-term nature of contracts. Our drilling systems product service line, which currently has a large percentage of its business outside the United States and is currently heavily involved in deepwater oil and gas exploration and development drilling and longer term contracts, has remained relatively strong despite the overall decline in the energy industry. Our operations have also been impacted by political and economic instability in Indonesia and in Latin America. In Latin America, the impact was primarily in Argentina in the earlier part of 2002 and then in Venezuela toward the end of 2002, due to political unrest related to the national strike. We also experienced disruptions due to Tropical Storm Isidore and Hurricane Lili in the Gulf of Mexico.

Based upon data from Spears and Associates, drilling activity in the United States and Canada in 2003 is expected to increase compared to overall 2002 levels and compared to the fourth quarter 2002. This reflects the current level of oil and gas prices and tight supplies. International drilling activity is expected to remain constant with fourth quarter 2002 levels.

At the end of 2002, two brokerage firms released exploration and production expenditure surveys for 2003. Salomon Smith Barney reported that worldwide exploration and production spending is expected to increase 3.8% in 2003. North America spending was forecasted to rise 1.5%. The report also noted that a lack of quality drilling prospects and uncertainty over Iraq have also contributed to a weaker initial spending forecast. Lehman Brothers made similar predictions. They are projecting a 4.2% increase in worldwide exploration and production expenditures for 2003, but a slight decrease in United States spending. Canadian exploration and production spending is estimated to increase 7.2%. International exploration and production expenditures are estimated to grow 5.5% in 2003, led by natinoal oil companies and European majors. According to the Lehman report, exploration and production company budgets were based upon an average oil price estimate of $23.22 per barrel (WTI) and $3.42 per mcf for natural gas (Henry Hub).

Until economic and political uncertainties impacting customer spending become clearer, we expect oilfield services activity to be essentially flat in the short-term and improve in the second half of 2003. The armed conflict in the Middle East could disrupt our operations in the region and elsewhere for the duration of the conflict. In the longer-term, we expect increased global demand for oil and natural gas, additional customer spending to replace depleting reserves and our continued technological advances to provide growth opportunities.

Engineering and Construction Group

Our engineering and construction projects are longer term in nature than our energy services projects and are not significantly impacted by short-term fluctuations in oil and gas prices. We believe that the global economy's recovery is continuing, but its strength and sustainability are not assured. Based on the uncertain economic recovery and continuing excess capacity in petrochemical supplies, customers have continued to delay project awards or reduce the scope of projects involving hydrocarbons and manufacturing. A number of large-scale gas and liquefied natural gas development, offshore deepwater, government and infrastructure projects are being awarded or actively considered. However, in light of terrorist threats, the armed conflict and increasing instability in the Middle East and the modest growth of the global economy, many customers are delaying some of their capital commitments and international investments.

We expect growth opportunities to exist for additional security and defense support to government agencies in the United States and other countries. Demand for these services is expected to grow as a result of the armed conflict in the Middle East and as governmental agencies seek to control costs and promote efficiencies by outsourcing these functions. We also expect growth due to new demands created by increased efforts to combat terrorism and enhance homeland security.

Engineering and construction contracts can be broadly categorized as fixed-price, sometimes referred to as lump sum, or cost reimbursable contracts. Some contracts can involve both fixed-price and cost reimbursable elements.

Fixed-price contracts are for a fixed sum to cover all costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us as we must pre-determine both the quantities of work to be performed and the costs associated with executing the work. The risks to us arise, among other things, from:

- having to judge the technical aspects and effort involved to accomplish the work within the contract schedule;
- labor availability and productivity; and
- supplier and subcontractor pricing and performance.

Fixed-price engineering, procurement and construction and fixed-price engineering, procurement, installation and commissioning contracts involve even greater risks including:

- bidding a fixed-price and completion date before detailed engineering work has been performed;
- bidding a fixed-price and completion date before locking in price and delivery of significant procurement components (often items which are specifically designed and fabricated for the project);
- bidding a fixed-price and completion date before finalizing subcontractors terms and conditions;
- subcontractors individual performance and combined interdependencies of multiple subcontractors (the majority of all construction and installation work is performed by subcontractors);
- contracts covering long periods of time;
- contract values generally for large amounts; and
- contracts containing significant liquidated damages provisions.

Cost reimbursable contracts include contracts where the price is variable based upon actual costs incurred for time and materials, or for variable quantities of work priced at defined unit rates. Profit elements on cost reimbursable contracts may be based upon a percentage of costs incurred and/or a fixed amount. Cost reimbursable contracts are generally less risky, since the owner retains many of the risks. While fixed-price contracts involve greater risk, they also potentially are more profitable for the contractor, since the owners pay a premium to transfer many risks to the contractor.

After careful consideration, we have decided no longer to pursue riskier fixed-price engineering, procurement, installation and commissioning contracts for the offshore oil and gas industry. An important aspect of our 2002 reorganization was to look closely at each of our businesses to ensure that they are self-sufficient, including their use of capital and liquidity. In that process, we found that the engineering, procurement, installation and commissioning offshore business was using a disproportionate share of our bonding and letter of credit capacity relative to its profit contribution. The risk/reward relationship in that segment is no longer attractive to us. We provide a range of engineering, fabrication and project management services to the offshore industry, which we will continue to service through a variety of other contracting forms. We have seven fixed-price engineering, procurement, installation and commissioning offshore projects underway and we are fully committed to successful completion of these projects, several of which are substantially complete. We plan to retain our offshore engineering and services capabilities.

The approximate percentages of revenues attributable to fixed-price and cost reimbursable engineering and construction segment contracts are as follows:

	Fixed-Price	Cost Reimbursable
2002	47%	53%
2001	41%	59%
2000	47%	53%

Reorganization of Business Operations

We have substantially completed a corporate reorganization commenced in 2002 intended to restructure our businesses into two operating subsidiary groups, the Energy Services Group and KBR, representing the Engineering and Construction Group. As part of this reorganization, we are separating and consolidating the entities in our Energy Services Group together as direct and indirect subsidiaries of Halliburton Energy Services, Inc. We are also separating and consolidating the entities in our Engineering and Construction Group together as direct and indirect subsidiaries of the former Dresser Industries Inc., which became a limited liability company during the second quarter of 2002 and was renamed DII Industries, LLC. The reorganization of business operations facilitated the separation, organizationally, financially and operationally, of our two business segments, which we believe will significantly improve operating efficiencies in both, while streamlining management and easing manpower requirements. In addition, many support functions that were previously shared were moved into the two business groups. Although we have no specific plans currently, the reorganization would facilitate separation of the ownership of the two businesses in the future if we identify an opportunity that produces greater value for our shareholders than continuing to own both businesses.

We expect only a minimal amount of restructuring costs to be incurred in 2003. In 2002, we incurred approximately $107 million in restructuring charges consisting of the following:

- $64 million in personnel related expense;
- $17 million of asset related write-downs;
- $20 million in professional fees related to the restructuring; and
- $6 million related to contract terminations.

We anticipate annualized cost savings of $200 million compared to costs prior to the corporate reorganization.

As a part of the reorganization, we decided that the operations of Major Projects, Granherne and Production Services were better aligned with KBR in the current business environment and these businesses were moved from the Energy Services Group to the Engineering and Construction Group during the second quarter of 2002. All prior period segment results have been restated to reflect this change. Major Projects, which currently consists of the Barracuda-Caratinga project in Brazil, is now reported through the Offshore operations product line, Granherne is now reported in the Onshore operations product line, and Production Services is now reported under the Operations and Maintenance product line.

Asbestos and Silica

On December 18, 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a global settlement of all asbestos and silica personal injury claims. The agreement in principle covers all current and future personal injury asbestos claims against DII Industries, Kellogg, Brown & Root and their current and former subsidiaries, as well as all current silica claims asserted presently or in the future. We revised our best estimate of our asbestos and silica liability based on information obtained while negotiating the agreement in principle, and adjusted our asbestos and silica liability to $3.425 billion, recorded additional probable insurance recoveries resulting in a total of $2.1 billion as of December 31, 2002 and recorded a net pretax charge of $799 million ($675 million after-tax) in the fourth quarter of 2002.

Should the proposed global settlement become probable under Statement of Financial Accounting Standards No. 5, we would adjust our accrual for probable and reasonably estimable liabilities for current and future asbestos and silica claims. The settlement amount initially would be up to $4.0 billion, consisting of up to $2.775 billion in cash, 59.5 million Halliburton shares of common stock and notes with a net present value expected to be less than $100 million. Assuming the revised liability would be $4.0 billion, we would also increase our probable insurance recoveries to $2.3 billion. The impact on our income statement would be an additional pretax charge of $322 million ($288 million after-tax). This accrual (which values our stock to be contributed at $1.1 billion using our stock price at December 31, 2002 of $18.71) would then be adjusted periodically based on changes in the market price of our common stock until the common stock was contributed to a trust for the benefit of the claimants.

RESULTS OF OPERATIONS IN 2002 COMPARED TO 2001

REVENUES

Millions of dollars	2002	2001	Increase/ (Decrease)
Energy Services Group	$ 6,836	$ 7,811	$ (975)
Engineering and Construction Group	5,736	5,235	501
Total revenues	$ 12,572	$ 13,046	$ (474)

Consolidated revenues for 2002 were $12.6 billion, a decrease of 4% compared to 2001. International revenues comprised 67% of total revenues in 2002 and 62% in 2001. International revenues increased $298 million in 2002 partially offsetting a $772 million decline in the United States where oilfield services drilling activity declined 28%, putting pressure on pricing.

Energy Services Group revenues declined 12%, or $975 million, in 2002 from 2001. International revenues were 60% of total revenues for 2002 as compared to 54% for 2001.

Revenues from our oilfield services product service lines were $6.2 billion for 2002 compared to $6.8 billion for 2001. The decline in revenue is attributable to lower levels of activity in North America across all product service lines, putting pressure on pricing of work in the United States. The decrease in North America revenue was offset by 8% higher international revenue. The change in revenues in oilfield services is shown by product service line as follows:

- pressure pumping revenue declined 13% due to reduced rig counts and activity in North America, partially offset by increased activity in Algeria, Nigeria, Mexico, Brazil, Saudi Arabia, Oman, Egypt and China;
- logging revenue was down 13% due to lower North American activity, partially offset by increased activity in Nigeria, Mexico, Saudi Arabia and China;
- completion products revenue was down 10% due to lower North American activity, partially offset by increased activity in the UK, Nigeria, Indonesia and Malaysia;
- drilling fluids revenue was down 10%, principally in North America, partially offset by increased sales in Nigeria, Angola, Mexico, Saudi Arabia and Indonesia;
- drill bits revenue was down 12% principally due to lower North American activity, partially offset by increased sales in Algeria, UK, Angola, Mexico, Brazil, Saudi Arabia and Indonesia; and
- drilling systems revenue was up 8% due to increased activity in Saudi Arabia, Thailand, Mexico, Brazil and the United Arab Emirates, offset by lower North American activity.

On a geographic basis, our oilfield services revenues were as follows:

- North American revenue decreased 24% across all product service lines due to lower rig activity;
- Latin American revenue decreased 8% primarily as a result of decreases in Argentina due to currency devaluation and in Venezuela due to lower activity brought on by uncertain market and political conditions and the national strike; and
- revenues increased in Europe/Africa, the Middle East, and Asia Pacific due to increased activity.

Revenues for the remainder of the segment decreased $308 million year-over-year. We account for our 50% ownership interest in Subsea 7, which began operations in May 2002, on the equity method of accounting. Prior to the formation of Subsea 7, the revenue of our subsea operations was included in our consolidated results. Had it not been for the change to the equity method of accounting in connection with the transaction, revenues for the balance of the segment would have decreased $79 million for 2002 as compared to 2001 due to lower subsea activity. Partially offsetting the lower subsea activity, Landmark revenues increased 12% compared to 2001 due to increased software and professional services revenues.

Engineering and Construction Group revenues increased $501 million, or 10%, in 2002 compared to 2001. Year-over-year revenues were 10% higher in North America and 9% higher outside North America. Our revenue comparison by product line is as follows:

- Offshore revenues increased 26% due to progress on the Barracuda-Caratinga project in Brazil and the Belenak project in Indonesia;
- Infrastructure revenues increased by 22% due to increased progress on the Alice Springs to Darwin Rail Line project in Australia and revenues from Europe/Africa;
- Onshore revenues increased by 25% primarily due to progress on several new projects in 2002 including gas and LNG projects in Algeria, Nigeria, Chad, Cameroon and Egypt;
- Government Operations revenues were 15% lower due to completion of a major project at our shipyard in the United Kingdom and lower volumes of logistical support in the Balkans; and
- Operations and Maintenance revenue declined 3% primarily due to reduced downstream maintenance activity.

OPERATING INCOME

Millions of dollars	2002	2001	Increase/ (Decrease)
Energy Services Group	$ 638	$ 1,036	$ (398)
Engineering and Construction Group	(685)	111	(796)
General corporate	(65)	(63)	(2)
Operating income (loss)	$ (112)	$ 1,084	$ (1,196)

Consolidated operating loss was $112 million for 2002 compared to operating income of $1.1 billion in 2001. In 2002, our results of operations included:

- $107 million in pretax expense related to restructuring charges, of which $64 million related to the Energy Services Group, $18 million related to the Engineering and Construction Group and $25 million related to General corporate;
- $117 million pretax loss in the Engineering and Construction Group on the Barracuda-Caratinga project in Brazil;
- $564 million pretax expense in the Engineering and Construction Group related to asbestos and silica liabilities;
- $79 million pretax loss in the Energy Services Group on the sale of our 50% equity investment in the Bredero-Shaw joint venture;
- $108 million pretax gain in the Energy Services Group on the sale of our 50% interest in European Marine Contractors;
- $98 million pretax expense in the Energy Services Group related to patent infringement litigation;

- $80 million pretax expense resulting from the write-off of billed and accrued receivables related to the Highlands Insurance Company litigation in the Engineering and Construction Group, formerly reported in General corporate; and
- $29 million pretax gain for the value of stock received from the demutualization of an insurance provider in General corporate.

In 2002, we recorded no amortization of goodwill due to the adoption of SFAS No. 142. For the year ended 2001, we recorded $42 million in goodwill amortization, of which $24 million related to the Energy Services Group and $18 million related to the Engineering and Construction Group.

Energy Services Group operating income for 2002 declined $398 million, or 38%, as compared to 2001. Excluding a $79 million loss on the sale of our 50% interest in the Bredero-Shaw joint venture, a $108 million gain on the sale of our interest in European Marine Contractors, a $98 million accrual related to the BJ Services litigation and $64 million in restructuring charges in 2002, and goodwill amortization of $24 million in 2001, operating income declined 27%. On the same basis, operating margin for 2002 was 11% compared to 14% for 2001.

Operating income in our oilfield services product service line declined $469 million or 46% compared to 2001. Excluding the above-noted items, the decline was $323 million, or 32%, reflecting lower rig activity primarily in North America and net pretax losses of $51 million on integrated solutions properties. The change in operating income in oilfield services is detailed by product service line as follows:

- pressure pumping operating income decreased 35%, as a result of reduced oil and gas drilling in North America, offset by increased international activity;
- our logging, drilling fluids and drill bits product services lines were also affected by the reduced oil and gas drilling in North America with operating income declining 64% in logging, 42% in drilling fluids and 30% in drill bits;
- our drilling systems product service line operating income increased 19%, benefiting from improved international activity; and
- our completion products and services product service line had a 6% increase in operating income.

We also recorded impairments of $66 million on integrated solutions properties primarily in the United States, Indonesia and Colombia, net of gains of $45 million on disposals of integrated solutions properties in the United States.

Operating income in the United States for our oilfield services product service line decreased $459 million due to lower activity levels and pricing pressures. International operating income decreased $10 million where losses on integrated solutions properties of $37 million offset improved operating results of Sperry-Sun, pressure pumping and completion products and services.

Operating income for the remainder of the segment increased $71 million in 2002 compared to 2001. Excluding the $79 million loss on the sale of our 50% interest in the Bredero-Shaw joint venture, a $108 million gain on the sale of our interest in European Marine Contractors and $9 million in restructuring charges in 2002, and goodwill amortization of $17 million in 2001, operating income for the remainder of the segment increased $34 million due to improved profitability in software sales and professional services at Landmark and in our subsea operations.

Engineering and Construction Group operating income declined by $796 million compared to 2001. Excluding the $117 million loss on the Barracuda-Caratinga project in Brazil, $644 million of expenses related to net asbestos and silica liabilities, $18 million in restructuring costs, goodwill amortization in 2001 of $18 million and asbestos charges for 2001 of $11 million, operating income declined $46 million. On the same basis, operating margin for 2002 was 2% as compared to 3% for 2001. Operating income in Offshore operations decreased $40 million in 2002 compared to 2001 primarily due to a $36 million loss on a project in the Philippines. Operating income decreased in Onshore operations by $30 million in 2002 compared to 2001 due to lower results in the construction segment and completion of a project in Algeria. Offsetting the declines was increased operating income of $21 million in Infrastructure primarily due to the Alice Springs to Darwin Rail Line project, and in Government operations where operating income increased $22 million due to improved results from projects in Asia Pacific, Europe/Africa and in the Americas.

Recognizing income due to an increase in our total probable unapproved claims during 2002 reduced reported losses by approximately $158 million.

General corporate expenses were $65 million for 2002 as compared to $63 million in 2001. Excluding restructuring charges and gain from the value of stock received from demutualization of an insurance provider, expenses would have been $69 million.

NONOPERATING ITEMS

Interest expense of $113 million for 2002 decreased $34 million compared to 2001. The decrease is due to repayment of debt and lower average borrowings in 2002, partially offset by the $5 million in interest related to the patent infringement judgment which we are appealing.

Interest income was $32 million in 2002 compared to $27 million in 2001. The increased interest income is for interest on a note receivable from a customer which had been deferred until collection.

Foreign currency losses, net were $25 million in 2002 compared to $10 million in 2001. The increase is due to negative developments in Brazil, Argentina and Venezuela.

Other, net was a loss of $10 million in 2002, which includes a $9.1 million loss on the sale of ShawCor Ltd. common stock acquired in the sale of our 50% interest in Bredero-Shaw.

Provision for income taxes was $80 million in 2002 compared to a provision for income taxes of $384 million in 2001. Exclusive of the tax effect on the asbestos and silica accrual (net of insurance recoveries) and the loss on sale of Bredero-Shaw, our 2002 effective tax rate from continuing operations was 38.9% for 2002 compared to 40.3% in 2001. The asbestos and silica accrual generates a United States Federal deferred tax asset which was not fully benefited because we anticipate that a portion of the asbestos and silica deduction will displace foreign tax credits and those credits will expire unutilized. As a result, we have recorded a $114 million valuation allowance in continuing operations and $119 million in discontinued operations associated with the asbestos and silica accrual, net of insurance recoveries. In addition, continuing operations has recorded a valuation allowance of $49 million related to potential excess foreign tax credit carryovers. Further, our impairment loss on Bredero-Shaw cannot be fully benefited for tax purposes due to book and tax basis differences in that investment and the limited benefit generated by a capital loss carryback. Settlement of unrealized prior period tax exposures had a favorable impact to the overall tax rate.

Minority interest in net income of subsidiaries in 2002 was $38 million as compared to $19 million in 2001. The increase was primarily due to increased activity in Devonport Management Limited.

Loss from continuing operations was $346 million in 2002 compared to income from continuing operations of $551 million in 2001.

Loss from discontinued operations was $806 million pretax, $652 million after-tax, or $1.51 per diluted share in 2002 compared to a loss of $62 million pretax, $42 million after-tax, or $0.10 per diluted share in 2001. The loss in 2002 was due primarily to charges recorded for asbestos and silica liabilities. The pretax loss for 2001 represents operating income of $37 million from Dresser Equipment Group through March 31, 2001 offset by a $99 million pretax asbestos accrual primarily related to Harbison-Walker.

Gain on disposal of discontinued operations of $299 million after-tax, or $0.70 per diluted share, in 2001 resulted from the sale of our remaining businesses in the Dresser Equipment Group in April 2001.

Cumulative effect of accounting change, net in 2001 of $1 million reflects the impact of adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and for Hedging Activities." After recording the cumulative effect of the change our estimated annual expense under Financial Accounting Standards No. 133 is not expected to be materially different from amounts expensed under the prior accounting treatment.

Net loss for 2002 was $998 million, or $2.31 per diluted share. Net income for 2001 was $809 million, or $1.88 per diluted share.

RESULTS OF OPERATIONS IN 2001 COMPARED TO 2000

REVENUES

Millions of dollars	2001	2000	Increase/ (Decrease)
Energy Services Group	$ 7,811	$ 6,233	$ 1,578
Engineering and Construction Group	5,235	5,711	(476)
Total revenues	$ 13,046	$ 11,944	$ 1,102

Consolidated revenues for 2001 were $13.0 billion, an increase of 9% compared to 2000. International revenues comprised 62% of total revenues in 2001 and 66% in 2000 as activity and pricing increased in our Energy Services Group more rapidly in the United States than internationally particularly in the first half of 2001. Our Engineering and Construction Group revenues, which did not benefit from the positive factors contributing to the growth of the Energy Services Group, decreased 8%. Engineering and construction projects are long-term in nature and customers continued to delay major projects with the slowdown in the economy occurring in the latter part of 2001.

Energy Services Group revenues increased by $1.6 billion, or 25%, in 2001 from 2000. International revenues were 54% of the total segment revenues in 2001 compared to 59% in 2000. Revenues in 2001 from our oilfield services product service lines were $6.8 billion. Our oilfield services product service lines experienced revenue growth of 29% despite a 14% decline in oil prices and a 3% decrease in natural gas prices between December 2000 and December 2001. The revenue increase was primarily due to higher drilling activity, as measured by the annual average oil and gas rig counts, and pricing improvements, particularly in the United States. Revenues increased across all product service lines in 2001 compared to 2000 as follows:

- pressure pumping product service lines experienced growth of 34% in 2001;
- logging, drilling services and drilling fluids revenues increased approximately 28%;
- drill bit revenues were 19% higher in 2001; and
- completion products revenues increased 13%.

Logging and drilling services revenues increases occurred primarily in the United States, as the product service lines benefited from higher prices and increased drilling activity. Geo-Pilot(TM) and other new products introduced in the drilling services product service line improved revenue in 2001 by approximately $50 million. We design and assemble the Geo-Pilot(TM) tool from parts manufactured to our specifications by third parties. Drilling fluid revenues increased in 2001 with higher activity levels in the Gulf of Mexico.

Geographically, all regions within the oilfield services product service lines prospered with North America revenues increasing 37% from 2000 to 2001 as follows:

- pressure pumping revenues in North America were 48% higher in 2001 primarily due to higher levels of drilling activity;
- revenues from Latin America increased 27% with significant increases in Venezuela and Brazil; and
- Europe/Africa and Middle East revenues were about 20% higher in 2001 than 2000, arising primarily in Russia and Egypt.

Revenues for the remainder of the segment of $980 million increased by $58 million, or 6%, primarily due to Landmark. Landmark revenues were higher by 19% partially due to the acquisition of PGS Data Management as well as growth in software sales and professional services.

Engineering and Construction Group revenues decreased $476 million, or 8%, from 2000 to 2001. The decline was primarily due to the completion of several large international onshore and offshore projects which had not yet been fully replaced with new project awards and delays in the awards of new projects. International revenues were approximately 75% in 2001 as compared to 73% in 2000. Revenues for the Asia/Pacific region were down nearly 40% due to the effects of completing two major projects, partially offset by a new liquefied natural gas project and the start-up of construction on the Alice Springs to Darwin Rail Line project. In Europe/Africa, revenues were down 6%. The decline was primarily due to the completion of a major project in Norway and lower activity on the logistical support contract in the Balkans which moved to the sustainment phase, which involved providing support at the facilities which were constructed during the initial phase of the contract. The decline was partially offset by increases in activities at our shipyard in the United Kingdom of approximately $67 million which related to a contract with the United Kingdom Ministry of Defense. North American revenues declined in 2001 partially due to the completion of highway and paving construction jobs and the baseball stadium in Houston. These declines in North America were partially offset by a slight increase in operations and maintenance revenues as our customers focused on maintaining current facilities and plant operations rather than adding new facilities. These declines were partially offset by increases in revenue in Latin America due to the Barracuda-Caratinga project in Brazil which began in the third quarter of 2000.

OPERATING INCOME

Millions of dollars	2001	2000	Increase/ (Decrease)
Energy Services Group	$ 1,036	$ 589	$ 447
Engineering and Construction Group	111	(54)	165
General corporate	(63)	(73)	10
Operating income	$ 1,084	$ 462	$ 622

Consolidated operating income increased $622 million, or 135%, from 2000 to 2001. In 2000 our results of operations include two significant items: an $88 million pretax gain on the sale of marine vessels and a pretax charge of $36 million related to the restructuring of the engineering and construction businesses. Excluding these items, operating income increased by more than 160%.

Energy Services Group operating income increased $447 million, or 76%, in 2001 over 2000. Excluding the sale of marine vessels, operating income increased more than 100% compared to 2000. Increased operating income reflects increased activity levels, higher equipment utilization and improved pricing, particularly in the United States in the first nine months of 2001. Our oilfield services product service lines operating income in 2001 exceeded $1 billion, more than double from 2000. Operating margins for our oilfield services product service lines increased from 8.6% in 2000 to 14.8% in 2001, resulting in an incremental margin of 37%. Incremental margins are calculated by taking the change in operating income over the applicable periods and dividing by the change in revenues over the same period. Operating income was higher in 2001 as compared to 2000 in all product service lines and geographic regions. The largest increase was in pressure pumping in North America, which rose by over 130%. Substantial increases in operating income were also made in the logging, drill bits and drilling services product service lines. Operating income in North America was higher by 72% in 2001 as compared to 2000. International regions, particularly Latin America and Europe/Africa, made significant improvements in operating income. Excluding the sale of marine vessels in 2000, operating income for the remainder of the segment decreased $27 million, primarily due to lower operating margins in our Surface/Subsea product service line.

Engineering and Construction Group operating income increased $165 million from 2000 to 2001. Operating margins improved to 2.1% in 2001. This increase was primarily due to the $167 million recorded in the fourth quarter of 2000 as a result of higher than estimated costs on specific jobs and unfavorable claims negotiations on other jobs. We also recorded a restructuring charge of $36 million in the fourth quarter of 2000 related to the reorganization of the engineering and construction businesses under Kellogg, Brown & Root. Excluding these fourth quarter 2000 charges, operating income decreased $38 million, or 26%, consistent with the decline in revenues and due to a revised profit estimate on the Barracuda-Caratinga project.

General corporate expenses were $63 million for 2001 as compared to $73 million in 2000. In 2000 general corporate expenses included $9 million of costs related to the early retirement of our previous chairman and chief executive officer, which was recorded in the third quarter of 2000.

NONOPERATING ITEMS

Interest expense of $147 million in 2001 was $1 million higher than in 2000. Our outstanding short-term debt was substantially higher in the first part of 2001 due to repurchases of our common stock in the fourth quarter of 2000 under our repurchase program and borrowings associated with the acquisition of PGS Data Management in March 2001. Cash proceeds of $1.27 billion received in April 2001 from the sale of the remaining businesses within the Dresser Equipment Group were used to repay our short-term borrowings; however, our average borrowings for 2001 were slightly higher than in 2000. The impact of higher average borrowings was mostly offset by lower interest rates on short-term borrowings.

Interest income was $27 million in 2001, an increase of $2 million from 2000.

Foreign currency losses, net were $10 million in 2001 as compared to $5 million in 2000. Argentina's financial crisis accounted for $4 million of the $5 million increase.

Other, net was a loss of $1 million in 2000 and less than a $1 million gain in 2001.

Provision for income taxes was $384 million for an effective tax rate of 40.3% in 2001 compared to 38.5% in 2000.

Minority interest in net income of subsidiaries in 2001 was $19 million as compared to $18 million in 2000.

Income (loss) from discontinued operations in 2001 was a $42 million loss, or $0.10 per diluted share, due to accrued expenses associated with asbestos claims of disposed businesses. See Note 3. The loss was partially offset by net income for the first quarter of 2001 from Dresser Equipment Group of $0.05 per diluted share. Income from discontinued operations of $98 million, or $0.22 per diluted share, represents the net income of Dresser Equipment Group for the full year of 2000.

Gain on disposal of discontinued operations in 2001 was $299 million after-tax, or $0.70 per diluted share. The 2001 gain resulted from the sale of our remaining businesses within the Dresser Equipment Group in April 2001. The gain of $215 million after-tax, or $0.48 per diluted share, in 2000 resulted from the sale of our 51% interest in Dresser-Rand, formerly a part of Dresser Equipment Group, in January 2000.

Cumulative effect of accounting change, net of $1 million reflects the adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" in the first quarter of 2001.

Net income for 2001 was $809 million, or $1.88 per diluted share, as compared to net income of $501 million, or $1.12 per diluted share in 2000.

LIQUIDITY AND CAPITAL RESOURCES

We ended 2002 with cash and cash equivalents of $1.1 billion compared with $290 million at the end of 2001 and $231 million at the end of 2000.

Cash flows from operating activities provided $1.6 billion for 2002 compared to providing $1.0 billion in 2001 and using $57 million in 2000. The net loss in 2002 was due to an after-tax asbestos and silica charge of $1.1 billion which has no effect on 2002 cash flows. Some factors which accounted for cash flows from operations for 2002 were as follows:

- we collected large milestone payments on several long-term contracts;
- we collected several large receivables during 2002 in our Energy Services Group;
- we sold an undivided ownership interest to unaffiliated companies under the accounts receivable securitization agreement for a net cash inflow of $180 million (see Note 6 to the financial statements); and
- we managed inventory at lower levels during 2002.

Cash flows from investing activities used $473 million for 2002, $858 million for 2001 and $411 million for 2000. Capital expenditures of $764 million in 2002 were about 4% lower than in 2001 and about 32% higher than in 2000. Capital spending in 2002 continued to be primarily directed to Halliburton Energy Services, for fracturing equipment and directional and logging-while-drilling equipment. In addition, we invested $60 million in an integrated solutions project. Included in sales of property, plant and equipment is $130 million collected from the sale of integrated solutions properties and cash collected from other asset sales. Dispositions of businesses in 2002 include $134 million collected from the sale of our European Marine Contractors Ltd. joint venture. Proceeds from the sale of securities of $62 million was for the sale of ShawCor shares. Included in the restricted cash balance for 2002 are the following:

- $107 million deposit that collateralizes a bond for a patent infringement judgment and interest, which judgment is on appeal;
- $57 million as collateral for potential future insurance claim reimbursements; and
- $26 million primarily related to cash collateral agreements for outstanding letters of credit for several construction projects.

In March 2001, we acquired the PGS Data Management division of Petroleum Geo-Services ASA for $164 million cash. In addition we spent $56 million for various other acquisitions in 2001.

Cash flows from financing activities used $248 million in 2002, $1.4 billion in 2001 and $584 million in 2000. Proceeds from exercises of stock options provided cash flows of less than $1 million in 2002, $27 million in 2001 and $105 million in 2000. We paid dividends of $219 million to our shareholders in 2002, $215 million in 2001 and $221 million in 2000.

Included in payments on long-term borrowings of $81 million in 2002 is a repayment of a $75 million medium-term note. In the fourth quarter of 2002, our 51% owned and consolidated subsidiary, Devonport Management Limited, signed an agreement for a credit facility of (pound)80 million ($126 million as of December 31, 2002) maturing in September 2009. Devonport Management Limited drew down $66 million from this facility in the fourth quarter. Proceeds from the sale of the remaining businesses in Dresser Equipment Group in April 2001, the sale of Dresser-Rand in early 2000 and the collection of a note from the fourth quarter 1999 sale of Ingersoll-Dresser Pump received in early 2000 were used to reduce short-term debt. On July 12, 2001, we issued $425 million in two and five year medium-term notes under our medium-term note program. The notes consist of $275 million of 6% fixed rate notes due August 1, 2006 and $150 million of floating rate notes due July 16, 2003. Net proceeds from the two medium-term note offerings were also used to reduce short-term debt. Net repayments of short-term debt in 2001 used $1.5 billion.

On April 25, 2000, our Board of Directors approved plans to implement a share repurchase program for up to 44 million shares. We repurchased 1.2 million shares at a cost of $25 million in 2001 and 20.4 million shares at a cost of $759 million in 2000. We currently have no plan to repurchase the remaining shares under the approved plan. In addition, we repurchased $4 million of common stock in 2002, $9 million in 2001 and $10 million in 2000 from employees to settle their income tax liabilities primarily for restricted stock lapses.

Cash flows from discontinued operations provided $1.3 billion in 2001 and $826 million in 2000. No cash flows from discontinued operations were provided in 2002. Cash flows for 2001 include proceeds from the sale of Dresser Equipment Group of approximately $1.27 billion. Cash flows for 2000 include proceeds from the sale of Dresser-Rand and Ingersoll-Dresser Pump of $913 million.

Capital resources from internally generated funds and access to capital markets are sufficient to fund our working capital requirements and investing activities. Our combined short-term notes payable and long-term debt was 30% of total capitalization at the end of 2002, 24% at the end of 2001, and 40% at the end of 2000. Short-term debt was reduced significantly in the second quarter of 2001 with the proceeds from the sale of Dresser Equipment Group and in the third quarter from the issuance of $425 million of medium-term notes. In 2000 we reduced our short-term debt with proceeds from the sales of Ingersoll-Dresser Pump and Dresser-Rand joint ventures early in the year. We increased short-term debt in the third quarter of 2000 to fund share repurchases. At December 31, 2002, we had $190 million in restricted cash included in "Other assets". See Note 5 to the financial statements. In addition on April 15, 2002, we entered into an agreement to sell accounts receivable to provide additional liquidity. See Note 6 to the financial statements. Currently, we expect capital expenditures in 2003 to be about $700 million. We have not finalized our capital expenditures budget for 2004 or later periods.

Proposed global settlement. On December 18, 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a global settlement of all asbestos and silica personal injury claims against DII Industries, Kellogg, Brown & Root and their current and former subsidiaries.

The agreement in principle provides that:

- up to $2.775 billion in cash, 59.5 million Halliburton shares (valued at $1.1 billion using the stock price at December 31, 2002 of $18.71) and notes with a net present value expected to be less than $100 million will be paid to a trust for the benefit of current and future asbestos personal injury claimants and current silica personal injury claimants upon receiving final and non-appealable court confirmation of a plan of reorganization;
- DII Industries and Kellogg, Brown & Root will retain rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3.0 billion going to the trust;
- the agreement is to be implemented through a pre-packaged Chapter 11 filing for DII Industries and Kellogg, Brown & Root, and some of their subsidiaries; and
- the funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganzation of DII Industries and Kellogg, Brown & Root and their subsidiaries in the Chapter 11 proceeding.

Subsequently, as of March 2003, DII Industries and Kellogg, Brown & Root have entered into definitive written agreements finalizing the terms of the agreement in principle. The proposed global settlement also includes silica claims as a result of current or past exposure. These silica claims are less than 1% of the personal injury claims included in the proposed global settlement. We have approximately 2,500 open silica claims.

Among the prerequisites for reaching a conclusion of the settlement are:

- agreement on the amounts to be contributed to the trust for the benefit of silica claimants;
- our review of the more than 347,000 current claims to establish that the claimed injuries are based on exposure to products of DII Industries, Kellogg, Brown & Root, their subsidiaries or former businesses or subsidiaries;
- completion of our medical review of the injuries alleged to have been sustained by plaintiffs to establish a medical basis for payment of settlement amounts;
- finalizing the principal amount of the notes to be contributed to the trust;
- agreement with a proposed representative of future claimants and attorneys representing current claimants on procedures for distribution of settlement funds to individuals claiming personal injury;
- definitive agreement with the attorneys representing current asbestos claimants and a proposed representative of future claimants on a plan of reorganization for the Chapter 11 filings of DII Industries, Kellogg, Brown & Root and some of their subsidiaries; and agreement with the attorneys representing current asbestos claimants with respect to, and completion and mailing of, a disclosure statement explaining the pre-packaged plan of reorganization to the more than 347,000 current claimants;
- arrangement of financing on terms acceptable to us to fund the cash amounts to be paid in the settlement;
- Halliburton board approval;
- obtaining affirmative votes to the plan of reorganization from at least the required 75% of known present asbestos claimants and from a requisite number of silica claimants needed to complete the plan of reorganization; and
- obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization.

Many of these prerequisites are subject to matters and uncertainties beyond our control. There can be no assurance that we will be able to satisfy the prerequisites for completion of the settlement. If we were unable to complete the proposed settlement, we would be required to resolve current and future asbestos claims in the tort system or, in the case of Harbison-Walker claims (see Note 12 to the financial statements), possibly through the Harbison-Walker bankruptcy proceedings.

The template settlement agreement with attorneys representing current claimants grants the attorneys a right to terminate the definitive settlement agreement on ten days' notice if DII Industries does not file a plan of reorganization on or before April 1, 2003. We are conducting due diligence on the asbestos claims, which is not expected to be completed by April 1, 2003. Therefore, we do not expect DII Industries to file a plan of reorganization prior to April 1. Although there can be no assurances, we do not believe the claimants' attorneys will terminate the settlement agreements on April 1, 2003 as long as adequate progress is being made toward a Chapter 11 filing.

We have begun our due diligence review of current asbestos claims. While these results are preliminary and not necessarily indicative of the eventual results of a completed review of all current asbestos claims, it appears that a substantial portion of the records for claims reviewed to date do not provide detailed product identification. We expect that many of these records could be supplemented by attorneys representing the claimants to provide additional information on product identification. However, no assurance can be given that the additional product identification documentation will be timely provided or sufficient for us or the plaintiffs to proceed with the proposed global settlement. In addition, although the medical information in the files we preliminarily reviewed appears significantly more complete, if a material number of claims ultimately do not meet the medical criteria for alleged injuries, no assurance can be given that a sufficient number of plaintiffs would vote to ratify the plan of reorganization that would implement the global settlement. In such case, we would not proceed with a Chapter 11 filing.

In March 2003, we agreed with Harbison-Walker and the asbestos creditors committee in the Harbison-Walker bankruptcy to consensually extend the period of the stay contained in the Bankruptcy Court's temporary restraining order until July 21, 2003. The court's temporary restraining order, which was originally entered on February 14, 2002, stays more than 200,000 pending asbestos claims against DII Industries. The agreement provides that if the pre-packaged Chapter 11 filing by DII Industries, Kellogg, Brown & Root and their subsidiaries is not made by July 14, 2003, the Bankruptcy Court will hear motions to lift the stay on July 21, 2003. The asbestos creditors committee also reserves the right to monitor progress toward the filing of the Chapter 11 proceeding and seek an earlier hearing to lift the stay if satisfactory progress toward the Chapter 11 filing is not being made.

Of the up to $2.775 billion cash amount included as part of the proposed global settlement, approximately $450 million primarily relates to claims previously settled but unpaid by Harbison-Walker (see Note 12 to the financial statements), but not previously agreed to by us. As part of the proposed settlement, we have agreed that, if a Chapter 11 filing by DII Industries, Kellogg, Brown & Root and their subsidiaries were to occur, we would pay this amount within four years if not paid sooner pursuant to a final bankruptcy court approved plan of reorganization for DII Industries, Kellogg, Brown & Root and their subsidiaries. Effective November 30, 2002, we are making cash payments in lieu of interest at a rate of 5% per annum to the holders of these claims. These cash payments in lieu of interest are being made in arrears at the end of February, May, August and November, beginning after certain conditions are met, until the earlier of the date that the $450 million is paid or the date the proposed settlement is abandoned.

Proposed bankruptcy of DII Industries, Kellogg, Brown & Root and subsidiaries. Under the terms of the proposed global settlement, the settlement would be implemented through a pre-packaged Chapter 11 filing for DII Industries, Kellogg, Brown & Root and some of their subsidiaries. Other than those debtors, none of the subsidiaries of Halliburton (including Halliburton Energy Services) or Halliburton itself will be a debtor in the Chapter 11 proceedings. We anticipate that Halliburton, Halliburton Energy Services and each of the debtors' non-debtor affiliates will continue normal operations and continue to fulfill all of their respective obligations in the ordinary course as they become due.

As part of any proposed plan of reorganization, the debtors intend to seek approval of the bankruptcy court for debtor-in-possession financing to provide for operating needs and to provide additional liquidity during the pendency of the Chapter 11 proceeding. We currently are negotiating with several banks and non-bank lenders over the terms of such facility. See "Financing the proposed settlement". Obtaining a commitment for debtor-in-possession financing is a condition precedent to filing of any Chapter 11 proceeding.

Any plan of reorganization will provide that all of the debtors' obligations under letters of credit, surety bonds, corporate guaranties and indemnity agreements (except for agreements relating to asbestos claims or silica claims) will be unimpaired. In addition, the Bankruptcy Code allows a debtor to assume most executory contracts without regard to bankruptcy default provisions, and it is the intention of DII Industries, Kellogg, Brown & Root and the other filing entities to assume and continue to perform all such executory contracts. Representatives of DII Industries, Kellogg, Brown & Root and their subsidiaries have advised their customers of this intention.

After filing any Chapter 11 proceeding, the debtors would seek an order of the bankruptcy court scheduling a hearing to consider confirmation of the plan of reorganization. In order to be confirmed, the Bankruptcy Code requires that an impaired class of creditors vote to accept the plan of reorganization submitted by the debtors. In order to carry a class, approval of over one-half in number and at least two-thirds in amount are required. In addition, to obtain an injunction under Section 524(g) of the Bankruptcy Code, at least 75% of current asbestos claimants must vote to accept the plan of reorganization. In addition to obtaining the required votes, the requirements for a bankruptcy court to approve a plan of reorganization include, among other judicial findings, that:

- the plan of reorganization complies with applicable provisions of the Bankruptcy Code;
- the debtors have complied with the applicable provisions of the Bankruptcy Code;
- the trust will value and pay similar present and future claims in substantially the same manner;
- the plan of reorganization has been proposed in good faith and not by any means forbidden by law; and
- any payment made or promised by the debtors to any person for services, costs or expenses in or in connection with the Chapter 11 proceeding or the plan of reorganization has been or is reasonable.

Section 524(g) of the Bankruptcy Code authorizes the bankruptcy court to enjoin entities from taking action to collect, recover or receive payment or recovery with respect to any asbestos claim or demand that is to be paid in whole or in part by a trust created by a plan of reorganization that satisfies the requirements of the Bankruptcy Code. Section 105 of the Bankruptcy Code authorizes a similar injunction for silica claims. The injunction also may bar any action based on such claims or demands against the debtors that are directed at third parties. The order confirming the plan must be issued or affirmed by the federal district court that has jurisdiction over the case. After the expiration of the time for appeal of the order, the injunction becomes valid and enforceable.

The debtors believe that, if they proceed with a Chapter 11 filing, they will be able to satisfy all the requirements of Section 524(g), so long as the requisite number of holders of asbestos claims vote in favor of the plan of reorganization. If the 524(g) and 105 injunctions are issued, all unsettled current asbestos claims, all future asbestos claims and all silica claims based on exposure that has already occurred will be channeled to a trust for payment, and the debtors and related parties (including Halliburton, Halliburton Energy Services and other subsidiaries and affiliates of Halliburton and the debtors) will be released from any further liability under the plan of reorganization.

A prolonged Chapter 11 proceeding could adversely affect the debtor's relationships with customers, suppliers and employees, which in turn could adversely affect the debtors' competitive position, financial condition and results of operations. A weakening of the debtors' financial condition and results of operations could adversely affect the debtors' ability to implement the plan of reorganization.

Financing the proposed settlement. The plan of reorganization through which the proposed settlement will be implemented will require us to contribute up to $2.775 billion in cash to the Section 524(g)/105 trust established for the benefit of claimants, which we will need to finance on terms acceptable to us. We are pursuing a number of financing alternatives for the cash amount to be contributed to the trust. The availability of these alternatives depend in large part on market conditions. We are currently negotiating with several banks and non-bank lenders over the terms of multiple credit facilities. A proposed banking syndicate is currently performing due diligence in an effort to make a funding commitment before the bankruptcy iling. We will not proceed with the Chapter 11 filing for DII Industries, Kellogg, Brown & Root and some of their subsidiaries until financing commitments are in place.

The anticipated credit facilities include:

- debtor-in-possession financing to provide for the operating needs of the filing entities;
- a revolving line of credit for general working capital purposes;
- a master letter of credit facility intended to ensure that existing letters of credit supporting our contracts remain in place during the filing; and
- a delayed-draw term facility to be available for funding of up to $2.775 billion to the trust for the benefit of claimants.

The delayed-draw term facility is intended to eliminate uncertainty the capital markets might have concerning our ability to meet our funding requirement once final and non-appealable court confirmation of a plan of reorganization has been obtained.

None of these credit facilities are currently in place, and there can be no assurances that we will complete these facilities. We are not obligated to enter into these facilities if the terms are not acceptable to us. Moreover, these facilities would only be available for limited periods of time. As a result, if we were delayed in filing the Chapter 11 proceeding or delayed in completing the plan of reorganization after a Chapter 11 filing, the credit facilities may expire and no longer be available. In such circumstances, we would have to terminate the proposed settlement if replacement financing were not available on acceptable terms.

We have sufficient authorized and unrestricted shares to issue 59.5 million shares to the trust. No shareholder approval is required for issuance of the shares.

Credit ratings. Late in 2001 and early in 2002, Moody's Investors' Services lowered its ratings of our long-term senior unsecured debt to Baa2 and our short-term credit and commercial paper ratings to P-2. In addition, Standard & Poor's lowered its ratings of our long-term senior unsecured debt to A- and our short-term credit and commercial paper ratings to A-2 in late 2001. In December 2002, Standard & Poor's lowered these ratings to BBB and A-3. These ratings were lowered primarily due to our asbestos exposure and both agencies have indicated that the ratings continue under consideration for possible downgrade pending the results of the proposed global settlement. Although our long-term ratings continue at investment grade levels, the cost of new borrowing is higher and our access to the debt markets is more volatile at the new rating levels. Investment grade ratings are BBB- or higher for Standard & Poor's and Baa3 or higher for Moody's Investors' Services. Our current ratings are one level above BBB- on Standard & Poor's and one level above Baa3 on Moody's Investors' Services.

We have $350 million of committed lines of credit from banks that are available if we maintain an investment grade rating. This facility expires on August 16, 2006. As of December 31, 2002, no amounts have been borrowed under these lines.

If our debt ratings fall below investment grade, we would also be in technical breach of a bank agreement covering $160 million of letters of credit at December 31, 2002, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $121 million has been issued, includes provisions that allow the banks to require cash collateralization for the full line if debt ratings of either rating agency fall below the rating of BBB by Standard & Poor's or Baa2 by Moody's Investors' Services, one downgrade from our current ratings. These letters of credit and bank guarantees generally relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance.

In the event the ratings of our debt by either agency fall, we may have to issue additional debt or equity securities or obtain additional credit facilities in order to satisfy the cash collateralization requirements under the instruments referred to above and meet our other liquidity needs. We anticipate that any such new financing would not be on terms as attractive as those we have currently and that we would also be subject to increased borrowing costs and interest rates.

Our Halliburton Elective Deferral Plan has a provision which states that if the Standard & Poor's rating falls below BBB the amounts credited to the participants' accounts will be paid to the participants in a lump-sum within 45 days. At December 31, 2002 this was approximately $49 million.

Letters of credit. In the normal course of business, we have agreements with banks under which approximately $1.4 billion of letters of credit or bank guarantees were issued, including at least $204 million which relate to our joint ventures' operations. The agreements with these banks contain terms and conditions that define when the banks can require cash collateralization of the entire line. Agreements with banks covering at least $150 million of letters of credit allow the bank to require cash collateralization for the full line for any reason, and agreements covering another at least $890 million of letters of credit allow the bank to require cash collateralization for the entire line in the event of a bankruptcy or insolvency event involving one of our subsidiaries.

Our letters of credit also contain terms and conditions that define when they may be drawn. At least $230 million of letters of credit permit the beneficiary of such letters of credit to draw against the line for any reason and another at least $560 million of letters of credit permit the beneficiary of such letters of credit to draw against the line in the event of a bankruptcy or insolvency event involving one of our subsidiaries who will be party to the proposed reorganization.

Our anticipated credit facilities described above would include a master letter of credit facility intended to replace any cash collateralization rights of issuers of substantially all our existing letters of credit during the pendency of the anticipated Chapter 11 proceedings by DII Industries and Kellogg, Brown & Root. The master letter of credit facility is also intended to provide reasonably sufficient credit lines for us to be able to fund any such cash requirements. If any of such existing letters of credit are drawn during the bankruptcy and we are required to provide cash to collateralize or reimburse for such draws, it is anticipated that the letter of credit facility would provide the cash needed for such draws, with any borrowings being converted into term loans. However, this letter of credit facility is not currently in place, and, if we were required to cash collateralize letters of credit prior to obtaining the facility, we would be required to use cash on hand or existing credit facilities. We will not enter into the pre-packaged Chapter 11 filing without having this credit facility in place. In addition, representatives of DII Industries, Kellogg, Brown & Root and their subsidiaries have been in discussions with their customers in order to reduce the possibility that any material draw on the existing letters of credit will occur due to the anticipated Chapter 11 proceedings.

Effective October 9, 2002, we amended an agreement with banks under which $261 million of letters of credit have been issued on the Barracuda-Caratinga project. The amended agreement removes the provision that previously allowed the banks to require collateralization if ratings of Halliburton debt fell below investment grade ratings. The revised agreement includes provisions that require us to maintain ratios of debt to total capital and of total earnings before interest, taxes, depreciation and amortization to interest expense. The definition of debt includes our asbestos liability. The definition of total earnings before interest, taxes, depreciation and amortization excludes any non-cash charges related to the proposed global settlement through December 31, 2003.

In the past, no significant claims have been made against letters of credit issued on our behalf.

Barracuda-Caratinga Project. In June 2000, KBR entered into a contract with the project owner, Barracuda & Caratinga Leasing Company B.V., to develop the Barracuda and Caratinga crude oil fields, which are located off the coast of Brazil. The project manager and owner representative is Petrobras, the Brazilian national oil company. See Note 12 to the financial statements.

KBR's performance under the contract is secured by:

- two performance letters of credit, which together have an available credit of approximately $261 million and which represent approximately 10% of the contract amount, as amended to date by change orders;
- a retainage letter of credit in an amount equal to $121 million as of December 31, 2002 and which will increase in order to continue to represent 10% of the cumulative cash amounts paid to KBR; and
- a guarantee of KBR's performance of the contract by Halliburton Company in favor of the project owner.

As of December 31, 2002, the project was approximately 63% complete and KBR had recorded a loss of $117 million related to the project. The probable recovery from unapproved claims included in determining the loss on the project was $182 million as of December 31, 2002.

The project owner has procured project finance funding obligations from various banks to finance the payments due to KBR under the contract. The project owner currently has no other committed source of funding on which we can necessarily rely other than the project finance funding for the project. While we believe the banks have an incentive to complete the financing of the project, there is no assurance that they would do so. If the banks ceased funding the project, we believe that Petrobras would provide for or secure other funding to complete the project, although there is no assurance that it will do so. To date, the banks have made funds available, and the project owner has continued to disburse funds to KBR as payment for its work on the project, even though the project completion has been delayed.

In the event that KBR is alleged to be in default under the contract, the project owner may assert a right to draw upon the letters of credit. If the letters of credit were drawn, KBR would be required to fund the amount of the draw to the issuing bank. In the event that KBR was determined after an arbitration proceeding to have been in default under the contract, and if the project was not completed by KBR as a result of such default (i.e., KBR's services are terminated as a result of such default), the project owner may seek direct damages (including completion costs in excess of the contract price and interest on borrowed funds, but excluding consequential damages) against KBR for up to $500 million plus the return of up to $300 million in advance payments that would otherwise have been credited back to the project owner had the contract not been terminated.

In addition, although the project financing includes borrowing capacity in excess of the original contract amount, only $250 million of this additional borrowing capacity is reserved for increases in the contract amount payable to KBR and its subcontractors other than Petrobras. Because our claims, together with change orders that are currently under negotiation, exceed this amount, we cannot give assurance that there is adequate funding to cover current or future KBR claims. Unless the project owner provides additional funding or permits us to defer repayment of the $300 million advance, and assuming the project owner does not allege default on our part, we may be obligated to fund operating cash flow shortages over the remaining project life in an amount we currently estimate to be up to approximately $400 million.

The possible Chapter 11 pre-packaged bankruptcy filing by Kellogg, Brown & Root in connection with the settlement of its asbestos and silica claims would constitute an event of default under the loan documents with the banks unless waivers are obtained. KBR believes that it is unlikely that the banks will exercise any right to cease funding given the current status of the project and the fact that a failure to pay KBR may allow KBR to cease work on the project without Petrobras having a readily available substitute contractor.

Current maturities. We have approximately $295 million of current maturities of long-term debt as of December 31, 2002. This includes a repayment of a $139 million senior note due April 2003 and a $150 million medium-term note due July 2003.

Cash and cash equivalents. We ended 2002 with cash and equivalents of $1.1 billion.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our judgments about future events and related estimations and how they can impact our financial statements. A critical accounting policy is one that requires our most difficult, subjective or complex estimates and assessments and is fundamental to our results of operations. We identified our most critical accounting policies to be:

- percentage of completion accounting for our long-term engineering and construction contracts;
- allowance for bad debts;
- forecasting our effective tax rate, including our ability to utilize foreign tax credits and the realizability of deferred tax assets; and
- loss contingencies, primarily related to:
  - asbestos litigation; and
  - other litigation.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this report.

Percentage of completion

We account for our revenues on long-term engineering and construction contracts on the percentage-of-completion method. This method of accounting requires us to calculate job profit to be recognized in each reporting period for each job based upon our predictions of future outcomes which include:

- estimates of the total cost to complete the project;
- estimates of project schedule and completion date;
- estimates of the percentage the project is complete; and
- amounts of any probable unapproved claims and change orders included in revenues.

At the onset of each contract, we prepare a detailed analysis of our estimated cost to complete the project. Risks relating to service delivery, usage, productivity and other factors are considered in the estimation process. Our project personnel periodically evaluate the estimated costs, claims and change orders, and percentage of completion at the project level. The recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. This estimate requires consideration of contract revenue, change orders and claims, less costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period in which they become evident. Profits are recorded based upon the total estimated contract profit times the current percentage complete for the contract.

When calculating the amount of total profit or loss on a long-term contract, we include unapproved claims as revenue when the collection is deemed probable based upon the four criteria for recognizing unapproved claims under the American Institute of Certified Public Accountants' Statement of Position 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Including probable unapproved claims in this calculation increases the operating income or decreases the operating loss that would otherwise be recorded without consideration of the probable unapproved claims. Probable unapproved claims are recorded to the extent of costs incurred and include no profit element. In substantially all cases, the probable unapproved claims included in determining contract profit or loss are less than the actual claim that will be or has been presented to the customer. We actively engage in claims negotiations with our customers and the success of claims negotiations have a direct impact on the profit or loss recorded for any related long-term contract. Unsuccessful claims negotiations could result in decreases in estimated contract profits or additional contract losses and successful claims negotiations could result in increases in estimated contract profits or recovery of previously recorded contract losses.

Significant projects are reviewed in detail by senior engineering and construction management at least quarterly. Preparing project cost estimates and percentages of completion is a core competency within our engineering and construction businesses. We have a long history of dealing with multiple types of projects and in preparing cost estimates. However, there are many factors that impact future costs, including but not limited to weather, inflation, labor disruptions and timely availability of materials, and other factors as outlined in our "Forward-Looking Information" section. These factors can affect the accuracy of our estimates and materially impact our future reported earnings.

Allowance for bad debts

We evaluate our accounts receivable through a continuous process of assessing our portfolio on an individual customer and overall basis. This process comprises a thorough review of historical collection experience, current aging status of the customer accounts, financial condition of our customers, and other factors such as whether the receivables involve retentions or billing disputes. We also consider the economic environment of our customers, both from a marketplace and geographic perspective, in evaluating the need for an allowance. Based on our review of these factors, we establish or adjust allowances for specific customers and the accounts receivable portfolio as a whole. This process involves a high degree of judgment and estimation and frequently involves significant dollar amounts. Accordingly, our results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Tax accounting

We account for our income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes", which requires the recognition of the amount of taxes payable or refundable for the current year; and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We apply the following basic principles in accounting for our income taxes at the date of the financial statements:

- a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year;
- a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards;
- the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law and the effects of potential future changes in tax laws or rates are not considered; and
- the value of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

We determine deferred taxes separately for each tax-paying component (an entity or a group of entities that is consolidated for tax purposes) in each tax jurisdiction. That determination includes the following procedures:

- identify the types and amounts of existing temporary differences;
- measure the total deferred tax liability for taxable temporary differences using the applicable tax rate;
- measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate;

- measure the deferred tax assets for each type of tax credit carryforward; and
- reduce the deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized prior to expiration, or that future deductibility is uncertain.

This methodology requires a significant amount of judgment regarding assumptions and the use of estimates, which can create significant variances between actual results and estimates. Examples include the forecasting of our effective tax rate and the potential realization of deferred tax assets in the future, such as utilization of foreign tax credits. This process involves making forecasts of current and future years' United States taxable income, foreign taxable income and related taxes in order to estimate the foreign tax credits. Unforeseen events, such as the timing of asbestos or silica settlements, and other tax timing issues may significantly affect these estimates. These factors can affect the accuracy of our tax account balances and impact our future reported earnings.

Loss contingencies

Asbestos. Prior to June 2002, we provided for known outstanding asbestos and silica claims because we did not have sufficient information to make a reasonable estimate of future unknown asbestos and silica claims liability. DII Industries retained Dr. Francine F. Rabinovitz of Hamilton, Rabinovitz & Alschuler, Inc. to estimate the probable number and value, including defense costs, of unresolved current and future asbestos and silica related bodily injury claims asserted against DII Industries and its subsidiaries. Dr. Rabinovitz is a nationally renowned expert in conducting such analyses.

The methodology utilized by Dr. Rabinovitz to project DII Industries' and its subsidiaries' asbestos and silica related liabilities and defense costs relied upon and included:

- an analysis of historical asbestos and silica settlements and defense costs;
- an analysis of the pending inventory of asbestos and silica related claims;
- an analysis of the claims filing history for asbestos and silica related claims since January 2000 (two-year claim history) and alternatively since January 1997 (five-year claim history);
- an analysis of the population likely to have been exposed or claim exposure to specific products or construction and renovation projects; and
- epidemiological studies to estimate the number of people who might allege exposure to products.

Dr. Rabinovitz's estimates are based on historical data supplied by DII Industries, Kellogg, Brown & Root and Harbison-Walker and publicly available studies, including annual surveys by the National Institutes of Health concerning the incidence of mesothelioma deaths. In her analysis, Dr. Rabinovitz projected that the elevated and historically unprecedented rate of claim filings of the last two years (particularly in 2000 and 2001), especially as expressed by the ratio of nonmalignant claim filings to malignant claim filings, would continue into the future for five more years. After that, Dr. Rabinovitz projected that the ratio of nonmalignant claim filings to malignant claim filings will gradually decrease for a 10 year period ultimately returning to the historical claiming rate and claiming ratio. In making her calculation, Dr. Rabinovitz alternatively assumed a somewhat lower rate of claim filings, based on an average of the last five years of claims experience, would continue into the future for five more years and decrease thereafter.

Other important assumptions utilized in Dr. Rabinovitz's estimates, which we relied upon in making our accrual are:

- an assumption that there will be no legislative or other systemic changes to the tort system;
- that we will continue to aggressively defend against asbestos and silica claims made against us;
- an inflation rate of 3% annually for settlement payments and an inflation rate of 4% annually for defense costs; and
- we would receive no relief from our asbestos obligation due to actions taken in the Harbison-Walker bankruptcy.

Through 2052, Dr. Rabinovitz estimated the current and future total undiscounted liability for personal injury asbestos and silica claims, including defense costs, would be a range between $2.2 billion and $3.5 billion as of June 30, 2002 (which includes payments related to the approximately 347,000 claims currently pending). The lower end of the range is calculated by using an average of the last five years of asbestos and silica claims experience and the upper end of the range is calculated using the more recent two-year elevated rate of asbestos and silica claim filings in projecting the rate of future claims.

Proposed global settlement. On December 18, 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a global settlement of all asbestos and silica personal injury claims against DII Industries, Kellogg, Brown & Root and their current and former subsidiaries. The agreement in principle provides that:

- up to $2.775 billion in cash, 59.5 million Halliburton shares (valued at $1.1 billion using the stock price at December 31, 2002 of $18.71) and notes with a net present value expected to be less than $100 million will be paid to a trust for the benefit of current and future asbestos personal injury claimants and current silica personal injury claimants upon receiving final and non-appealable court confirmation of a plan of reorganization;
- DII Industries and Kellogg, Brown & Root will retain rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3.0 billion going to the trust;
- the agreement is to be implemented through a pre-packaged Chapter 11 filing for DII Industries, Kellogg, Brown & Root and some of their subsidiaries; and
- the funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganization of DII Industries, Kellogg, Brown & Root and their subsidiaries in the Chapter 11 proceeding.

Subsequently, as of March 2003, DII Industries and Kellogg, Brown & Root have entered into definitive written agreements finalizing the terms of the agreement in principle.

Please see "Liquidity and Capital Resources" for a discussion of the prerequisites to reaching a conclusion of the settlement.

Asbestos and Silica Liability Estimate as of December 31, 2002. We currently do not believe that completion of the proposed global settlement is probable as defined by Statement of Financial Accounting Standards No. 5. If the proposed global settlement is not completed, we will continue to resolve asbestos and silica claims in the tort system or, in the case of Harbison-Walker claims (see Note 12 to the financial statements), possibly through the Harbison-Walker bankruptcy proceedings. Given the uncertainties surrounding the completion of the global settlement and the uncertainty as to the amounts that could be paid under the proposed global settlement, we believe Dr. Rabinovitz's study continues to provide the best possible range of estimated loss associated with known and future asbestos and silica claims liabilities. As a result of negotiating the proposed global settlement, we have determined that the best estimate of the probable loss is $3.4 billion ($3.5 billion estimate as of June 30, 2002 in Dr. Rabinovitz's study less $50 million in payments in the third and fourth quarter of 2002) and we have adjusted our liability to this amount at December 31, 2002.

Insurance Recoveries. In 2002, we retained Peterson Consulting, a nationally-recognized consultant in liability and insurance, to work with us to project the amount of probable insurance recoveries using the current and future asbestos and silica liabilities recorded by us at December 31, 2002. Using Dr. Rabinovitz's estimate of liabilities through 2052 using the two-year elevated rate of asbestos and silica claim filings, Peterson Consulting assisted us in conducting an analysis to determine the amount of insurance that we estimate is probable that we will recover in relation to the projected claims and defense costs. In conducting this analysis, Peterson Consulting:

- reviewed DII Industries historical course of dealings with its insurance companies concerning the payment of asbestos and silica related claims, including DII Industries 15 year litigation and settlement history;
- reviewed the terms of DII Industries' prior and current coverage-in-place settlement agreements;
- reviewed the status of DII Industries' and Kellogg, Brown & Root's current insurance-related lawsuits and the various legal positions of the parties in those lawsuits in relation to the developed and developing case law and the historic positions taken by insurers in the earlier filed and settled lawsuits;
- engaged in discussions with our counsel; and
- analyzed publicly-available information concerning the ability of the DII Industries insurers to meet their obligations.

Based on these reviews, analyses and discussions, Peterson Consulting assisted us in making judgments concerning insurance coverage that we believe are reasonable and consistent with our historical course of dealings with our insurers and the relevant case law to determine the probable insurance recoveries for asbestos and silica liabilities. This analysis factored in the probable effects of self-insurance features, such as self-insured retentions, policy exclusions, liability caps and the financial status of applicable insurers, and various judicial determinations relevant to DII Industries' insurance programs.

Based on Peterson Consulting analysis of the probable insurance recoveries, we increased our insurance receivable to $2.1 billion at December 31, 2002. The insurance receivable recorded by us does not assume any recovery from insolvent carriers and assumes that those carriers which are currently solvent will continue to be solvent throughout the period of the applicable recoveries in the projections. However, there can be no assurance that these assumptions will be accurate. The insurance receivables recorded at December 31, 2002 do not exhaust applicable insurance coverage for asbestos and silica related liabilities.

Projecting future events is subject to many uncertainties that could cause the asbestos and silica related liabilities and insurance recoveries to be higher or lower than those projected and accrued, such as:

- the number of future asbestos and silica related lawsuits to be filed against DII Industries and Kellogg, Brown & Root;
- the average cost to resolve such future lawsuits;
- coverage issues among layers of insurers issuing different policies to different policyholders over extended periods of time;
- the impact on the amount of insurance recoverable in light of the Harbison-Walker and Federal-Mogul bankruptcies; and
- the continuing solvency of various insurance companies.

Possible Additional Accruals. Should the proposed global settlement become probable as defined by Statement of Financial Accounting Standards No. 5, we would adjust our accrual for probable and reasonably estimable liabilities for current and future asbestos and silica claims. The settlement amount would be up to $4.0 billion, consisting of up to $2.775 billion in cash, 59.5 million Halliburton shares and notes with a net present value expected to be less than $100 million. Assuming the revised liability would be $4.0 billion, we would also increase our probable insurance recoveries to $2.3 billion. The impact on our income statement would be an additional pretax charge of $322 million ($288 million after-tax). This accrual (which values our stock to be contributed at $1.1 billion using our stock price at December 31, 2002 of $18.71) would then be adjusted periodically based on changes in the market price of our common stock until the common stock is contributed to a trust for the benefit of the claimants.

Continuing Review. Given the inherent uncertainty in making future projections, we plan to have the projections periodically reexamined, and update them based on our experience and other relevant factors such as changes in the tort system, the resolution of the bankruptcies of various asbestos defendants, and our proposed global settlement. Similarly, we will re-evaluate our projections concerning our probable insurance recoveries in light of any updates to Dr. Rabinovitz's projections, developments in DII Industries and Kellogg, Brown & Root's various lawsuits against their insurance companies, factors related to the global settlement, if consummated, and other developments that may impact the probable insurance recoveries.

Litigation. We are currently involved in other legal proceedings not involving asbestos and silica. As discussed in Note 12 of our consolidated financial statements, as of December 31, 2002, we have accrued an estimate of the probable costs for the resolution of these claims. Attorneys in our legal department specializing in litigation claims, monitor and manage all claims filed against us. The estimate of probable costs related to these claims is developed in consultation with outside legal counsel representing us in the defense of these claims. Our estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We attempt to resolve claims through mediation and arbitration where possible. If the actual settlement costs and final judgments, after appeals, differ from our estimates, our future financial results may be adversely affected.

OFF BALANCE SHEET RISK

On April 15, 2002, we entered into an agreement to sell certain of our accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary. Under the terms of the agreement, new receivables are added on a continuous basis to the pool of receivables, and collections reduce previously sold accounts receivable. This funding subsidiary sells an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary have been structured as "true sales" under applicable bankruptcy laws, and the assets of the funding subsidiary are not available to pay any creditors of Halliburton or of its subsidiaries or affiliates, until such time as the agreement with the unaffiliated companies is terminated following sufficient collections to liquidate all outstanding undivided ownership interests. The funding subsidiary retains the interest in the pool of receivables that are not sold to the unaffiliated companies, and is fully consolidated and reported in our financial statements.

The amount of undivided interests, which can be sold under the program, varies based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The funding subsidiary sold a $200 million undivided ownership interest to the unaffiliated companies, and may from time to time sell additional undivided ownership interests. No additional amounts were received from our accounts receivable facility since the second quarter of 2002. The total amount outstanding under this facility was $180 million as of December 31, 2002. We continue to service, administer and collect the receivables on behalf of the purchaser. The amount of undivided ownership interest in the pool of receivables sold to the unaffiliated companies is reflected as a reduction of accounts receivable in our consolidated balance sheet and as an increase in cash flows from operating activities in our consolidated statement of cash flows.

LONG-TERM CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our various long-term contractual obligations:

	Payments due						
Millions of dollars	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt	$ 295	$ 21	$ 20	$ 293	$ 8	$ 826	$ 1,463
Operating leases	119	83	63	55	40	249	609
Capital leases	1	1	1	-	-	-	3
Total contractual obligations	$ 415	$ 105	$ 84	$ 348	$ 48	$ 1,075	$ 2,075

Included in long-term debt is an additional $13 million at December 31, 2002 related to the terminated interest rate swaps.

We also have $350 million of committed lines of credit from banks that are available if we maintain an investment grade rating. Investment grade ratings are BBB- or higher for Standard & Poor's and Baa3 or higher for Moody's Investors' Services and we are currently above these levels. In the normal course of business we have agreements with banks under which approximately $1.4 billion of letters of credit or bank guarantees were issued, including $204 million which relate to our joint ventures' operations.

Effective October 9, 2002, we amended an agreement with banks under which $261 million of letters of credit have been issued. The amended agreement removes the provision that previously allowed the banks to require collateralization if ratings of Halliburton debt fell below investment grade ratings. The revised agreements include provisions that require us to maintain ratios of debt to total capital and of total earnings before interest, taxes, depreciation and amortization to interest expense. The definition of debt includes our asbestos and silica liability. The definition of total earnings before interest, taxes, depreciation and amortization excludes any non-cash charges related to the proposed global settlement through December 31, 2003.

If our debt ratings fall below investment grade, we would also be in technical breach of a bank agreement covering another $160 million of letters of credit at December 31, 2002, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $121 million has been issued, includes provisions that allow the banks to require cash collateralization for the full line if debt ratings of either rating agency fall below the rating of BBB by Standard & Poor's or Baa2 by Moody's Investors' Services, one downgrade from our current ratings. These letters of credit and bank guarantees generally relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance.

FINANCIAL INSTRUMENT MARKET RISK

We are exposed to financial instrument market risk from changes in foreign currency exchange rates, interest rates and to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management program is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. Our use of derivative instruments includes the following types of market risk:

- volatility of the currency rates;
- time horizon of the derivative instruments;
- market cycles; and
- the type of derivative instruments used.

We do not use derivative instruments for trading purposes. We do not consider any of these risk management activities to be material. See Note 1 to the financial statements for additional information on our accounting policies on derivative instruments. See Note 19 to the financial statements for additional disclosures related to derivative instruments.

Interest rate risk. We have exposure to interest rate risk from our long-term debt and related interest rate swaps.

The following table represents principal amounts of our long-term debt at December 31, 2002 and related weighted average interest rates by year of maturity for our long-term debt.

Millions of dollars	2003	2004	2005	2006	2007	Thereafter	Total
Long-term debt:							
Fixed rate debt	$ 140	$ 2	$ 1	$ 274	$ -	$ 825	$ 1,242
Weighted average interest rate	8.0%	7.7%	7.0%	6.0%	-	7.4%	7.1%
Variable rate debt	$ 155	$ 19	$ 19	$ 19	$ 8	$ 1	$ 221
Weighted average interest rate	2.3%	5.4%	5.4%	5.4%	5.4%	5.8%	3.2%

Fair market value of long-term debt was $1.3 billion as of December 31, 2002.

In the second quarter 2002, we terminated our interest rate swap agreement on our 8% senior notes. The notional amount of the swap agreement was $139 million. This interest rate swap was designated as a fair value hedge under SFAS No. 133. Upon termination, the fair value of the interest rate swap was $0.5 million. In the fourth quarter 2002, we terminated our interest rate swap agreement on our 6% fixed rate medium-term notes. The notional amount of the swap agreement was $150 million. This interest rate swap was designated as a fair value hedge under SFAS No. 133. Upon termination, the fair value of the interest rate swap was $13 million. These swaps had previously been classified in "Other assets" on the balance sheet. The fair value adjustment to these debt instruments that were hedged will remain and be amortized as a reduction in interest expense using the "Effective Yield Method" over the remaining life of the notes.

REORGANIZATION OF BUSINESS OPERATIONS

On March 18, 2002 we announced plans to restructure our businesses into two operating subsidiary groups, the Energy Services Group and KBR, representing the Engineering and Construction Group. As part of this reorganization, we are separating and consolidating the entities in our Energy Services Group together as direct and indirect subsidiaries of Halliburton Energy Services, Inc. We are also separating and consolidating the entities in our Engineering and Construction Group together as direct and indirect subsidiaries of the former Dresser Industries, Inc., which became a limited liability company during the second quarter of 2002 and was renamed DII Industries, LLC. The reorganization of business operations facilitated the separation, organizationally, financially, and operationally, of our two business segments, which we believe will significantly improve operating efficiencies in both, while streamlining management and easing manpower requirements. In addition, many support functions, which were previously shared, were moved into the two business groups. As a result, we took actions during 2002 to reduce our cost structure by reducing personnel, moving previously shared support functions into the two business groups and realigning ownership of international subsidiaries by group. In 2002, we incurred approximately $107 million for the year of personnel reduction costs and asset related write-offs. Of this amount, $8 million remains in accruals for severance arrangements and approximately $2 million for other items. We expect these remaining payments will be made during 2003. Reorganization charges for 2002 consisted of the following:

- $64 million in personnel related expense;
- $17 million of asset related write-downs;
- $20 million in professional fees related to the restructuring; and
- $6 million related to contract terminations.

Although we have no specific plans currently, the reorganization would facilitate separation of the ownership of the two businesses in the future if we identify an opportunity that produces greater value for our shareholders than continuing to own both businesses. See Note 14 to the financial statements.

In the fourth quarter of 2000 we approved a plan to reorganize our engineering and construction businesses into one business unit. This restructuring was undertaken because our engineering and construction businesses continued to experience delays in customer commitments for new upstream and downstream projects. With the exception of deepwater projects, short-term prospects for increased engineering and construction activities in either the upstream or downstream businesses were not positive. As a result of the reorganization of the engineering and construction businesses, we took actions to rationalize our operating structure, including write-offs of equipment and licenses of $10 million, engineering reference designs of $4 million and capitalized software of $6 million, and recorded severance costs of $16 million. Of these charges, $30 million was reflected under the captions cost of services and $6 million as general and administrative in our 2000 consolidated statements of income. Severance and related costs of $16 million were for the reduction of approximately 30 senior management positions. In January 2002, the last of the personnel actions was completed and we have no remaining accruals related to the 2000 restructuring. See Note 14 to the financial statements.

ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act and the Toxic Substances Control Act, among others. In addition to the federal laws and regulations, states where we do business may have equivalent laws and regulations by which we must also abide.

We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. On occasion we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. We have subsidiaries that have been named as potentially responsible parties along with other third parties for ten federal and state superfund sites for which we have established a liability. As of December 31, 2002, those ten sites accounted for $8 million of our total $48 million liability. See Note 12 to the financial statements.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-K are forward-looking and use words like "may," "may not," "believes," "do not believe," "expects," "do not expect," "do not anticipate," and other expressions. We may also provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risks and uncertainties and reflects our best judgment based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of operations may vary materially.

While it is not possible to identify all factors, we continue to face many risks and uncertainties that could cause actual results to differ from our forward-looking statements and potentially adversely affect our financial condition and results of operations, including risks relating to:

Asbestos

- completion of the proposed global settlement, prerequisites to which include:
    - agreement on the amounts to be contributed to the trust for the benefit of current silica claimants;
    - our due diligence review for product exposure and medical basis for claims;
    - agreement on procedures for distribution of settlement funds to individuals claiming personal injury;
    - definitive agreement on a plan of reorganization and disclosure statement relating to the proposed settlement;
    - arrangement of acceptable financing to fund the proposed settlement;
    - Board of Directors approval;
    - obtaining approval from 75% of current asbestos claimants to the plan of reorganization implementing the proposed global settlement; and
    - obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization;
- the results of being unable to complete the proposed global settlement, including:
    - continuing asbestos and silica litigation against us, which would include the possibility of substantial adverse judgments, the timing of which could not be controlled or predicted, and the obligation to provide appeals bonds pending any appeal of any such judgment, some or all of which may require us to post cash collateral;
    - current and future asbestos claims settlement and defense costs, including the inability to completely control the timing of such costs and the possibility of increased costs to resolve personal injury claims;
    - the possibility of an increase in the number and type of asbestos and silica claims against us in the future;
    - future events in the Harbison-Walker bankruptcy proceeding, including the possibility of discontinuation of the temporary restraining order entered by the Harbison-Walker bankruptcy court that applies to over 200,000 pending claims against DII Industries; and
    - any adverse changes to the tort system allowing additional claims or judgments against us;
- the results of being unable to recover, or being delayed in recovering, insurance reimbursement in the amounts anticipated to cover a part of the costs incurred defending asbestos and silica claims, and amounts paid to settle claims or as a result of court judgments, due to:
    - the inability or unwillingness of insurers to timely reimburse for claims in the future;
    - disputes as to documentation requirements for DII Industries in order to recover claims paid;
    - the inability to access insurance policies shared with, or the dissipation of shared insurance assets by, Harbison-Walker Refractories Company or Federal-Mogul Products, Inc.;
    - the insolvency or reduced financial viability of insurers;
    - the cost of litigation to obtain insurance reimbursement; and
    - adverse court decisions as to our rights to obtain insurance reimbursement;
- the results of recovering, or agreeing in settlement of litigation to recover, less insurance reimbursement than the insurance receivable recorded in our financial statements;
- continuing exposure to liability even after the proposed settlement is completed, including exposure to:

        - any claims by claimants exposed outside of the United States;
        - possibly any claims based on future exposure to silica;
        - property damage claims as a result of asbestos and silica use; or
        - any claims against any other subsidiaries or business units of Halliburton that would not be released in the Chapter 11 proceeding through the 524(g) injunction;
    - liquidity risks resulting from being unable to complete a global settlement or timely recovery of insurance reimbursement for amounts paid, each as discussed further below; and
    - an adverse effect on our financial condition or results of operations as a result of any of the foregoing;

Liquidity

- adverse financial developments that could affect our available cash or lines of credit, including:
    - the effects described above of not completing the proposed global settlement or not being able to timely recover insurance reimbursement relating to amounts paid as part of a global settlement or as a result of judgments against us or settlements paid in the absence of a global settlement;
    - our inability to provide cash collateral for letters of credit or any bonding requirements from customers or as a result of adverse judgments that we are appealing; and
    - a reduction in our credit ratings as a result of the above or due to other adverse developments;
- requirements to cash collateralize letters of credit and surety bonds by issuers and beneficiaries of these instruments in reaction to:
    - our plans to place DII Industries, Kellogg, Brown & Root and some of their subsidiaries into a pre-packaged Chapter 11 bankruptcy as part of the proposed global settlement;
    - in the absence of a global settlement, one or more substantial adverse judgments;
    - not being able to timely recover insurance reimbursement; or
    - a reduction in credit ratings;
- our ability to secure financing on acceptable terms to fund our proposed global settlement;
- defaults that could occur under our and our subsidiaries' debt documents as a result of a Chapter 11 filing unless we are able to obtain consents or waivers to those events of default, which events of default could cause defaults under other of our credit facilities and possibly result in an obligation to immediately pay amounts due thereunder;
- actions by issuers and beneficiaries of current letters of credit to draw under such letters of credit prior to our completion of a new letter of credit facility that is intended to provide reasonably sufficient credit lines for us to be able to fund any such cash requirements;
- obtaining debtor-in-possession financing for DII Industries, Kellogg, Brown & Root and their subsidiaries prior to filing a Chapter 11 proceeding;
- reductions in our credit ratings by rating agencies, which could result in:
    - the unavailability of borrowing capacity under our existing $350 million line of credit facility, which is only available to us if we maintain an investment grade credit rating;
    - reduced access to lines of credit, credit markets and credit from suppliers under acceptable terms;
    - borrowing costs in the future; and
    - inability to issue letters of credit and surety bonds with or without cash collateral;
- debt and letter of credit covenants;
- volatility in the surety bond market;
- availability of financing from the United States Export/Import Bank;
- ability to raise capital via the sale of stock; and
- an adverse effect on our financial condition or results of operations as a result of any of the foregoing;

Legal

- litigation, including, for example, class action shareholder and derivative lawsuits, contract disputes, patent infringements, and environmental matters;
- any adverse outcome of the SEC's current investigation into Halliburton's accounting policies, practices and procedures that could result in sanctions and the payment of fines or penalties, restatement of financials for years under review or additional shareholder lawsuits;
- trade restrictions and economic embargoes imposed by the United States and other countries;
- restrictions on our ability to provide products and services to Iran, Iraq and Libya, all of which are significant producers of oil and gas;
- protective government regulation in many of the countries where we operate, including, for example, regulations that:
    - encourage or mandate the hiring of local contractors; and
    - require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction;
- potentially adverse reaction, and time and expense responding to, the increased scrutiny of Halliburton by regulatory authorities, the media and others;
- potential liability and adverse regulatory reaction in Nigeria to the theft from us of radioactive material used in wireline logging operations;
- environmental laws and regulations, including, for example, those that:
    - require emission performance standards for facilities; and
    - the potential regulation in the United States of our Energy Services Group's hydraulic fracturing services and products as underground injection; and
- the proposed excise tax in the United States targeted at heavy equipment of the type we own and use in our operations would negatively impact our Energy Services Group operating income;

Effect of Chapter 11 Proceedings

- the adverse effect on the ability of the subsidiaries that are proposed to file a Chapter 11 proceeding to obtain new orders from current or prospective customers;
- the potential reluctance of current and prospective customers and suppliers to honor obligations or continue to transact business with the Chapter 11 filing entities;
- the potential adverse effect of the Chapter 11 filing of negotiating favorable terms with customers, suppliers and other vendors;
- a prolonged Chapter 11 proceeding that could adversely affect relationships with customers, suppliers and employees, which in turn could adversely affect our competitive position, financial condition and results of operations and our ability to implement the proposed plan of reorganization; and
- the adverse affect on our financial condition or results of operations as a result of the foregoing;

Geopolitical

- armed conflict in the Middle East that could:
    - impact the demand and pricing for oil and gas;
    - disrupt our operations in the region and elsewhere; and
    - increase our costs for security worldwide;
- unsettled political conditions, consequences of war or other armed conflict, the effects of terrorism, civil unrest, strikes, currency controls and governmental actions in many oil producing countries and countries in which we provide governmental logistical support that could adversely affect our revenues and profit. Countries where we operate which have significant amounts of political risk include Afghanistan, Algeria, Angola, Colombia, Indonesia, Libya, Nigeria, Russia, and Venezuela. For example, the national strike in Venezuela as well as seizures of offshore oil rigs by protestors and cessation of operations by some of our customers in Nigeria have disrupted our Energy Services Group's ability to provide services and products to our customers in these countries during 2002 and likely will continue to do so in 2003; and

- changes in foreign exchange rates and exchange controls as were experienced in Argentina in late 2001 and early 2002. For example, the changes in Argentina exchange rates in late 2001 and early 2002 were detrimental to results of our Energy Services Group operations in Argentina;

Weather related

- severe weather that impacts our business, particularly in the Gulf of Mexico where we have significant operations. Impacts may include:
    - evacuation of personnel and curtailment of services;
    - weather related damage to offshore drilling rigs resulting in suspension of operations;
    - weather related damage to our facilities;
    - inability to deliver materials to jobsites in accordance with contract schedules; and
    - loss of productivity; and
- demand for natural gas in the United States drives a disproportionate amount of our Energy Services Group's United States business. As a result, warmer than normal winters in the United States are detrimental to the demand for our services to gas producers. Conversely, colder than normal winters in the United States result in increased demand for our services to gas producers;

Customers

- the magnitude of governmental spending and outsourcing for military and logistical support of the type that we provide, including, for example, support services in the Balkans;
- changes in capital spending by customers in the oil and gas industry for exploration, development, production, processing, refining, and pipeline delivery networks;
- changes in capital spending by governments for infrastructure projects of the sort that we perform;
- consolidation of customers including, for example, the merger of Conoco and Phillips Petroleum, has caused customers to reduce their capital spending which has negatively impacted the demand for our services and products;
- potential adverse customer reaction, including potential draws upon letters of credit, due to their concerns about our plans to place DII Industries, Kellogg, Brown & Root and some of their subsidiaries into a pre-packaged bankruptcy as part of the global settlement;
- customer personnel changes due to mergers and consolidation which impacts the timing of contract negotiations and settlements of claims;
- claim negotiations with engineering and construction customers on cost and schedule variances and change orders on major projects, including, for example, the Barracuda-Caratinga project in Brazil; and
- ability of our customers to timely pay the amounts due us;

Industry

- changes in oil and gas prices, among other things, result from:
    - the armed conflict in the Middle East;
    - OPEC's ability to set and maintain production levels and prices for oil;
    - the level of oil production by non-OPEC countries;
    - the policies of governments regarding exploration for and production and development of their oil and natural gas reserves; and
    - the level of demand for oil and natural gas, especially natural gas in the United States;
- obsolescence of our proprietary technologies, equipment and facilities, or work processes;
- changes in the price or the availability of commodities that we use;
- our ability to obtain key insurance coverage on acceptable terms;
- nonperformance, default or bankruptcy of joint venture partners, key suppliers or subcontractors;
- performing fixed-price projects, where failure to meet schedules, cost estimates or performance targets could result in reduced profit margins or losses;
- entering into complex business arrangements for technically demanding projects where failure by one or more parties could result in monetary penalties; and

- the use of derivative instruments of the sort that we use which could cause a change in value of the derivative instruments as a result of:
    - adverse movements in foreign exchange rates, interest rates, or commodity prices; or
    - the value and time period of the derivative being different than the exposures or cash flows being hedged;

Systems

- the successful identification, procurement and installation of a new financial system to replace the current system for the Engineering and Construction Group;

Personnel and mergers/reorganizations/dispositions

- integration of acquired businesses into Halliburton, including:
    - standardizing information systems or integrating data from multiple systems;
    - maintaining uniform standards, controls, procedures, and policies; and
    - combining operations and personnel of acquired businesses with ours;
- effectively restructuring operations and personnel within Halliburton including, for example, the segregation of our business into two operating subsidiary groups under Halliburton;
- ensuring acquisitions and new products and services add value and complement our core businesses; and
- successful completion of planned dispositions.

In addition, future trends for pricing, margins, revenues and profitability remain difficult to predict in the industries we serve. We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason. You should review any additional disclosures we make in our press releases and Forms 10-Q and 8-K filed with the United States Securities and Exchange Commission. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

No assurance can be given that our financial condition or results of operations would not be materially and adversely affected by some of the events described above, including:

- the inability to complete a global settlement;
- in the absence of a global settlement, adverse developments in the tort system, including adverse judgments and increased defense and settlement costs relating to claims against us;
- liquidity issues resulting from failure to complete a global settlement, adverse developments in the tort system, including adverse judgments and increased defense and settlement costs, and resulting or concurrent credit ratings downgrades and/or demand for cash collateralization of letters of credit or surety bonds;
- the filing of Chapter 11 proceedings by some of our subsidiaries or a prolonged Chapter 11 proceeding; and
- adverse geopolitical developments, including armed conflict, civil disturbance and unsettled political conditions in foreign countries in which we operate.

NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets' retirement costs. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the life of the asset. We currently account for liabilities associated with asset retirement obligations under existing accounting standards, such as SFAS 19, SFAS 5, SOP 96-1, and EITF 89-30, which do not require the asset retirement obligations to be recorded at fair value and in some instances do not require the costs to be recognized in the carrying amount of the related asset. The new standard is effective for us beginning January 1, 2003, and the effects of this standard will be immaterial to our future financial condition and we estimate will require a charge of less than $10 million after-tax as a cumulative effect of a change in accounting principle.

In July 2002 the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when the liabilities are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and some employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002 and would only affect the timing of charges associated with any future exit or disposal activity.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). This statement requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a rollforward of the entity's product warranty liabilities. We will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim and annual periods ending December 15, 2002. The adoption of FIN 45 will not have a material effect on our consolidated financial position and results of operations.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46). This statement requires specified variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003 and beginning July 1, 2003 for variable interest entities created or acquired prior to February 1, 2003. Our exposure to variable interest entities is limited and, therefore, the adoption of FIN 46 is not expected to have a material impact on our consolidated financial position and results of operations.

RESPONSIBILITY FOR FINANCIAL REPORTING

We are responsible for the preparation and integrity of our published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on judgments and estimates made by our management. We also prepared the other information included in the annual report and are responsible for its accuracy and consistency with the financial statements.

Our 2002 financial statements have been audited by the independent accounting firm, KPMG LLP. KPMG LLP was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Halliburton's Audit Committee of the Board of Directors consists of directors who, in the business judgment of the Board of Directors, are independent under the New York Stock Exchange listing standards. The Board of Directors, operating through its Audit Committee, provides oversight to the financial reporting process. Integral to this process is the Audit Committee's review and discussion with management and the external auditors of the quarterly and annual financial statements prior to their respective filing.

We maintain a system of internal control over financial reporting, which is intended to provide reasonable assurance to our management and Board of Directors regarding the reliability of our financial statements. The system includes:

- a documented organizational structure and division of responsibility;
- established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout the company; and
- the careful selection, training and development of our people.

Internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the Board of Directors. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified. In accordance with the Securities and Exchange Commission's rules to improve the reliability of financial statements, our 2002 interim financial statements were reviewed by KPMG LLP.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the reliability of our financial statements. Also, the effectiveness of an internal control system may change over time.

We have assessed our internal control system in relation to criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that assessment, we believe that, as of December 31, 2002, our system of internal control over financial reporting met those criteria.

Halliburton Company
by

/s/ DAVID J. LESAR	/s/ DOUGLAS L. FOSHEE
David J. Lesar Chairman of the Board, President and Chief Executive Officer	Douglas L. Foshee Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND
BOARD OF DIRECTORS OF HALLIBURTON COMPANY:

We have audited the accompanying consolidated balance sheet of Halliburton Company and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the restatement described in Note 4 to the consolidated financial statements and before the revision described in Note 22 to the consolidated financial statements, in their report dated January 23, 2002 (except with respect to matters discussed in Note 9 to those financial statements, as to which the date was February 21, 2002).

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries were audited by other auditors who have ceased operations. As described in Note 4, the Company changed the composition of its reportable segments in 2002, and the amounts in the 2001 and 2000 consolidated financial statements relating to reportable segments have been restated to conform to the 2002 composition of reportable segments. We audited the adjustments that were applied to restate the disclosures for reportable segments reflected in the 2001 and 2000 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. Also, as described in Note 22, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 and 2000 in Note 22 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of Halliburton Company and subsidiaries other than with respect to such adjustments and revisions and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

/s/ KPMG LLP
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KPMG LLP

Houston, Texas
March 13, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

This report is a copy of a previously issued report, the predecessor auditor has not reissued this report, the previously issued report refers to financial statements not physically included in this document, and the prior-period financial statements have been revised or restated.

TO THE SHAREHOLDERS AND
BOARD OF DIRECTORS OF HALLIBURTON COMPANY:

We have audited the accompanying consolidated balance sheets of Halliburton Company (a Delaware corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Arthur Andersen LLP
Dallas, Texas

January 23, 2002 (Except with respect to certain matters discussed in Note 9, as to which the date is February 21, 2002.)

HALLIBURTON COMPANY
Consolidated Statements of Operations
(Millions of dollars and shares except per share data)

	Years ended December 31 2002	2001	2000
Revenues:			
Services	$ 10,658	$ 10,940	$ 10,185
Product sales	1,840	1,999	1,671
Equity in earnings of unconsolidated affiliates	74	107	88
Total revenues	$ 12,572	$ 13,046	$ 11,944
Operating costs and expenses:			
Cost of services	$ 10,737	$ 9,831	$ 9,755
Cost of sales	1,642	1,744	1,463
General and administrative	335	387	352
Gain on sale of marine vessels	-	-	(88)
Gain on sale of business assets	(30)	-	-
Total operating costs and expenses	$ 12,684	$ 11,962	$ 11,482
Operating income (loss)	(112)	1,084	462
Interest expense	(113)	(147)	(146)
Interest income	32	27	25
Foreign currency losses, net	(25)	(10)	(5)
Other, net	(10)	-	(1)
Income (loss) from continuing operations before income taxes, minority interest, and change in accounting method, net	(228)	954	335
Provision for income taxes	(80)	(384)	(129)
Minority interest in net income of subsidiaries	(38)	(19)	(18)
Income (loss) from continuing operations before change in accounting method, net	(346)	551	188
Discontinued operations:			
Income (loss) from discontinued operations, net of tax (provision) benefit of $154, $20, and ($60)	(652)	(42)	98
Gain on disposal of discontinued operations, net of tax provision of $0, $199, and $141	-	299	215
Income (loss) from discontinued operations, net	(652) -	257	313
Cumulative effect of change in accounting method, net	-	1	-
Net income (loss)	$ (998)	$ 809	$ 501
Basic income (loss) per share:			
Income (loss) from continuing operations before change in accounting method, net	$ (0.80)	$ 1.29	$ 0.42
Income (loss) from discontinued operations	(1.51)	(0.10)	0.22
Gain on disposal of discontinued operations	-	0.70	0.49
Net income (loss)	$ (2.31)	$ 1.89	$ 1.13
Diluted income (loss) per share:			
Income (loss) from continuing operations before change in accounting method, net	$ (0.80)	$ 1.28	$ 0.42
Income (loss) from discontinued operations	(1.51)	(0.10)	0.22
Gain on disposal of discontinued operations	-	0.70	0.48
Net income (loss)	$ (2.31)	$ 1.88	$ 1.12
Basic average common shares outstanding	432	428	442
Diluted average common shares outstanding	432	430	446

See notes to annual financial statements.

HALLIBURTON COMPANY
Consolidated Balance Sheets
(Millions of dollars and shares except per share data)

	December 31	
	2002	2001
Assets		
Current assets:		
Cash and equivalents	$ 1,107	$ 290
Receivables:		
Notes and accounts receivable (less allowance for bad debts of $157 and $131)	2,533	3,015
Unbilled work on uncompleted contracts	724	1,080
Total receivables	3,257	4,095
Inventories	734	787
Current deferred income taxes	200	154
Other current assets	262	247
Total current assets	5,560	5,573
Net property, plant and equipment	2,629	2,669
Equity in and advances to related companies	413	551
Goodwill	723	720
Noncurrent deferred income taxes	607	410
Insurance for asbestos and silica related liabilities	2,059	612
Other assets	853	431
Total assets	$ 12,844	$ 10,966
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term notes payable	$ 49	$ 44
Current maturities of long-term debt	295	81
Accounts payable	1,077	917
Accrued employee compensation and benefits	370	357
Advance billings on uncompleted contracts	641	611
Deferred revenues	100	99
Income taxes payable	148	194
Other current liabilities	592	605
Total current liabilities	3,272	2,908
Long-term debt	1,181	1,403
Employee compensation and benefits	756	570
Asbestos and silica related liabilities	3,425	737
Other liabilities	581	555
Minority interest in consolidated subsidiaries	71	41
Total liabilities	9,286	6,214
Shareholders' equity:		
Common shares, par value $2.50 per share - authorized 600 shares, issued 456 and 455 shares	1,141	1,138
Paid-in capital in excess of par value	293	298
Deferred compensation	(75)	(87)
Accumulated other comprehensive income	(281)	(236)
Retained earnings	3,110	4,327
	4,188	5,440
Less 20 and 21 shares of treasury stock, at cost	630	688
Total shareholders' equity	3,558	4,752
Total liabilities and shareholders' equity	$ 12,844	$ 10,966

See notes to annual financial statements.

HALLIBURTON COMPANY
Consolidated Statements of Shareholders' Equity
(Millions of dollars and shares)

	Years ended December 31		
	2002	2001	2000
Common stock (number of shares)			
Balance at beginning of year	455	453	448
Shares issued under compensation and incentive stock plans, net of forfeitures	-*	1	4
Shares issued for acquisition	1	1	1
Balance at end of year	456	455	453
Common stock (dollars)			
Balance at beginning of year	$ 1,138	$ 1,132	$ 1,120
Shares issued under compensation and incentive stock plans, net of forfeitures	1	2	9
Shares issued for acquisition	2	4	3
Balance at end of year	$ 1,141	$ 1,138	$ 1,132
Paid-in capital in excess of par value			
Balance at beginning of year	$ 298	$ 259	$ 68
Shares issued under compensation and incentive stock plans, net of forfeitures	(24)	30	109
Tax benefit	(5)	(2)	38
Shares issued for acquisition, net	24	11	44
Balance at end of year	$ 293	$ 298	$ 259
Deferred compensation			
Balance at beginning of year	$ (87)	$ (63)	$ (51)
Current year awards, net of tax	12	(24)	(12)
Balance at end of year	$ (75)	$ (87)	$ (63)
Accumulated other comprehensive income			
Cumulative translation adjustment	$ (121)	$ (205)	$ (275)
Pension liability adjustment	(157)	(27)	(12)
Unrealized loss on investments and derivatives	(3)	(4)	(1)
Balance at end of year	$ (281)	$ (236)	$ (288)
Cumulative translation adjustment			
Balance at beginning of year	$ (205)	$ (275)	$ (185)
Sales of subsidiaries	15	102	11
Current year changes	69	(32)	(101)
Balance at end of year	$ (121)	$ (205)	$ (275)

* Actual shares issued in 2002 were 357,000.

(continued on next page)

HALLIBURTON COMPANY
Consolidated Statements of Shareholders' Equity
(Millions of dollars and shares)
(continued)

	Years ended December 31		
	2002	2001	2000
Pension liability adjustment			
Balance at beginning of year	$ (27)	$ (12)	$ (19)
Sale of subsidiary	-	12	7
Current year change, net of tax	(130)	(27)	-
Balance at end of year	$ (157)	$ (27)	$ (12)
Unrealized gain (loss) on investments			
Balance at beginning of year	$ (4)	$ (1)	$ -
Current year unrealized gain (loss) on investments and derivatives	1	(3)	(1)
Balance at end of year	$ (3)	$ (4)	$ (1)
Retained earnings			
Balance at beginning of year	$ 4,327	$ 3,733	$ 3,453
Net income (loss)	(998)	809	501
Cash dividends paid	(219)	(215)	(221)
Balance at end of year	$ 3,110	$ 4,327	$ 3,733
Treasury stock (number of shares)			
Beginning of year	21	26	6
Shares issued under benefit, dividend reinvestment plan and incentive stock plans, net	(2)	(2)	-
Shares issued for acquisition	-	(4)	-
Shares purchased	1	1	20
Balance at end of year	20	21	26
Treasury stock (dollars)			
Beginning of year	$ 688	$ 845	$ 99
Shares issued under benefit, dividend reinvestment plan and incentive stock plans, net	(62)	(51)	(23)
Shares issued for acquisition	-	(140)	-
Shares purchased	4	34	769
Balance at end of year	$ 630	$ 688	$ 845
Comprehensive income (loss)			
Net income (loss)	$ (998)	$ 809	$ 501
Cumulative translation adjustment, net of tax	69	(32)	(101)
Less reclassification adjustments for losses included in net income	15	102	11
Net cumulative translation adjustment	84	70	(90)
Current year adjustment to minimum pension liability, net of tax	(130)	(15)	7
Unrealized gain/(loss) on investments and derivatives	1	(3)	(1)
Total comprehensive income (loss)	$(1,043)	$ 861	$ 417

See notes to annual financial statements.

HALLIBURTON COMPANY
Consolidated Statements of Cash Flows
(Millions of dollars)

	Years ended December 31		
	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ (998)	$ 809	$ 501
Adjustments to reconcile net income to net cash from operations:			
Loss (income) from discontinued operations	652	(257)	(313)
Depreciation, depletion and amortization	505	531	503
Provision (benefit) for deferred income taxes	(151)	26	(6)
Distributions from (advances to) related companies, net of equity in (earnings) losses	3	8	(64)
Change in accounting method, net	-	(1)	-
Gain on sale of assets	(22)	-	-
Gain on option component of joint venture sale	(3)	-	-
Asbestos and silica related liabilities, net	588	96	4
Accrued special charges	-	(6)	(63)
Other non-cash items	101	(3)	(22)
Other changes, net of non-cash items:			
Receivables and unbilled work on uncompleted contracts	675	(199)	(896)
Sale of receivables, net	180	-	-
Inventories	62	(91)	8
Accounts payable	71	118	170
Other working capital, net	(78)	122	155
Other operating activities	(23)	(124)	(34)
Total cash flows from operating activities	1,562	1,029	(57)
Cash flows from investing activities:			
Capital expenditures	(764)	(797)	(578)
Sales of property, plant and equipment	266	120	209
Acquisitions of businesses, net of cash acquired	-	(220)	(10)
Dispositions of businesses, net of cash disposed	170	61	19
Proceeds from sale of securities	62	-	-
Investments - restricted cash	(187)	4	5
Other investing activities	(20)	(26)	(56)
Total cash flows from investing activities	(473)	(858)	(411)
Cash flows from financing activities:			
Proceeds from long-term borrowings	66	425	-
Payments on long-term borrowings	(81)	(13)	(308)
(Repayments) borrowings of short-term debt, net	(2)	(1,528)	629
Payments of dividends to shareholders	(219)	(215)	(221)
Proceeds from exercises of stock options	-	27	105
Payments to reacquire common stock	(4)	(34)	(769)
Other financing activities	(8)	(17)	(20)
Total cash flows from financing activities	(248)	(1,355)	(584)
Effect of exchange rate changes on cash	(24)	(20)	(9)
Net cash flows from discontinued operations (1)	-	1,263	826
Increase (decrease) in cash and equivalents	817	59	(235)
Cash and equivalents at beginning of year	290	231	466
Cash and equivalents at end of year	$ 1,107	$ 290	$ 231

(continued on next page)

HALLIBURTON COMPANY
Consolidated Statements of Cash Flows
(Millions of dollars)
(continued)

	Years ended December 31		
	2002	2001	2000
Supplemental disclosure of cash flow information:			
Cash payments during the year for:			
Interest	$ 104	$ 132	$ 144
Income taxes	$ 94	$ 382	$ 310
Non-cash investing and financing activities:			
Liabilities assumed in acquisitions of businesses	$ -	$ 92	$ 95
Liabilities disposed of in dispositions of businesses	$ -	$ 500	$ 499

(1)Net cash flows from discontinued operations in 2001 include proceeds of $1.27 billion from the sale of the remaining businesses in Dresser Equipment Group and in 2000 proceeds of $913 million from the sales of Dresser-Rand in 2000 and Ingersoll-Dresser Pump in 1999. See Note 3.

See notes to annual financial statements.

Note 1. Significant Accounting Policies

We employ accounting policies that are in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

Ultimate results could differ from those estimates.

Description of Company. Halliburton Company's predecessor was established in 1919 and incorporated under the laws of the State of Delaware in 1924. Halliburton Company provides a variety of services, products, maintenance, engineering and construction to energy, industrial and governmental customers. We operate in two business segments:

- Energy Services Group; and
- Engineering and Construction Group.

The Energy Services Group segment provides discrete services and products and integrated solutions ranging from the initial evaluation of producing formations to drilling, completion, production and well maintenance. In addition, the segment is the leading supplier of integrated exploration and production software information systems as well as professional and data management services for the upstream oil and gas industry. The Engineering and Construction Group segment, operating as KBR, provides a wide range of services to energy and industrial customers and government entities worldwide.

Principles of consolidation. The consolidated financial statements include the accounts of our company and all of our subsidiaries in which we own greater than a 50% interest or control. All material intercompany accounts and transactions are eliminated. Investments in companies in which we own a 50% interest or less and have a significant influence are accounted for using the equity method and if we do not have significant influence we use the cost method. Prior year amounts have been reclassified to conform to the current year presentation.

Revenue recognition. We recognize revenues as services are rendered or products are shipped. Generally the date of shipment corresponds to the date upon which the customer takes title to the product and assumes all risk and rewards of ownership. The distinction between services and product sales is based upon the overall activity of the particular business operation. Training and consulting service revenues are recognized as the services are performed. Sales of perpetual software licenses, net of deferred maintenance fees, are recorded as revenue upon shipment. Sales of use licenses are recognized as revenue over the license period. Post-contract customer support agreements are recorded as deferred revenues and recognized as revenue ratably over the contract period of generally one year's duration.

Engineering and construction contracts. Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress toward completion appropriate for the work performed. Progress is generally based upon physical progress, man-hours or costs incurred based upon the appropriate method for the type of job. When revenue and costs are recorded from engineering and construction contracts, we comply with paragraph 81 of American Institute of Certified Public Accountants Statement of Position 81-1, also known as SOP 81-1. Under this method, revenues are recognized as the sum of costs incurred during the period plus the gross profit earned, measured using the percentage of completion method of accounting. All known or anticipated losses on contracts are provided for when they become evident in accordance with paragraph 85 of SOP 81-1. Claims and change orders which are in the process of being negotiated with customers, for extra work or changes in the scope of work, are included in revenue when collection is deemed probable. For more details of revenue recognition, including other aspects of engineering and construction accounting, including billings, claims and change orders and liquidated damages, see Note 8 and Note 12.

Research and development. Research and development expenses are charged to income as incurred. See Note 4 for research and development expense by business segment.

Software development costs. Costs of developing software for sale are charged to expense when incurred, as research and development, until technological feasibility has been established for the product. Once technological feasibility is established, software development costs are capitalized until the software is ready for general release to customers. We capitalized costs related to software developed for resale of $11 million in 2002, $19 million in 2001 and $7 million in 2000. Amortization expense of software development costs was $19 million for 2002, $16 million for 2001 and $12 million for 2000. Once the software is ready for release, amortization of the software development costs begins. Capitalized software development costs are amortized over periods which do not exceed five years.

Income per share. Basic income per share is based on the weighted average number of common shares outstanding during the year. Diluted income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. See Note 13 for a reconciliation of basic and diluted income per share.

Cash equivalents. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories. Inventories are stated at the lower of cost or market. Cost represents invoice or production cost for new items and original cost less allowance for condition for used material returned to stock. Production cost includes material, labor and manufacturing overhead. Some United States manufacturing and field service finished products and parts inventories for drill bits, completion products and bulk materials are recorded using the last-in, first-out method. The cost of over 90% of the remaining inventory is recorded on the average cost method, with the remainder on the first-in, first-out method. See Note 7.

Property, plant and equipment. Property, plant and equipment are reported at cost less accumulated depreciation, which is generally provided on the straight-line method over the estimated useful lives of the assets. Some assets are depreciated on accelerated methods. Accelerated depreciation methods are also used for tax purposes, wherever permitted. Upon sale or retirement of an asset, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized. When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed. The estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to fair value is required. We follow the successful efforts method of accounting for oil and gas properties. See Note 9.

Maintenance and repairs. Expenditures for maintenance and repairs are expensed; expenditures for renewals and improvements are generally capitalized. We use the accrue-in-advance method of accounting for major maintenance and repair costs of marine vessel dry docking expense and major aircraft overhauls and repairs. Under this method we anticipate the need for major maintenance and repairs and charge the estimated expense to operations before the actual work is performed. At the time the work is performed, the actual cost incurred is charged against the amounts that were previously accrued with any deficiency or excess charged or credited to operating expense.

Goodwill. For acquisitions occurring prior to July 1, 2001, goodwill was amortized on a straight-line basis over periods not exceeding 40 years through December 31, 2001. Effective July 1, 2001, we adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets", which precludes amortization of goodwill related to acquisitions completed subsequent to June 30, 2001. Additionally, SFAS No. 142 precludes the amortization of existing goodwill related to acquisitions completed prior to July 1, 2001 for periods beginning January 1, 2002. See Note 22 for discussion of this accounting change. SFAS No. 142 requires an entity to segregate its operations into "reporting units," which we have determined to be the same as our reportable operating segments, or the Energy Services Group and Engineering and Construction Group. Additionally, all goodwill has been assigned to one of these reporting units for purposes of determining impairment of the goodwill. Because goodwill and some intangible assets are no longer amortized, the reported amounts of goodwill and intangible assets are reviewed for impairment on an annual basis and more frequently when negative conditions such as significant current or projected operating losses exist. The annual impairment test is a two-step process and involves comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any.

Income taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefit, or that future deductibility is uncertain.

Derivative instruments. We enter into derivative financial transactions to hedge existing or projected exposures to changing foreign currency exchange rates, interest rates and commodity prices. We do not enter into derivative transactions for speculative or trading purposes. Effective January 1, 2001, we adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that we recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value and reflected immediately through the results of operations. If the derivative is designated as a hedge under SFAS No. 133, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against:

- the change in fair value of the hedged assets, liabilities or firm commitments through earnings; or
- recognized in other comprehensive income until the hedged item is recognized in earnings.

The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Recognized gains or losses on derivatives entered into to manage foreign exchange risk are included in foreign currency gains and losses on the consolidated statements of operations. Gains or losses on interest rate derivatives are included in interest expense and gains or losses on commodity derivatives are included in operating income. During the three years ended December 31, 2002, we did not enter into any significant transactions to hedge commodity prices. See Note 11 for discussion of interest rate swaps and Note 19 for further discussion of foreign currency exchange derivatives.

Foreign currency translation. Foreign entities whose functional currency is the United States dollar translate monetary assets and liabilities at year-end exchange rates, and non-monetary items are translated at historical rates. Income and expense accounts are translated at the average rates in effect during the year, except for depreciation, cost of product sales and revenues, and expenses associated with non-monetary balance sheet accounts which are translated at historical rates. Gains or losses from changes in exchange rates are recognized in consolidated income in the year of occurrence. Foreign entities whose functional currency is the local currency translate net assets at year-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in the consolidated statements of shareholders' equity under "Cumulative translation adjustment".

Loss contingencies. We accrue for loss contingencies based upon our best estimates in accordance with SFAS No. 5, "Accounting for Contingencies". See Note 12 for discussion of our significant loss contingencies.

Stock-Based Compensation. At December 31, 2002, we have six stock-based employee compensation plans, which are described more fully in Note 17. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No cost for stock options granted is reflected in net income, as all options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The weighted average assumptions and resulting fair values of options granted are as follows:

	Assumptions				Weighted Average
	Risk-Free Interest Rate	Expected Dividend Yield	Expected Life (in years)	Expected Volatility	Fair Value of Options Granted
2002	2.9%	2.7%	5	63%	$ 6.89
2001	4.5%	2.3%	5	58%	$ 19.11
2000	5.2%	1.3%	5	54%	$ 21.57

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

Millions of dollars except per share data	Years ended December 31 2002	2001	2000
Net income (loss), as reported	$ (998)	$ 809	$ 501
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(26)	(42)	(41)
Net income (loss), pro forma	$(1,024)	$ 767	$ 460
Basic earnings (loss) per share:			
As reported	$ (2.31)	$ 1.89	$ 1.13
Pro forma	$ (2.37)	$ 1.79	$ 1.04
Diluted earnings (loss) per share:			
As reported	$ (2.31)	$ 1.88	$ 1.12
Pro forma	$ (2.37)	$ 1.77	$ 1.03

Note 2. Acquisitions and Dispositions

Magic Earth acquisition. We acquired Magic Earth, Inc., a 3-D visualization and interpretation technology company with broad applications in the area of data interpretation in November 2001 for common shares with a value of $100 million. At the consummation of the transaction, we issued 4.2 million shares, valued at $23.93 per share, to complete the purchase. Magic Earth became a wholly-owned subsidiary and is reported within our Energy Services Group segment. We recorded goodwill of $71 million, all of which is nondeductible for tax purposes. In addition, we recorded intangible assets of $19 million, which are being amortized based on a five-year life.

PES acquisition. In February 2000, we acquired the remaining 74% of the shares of PES (International) Limited that we did not already own for a value of $126.7 million. This was based on 3.3 million shares of Halliburton common stock valued at $37.75 per share which was the closing stock price on January 12, 2000. PES is based in Aberdeen, Scotland, and has developed technology that complements Halliburton Energy Services' real time reservoir solutions. To acquire the remaining 74% of PES, we issued 1.2 million shares of Halliburton common stock in February 2002, and we also issued rights that resulted in the issuance of 2.1 million additional shares of Halliburton common stock between February 2001 and February 2002. We issued 1 million shares in February 2001; 400,000 shares in June 2001; and the remaining 700,000 shares in February 2002 under these rights. These shares were included in the cost of the acquisition as a contingent liability. We recorded $115 million of goodwill, all of which is non-deductible for tax purposes.

During the second quarter of 2001, we contributed the majority of PES' assets and technologies, including $130 million of goodwill associated with the purchase of PES, to a newly formed joint venture with Shell Technology Ventures BV, WellDynamics. We received $39 million in cash as an equity equalization adjustment, which we recorded as a reduction in our investment in the joint venture. We own 50% of WellDynamics and account for this investment using the equity method. The formation of WellDynamics resulted in a difference of $90 million between the carrying amount of our investment and our equity in the underlying net assets of the joint venture, which has been recorded as goodwill under "Equity in and advances to related companies". The remaining assets and goodwill of PES relating to completions and well intervention products have been combined with our existing completion products product service line.

PGS Data Management acquisition. In March 2001, we acquired the PGS Data Management division of Petroleum Geo-Services ASA (PGS) for $164 million in cash. The acquisition agreement also calls for Landmark to provide, for a fee, strategic data management and distribution services to PGS for three years from the date of acquisition. We recorded intangible assets of $14 million and goodwill of $149 million in our Energy Services Group segment, $9 million of which is non-deductible for tax purposes. The intangible assets are being amortized based on a three-year life.

European Marine Contractors Ltd. disposition. In January 2002, we sold our 50% interest in European Marine Contractors Ltd., an unconsolidated joint venture reported within our Energy Services Group, to our joint venture partner, Saipem. At the date of sale, we received $115 million in cash and a contingent payment option valued at $16 million resulting in a pretax operating income gain of $108 million. The contingent payment option was based on a formula linked to performance of the Oil Service Index. In February 2002, we exercised our option receiving an additional $19 million and recorded a pretax gain of $3 million in "Other, net" in the statement of operations as a result of the increase in value of this option. The total transaction resulted in an after-tax gain of $68 million, or $0.16 per diluted share.

Subsea 7 formation. In May 2002, we contributed substantially all of our Halliburton Subsea assets to a newly formed company, Subsea 7, Inc. We contributed assets with a book value of approximately $82 million. The contributed assets were recorded by the new company at a fair value of approximately $94 million. The $12 million difference is being amortized over ten years representing the average remaining useful life of the assets contributed. We own 50% of Subsea 7 and account for this investment using the equity method. The remaining 50% is owned by DSND Subsea ASA.

Bredero-Shaw disposition. On September 30, 2002 we sold our 50% interest in the Bredero-Shaw joint venture to our partner ShawCor Ltd. The purchase price of $149 million is comprised of $53 million in cash, a short-term note for $25 million and 7.7 million of ShawCor Class A Subordinate shares. In addition to our second quarter impairment charge of $61 million ($0.14 per diluted share after-tax) related to the pending sale of Bredero-Shaw, we recorded a third quarter pretax loss on sale of $18 million, or $0.04 per diluted share. Included in this loss was $15 million of cumulative translation adjustment loss which was realized upon the disposition of our investment in Bredero-Shaw. During the 2002 fourth quarter, we recorded in "Other, net" a $9.1 million loss on the sale of ShawCor shares, or $0.02 per diluted share.

Dresser Equipment Group disposition. In April 2001, we disposed of the remaining businesses in the Dresser Equipment Group. See Note 3.

Note 3. Discontinued Operations

For the twelve months ended December 31, 2002, we recorded a $806 million pretax charge in discontinued operations. The $806 million charge is primarily comprised of the following:

- a $567 million charge during the fourth quarter due to a revision of our best estimate of our asbestos and silica liability based upon knowledge gained throughout the development of the agreement in principle for our proposed global settlement. The charge consisted of $1,047 million related to the asbestos and silica claims gross liability, which was offset by $480 million in anticipated related insurance recoveries;
- a $153 million charge during the second quarter in connection with our econometric study. The charge consisted of $1,176 million related to the gross liability on our asbestos and silica claims, which was offset by $1,023 million in anticipated insurance recoveries;
- a $40 million payment associated with the Harbison-Walker bankruptcy filing recorded in the first quarter; and
- $46 million in costs primarily related to the negotiation of the agreement in principle.

During the second and third quarters of 2001, we recorded a $95 million pretax expense to discontinued operations. This amount was comprised of a $632 million charge related to the gross liability on Harbison-Walker asbestos claims, which was offset by $537 million in anticipated related insurance recoveries. See Note 12.

In late 1999 and early 2000 we sold our interest in two joint ventures that were a significant portion of our Dresser Equipment Group. These sales prompted a strategic review of the remaining businesses within the Dresser Equipment Group. As a result of this review, we determined that these remaining businesses did not closely fit with our core businesses, long-term goals and strategic objectives. In April 2000, our Board of Directors approved plans to sell all the remaining businesses within the Dresser Equipment Group. We sold these businesses on April 10, 2001 and we recognized a pretax gain of $498 million ($299 million after-tax) during the second quarter of 2001. The financial results of the Dresser Equipment Group through March 31, 2001 are presented as discontinued operations in our financial statements. As part of the terms of the transaction, we retained a 5.1% equity interest of Class A common stock in the Dresser Equipment Group, which has been renamed Dresser, Inc. In July 2002, Dresser, Inc. announced a reorganization, and we have exchanged our shares for shares of Dresser Ltd. Our equity interest is accounted for under the cost method.

Income (loss) from Operations of Discontinued Businesses Millions of dollars	Years ended December 31 2002	2001	2000
Revenues	$ -	$ 359	$ 1,400
Operating income	$ -	$ 37	$ 158
Asbestos litigation claims, net of insurance recoveries	(806)	(99)	-
Tax benefit (expense)	154	20	(60)
Net income (loss)	$ (652)	$ (42)	$ 98

Gain on disposal of discontinued operations reflects the gain on the sale of the remaining businesses within the Dresser Equipment Group in the second quarter of 2001 and the gain on the sale of Dresser-Rand in February 2000.

Gain on Disposal of Discontinued Operations Millions of dollars	2001	2000
Proceeds from sale, less intercompany settlement	$ 1,267	$ 536
Net assets disposed	(769)	(180)
Gain before taxes	498	356
Income taxes	(199)	(141)
Gain on disposal of discontinued operations	$ 299	$ 215

Note 4. Business Segment Information

We operate in two business segments - the Energy Services Group and the Engineering and Construction Group. Dresser Equipment Group is presented as part of discontinued operations through March 31, 2001 as a result of the sale in April 2001 of the remaining businesses within Dresser Equipment Group. See Note 3. Our segments are organized around the products and services provided to our customers.

During the first quarter of 2002, we announced plans to restructure our businesses into two operating subsidiary groups. One group is focused on energy services and the other is focused on engineering and construction. As part of this restructuring, many support functions that were previously shared were moved into the two business groups. We also decided that the operations of Major Projects, Granherne and Production Services better aligned with our Kellogg Brown & Root subsidiary, or KBR, in the current business environment. These businesses were moved for management and reporting purposes from the Energy Services Group segment to the Engineering and Construction Group segment during the second quarter of 2002. Major Projects, which consisted of the Barracuda-Caratinga project in Brazil, is now reported through the Offshore Operations product line, Granherne is now reported in the Onshore product line, and Production Services is now reported under the Operations and Maintenance product line.

In addition, during the fourth quarter of 2000, we combined all engineering, construction, fabrication and project management operations into one segment, reporting as our Engineering and Construction Group. This restructuring resulted in some activities moving from the Energy Services Group to the Engineering and Construction Group, effective January 1, 2001.

All prior period segment results have been restated to reflect these changes.

Energy Services Group. The Energy Services Group provides a wide range of discrete services and products and integrated solutions to customers for the exploration, development, and production of oil and gas. The customers for this segment are major, national and independent oil and gas companies. This segment consists of:

- Halliburton Energy Services provides oilfield services and products including discrete products and services and integrated solutions ranging from the initial evaluation of producing formations to drilling, completion, production and well maintenance. Products and services include pressure pumping equipment and services, logging and perforating, drilling systems and services, drilling fluids systems, drill bits, specialized completion and production equipment and services, well control and integrated solutions;
- Landmark Graphics provides integrated exploration and production software information systems, data management services, and professional services for the upstream oil and gas industry; and
- Other product service lines provide installation and servicing of subsea facilities and pipelines. In January 2002, we sold to Saipem, our joint venture partner, our 50% interest in European Marine Contractors Ltd., a joint venture that provided pipeline services for offshore customers. In May 2002, we contributed substantially all of our Halliburton Subsea assets to a newly formed company, Subsea 7, Inc. We own 50% of Subsea 7, Inc. and DSND Subsea ASA owns the other 50%. In September 2002, we sold our 50% interest in Bredero-Shaw, a pipecoating joint venture, to our partner ShawCor Ltd. See Note 2.

Engineering and Construction Group. The Engineering and Construction Group provides engineering, procurement, construction, project management, and facilities operation and maintenance for oil and gas and other industrial and governmental customers. The Engineering and Construction Group, operating as KBR, offers the following five product lines:

- Onshore operations consist of engineering and construction activities, including engineering and construction of liquefied natural gas, ammonia and crude oil refineries and natural gas plants;
- Offshore operations include specialty offshore deepwater engineering and marine technology and worldwide fabrication capabilities;
- Government operations provide operations, construction, maintenance and logistics activities for government facilities and installations;
- Operations and maintenance services include plant operations, maintenance, and start-up services for both upstream and downstream oil, gas and petrochemical facilities as well as operations, maintenance and logistics services for the power, commercial and industrial markets; and
- Infrastructure provides civil engineering, consulting and project management services.

General corporate. General corporate represents assets not included in a business segment and is primarily composed of cash and cash equivalents, deferred tax assets and insurance for asbestos and silica litigation claims.

Intersegment revenues included in the revenues of the business segments and revenues between geographic areas are immaterial. Our equity in pretax earnings and losses of unconsolidated affiliates that are accounted for on the equity method is included in revenues and operating income of the applicable segment.

The tables below present information on our continuing operations business segments.

Operations by Business Segment

	Years ended December 31		
Millions of dollars	2002	2001	2000
Revenues:			
Energy Services Group	$ 6,836	$ 7,811	$ 6,233
Engineering and Construction Group	5,736	5,235	5,711
Total	$ 12,572	$ 13,046	$ 11,944
Operating income (loss):			
Energy Services Group	$ 638	$ 1,036	$ 589
Engineering and Construction Group	(685)	111	(54)
General corporate	(65)	(63)	(73)
Total	$ (112)	$ 1,084	$ 462

Operations by Business Segment (continued)

Millions of dollars	2002	2001	2000
	Years ended December 31		
Capital expenditures:			
Energy Services Group	$ 603	$ 743	$ 533
Engineering and Construction Group	161	54	44
General corporate	-	-	1
Total	$ 764	$ 797	$ 578
Depreciation, depletion and amortization:			
Energy Services Group	$ 475	$ 474	$ 435
Engineering and Construction Group	29	56	65
General corporate	1	1	3
Total	$ 505	$ 531	$ 503
Total assets:			
Energy Services Group	$ 5,944	$ 6,564	$ 5,964
Engineering and Construction Group	3,104	3,187	2,885
Net assets of discontinued operations	-	-	690
General corporate	3,796	1,215	653
Total	$ 12,844	$ 10,966	$ 10,192
Research and development:			
Energy Services Group	$ 228	$ 226	$ 224
Engineering and Construction Group	5	7	7
Total	$ 233	$ 233	$ 231

Operations by Geographic Area

Millions of dollars	2002	2001	2000
	Years ended December 31		
Revenues:			
United States	$ 4,139	$ 4,911	$ 4,073
United Kingdom	1,521	1,800	1,512
Other areas (numerous countries)	6,912	6,335	6,359
Total	$ 12,572	$ 13,046	$ 11,944
Long-lived assets:			
United States	$ 4,617	$ 3,030	$ 2,068
United Kingdom	691	617	525
Other areas (numerous countries)	711	744	776
Total	$ 6,019	$ 4,391	$ 3,369

Note 5. Restricted Cash

At December 31, 2002, we had restricted cash of $190 million included in "Other assets". Restricted cash consists of:

- $107 million deposit that collateralizes a bond for a patent infringement judgment on appeal;
- $57 million as collateral for potential future insurance claim reimbursements; and
- $26 million primarily related to cash collateral agreements for outstanding letters of credit for various construction projects.

At December 31, 2001, we had $3 million in restricted cash in "Other assets".

Note 6. Receivables

Our receivables are generally not collateralized. Included in notes and accounts receivable are notes with varying interest rates totaling $53 million at December 31, 2002 and $19 million at December 31, 2001.

On April 15, 2002, we entered into an agreement to sell accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary. Under the terms of the agreement, new receivables are added on a continuous basis to the pool of receivables, and collections reduce previously sold accounts receivable. This funding subsidiary sells an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary have been structured as "true sales" under applicable bankruptcy laws, and the assets of the funding subsidiary are not available to pay any creditors of Halliburton or of its subsidiaries or affiliates, until such time as the agreement with the unaffiliated companies is terminated following sufficient collections to liquidate all outstanding undivided ownership interests. The funding subsidiary retains the interest in the pool of receivables that are not sold to the unaffiliated companies, and is fully consolidated and reported in our financial statements.

The amount of undivided interests, which can be sold under the program, varies based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The funding subsidiary sold a $200 million undivided ownership interest to the unaffiliated companies, and may from time to time sell additional undivided ownership interests. No additional amounts were received from our accounts receivable facility since the second quarter of 2002. The total amount outstanding under this facility was $180 million as of December 31, 2002. We continue to service, administer and collect the receivables on behalf of the purchaser. The amount of undivided ownership interest in the pool of receivables sold to the unaffiliated companies is reflected as a reduction of accounts receivable in our consolidated balance sheet and as an increase in cash flows from operating activities in our consolidated statement of cash flows.

Note 7. Inventories

Inventories are stated at the lower of cost or market. Some United States manufacturing and field service finished products and parts inventories for drill bits, completion products and bulk materials are recorded using the last-in, first-out method, totaling $43 million at December 31, 2002 and $54 million at December 31, 2001. If the average cost method had been used, total inventories would have been $17 million higher than reported at December 31, 2002 and $20 million higher than reported at December 31, 2001.

Over 90% of remaining inventory is recorded on the average cost method, with the remainder on the first-in, first-out method.

Inventories at December 31, 2002 and December 31, 2001 are composed of the following:

Millions of dollars	December 31 2002	December 31 2001
Finished products and parts	$ 545	$ 520
Raw materials and supplies	141	192
Work in process	48	75
Total	$ 734	$ 787

Note 8. Unapproved Claims and Long-Term Construction Contracts

Billing practices for engineering and construction projects are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the percentage of completion method of accounting. Billings in excess of recognized revenues are recorded in "Advance billings on uncompleted contracts". When billings are less than recognized revenues, the difference is recorded in "Unbilled work on uncompleted contracts". With the exception of claims and change orders which are in the process of being negotiated with customers, unbilled work is usually billed during normal billing processes following achievement of the contractual requirements.

Recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. This estimate requires consideration of contract revenue, change orders and claims reduced by costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period they become evident. Profits are recorded based upon the total estimated contract profit multiplied by the current percentage complete for the contract.

When calculating the amount of total profit or loss on a long-term contract, we include unapproved claims as revenue when the collection is deemed probable based upon the four criteria for recognizing unapproved claims under the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Including unapproved claims in this calculation increases the operating income (or reduces the operating loss) that would otherwise be recorded without consideration of the probable unapproved claims. Unapproved claims are recorded to the extent of costs incurred and include no profit element. In substantially all cases, the probable unapproved claims included in determining contract profit or loss are less than the actual claim that will be or has been presented to the customer.

When recording the revenue and the associated unbilled receivable for unapproved claims, we only accrue an amount equal to the costs incurred related to probable unapproved claims. Therefore, the difference between the probable unapproved claims included in determining contract profit or loss and the probable unapproved claims recorded in unbilled work on uncompleted contracts relates to forecasted costs which have not yet been incurred. The amounts included in determining the profit or loss on contracts, and the amounts booked to "Unbilled work on uncompleted contracts" for each period are as follows:

	Years ended December 31	
Millions of dollars	2002	2001
Probable unapproved claims (included in determining contract profit or loss)	$ 279	$ 137
Unapproved claims in unbilled work on uncompleted contracts	$ 210	$ 102

The claims at December 31, 2002 listed in the above table relate to ten contracts, most of which are complete or substantially complete. We are actively engaged in claims negotiation with the customer in all but one case, and in that case we have initiated the arbitration process. The probable unapproved claim in arbitration is $2 million. The largest claim relates to the Barracuda-Caratinga contract which was approximately 63% complete at the end of 2002. The probable unapproved claims included in determining this contract's loss were $182 million at December 31, 2002 and $43 million at December 31, 2001. As the claim for this contract most likely will not be settled within one year, amounts in unbilled work on uncompleted contracts of $115 million at December 31, 2002 and $10 million at December 31, 2001 included in the table above have been recorded to long-term unbilled work on uncompleted contracts which is included in "Other assets" on the balance sheet. All other claims included in the table above have been recorded to Unbilled work on uncompleted contracts included in the "Total receivables" amount on the balance sheet.

A summary of unapproved claims activity for the years ended December 31, 2002 and 2001 is as follows:

	Total Probable Unapproved Claims		Probable Unapproved Claims Accrued Revenue	
Millions of dollars	2002	2001	2002	2001
Beginning balance	$ 137	$ 93	$ 102	$ 92
Additions	158	92	105	58
Costs incurred during period	-	-	19	-
Approved claims	(4)	(15)	(4)	(15)
Write-offs	(7)	(33)	(7)	(33)
Other *	(5)	-	(5)	-
Ending balance	$ 279	$ 137	$ 210	$ 102

* Other primarily relates to claims in which the customer has agreed to a change order relating to the scope of work.

In addition, our unconsolidated related companies include probable unapproved claims as revenue to determine the amount of profit or loss for their contracts. Our "Equity in earnings of unconsolidated affiliates" includes our equity percentage of unapproved claims related to unconsolidated projects. Amounts for unapproved claims from our related companies are included in "Equity in and advances to related companies" and totaled $9 million at December 31, 2002 and $0.3 million at December 31, 2001.

Note 9. Property, Plant and Equipment

Property, plant and equipment at December 31, 2002 and 2001 are composed of the following:

Millions of dollars	2002	2001
Land	$ 86	$ 82
Buildings and property improvements	1,024	942
Machinery, equipment and other	4,842	4,926
Total	5,952	5,950
Less accumulated depreciation	3,323	3,281
Net property, plant and equipment	$ 2,629	$ 2,669

Buildings and property improvements are depreciated over 5-40 years; machinery, equipment and other are depreciated over 3-25 years.

Machinery, equipment and other includes oil and gas investments of $356 million at December 31, 2002 and $423 million at December 31, 2001.

Note 10. Related Companies

We conduct some of our operations through various joint ventures which are in partnership, corporate and other business forms, and are principally accounted for using the equity method. Financial information pertaining to related companies for our continuing operations is set out below. This information includes the total related company balances and not our proportional interest in those balances.

Our larger unconsolidated entities include Subsea 7, Inc., a 50% owned subsidiary, formed in May of 2002 and the partnerships created to construct the Alice Springs to Darwin rail line in Australia. During 2002, we sold our 50% interest in European Marine Contractors and Bredero-Shaw. See Note 2.

Combined summarized financial information for all jointly owned operations that are not consolidated is as follows:

Combined Operating Results Millions of dollars	Years ended December 31 2002	 2001	 2000
Revenues	$ 1,948	$ 1,987	$ 3,098
Operating income	$ 200	$ 231	$ 192
Net income	$ 159	$ 169	$ 169

Combined Financial Position Millions of dollars	December 31 2002	 2001
Current assets	$ 1,404	$ 1,818
Noncurrent assets	1,876	1,672
Total	$ 3,280	$ 3,490
Current liabilities	$ 1,155	$ 1,522
Noncurrent liabilities	1,367	1,272
Minority interests	-	2
Shareholders' equity	758	694
Total	$ 3,280	$ 3,490

Note 11. Lines of Credit, Notes Payable and Long-Term Debt

At December 31, 2002, we had committed lines of credit totaling $350 million which expire in August 2006. There were no borrowings outstanding under these lines of credit. These lines are not available if our senior unsecured long-term debt is rated lower than BBB- by Standard & Poor's Ratings Service Group or lower than Baa3 by Moody's Investors' Services. Fees for committed lines of credit were immaterial.

Short-term debt at December 31, 2002 consists primarily of $37 million in overdraft facilities and $12 million of other facilities with varying rates of interest.

Long-term debt at the end of 2002 and 2001 consists of the following:

Millions of dollars	2002	2001
7.6% debentures due August 2096	$ 300	$ 300
8.75% debentures due February 2021	200	200
8% senior notes due April 2003	139	139
Variable interest credit facility maturing September 2009	66	-
Medium-term notes due 2002 through 2027	750	825
Effect of interest rate swaps	13	3
Term loans at LIBOR (GBP) plus 0.75% payable in semiannual installments through March 2002	-	4
Other notes with varying interest rates	8	13
Total long-term debt	1,476	1,484
Less current portion	295	81
Noncurrent portion of long-term debt	$ 1,181	$ 1,403

The 7.6% debentures due 2096, 8.75% debentures due 2021, and 8% senior notes due 2003 may not be redeemed prior to maturity and do not have sinking fund requirements.

In the fourth quarter of 2002, our 51% owned and consolidated subsidiary, Devonport Management Limited (DML), signed an agreement for a credit facility of (pound)80 million ($126 million as of December 31, 2002) maturing in September 2009. This credit facility has a variable interest rate that was equal to 5.375% on December 31, 2002. There are various financial covenants which must be maintained by DML. DML has drawn down an initial amount of $66 million as of December 31, 2002. Under this agreement, payments of approximately $4.5 million are due in quarterly installments. As of December 31, 2002, the available credit under this facility was approximately $60 million.

On July 12, 2001, we issued $425 million of two and five-year notes under our medium-term note program. The notes consist of $275 million 6% fixed rate notes due August 2006 and $150 million LIBOR + 0.15% floating rate notes due July 2003. At December 31, 2002, we have outstanding notes under our medium-term note program as follows:

Amount	Due	Rate	Issue Price
$ 150 million	07/2003	Floating%	Par
$ 275 million	08/2006	6.00%	99.57%
$ 150 million	12/2008	5.63%	99.97%
$ 50 million	05/2017	7.53%	Par
$ 125 million	02/2027	6.75%	99.78%

Each holder of the 6.75% medium-term notes has the right to require us to repay the holder's notes in whole or in part on February 1, 2007. We may redeem the 5.63% and 6.00% medium-term notes in whole or in part at any time. Other notes issued under the medium-term note program may not be redeemed prior to maturity. The medium-term notes do not have sinking fund requirements.

In the second quarter of 2002, we terminated our interest rate swap agreement on our 8% senior note. The notional amount of the swap agreement was $139 million. This interest rate swap was designated as a fair value hedge under SFAS No. 133. Upon termination, the fair value of the interest rate swap was $0.5 million. In the fourth quarter 2002, we terminated the interest rate swap agreement on our 6% fixed rate medium-term note. The notional amount of the swap agreement was $150 million. This interest rate swap was designated as a fair value hedge under SFAS No. 133. Upon termination, the fair value of the interest rate swap was $13 million. These swaps had previously been classified in "Other assets" on the balance sheet. The fair value adjustment to these debt instruments that were hedged will remain and be amortized as a reduction in interest expense using the "Effective Yield Method" over the remaining life of the notes.

Our debt excluding the effects of our interest rate swaps matures as follows: $295 million in 2003; $21 million in 2004; $20 million in 2005; $293 million in 2006; $8 million in 2007; and $826 million thereafter.

Note 12. Commitments and Contingencies

Leases. At year-end 2002, we were obligated under noncancelable operating leases, principally for the use of land, offices, equipment, field facilities and warehouses. Total rentals, net of sublease rentals, for noncancelable leases in 2002, 2001 and 2000 were as follows:

Millions of dollars	2002	2001	2000
Rental expense	$ 149	$ 172	$ 149

Future total rentals on noncancelable operating leases are as follows: $119 million in 2003; $83 million in 2004; $63 million in 2005; $55 million in 2006; $40 million in 2007; and $249 million thereafter.

Asbestos litigation. Several of our subsidiaries, particularly DII Industries, LLC (DII Industries) and Kellogg, Brown & Root, Inc. (Kellogg, Brown & Root), are defendants in a large number of asbestos-related lawsuits. The plaintiffs allege injury as a result of exposure to asbestos in products manufactured or sold by former divisions of DII Industries or in materials used in construction or maintenance projects of Kellogg, Brown & Root. These claims are in three general categories:

- refractory claims;
- other DII Industries claims; and
- construction claims.

Refractory claims. Asbestos was used in a small number of products manufactured or sold by Harbison-Walker Refractories Company, which DII Industries acquired in 1967. The Harbison-Walker operations were conducted as a division of DII Industries (then named Dresser Industries, Inc.) until those operations were transferred to another then-existing subsidiary of DII Industries in preparation for a spin-off. Harbison-Walker was spun-off by DII Industries in July 1992. At that time, Harbison-Walker assumed liability for asbestos claims filed after the spin-off and it agreed to defend and indemnify DII Industries from liability for those claims, although DII Industries continues to have direct liability to tort claimants for all post spin-off refractory claims. DII Industries retained responsibility for all asbestos claims pending as of the date of the spin-off. The agreement governing the spin-off provided that Harbison-Walker would have the right to access DII Industries historic insurance coverage for the asbestos-related liabilities that Harbison-Walker assumed in the spin-off. After the spin-off, DII Industries and Harbison-Walker jointly negotiated and entered into coverage-in-place agreements with a number of insurance companies that had issued historic general liability insurance policies which both DII Industries and Harbison-Walker had the right to access for, among other things, bodily injury occurring between 1963 and 1985. These coverage-in-place agreements provide for the payment of defense costs, settlements and court judgments paid to resolve refractory asbestos claims.

As Harbison-Walker's financial condition worsened in late 2000 and 2001, Harbison-Walker began agreeing to pay more in settlement of the post spin-off refractory claims than it historically had paid. These increased settlement amounts led to Harbison-Walker making greater demands on the shared insurance asset. By July 2001, DII Industries determined that the demands that Harbison-Walker was making on the shared insurance policies were not acceptable to DII Industries and that Harbison-Walker probably would not be able to fulfill its indemnification obligation to DII Industries. Accordingly, DII Industries took up the defense of unsettled post spin-off refractory claims that name it as a defendant in order to prevent Harbison-Walker from unnecessarily eroding the insurance coverage both companies access for these claims. These claims are now stayed in the Harbison-Walker bankruptcy proceeding.

As of December 31, 2002, there were approximately 6,000 open and unresolved pre-spin-off refractory claims against DII Industries. In addition, there were approximately 142,000 post spin-off claims that name DII Industries as a defendant.

Other DII Industries claims. As of December 31, 2002, there were approximately 147,000 open and unresolved claims alleging injuries from asbestos used in other products formerly manufactured by DII Industries. Most of these claims involve gaskets and packing materials used in pumps and other industrial products.

Construction claims. Our Engineering and Construction Group includes engineering and construction businesses formerly operated by The M.W. Kellogg Company and Brown & Root, Inc., now combined as Kellogg, Brown & Root. As of December 31, 2002, there were approximately 52,000 open and unresolved claims alleging injuries from asbestos in materials used in construction and maintenance projects, most of which were conducted by Brown & Root, Inc. Approximately 2,200 of these claims are asserted against The M.W. Kellogg Company. We believe that Kellogg, Brown & Root has a good defense to these claims, and a prior owner of The M.W. Kellogg Company provides Kellogg, Brown & Root a contractual indemnification for claims against The M.W. Kellogg Company.

Harbison-Walker Chapter 11 bankruptcy. On February 14, 2002, Harbison-Walker filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court in Pittsburgh, Pennsylvania. In its bankruptcy-related filings, Harbison-Walker said that it would seek to utilize Sections 524(g) and 105 of the Bankruptcy Code to propose and seek confirmation of a plan of reorganization that would provide for distributions for all legitimate, pending and future asbestos claims asserted directly against Harbison-Walker or asserted against DII Industries for which Harbison-Walker is required to indemnify and defend DII Industries.

Harbison-Walker's failure to fulfill its indemnity obligations, and its erosion of insurance coverage shared with DII Industries, required DII Industries to assist Harbison-Walker in its bankruptcy proceeding in order to protect the shared insurance from dissipation. At the time that Harbison-Walker filed its bankruptcy, DII Industries agreed to provide up to $35 million of debtor-in-possession financing to Harbison-Walker during the pendency of the Chapter 11 proceeding, of which $5 million was advanced during the first quarter of 2002. On February 14, 2002, in accordance with the terms of a letter agreement, DII Industries also paid $40 million to Harbison-Walker's United States parent holding company, RHI Refractories Holding Company. This payment was charged to discontinued operations in our financial statements in the first quarter of 2002.

The terms of the letter agreement also requires DII Industries to pay to RHI Refractories an additional $35 million if a plan of reorganization is proposed in the Harbison-Walker bankruptcy proceedings, and an additional $85 million if a plan is confirmed in the Harbison-Walker bankruptcy proceedings, in each case acceptable to DII Industries in its sole discretion. The letter agreement provides that a plan acceptable to DII Industries must include an injunction channeling to a Section 524(g)/105 trust all present and future asbestos claims against DII Industries, arising out of the Harbison-Walker business or other DII Industries' businesses that share insurance with Harbison-Walker.

By contrast, the proposed global settlement being pursued by Halliburton contemplates that DII Industries and Harbison-Walker, among others including Halliburton, would receive in a DII Industries and Kellogg, Brown & Root bankruptcy the benefits of an injunction channeling to a Section 524(g)/105 trust all present and future asbestos claims, including with respect to DII Industries, Kellogg, Brown & Root and Halliburton, claims that do not relate to the Harbison-Walker business or share insurance with Harbison-Walker.

Harbison-Walker has not yet submitted a proposed plan of reorganization to the Bankruptcy Court. Moreover, although possible, at this time we do not believe it likely that Harbison-Walker will propose or ultimately there would be confirmed a plan of reorganization in its bankruptcy proceeding that is acceptable to DII Industries. In general, in order for a Harbison-Walker plan of reorganization involving a Section 524(g)/105 trust to be confirmed, among other things the creation of the trust would require the approval of 75% of the asbestos claimant creditors of Harbison-Walker. There can be no assurance that any plan proposed by Harbison-Walker would obtain the necessary approval or that it would provide for an injunction channeling to a Section 524(g)/105 trust all present and future asbestos claims against DII Industries arising out of the Harbison-Walker business or that share insurance with Harbison-Walker.

In addition, we anticipate that a significant financial contribution to the Harbison-Walker estate could be required from DII Industries to obtain confirmation of a Harbison-Walker plan of reorganization if that plan were to include an injunction channeling to a Section 524(g)/105 trust all present and future asbestos claims against DII Industries arising out of the Harbison-Walker business or that have claims to shared insurance with the Harbison-Walker business. This contribution to the estate would be in addition to DII Industries' contribution of its interest to insurance coverage for refractory claims to the Section 524(g)/105 trust. At this time, we are not able to quantify the amount of this contribution in light of numerous uncertainties. These include the amount of Harbison-Walker assets available to satisfy its asbestos and trade creditors and the results of negotiations that must be completed among Harbison-Walker, the asbestos claims committee under its Chapter 11 proceeding, a legal representative for future asbestos claimants (which has not yet been appointed by the Bankruptcy Court), DII Industries and the relevant insurance companies.

Whether or not Halliburton has completed, is still pursuing or has abandoned its previously announced global settlement, DII Industries would be under no obligation to make a significant financial contribution to the Harbison-Walker estate, although Halliburton intends to consider all of its options if in the future it ceased pursuing the global settlement.

For the reasons outlined above among others, we do not believe it probable that DII Industries will be obligated to make either of the additional $35 million and $85 million payments to RHI Refractories described above. During February 2003, representatives of RHI A.G., the ultimate corporate parent of RHI Refractories, met with representatives of DII Industries and indicated that they believed that DII Industries would be obligated to pay RHI Refractories the $35 million and the $85 million in the event that our proposed global settlement were to be consummated. For a number of reasons, DII Industries believes that the global settlement would not be the cause of a failure of a Harbison-Walker plan to be acceptable to DII Industries and intends vigorously to defend against this claim if formally asserted.

In connection with the Chapter 11 filing by Harbison-Walker, the Bankruptcy Court on February 14, 2002 issued a temporary restraining order staying all further litigation of more than 200,000 asbestos claims currently pending against DII Industries in numerous courts throughout the United States. The period of the stay contained in the temporary restraining order has been extended to July 21,2003. Currently, there is no assurance that a stay will remain in effect beyond July 21, 2003, that a plan of reorganization will be proposed or confirmed for Harbison-Walker, or that any plan that is confirmed will provide relief to DII Industries.

The stayed asbestos claims are those covered by insurance that DII Industries and Harbison-Walker each access to pay defense costs, settlements and judgments attributable to both refractory and non-refractory asbestos claims. The stayed claims include approximately 142,000 post-1992 spin-off refractory claims, 6,000 pre-spin-off refractory claims and approximately 135,000 other types of asbestos claims pending against DII Industries. Approximately 51,000 of the claims in the third category are claims made against DII Industries based on more than one ground for recovery and the stay affects only the portion of the claim covered by the shared insurance. The stay prevents litigation from proceeding while the stay is in effect and also prohibits the filing of new claims. One of the purposes of the stay is to allow Harbison-Walker and DII Industries time to develop and propose a plan of reorganization.

Asbestos insurance coverage. DII Industries has substantial insurance for reimbursement for portions of the costs incurred defending asbestos and silica claims, as well as amounts paid to settle claims and court judgments. This coverage is provided by a large number of insurance policies written by dozens of insurance companies. The insurance companies wrote the coverage over a period of more than 30 years for DII Industries, its predecessors or its subsidiaries and their predecessors. Large amounts of this coverage are now subject to coverage-in-place agreements that resolve issues concerning amounts and terms of coverage. The amount of insurance available to DII Industries and its subsidiaries depends on the nature and time of the alleged exposure to asbestos or silica, the specific subsidiary against which an asbestos or silica claim is asserted and other factors.

Refractory claims insurance. DII Industries has approximately $2.1 billion in aggregate limits of insurance coverage for refractory asbestos and silica claims, of which over one-half is with Equitas or other London-based insurance companies. Most of this insurance is shared with Harbison-Walker. Many of the issues relating to the majority of this coverage have been resolved by coverage-in-place agreements with dozens of companies, including Equitas and other London-based insurance companies. Coverage-in-place agreements are settlement agreements between policyholders and the insurers specifying the terms and conditions under which coverage will be applied as claims are presented for payment. These agreements in an asbestos claims context govern such things as what events will be deemed to trigger coverage, how liability for a claim will be allocated among insurers and what procedures the policyholder must follow in order to obligate the insurer to pay claims. Recently, however, Equitas and other London-based companies have attempted to impose new restrictive documentation requirements on DII Industries and other insureds. Equitas and the other London-based companies have stated that the new requirements are part of an effort to limit payment of settlements to claimants who are truly impaired by exposure to asbestos and can identify the product or premises that caused their exposure.

On March 21, 2002, Harbison-Walker filed a lawsuit in the United States Bankruptcy Court for the Western District of Pennsylvania in its Chapter 11 bankruptcy proceeding. This lawsuit is substantially similar to DII Industries lawsuit filed in Texas State Court in 2001 and seeks, among other relief, a determination as to the rights of DII Industries and Harbison-Walker to the shared general liability insurance. The lawsuit also seeks damages against specific insurers for breach of contract and bad faith, and a declaratory judgment concerning the insurers' obligations under the shared insurance. Although DII Industries is also a defendant in this lawsuit, it has asserted its own claim to coverage under the shared insurance and is cooperating with Harbison-Walker to secure both companies' rights to the shared insurance. The Bankruptcy Court has ordered the parties to this lawsuit to engage in non-binding mediation. The first mediation session was held on July 26, 2002 and additional sessions have since taken place and further sessions are scheduled to take place, provided the Bankruptcy Court's mediation order remains in effect. Given the early stages of these negotiations, DII Industries cannot predict whether a negotiated resolution of this dispute will occur or, if such a resolution does occur, the precise terms of such a resolution.

Prior to the Harbison-Walker bankruptcy, on August 7, 2001, DII Industries filed a lawsuit in Dallas County, Texas, against a number of these insurance companies asserting DII Industries rights under an existing coverage-in-place agreement and under insurance policies not yet subject to coverage-in-place agreements. The coverage-in-place agreements allow DII Industries to enter into settlements for small amounts without requiring claimants to produce detailed documentation to support their claims, when DII Industries believes the settlements are an effective claims management strategy. DII Industries believes that the new documentation requirements are inconsistent with the current coverage-in-place agreements and are unenforceable. The insurance companies that DII Industries has sued have not refused to pay larger claim settlements where documentation is obtained or where court judgments are entered.

On May 10, 2002, the London-based insuring entities and companies removed DII Industries' Dallas County State Court Action to the United States District Court for the Northern District of Texas alleging that federal court jurisdiction existed over the case because it is related to the Harbison-Walker bankruptcy. DII Industries has filed an opposition to that removal and has asked the federal court to remand the case back to the Dallas County state court. On June 12, 2002, the London-based insuring entities and companies filed a motion to transfer the case to the federal court in Pittsburgh, Pennsylvania. DII Industries has filed an opposition to that motion to transfer. The federal court in Dallas has yet to rule on any of these motions. Regardless of the outcome of these motions, because of the similar insurance coverage lawsuit filed by Harbison-Walker in its bankruptcy proceeding, it is unlikely that DII Industries case will proceed independently of the bankruptcy.

Other DII Industries claims insurance. DII Industries has substantial insurance to cover other non-refractory asbestos claims. Two coverage-in-place agreements cover DII Industries for companies or operations that DII Industries either acquired or operated prior to November 1, 1957. Asbestos claims that are covered by these agreements are currently stayed by the Harbison-Walker bankruptcy because the majority of this coverage also applies to refractory claims and is shared with Harbison-Walker. Other insurance coverage is provided by a number of different policies that DII Industries acquired rights to access when it acquired businesses from other companies. Three coverage-in-place agreements provide reimbursement for asbestos claims made against DII Industries former Worthington Pump division. There is also other substantial insurance coverage with approximately $2.0 billion in aggregate limits that has not yet been reduced to coverage-in-place agreements.

On August 28, 2001, DII Industries filed a lawsuit in the 192nd Judicial District of the District Court for Dallas County, Texas against specific London-based insuring entities that issued insurance policies that provide coverage to DII Industries for asbestos-related liabilities arising out of the historical operations of Worthington Corporation or its successors. This lawsuit raises essentially the same issue as to the documentation requirements as the August 7, 2001 Harbison-Walker lawsuit filed in the same court. The London-based insuring entities filed a motion in that case seeking to compel the parties to binding arbitration. The trial court denied that motion and the London-based insuring entities appealed that decision to the state appellate court. The state appellate courts denied the appeal and, most recently, the London-based insuring entities have removed the case from the state court to the federal court. DII Industries was successful in remanding the case back to the state court.

A significant portion of the insurance coverage applicable to Worthington claims is alleged by Federal-Mogul Products, Inc. to be shared with it. In 2001, Federal-Mogul Products, Inc. and a large number of its affiliated companies filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court in Wilmington, Delaware.

In response to Federal-Mogul's allegations, on December 7, 2001, DII Industries filed a lawsuit in the Delaware Bankruptcy Court asserting its rights to insurance coverage under historic general liability policies issued to Studebaker-Worthington, Inc. and its successor for asbestos-related liabilities arising from, among other operations, Worthington's and its successors' historic operations. This lawsuit also seeks a judicial declaration concerning the competing rights of DII Industries and Federal-Mogul, if any, to this insurance coverage. DII Industries recently filed a second amended complaint in that lawsuit and the parties are now beginning the discovery process. The parties to this litigation, including Federal-Mogul, have agreed to mediate this dispute. The first mediation session is scheduled for April 2, 2003. Unlike the Harbison-Walker insurance coverage litigation, in which the litigation is stayed while the mediation proceeds, the insurance coverage litigation concerning the Worthington-related asbestos liabilities has not been stayed and such litigation will proceed simultaneously with the mediation.

At the same time, DII Industries filed its insurance coverage action in the Federal-Mogul bankruptcy, DII Industries also filed a second lawsuit in which it has filed a motion for preliminary injunction seeking a stay of all Worthington asbestos-related lawsuits against DII Industries that are scheduled for trial within the six months following the filing of the motion. The stay that DII Industries seeks, if granted, would remain in place until the competing rights of DII Industries and Federal-Mogul to the allegedly shared insurance are resolved. The Court has yet to schedule a hearing on DII Industries motion for preliminary injunction.

A number of insurers who have agreed to coverage-in-place agreements with DII Industries have suspended payment under the shared Worthington policies until the Federal-Mogul Bankruptcy Court resolves the insurance issues. Consequently, the effect of the Federal-Mogul bankruptcy on DII Industries rights to access this shared insurance is uncertain.

Construction claims insurance. Nearly all of our construction asbestos claims relate to Brown & Root, Inc. operations before the 1980s. Our primary insurance coverage for these claims was written by Highlands Insurance Company during the time it was one of our subsidiaries. Highlands was spun-off to our shareholders in 1996. On April 5, 2000, Highlands filed a lawsuit against us in the Delaware Chancery Court. Highlands asserted that the insurance it wrote for Brown & Root, Inc. that covered construction asbestos claims was terminated by agreements between Halliburton and Highlands at the time of the 1996 spin-off. In March 2001, the Chancery Court ruled that a termination did occur and that Highlands was not obligated to provide coverage for Brown & Root, Inc.'s asbestos claims. This decision was affirmed by the Delaware Supreme Court on March 13, 2002. As a result of this ruling, we wrote-off approximately $35 million in accounts receivable for amounts paid for claims and defense costs and $45 million of accrued receivables in relation to estimated insurance recoveries claims settlements from Highlands in the first quarter 2002. In addition, we dismissed the April 24, 2000 lawsuit we filed against Highlands in Harris County, Texas.

As noted in our 2001 Form 10-K, the amount of the billed insurance receivable related to Highlands Insurance Company included in accounts receivable was $35 million.

As a consequence of the Delaware Supreme Court's decision, Kellogg, Brown & Root no longer has primary insurance coverage from Highlands for asbestos claims. However, Kellogg, Brown & Root has significant excess insurance coverage. The amount of this excess coverage that will reimburse us for an asbestos claim depends on a variety of factors. On March 20, 2002, Kellogg, Brown & Root filed a lawsuit in the 172nd Judicial District of the District Court of Jefferson County, Texas, against Kellogg, Brown & Root's historic insurers that issued these excess insurance policies. In the lawsuit, Kellogg, Brown & Root seeks to establish the specific terms under which it can seek reimbursement for costs it incurs in settling and defending asbestos claims from its historic construction operations. On January 6, 2003, this lawsuit was transferred to the 11th Judicial District of the District Court of Harris County, Texas. Until this lawsuit is resolved, the scope of the excess insurance will remain uncertain. We do not expect the excess insurers will reimburse us for asbestos claims until this lawsuit is resolved.

Significant asbestos judgments on appeal. During 2001, there were several adverse judgments in trial court proceedings that are in various stages of the appeal process. All of these judgments concern asbestos claims involving Harbison-Walker refractory products. Each of these appeals, however, has been stayed by the Bankruptcy Court in the Harbison-Walker Chapter 11 bankruptcy.

On November 29, 2001, the Texas District Court in Orange, Texas, entered judgments against Dresser Industries, Inc. (now DII Industries) on a $65 million jury verdict rendered in September 2001 in favor of five plaintiffs. The $65 million amount includes $15 million of a $30 million judgment against DII Industries and another defendant. DII Industries is jointly and severally liable for $15 million in addition to $65 million if the other defendant does not pay its share of this judgment. Based upon what we believe to be controlling precedent, which would hold that the judgment entered is void, we believe that the likelihood of the judgment being affirmed in the face of DII Industries' appeal is remote. As a result, we have not accrued any amounts for this judgment. However, a favorable outcome from the appeal is not assured.

On November 29, 2001, the same District Court in Orange, Texas, entered three additional judgments against Dresser Industries, Inc. (now DII Industries) in the aggregate amount of $35.7 million in favor of 100 other asbestos plaintiffs. These judgments relate to an alleged breach of purported settlement agreements signed early in 2001 by a New Orleans lawyer hired by Harbison-Walker, which had been defending DII Industries pursuant to the agreement by which Harbison-Walker was spun-off by DII Industries in 1992. These settlement agreements expressly bind Harbison-Walker Refractories Company as the obligated party, not DII Industries, which is not a party to the agreements. For that reason, and based upon what we believe to be controlling precedent, which would hold that the judgment entered is void, we believe that the likelihood of the judgment being affirmed in the face of DII Industries' appeal is remote. As a result, we have not accrued any amounts for this judgment. However, a favorable outcome from the appeal is not assured.

On December 5, 2001, a jury in the Circuit Court for Baltimore County, Maryland, returned verdicts against Dresser Industries, Inc. (now DII Industries) and other defendants following a trial involving refractory asbestos claims. Each of the five plaintiffs alleges exposure to Harbison-Walker products. DII Industries portion of the verdicts was approximately $30 million, which we have fully accrued at December 31, 2002. DII Industries intends to appeal the judgment to the Maryland Supreme Court. While we believe we have a valid basis for appeal and intend to vigorously pursue our appeal, any favorable outcome from that appeal is not assured.

On October 25, 2001, in the Circuit Court of Holmes County, Mississippi, a jury verdict of $150 million was rendered in favor of six plaintiffs against Dresser Industries, Inc. (now DII Industries) and two other companies. DII Industries share of the verdict was $21.3 million which we have fully accrued at December 31, 2002. The award was for compensatory damages. The jury did not award any punitive damages. The trial court has entered judgment on the verdict. While we believe we have a valid basis for appeal and intend to vigorously pursue our appeal, any favorable outcome from that appeal is not assured.

Asbestos claims history. Since 1976, approximately 578,000 asbestos claims have been filed against us. Almost all of these claims have been made in separate lawsuits in which we are named as a defendant along with a number of other defendants, often exceeding 100 unaffiliated defendant companies in total. During the fourth quarter of 2002, we received approximately 32,000 new claims and we closed approximately 13,000 claims. The number of open claims pending against us is as follows:

Period Ending	Total Open Claims
December 31, 2002	347,000
September 30, 2002	328,000
June 30, 2002	312,000
March 31, 2002	292,000
December 31, 2001	274,000
September 30, 2001	146,000
June 30, 2001	145,000
March 31, 2001	129,000
December 31, 2000	117,000

The claims include approximately 142,000 at December 31, 2002 and September 30, 2002, 139,000 at June 30, 2002, 133,000 at March 31, 2002 and 125,000 at December 31, 2001 of post spin-off Harbison-Walker refractory related claims that name DII Industries as a defendant. All such claims have been factored into the calculation of our asbestos liability.

We manage asbestos claims to achieve settlements of valid claims for reasonable amounts. When reasonable settlement is not possible, we contest claims in court. Since 1976, we have closed approximately 231,000 claims through settlements and court proceedings at a total cost of approximately $202 million. We have received or expect to receive from our insurers all but approximately $93 million of this cost, resulting in an average net cost per closed claim of about $403.

Asbestos study and the valuation of unresolved current and future asbestos claims.

Asbestos Study. In late 2001, DII Industries retained Dr. Francine F. Rabinovitz of Hamilton, Rabinovitz & Alschuler, Inc. to estimate the probable number and value, including defense costs, of unresolved current and future asbestos and silica-related bodily injury claims asserted against DII Industries and its subsidiaries. Dr. Rabinovitz is a nationally renowned expert in conducting such analyses, has been involved in a number of asbestos-related and other toxic tort-related valuations of current and future liabilities, has served as the expert for three representatives of future claimants in asbestos related bankruptcies and has had her valuation methodologies accepted by numerous courts. Further, the methodology utilized by Dr. Rabinovitz is the same methodology that is utilized by the expert who is routinely retained by the asbestos claimants committee in asbestos-related bankruptcies. Dr. Rabinovitz estimated the probable number and value of unresolved current and future asbestos and silica-related bodily injury claims asserted against DII Industries and its subsidiaries over a 50 year period. The report took approximately seven months to complete.

Methodology. The methodology utilized by Dr. Rabinovitz to project DII Industries and its subsidiaries' asbestos-related liabilities and defense costs relied upon and included:

- an analysis of DII Industries, Kellogg, Brown & Root's and Harbison-Walker Refractories Company's historical asbestos settlements and defense costs to develop average settlement values and average defense costs for specific asbestos-related diseases and for the specific business operation or entity allegedly responsible for the asbestos-related diseases;
- an analysis of DII Industries, Kellogg, Brown & Root's and Harbison-Walker Refractories Company's pending inventory of asbestos-related claims by specific asbestos-related diseases and by the specific business operation or entity allegedly responsible for the asbestos-related disease;
- an analysis of the claims filing history for asbestos-related claims against DII Industries, Kellogg, Brown & Root and Harbison-Walker Refractories Company for the approximate two-year period from January 2000 to May 31, 2002, and for the approximate five-year period from January 1997 to May 31, 2002 by specific asbestos-related disease and by business operation or entity allegedly responsible for the asbestos-related disease;
- an analysis of the population likely to have been exposed or claim exposure to products manufactured by DII Industries, its predecessors and Harbison-Walker or to Brown & Root construction and renovation projects; and

- epidemiological studies to estimate the number of people who might allege exposure to products manufactured by DII Industries, its predecessors and Harbison-Walker or to Brown & Root construction and renovation projects that would be likely to develop asbestos-related diseases. Dr. Rabinovitz's estimates are based on historical data supplied by DII Industries, Kellogg, Brown & Root and Harbison-Walker and publicly available studies, including annual surveys by the National Institutes of Health concerning the incidence of mesothelioma deaths.

In her estimates, Dr. Rabinovitz relied on the source data provided by our management; she did not independently verify the accuracy of the source data. The source data provided by us was based on our 24-year history in gathering claimant information and defending and settling asbestos claims.

In her analysis, Dr. Rabinovitz projected that the elevated and historically unprecedented rate of claim filings of the last several years (particularly in 2000 and 2001), especially as expressed by the ratio of nonmalignant claim filings to malignant claim filings, would continue into the future for five more years. After that, Dr. Rabinovitz projected that the ratio of nonmalignant claim filings to malignant claim filings will gradually decrease for a 10 year period ultimately returning to the historical claiming rate and claiming ratio. In making her calculation, Dr. Rabinovitz alternatively assumed a somewhat lower rate of claim filings, based on an average of the last five years of claims experience, would continue into the future for five more years and decrease thereafter.

Other important assumptions utilized in Dr. Rabinovitz's estimates, which we relied upon in making our accrual are:

- there will be no legislative or other systemic changes to the tort system;
- that we will continue to aggressively defend against asbestos claims made against us;
- an inflation rate of 3% annually for settlement payments and an inflation rate of 4% annually for defense costs; and
- we would receive no relief from our asbestos obligation due to actions taken in the Harbison-Walker bankruptcy.

Range of Liabilities. Based upon her analysis, Dr. Rabinovitz estimated total, undiscounted asbestos and silica liabilities, including defense costs, of DII Industries, Kellogg, Brown & Root and some of their current and former subsidiaries. Through 2052, Dr. Rabinovitz estimated the current and future total undiscounted liability for personal injury asbestos and silica claims, including defense costs, would be a range between $2.2 billion and $3.5 billion as of June 30, 2002 (which includes payments related to the claims currently pending). The lower end of the range is calculated by using an average of the last five years of asbestos claims experience and the upper end of the range is calculated using the more recent two-year elevated rate of asbestos claim filings in projecting the rate of future claims.

2nd Quarter 2002 Accrual. Based on that estimate, in the second quarter of 2002, we accrued asbestos and silica claims liability and defense costs for both known outstanding and future refractory, other DII Industries, and construction asbestos and silica claims using the low end of the range of Dr. Rabinovitz's study, or approximately $2.2 billion. In establishing our liability for asbestos, we included all post spin-off claims against Harbison-Walker that name DII Industries as a defendant. Our accruals are based on an estimate of personal injury asbestos claims through 2052 based on the average claims experience of the last five years. At the end of the second quarter of 2002, we did not believe that any point in the expert's range was better than any other point, and accordingly, based our accrual on the low end of the range in accordance with FIN 14.

Agreement Regarding Proposed Global Settlement. In December 2002, we announced that we had reached an agreement in principle that could result in a global settlement of all personal injury asbestos and silica claims against us. The proposed settlement provides that up to $2.775 billion in cash, 59.5 million shares of our common stock (with a value of $1.1 billion using the stock price at December 31, 2002 of $18.71) and notes with a net present value expected to be less than $100 million would be paid to a trust for the benefit of current and future asbestos personal injury claimants and current silica personal injury claimants. Under the proposed agreement, Kellogg, Brown & Root and DII Industries will retain the rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3.0 billion going to the trust. The proposed settlement will be implemented through a pre-packaged Chapter 11 filing of DII Industries and Kellogg, Brown & Root as well as some other DII Industries and Kellogg, Brown & Root subsidiaries with U.S. operations. The funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganization of DII Industries and Kellogg, Brown & Root and their subsidiaries in the Chapter 11 proceeding.

Subsequently, as of March 2003, DII Industries and Kellogg, Brown & Root have entered into definitive written agreements finalizing the terms of the agreement in principle. The proposed global settlement also includes silica claims as a result of current or past exposure. These silica claims are less than 1% of the personal injury claims included in the proposed global settlement. We have approximately 2,500 open silica claims.

The agreement contemplated that we would conduct due diligence on the asbestos claims, and that we and attorneys for the claimants would use reasonable efforts to execute definitive settlement agreements. While all the required settlement agreements have not yet been executed, we and attorneys for some of the asbestos claimants have now reached agreement on what they believe will be a template for such settlement agreements. These agreements are subject to a number of conditions, including agreement on a Chapter 11 plan of reorganization for DII Industries, Kellogg, Brown & Root and some of their subsidiaries, approval by 75% of current asbestos claimants to the plan of reorganization, the negotiation of financing acceptable to us, approval by Halliburton's Board of Directors, and confirmation of the plan of reorganization by a bankruptcy court. The template settlement agreement also grants the claimants' attorneys a right to terminate the definitive settlement agreement on ten days' notice if Halliburton's DII Industries subsidiary does not file a plan of reorganization under the bankruptcy code on or before April 1, 2003.

We are conducting due diligence on the asbestos claims, which is not expected to be completed by April 1, 2003. Therefore, we do not expect DII Industries, Kellogg, Brown & Root and some of their subsidiaries to file a plan of reorganization prior to April 1. Although there can be no assurances, we do not believe the claimants' attorneys will terminate the settlement agreements on April 1, 2003 as long as adequate progress is being made toward a Chapter 11 filing. In March 2003, we agreed with Harbison-Walker and the asbestos creditors committee in the Harbison-Walker bankruptcy to consensually extend the period of the stay contained in the Bankruptcy Court's temporary restraining order until July 21, 2003. The court's temporary restraining order, which was originally entered on February 14, 2002, stays more than 200,000 pending asbestos claims against DII Industries. The agreement provides that if the pre-packaged Chapter 11 filing by DII Industries, Kellogg, Brown & Root and their subsidiaries is not made by July 14, 2003, the Bankruptcy Court will hear motions to lift the stay on July 21, 2003. The asbestos creditors committee also reserves the right to monitor progress toward the filing of the Chapter 11 proceeding and seek an earlier hearing to lift the stay if satisfactory progress toward the Chapter 11 filing is not being made.

Review of Accruals. As a result of the proposed settlement, in the fourth quarter of 2002, we re-evaluated our accruals for known outstanding and future asbestos claims. Although we have reached an agreement in principle with respect to a proposed settlement, we do not believe the settlement is "probable" under SFAS No. 5 at the current time. Among the prerequisites to reaching a conclusion of the settlement are:

- agreement on the amounts to be contributed to the trust for the benefit of silica claimants;
- our review of the more than 347,000 current claims to establish that the claimed injuries are based on exposure to products of DII Industries, Kellogg, Brown & Root, their subsidiaries or former businesses or subsidiaries;
- completion of our medical review of the injuries alleged to have been sustained by plaintiffs to establish a medical basis for payment of settlement amounts;
- finalizing the principal amount of the notes to be contributed to the trust;
- agreement with a proposed representative of future claimants and attorneys representing current claimants on procedures for distribution of settlement funds to individuals claiming personal injury;
- definitive agreement with the attorneys representing current asbestos claimants and a proposed representative of future claimants on a plan of reorganization for the Chapter 11 filings of DII Industries, Kellogg, Brown & Root and some of their subsidiaries; and agreement with the attorneys representing current asbestos claimants with respect to, and completion and mailing of, a disclosure statement explaining the pre-packaged plan of reorganization to the more than 347,000 current claimants;
- arrangement of financing on terms acceptable to us to fund the cash amounts to be paid in the settlement;

- Halliburton board approval;
- obtaining affirmative votes to the plan of reorganization from at least the required 75% of known present asbestos claimants and from a requisite number of silica claimants needed to complete the plan of reorganization; and
- obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization.

Because we do not believe the settlement is currently probable as defined by Statement of Financial Standards No. 5, we have continued to establish our accruals in accordance with the analysis performed by Dr. Rabinovitz. However, as a result of the settlement and the payment amounts contemplated thereby, we believed it appropriate to adjust our accrual to use the upper end of the range of probable and reasonably estimable liabilities for current and future asbestos liabilities contained in Dr. Rabinovitz's study, which estimated liabilities through 2052 and assumed the more recent two-year elevated rate of claim filings in projecting the rate of future claims.

As a result, in the fourth quarter of 2002, we have determined that the best estimate of the probable loss is the $3.5 billion estimate in Dr. Rabinovitz's study, and accordingly, we have increased our accrual for probable and reasonably estimable liabilities for current and future asbestos and silica claims to $3.4 billion.

Insurance. In 2002, we retained Peterson Consulting, a nationally-recognized consultant in asbestos liability and insurance, to work with us to project the amount of insurance recoveries probable in light of the projected current and future liabilities accrued by us. Using Dr. Rabinovitz's projection of liabilities through 2052 using the two-year elevated rate of asbestos claim filings, Peterson Consulting assisted us in conducting an analysis to determine the amount of insurance that we estimate is probable that we will recover in relation to the projected claims and defense costs. In conducting this analysis, Peterson Consulting:

- reviewed DII Industries historical course of dealings with its insurance companies concerning the payment of asbestos-related claims, including DII Industries 15 year litigation and settlement history;
- reviewed our insurance coverage policy database containing information on key policy terms as provided by outside counsel;
- reviewed the terms of DII Industries prior and current coverage-in-place settlement agreements;
- reviewed the status of DII Industries and Kellogg, Brown & Root's current insurance-related lawsuits and the various legal positions of the parties in those lawsuits in relation to the developed and developing case law and the historic positions taken by insurers in the earlier filed and settled lawsuits;
- engaged in discussions with our counsel; and
- analyzed publicly-available information concerning the ability of the DII Industries insurers to meet their obligations.

Based on that review, analyses and discussions, Peterson Consulting assisted us in making judgments concerning insurance coverage that we believe are reasonable and consistent with our historical course of dealings with our insurers and the relevant case law to determine the probable insurance recoveries for asbestos liabilities. This analysis factored in the probable effects of self-insurance features, such as self-insured retentions, policy exclusions, liability caps and the financial status of applicable insurers, and various judicial determinations relevant to the applicable insurance programs. The analysis of Peterson Consulting is based on its best judgment and information provided by us.

Probable Insurance Recoveries. Based on this analysis of the probable insurance recoveries, in the second quarter of 2002, we recorded a receivable of $1.6 billion for probable insurance recoveries.

In connection with our adjustment of our accrual for asbestos liability and defense costs in the fourth quarter of 2002, Peterson Consulting assisted us in re-evaluating our receivable for insurance recoveries deemed probable through 2052, assuming $3.5 billion of liabilities for current and future asbestos claims using the same factors cited above through that date. Based on Peterson Consulting analysis of the probable insurance recoveries, we increased our insurance receivable to $2.1 billion as of the fourth quarter of 2002. The insurance receivable recorded by us does not assume any recovery from insolvent carriers and assumes that those carriers which are currently solvent will continue to be solvent throughout the period of the applicable recoveries in the projections. However, there can be no assurance that these assumptions will be correct. These insurance receivables do not exhaust the applicable insurance coverage for asbestos-related liabilities.

Current Accruals. The current accrual of $3.4 billion for probable and reasonably estimable liabilities for current and future asbestos and silica claims and the $2.1 billion in insurance receivables are included in noncurrent assets and liabilities due to the extended time periods involved to settle claims. In the second quarter of 2002, we recorded a pretax charge of $483 million, and, in the fourth quarter of 2002, we recorded a pretax charge of $799 million ($675 million after-tax).

In the fourth quarter of 2002, we recorded pretax charges of $232 million ($212 million after-tax) for claims related to Brown & Root construction and renovation projects under the Engineering and Construction Group segment. The balance of $567 million ($463 million after-tax) related to claims associated with businesses no longer owned by us and was recorded as discontinued operations. The low effective tax rate on the asbestos charge is due to the recording of a valuation allowance against the United States Federal deferred tax asset associated with the accrual as the deferred tax asset may not be fully realizable based upon future taxable income projections.

The total estimated claims through 2052, including the 347,000 current open claims, are approximately one million. A summary of our accrual for all claims and corresponding insurance recoveries is as follows:

		December 31	
Millions of dollars		2002	2001
Gross liability	- beginning balance	$ 737	$ 80
Accrued liability		2,820	696
Payments on claims		(132)	(39)
Gross liability	- ending balance	$ 3,425	$ 737
Estimated insurance recoveries:			
Highlands Insurance Company - beginning balance		$ (45)	$ (39)
Accrued insurance recoveries		-	(18)
Write-off of recoveries		45	-
Insurance billings		-	12
Highlands Insurance Company - ending balance		-	$ (45)
Other insurance carriers - beginning balance		$ (567)	$ (12)
Accrued insurance recoveries		(1,530)	(563)
Insurance billings		38	8
Other insurance carriers - ending balance		$(2,059)	$ (567)
Total estimated insurance recoveries		$(2,059)	$ (612)
Net liability for known asbestos claims		$ 1,366	$ 125

Accounts receivable for billings to insurance companies for payments made on asbestos claims were $44 million at December 31, 2002, and $18 million at December 31, 200l, excluding $35 million in accounts receivable written off at the conclusion of the Highlands litigation.

Possible Additional Accruals. When and if the currently proposed global settlement becomes probable under SFAS No. 5, we would increase our accrual for probable and reasonably estimable liabilities for current and future asbestos claims up to $4.0 billion, reflecting the amount in cash and notes we would pay to fund the settlement combined with the value of 59.5 million shares of Halliburton common stock using $18.71, which was trading value of the stock at the end of the fourth quarter of 2002. In addition, at such time as the settlement becomes probable, we would adjust our accrual for liabilities for current and future asbestos claims and we would expect to increase the amount of our insurance receivables to $2.3 billion. As a result, we would record at such time an additional pretax charge of $322 million ($288 million after-tax). Beginning in the first quarter in which the settlement becomes probable, the accrual would then be adjusted from period to period based on positive and negative changes in the market price of our common stock until the payment of the shares into the trust.

Continuing Review. Projecting future events is subject to many uncertainties that could cause the asbestos-related liabilities and insurance recoveries to be higher or lower than those projected and booked such as:

- the number of future asbestos-related lawsuits to be filed against DII Industries and Kellogg, Brown & Root;

- the average cost to resolve such future lawsuits;
- coverage issues among layers of insurers issuing different policies to different policyholders over extended periods of time;
- the impact on the amount of insurance recoverable in light of the Harbison-Walker and Federal-Mogul bankruptcies; and
- the continuing solvency of various insurance companies.

Given the inherent uncertainty in making future projections, we plan to have the projections of current and future asbestos and silica claims periodically reexamined, and we will update them if needed based on our experience and other relevant factors such as changes in the tort system, the resolution of the bankruptcies of various asbestos defendants and the probability of our settlement of all claims becoming effective. Similarly, we will re-evaluate our projections concerning our probable insurance recoveries in light of any updates to Dr. Rabinovitz's projections, developments in DII Industries and Kellogg, Brown & Root's various lawsuits against its insurance companies and other developments that may impact the probable insurance.

Barracuda-Caratinga Project. In June 2000, KBR entered into a contract with the project owner, Barracuda & Caratinga Leasing Company B.V., to develop the Barracuda and Caratinga crude oil fields, which are located off the coast of Brazil. The project manager and owner representative is Petrobras, the Brazilian national oil company. When completed, the project will consist of two converted supertankers which will be used as floating production, storage and offloading platforms, or FPSO's, 33 hydrocarbon production wells, 18 water injection wells, and all sub-sea flow lines and risers necessary to connect the underwater wells to the FPSO's.

KBR's performance under the contract is secured by:

- two performance letters of credit, which together have an available credit of approximately $261 million and which represent approximately 10% of the contract amount, as amended to date by change orders;
- a retainage letter of credit in an amount equal to $121 million as of December 31, 2002 and which will increase in order to continue to represent 10% of the cumulative cash amounts paid to KBR; and
- a guarantee of KBR's performance of the agreement by Halliburton Company in favor of the project owner.

The project owner has procured project finance funding obligations from various banks to finance the payments due to KBR under the contract.

As of December 31, 2002, the project was approximately 63% complete and KBR had recorded a loss of $117 million related to the project. The probable unapproved claims included in determining the loss on the project were $182 million as of December 31, 2002. The claims for the project most likely will not be settled within one year. Accordingly, probable unapproved claims of $115 million at December 31, 2002 have been recorded to long-term unbilled work on uncompleted contracts. Those amounts are included in "Other assets" on the balance sheet. KBR has asserted claims for compensation substantially in excess of $182 million. The project owner, through its project manager, Petrobras, has denied responsibility for all such claims. Petrobras has, however, agreed in principle to the scope, but not yet the amount, of issues valued by KBR of approximately $29 million which are not related to the $182 million in probable unapproved claims. Additionally we are in discussion with Petrobras about responsibility for $78 million of new tax costs that were not foreseen in the contract price.

KBR expects the project will likely be completed more than 12 months later than the original contract completion date. KBR believes that the project's delay is due primarily to the actions of Petrobras. In the event that any portion of the delay is determined to be attributable to KBR and any phase of the project is completed after the milestone dates specified in the contract, KBR could be required to pay liquidated damages. These damages would be calculated on an escalating basis of up to $1 million per day of delay caused by KBR subject to a total cap on liquidated damages of 10% of the final contract amount (yielding a cap of approximately $263 million as of December 31, 2002). We are in discussions with Petrobras regarding a settlement of the amount of unapproved claims. There can be no assurance that we will reach any settlement regarding these claims. We expect any settlement, if reached, will result in a schedule extension that would eliminate liability for liquidated damages based on the currently forecasted schedule. We have not accrued any amounts for liquidated damages, since we consider the imposition of liquidated damages to be unlikely.

The project owner currently has no other committed source of funding on which we can necessarily rely other than the project finance funding for the project. If the banks cease to fund the project, the project owner may not have the ability to continue to pay KBR for its services. The original bank documents provide that the banks are not obligated to continue to fund the project if the project has been delayed for more than 6 months. In November 2002, the banks agreed to extend the 6-month period to 12 months. Other provisions in the bank documents may provide for additional time extensions. However, delays beyond 12 months may require bank consent in order to obtain additional funding. While we believe the banks have an incentive to complete the financing of the project, there is no assurance that they would do so. If the banks did not consent to extensions of time or otherwise ceased funding the project, we believe that Petrobras would provide for or secure other funding to complete the project, although there is no assurance that it would do so. To date, the banks have made funds available, and the project owner has continued to disburse funds to KBR as payment for its work on the project even though the project completion has been delayed. In the event that KBR is alleged to be in default under the contract, the project owner may assert a right to draw upon the letters of credit. If the letters of credit were drawn, KBR would be required to fund the amount of the draw to the issuing bank. In the event that KBR was determined after an arbitration proceeding to have been in default under the contract, and if the project was not completed by KBR as a result of such default (i.e., KBR's services are terminated as a result of such default), the project owner may seek direct damages (including completion costs in excess of the contract price and interest on borrowed funds, but excluding consequential damages) against KBR for up to $500 million plus the return of up to $300 million in advance payments that would otherwise have been credited back to the project owner had the contract not been terminated.

In addition, although the project financing includes borrowing capacity in excess of the original contract amount, only $250 million of this additional borrowing capacity is reserved for increases in the contract amount payable to KBR and its subcontractors other than Petrobras. Because our claims, together with change orders that are currently under negotiation, exceed this amount, we cannot give assurance that there is adequate funding to cover current or future KBR claims. Unless the project owner provides additional funding or permits us to defer repayment of the $300 million advance, and assuming the project owner does not allege default on our part, we may be obligated to fund operating cash flow shortages over the remaining project life in an amount we currently estimate to be up to approximately $400 million.

The possible Chapter 11 pre-packaged bankruptcy filing by KBR in connection with the settlement of its asbestos claims would constitute an event of default under the loan documents with the banks unless waivers are obtained. KBR believes that it is unlikely that the banks will exercise any right to cease funding given the current status of the project and the fact that a failure to pay KBR may allow KBR to cease work on the project without Petrobras having a readily available substitute contractor.

KBR and Petrobras are currently attempting to resolve any disputes through ongoing negotiations between the parties and each has appointed a high-level team for this purpose.

Securities and Exchange Commission ("SEC") Investigation and Fortune 500 Review. In late May 2002, we received a letter from the Fort Worth District Office of the Securities and Exchange Commission stating that it was initiating a preliminary inquiry into some of our accounting practices. In mid-December 2002, we were notified by the SEC that a formal order of investigation had been issued. Since that time, the SEC has issued subpoenas calling for the production of documents and requiring the appearance of a number of witnesses to testify regarding those accounting practices, which relate to the recording of revenues associated with cost overruns and unapproved claims on long-term engineering and construction projects. Throughout the informal inquiry and during the pendency of the formal investigation, we have provided approximately 300,000 documents to the SEC. The production of documents is essentially complete and the process of providing witnesses to testify is ongoing. To our knowledge, the SEC's investigation has focused on the compliance with generally accepted accounting principles of our recording of revenues associated with cost overruns and unapproved claims for long-term engineering and construction projects, and the disclosure of our accrual practice. Accrual of revenue from unapproved claims is an accepted and widely followed accounting practice for companies in the engineering and construction business. Although we accrued revenue related to unapproved claims in 1998, we first made disclosures regarding the accruals in our 1999 Annual Report on Form 10-K. We believe we properly applied the required methodology of the American Institute of Certified Public Accountants' Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and satisfied the relevant criteria for accruing this revenue, although the SEC may conclude otherwise.

On December 21, 2001, the SEC's Division of Corporation Finance announced that it would review the annual reports of all Fortune 500 companies that file periodic reports with the SEC. We received the SEC's initial comments in letter form dated September 20, 2002 and responded on October 31, 2002. Since then, we have received and responded to three follow-up sets of comments, most recently in March 2003.

Securities and related litigation. On June 3, 2002, a class action lawsuit was filed against us in the United States District Court for the Northern District of Texas on behalf of purchasers of our common stock alleging violations of the federal securities laws. After that date, approximately twenty similar class actions were filed against us in that or other federal district courts. Several of those lawsuits also named as defendants Arthur Andersen, LLP ("Arthur Andersen"), our independent accountants for the period covered by the lawsuit, and several of our present or former officers and directors. Those lawsuits allege that we violated federal securities laws in failing to disclose a change in the manner in which we accounted for revenues associated with unapproved claims on long-term engineering and construction contracts, and that we overstated revenue by accruing the unapproved claims. One such action was subsequently dismissed voluntarily, without prejudice, upon motion by the filing plaintiff. The federal securities fraud class actions have all been transferred to the U.S. District Court for the Northern District of Texas and consolidated before the Honorable Judge David Godbey. The amended consolidated class action complaint in that case, styled Richard Moore v. Halliburton, was scheduled to be filed in February 2003, but that date has been extended by agreement of the parties. It is unclear as of this time when the amended consolidated class action complaint will be filed. However, we believe that we have meritorious defenses to the claims and intend to vigorously defend against them.

Another case, also filed in the United States District Court for the Northern District of Texas on behalf of three individuals, and based upon the same revenue recognition practices and accounting treatment that is the subject of the securities class actions, alleges only common law and statutory fraud in violation of Texas state law. We moved to dismiss that action on October 24, 2002, as required by the court's scheduling order, on the bases of lack of federal subject matter jurisdiction and failure to plead with that degree of particularity required by the rules of procedure. That motion has now been fully briefed and is before the court awaiting ruling.

In addition to the securities class actions, one additional class action, alleging violations of ERISA in connection with the Company's Benefits Committee's purchase of our stock for the accounts of participants in our 401 (k) retirement plan during the period we allegedly knew or should have known that our revenue was overstated as a result of the accrual of revenue in connection with unapproved claims, was filed and subsequently voluntarily dismissed.

Finally, on October 11, 2002, a shareholder derivative action against present and former directors and our former CFO was filed alleging breach of fiduciary duty and corporate waste arising out of the same events and circumstances upon which the securities class actions are based. We have moved to dismiss that action and a hearing on that motion has taken place in March 2003. We believe the action is without merit and we intend to vigorously defend it.

BJ Services Company patent litigation. On April 12, 2002, a federal court jury in Houston, Texas, returned a verdict against Halliburton Energy Services, Inc. in a patent infringement lawsuit brought by BJ Services Company, or BJ. The lawsuit alleged that our Phoenix fracturing fluid infringed a patent issued to BJ in January 2000 for a method of well fracturing using a specific fracturing fluid. The jury awarded BJ approximately $98 million in damages, plus pre-judgment interest, which was less than one-quarter of BJ's claim at the beginning of the trial. A total of $102 million was accrued in the first quarter, which was comprised of the $98 million judgment and $4 million in pre-judgment interest costs. The jury also found that there was no intentional infringement by Halliburton Energy Services. As a result of the jury's determination of infringement, the court has enjoined us from further use of our Phoenix fracturing fluid. We have posted a supersedeas bond in the amount of approximately $107 million to cover the damage award, pre-judgment and post-judgment interest, and awardable costs. We timely appealed the judgment and the appeal has now been fully briefed and we are awaiting notice of a date of hearing before the United States Court of Appeals for the Federal Circuit, which hears all appeals of patent cases. While we believe we have a valid basis for appeal and intend to vigorously pursue our appeal, any favorable outcome from that appeal is not assured. We have alternative products to use in our fracturing operations, and do not expect the loss of the use of the Phoenix fracturing fluid to have a material adverse impact on our overall energy services business.

Anglo-Dutch (Tenge). We have been sued in the District Court of Harris County, Texas by Anglo-Dutch (Tenge) L.L.C. and Anglo-Dutch Petroleum International, Inc. for allegedly breaching a confidentiality agreement related to an investment opportunity we considered in the late 1990s in an oil field in the former Soviet republic of Kazakhstan. While we believe the claims raised in that lawsuit are without merit and are vigorously defending against them, the plaintiffs have announced their intention to seek approximately $680 million in damages. We have moved for summary judgment and a hearing on that motion was held on March 12, 2003. The court's ruling on this motion is still pending. Trial is set for April 21, 2003.

Improper payments reported to the Securities and Exchange Commission. We have reported to the SEC that one of our foreign subsidiaries operating in Nigeria made improper payments of approximately $2.4 million to an entity owned by a Nigerian national who held himself out as a tax consultant when in fact he was an employee of a local tax authority. The payments were made to obtain favorable tax treatment and clearly violated our Code of Business Conduct and our internal control procedures. The payments were discovered during an audit of the foreign subsidiary. We have conducted an investigation assisted by outside legal counsel. Based on the findings of the investigation we have terminated several employees. None of our senior officers were involved. We are cooperating with the SEC in its review of the matter. We plan to take further action to ensure that our foreign subsidiary pays all taxes owed in Nigeria, which may be as much as an additional $3 million, which amount was fully accrued as of March 31, 2002. The integrity of our Code of Business Conduct and our internal control procedures are essential to the way we conduct business.

Environmental. We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act and the Toxic Substances Control Act, among others. In addition to the federal laws and regulations, states where we do business may have equivalent laws and regulations by which we must also abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. On occasion, we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. Our accrued liabilities for environmental matters were $48 million as of December 31, 2002 and $49 million as of December 31, 2001. The liability covers numerous properties and no individual property accounts for more than 10% of the current liability balance. In some instances, we have been named a potentially responsible party by a regulatory agency, but in each of those cases, we do not believe we have any material liability. We have subsidiaries that have been named as potentially responsible parties along with other third parties for ten federal and state superfund sites for which we have established liabilities. As of December 31, 2002, those ten sites accounted for $8 million of our total $48 million liability.

Letters of credit. In the normal course of business, we have agreements with banks under which approximately $1.4 billion of letters of credit or bank guarantees were issued, including $204 million which relate to our joint ventures' operations. Effective October 9, 2002, we amended an agreement with banks under which $261 million of letters of credit have been issued. The amended agreement removes the provision that previously allowed the banks to require collateralization if ratings of Halliburton debt fell below investment grade ratings. The revised agreements include provisions that require us to maintain ratios of debt to total capital and of total earnings before interest, taxes, depreciation and amortization to interest expense. The definition of debt includes our asbestos liability. The definition of total earnings before interest, taxes, depreciation and amortization excludes any non-cash charges related to the proposed global asbestos settlement through December 31, 2003.

If our debt ratings fall below investment grade, we would be in technical breach of a bank agreement covering another $160 million of letters of credit at December 31, 2002, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $121 million has been issued, includes provisions that allow the bank to require cash collateralization for the full line if debt ratings of either rating agency fall below the rating of BBB by Standard & Poor's or Baa2 by Moody's Investors' Services. These letters of credit and bank guarantees generally relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance.

In the past, no significant claims have been made against letters of credit we have issued. We do not anticipate material losses to occur as a result of these financial instruments.

Liquidated damages. Many of our engineering and construction contracts have milestone due dates that must be met or we may be subject to penalties for liquidated damages if claims are asserted and we were responsible for the delays. These generally relate to specified activities within a project by a set contractual date or achievement of a specified level of output or throughput of a plant we construct. Each contract defines the conditions under which a customer may make a claim for liquidated damages. In most instances, liquidated damages are never asserted by the customer but the potential to do so is used in negotiating claims and closing out the contract. We had not accrued a liability for $364 million at December 31, 2002 and $97 million at December 31, 2001 of possible liquidated damages as we consider the imposition of liquidated damages to be unlikely. We believe we have valid claims for schedule extensions against the customers which would eliminate any liability for liquidated damages. Of the total liquidated damages, $263 million at December 31, 2002 and $77 million at December 31, 2001 relate to unasserted liquidated damages for the Barracuda-Caratinga project. The estimated schedule impact of change orders requested by the customer is expected to cover approximately one-half of the $263 million exposure at December 31, 2002 and claims for schedule extension are expected to cover the remaining exposure.

Other. We are a party to various other legal proceedings. We expense the cost of legal fees related to these proceedings as incurred. We believe any liabilities we may have arising from these proceedings will not be material to our consolidated financial position or results of operations.

Note 13. Income (Loss) Per Share

Millions of dollars and shares except per share data	2002	2001	2000
Income (loss) from continuing operations before change in accounting method, net	$ (346)	$ 551	$ 188
Basic weighted average shares	432	428	442
Effect of common stock equivalents	-	2	4
Diluted weighted average shares	432	430	446
Income (loss) per common share from continuing operations before change in accounting method, net:			
Basic	$ (0.80)	$ 1.29	$ 0.42
Diluted	$ (0.80)	$ 1.28	$ 0.42

Basic income (loss) per share is based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. For 2002, we have used the basic weighted average shares in the calculation as the effect of the common stock equivalents would be antidilutive based upon the net loss from continuing operations. Included in the computation of diluted income per share in 2001 and 2000 are rights we issued in connection with the PES acquisition for between 850,000 and 2.1 million shares of Halliburton common stock. Excluded from the computation of diluted income per share are options to purchase 10 million shares of common stock in 2001 and 1 million shares in 2000. These options were outstanding during these years, but were excluded because the option exercise price was greater than the average market price of the common shares.

Note 14. Reorganization of Business Operations

On March 18, 2002 we announced plans to restructure our businesses into two operating subsidiary groups, the Energy Services Group and the Engineering and Construction Group. As part of this reorganization, we separated and consolidated the entities in our Energy Services Group together as direct and indirect subsidiaries of Halliburton Energy Services, Inc. We also separated and consolidated the entities in our Engineering and Construction Group together as direct and indirect subsidiaries of the former Dresser Industries, Inc., which became a limited liability company during the second quarter of 2002 and was renamed DII Industries. The reorganization of business operations facilitated the separation, organizationally, financially, and operationally, of our two business segments, which we believe will significantly improve operating efficiencies in both, while streamlining management and easing manpower requirements. In addition, many support functions, which were previously shared, were moved into the two business groups. As a result, we took actions during 2002 to reduce our cost structure by reducing personnel, moving previously shared support functions into the two business groups and realigning ownership of international subsidiaries by group.

In 2002, we incurred costs related to the restructuring of approximately $107 million which consisted of the following:

- $64 million in personnel related expense;
- $17 million of asset related write-downs;
- $20 million in professional fees related to the restructuring; and
- $6 million related to contract terminations.

Of this amount, $8 million remains in accruals for severance arrangements and approximately $2 million for other items. We expect these remaining payments will be made during 2003.

Although we have no specific plans currently, the reorganization would facilitate separation of the ownership of the two businesses in the future if we identify an opportunity that produces greater value for our shareholders than continuing to own both businesses.

In the fourth quarter of 2000 we approved a plan to reorganize our engineering and construction businesses into one business unit. This restructuring was undertaken because our engineering and construction businesses continued to experience delays in customer commitments for new upstream and downstream projects. With the exception of deepwater projects, short-term prospects for increased engineering and construction activities in either the upstream or downstream businesses were not positive. As a result of the reorganization of the engineering and construction businesses, we took actions to rationalize our operating structure including write-offs of equipment and licenses of $10 million, engineering reference designs of $4 million, capitalized software of $6 million, and recorded severance costs of $16 million. Of these charges, $30 million was reflected under the captions Cost of services and $6 million as General and administrative in our 2000 consolidated statements of income. Severance and related costs of $16 million were for the reduction of approximately 30 senior management positions. In January 2002, the last of the personnel actions was completed and we have no remaining accruals related to the 2000 restructuring.

Note 15. Change in Accounting Method

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." Effective January 1, 2002, goodwill is no longer amortized but is tested for impairment as set forth in the statement. We now perform our goodwill impairment test for each of our reporting units in accordance with SFAS No. 142 and those tests indicate that none of the goodwill we currently have recorded is impaired. Amortization of goodwill for 2001 totaled $42 million pretax and $38 million after-tax.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" which requires the purchase method of accounting for business combination transactions initiated after June 30, 2001. The statement requires that goodwill recorded on acquisitions completed prior to July 1, 2001 be amortized through December 31, 2001. Goodwill amortization is precluded on acquisitions completed after June 30, 2001. We ceased amortization of goodwill on December 31, 2001.

Note 16. Income Taxes

The components of the (provision) benefit for income taxes are:

Millions of dollars	2002	2001	2000
	Years ended December 31		
Current income taxes:			
Federal	$ 71	$ (146)	$ (16)
Foreign	(173)	(157)	(114)
State	4	(20)	(5)
Total	(98)	(323)	(135)
Deferred income taxes:			
Federal	(11)	(58)	(20)
Foreign and state	29	(3)	26
Total	18	(61)	6
Total continuing operations	$ (80)	$ (384)	$ (129)
Discontinued operations:			
Current income taxes	21	(15)	(60)
Deferred income taxes	133	35	-
Disposal of discontinued operations	-	(199)	(141)
Total	$ 74	$ (563)	$ (330)

Included in the current (provision) benefit for income taxes are foreign tax credits of $89 million in 2002, $106 million in 2001 and $113 million in 2000. The United States and foreign components of income before income taxes, minority interests, discontinued operations, and change in accounting method are as follows:

Millions of dollars	2002	2001	2000
	Years ended December 31		
United States	$ (537)	$ 565	$ 128
Foreign	309	389	207
Total	$ (228)	$ 954	$ 335

The primary components of our deferred tax assets and liabilities and the related valuation allowances, including federal deferred tax assets of discontinued operations are as follows:

Millions of dollars	December 31 2002	2001
Gross deferred tax assets:		
Employee compensation and benefits	$ 282	$ 214
Capitalized research and experimentation	75	46
Accrued liabilities	102	121
Insurance accruals	78	82
Construction contract accounting methods	114	100
Inventory	46	53
Asbestos and silica related liabilities	1,201	258
Intercompany profit	32	54
Net operating loss carryforwards	81	44
Foreign tax credit carryforward	49	-
AMT credit carryforward	5	-
Intangibles	6	18
Allowance for bad debt	40	36
Other	23	41
Total	$ 2,134	$ 1,067
Gross deferred tax liabilities:		
Insurance for asbestos and silica related liabilities	$ 724	$ 214
Depreciation and amortization	188	106
Nonrepatriated foreign earnings	36	36
All other	13	101
Total	$ 961	$ 457
Valuation allowances:		
Net operating loss carryforwards	$ 77	$ 38
Future tax attributes related to asbestos litigation	233	-
Foreign tax credit limitation	49	-
All other	7	8
Total	366	46
Net deferred income tax asset	$ 807	$ 564

We have $158 million of net operating loss carryforwards that expire from 2003 through 2011 and net operating loss carryforwards of $71 million with indefinite expiration dates. The federal alternative minimum tax credits are available to reduce future U.S. federal income taxes on an indefinite basis.

We have accrued for the potential repatriation of undistributed earnings of our foreign subsidiaries and consider earnings above the amounts on which tax has been provided to be permanently reinvested. While these additional earnings could become subject to additional tax if repatriated, repatriation is not anticipated. Any additional amount of tax is not practicable to estimate.

We have established a $49 million valuation allowance against the 2002 foreign tax credit carryovers, on the basis that we believe these credits will not be utilized in the statutory carryover period. We also have recorded a $233 million valuation allowance on the asbestos liabilities based on the anticipated impact of the future asbestos deductions on our ability to utilize future foreign tax credits. We anticipate that a portion of the asbestos deductions will displace future foreign tax credits and those credits will expire unutilized.

Pension liability adjustment included in Other comprehensive income is net of a tax benefit of $69 million in 2002, and $15 million in 2001.

Reconciliations between the actual provision for income taxes and that computed by applying the United States statutory rate to income from continuing operations before income taxes and minority interest are as follows:

Millions of dollars	Years ended December 31 2002	2001	2000
(Provision) benefit computed at statutory rate	$ 80	$ (334)	$ (117)
Reductions (increases) in taxes resulting from:			
Rate differentials on foreign earnings	(4)	(32)	(14)
State income taxes, net of federal income tax benefit	2	(13)	(3)
Prior years	33	-	-
Loss on disposals of equity method investee	(28)	-	-
Non-deductible goodwill	-	(11)	(11)
Valuation allowance	(163)	-	-
Other items, net	-	6	16
Total continuing operations	(80)	(384)	(129)
Discontinued operations	154	20	(60)
Disposal of discontinued operations	-	(199)	(141)
Total	$ 74	$ (563)	$ (330)

We have recognized a $114 million valuation allowance in continuing operations and $119 million in discontinued operations associated with the asbestos charges net of insurance recoveries. In addition, continuing operations has recorded a valuation allowance of $49 million related to potential excess foreign tax credit carryovers. Further, our impairment loss on Bredero-Shaw cannot be fully benefited for tax purposes due to book and tax basis differences in that investment and the limited benefit generated by a capital loss carryback. Settlement of unrealized prior period tax exposures had a favorable impact to the overall tax rate.

Exclusive of the asbestos and silica charges net of insurance recoveries and the impairment loss on Bredero-Shaw, our 2002 effective tax rate from continuing operations would be 38.9% for fiscal 2002 compared to 40.3% in 2001.

Note 17. Common Stock

Our 1993 Stock and Long-Term Incentive Plan provides for the grant of any or all of the following types of awards:

- stock options, including incentive stock options and non-qualified stock options;
- stock appreciation rights, in tandem with stock options or freestanding;
- restricted stock;
- performance share awards; and
- stock value equivalent awards.

Under the terms of the 1993 Stock and Long-Term Incentive Plan as amended, 49 million shares of common stock have been reserved for issuance to key employees. The plan specifies that no more than 16 million shares can be awarded as restricted stock. At December 31, 2002, 19 million shares were available for future grants under the 1993 Stock and Long-Term Incentive Plan of which 10 million shares remain available for restricted stock awards.

In connection with the acquisition of Dresser Industries, Inc. in 1998, we assumed the outstanding stock options under the stock option plans maintained by Dresser Industries, Inc. Stock option transactions summarized below include amounts for the 1993 Stock and Long-Term Incentive Plan and stock plans of Dresser Industries, Inc. and other acquired companies. No further awards are being made under the stock plans of acquired companies.

The following table represents our stock options granted, exercised and forfeited during the past three years:

Stock Options	Number of Shares (in millions)	Exercise Price per Share	Weighted Average Exercise Price per Share
Outstanding at December 31, 1999	17.1	$ 3.10 - 61.50	$ 32.03
Granted	1.7	34.75 - 54.00	41.61
Exercised	(3.6)	3.10 - 45.63	25.89
Forfeited	(0.5)	12.20 - 54.50	37.13
Outstanding at December 31, 2000	14.7	$ 8.28 - 61.50	$ 34.54
Granted	3.6	12.93 - 45.35	35.56
Exercised	(0.7)	8.93 - 40.81	25.34
Forfeited	(0.5)	12.32 - 54.50	36.83
Outstanding at December 31, 2001	17.1	$ 8.28 - 61.50	$ 35.10
Granted	2.6	9.10 - 19.75	12.57
Exercised	- *	8.93 - 17.21	11.39
Forfeited	(1.2)	8.28 - 54.50	31.94
Outstanding at December 31, 2002	18.5	$ 9.10 - 61.50	$ 32.10

* Actual exercises for 2002 were approximately 30,000 shares.

Options outstanding at December 31, 2002 are composed of the following:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares (in millions)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares (in millions)	Weighted Average Exercise Price
$ 9.10 - 19.27	3.2	7.4	$ 13.41	0.7	$ 16.96
$ 19.28 - 30.14	5.1	4.8	27.50	4.8	27.79
$ 30.15 - 39.54	6.3	6.5	37.30	4.8	38.55
$ 39.55 - 61.50	3.9	6.7	45.28	2.2	48.34
$ 9.10 - 61.50	18.5	6.2	$ 32.10	12.5	$ 34.98

There were 10.7 million options exercisable with a weighted average exercise price of $34.08 at December 31, 2001, and 8.8 million options exercisable with a weighted average exercise price of $32.81 at December 31, 2000.

All stock options under the 1993 Stock and Long-Term Incentive Plan, including options granted to employees of Dresser Industries, Inc. since its acquisition, are granted at the fair market value of the common stock at the grant date.

Stock options generally expire 10 years from the grant date. Stock options under the 1993 Stock and Long-Term Incentive Plan vest ratably over a three or four year period. Other plans have vesting periods ranging from three to 10 years. Options under the Non-Employee Directors' Plan vest after six months. Restricted shares awarded under the 1993 Stock and Long-Term Incentive Plan were 1,706,643 in 2002, 1,484,034 in 2001, and 695,692 in 2000. The shares awarded are net of forfeitures of 46,894 in 2002, 170,050 in 2001, and 69,402 in 2000. The weighted average fair market value per share at the date of grant of shares granted was $14.95 in 2002, $30.90 in 2001, and $42.25 in 2000.

Our Restricted Stock Plan for Non-Employee Directors allows for each non-employee director to receive an annual award of 400 restricted shares of common stock as a part of compensation. We reserved 100,000 shares of common stock for issuance to non-employee directors. Under this plan we issued 4,400 restricted shares in 2002, 4,800 restricted shares in 2001, and 3,600 restricted shares in 2000. At December 31, 2002, 38,000 shares have been issued to non-employee directors under this plan. The weighted average fair market value per share at the date of grant of shares granted was $12.56 in 2002, $34.35 in 2001, and $46.81 in 2000.

Our Employees' Restricted Stock Plan was established for employees who are not officers, for which 200,000 shares of common stock have been reserved. At December 31, 2002, 152,650 shares (net of 42,750 shares forfeited) have been issued. Forfeitures were 400 in 2002, 800 in 2001, and 6,450 in 2000. No further grants are being made under this plan.

Under the terms of our Career Executive Incentive Stock Plan, 15 million shares of our common stock were reserved for issuance to officers and key employees at a purchase price not to exceed par value of $2.50 per share. At December 31, 2002, 11.7 million shares (net of 2.2 million shares forfeited) have been issued under the plan. No further grants will be made under the Career Executive Incentive Stock Plan.

Restricted shares issued under the 1993 Stock and Long-Term Incentive Plan, Restricted Stock Plan for Non-Employee Directors, Employees' Restricted Stock Plan and the Career Executive Incentive Stock Plan are limited as to sale or disposition. These restrictions lapse periodically over an extended period of time not exceeding 10 years. Restrictions may also lapse for early retirement and other conditions in accordance with our established policies. Upon termination of employment, shares in which restrictions have not lapsed must be returned to us, resulting in restricted stock forfeitures. The fair market value of the stock, on the date of issuance, is being amortized and charged to income (with similar credits to paid-in capital in excess of par value) generally over the average period during which the restrictions lapse. At December 31, 2002, the unamortized amount is $75 million. We recognized compensation costs of $38 million in 2002, $23 million in 2001, and $18 million in 2000.

During 2002, our Board of Directors approved the 2002 Employee Stock Purchase Plan (ESPP) and reserved 12 million shares for issuance. Under the ESPP, eligible employees may have up to 10% of their earnings withheld, subject to some limitations, to be used to purchase shares of our common stock. Unless the Board of Directors shall determine otherwise, each 6-month offering period commences on January 1 and July 1 of each year. The price at which common stock may be purchased under the ESPP is equal to 85% of the lower of the fair market value of the common stock on the commencement date or last trading day of each offering period. There were approximately 541,000 shares sold through the ESPP in 2002.

On April 25, 2000, our Board of Directors approved plans to implement a share repurchase program for up to 44 million shares. No shares were repurchased in 2002. We repurchased 1.2 million shares at a cost of $25 million in 2001 and 20.4 million shares at a cost of $759 million in 2000.

Note 18. Series A Junior Participating Preferred Stock

We previously declared a dividend of one preferred stock purchase right on each outstanding share of common stock. The dividend is also applicable to each share of our common stock that was issued subsequent to adoption of the Rights Agreement entered into with Mellon Investor Services LLC. Each preferred stock purchase right entitles its holder to buy one two-hundredth of a share of our Series A Junior Participating Preferred Stock, without par value, at an exercise price of $75. These preferred stock purchase rights are subject to anti-dilution adjustments, which are described in the Rights Agreement entered into with Mellon. The preferred stock purchase rights do not have any voting rights and are not entitled to dividends.

The preferred stock purchase rights become exercisable in limited circumstances involving a potential business combination. After the preferred stock purchase rights become exercisable, each preferred stock purchase right will entitle its holder to an amount of our common stock, or in some circumstances, securities of the acquirer, having a total market value equal to two times the exercise price of the preferred stock purchase right. The preferred stock purchase rights are redeemable at our option at any time before they become exercisable. The preferred stock purchase rights expire on December 15, 2005. No event during 2002 made the preferred stock purchase rights exercisable.

Note 19. Financial Instruments and Risk Management

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and for Hedging Activities", subsequently amended by SFAS No. 137 and SFAS No. 138. This standard requires entities to recognize all derivatives on the balance sheet as assets or liabilities and to measure the instruments at fair value. Accounting for gains and losses from changes in those fair values is specified in the standard depending on the intended use of the derivative and other criteria. We adopted SFAS No. 133 effective January 2001 and recorded a $1 million after-tax credit for the cumulative effect of adopting the change in accounting method. We do not expect future measurements at fair value under the new accounting method to have a material effect on our financial condition or results of operations.

Foreign exchange risk. Techniques in managing foreign exchange risk include, but are not limited to, foreign currency borrowing and investing and the use of currency derivative instruments. We selectively manage significant exposures to potential foreign exchange losses considering current market conditions, future operating activities and the associated cost in relation to the perceived risk of loss. The purpose of our foreign currency risk management activities is to protect us from the risk that the eventual dollar cash flows resulting from the sale and purchase of products and services in foreign currencies will be adversely affected by changes in exchange rates. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We manage our currency exposure through the use of currency derivative instruments as it relates to the major currencies, which are generally the currencies of the countries for which we do the majority of our international business. These contracts generally have an expiration date of two years or less. Forward exchange contracts, which are commitments to buy or sell a specified amount of a foreign currency at a specified price and time, are generally used to manage identifiable foreign currency commitments. Forward exchange contracts and foreign exchange option contracts, which convey the right, but not the obligation, to sell or buy a specified amount of foreign currency at a specified price, are generally used to manage exposures related to assets and liabilities denominated in a foreign currency. None of the forward or option contracts are exchange traded. While derivative instruments are subject to fluctuations in value, the fluctuations are generally offset by the value of the underlying exposures being managed. The use of some contracts may limit our ability to benefit from favorable fluctuations in foreign exchange rates.

Foreign currency contracts are not utilized to manage exposures in some currencies due primarily to the lack of available markets or cost considerations (non-traded currencies). We attempt to manage our working capital position to minimize foreign currency commitments in non-traded currencies and recognize that pricing for the services and products offered in these countries should cover the cost of exchange rate devaluations. We have historically incurred transaction losses in non-traded currencies.

Assets, liabilities and forecasted cash flows denominated in foreign currencies. We utilize the derivative instruments described above to manage the foreign currency exposures related to specific assets and liabilities, which are denominated in foreign currencies; however, we have not elected to account for these instruments as hedges for accounting purposes. Additionally, we utilize the derivative instruments described above to manage forecasted cash flows denominated in foreign currencies generally related to long-term engineering and construction projects. While we enter into these instruments to manage the foreign currency risk on these projects, we have chosen not to seek hedge accounting treatment for these contracts. The fair value of these contracts was immaterial as of the end of 2002 and 2001.

Notional amounts and fair market values. The notional amounts of open forward contracts and options for continuing operations were $609 million at December 31, 2002 and $505 million at December 31, 2001. The notional amounts of our foreign exchange contracts do not generally represent amounts exchanged by the parties, and thus, are not a measure of our exposure or of the cash requirements relating to these contracts. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as exchange rates.

Credit risk. Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents, investments and trade receivables. It is our practice to place our cash equivalents and investments in high-quality securities with various investment institutions. We derive the majority of our revenues from sales and services, including engineering and construction, to the energy industry. Within the energy industry, trade receivables are generated from a broad and diverse group of customers. There are concentrations of receivables in the United States and the United Kingdom. We maintain an allowance for losses based upon the expected collectibility of all trade accounts receivable.

There are no significant concentrations of credit risk with any individual counterparty related to our derivative contracts. We select counterparties based on their profitability, balance sheet and a capacity for timely payment of financial commitments which is unlikely to be adversely affected by foreseeable events.

Interest rate risk. We have several debt instruments outstanding which have both fixed and variable interest rates. We manage our ratio of fixed to variable-rate debt through the use of different types of debt instruments and derivative instruments.

Fair market value of financial instruments. The estimated fair market value of long-term debt at year-end for both 2002 and 2001 was $1.3 billion as compared to the carrying amount of $1.5 billion at year-end for both 2002 and 2001. The fair market value of fixed rate long-term debt is based on quoted market prices for those or similar instruments. The carrying amount of variable rate long-term debt approximates fair market value because these instruments reflect market changes to interest rates. See Note 11. The carrying amount of short-term financial instruments, cash and equivalents, receivables, short-term notes payable and accounts payable, as reflected in the consolidated balance sheets approximates fair market value due to the short maturities of these instruments. The currency derivative instruments are carried on the balance sheet at fair value and are based upon third-party quotes. The fair market values of derivative instruments used for fair value hedging and cash flow hedging were immaterial.

Note 20. Retirement Plans

Our Company and subsidiaries have various plans which cover a significant number of their employees. These plans include defined contribution plans, which provide retirement contributions in return for services rendered, provide an individual account for each participant and have terms that specify how contributions to the participant's account are to be determined rather than the amount of pension benefits the participant is to receive. Contributions to these plans are based on pretax income and/or discretionary amounts determined on an annual basis. Our expense for the defined contribution plans for both continuing and discontinued operations totaled $80 million in 2002 compared to $129 million in 2001 and $140 million in 2000. Other retirement plans include defined benefit plans, which define an amount of pension benefit to be provided, usually as a function of age, years of service or compensation. These plans are funded to operate on an actuarially sound basis. Plan assets are primarily invested in cash, short-term investments, real estate, equity and fixed income securities of entities domiciled in the country of the plan's operation. Plan assets, expenses and obligations for retirement plans in the following tables include both continuing and discontinued operations.

	2002		2001	
Millions of dollars	United States	International	United States	International
Change in benefit obligation				
Benefit obligation at beginning of year	$ 140	$ 1,968	$ 288	$ 1,670
Service cost	1	72	2	60
Interest cost	9	102	13	89
Plan participants' contributions	-	14	-	14
Effect of business combinations and new plans	-	70	-	-
Amendments	1	(4)	-	-
Divestitures	-	(5)	(111)	(90)
Settlements/curtailments	(1)	(1)	(46)	-
Currency fluctuations	-	102	-	15
Actuarial gain/(loss)	5	(27)	8	270
Benefits paid	(11)	(52)	(14)	(60)
Benefit obligation at end of year	$ 144	$ 2,239	$ 140	$ 1,968

Millions of dollars	2002 United States	2002 International	2001 United States	2001 International
Change in plan assets				
Fair value of plan assets at beginning of year	$ 130	$ 1,827	$ 313	$ 2,165
Actual return on plan assets	(6)	(69)	(22)	(294)
Employer contribution	1	36	7	30
Settlements	(1)	-	(46)	-
Plan participants' contributions	-	14	1	14
Effect of business combinations and new plans	-	45	-	-
Divestitures	-	(5)	(109)	(45)
Currency fluctuations	-	89	-	15
Benefits paid	(11)	(51)	(14)	(58)
Fair value of plan assets at end of year	$ 113	$ 1,886	$ 130	$ 1,827
Funded status	$ (31)	$ (353)	$ (10)	$ (141)
Unrecognized transition obligation/(asset)	-	(2)	(1)	(3)
Unrecognized actuarial (gain)/loss	56	477	34	308
Unrecognized prior service cost/(benefit)	1	(70)	(2)	(96)
Net amount recognized	$ 26	$ 52	$ 21	$ 68

We recognized an additional minimum pension liability for the underfunded defined benefit plans. The additional minimum liability is equal to the excess of the accumulated benefit obligation over plan assets and accrued liabilities. A corresponding amount is recognized as either an intangible asset or a reduction of shareholders' equity. For the year ended December 31, 2002 we recognized $212 million in additional minimum pension liability of which $130 million was recorded as Other comprehensive income, net of tax.

Millions of dollars	2002 United States	2002 International	2001 United States	2001 International
Amounts recognized in the consolidated balance sheets				
Prepaid benefit cost	$ 30	$ 102	$ 7	$ 85
Accrued benefit liability including additional minimum liability	(59)	(250)	(10)	(36)
Intangible asset	2	12	1	1
Accumulated other comprehensive income, net of tax	35	122	15	12
Deferred tax asset	18	66	8	6
Net amount recognized	$ 26	$ 52	$ 21	$ 68

Assumed long-term rates of return on plan assets, discount rates for estimating benefit obligations and rates of compensation increases vary for the different plans according to the local economic conditions. The rates used are as follows:

Weighted-average assumptions	2002	2001	2000
Expected return on plan assets:			
United States plans	9.0%	9.0%	9.0%
International plans	5.5% to 8.16%	5.5% to 9.0%	3.5% to 9.0%
Discount rate:			
United States plans	7.0%	7.25%	7.5%
International plans	5.25% to 20.0%	5.0% to 8.0%	4.0% to 8.0%
Rate of compensation increase:			
United States plans	4.5%	4.5%	4.5%
International plans	3.0% to 21.0%	3.0% to 7.0%	3.0% to 7.6%

	2002		2001		2000	
Millions of dollars	United States	International	United States	International	United States	International
Components of net periodic benefit cost						
Service cost	$ 1	$ 72	$ 2	$ 60	$ 4	$ 57
Interest cost	9	102	13	89	20	87
Expected return on plan assets	(13)	(106)	(18)	(95)	(26)	(99)
Transition amount	-	(2)	-	(2)	-	-
Amortization of prior service cost	(2)	(6)	(2)	(6)	(1)	(6)
Settlements/curtailments	-	(2)	16	-	10	-
Recognized actuarial (gain)/loss	1	3	(1)	(9)	-	(10)
Net periodic benefit (income) cost	$ (4)	$ 61	$ 10	$ 37	$ 7	$ 29

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets as of December 31, 2002 and 2001 are as follows:

Millions of dollars	2002	2001
Projected benefit obligation	$ 2,319	$ 235
Accumulated benefit obligation	$ 2,121	$ 215
Fair value of plan assets	$ 1,942	$ 175

Postretirement medical plan. We offer postretirement medical plans to specific eligible employees. For some plans, our liability is limited to a fixed contribution amount for each participant or dependent. The plan participants share the total cost for all benefits provided above our fixed contribution and participants' contributions are adjusted as required to cover benefit payments. We have made no commitment to adjust the amount of our contributions; therefore, the computed accumulated postretirement benefit obligation amount is not affected by the expected future health care cost inflation rate.

Other postretirement medical plans are contributory but we generally absorb the majority of the costs. We may elect to adjust the amount of our contributions for these plans. As a result, the expected future health care cost inflation rate affects the accumulated postretirement benefit obligation amount. These plans have assumed health care trend rates (weighted based on the current year benefit obligation) for 2002 of 13% which are expected to decline to 5% by 2007.

Obligations and expenses for postretirement medical plans in the following tables include both continuing and discontinued operations.

Millions of dollars	2002	2001
Change in benefit obligation		
Benefit obligation at beginning of year	$ 157	$ 296
Service cost	1	2
Interest cost	11	15
Plan participants' contributions	11	12
Settlements/curtailments	-	(144)
Actuarial gain	33	5
Benefits paid	(27)	(29)
Benefit obligation at end of year	$ 186	$ 157
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	16	17
Plan participants' contributions	11	12
Benefits paid	(27)	(29)
Fair value of plan assets at end of year	$ -	$ -
Funded status	$ (186)	$ (157)
Employer contribution	2	2
Unrecognized actuarial gain	20	(14)
Unrecognized prior service cost	2	3
Net amount recognized	$ (162)	$ (166)

Millions of dollars	2002	2001
Amounts recognized in the consolidated balance sheets		
Accrued benefit liability	$ (162)	$ (166)
Net amount recognized	$ (162)	$ (166)

Weighted-average assumptions	2002	2001	2000
Discount rate	7.0%	7.25%	7.50%

Millions of dollars	2002	2001	2000
Components of net periodic benefit cost			
Service cost	$ 1	$ 2	$ 3
Interest cost	11	15	20
Amortization of prior service cost	-	(3)	(7)
Settlements/curtailments	-	(221)	-
Recognized actuarial gain	(1)	(1)	(1)
Net periodic benefit cost	$ 11	$ (208)	$ 15

Assumed health care cost trend rates have a significant effect on the amounts reported for the total of the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Millions of dollars	One-Percentage-Point Increase	One-Percentage-Point (Decrease)
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on the postretirement benefit obligation	$ 10	$ (9)

Note 21. Dresser Industries, Inc. Financial Information

Since becoming a wholly owned subsidiary of Halliburton, DII Industries (formerly Dresser Industries, Inc.) has ceased filing periodic reports with the United States Securities and Exchange Commission. DII Industries 8% guaranteed senior notes, which were initially issued by Baroid Corporation, remain outstanding and are fully and unconditionally guaranteed by Halliburton. Under the terms of a Fourth Supplemental Indenture, Halliburton Company in December 2002 assumed as co-obligor the payment of principle and interest on the notes, and the performance of all of the covenants and conditions of the related indenture.

Note 22. Goodwill and Other Intangible Assets

We adopted the SFAS No. 142 "Goodwill and Other Intangible Assets", and in accordance with the statement, amortization of goodwill has been discontinued. Our reporting units as defined under SFAS No. 142 are the same as our reportable operating segments: Energy Services Group and Engineering and Construction Group. Goodwill for the Energy Services Group was $402 million (net of $118 million accumulated amortization) in 2002, $386 million (net of $118 million accumulated amortization) in 2001, and $310 million (net of $97 million accumulated amortization) in 2000. Goodwill for the Engineering and Construction Group was $321 million (net of $152 million accumulated amortization) in 2002, $334 million (net of $151 million accumulated amortization) in 2001, and $287 million (net of $134 million accumulated amortization) in 2000.

Had we been accounting for our goodwill under SFAS No. 142 for all periods presented, our net income (loss) and earnings (loss) per share would have been as follows:

Millions of dollars except per share data	Years ended December 31 2002	2001	2000
Reported net income (loss)	$ (998)	$ 809	$ 501
Goodwill amortization, net of tax	-	38	36
Adjusted net income (loss)	$ (998)	$ 847	$ 537
Basic earnings (loss) per share:			
Reported net income (loss)	$ (2.31)	$ 1.89	$ 1.13
Goodwill amortization, net of tax	-	0.09	0.08
Adjusted net income (loss)	$ (2.31)	$ 1.98	$ 1.21
Diluted earnings (loss) per share:			
Reported net income (loss)	$ (2.31)	$ 1.88	$ 1.12
Goodwill amortization, net of tax	-	0.09	0.08
Adjusted net income (loss)	$ (2.31)	$ 1.97	$ 1.20

HALLIBURTON COMPANY
Selected Financial Data
(Unaudited)

Millions of dollars and shares except per share and employee data	Years ended December 31 2002	2001	2000	1999	1998
Operating results					
Net revenues					
Energy Services Group	$ 6,836	$ 7,811	$ 6,233	$ 5,402	$ 7,258
Engineering and Construction Group	5,736	5,235	5,711	6,911	7,246
Total revenues	$ 12,572	$ 13,046	$ 11,944	$ 12,313	$ 14,504
Operating income (loss)					
Energy Services Group	$ 638	$ 1,036	$ 589	$ 241	$ 934
Engineering and Construction Group	(685)	111	(54)	184	274
Special charges and credits (1)	-	-	-	47	(959)
General corporate	(65)	(63)	(73)	(71)	(79)
Total operating income (1)	(112)	1,084	462	401	170
Nonoperating income (expense), net (2)	(116)	(130)	(127)	(94)	(115)
Income (loss) from continuing operations before income taxes and minority interest	(228)	954	335	307	55
Provision for income taxes (3)	(80)	(384)	(129)	(116)	(155)
Minority interest in net income of consolidated subsidiaries	(38)	(19)	(18)	(17)	(20)
Income (loss) from continuing operations	$ (346)	$ 551	$ 188	$ 174	$ (120)
Income (loss) from discontinued operations	$ (652)	$ 257	$ 313	$ 283	$ 105
Net income (loss)	$ (998)	$ 809	$ 501	$ 438	$ (15)
Basic income (loss) per common share					
Continuing operations	$ (0.80)	$ 1.29	$ 0.42	$ 0.40	$ (0.27)
Net income (loss)	(2.31)	1.89	1.13	1.00	(0.03)
Diluted income (loss) per common share					
Continuing operations	(0.80)	1.28	0.42	0.39	(0.27)
Net income (loss)	(2.31)	1.88	1.12	0.99	(0.03)
Cash dividends per share	0.50	0.50	0.50	0.50	0.50
Return on average shareholders' equity	(24.02)%	18.64%	12.20%	10.49%	(0.35)%
Financial position					
Net working capital	$ 2,288	$ 2,665	$ 1,742	$ 2,329	$ 2,129
Total assets	12,844	10,966	10,192	9,639	10,072
Property, plant and equipment, net	2,629	2,669	2,410	2,390	2,442
Long-term debt (including current maturities)	1,476	1,484	1,057	1,364	1,426
Shareholders' equity	3,558	4,752	3,928	4,287	4,061
Total capitalization	5,083	6,280	6,555	6,590	5,990
Shareholders' equity per share	8.16	10.95	9.20	9.69	9.23
Average common shares outstanding (basic)	432	428	442	440	439
Average common shares outstanding (diluted)	432	430	446	443	439
Other financial data					
Capital expenditures	$ (764)	$ (797)	$ (578)	$ (520)	$ (841)
Long-term borrowings (repayments), net	(15)	412	(308)	(59)	122
Depreciation, depletion and amortization expense	505	531	503	511	500
Goodwill amortization included in depreciation, depletion and amortization expense:					
Energy Services Group	-	24	19	12	22
Engineering and Construction Group	-	18	25	21	14
Payroll and employee benefits (4)	(4,875)	(4,818)	(5,260)	(5,647)	(5,880)
Number of employees (4), (5)	83,000	85,000	93,000	103,000	107,800

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HALLIBURTON COMPANY
Selected Financial Data
(Unaudited)
(continued)

Millions of dollars and shares except per share and employee data	Years ended December 31 1997	1996	1995	1994	1993
Operating results					
Net revenues					
Energy Services Group	$ 7,152	$ 5,696	$ 4,838	$ 4,548	$ 5,065
Engineering and Construction Group	6,346	5,540	4,207	3,992	4,080
Total revenues	$ 13,498	$ 11,236	$ 9,045	$ 8,540	$ 9,145
Operating income					
Energy Services Group	$ 959	$ 644	$ 552	$ 411	$ 395
Engineering and Construction Group	279	188	89	66	95
Special charges and credits (1)	11	(86)	(8)	(19)	(419)
General corporate	(71)	(72)	(71)	(56)	(63)
Total operating income (1)	1,178	674	562	402	8
Nonoperating income (expense), net (2)	(82)	(70)	(34)	333	(61)
Income from continuing operations before income taxes and minority interest	1,096	604	528	735	(53)
Provision for income taxes (3)	(406)	(158)	(167)	(275)	(18)
Minority interest in net income of consolidated subsidiaries	(30)	-	(1)	(14)	(24)
Income (loss) from continuing operations	$ 660	$ 446	$ 360	$ 446	$ (95)
Income from discontinued operations	$ 112	$ 112	$ 36	$ 97	$ 81
Net income (loss)	$ 772	$ 558	$ 381	$ 543	$ (14)
Basic income (loss) per common share					
Continuing operations	$ 1.53	$ 1.04	$ 0.83	$ 1.04	$ (0.23)
Net income (loss)	1.79	1.30	0.88	1.26	(0.04)
Diluted income (loss) per common share					
Continuing operations	1.51	1.03	0.83	1.03	(0.23)
Net income (loss)	1.77	1.29	0.88	1.26	(0.04)
Cash dividends per share	0.50	0.50	0.50	0.50	0.50
Return on average shareholders' equity	19.16%	15.25%	10.44%	15.47%	(0.43)%
Financial position					
Net working capital	$ 1,985	$ 1,501	$ 1,477	$ 2,197	$ 1,563
Total assets	9,657	8,689	7,723	7,774	8,087
Property, plant and equipment, net	2,282	2,047	1,865	1,631	1,747
Long-term debt (including current maturities)	1,303	957	667	1,119	1,129
Shareholders' equity	4,317	3,741	3,577	3,723	3,296
Total capitalization	5,647	4,828	4,378	4,905	4,746
Shareholders' equity per share	9.86	8.78	8.29	8.63	7.70
Average common shares outstanding (basic)	431	429	431	431	422
Average common shares outstanding (diluted)	436	432	432	432	422
Other financial data					
Capital expenditures	$ (804)	$ (612)	$ (474)	$ (358)	$ (373)
Long-term borrowings (repayments), net	285	286	(481)	(120)	192
Depreciation, depletion and amortization expense	465	405	380	387	574
Goodwill amortization included in depreciation, depletion and amortization expense:					
Energy Services Group	20	19	17	14	11
Engineering and Construction Group	12	7	7	7	7
Payroll and employee benefits (4)	(5,479)	(4,674)	(4,188)	(4,222)	(4,429)
Number of employees (4), (5)	102,000	93,000	89,800	86,500	90,500

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(1) Operating income includes the following special charges and credits:

1999 - $47 million: reversal of a portion of the 1998 special charges.

1998 - $959 million: asset related charges ($491 million), personnel reductions ($234 million), facility consolidations ($124 million), merger transaction costs ($64 million), and other related costs ($46 million).

1997 - $11 million: merger costs ($9 million), write-downs on impaired assets and early retirement incentives ($10 million), losses from the sale of assets ($12 million), and gain on extension of joint venture ($42 million).

1996 - $86 million: merger costs ($13 million), restructuring, merger and severance costs ($62 million), and write-off of acquired in-process research and development costs ($11 million).

1995 - $8 million: restructuring costs ($5 million) and write-off of acquired in-process research and development costs ($3 million).

1994 - $19 million: merger costs ($27 million), litigation ($10 million), and litigation and insurance recoveries ($18 million).

1993 - $419 million: loss on sale of business ($322 million), merger costs ($31 million), restructuring ($5 million), litigation ($65 million), and gain on curtailment of medical plan ($4 million).

(2) Nonoperating income in 1994 includes a gain of $276 million from the sale of an interest in Western Atlas International, Inc. and a gain of $102 million from the sale of our natural gas compression business.

(3) Provision for income taxes in 1996 includes tax benefits of $44 million due to the recognition of net operating loss carryforwards and the settlement of various issues with the Internal Revenue Service.

(4) Includes employees of Dresser Equipment Group which is accounted for as discontinued operations for the years 1993 through 2000.

(5) Does not include employees of less than 50%-owned affiliated companies.

HALLIBURTON COMPANY
Quarterly Data and Market Price Information
(Unaudited)

	Quarter				
Millions of dollars except per share data	First	Second	Third	Fourth	Year
2002					
Revenues	$ 3,007	$ 3,235	$ 2,982	$ 3,348	$12,572
Operating income (loss)	123	(405)	191	(21)	(112)
Income (loss) from continuing operations	50	(358)	94	(132)	(346)
Loss from discontinued operations	(28)	(140)	-	(484)	(652)
Net income (loss)	22	(498)	94	(616)	(998)
Earnings per share:					
Basic income (loss) per common share:					
Income (loss) from continuing operations	0.12	(0.83)	0.22	(0.30)	(0.80)
Loss from discontinued operations	(0.07)	(0.32)	-	(1.12)	(1.51)
Net income (loss)	0.05	(1.15)	0.22	(1.42)	(2.31)
Diluted income (loss) per common share:					
Income (loss) from continuing operations	0.12	(0.83)	0.22	(0.30)	(0.80)
Loss from discontinued operations	(0.07)	(0.32)	-	(1.12)	(1.51)
Net income (loss)	0.05	(1.15)	0.22	(1.42)	(2.31)
Cash dividends paid per share	0.125	0.125	0.125	0.125	0.50
Common stock prices (1)					
High	18.00	19.63	16.00	21.65	21.65
Low	8.60	14.60	8.97	12.45	8.60
2001					
Revenues	$ 3,144	$ 3,339	$ 3,391	$ 3,172	$13,046
Operating income	198	272	342	272	1,084
Income from continuing operations before change in accounting method, net	86	143	181	141	551
Income (loss) from discontinued operations	22	(60)	(2)	(2)	(42)
Gain on disposal of discontinued operations	-	299	-	-	299
Change in accounting method, net	1	-	-	-	1
Net income	109	382	179	139	809

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HALLIBURTON COMPANY
Quarterly Data and Market Price Information
(Unaudited)
(continued)

Millions of dollars except per share data	Quarter First	Second	Third	Fourth	Year
2001					
Earnings per share:					
Basic income (loss) per common share:					
Income from continuing operations	0.20	0.34	0.42	0.33	1.29
Income (loss) from discontinued operations	0.05	(0.14)	-	(0.01)	(0.10)
Gain on disposal of discontinued operations	-	0.70	-	-	0.70
Net income	0.25	0.90	0.42	0.32	1.89
Diluted income (loss) per common share:					
Income from continuing operations	0.20	0.33	0.42	0.33	1.28
Income (loss) from discontinued operations	0.05	(0.14)	-	(0.01)	(0.10)
Gain on disposal of discontinued operations	-	0.70	-	-	0.70
Net income	0.25	0.89	0.42	0.32	1.88
Cash dividends paid per share	0.125	0.125	0.125	0.125	0.50
Common stock prices (1)					
High	45.91	49.25	36.79	28.90	49.25
Low	34.81	32.20	19.35	10.94	10.94

(1) New York Stock Exchange - composite transactions high and low intraday price.

PART III

Item 10. Directors and Executive Officers of Registrant.

The information required for the directors of the Registrant is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the caption "Election of Directors." The information required for the executive officers of the Registrant is included under Part I on pages 10 through 12 of this annual report.

Item 11. Executive Compensation.

This information is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the captions "Compensation Committee Report on Executive Compensation," "Comparison of Cumulative Total Return," "Summary Compensation Table," "Option Grants For Fiscal 2002," "Aggregated Option Exercises in Fiscal 2002 and December 31, 2002 Option Values," "Employment Contracts and Change-in-Control Arrangements" and "Directors' Compensation."

Item 12(a). Security Ownership of Certain Beneficial Owners and Management.

This information is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the caption "Stock Ownership of Certain Beneficial Owners and Management."

Item 12(b). Security Ownership of Management.

This information is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the caption "Stock Ownership of Certain Beneficial Owners and Management."

Item 12(c). Changes in Control.

Not applicable.

Item 12(d). Securities Authorized for Issuance Under Equity Compensation Plans.

This information is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the caption "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions.

This information is incorporated by reference to the Halliburton Company Proxy Statement dated March 25, 2003 (File No. 1-3492), under the caption "Certain Relationships and Related Transactions."

Item 14. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this annual report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) 1. Financial Statements:
The reports of Independent Public Accountants and the financial statements of the Company as required by Part II, Item 8, are included on pages 47 through 95 and pages 99 and 100 of this annual report. See index on page 14.

2. Financial Statement Schedules: Page No.

Report on supplemental schedule of KPMG LLP	112
Schedule II - Valuation and qualifying accounts for the three years ended December 31, 2002	113

Note: All schedules not filed with this report required by Regulation S-X have been omitted as not applicable or not required or the information required has been included in the notes to financial statements.

3. Exhibits:

	Exhibit Number	Exhibits
	3.1	Restated Certificate of Incorporation of Halliburton Company filed with the Secretary of State of Delaware on July 23, 1998 (incorporated by reference to Exhibit 3(a) to Halliburton's Form 10-Q for the quarter ended June 30, 1998, File No. 1-3492).
*	3.2	By-laws of Halliburton revised effective February 12, 2003.
	4.1	Form of debt security of 8.75% Debentures due February 12, 2021 (incorporated by reference to Exhibit 4(a) to the Predecessor's Form 8-K dated as of February 20, 1991, File No. 1-3492).
	4.2	Senior Indenture dated as of January 2, 1991 between the Predecessor and Texas Commerce Bank National Association, as trustee (incorporated by reference to Exhibit 4(b) to the Predecessor's Registration Statement on Form S-3 (Registration No. 33-38394) originally filed with the Securities and Exchange Commission on December 21, 1990), as supplemented and amended by the First Supplemental Indenture dated as of December 12, 1996 among the Predecessor, Halliburton and the Trustee (incorporated by reference to Exhibit 4.1 of Halliburton's Registration Statement on Form 8-B dated December 12, 1996, File No. 1-3492).
	4.3	Resolutions of the Predecessor's Board of Directors adopted at a meeting held on February 11, 1991 and of the special pricing committee of the Board of Directors of the predecessor adopted at a meeting held on February 11, 1991 and the special pricing committee's consent in lieu of meeting dated February 12, 1991 (incorporated by reference to Exhibit 4(c) to the Predecessor's Form 8-K dated as of February 20, 1991, File No. 1-3492).

4.4	Form of debt security of 6.75% Notes due February 1, 2027 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated as of February 11, 1997, File No. 1-3492).
4.5	Second Senior Indenture dated as of December 1, 1996 between the Predecessor and Texas Commerce Bank National Association, as Trustee, as supplemented and amended by the First Supplemental Indenture dated as of December 5, 1996 between the Predecessor and the Trustee and the Second Supplemental Indenture dated as of December 12, 1996 among the Predecessor, Halliburton and the Trustee (incorporated by reference to Exhibit 4.2 of Halliburton's Registration Statement on Form 8-B dated December 12, 1996, File No. 1-3492).
4.6	Third Supplemental Indenture dated as of August 1, 1997 between Halliburton and Texas Commerce Bank National Association, as Trustee, to the Second Senior Indenture dated as of December 1, 1996 (incorporated by reference to Exhibit 4.7 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.7	Fourth Supplemental Indenture dated as of September 29, 1998 between Halliburton and Chase Bank of Texas, National Association (formerly Texas Commerce Bank National Association), as Trustee, to the Second Senior Indenture dated as of December 1, 1996 (incorporated by reference to Exhibit 4.8 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.8	Resolutions of Halliburton's Board of Directors adopted by unanimous consent dated December 5, 1996 (incorporated by reference to Exhibit 4(g) of Halliburton's Form 10-K for the year ended December 31, 1996, File No. 1-3492).
4.9	Resolutions of Halliburton's Board of Directors adopted at a special meeting held on September 28, 1998 (incorporated by reference to Exhibit 4.10 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.10	Restated Rights Agreement dated as of December 1, 1996 between Halliburton and Mellon Investor Services LLC (formerly ChaseMellon Shareholder Services, L.L.C.) (incorporated by reference to Exhibit 4.4 of Halliburton's Registration Statement on Form 8-B dated December 12, 1996, File No. 1-3492).
4.11	Copies of instruments that define the rights of holders of miscellaneous long-term notes of Halliburton and its subsidiaries, totaling $8 million in the aggregate at December 31, 2002, have not been filed with the Commission. Halliburton agrees to furnish copies of these instruments upon request.
4.12	Form of debt security of 7.53% Notes due May 12, 2017 (incorporated by reference to Exhibit 4.4 to Halliburton's Form 10-Q for the quarter ended March 31, 1997, File No. 1-3492).
4.13	Form of debt security of 6.30% Notes due August 5, 2002 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated as of August 5, 1997, File No. 1-3492).
4.14	Form of debt security of 5.63% Notes due December 1, 2008 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated as of November 24, 1998, File No. 1-3492).

	4.15	Form of Indenture, between Baroid Corporation and Texas Commerce Bank National Association, as Trustee, for 8% Senior Notes due 2003 (incorporated by reference to Exhibit 4.01 to the Registration Statement on Form S-3 filed by Baroid Corporation, Registration No. 33-60174), as supplemented and amended by Form of Supplemental Indenture, between Dresser, Baroid Corporation and Texas Commerce Bank N.A. as Trustee, for 8% Guaranteed Senior Notes due 2003 (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-4 filed by Baroid Corporation and Dresser Industries, Inc., Registration No. 33-53077).
	4.16	Second Supplemental Indenture dated October 30, 1997 between Dresser and Texas Commerce Bank National Association, as Trustee, for 8% Senior Notes due 2003 (incorporated by reference to Exhibit 4.19 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
	4.17	Third Supplemental Indenture dated September 29, 1998 between Dresser, Halliburton, as Guarantor, and Chase Bank of Texas, National Association, as Trustee, for 8% Senior Notes due 2003 (incorporated by reference to Exhibit 4.20 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
	4.18	Form of Indenture, between Dresser and Texas Commerce Bank National Association, as Trustee, for 7.60% Debentures due 2096 (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-3 filed by Dresser as amended, Registration No. 333-01303), as supplemented and amended by Form of Supplemental Indenture, between Dresser and Texas Commerce Bank National Association, Trustee, for 7.60% Debentures due 2096 (incorporated by reference to Exhibit 4.1 to Dresser's Form 8-K filed on August 9, 1996, File No. 1-4003).
	4.19	Form of debt security of floating rate Notes due July 16, 2003 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated January 8, 2002, File No. 1-3492).
	4.20	Form of debt security of 6% Notes due August 1, 2006 (incorporated by reference to Exhibit 4.2 to Halliburton's Form 8-K dated January 8, 2002, File No. 1-3492).
*	4.21	Fourth Supplemental Indenture dated December 20, 2002 between DII Industries, LLC (formerly Dresser Industries, Inc.), Halliburton and JPMorgan Chase Bank, a New York banking corporation (formerly Chase Bank of Texas, National Association and before that Texas Commerce Bank National Association), as Trustee, for 8% Senior Notes due 2003.
*	4.22	Credit Facility in the amount of(pound)80 million dated November 29, 2002 between Devonport Royal Dockyard Limited and Devonport Management Limited and The Governor and Company of the Bank of Scotland, HSBC Bank plc and The Royal Bank of Scotland Plc.
	10.1	Halliburton Company Career Executive Incentive Stock Plan as amended November 15, 1990 (incorporated by reference to Exhibit 10(a) to the Predecessor's Form 10-K for the year ended December 31, 1992, File No. 1-3492).
	10.2	Retirement Plan for the Directors of Halliburton Company, as amended and restated effective May 16, 2000 (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2000, File No. 1-3492).

10.3	Halliburton Company Directors' Deferred Compensation Plan as amended and restated effective February 1, 2001 (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-K for the year ended December 31, 2000, File No. 1-3492).
10.4	Halliburton Company 1993 Stock and Long-Term Incentive Plan, as amended and restated effective May 16, 2000 (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended June 30, 2000, File No. 1-3492).
10.5	Halliburton Company Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Appendix B of the Predecessor's proxy statement dated March 23, 1993, File No. 1-3492).
10.6	Employment agreement (David J. Lesar) (incorporated by reference to Exhibit 10(n) to the Predecessor's Form 10-K for the year ended December 31, 1995, File No. 1-3492).
10.7	Employment agreement (Lester L. Coleman) (incorporated by reference to Exhibit 10.16 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
10.8	Employment agreement (Gary V. Morris) (incorporated by reference to Exhibit 10.19 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
10.9	Dresser Industries, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2000 (incorporated by reference to Exhibit 10.16 to Halliburton's Form 10-K for the year ended December 31, 2000, File No. 1-3492).
10.10	Dresser Industries, Inc. 1982 Stock Option Plan (incorporated by reference to Exhibit A to Dresser's Proxy Statement dated February 12, 1982, File No. 1-4003).
10.11	ERISA Excess Benefit Plan for Dresser Industries, Inc., as amended and restated effective June 1, 1995 (incorporated by reference to Exhibit 10.7 to Dresser's Form 10-K for the year ended October 31, 1995, File No. 1-4003).
10.12	ERISA Compensation Limit Benefit Plan for Dresser Industries, Inc., as amended and restated effective June 1, 1995 (incorporated by reference to Exhibit 10.8 to Dresser's Form 10-K for the year ended October 31, 1995, File No. 1-4003).
10.13	Supplemental Executive Retirement Plan of Dresser Industries, Inc., as amended and restated effective January 1, 1998 (incorporated by reference to Exhibit 10.9 to Dresser's Form 10-K for the year ended October 31, 1997, File No. 1-4003).
10.14	Stock Based Compensation Arrangement of Non-Employee Directors (incorporated by reference to Exhibit 4.4 to Dresser's Registration Statement on Form S-8, Registration No. 333-40829).
10.15	Dresser Industries, Inc. Deferred Compensation Plan for Non-employee Directors, as restated and amended effective November 1, 1997 (incorporated by reference to Exhibit 4.5 to Dresser's Registration Statement on Form S-8, Registration No. 333-40829).
10.16	Long-Term Performance Plan for Selected Employees of The M. W. Kellogg Company, as amended and restated effective September 1, 1999 (incorporated by reference to Exhibit 10.23 to Halliburton's Form 10-K for the year ended December 31, 2000, File No. 1-3492).

10.17	Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit A to Dresser's Proxy Statement dated February 7, 1992, File No. 1-4003).
10.18	Amendments No. 1 and 2 to Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit A to Dresser's Proxy Statement dated February 6, 1995, File No. 1-4003).
10.19	Amendment No. 3 to the Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit 10.25 to Dresser's Form 10-K for the year ended October 31, 1997, File No. 1-4003).
10.20	Amendment No. 1 to the Supplemental Executive Retirement Plan of Dresser Industries, Inc. (incorporated by reference to Exhibit 10.1 to Dresser's Form 10-Q for the quarter ended April 30, 1998, File No. 1-4003).
10.21	Employment agreement (Robert F. Heineman) (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended June 30, 2000, File No. 1-3492).
10.22	Employment agreement (Arthur D. Huffman) (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2000, File No. 1-3492).
10.23	Form of Nonstatutory Stock Option Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended September 30, 2000, File No. 1-3492).
10.24	Employment agreement (Margaret E. Carriere) (incorporated by reference to Exhibit 10.39 to Halliburton's Form 10-K for the year ended December 31, 2000, File No. 1-3492).
10.25	Agreement and Plan of Recapitalization, as amended and restated effective April 10, 2001 (incorporated by reference to Halliburton's Form 8-K/A dated as of May 10, 2001, File No. 1-3492).
10.26	Halliburton Company Supplemental Executive Retirement Plan (formerly part of Halliburton Company Senior Executives' Deferred Compensation Plan), as amended and restated effective January 1, 2001 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended June 30, 2001, File No. 1-3492).
10.27	Halliburton Company Benefit Restoration Plan (formerly part of Halliburton Company Senior Executives' Deferred Compensation Plan), as amended and restated effective January 1, 2001 (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended June 30, 2001, File No. 1-3492).
10.28	Employment agreement (Douglas L. Foshee) (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended June 30, 2001, File No. 1-3492).
10.29	Halliburton Annual Performance Pay Plan, as amended and restated effective January 1, 2001 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2001, File No. 1-3492).
10.30	Halliburton Company Performance Unit Program (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2001, File No. 1-3492).

	10.31	Employment agreement (R. Randall Harl) (incorporated by reference to Exhibit 10.32 to Halliburton's Form 10-K for the year ended December 31, 2002, File No. 1-3492).
	10.32	Employment agreement (Edgar Ortiz) (incorporated by reference to Exhibit 10.33 to Halliburton's Form 10-K for the year ended December 31, 2002, File No. 1-3492).
	10.33	Halliburton Elective Deferral Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 4.1 to Halliburton's Registration Statement on Form S-8, Registration No. 333-73046).
	10.34	Halliburton Elective Deferral Plan as amended and restated effective May 1, 2002 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
	10.35	Halliburton Company 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
	10.36	Halliburton Company Directors' Deferred Compensation Plan as amended and restated effective as of October 22, 2002 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2002, File No. 1-3492).
	10.37	Employment Agreement (Albert O. Cornelison) (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
	10.38	Employment Agreement (Weldon J. Mire) (incorporated by reference to Exhibit 10.4 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
*	10.39	Employment Agreement of David R. Smith.
*	10.40	Employment Agreement of John W. Gibson.
*	21	Subsidiaries of the Registrant.
*	23.1	Consent of KPMG LLP.
*	23.2	Notice Regarding Consent of Arthur Andersen LLP.
	24.1	Powers of attorney for the following directors signed in February, 1997 (incorporated by reference to Exhibit 24 to Halliburton's Form 10-K for the year ended December 31, 1996, File No. 1-3492): Robert L. Crandall W. R. Howell C. J. Silas
	24.2	Power of attorney signed in December, 1997 for Charles J. DiBona (incorporated by reference to Exhibit 24(b) to Halliburton's Form 10-K for the year ended December 31, 1997, File No. 1-3492).

24.3	Powers of attorney for the following directors signed in October, 1998 (incorporated by reference to Exhibit 24.3 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492): Lawrence S. Eagleburger Ray L. Hunt J. Landis Martin Jay A. Precourt
24.4	Powers of attorney for the following directors signed in May, 2001 (incorporated by reference to Exhibit 24.1 to Halliburton's Form 10-Q for the quarter ended June 30, 2001, File No. 1-3492): Kenneth T. Derr Aylwin B. Lewis Debra L. Reed
*	Filed with this Form 10-K.

(b) Reports on Form 8-K:

Date Filed	Date of Earliest Event	Description of Event
During the fourth quarter of 2002:		
October 2, 2002	October 1, 2002	Item 5. Other Events for a press release announcing a conference call to discuss third quarter financial results.
November 5, 2002	November 4, 2002	Item 9. Regulation FD Disclosure for a press release announcing the revision of credit rating agreements.
November 13, 2002	November 7, 2002	Item 9. Regulation FD Disclosure for a press release announcing 2002 third quarter results.
November 13, 2002	November 7, 2002	Item 9. Regulation FD Disclosure for a press release announcing asbestos plaintiffs agree to extend current stay on asbestos claims until December 11, 2002
November 14, 2002	November 12, 2002	Item 9. Regulation FD Disclosure furnishing Certifications to the SEC, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002, signed by David J. Lesar and Douglas L. Foshee.
November 15, 2002	November 14, 2002	Item 9. Regulation FD Disclosure for a press release announcing the 2002 fourth quarter dividend.
December 12, 2002	December 11, 2002	Item 9. Regulation FD Disclosure for a press release announcing the Harbison-Walker bankruptcy court has agreed to extend the current stay on asbestos claims until December 13, 2002.

Date Filed	Date of Earliest Event	Description of Event
During the fourth quarter of 2002 (continued):		
December 12, 2002	December 11, 2002	Item 9. Regulation FD Disclosure for a press release announcing the Company is close to an agreement in principle with asbestos plaintiffs' attorneys representing more than 300,000 claimants.
December 13, 2002	December 13, 2002	Item 9. Regulation FD Disclosure for a press release announcing the Harbison-Walker bankruptcy court has agreed to extend the current stay on asbestos claims until December 18, 2002.
December 18, 2002	December 17, 2002	Item 9. Regulation FD Disclosure for a press release announcing completion of the sale of ShawCor shares.
December 19, 2002	December 18, 2002	Item 9. Regulation FD Disclosure for a press release announcing a conference call to discuss the global asbestos settlement.
December 19, 2002	December 18, 2002	Item 9. Regulation FD Disclosure for a press release announcing asbestos plaintiffs agree to extend current stay on asbestos claims until January 17, 2003
December 20, 2002	December 18, 2002	Item 9. Regulation FD Disclosure for a press release announcing agreement in principle to achieve global settlement of asbestos claims.
December 20, 2002	December 19, 2002	Item 9. Regulation FD Disclosure for a press release announcing the SEC has formalized its investigation of the Company's disclosure and accounting for cost overruns on certain engineering and construction jobs.
During the first quarter of 2003:		
January 3, 2003	January 2, 2003	Item 9. Regulation FD Disclosure for a press release announcing an analyst and investor meeting on January 13, 2003.
January 7, 2003	January 7, 2003	Item 9. Regulation FD Disclosure for a press release announcing a conference call on February 20, 2003 to discuss 2002 fourth quarter financial results.
January 13, 2003	January 13, 2003	Item 9. Regulation FD Disclosure for submission of presentation content at analyst and investor meeting on January 13, 2003.
January 21, 2003	January 17, 2003	Item 9. Regulation FD Disclosure for a press release announcing asbestos plaintiffs agree to extend current stay on asbestos claims until February 18, 2003.
February 14, 2003	February 12, 2003	Item 9. Regulation FD Disclosure for a press release announcing 2003 first quarter dividend.

Date Filed	Date of Earliest Event	Description of Event
During the first quarter of 2003 (continued):		
February 14, 2003	February 12, 2003	Item 9. Regulation FD Disclosure for a press release announcing C. Christopher Gaut named executive vice president and chief financial officer and Doug Foshee promoted to chief operating officer.
February 21, 2003	February 18, 2003	Item 9. Regulation FD Disclosure for a press release announcing the Harbison-Walker bankruptcy court extended the current stay on asbestos claims until March 21, 2003. The court also ruled that the Company must file an affidavit by March 14, 2003 stating settlement agreements have been signed by attorneys representing 75% of DII Industries' current asbestos claimants.
February 21, 2003	February 20, 2003	Item 9. Regulation FD Disclosure for a press release announcing 2002 fourth quarter results.
March 12, 2003	March 11, 2003	Item 9. Regulation FD Disclosure for a press release announcing the selling of Wellstream.
March 17, 2003	March 14, 2003	Item 9. Regulation FD Disclosure for a press release announcing DII Industries' filing of an affidavit on the global asbestos settlement, stating that it believes it has complied with the March 14, 2003 court-imposed deadline requiring signed agreements by an estimated 75% of DII Industries' asbestos plaintiffs.
March 24, 2003	March 21, 2003	Item 9. Regulation FD Disclosure for a press release announcing an agreement with Harbison-Walker Refractories Company and the Official Committee of Asbestos Creditors in the Harbison-Walker bankruptcy to consensually extend the period of the stay contained in the Bankruptcy Court's temporary restraining order until July 21, 2003.
March 26, 2003	March 21, 2003	Item 9. Regulation FD Disclosure for a press release announcing 2003 first quarter results.

This report is a copy of a previously issued report, the predecessor auditor has not reissued this report, and the previously issued report refers to financial statements not physically included in this document.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL SCHEDULE

To the Shareholders and
Board of Directors of Halliburton Company:

We have audited in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements included in this Form 10-K, and have issued our report thereon dated January 23, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The supplemental schedule (Schedule II) is the responsibility of Halliburton Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP
Dallas, Texas

January 23, 2002 (Except with respect to certain matters discussed in Note 9, as to which the date is February 21, 2002.)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL SCHEDULE

The Board of Directors and Stockholders
Halliburton Company:

Under date of March 13, 2003, we reported on the consolidated balance sheets of Halliburton Company and subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 2002, which are included in the Form 10-K. In connection with our audit of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules included in Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statement schedules based on our audit. The accompanying 2001 and 2000 consolidated financial statement schedules of Halliburton Company and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and schedules, before the restatement described in Note 4 to the consolidated financial statements and before the revision described in Note 22 to the consolidated financial statements, in their report dated January 23, 2002 (except with respect to certain matters discussed in Note 9 to those financial statements, as to which the date was February 21, 2002).

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
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KPMG LLP
Houston, Texas
March 13, 2003

HALLIBURTON COMPANY
Schedule II - Valuation and Qualifying Accounts
(Millions of Dollars)

The table below presents valuation and qualifying accounts for continuing operations.

Descriptions	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 2000:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$ 94	$ 39	$ -	$ (8) (a)	$ 125
Liability for major repairs and maintenance	$ 15	$ 4	$ -	$ (5)	$ 14
Accrued special charges	$ 69	$ -	$ -	$ (63) (b)	$ 6
Accrued reorganization charges	$ -	$ 36	$ -	$ (20)	$ 16
Year ended December 31, 2001:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$ 125	$ 70	$ -	$ (64) (a)	$ 131
Liability for major repairs and maintenance	$ 14	$ 4	$ -	$ (5)	$ 13
Accrued special charges	$ 6	$ -	$ -	$ (6)	$ -
Accrued reorganization charges	$ 16	$ -	$ -	$ (15) (c)	$ 1
Year ended December 31, 2002:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$131	$ 82	$	$ (56) (a)	$ 157
Liability for major repairs and maintenance	$13	$ 4	$	$ (10)	$ 7
Accrued reorganization charges	$1	$ 29	$	$ (20)	$ 10

(a) Receivable write-offs and reclassifications, net of recoveries.
(b) Includes $9 million for items of a long-term nature reclassified to other liabilities in 2000.
(c) Includes $4 million estimate to actual adjustment.

SIGNATURES

As required by Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on its behalf by the undersigned authorized individuals, on this 28th day of March, 2003.

HALLIBURTON COMPANY

By /s/ David J. Lesar

David J. Lesar
Chairman of the Board,
President and Chief Executive Officer

As required by the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on this 28th day of March, 2003.

Signature	Title
/s/ David J. Lesar David J. Lesar	Chairman of the Board, President and Chief Executive Officer
/s/ Douglas L. Foshee Douglas L. Foshee	Executive Vice President and Chief Financial Officer
/s/ R. Charles Muchmore, Jr. R. Charles Muchmore, Jr.	Vice President and Controller and Principal Accounting Officer

Signature	Title
*ROBERT L. CRANDALL Robert L. Crandall	Director
* KENNETH T. DERR Kenneth T. Derr	Director
* CHARLES J. DIBONA Charles J. DiBona	Director
* LAWRENCE S. EAGLEBURGER Lawrence S. Eagleburger	Director
* W. R. HOWELL W. R. Howell	Director
* RAY L. HUNT Ray L. Hunt	Director
* AYLWIN B. LEWIS Aylwin B. Lewis	Director
* J. LANDIS MARTIN J. Landis Martin	Director
* JAY A. PRECOURT Jay A. Precourt	Director
* DEBRA L. REED Debra L. Reed	Director
* C. J. SILAS C. J. Silas	Director

* /s/ MARGARET E. CARRIERE

Margaret E. Carriere, Attorney-in-fact

CERTIFICATIONS

I, David J. Lesar, certify that:

1. I have reviewed this annual report on Form 10-K of Halliburton Company;

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

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 officers 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 functions):

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 officers and I have indicated in this annual 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: March 25, 2003

/s/ David J. Lesar

David J. Lesar

Chief Executive Officer

I, Douglas L. Foshee, certify that:

1. I have reviewed this annual report on Form 10-K of Halliburton Company;

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

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 officers 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 officers and I have indicated in this annual 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: March 25, 2003

/s/ Douglas L. Foshee

Douglas L. Foshee
Executive Vice President and Chief Financial Officer

HALLIBURTON COMPANY
BY-LAWS
AS AMENDED

Offices

1. The registered office of the Corporation required by the Delaware General Corporation Law to be maintained in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware, or at such other office (which need not be a place of business or principal office of the Corporation) as may be designated from time to time by the Board of Directors in the manner provided by law, and the name of the agent in charge thereof shall be The Corporation Trust Company. The Corporation shall also have offices in the City of Houston, State of Texas, and at such other places as the Board of Directors may, from time to time, appoint.

Seal

2. The corporate seal shall have inscribed thereon around the margin the words "Halliburton Company" and "Delaware" and across the center thereof the words "Corporate Seal".

Stockholders' Meetings

3. All meetings of the stockholders for the election of Directors shall be held in the City of Houston, State of Texas, at such place as may be fixed from time to time by the Board of Directors or at such other place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place within or without the State of Delaware, as shall be stated in the notice of the meeting.

4. Annual meetings of the stockholders shall be held on the third Wednesday in the month of May each year if not a legal holiday, and if a legal holiday, then on the next succeeding business day, at 9:00 a.m., or at such other date and time as shall be designated, from time to time, by the Board of Directors and stated in the notice of meeting, at which time they shall elect by a plurality vote a Board of Directors, in the manner provided for in the Certificate of Incorporation, and transact such other business as may be brought before the meeting.

5. At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board, or (iii) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than ninety (90) days prior to the first anniversary date of the immediately preceding annual meeting of stockholders of the Corporation. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting, (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, (d) a representation that the stockholder or a qualified

representative of the stockholder intends to appear in person at the meeting to bring the proposed business before the annual meeting, and (e) any material interest of the stockholder in such business.

Notwithstanding anything in the By-laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 5; provided, however, that nothing in this Section 5 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with said procedure.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 5, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Notwithstanding the foregoing provisions of this Section 5, a stockholder shall also comply with all applicable requirements of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder with respect to the matters set forth in this Section 5.

6. Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders (i) by or at the direction of the Board of Directors by any nominating committee or person appointed by the Board or (ii) by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting and who complies with the notice procedures set forth in this Section 6. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary. To

be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation (a) with respect to an election to be held at the annual meeting of stockholders, not less than ninety (90) days prior to the first anniversary date of the immediately preceding annual meeting of stockholders of the Corporation and (b) with respect to an election to be held at a special meeting of stockholders, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed to stockholders or public disclosure of the date of the special meeting was made, whichever first occurs. Such stockholder's notice to the Secretary shall set forth (x) as to each person whom the stockholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person, and (iv) all other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934 as amended (including such person's written consent to being named in the proxy statement as a nominee and to serve as a Director, if elected; and (y) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder and (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the stockholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as Director of the Corporation. Other than Directors chosen pursuant to the provisions of Section 13, no person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth herein.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Notwithstanding the foregoing provisions of this Section 6, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 6.

7. The holders of a majority of the voting stock issued and outstanding, present in person, or represented by proxy shall constitute a quorum at all meetings of the stockholders for the transaction of business.

8. At each meeting, every stockholder shall be entitled to vote in person or by proxy and shall have one (1) vote for each share of voting stock registered in his name on the stock books except as provided in Section 13 hereof.

9. Written notices of the annual meeting shall be mailed not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting directed to his address as it appears on the records of the Corporation.

10. A complete list of the stockholders entitled to vote at each meeting of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder shall be prepared and shall be open to the examination of any stockholder, for any purpose germane to the meeting during ordinary business

hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

11. Special meetings of the stockholders may be called by the Chairman of the Board, the Chief Executive Officer, the President (if a Director), the Board of Directors, or by stockholders owning a majority in the amount of the entire stock of the Corporation with voting privileges issued and outstanding.

12. Written notice of a special meeting of stockholders shall be mailed not less than ten (10) nor more than fifty (50) days before the date of the meeting to each stockholder entitled to vote at such meeting directed to his address as it appears on the records of the Corporation.

13. Cumulative voting shall not be allowed. Each stockholder shall be entitled, at all elections of Directors of the Corporation, to as many votes as shall equal the number of shares of stock held and owned by him and entitled to vote at such meeting under Article EIGHTH of the Certificate of Incorporation, as amended, for as many Directors as there are to be elected, unless such right to vote in such manner is limited or denied by other provisions of the Certificate of Incorporation.

Vacancies caused by the death or resignation of any Director and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a vote of at least a majority of the Directors then in office, though less than a quorum, and the Directors so chosen shall hold office until the next annual meeting of the stockholders.

Directors

14. The property and business of the Corporation shall be managed by its Board of Directors. The number of Directors which shall constitute the whole Board shall not be less than eight (8) nor more than twenty (20). Within the limits above specified, the number of Directors shall be determined by resolution of the Board of Directors or by the stockholders at the annual meeting. Each Director shall be elected to serve for the term of one (1) year and until his successor shall be elected and shall qualify.

15. The Directors shall hold their meetings in Houston, Texas, and at such other places as they may designate, and may keep the books of the Corporation outside of Delaware, in the City of Houston, Texas, or at such other places as they may, from time to time, determine.

16. In addition to the powers and authorities by these By-laws expressly conferred upon them, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are permitted by the Certificate of Incorporation and not by statute required to be exercised or done by the stockholders.

17. Each member of the Board shall be paid such fee as the Board of Directors may, from time to time, by resolution determine.

Meetings of the Board

18. Immediately after each annual stockholders' meeting, the newly elected Board shall meet and for the ensuing year elect such officers with such titles and duties as may be necessary to enable the Corporation to sign instruments and stock certificates which comply with Sections 103(a)(2) and 158 of Chapter 1, General Corporation Laws of the State of Delaware, and may elect

such other officers as may be specified in these By-laws or as may be determined by the Board and shall attend to such other business as may come before the Board.

19. Regular meetings of the Board may be held without notice at such time and place as shall be determined by the Board.

20. At all meetings of the Board, a majority of Directors shall be necessary to constitute a quorum.

21. Special meetings of the Board may be called by the Chairman of the Board, the Chief Executive Officer or the President (if a Director) upon one (1) day's notice to each Director either personally or in the manner permitted by Section 42 hereof. Special meetings shall be called by the Chairman of the Board, the Chief Executive Officer, the President or Secretary in like manner and on like notice on the written request of two (2) Directors.

Officers

22. The officers of the Corporation shall be a Chairman of the Board, a President and Chief Executive Officer, a Chief Operating Officer, one or more Vice Presidents (any one or more of whom may be designated Executive Vice President or Senior Vice President), a Secretary, a Treasurer, a Chief Financial Officer, a Controller, one or more Assistant Secretaries, one or more Assistant Treasurers, and, if the Board of Directors so elects, one or more Vice Chairmen. Such officers shall be elected or appointed by the Board of Directors. All officers as between themselves and the Corporation shall have such authority and perform such duties in the management of the Corporation as may be provided in these By-laws, or, to the extent not provided, as may be prescribed by the Board of Directors or by the Chief Executive Officer acting under authority delegated to him by the Board.

23. The Chairman of the Board and the Chief Executive Officer shall be members of the Board. The other officers need not be members of the Board. Any two (2) or more offices may be held by the same person.

24. The Board may elect or appoint such other officers and agents as it may deem necessary, who shall have such authority and shall perform such duties as shall be prescribed by the Board.

25. The officers of the Corporation shall hold office for one (1) year from date of their election and until their successors are chosen and qualify. Any officer elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the whole Board.

Officer Duties

Chairman of the Board

26. The Chairman of the Board shall preside at all meetings of the Board of Directors and stockholders. The Chairman of the Board shall have authority to call meetings of the stockholders and the Board of Directors and of any standing or special committee appointed by or upon the authority of the Board of Directors and shall have such other powers and duties as may, from time to time, be prescribed by the Board of Directors.

Chief Executive Officer

27. In the absence or disability of the Chairman of the Board, the Chief Executive Officer, who shall also serve as President, shall preside at meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall have authority to call meetings of the stockholders and the Board of Directors and of any standing or special committee appointed by or upon authority of the Board of Directors. The Chief Executive Officer shall have the

general management and direction of the business and affairs of the Corporation, subject to the control of the Board of Directors. Such officer shall have the power to appoint and discharge any and all agents and employees of the Corporation not elected or appointed directly by the Board of Directors. The Chief Executive Officer shall sign all papers and documents to which such officer's signature may be necessary or appropriate and shall have such other powers and duties as usually devolve upon the chief executive officer of a corporation, and such further powers and duties as may, from time to time, be prescribed for him by the Board of Directors.

Vice Chairman

28. The Vice Chairman or, if there be more than one, the Vice Chairmen, shall be subject to the direction and control of the Chief Executive Officer and, in turn, the Board of Directors. The Vice Chairman or, if there be more than one, the Vice Chairmen, shall assist the Chief Executive Officer in the general management and direction of the business and affairs of the Corporation, shall sign such papers and documents as may be necessary or appropriate in connection with the operations of the Corporation, make reports to the Board of Directors and have such further powers and duties as may, from time to time, be prescribed by the Board of Directors or the Chief Executive Officer. A Vice Chairman need not be a Director.

Chief Operating Officer

29. The Chief Operating Officer of the Corporation shall have general management of the business unit operations of the Corporation, subject to the direction and control of the Chief Executive Officer, and, in turn, the Board of Directors. The Chief Operating Officer shall sign all papers and documents to which such officer's signature may be necessary or appropriate in connection with the operations of the Corporation, make reports to the Board of Directors, or the Chief Executive Officer, and have such further powers and duties as may,

from time to time, be prescribed by the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chief Executive Officer, the powers and duties of the Chief Executive Officer shall be vested in the Chief Operating Officer; provided, however, that the Chief Operating Officer shall not have authority to call meetings of the stockholders, the Board of Directors or the committees appointed by the Board, or to preside at meetings of the stockholders or the Board of Directors, unless he is also a Director.

The Chief Financial Officer

30. The Chief Financial Officer shall be the principal financial officer and responsible for the financial operations of the Corporation, subject to the direction and control of the Chief Executive Officer and, in turn the Board of Directors; and shall have such other duties as may, from time to time, be assigned by the Board of Directors or the Chief Executive Officer.

The Vice Presidents

31. The Vice President or, if there be more than one, the Vice Presidents, shall assist in the management of the business of the Corporation and the implementation of resolutions and orders of the Board of Directors. If there be more than one Vice President, the Board of Directors may designate one or more of them as Executive Vice President or Senior Vice President among the Vice Presidents and may also grant to such officers and other Vice Presidents such titles as shall be descriptive of their respective functions or indicative of their relative seniority. The Vice President or, if there be more than one, the Vice Presidents, shall have such other powers and duties as may, from time to time, be prescribed by the Board of Directors or the Chief Executive Officer.

The Secretary and Assistant Secretary

32. The Secretary shall attend all sessions of the Board of Directors and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. The Secretary shall have custody of the corporate seal and the Secretary, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and, when so affixed, it may be attested by the Secretary's signature or by the signature of such assistant secretary. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall have such other duties as may, from time to time, be assigned by the Board of Directors or the Chief Executive Officer.

The Assistant Secretary or, if there be more than one, the Assistant Secretaries, in the order of their election shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe.

The Treasurer and Assistant Treasurer

33. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements. The Treasurer shall distribute the funds of the Corporation as may be ordered by the Board of Directors and shall render to the Chief Financial Officer and Board of Directors, whenever they may require it, an account of all such transactions and of the financial condition of the Corporation. The Treasurer shall give the Corporation a bond, if required by the Board of Directors, in a sum and with sureties satisfactory to the Board of Directors.

The Treasurer shall have such other duties as may, from time to time, be assigned by the Board of Directors, the Chief Executive Officer, or the Chief Financial Officer.

The Assistant Treasurer or, if there shall be more than one, the Assistant Treasurers in the order of their election shall, in the absence of the Treasurer or in the event of the Treasurer's inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such duties and have such other powers as the Board of Directors or the Chief Financial Officer may from time to time prescribe.

The Controller

34. The Controller shall be the principal accounting officer of the Corporation; shall keep full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements and other financial transactions of the Corporation and its subsidiaries in books belonging to the Corporation; shall cause regular audits of such books and records to be made and shall furnish financial statements and reports as, from time to time, may be required by the Board of Directors or the Chief Financial Officer; and shall have such other duties as may, from time to time, be assigned by the Board of Directors or the Chief Financial Officer.

Vacancies and Delegation of Duties

35. If any office of the Corporation is vacant for any reason, the Board of Directors may choose a successor, who shall hold office for the unexpired term, or the powers or duties of any such office may be delegated as the Board may determine. In case of the absence, inability or refusal to act of any officer, the Board may delegate the powers or duties of such officer to any other officer, for the time being.

Capital Stock

36. (a) Shares. The shares of the Corporation shall be represented by certificates or shall be uncertificated. Each registered holder of shares, upon request to the Corporation, shall be provided with a certificate of stock, representing the number of shares owned by such holder. Absent a specific request for such a certificate by the registered owner or transferee thereof, all shares shall be uncertificated upon the original issuance thereof by the Corporation or upon the surrender of the certificate representing such shares to the Corporation.

The Board of Directors shall have power and authority to make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of uncertificated shares or certificates for shares of stock of the Corporation.

(b) Certificates For Shares of Stock. The certificates for shares of stock of the Corporation shall be in such form, not inconsistent with the Certificate of Incorporation, as shall be approved by the Board of Directors. All certificates shall be signed by the Chairman of the Board, the President/Chief Executive Officer, or any Vice President, and by the Secretary or an Assistant Secretary of the Corporation and countersigned by an independent transfer agent and registered by an independent registrar. Any or all of the signatures may be facsimiles unless the regulations of the New York Stock Exchange then in effect shall require to the contrary.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall cease to be such officer, transfer agent or registrar before such certificate is issued, it may nevertheless be issued and delivered by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

All certificates for shares of stock shall be consecutively numbered as the same are issued. The name of the person owning the shares represented thereby with the number of such shares and the date of issue thereof shall be entered on the books of the Corporation.

(c) Statements Relating to Uncertificated Shares. Within two business days after uncertificated shares have been registered, the Corporation or its transfer agent shall send to the registered owner thereof a written statement containing a description of the issue of which such shares are a part, the number of shares registered, the date of registration and such other information as may be required or appropriate.

Transfer of Shares

37. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, the Corporation shall issue or cause to be issued uncertificated shares or, if requested by the appropriate person, a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

Record Dates

38. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in

respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

Checks and Debt Instruments

39. All checks, unless otherwise directed by the Board, shall be signed by the Treasurer or Assistant Treasurer and countersigned by the President/Chief Executive Officer, any Vice President, the Chief Financial Officer or the Controller. The Treasurer or Assistant Treasurer, President/Chief Executive Officer, any Vice President, the Chief Financial Officer or the Controller, or any one of them, may appoint such officers or employees of the Corporation as the one or ones so making the appointment shall deem advisable to audit and approve Corporation vouchers and checks and to sign such checks with an approved mechanical check-signer. Any officer or employee so designated to audit, approve or sign checks shall execute a bond to the Corporation in such amount as the Directors, from time to time, may designate, and with sureties satisfactory to the Directors. All notes, debentures and bonds, unless otherwise directed by the Board, or unless otherwise required by law, shall be signed by the Treasurer or Assistant Treasurer and countersigned by the President/Chief Executive Officer, or any Vice President.

Dividends

40. Dividends upon the capital stock, when earned, may be declared by the Board at any regular or special meeting.

41. Before payment of any dividend, there shall be set aside out of the surplus or net profits of the Corporation such sum or sums as the Directors, from time to time, think proper as a reserve fund to meet contingencies, or for such other purposes as the Directors shall think conducive to the interest of the Corporation.

Notice

42. Whenever, under the provisions of these By-laws, notice is required to be given by the Corporation, such notice shall be in writing and shall be given (and shall be deemed to be duly received at the time so given) by personal delivery, by telecopy (with confirmation), by express courier service or by mail, postage prepaid, to the person to whom notice is required, at such address as appears on the records of the Corporation or to such person's telecopier number. Notice may also be given by electronic mail to the electronic mail address provided to the Corporation by such person, which notice shall be deemed to have been given when sent or transmitted.

43. Any stockholder, Director or officer may waive any notice required to be given under these By-laws.

Amendment or Repeal of By-laws

44. These By-laws may be altered or repealed at any regular meeting of the stockholders, or at any special meeting of the stockholders at which a quorum is present or represented, provided notice of the proposed alteration or repeal be contained in the notice of such special meeting, by the affirmative vote of the majority of the stockholders entitled to vote at such meeting and present or represented thereat, or by the affirmative vote of the majority of the Board of Directors at any regular meeting of the Board, or at any special meeting of the Board, if notice of the proposed alteration or repeal be contained in the notice of such special meeting; provided, however, that no

change in these By-laws setting the time or place of the meeting for the election of Directors shall be made within sixty (60) days next before the day on which such meeting is to be held, and that in case of any change in such time or place, notice thereof shall be given to each stockholder in person or by letter mailed to his last known post office address at least twenty (20) days before the meeting is held.

Provisions for National Emergencies

45. During periods of emergency resulting from an attack on the United States or on a locality in which the Corporation conducts its business or customarily holds meetings of its Board of Directors or its stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, the following provisions shall apply notwithstanding any different provisions elsewhere contained in these By-laws:

(a) Whenever, during such emergency and as a result thereof, a quorum of the Board of Directors or a standing committee thereof cannot readily be convened for action, a meeting of such Board or committee thereof may be called by any officer or Director by a notice of the time and place given only to such of the Directors as it may be feasible to reach at the time and by such means as may be feasible at the time, including publications or radio. The Director or Directors in attendance at the meeting shall constitute a quorum; provided, however, that the officers or other persons present who have been designated on a list approved by the Board before the emergency, all in such order of priority and subject to such conditions and for such period of time as may be provided in the resolution approving such list, or in the absence of such a resolution, the officers of the Corporation who are present, in order of rank, and within the same rank in order of seniority, shall to the extent required to provide a quorum be deemed Directors for such meeting.

(b) The Board, either before or during any such emergency, may provide, and from time to time modify, lines of succession in the event that during such emergency any or all officers or agents of the Corporation shall for any reason be rendered incapable of discharging their duties.

(c) The Board either before or during any such emergency, may, effective in the emergency, change the head office or designate several alternative head offices or regional offices, or authorize the officers so to do.

(d) No officer, Director or employee acting in accordance with this article shall be liable except for willful misconduct.

(e) To the extent not inconsistent with this article, all other articles of these By-laws shall remain in effect during any emergency described in this article and upon its termination the provisions of this article covering the duration of such emergency shall cease to be operative.

Divisions and Divisional Officers
Groups and Group Officers

46. (a) Divisions of the Corporation may be formed, and existing divisions dissolved, by resolution of the Board of Directors of the Corporation or through designation in writing by the Chief Executive Officer.

The Chief Operating Officer, or his delegate, shall supervise the management and operations of its divisions and shall have the authority to appoint the officers thereof and the power to remove them and to fill any vacancies.

To the extent not inconsistent with these By-laws or a resolution of the Board of Directors of the Corporation, the officers of each division shall perform such duties and have such authority with respect to the business and affairs of that division as may be granted, from time to time, by the Chief Operating Officer, or his delegate. With respect to the affairs of such division and in the regular course of business of such division, officers of each division may sign contracts and other documents in the name of the division, where so authorized; provided, however, subject to the provisions of the next succeeding sentence of this paragraph, that an officer of one division shall not have authority to bind any other division of the Corporation, nor to bind the Corporation, except as to the normal and usual business and affairs of the division of which he is an officer. Notwithstanding the provisions of the preceding sentence, if a division of the Corporation is formed to provide shared services for the Corporation and/or its operating units, officers, to the extent that and with respect to matters to which they have been delegated such authority in writing by the Chief Operating Officer or his delegate, may execute contracts in the name of and bind the Corporation or any of its divisions; provided, however, that no officer of a division formed to perform shared services shall contract in the name of or otherwise bind a subsidiary or other legal entity in which the Corporation owns an interest with respect to shared services matters unless such officer of such division taking such action (i) is an officer of such subsidiary or such other legal entity and is duly authorized to take such action in the name of and on behalf of such subsidiary or other legal entity or (ii) takes such action on behalf of such subsidiary or other legal entity pursuant to the grant of a duly authorized power of attorney. A divisional officer, unless specifically elected to one of the designated offices of the Corporation, shall not be construed as an officer of the Corporation.

(b) To facilitate the attainment of certain goals and objectives by various divisions and subsidiaries of the Corporation engaged in common pursuits or in activities within the same or similar areas of business activity, a group or groups of such subsidiaries and divisions may be formed by resolution of the Board of Directors of the Corporation or through designation in writing by the Chief Executive Officer, the Chief Operating Officer, or his delegate.

The activities of any such group shall be administered and coordinated by the officers of the group and, if desired by the Chief Operating Officer, or his delegate, by an operating committee. In such event, the number of members of such operating committee shall be determined by the Chief Operating Officer, or his delegate, who shall appoint the members thereof and have the power to remove them and substitute other members. The duties of any such operating committee shall be to aid in the administration and coordination of group activities and to consult with and advise the officers of the group in achieving goals and objectives of such group.

Officers of a group established pursuant to the provisions hereof may include a chairman, a president, one or more vice presidents, a treasurer, a secretary and such other officers as may facilitate operations of the group. The Chief Executive Officer, the Chief Operating Officer, or his delegate, shall have the authority to appoint the officers of a group and the power to remove them and to fill any vacancies. To the extent not inconsistent with these By-laws or a resolution of the Board of Directors of the Corporation, the officers of each group shall have such duties and authority with respect to the activities and affairs of the group as may be granted, from time to time, by the Chief Executive Officer, the Chief Operating Officer or his delegate.

Contracts may not be entered into in the name of any group, but any officer of the group, where so authorized, may execute contracts and other documents in the name of the Corporation on behalf of the members of the group or any division of the Corporation that is a member of the group; provided, however, that in no case shall an officer of the group have authority to bind the Corporation except as to the normal and usual business and affairs of the group of which he or she is an officer; and provided further that a group officer may not execute contracts for any subsidiary who is a member of the group unless (i) he or she executes the same under a duly authorized power of attorney or (ii) he or she is also an officer of such subsidiary and executes the contract in such capacity.

Indemnification

47. (a) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was or has agreed to become a director or officer of the Corporation or is or was serving or has agreed to serve at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving or having agreed to serve as a director or officer shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended, (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment) against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA, excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that the Corporation shall

indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section 47 shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise.

(b) If a claim under Paragraph (a) of this Section 47 is not paid in full by the Corporation within ninety days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) The right to indemnification and the advancement and payment of expenses conferred in this Section 47 shall not be exclusive of any other right which any person may have or hereafter acquire under any law (common or statutory), provision of the Certificate of Incorporation of the Corporation, By-law, agreement, vote of stockholders or disinterested directors or otherwise.

(d) The Corporation may maintain insurance, at its expense, to protect itself and any person who is or was serving as a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

(e) If this Section 47 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each director or officer of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this

Section 47 that shall not have been invalidated and to the full extent permitted by applicable law.

Revised effective February 12, 2003

DII INDUSTRIES, LLC,
as Issuer,

HALLIBURTON COMPANY,
as Co-Obligor and Guarantor

and

JPMORGAN CHASE BANK,
as Trustee

Fourth Supplemental Indenture

Dated as of December 20, 2002

(Baroid Note Indenture)

FOURTH SUPPLEMENTAL INDENTURE

FOURTH SUPPLEMENTAL INDENTURE dated as of December 20, 2002 (the "Fourth Supplemental Indenture") among DII Industries, LLC (formerly Dresser Industries, Inc.), a Delaware limited liability company ("DII"), Halliburton Company, a Delaware corporation ("Halliburton"), and JPMorgan Chase Bank, a New York banking corporation (formerly Texas Commerce Bank National Association), as trustee (the "Trustee"), supplements the Indenture dated as of April 22, 1993 (the "Original Indenture") among Baroid Corporation, a Delaware corporation ("Baroid") and the Trustee, as supplemented by

- the Supplemental Indenture dated as of August 4, 1994 (the "First Supplemental Indenture") among Baroid, Dresser Industries, Inc. (now DII), a Delaware corporation ("Dresser"), and the Trustee,

- the Second Supplemental Indenture dated as of October 30, 1997 (the "Second Supplemental Indenture") between Dresser and the Trustee, and

- the Third Supplemental Indenture dated as of September 29, 1998 (the "Third Supplemental Indenture") among Dresser, Halliburton and the Trustee,

pursuant to which DII's 8% guaranteed senior notes due 2003 (the "Securities") were issued and are outstanding. The Original Indenture, as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture and the Third Supplemental Indenture, is herein referred to as the "Indenture."

Capitalized terms used but not defined herein have the meanings ascribed thereto in the Indenture.

RECITALS

1. On April 22, 1993, Baroid duly authorized the creation of the Securities and the execution and delivery of the Original Indenture and issued the Securities pursuant to the Original Indenture.

2. Following the acquisition of Baroid by Dresser, Baroid, Dresser and the Trustee entered into the First Supplemental Indenture pursuant to which, among other things, Dresser fully and unconditionally guaranteed the payment of the principal, premium, if any, and interest on the Securities and the performance of Baroid's obligations under the Indenture.

3. On October 30, 1997, Baroid was liquidated through distribution of its assets to and assumption of its liabilities by Dresser and was dissolved, and Dresser and the Trustee entered into the Second Supplemental Indenture pursuant to which Dresser assumed and succeeded to all of Baroid's obligations under the Indenture.

4. On September 29, 1998, Dresser became a wholly owned subsidiary of Halliburton and Dresser, Halliburton and the Trustee entered into the Third Supplemental Indenture pursuant to which Halliburton fully and unconditionally guaranteed the payment of the principal, premium, if

any, and interest on the Securities and the performance of Dresser's obligations under the Indenture.

5. In April 2002, Dresser became a Delaware limited liability company and was renamed DII Industries, LLC.

6. Halliburton has agreed to assume as a co-obligor all of DII's obligations under the Indenture.

7. Section 8.01 of the Indenture provides that DII, Halliburton and the Trustee may amend or supplement the Indenture without notice to or consent of any registered holder of Securities to make any changes that do not adversely affect the rights of any registered holder of Securities.

8. Halliburton's assumption as a co-obligor of DII's obligations under the Indenture will not adversely affect the rights of any registered holder of Securities.

9. Each of DII and Halliburton have duly determined to make, execute and deliver to the Trustee this Fourth Supplemental Indenture pursuant to the Indenture.

NOW, THEREFORE, THIS SUPPLEMENT WITNESSETH:

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree, for the equal and proportionate benefit of the respective registered holders from time to time of the Securities, as follows:

SECTION ONE

ASSUMPTION OF OBLIGATIONS

Effective as of the date hereof, (a) Halliburton hereby expressly assumes as a co-obligor the due and punctual payment of the principal of and premium, if any, and interest on all of the Securities and the due and punctual performance of all of the covenants and conditions of the Indenture, as supplemented by this Fourth Supplemental Indenture; and (b) Halliburton, together with DII, will be deemed to be the "Company" for purposes of the Indenture, with the same effect as if Halliburton and DII had each been named as the "Company" in the Indenture, as supplemented by this Fourth Supplemental Indenture.

Nothing herein shall be construed to release DII from any of its obligations under the Indenture and under the Securities, including its obligation to pay the principal of and premium, if any, and interest on the Securities.

SECTION TWO

NOTICES

Pursuant to Section 9.02 of the Indenture, any notice or communication provided or permitted by the Indenture to be made upon, given or furnished to, or filed with, Halliburton, shall be addressed:

If to Halliburton:

Halliburton Company
4100 Clinton Drive
Houston, TX 77020
Attention: Jerry H. Blurton, Vice President and Treasurer

If to DII:

DII Industries, LLC
4100 Clinton Drive
Houston, TX 77020
Attention: Peter W. Arbour, Vice President and Secretary

If to Trustee:

JPMorgan Chase Bank
600 Travis Street, Suite 1150
Houston, Texas 77002
Attention: Institutional Trust Services - DII Industries (Baroid)

SECTION THREE

RATIFICATION

Except as expressly amended and supplemented by this Fourth Supplemental Indenture, the Indenture shall remain unchanged and in full force and effect. This Fourth Supplemental Indenture shall be construed as supplemental to the Indenture and shall form a part thereof.

SECTION FOUR

GOVERNING LAW

This Fourth Supplemental Indenture shall be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

SECTION FIVE

COUNTERPARTS

This Fourth Supplemental Indenture may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, each of the parties have duly executed and delivered this Fourth Supplemental Indenture or have caused this First Supplemental Indenture to be duly executed on their respective behalf by their respective officers thereunto duly authorized, as of the day and year first above written.

DII INDUSTRIES, LLC

By: /s/ Bruce A. Stanski

Name: Bruce A. Stanski
Title: Vice President and Chief Financial Officer

HALLIBURTON COMPANY

By: /s/ Douglas L. Foshee

Name: Douglas L. Foshee
Title: Executive Vice President and Chief Financial Officer

JPMORGAN CHASE BANK, as Trustee

By: /s/ Carol Logan

Name: Carol Logan
Title: Vice President and Trust Officer

AGREEMENT

DATE 29th November, 2002

(pound)80,000,000

CREDIT FACILITY

FOR

DEVONPORT ROYAL DOCKYARD LIMITED

ARRANGED BY

THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND
HSBC BANK PLC
THE ROYAL BANK OF SCOTLAND PLC

WITH

HSBC BANK PLC
as Facility Agent

INDEX

Schedules

THIS AGREEMENT is dated 29th November, 2002

BETWEEN:

(1) DEVONPORT ROYAL DOCKYARD LIMITED (registered number 02077752) (the Company);

(2) DEVONPORT MANAGEMENT LIMITED (registered number 2959785) (the Parent);

(3) THE COMPANIES listed in Schedule 1 (Original Parties) as original guarantors (in this capacity the Original Guarantors);

(4) THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND, HSBC BANK PLC AND THE ROYAL BANK OF SCOTLAND PLC as arrangers (in this capacity the Mandated Lead Arrangers);

(5) THE FINANCIAL INSTITUTIONS listed in the Schedule 1 (Original Parties) as original lenders (the Original Lenders); and

(6) HSBC BANK PLC as facility agent (in this capacity the Facility Agent).

IT IS AGREED as follows:

1. Interpretation

1.1 Definitions

In this Agreement:

Accession Agreement means a letter, substantially in the form of Schedule 8 (Form of Accession Agreement), with such amendments as the Facility Agent may approve or reasonably require.

Additional Guarantor means a member of the Group which becomes a Guarantor after the date of this Agreement.

Administrative Party means a Mandated Lead Arranger or the Facility Agent.

Affiliate means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company.

Agency includes, in relation to a state or supranational organization, any agency, authority, central bank, department, government, legislature, ministry, official or public person (whether autonomous or not) of, or of the government of, that state or supranational organization.

Applicable Margin means:

(a) for a Term Loan, subject to Clause 8.3 (Adjustment of the Applicable Margin), 1.375 per cent. per annum; and

(b) for a Revolving Credit Loan, subject to Clause 8.3 (Adjustment of the Applicable Margin), 1.0 per cent. per annum.

Availability Period means the period from and including the date of this Agreement to and including:

(a) for the Initial Term Loan, the date which is 90 days from the date of this Agreement; and

(b) for any other Term Loan, 30th June, 2003; and

(c) for a Revolving Credit Loan, the date which is one month before the Final Maturity Date.

Break Costs means the amount (if any) which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

Business Day means a day (other than a Saturday or a Sunday) on which banks are open for general business in London.

Commitment means a Commitment, as so designated, of a Lender under a particular Facility.

Compliance Certificate means a certificate substantially in the form of Schedule 7 (Form of Compliance Certificate) setting out, among other things, calculations of the financial covenants.

Costs Report means a report in the form of Part II of Schedule 3 (Form of Costs Report) prepared by the Company, covering details of:

(a) Works completed since the date of the most recent Costs Report provided to the Facility Agent (and not included in any other Costs Report) or, in the case of the first Costs Report to be provided to the Facility Agent, the Works completed since the certificate to be provided by the Company under Schedule 2;

(b) the costs and expenses incurred by the Company in relation to those Works;

(c) any other matters that the Facility Agent may, after consultation with the Company, reasonably request; and

(d) projected expenditure required for completion of the Works together with confirmation that the costs and expenses incurred in respect of the Works up to the date of the Costs Report and the projected expenditure required for completion of the Works are not more than the amounts specified therefor in the Works Budget, provided to the Facility Agent with a Request for a Term Loan (other than the Initial Term Loan) in accordance with Clause 5.2 (Completion of Requests).

Crown Right of Set-Off means all contractual or statutory rights of set-off enjoyed by the monarchy, the government or its agencies in relation to the Company.

Current Facility means the (pound)10,000,000 revolving credit facility between HSBC Bank plc and the Company dated 8th January, 2002.

D154 Construction Contract means the contract dated 10th February, 1997 between the Secretary of State for Defence and the Company relating to the upgrade of nuclear submarine facilities as supplemented, varied and revised from time to time.

DART Alliance means the alliance between the Company, Strachan & Henshaw Limited, Babtie Group Limited, Rolls Royce Power Engineering PLC, British Nuclear Fuels PLC and Kellog Brown & Root Limited.

Default means:

(a) an Event of Default; or

(b) an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

Event of Default means an event specified as such in this Agreement.

Existing Works means the means the work completed as at the date of this Agreement in respect of the design, development and construction of upgraded submarine facilities for refitting and refuelling submarines and new facilities for refitting and refuelling the Vanguard class of nuclear powered submarines at Devonport Royal Dockyard, Plymouth, England, pursuant to the D154 Construction Contract, as described in the certificate by the Company to be provided to the Facility Agent by the Company under Schedule 2.

Facility means a credit facility made available under this Agreement.

Facility Office means the office(s) notified by a Lender to the Facility Agent:

(a) on or before the date it becomes a Lender; or

(b) by not less than five Business Days' notice,

(c) as the office(s) through which it will perform its obligations under this Agreement.

Fee Letter means any letter entered into by reference to this Agreement between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in this Agreement.

Final Maturity Date means:

(a) for a Term Loan, 30th September, 2009; and

(b) (subject to Clause 7.9 (Extension of Revolving Credit Facility)) for a Revolving Credit Loan, the date which is 364 days from date of this Agreement.

Finance Document means:

(a) this Agreement;

(b) a Security Document;

(c) a Fee Letter;

(d) a Letter of Awareness;

(e) the Inter-creditor Deed;

(f) a Transfer Certificate;

(g) an Accession Agreement; or

(h) any other document designated as such by the Facility Agent and the Company.

Finance Party means a Lender or an Administrative Party.

Financial Indebtedness means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any acceptance credit;

(c) any bond, note, debenture, loan stock or other similar instrument;

(d) any redeemable preference share;

(e) any finance or capital lease;

(f) receivables sold or discounted (otherwise than on a non-recourse basis);

(g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

(h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);

(i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;

(j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or

(k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

Group means the Parent and its Subsidiaries (other than any member of the LSC Restricted Group).

Guarantor means an Original Guarantor or an Additional Guarantor.

Holding Company means a holding company within the meaning of section 736 of the Companies Act 1985.

Increased Cost means:

(a) an additional or increased cost;

(b) a reduction in the rate of return under a Finance Document or on its overall capital; or

(c) a reduction of an amount due and payable under any Finance Document,

(d) which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

Initial Term Loan means a Loan in an amount of (pound)41,819,402 under the Term Loan Facility and identified as such in its Request, the purpose of which is to finance or refinance the Company's costs and expenses in respect of the Existing Works carried out under the D154 Construction Contract.

Intellectual Property Rights means:

(a) any know-how, patent, trade mark, service mark, design, business name, domain name, topographical or similar right;

(b) any copyright, data base or other intellectual property right; or

(c) any interest in the above,

in each case whether registered or not, and includes any related application.

Inter-creditor Deed means the inter-creditor deed dated on or about the date of this Agreement between the Transaction Parties and the Original Obligors.

Letter of Awareness means each letter of awareness addressed to the Finance Parties from the ultimate Holding Company of each of the Shareholders, in each case in a form agreed between the Company and the Facility Agent.

Lender means:

(a) an Original Lender; or

(b) any person which becomes a Lender after the date of this Agreement.

LIBOR means for a Term of any Loan or overdue amount:

(a) the applicable Screen Rate; or

(b) if no Screen Rate is available for the relevant currency or Term of that Loan or overdue amount, the arithmetic mean (rounded upward to four decimal places) of the rates, as supplied to the Facility Agent at its request, quoted by the Reference Banks to leading banks in the London interbank market, as of 11.00 a.m. on the Rate Fixing Day for the offering of deposits in the currency of that Loan or overdue amount for a period comparable to that Term.

Loan means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

LSC Restricted Group means LSC Group Holdings Limited (registered number 3533640) and all of its Subsidiaries.

Majority Lenders means, at any time, Lenders:

(a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate 66 per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;

(b) if there is no Loan then outstanding, whose undrawn Commitments then aggregate 66 per cent. or more of the Total Commitments; or

(c) if there is no Loan then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated 66 per cent. or more of the Total Commitments immediately before the reduction.

Mandatory Cost means the cost of complying with certain regulatory requirements, expressed as a percentage rate per annum and calculated by the Facility Agent under Schedule 4 (Calculation of the Mandatory Cost).

Material Adverse Effect means a material adverse effect on:

(a) the business or financial condition of any Obligor or the Group as a whole;

(b) the ability of any Obligor to perform its obligations under any Finance Document; or

(c) the validity or enforceability of any Finance Document.

Material Contract means any agreement to which a member of the Group is a party and where the gross value of receivables payable to the Group under that agreement (and any related agreements) is equal to or exceeds (pound)40,000,000 (or its equivalent) in any financial year of the Company and includes the agreements specified in Schedule 12 (Material Contracts).

Maturity Date means the last day of the Term of a Revolving Credit Loan.

Obligor means the Company or a Guarantor.

Original Financial Statements means the financial statements of the Company for the year ended 31st December, 2001.

Original Obligor means the Company or an Original Guarantor.

Party means a party to this Agreement.

Pro Rata Share means:

(a) for the purpose of determining a Lender's share in a utilisation of a Facility, the proportion which its Commitment under that Facility bears to all the Commitments under that Facility; and

(b) for any other purpose on a particular date:

  (i) the proportion which a Lender's share of the Loans (if any) bears to all the Loans;

  (ii) if there is no Loan outstanding on that date, the proportion which its Commitment bears to the Total Commitments on that date;

  (iii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled; or

  (iv) when the term is used in relation to a Facility, the above proportions but applied only to the Loans and Commitments for that Facility.

(c) For the purpose of sub-paragraph iv) above, the Facility Agent will determine, in the case of a dispute whether the term in any case relates to a particular Facility.

Rate Fixing Day means the first day of a Term for a Loan, or such other day as the Facility Agent determines is generally treated as the rate fixing day by market practice in the relevant interbank market.

Reference Banks means HSBC Bank plc, The Governor and Company of the Bank of Scotland and The Royal Bank of Scotland Plc and any other bank or financial institution appointed as such by the Facility Agent under this Agreement in consultation with the Company.

Repayment Instalment means each instalment for repayment of the Term Loans, as set out in Clause 6.1 (Repayment of Term Loans).

Repeating Representations means the representations which are deemed to be repeated under this Agreement.

Request means a request for a Loan, substantially in the form of Part I of Schedule 3 (Form of Request).

Reservations means the principal that equitable remedies are remedies which may be granted or refused at the discretion of the court, the limitation of enforcement by laws relating to bankruptcy, involvency, liquidation, reorganization, court schemes, moratoria, administration and other laws generally affecting the rights of creditors, the time barring of claims under any applicable limitation acts and the possibility that a court may strike out provisions of a contract as being invalid for reasons of oppression, undue influence, the possibiilty that a charge expressed to be fixed may nevertheless take effect as a floating charge, rules against contractual penalites or similar reasons.

Revolving Credit Commitment means:

(a) for an Original Lender, the amount set opposite its name in Schedule 1 (Original Parties) under the heading "Revolving Credit Commitments" and the amount of any other Revolving Credit Commitment it acquires; and

(b) for any other Lender, the amount of any Revolving Credit Commitment it acquires, to the extent not cancelled, transferred or reduced under this Agreement.

Revolving Credit Facility means the revolving credit facility made available under this Agreement.

Revolving Credit Loan means a Loan under the Revolving Credit Facility and identified as such in its Request.

Rollover Loan means one or more Revolving Credit Loans:

(a) to be made on the same day that a maturing Revolving Credit Loan is due to be repaid;

(b) the aggregate amount of which is equal to or less than the maturing Revolving Credit Loan;

(c) in the same currency as the maturing Revolving Credit Loan; and

(d) to be made for the purpose of refinancing a maturing Revolving Credit Loan.

Screen Rate means the British Bankers Association Interest Settlement Rate (if any) for the relevant currency and Term displayed on the appropriate page of the Telerate screen (or such other service as may be used for the publication of such rates) selected by the Facility Agent. If the relevant page is replaced or the service ceases to be available, the Facility Agent (after consultation with the Company and the Lenders) may specify another page or service displaying the appropriate rate.

Security Agreement means a security agreement in the form of Schedule 10 (Form of Security Agreement) with such amendments as the Facility Agent may approve or reasonably require.

Security Document means:

(a) each Security Agreement;

(b) and

(c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Finance Party under the Finance Documents.

Security Interest means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

Shareholders means the holders of all the issued ordinary shares in the Parent as at the date of this Agreement, being:

(a) Halliburton Holdings Limited;

(b) The Weir Group plc; and

(c) Balfour Beatty plc.

Shareholders Agreement means the agreement between the Shareholders dated 13th March, 1997.

Special Shareholder means the owner from time to time of the special share issued by the Company in accordance with its memorandum and articles of association, being one of the Secretary of State, his nominee, the Lords Commissioners of Her Majesty's Treasury, a minister of the Crown or their respective nominees.

Strategic Assets has the meaning given to that term in the Company's memorandum and articles of association.

Subsidiary means:

(a) a subsidiary within the meaning of section 736 of the Companies Act 1985; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

Tax means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest).

Tax Deduction means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

Tax Payment means a payment made by an Obligor to a Finance Party in any way relating to a Tax Deduction or under any indemnity given by that Obligor in respect of Tax under any Finance Document.

Term means each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

Term Loan means a Loan (including the Initial Term Loan) under the Term Loan Facility and identified as such in its Request.

Term Loan Commitment means:

(a) for an Original Lender, the amount set opposite its name in Schedule 1 (Original Parties) under the heading "Term Loan Commitments" and the amount of any other Term Loan Commitment it acquires; and

(b) for any other Lender, the amount of any other Term Loan Commitment it acquires,

to the extent not cancelled, transferred or reduced under this Agreement.

Term Loan Facility means the term loan facility made available under this Agreement.

Total Commitments means the Commitments of all the Lenders.

Total Revolving Credit Commitments means the aggregate of the Revolving Credit Commitments of all the Lenders, being the total amount specified as such in Schedule 1 (Original Parties) at the date of this Agreement.

Total Term Loan Commitments means the the aggregate of the Term Loan Commitments of all the Lenders, being the total amount specified as such in Schedule 1 (Original Parties) at the date of this Agreement.

Transaction Documents means each of the Finance Documents and any Working Capital Facility Document.

Transaction Parties means each Finance Party and each Working Capital Facility Lender.

Transfer Certificate means a certificate, substantially in the form of Schedule 5 (Form of Transfer Certificate), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

U.K. means the United Kingdom.

Utilisation Date means each date on which a Facility is utilised.

Working Capital Facility Document means any document providing for a Working Capital Facility.

Working Capital Facility means each of the following:

(a) the (pound)15,000,000 uncommited overdraft facility dated 8th January, 2002 between the Company, Devonport Management Limited (formerly known as Dorhold Limited), Devonport Engineering Services Limited, Dorhold Limited (formerly known as Devonport Management Limited) and HSBC Bank plc as amended by letter dated on or about the date of this Agreement between the same parties; and

(b) the (pound)10,000,000 bank guarantee facility dated 8th January, 2002 between the Company, Devonport Management Limited (formerly known as Dorhold Limited), Devonport Engineering Services Limited, Dorhold Limited (formerly known as Devonport Management Limited) and HSBC Bank plc as amended by letter dated on or about the date of this Agreement between the same parties; and

(c) any other facility or financial accommodation required in connection with the business of the Group and established under this Agreement. This may include any overdraft, foreign exchange, interest rate hedging or guarantee or other banking facility.

Working Capital Facility Lender means a Lender that provides a Working Capital Facility.

Working Capital Outstandings means the principal amount outstanding under a Working Capital Facility, as calculated under the Working Capital Facility Document for that Working Capital Facility.

Works means the design, development and construction of upgraded submarine refitting facilities for refitting and refuelling submarines and new facilities for refitting and refuelling the Vanguard class of nuclear powered submarines at Devonport Royal Dockyard, Plymouth, England, and any other works contemplated by the D154 Construction Contract other than the Existing Works.

Works Budget means the budget for the implementation of the Works to be provided to the Facility Agent by the Company under Schedule 2.

1.2 Construction

(a) In this Agreement, unless the contrary intention appears, a reference to:

(i) an amendment includes a supplement, novation, restatement or re-enactment and amended will be construed accordingly;

assets includes present and future properties, revenues and rights of every description;

an authorisation includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;

disposal means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;

indebtedness includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;

a person includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;

a regulation includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

(ii) a currency is a reference to the lawful currency for the time being of the relevant country;

(iii) a Default being outstanding means that it has not been remedied or waived;

(iv) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;

(v) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;

(vi) a person includes its successors in title, permitted assigns and permitted transferees;

(vii) a Finance Document or another document is a reference to that Finance Document or other document as amended; and

(viii) a time of day is a reference to London time.

(b) Unless the contrary intention appears, a reference to a month or months is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

(i) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);

(ii) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and

(iii) notwithstanding sub-paragraph (i) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

(c) Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

(d) Unless the contrary intention appears:

(i) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;

(ii) an amount in euro is payable only in the euro unit;

(iii) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and

(iv) any obligation of an Obligor under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of an Obligor is or may be outstanding under the Finance Documents.

(e) The headings in this Agreement do not affect its interpretation.

2. Facilities

2.1 Term Loan Facility

Subject to the terms of this Agreement, the Lenders make available to the Company a sterling term loan facility in an aggregate amount equal to the Total Term Loan Commitments.

2.2 Revolving Credit Facility

Subject to the terms of this Agreement, the Lenders make available to the Company a sterling revolving credit facility in an aggregate amount equal to the Total Revolving Credit Commitments.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

(a) the obligations of a Finance Party under the Finance Documents are several;

(b) failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;

(c) no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;

(d) the rights of a Finance Party under the Finance Documents are separate and independent rights;

(e) a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and

(f) a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. Purpose

3.1 Term Loans

(a) The Initial Term Loan may only be used to finance or refinance costs and expenses incurred by the Company in order to carry out the Existing Works.

(b) Each other Term Loan may ony be used to finance or refinance costs and expenses incurred by the Company in order to carry out the Works.

3.2 Revolving Credit Loans

Each Revolving Credit Loan may only be used for general corporate purposes.

3.3 No obligation to monitor

No Finance Party is bound to monitor or verify the utilisation of a Facility.

4. Conditions precedent

4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received all of the documents and evidence set out in Part I of Schedule 2 (Conditions precedent documents) in form and substance satisfactory to the Facility Agent. The Facility Agent must give this notification to the Company and the Lenders promptly upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Utilisation Date for that Loan:

(a) the Repeating Representations are correct in all material respects;

(b) no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan;

(c) in relation to Term Loans:

(i) if the Loan is the Initial Term Loan, the amount of the Loan is no greater than the costs and expenses incurred by the Company (less any funds provided by the Secretary of State for Defence or the members of the DART Alliance) in order to carry out the Existing Works, as specified in the certificate to be provided by the Company under Schedule 2 (Conditions precedent documents);

(ii) for any other Term Loan, the amount of the Loan is no greater than the value of costs and expenses incurred by the Company to carry out Works as specified in the Costs Report provided to the Facility Agent with the Request for that Term Loan; and

(iii) the costs and expenses incurred in respect of the Works up to the date of the Costs Report provided to the Facility Agent with the Request for that Term Loan and the projected expenditure required for completion of the Works are not more than the amount specified therefor in with the Works Budget.

4.3 Maximum number

Unless the Facility Agent Agrees, only one Request in respect of Term Loans (excluding the Request for the Initial Term Loan) may be given in any calendar month.

5. Utilisation

5.1 Giving of Requests

(a) The Company may borrow a Loan by giving to the Facility Agent a duly completed Request.

(b) Unless the Facility Agent otherwise agrees, the latest time for receipt by the Facility Agent of a duly completed Request is 11.00 a.m. one Business Day before the Rate Fixing Day for a Revolving Credit Loan or the Initial Term Loan, and 11.00 a.m. five Business Days before the Rate Fixing Day for a Term Loan (other than the Initial Term Loan).

(c) Each Request is irrevocable.

5.2 Completion of Requests

A Request for a Loan will not be regarded as having been duly completed unless:

(a) it identifies the Facility the Loan applies to;

(b) the Utilisation Date is a Business Day falling within the Availability Period;

(c) for a Term Loan (other than the Initial Term Loan) a Costs Report is attached to the Request;

(d) the amount of the Loan requested is:

(i) a minimum of (pound)500,000;

(ii) not greater than the maximum undrawn amount available under this Agreement for Loans under the relevant Facility on the proposed Utilisation Date; or

(iii) such other amount as the Facility Agent may agree; and

(e) the proposed currency and Term comply with this Agreement.

Only one Loan may be requested in a Request.

5.3 Advance of Loan

(a) The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

(b) The amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Utilisation Date.

(c) No Lender is obliged to participate in a Loan if as a result:

(i) its share in the Loans under a Facility would exceed its Commitment for that Facility; or

(ii) the Loans would exceed the Total Commitments.

(d) If the conditions set out in this Agreement have been met, each Lender must make its share in the Loan available to the Facility Agent for the Company on the Utilisation Date.

6. Repayment

6.1 Repayment of Term Loans

(a) Subject to Clause 7 (Prepayment and cancellation), on each date specified below (each a "Term Loan Repayment Date"), the Company shall repay an amount of the Term Loans equal to the amount set opposite that date below (a "Repayment Instalment"):

Term Loan Repayment Date	Repayment Instalment(pound)
30th September, 2003	(pound)2,800,000
31st December, 2003	(pound)2,800,000
31st March, 2004	(pound)2,800,000
30th June, 2004	(pound)2,800,000
30th September, 2004	(pound)2,800,000
31st December, 2004	(pound)2,800,000
31st March, 2005	(pound)2,800,000
30th June, 2005	(pound)2,800,000
30th September, 2005	(pound)2,800,000
31st December, 2005	(pound)2,800,000
31st March, 2006	(pound)2,800,000
30th June, 2006	(pound)2,800,000
30th September, 2006	(pound)2,800,000
31st December, 2006	(pound)2,800,000
31st March, 2007	(pound)2,800,000
30th June, 2007	(pound)2,800,000
30th September, 2007	(pound)2,800,000
31st December, 2007	(pound)2,800,000
31st March, 2008	(pound)2,800,000
30th June, 2008	(pound)2,800,000
30th September, 2008	(pound)2,800,000
31st December, 2008	(pound)2,800,000
31st March, 2009	(pound)2,800,000
30th June, 2009	(pound)2,800,000
Final Maturity Date	Balance then outstanding

(b) Amounts repaid under this Clause may not be re-borrowed.

6.2 Repayment of Revolving Credit Loans

(a) The Company must repay each Revolving Credit Loan in full on its Maturity Date.

(b) Subject to the other terms of this Agreement, any amounts repaid under paragraph (a) above may be re-borrowed.

7. Prepayment and cancellation

7.1 Mandatory prepayment - illegality

(a) A Lender must notify the Company promptly if it becomes aware that it is unlawful in any relevant jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

(b) After notification under paragraph (a) above:

(i) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in paragraph (c) below; and

(ii) the Commitments of that Lender will be immediately cancelled.

(c) The date for repayment or prepayment of a Lender's share in a Loan will be:

(i) the Business Day following receipt by the Company of notice from the Lender under paragraph (a) above; or

(ii) if later, the latest date allowed by the relevant law.

7.2 Mandatory prepayment - change of control

(a) The Parent must promptly notify the Facility Agent if:

(i) it becomes aware of any person or group of persons (other than the Shareholders) acting in concert gaining control of the Parent; or

(ii) the percentage of the issued ordinary shares of the Parent held by a Shareholder changes; or

(iii) the Special Shareholder becomes entitled to acquire all the issued ordinary shares in the Company.

(b) After notification under paragraph (a) above, if the Majority Lenders so require, the Facility Agent must, by notice to the Company:

(i) cancel the Total Commitments; and

(ii) declare all outstanding Loans, together with accrued interest and all other amounts accrued under the Finance Documents, to be immediately due and payable.

Any such notice will take effect in accordance with its terms.

(c) In paragraph (a) above:

control has the meaning given to it in section 416 of the Income and Corporation Taxes Act 1988; and

acting in concert means acting together pursuant to an agreement or understanding (whether formal or informal).

7.3 Voluntary prepayment

(a) The Company may, by giving not less than 14 days' prior notice to the Facility Agent, prepay any Loan on the last day of its current Term in whole or in part.

(b) A prepayment of part of a Loan must be in a minimum amount of (pound)1,000,000.

7.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

7.5 Voluntary cancellation

(a) The Company may, by giving not less than 14 days' prior notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.

(b) Partial cancellation of the Total Commitments must be in a minimum amount of (pound)1,000,000.

(c) Any cancellation in part will be applied against the relevant Commitment of each Lender pro rata.

7.6 Involuntary prepayment and cancellation

(a) If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

(b) After notification under paragraph (a) above:

(i) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in paragraph (c) below; and

(ii) the Commitments of that Lender will be immediately cancelled.

(c) The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.

7.7 Partial prepayment of Term Loans

(a) Except where this Clause expressly provides otherwise any partial prepayment of a Term Loan will be applied against the remaining Repayment Instalments pro rata.

(b) Any voluntary prepayment of a Term Loan will be applied against the remaining Repayment Instalments pro rata.

(c) No amount of a Term Loan prepaid under this Agreement may subsequently be re-borrowed.

7.8 Re-borrowing of Revolving Credit Loans

Any voluntary prepayment of a Revolving Credit Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Revolving Credit Loan may not be re-borrowed.

7.9 Extension of Revolving Credit Facility

(a) Subject to paragraph (c) below, the Company may, by notice to the Facility Agent not more than 60 days nor less than 30 days prior to the Final Maturity Date for the Revolving Credit Loans, request that the Final Maturity Date in respect of such Loans be extended to the date falling 364 days after the then current Final Maturity Date for Revolving Credit Loans.

(b) Subject to paragraph (c) below, the Facility Agent may, with the consent of all the Lenders, agree to such request by giving written notice of such extension to the Company no later than 15 days prior to the then current Final Maturity Date for Revolving Credit Loans. If such agreement is given by the Facility Agent on behalf of the Lenders, the Final Maturity Date in respect of Revolving Credit Loans shall, with effect from the then current Final Maturity Date, be deemed to be the date falling 364 days after that date.

(c) The Final Maturity Date in respect of Revolving Credit Loans shall not be extended to a date falling after 30th September, 2009.

7.10 Miscellaneous provisions

(a) Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

(b) All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.

(c) The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.

(d) No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.

(e) No amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

8. Interest

8.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

(a) Applicable Margin;

(b) LIBOR; and

(c) Mandatory Cost.

8.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

8.3 Adjustment of Applicable Margin

(a) Following delivery of the first Compliance Certificate under Clause 17.3 (Compliance Certificate), the Applicable Margin for each Term of a Loan commencing after the date of the relevant Compliance Certificate will be adjusted as appropriate by reference to the ratio of Total Borrowings to EBITDA for the relevant Measurement Period (as defined and calculated in accordance with Clause 18 (Financial covenants) and as set out in the most recent Compliance Certificate) as follows:

Total Borrowings: EBITDA	Applicable Margin Revolving Credit Loan	(per cent. per annum) Term Loan
Less than 1.5:1	0.625%	1.00%
Greater or equal to 1.5:1 but less than 1.75:1	0.75%	1.125%
Greater or equal to 1.75:1 but less than 2.0:1	0.875%	1.25%
Equal to or greater than 2.0:1	1.00%	1.375%

(b) For so long as:

(i) the Company is in default of its obligation under this Agreement to provide a Compliance Certificate; or

(ii) an Event of Default is outstanding, the Applicable Margin will be 1.375 per cent. per annum in respect of Term Loans and 1.0 per cent. per annum in respect of Revolving Credit Loans.

8.4 Interest on overdue amounts

(a) If an Obligor fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

(b) Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Revolving Credit Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

(i) select successive Terms of any duration of up to three months; and

(ii) determine the appropriate Rate Fixing Day for that Term.

(c) Notwithstanding paragraph (b) above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

(i) the first Term for that overdue amount will be the unexpired portion of that Term; and

(ii) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with paragraph (b) above.

(d) Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

8.5 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

9. Terms

9.1 Selection - Term Loans

(a) Each Term Loan has successive Terms.

(b) The Company must select the first Term for a Term Loan in the relevant Request and each subsequent Term in an irrevocable notice received by the Facility Agent not later than 11.00 a.m. one Business Day before the Rate Fixing Day for that Term. Each Term for a Term Loan will start on its Utilisation Date or on the expiry of its preceding Term.

(c) If the Company fails to select a Term for an outstanding Term Loan under paragraph (b) above, that Term will, subject to the other provisions of this Clause, be three months.

(d) Subject to the following provisions of this Clause, each Term for a Term Loan will be one, three or six months or any other period agreed by the Company and the Lenders.

9.2 Selection - Revolving Credit Loans

(a) Each Revolving Credit Loan has one Term only.

(b) The Company must select the Term for a Revolving Credit Loan in the relevant Request.

(c) Subject to the following provisions of this Clause, each Term for a Revolving Credit Loan will be one, three or six months or any other period agreed by the Company and the Lenders.

9.3 Consolidation - Term Loans

Unless the Company otherwise requests, a Term for a Term Loan will end on the same day as the current Term for any other Term Loan. On the last day of those Terms, those Term Loans will be consolidated and treated as one Term Loan.

9.4 Coincidence with Repayment Instalment dates

(a) The Company may select any Term of less than six months for a Term Loan (and may redesignate any Term Loan as two Term Loans) to ensure that the amount of the Term Loans with a Term ending on a date for repayment of a Repayment Instalment is not less than the Repayment Instalment due on that date.

(b) If the Company fails to make a selection in the circumstances envisaged in paragraph (a) above, the Facility Agent may prior to the Rate Fixing Day for the relevant Term shorten any Term for a Term Loan (and may designate any Term Loan as two Term Loans) to achieve the same end.

9.5 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

9.6 Other adjustments

The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

9.7 Notification

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

10. Market disruption

10.1 Failure of a Reference Bank to supply a rate

If LIBOR is to be calculated by reference to the Reference Banks but a Reference Bank does not supply a rate by 12.00 noon on a Rate Fixing Day, the applicable LIBOR will, subject as provided below, be calculated on the basis of the rates of the remaining Reference Banks.

10.2 Market disruption

(a) In this Clause, each of the following events is a market disruption event:

(i) LIBOR is to be calculated by reference to the Reference Banks but no, or only one, Reference Bank supplies a rate by 12.00 noon on the Rate Fixing Day; or

(ii) the Facility Agent receives by close of business on the Rate Fixing Day notification from Lenders whose shares in the relevant Loan exceed 50 per cent. of that Loan that the cost to them of obtaining matching deposits in the relevant interbank market is in excess of LIBOR for the relevant Term.

(b) The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

(c) After notification under paragraph (b) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

(i) Applicable Margin;

(ii) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of tha t Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select; and

(iii) Mandatory Cost.

10.3 Alternative basis of interest or funding

(a) If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

(b) Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

11. Taxes

11.1 General

In this Clause:

Qualifying Lender means a Lender which is:

(a) a U.K. Lender; or

(b) a Treaty Lender.

Tax Credit means a credit against any Tax or any relief or remission for Tax (or its repayment).

Treaty Lender means a Lender which is, on the date a payment of interest falls due under this Agreement:

(a) resident (as defined in the appropriate double taxation agreement) in a country with which the U.K. has a double taxation agreement giving residents of that country exemption from U.K. taxation on interest; and

(b) does not carry on a business in the U.K. through a permanent establishment with which the payment is effectively connected.

U.K. Lender means a Lender which is:

(a) within the charge to U.K. corporation tax in respect of, and beneficially entitled to, a payment of interest on a Loan made by a person that was a bank for the purposes of section 349 of the Income and Corporation Taxes Act 1988 (as currently defined in section 840A of the Income and Corporation Taxes Act 1988) at the time the Loan was made; or

(b) a U.K. Non-Bank Lender.

U.K. Non-Bank Lender means:

(a) company resident in the U.K. for tax purposes;

(b) a partnership each member of which is a company resident in the U.K. for tax purposes; or

(c) a company not resident in the U.K. for tax purposes which carries on a trade in the U.K. through a branch or agency and brings into account payments made to it under this Agreement in computing its chargeable profits for the purpose of section 11(2) of the Income and Corporation Taxes Act 1988, which, in each case, is beneficially entitled to payments made to it under this Agreement and which has provided to the Company and not retracted confirmation of the above.

11.2 Tax gross-up

(a) Each Obligor must make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law.

(b) If:

(i) a Lender is not, or ceases to be, a Qualifying Lender; or

(ii) an Obligor or a Lender is aware that an Obligor must make a Tax Deduction (or that there is a change in the rate or the basis of a Tax Deduction), it must promptly notify the Facility Agent. The Facility Agent must then promptly notify the affected Parties.

(c) Except as provided below, if a Tax Deduction is required by law to be made by an Obligor or the Facility Agent, the amount of the payment due from the Obligor will be increased to an amount which (after making the Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

(d) Except as provided below, an Obligor resident for tax purposes in the U.K. is not required to make an increased payment under paragraph (c) above to a Lender that is not, or has ceased to be, a Qualifying Lender in excess of the amount that the Obligor would have had to pay had the Lender been, or not ceased to be, a Qualifying Lender.

(e) Paragraph (d) above will not apply if the Lender has ceased to be a Qualifying Lender by reason of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or double taxation agreement or any published practice or concession of any relevant taxing authority.

(f) An Obligor resident for tax purposes in the U.K. is not required to make an increased payment to a Lender under paragraph (c) above if that Lender is a Treaty Lender and the Obligor making the payment is able to demonstrate that the Tax Deduction would not have been required if the Lender had complied with its obligations under paragraph (h) below.

(g) If an Obligor is required to make a Tax Deduction, that Obligor must make the minimum Tax Deduction and must make any payment required in connection with that Tax Deduction within the time allowed by law.

(h) Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Obligor making that Tax Deduction or payment must deliver to the Facility Agent for the relevant Finance Party evidence satisfactory to that Finance Party (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

(i) A Treaty Lender must co-operate with each Obligor by using its reasonable endeavours to complete any procedural formalities necessary for that Obligor to obtain authorisation to make that payment without a Tax Deduction.

(j) Any confirmation by a Lender of its status for the purpose of the definition of U.K. Non-Bank Lender must be given to the Facility Agent on or promptly after the date it becomes a Lender. The Facility Agent must promptly forward any confirmation received by it to the Company. A U.K. Non-Bank Lender must promptly notify the Company and the Facility Agent of any change to its status that may affect any confirmation made by it.

11.3 Tax indemnity

(a) Except as provided below, the Company must indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

(b) Paragraph (a) above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

(i) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(ii) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

(c) A Finance Party making, or intending to make, a claim under paragraph (a) above must promptly notify the Company of the event which will give, or has given, rise to the claim.

11.4 Tax Credit

If an Obligor makes a Tax Payment and the relevant Finance Party (in its absolute discretion) determines that:

(a) a Tax Credit is attributable to that Tax Payment; and

(b) it has used and retained that Tax Credit,

the Finance Party must pay an amount to the Obligor which that Finance Party determines (in its absolute discretion) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been made by the Obligor.

11.5 Stamp taxes

The Company must pay and indemnify each Finance Party against any stamp duty, registration or other similar Tax payable in connection with the entry into, performance or enforcement of any Finance Document, except for any such Tax payable in connection with the entry into of a Transfer Certificate.

11.6 Value added taxes

(a) Any amount (including costs and expenses) payable under a Finance Document by an Obligor is exclusive of any value added tax or any other Tax of a similar nature which might be chargeable in connection with that amount. If any such Tax is chargeable, the Obligor must pay to the Finance Party (in addition to and at the same time as paying that amount) an amount equal to the amount of that Tax.

(b) The obligation of any Obligor under paragraph (a) above will be reduced to the extent that the Finance Party determines (acting reasonably) that it is entitled to repayment or a credit in respect of the relevant Tax.

12. Increased Costs

12.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

(a) the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation; or

(b) compliance with any law or regulation, made after the date of this Agreement.

12.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

(a) compensated for under another Clause or would have been but for an exception to that Clause;

(b) a tax on the overall net income of a Finance Party or any of its Affiliates; or

(c) attributable to a Tax Deduction required by law to be made by an Obligor; or

(d) compensated for by the payment of Mandatory Costs; or

(e) attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation.

12.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

13. Mitigation

13.1 Mitigation

(a) Each Finance Party must, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which result or would result in:

(i) any Tax Payment or Increased Cost being payable to that Finance Party;

(ii) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality; or

(iii) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank, including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

(b) The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of any step taken by it under this Subclause.

(c) A Finance Party is not obliged to take any step under this Subclause if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

13.2 Conduct of business by a Finance Party

No term of this Agreement will:

(a) interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit;

(b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it in respect of Tax or the extent, order and manner of any claim; or

(c) oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

14. Payments

14.1 Place

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank:

(a) in the principal financial centre of the country of the relevant currency; or

(b) in the case of euro, in the principal financial centre of a Participating Member State or London, as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

14.2 Funds

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place for payment.

14.3 Distribution

(a) Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

(i) in the principal financial centre of the country of the relevant currency; or

(ii) in the case of euro, in the principal financial centre of a Participating Member State or London, as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

(b) The Facility Agent may apply any amount received by it for an Obligor in or towards payment (as soon as practicable after receipt) of any amount due from that Obligor under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

(c) Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

14.4 Currency

(a) Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

(b) Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

(c) A repayment or prepayment of any principal amount is payable in the currency in which that principal amount is denominated on its due date.

(d) Amounts payable in respect of costs and expenses are payable in the currency in which they are incurred.

(e) Each other amount payable under the Finance Documents is payable in Sterling.

14.5 No set-off or counterclaim

All payments made by an Obligor under the Finance Documents must be made without set-off or counterclaim.

14.6 Business Days

(a) If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).

(b) During any extension of the due date for payment of any principal under this Agreement interest is payable on that principal at the rate payable on the original due date.

14.7 Partial payments

(a) If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Obligors under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Obligors under the Finance Documents in the following order:

(i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;

(ii) secondly, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;

(iii) thirdly, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and

(iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

(b) The Facility Agent must, if so directed by all the Lenders, vary the order set out in sub-paragraphs (a)(ii) to (iv) above.

(c) This Subclause will override any appropriation made by an Obligor.

14.8 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

15. Guarantee and indemnity

15.1 Guarantee and indemnity

Each Guarantor jointly and severally and irrevocably and unconditionally:

(a) guarantees to each Finance Party punctual performance by the Company of all its payment obligations under the Finance Documents;

(b) undertakes with each Finance Party that, whenever the Company does not pay any amount when due under any Finance Document, that Guarantor must immediately on demand by the Facility Agent pay that amount as if it were the principal obligor; and

(c) indemnifies each Finance Party immediately on demand against any loss or liability suffered by that Finance Party if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the loss or liability under this indemnity will be equal to the amount the Finance Party would otherwise have been entitled to recover.

15.2 Continuing guarantee

This guarantee is a continuing guarantee and will extend to the ultimate balance of all sums payable by the Company under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

15.3 Reinstatement

(a) If any discharge (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) or arrangement is made in whole or in part on the faith of any payment, security or other disposition which is avoided or must be restored on insolvency, liquidation or otherwise without limitation, the liability of each Guarantor under this Clause will continue as if the discharge or arrangement had not occurred.

(b) Each Finance Party may concede or compromise any claim that any payment, security or other disposition is liable to avoidance or restoration.

15.4 Waiver of defences

The obligations of each Guarantor under this Clause will not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice any of its obligations under this Clause (whether or not known to it or any Finance Party). This includes:

(a) any time or waiver granted to, or composition with, any person;

(b) any release of any person under the terms of any composition or arrangement;

(c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any person;

(d) any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;

(e) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of any person;

(f) any amendment (however fundamental) of a Finance Document or any other document or security; or

(g) any unenforceability, illegality, invalidity or non-provability of any obligation of any person under any Finance Document or any other document or security.

15.5 Immediate recourse

Each Guarantor waives any right it may have of first requiring any Finance Party (or any trustee or agent on its behalf) to proceed against or enforce any other right or security or claim payment from any person before claiming from that Guarantor under this Clause.

15.6 Appropriations

Until all amounts which may be or become payable by the Obligors under the Finance Documents have been irrevocably paid in full, each Finance Party (or any trustee or agent on its behalf) may:

(a) without affecting the liability of any Guarantor under this Clause:

  (i) refrain from applying or enforcing any other moneys, security or rights held or received by that Finance Party (or any trustee or agent on its behalf) in respect of those amounts; or

  (ii) apply and enforce them in such manner and order as it sees fit (whether against those amounts or otherwise); and

(b) hold in an interest-bearing suspense account any moneys received from any Guarantor or on account of that Guarantor's liability under this Clause.

15.7 Non-competition

Unless:

(a) all amounts which may be or become payable by the Obligors under the Finance Documents have been irrevocably paid in full; or

(b) the Facility Agent otherwise directs,

no Guarantor will, after a claim has been made or by virtue of any payment or performance by it under this Clause:

(i) be subrogated to any rights, security or moneys held, received or receivable by any Finance Party (or any trustee or agent on its behalf);

(ii) be entitled to any right of contribution or indemnity in respect of any payment made or moneys received on account of that Guarantor's liability under this Clause;

(iii) claim, rank, prove or vote as a creditor of any Obligor or its estate in competition with any Finance Party (or any trustee or agent on its behalf); or

(iv) receive, claim or have the benefit of any payment, distribution or security from or on account of any Obligor, or exercise any right of set-off as against any Obligor.

Each Guarantor must hold in trust for and immediately pay or transfer to the Facility Agent for the Finance Parties any payment or distribution or benefit of security received by it contrary to this Clause or in accordance with any directions given by the Facility Agent under this Clause.

15.8 Additional security

This guarantee is in addition to and is not in any way prejudiced by any other security now or subsequently held by any Finance Party.

15.9 Limitations

This guarantee does not apply to any liability to the extent it would result in this guarantee constituting unlawful financial assistance within the meaning of Section 151 of the Companies Act 1985.

16. Representations

16.1 Representations

The representations set out in this Clause are made by each Obligor or (if it so states) the Company to each Finance Party.

16.2 Status

(a) It is a limited liability company, duly incorporated and validly existing under the laws of its jurisdiction of incorporation.

(b) It and each of its Subsidiaries has the power to own its assets and carry on its business as it is being conducted.

16.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

16.4 Legal validity

(a) Subject to the Reservations, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

16.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict:

(a) with any law or regulation applicable to it;

(b) with its or any of its Subsidiaries' constitutional documents; or

(c) in any material respect with any document which is binding upon it or any of its Subsidiaries or any of its or its Subsidiaries' assets.

16.6 No default

(a) No Default is outstanding or will result from the execution of, or the performance of any transaction contemplated by, any Finance Document; and

(b) no other event is outstanding which constitutes a default under any document which is binding on it or any of its Subsidiaries or any of its or its Subsidiaries' assets to an extent or in a manner which is reasonably likely to have a Material Adverse Effect.

16.7 Authorisations

Except for registration of each Security Agreement under the Companies Act 1985 all authorisations required by it in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents have been obtained or effected (as appropriate) and are in full force and effect.

16.8 Financial statements

Its audited financial statements most recently delivered to the Facility Agent (which, in the case of the Company at the date of this Agreement, are the Original Financial Statements):

(a) have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

(b) fairly represent its financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements.

16.9 No material adverse change

In the case of the Company only, as at the date of this Agreement there has been no material adverse change in the financial condition of the Company since the date to which the Original Financial Statements were drawn up.

16.10 Litigation

As at the date of this Agreement, no litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

16.11 Information

(a) In this Subclause, Information means any information provided by or on behalf of the Company to the Finance Parties in connection with this Agreement.

(b) In the case of the Company only:

(i) the written factual information contained in the Information was true and accurate in all material respects as at its date or (if appropriate) as at the date (if any) at which it is stated to be given;

(ii) any financial projections contained in the Information have been prepared as at its date, on the basis of recent historical information and assumptions believed by the Company to be reasonable;

(iii) each expression of opinion or intention contained in the Information was made after careful consideration and enquiry and is believed by the Company to be reasonable as at the date at which it is stated to be given;

(iv) the Information did not omit as at its date any information which, if disclosed, would make the Information untrue or misleading in any material respect; and

(v) in respect of any Information provided before the date of this Agreement, as at the date of this Agreement, nothing has occurred since the date of the Information which, if disclosed, would make the Information untrue or misleading in any material respect.

16.12 D154 Contract

(a) The Company is not in default of any of its material obligations under the D154 Construction Contract;

(b) there is no outstanding breach of the D154 Construction Contract by any other party to the D154 Construction Contract; and

(c) the expenditure on the Works completed to date does not exceed the amount specified for such works in the Works Budget.

16.13 Material Contracts

(a) All payments to it by any other party to a Material Contract are not subject to any right of set-off or similar right (other than the Crown Right of Set-Off);

(b) each such Material Contract is its legally binding, valid, and enforceable obligation;

(c) it is not in default of any of its material obligations under any such Material Contract;

(d) there is no outstanding breach of any Material Contract by any other party to such Material Contract;

(e) there is no prohibition on granting the Security Interest contained in the Security Agreement in any such Material Contract; and

(f) its entry into and performance of the Finance Documents will not conflict in any material respect with any term of any such Material Contract.

16.14 Times for making representations

(a) The representations set out in this Clause are made by each Original Obligor on the date of this Agreement.

(b) Unless a representation is expressed to be given at a specific date, each representation is deemed to be repeated by:

(i) each Additional Guarantor and the Company on the date that Additional Guarantor becomes an Obligor; and

(ii) each Obligor on the date of each Request and the first day of each Term.

(c) When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

17. Information covenants

17.1 Financial statements

(a) The Parent must supply to the Facility Agent in sufficient copies for all the Lenders:

(i) its audited consolidated financial statements (other than the Original Financial Statements) for each of its financial years;

(ii) the audited financial statements of each Obligor for each of its financial years; and

(iii) monthly management accounts of the Company and each other Obligor incorporating balance sheets and profit and loss accounts; and

(iv) a projected balance sheet, profit and loss account, and cash flow statement for the Company and each other Obligor for the following financial year, together with a description of the proposed activities of the Company and each Obligor during such financial year, and, generally, all such budgetary information relating to the Company and each Obligor as is agreed between the Facility Agent and the Company prior to the date of first delivery of information required under this sub-paragraph (iv).

(b) All financial statements must be supplied as soon as they are available and:

(i) in the case of the Parent's audited consolidated financial statements, within 180 days;

(ii) in the case of each Obligor's audited financial statements, within 180 days; and

(iii) in the case of the monthly management accounts, within 30 days, of the end of the relevant financial period or, in the case of the information referred to in sub-paragraph (iv) of Clause 17.1(a) (Financial statements) above, not later than 15 days before the commencement of each of the Company's financial years.

(c) The Parent must supply to the Facility Agent in sufficient copies for all the Lenders its audited Original Financial Statements within 30 days of the date of this Agreement.

17.2 Form of financial statements

(a) The Parent must ensure that each set of financial statements supplied under this Agreement gives (if audited) a true and fair view of, or (if unaudited) fairly represents, the financial condition of the relevant person as at the date to which those financial statements were drawn up.

(b) The Parent must notify the Facility Agent of any change to the basis on which its audited consolidated financial statements are prepared.

(c) If requested by the Facility Agent, the Parent must supply to the Facility Agent:

(i) a full description of any change notified under paragraph (b) above; and

(ii) sufficient information to enable the Finance Parties to make a proper comparison between the financial position shown by the set of financial statements prepared on the changed basis and its most recent audited consolidated financial statements delivered to the Facility Agent under this Agreement.

(d) If requested by the Facility Agent, the Parent and Company must enter into discussions for a period of not more than 30 days with a view to agreeing any amendments required to be made to this Agreement to place the Parent, the Company and the Lenders in the same position as they would have been in if the change had not happened. Any agreement between the Parent, the Company and the Facility Agent will be, with the prior consent of the Majority Lenders, binding on all the Parties.

(e) If no agreement is reached under paragraph (d) above on the required amendments to this Agreement, the Parent must supply with each set of its financial statements another set of its financial statements prepared on the same basis as the Original Financial Statements.

17.3 Compliance Certificate

(a) The Company must supply to the Facility Agent a Compliance Certificate with each set of its:

(i) financial statements sent to the Facility Agent under sub-paragraph (a) (i) and (ii) of Clause 17.1 (Financial statements); and

(ii) monthly management accounts for the months ending in March, June, September and December in each year, sent to the Facility Agent under sub-paragraph (a)(iii) of Clause 17.1 (Financial statements).

(b) A Compliance Certificate must be signed by two authorised signatories of the Company (including the Finance Director).

17.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

(a) copies of all documents despatched by the Company to its creditors generally or any class of them at the same time as they are despatched;

(b) promptly upon becoming aware of them:

(i) details of any breach or contravention of the rights of the Special Shareholder under the Company's memorandum and articles of association included (without limitation) those rights set out in Article 6(B) of the Company's memorandum and articles of association;

(ii) any circumstances which might give rise to the Special Shareholder being entitled to exercise its right to acquire all the issued ordinary shares of the Company; and

(iii) any circumstances which might give rise to the Special Shareholder being entitled to exercise its right to acquire the Startegic Assets (in whole or in part).

(c) copies of any notices received by the Company from the Special Shareholder notifying that assets are Strategic Assets;

(d) promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending and which could reasonably be expected to, if adversely determined, have a Material Adverse Effect; and

(e) promptly on request, such further information regarding the financial condition and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

17.5 Notification of Default

(a) Unless the Facility Agent has already been so notified by another Obligor, each Obligor must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

(b) Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate, signed by two of its authorised signatories on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

17.6 Year end

The Company must not change its financial year end.

18. Financial covenants

18.1 Definitions

In this Clause:

Adjusted Tangible Net Worth means at any time the aggregate of:

(a) the amount paid up or credited as paid up on the issued share capital of the Company; and

(b) the amount standing to the credit of the capital and revenue reserves of the Company, based on the latest published audited balance sheet of the Company or the balance sheet in the most recent monthly management accounts of the Company delivered to the Facility Agent pursuant to sub-paragraph (a)(iii) of Clause 17.1 (Financial statements) (the latest balance sheet) but adjusted by:

(i) adding any amount standing to the credit of the profit and loss account of the Company for the period ending on the date of the latest balance sheet to the extent not included in sub-paragraph (b) above;

(ii) deducting any dividend or other distribution declared, recommended or made by the Company;

(iii) deducting any amount standing to the debit of the profit and loss account of the Company for the period ending on the date of the latest balance sheet;

(iv) deducting any amount attributable to goodwill or any other intangible asset;

(v) deducting any amount attributable to an upward revaluation of assets after 31st December, 2001;

(vi) reflecting any variation in the amount of the issued share capital of the Company after the date of the latest balance sheet;

(vii) reflecting any variation in the interest of the Company in any other member of the Group since the date of the latest balance sheet;

(viii)excluding any amount attributable to deferred taxation; and

(ix) excluding any amount attributable to minority interests.

EBITDA means the net pre-taxation profits of the Company for a Measurement Period:

(a) including the net pre-taxation profits of a business or assets acquired during that Measurement Period for the part of that Measurement Period when the business or assets were not owned by the Company; but

(b) excluding the net pre-taxation profits attributable to any business or assets sold during that Measurement Period,

and all as adjusted by:

(i) adding back Interest Payable;

(ii) taking no account of any exceptional or extraordinary item;

(iii) excluding any amount attributable to minority interests;

(iv) adding back depreciation and amortisation; and

(v) taking no account of any revaluation of an asset or any loss or or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by the Company during that Measurement Period.

Interest Payable means all interest and other financing charges (whether, in each case, paid, payable or capitalised), incurred by the Company during a Measurement Period.

Interest Receivable means all interest and other financing charges received or receivable by the Company during a Measurement Period.

Measurement Period means a period of 12 months ending on 31st March, 30th June, 30th September or 31st December, in each financial year of the Company.

Net Interest Payable means Interest Payable less Interest Receivable during the relevant Measurement Period.

Total Borrowings means, in respect of the Company, at any time the aggregate of the following:

(a) the outstanding principal amount of any moneys borrowed;

(b) the outstanding principal amount of any acceptance under any acceptance credit;

(c) the outstanding principal amount of any bond, note, debenture, loan stock or other similar instrument;

(d) the capitalised element of indebtedness under a finance or capital lease;

(e) the outstanding principal amount of all moneys owing in connection with the sale or discounting of receivables (otherwise than on a non-recourse basis);

(f) the outstanding principal amount of any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;

(g) any fixed or minimum premium payable on the repayment or redemption of any instrument referred to in paragraph (c) above;

(h) the outstanding principal amount of any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and

(i) the outstanding principal amount of any indebtedness of any person of a type referred to in paragraphs (a) - (h) above which is the subject of a guarantee, indemnity or similar assurance against financial loss given by the Company.

18.2 Interpretation

(a) Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

(b) Any amount in a currency other than Sterling is to be taken into account at its Sterling equivalent calculated on the basis of:

(i) the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or

(ii) if the amount is to be calculated on the ast day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

(c) No item must be credited or deducted more than once in any calculation under this Clause.

18.3 Adjusted Tangible Net Worth

The Company must ensure that Adjusted Tangible Net Worth is not, at any time during each period specified below ("Test Period"), less than the amount set opposite that period below ("Minimum Net Worth"):

Test Period	Minimum Net Worth
From (and including) 31st December, 2002 to (and including) 30th December, 2003	(pound)70,000,000
From (and including) 31st December, 2003 to (and including) 29th June, 2004	(pound)75,000,000

From (and including) 30th June, 2004 to (and including) 30th December, 2004	(pound)80,000,000
From (and including) 31st December, 2004 to (and including) 29th June, 2005	(pound)85,000,000
From (and including) 30th June, 2005 and thereafter	(pound)90,000,000

18.4 Gearing

The Company must ensure that Total Borrowings do not, at the end of each Measurement Period, exceed 2.5 times EBITDA for that Measurement Period.

18.5 Interest cover

The Company must ensure that the ratio of EBITDA to Net Interest Payable is not, at the end of each Measurement Period, less than 4 to 1.

19. General covenants

19.1 General

Each Obligor agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each member of the Group, each Obligor must ensure that each of its Subsidiaries (other than members of the LSC Restricted Group) performs that covenant.

19.2 Authorisations

Each Obligor must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

19.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

19.4 Pari passu ranking

Each Obligor must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

19.5 Negative pledge

(a) Except as provided below, no member of the Group may create or allow to exist any Security Interest on any of its assets.

(b) Subject to paragraph (b) below, paragraph (a) does not apply to:

(i) any Security Interest constituted by the Security Documents;

(ii) any Security Interest listed in Schedule 6 (Existing Security) except to the extent the principal amount secured by that Security Interest exceeds the amount stated in that Schedule;

(iii) any Security Interest comprising a netting or set-off arrangement entered into by a member of the Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;

(iv) any lien arising by operation of law and in the ordinary course of trading;

(v) any Security Interest comprising the Crown Right of Set-Off;

(vi) any Security Interest arising out of title retention provisions in a supplier's standard conditions of supply in respect of goods acquired by the relevant member of the Group in the ordinary course of business; and

(vii) any Security Interest securing indebtedness the amount of which (when aggregated with the amount of any other indebtedness which has the benefit of a Security Interest not allowed under the preceding sub-paragraphs) does not exceed (pound)1,000,000 or its equivalent at any time,

provided that no member of the Group may create or allow to exist any Security Interest on any Strategic Assets or on any Security Assets (as defined in the Security Agreement).

(c) No member of the Group may:

(i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by a member of the Group or any of its related entities; or

(ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms, in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

19.6 Disposals

(a) Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets.

(b) Paragraph (a) does not apply to any disposal:

(i) made in the ordinary course of trading of the disposing entity;

(ii) of assets in exchange for (or where the proceeds are applied within 6 months of the disposal towards the acquisition of) other assets comparable or superior as to type, value and quality;

(iii) from one Obligor to another Obligor; or

(iv) where the higher of the market value or consideration receivable (when aggregated with the higher of the market value or consideration for any other disposal not allowed under the preceding sub-paragraphs) does not exceed (pound)2,500,000 or its equivalent in any financial year of the Company, provided that no member of the Group may dispose of all or any part of its interest in any Strategic Assets.

19.7 Financial Indebtedness

(a) Except as provided below, no member of the Group may incur any Financial Indebtedness.

(b) Paragraph (a) does not apply to:

(i) any Financial Indebtedness incurred under the Finance Documents;

(ii) any Financial Indebtedness incurred under the Working Capital Facilities;

(iii) any Financial Indebtedness of one member of the Group to another member of the Group where both the creditor and debtor are Obligors;

(iv) any derivative transaction protecting against or benefiting from fluctuations in any rate or price entered into in the ordinary course of business; or

(v) Financial Indebtedness which in aggregate does not exceed (pound)1,000,000 or its equivalent at any time.

19.8 Third party guarantees

(a) In this Subclause, a guarantee includes any guarantee or indemnity or other assurance against loss as well as any agreement to maintain the solvency of any person.

(b) No member of the Group may incur or allow to be outstanding any guarantee by such member of the Group or any of its Subsidiaries (other than members of the LSC Restricted Group) in respect of any person.

(c) Paragraph (b) does not apply to:

(i) the endorsement of negotiable instruments in the ordinary course of trade;

(ii) performance bonds guaranteeing performance by a member of the Group under any contract entered into in the ordinary course of trade;

(iii) guarantees in respect of the Financial Indebtedness of Obligors where such Financial Indebtedness is permitted by the terms of this Agreement.

19.9 Loans out

(a) Except as provided in paragraph (b) below, no member of the Group may be the creditor in respect of any financial Indebtedness.

(b) Paragraph (a) does not apply to:

(i) trade credit extended by any member of the Group to its customers on normal commercial terms and in the ordinary course of its trading activities; or

(ii) any Financial Indebtedness of one member of the Group to another member of the Group where both the creditor and debtor are Obligors; or

(iii) any loans provided to members of the LSC Restricted Group not exceeding an aggregate amount of (pound)1,000,000 (or its equivalent in other currencies) at any one time provided that no such loan may be outstanding for more than 30 days.

19.10 Change of business

The Parent must ensure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

19.11 Mergers

No Obligor may enter into any amalgamation, demerger, merger or reconstruction otherwise than under an intra-Group re-organisation on a solvent basis or other transaction agreed by the Majority Lenders.

19.12 Acquisitions

(a) In this Subclause

Acquisition means the acquisition directly or indirectly (whether by one transaction or by a series of related transactions) of any interest whatsoever in the share capital (or equivalent) or the business or undertaking (including without limitation, any franchise rights) or assets constituting a separate business or undertaking of any company or other person.

(b) Except as provided below, no member of the Group may make any Acquisition.

(c) Paragraph (b) does not apply to Acquisitions where the consideration (when aggregated with the consideration of any other Acquisition) does not exceed (pound)1,000,000 or its equivalent in any financial year of the Company provided that:

(i) no subscription or acquisition or, in respect of the Parent, additional subscription or acquisition, may be made of any interest whatsoever in the share capital (or equivalent) of any member of the LSC Restricted Group; and

(ii) the Company may not have any Subsidiaries.

19.13 Environmental matters

(a) In this Subclause:

Environmental Approval means any authorisation required by an Environmental Law.

Environmental Claim means any claim by any person in connection with:

(i) a breach, or alleged breach, of an Environmental Law;

(ii) any accident, fire, explosion or other event of any type involving an emission or substance which is capable of causing harm to any living organism or the environment; or

(iii) any other environmental contamination.

Environmental Law means any law or regulation concerning:

(i) the protection of health and safety;

(ii) the environment; or

(iii) any emission or substance which is capable of causing harm to any living organism or the environment.

(b) Each member of the Group must ensure that it is, and has been, in compliance with all Environmental Law and Environmental Approvals applicable to it, where failure to do so is reasonably likely to have a Material Adverse Effect.

(c) Each Obligor must promptly upon becoming aware notify the Facility Agent of:

(i) any Environmental Claim current, or to its knowledge, pending or threatened; or

(ii) any circumstances reasonably likely to result in an Environmental Claim, which, if substantiated, is reasonably likely to either have a Material Adverse Effect or result in any liability for a Finance Party.

19.14 Insurance

(a) Each member of the Group must (to the extent not covered by the Indemnities) insure its business and assets with insurance companies against such risks and to the extent as is reasonable and customary for a business engaged in the same or a similar activity and the same or similar localities to that member of the Group, including (but not by way of limitation) in respect of damage caused by terrorism, in respect of Environmental Claims and, to the extent that any Indemnity is not effective, in respect of the risks referred to in any such Indemnity.

(b) The Company must:

(i) perform all of its obligations under the Indemnities in accordance with the terms of those Indemnities; and

(ii) not do or knowingly permit to be done any act as a result of which all or any part of an Indemnity may be terminated or otherwise cease to provide cover against the risks referred to in that Indemnity.

(c) The Company must as soon as reasonably practicable notify the Facility Agent upo becoming aware of the cover provided by any Indemnity terminating or being reduced in any material respect.

(d) In this Subclause:

Indemnity means each indemnity provided to a member or members of the Group by the Secretary of State for Defence.

19.15 Dividends

The Parent may not:

(a) declare, make or pay, or pay interest on any unpaid amount of, any dividend, charge, fee or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);

(b) repay or distribute any share premium account; or

(c) pay or allow any member of the Group to pay any management, advisory or other fee to or to the order of the shareholders of the Company (or any of their respective Affiliates which is not a member of the Group), unless no Default is outstanding or would be reasonably likely to arise as a result of such action.

19.16 Arm's-length terms

No member of the Group may enter into any material transaction with any person (including any Shareholder or Affiliate of a Shareholder or member of the LSC Restricted Group) otherwise than on arm's-length terms and for full market value.

19.17 Amendments to documents

(a) No member of the Group may:

(i) amend any material provision of its memorandum or articles of association or other constitutional documents;

(ii) enter into any agreement with any shareholders in the Parent (other than the Shareholders Agreement) or any of their Affiliates which is not a member of the Group which affect the rights of the Special Shareholder; or

(iii) amend or waive any material term of the Shareholders Agreement, or any of the other documents delivered to the Facility Agent pursuant to Subclause 4.1 (Conditions precedent documents), without the prior written consent of the Original Lenders.

(b) The Parent must promptly supply to the Facility Agent a copy of any amendment to or waiver of any of the documents referred to in paragraph (a) above.

19.18 Material Contracts

(a) The Company must not, without the consent of the Majority Lenders, waive or amend any term of any Material Contract in any material respect where the waiver or amendment would reasonably be expected to be prejudicial to the interests of the Lenders.

(b) The Company shall:

(i) perform all of its material obligations under the Material Contracts in accordance with those documents; and

(ii) not do or knowingly permit to be done any act as a result of which all or any part of or schedule to any Material Contract may be terminated.

(c) The Company shall:

(i) supply such information as the Facility Agent may reasonably request in sufficient quantities for the Lenders regarding all material claims under the Material Contracts where such claim would have a Material Adverse Effect;

(ii) promptly notify the Facility Agent of any breach by any person of its material obligations under any Material Contract which could reasonably be expected to have a Material Adverse Effect or which is not remedied 30 days of its occurrence;

(iii) promptly notify the Facility Agent of any waiver or amendment of any term of any Material Contracts (other than in respect of administrative or day to day operational matters) which could have a Material Adverse Effect or be materially prejudicial to the interests of the Finance Parties; and

(iv) promptly notify the Facility Agent of any Material Contract it enters into after the date of this Agreement and supply a copy of that Material Contract to the Facility Agent.

(d) The Company shall enforce the terms of the Material Contracts against the other parties to those documents where such other parties have breached those documents and such breach would have a Material Adverse Effect.

19.19 Inspection

If an Event of Default is outstanding the Company shall allow the Facility Agent and, if the Facility Agent so requests, any other person appointed by the Facility Agent on behalf of the Lenders, access upon reasonable notice to inspect any assets of the Group, the technical and statistical data, accounting books, records and other data in its possession or control with respect to those assets as they may reasonably require.

19.20 Intellectual property rights

(a) Except as provided below, each member of the Group must:

(i) make any registration and pay any fee or other amount which is necessary to retain and protect the Intellectual Property Rights which are material to the business of a member of the Group;

(ii) record its interest in those Intellectual Property Rights;

(iii) take such steps as are necessary and commercially reasonable (including the institution of legal proceedings) to prevent third parties infringing those Intellectual Property Rights;

(iv) not use or permit any Intellectual Property Right to be used in a way which may, or take or omit to take any action which may, adversely affect the existence or value of such Intellectual Property Right; and

(v) not grant any licence in respect of those Intellectual Property Rights.

(b) Subparagraph (v) of paragraph (a) above does not apply to:

(i) licence arrangements entered into between members of the Group for so long as they remain members of the Group; or

(ii) licence arrangements entered into on normal commercial terms and in the ordinary course of its business.

19.21 Special Shareholder

The Company shall ensure that it complies with its obligations under the Company's memorandum and articles of association and that no breach or contravention of the rights of the Special Shareholder under the Company's memorandum and articles of association occurs.

20. Default

20.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

20.2 Non-payment

An Obligor does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment:

(a) is caused by technical or administrative error; and

(b) is remedied within three Business Days of the due date.

20.3 Breach of other obligations

(a) An Obligor does not comply with any term of clause 18 (Financial covenants); or

(b) an Obligor does not comply with any other term of the Finance Documents not already referred to in this Clause, unless the non-compliance:

(i) is capable of remedy; and

(ii) is remedied within fourteen days of the earlier of the Facility Agent giving notice and the Obligor becoming aware of the non-compliance.

20.4 Misrepresentation

A representation made or repeated by an Obligor in any Finance Document or in any document delivered by or on behalf of any Obligor under any Finance Document is incorrect in any material respect when made or deemed to be repeated, unless the circumstances giving rise to the misrepresentation:

(a) are capable of remedy; and

(b) are remedied within fourteen days of the earlier of the Facility Agent giving notice and the Obligor becoming aware of the misrepresentation.

20.5 Cross-default

Any of the following occurs in respect of a member of the Group:

(a) any of its Financial Indebtedness is not paid when due (after the expiry of any originally applicable grace period);

(b) any of its Financial Indebtedness:

(i) becomes prematurely due and payable;

(ii) is placed on demand; or

(iii) is capable of being declared by a creditor to be prematurely due and payable or being placed on demand, in each case, as a result of an event of default (howsoever described); or

(c) any commitment for its Financial Indebtedness is cancelled or suspended as a result of an event of default (howsoever described), unless the aggregate amount of Financial Indebtedness falling within paragraphs (a)-(c) above is less than (pound)50,000 or its equivalent.

20.6 Insolvency

Any of the following occurs in respect of a member of the Group:

(a) it is, or is deemed for the purposes of any law to be, unable to pay its debts as they fall due or insolvent;

(b) it admits its inability to pay its debts as they fall due;

(c) it suspends making payments on any of its debts or announces an intention to do so;

(d) by reason of actual or anticipated financial difficulties, it begins negotiations with any creditor for the rescheduling of any of its indebtedness; or

(e) a moratorium is declared in respect of any of its indebtedness.

If a moratorium occurs in respect of any member of the Group, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

20.7 Insolvency proceedings

(a) Except as provided below, any of the following occurs in respect of a member of the Group:

(i) any step is taken with a view to a composition, assignment or similar arrangement with any of its creditors;

(ii) a meeting of it is convened for the purpose of considering any resolution for (or to petition for) its winding-up, administration or dissolution or any such resolution is passed;

(iii) any person presents a petition for its winding-up, administration or dissolution;

(iv) an order for its winding-up, administration or dissolution is made;

(v) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;

(vi) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer; or

(vii) any other analogous step or procedure is taken in any jurisdiction.

(b) Paragraph (a) does not apply to a petition for winding-up presented by a creditor which is being contested in good faith and with due diligence and is discharged or struck out within fourteen days or to the solvent winding up or dissolution of Dorhold Limited or Devonport Engineering Services Limited.

20.8 Creditors' process

Any attachment, sequestration, distress, execution or analogous event affects any asset(s) of a member of the Group, having an aggregate value of (pound)50,000, and is not discharged within fourteen days.

20.9 Cessation of business

A member of the Group ceases, or threatens to cease, to carry on business except as a result of any disposal allowed under this Agreement.

20.10 Effectiveness of Finance Documents

(a) It is or becomes unlawful for any Obligor to perform any of its obligations under the Finance Documents.

(b) Any Finance Document is not effective or is alleged by an Obligor to be ineffective for any reason.

(c) An Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

20.11 Ownership of the Obligors

An Obligor (other than the Parent) is not or ceases to be a direct Subsidiary of the Parent.

20.12 Material Contracts

(a) Any party to a Material Contract does not comply with any provision of that Material Contract and that non-compliance could reasonably be expected to have a Material Adverse Effect.

(b) Any Material Contract is repudiated or is or becomes void or unenforceable.

(c) Any obligation expressed to be assumed by a party under a Material Contract is not or ceases to be a valid and binding obligation of, or is repudiated by, that party or becomes void or unenforceable in each case, to an extent that could reasonably be expected to have a Material Adverse Effect.

(d) Any Material Contract terminates or is or becomes capable of being terminated or any party to a Material Contract issues a notice of termination of that Material Contract in each case otherwise than by reason of full performance of the Material Contract or expiry of its term and the Company fails within 180 days to supply to the Facility Agent a substitute contract for that Material Contract in form and substance satisfactory to the Majority Lenders.

20.13 Nationalisation

(a) The Special Shareholder becomes entitled to acquire the Strategic Assets (in whole or in part).

(b) The government of the United Kingdom or any Agency of that government takes, or states officially that it proposes to take, any step with a view to the seizure, expropriation, nationalisation or acquisition (whether compulsory or otherwise, in whole or in part, and whether or not for fair compensation) of the Company or any of its assets.

20.14 Public procurement

Any Material Contract was awarded in breach of any European Community Directive in relation to public procurement or any litigation or other proceedings, are commenced, pending or threatened against the Company alleging that any Material Contract was awarded in breach of any such Directive.

20.15 Material adverse change

Any event or series of events occurs which, in the opinion of the Majority Lenders, is reasonably likely to have a Material Adverse Effect.

20.16 Nuclear authorisations

Any material authorisation required under any law or regulation to enable the Group to conduct its business including, without limitation, the Nuclear Site Licence held by the Company pursuant to the Nuclear Installations Acts 1965 and 1969 and the Radioactive Waste Disposal or Accumulation Authorisations held by the Company pursuant to the Radioactive Substances Act 1993, is revoked, surrendered, suspended or varied in a material respect or if any enforcement or prohibition notice is served in relation to any such authorisation.

20.17 Acceleration

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

(a) cancel the Total Commitments; and/or

(b) declare that all or part of any amounts outstanding under the Finance Documents are:

(i) immediately due and payable; and/or

(ii) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders.

Any notice given under this Subclause will take effect in accordance with its terms.

21. Working Capital Facilities

21.1 Availability

(a) If the Company and a Lender agree and subject as provided below, the Lender may provide a Working Capital Facility on a bi-lateral basis to an Obligor.

(b) A Working Capital Facility (other than those existing at the date of this Agreement) may not be made available unless the Facility Agent (acting reasonably) has first approved it.

(c) If the Facility Agent approves a Working Capital Facility, then:

(i) in relation to a Working Capital Facility, the Lender concerned will become a Working Capital Facility Lender; and

(ii) the Working Capital Facility will be available,

with effect from the date agreed by the Company and the Working Capital Facility Lender. The Facility Agent must promptly notify the other Lenders.

21.2 Approval process

The Facility Agent will not approve a Working Capital Facility, unless it has received:

(a) a notice specifying:

(i) the members of the Group which may use the Working Capital Facility;

(ii) the start and expiry dates of the Working Capital Facility;

(iii) the type of Working Capital Facility being provided;

(iv) the Working Capital Facility Lender or the Lender providing the Working Capital Facility; and

(v) the amount of that Working Capital Facility;

(b) a copy of the Working Capital Facility Document; and

(c) any other information which the Facility Agent may reasonably require in connection with the Working Capital Facility.

21.3 Terms of Working Capital Facilities

(a) Except as provided below, the terms of any Working Capital Facility will be those agreed by the Working Capital Facility Lender and the Company.

(b) However, those terms:

(i) must be based upon normal commercial terms at that time;

(ii) may only allow Obligors to use the Working Capital Facility; and

(iii) may not allow the maximum aggregate Working Capital Outstandings to exceed (pound)25,000,000 in aggregate.

(c) Any Working Capital Facility Document is a Transaction Document.

21.4 Refinancing of Working Capital Facility

No Working Capital Facility Lender may demand repayment or prepayment of any amounts, or demand cash cover for any liabilities made available or incurred by it, under its Working Capital Facility, unless:

(a) the Total Revolving Credit Commitments have been cancelled in full; or

(b) the Working Capital Outstandings under that Working Capital Facility can be refinanced by a Revolving Credit Loan.

21.5 Information

Each Obligor and each Working Capital Facility Lender must, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of a Working Capital Facility (including the Working Capital Outstandings) as the Facility Agent may reasonably request.

21.6 Miscellaneous

For the avoidance of doubt, a provider of a Working Capital Facility is a Transaction Party for the purposes of the Security Documents.

22. The Administrative Parties

22.1 Appointment and duties of the Facility Agent

(a) Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

(b) Each Finance Party irrevocably authorises the Facility Agent to:

(i) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and

(ii) execute e ach Finance Document expressed to be executed by the Facility Agent.

(c) The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

22.2 Role of the Mandated Lead Arrangers

Except as specifically provided in the Finance Documents, no Mandated Lead Arranger has any obligations of any kind to any other Party in connection with any Finance Document.

22.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

22.4 Individual position of an Administrative Party

(a) If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

(b) Each Administrative Party may:

(i) carry on any business with any Obligor or its related entities (including acting as an agent or a trustee for any other financing); and

(ii) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with any Obligor or its related entities.

22.5 Reliance

The Facility Agent may:

(a) rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;

(b) rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;

(c) engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and

(d) act under the Finance Documents through its personnel and agents.

22.6 Majority Lenders' instructions

(a) The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.

(b) The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.

(c) The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

22.7 Responsibility

(a) No Administrative Party is responsible to any other Finance Party for the adequacy, accuracy or completeness of:

(i) any Finance Document or any other document; or

(ii) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

(b) Without affecting the responsibility of any bligor for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms that it:

(i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of each Obligor and its related entities and the nature and extent of any recourse against any Party or its assets); and

(ii) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

22.8 Exclusion of liability

(a) The Facility Agent is not liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.

(b) No Party may take any proceedings against any officer, employee or agent of the Facility Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent may rely on this Subclause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

22.9 Default

(a) The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.

(b) If the Facility Agent:

(i) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or

(ii) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,

it must promptly notify the Lenders.

22.10 Information

(a) The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

(b) Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.

(c) Except as provided above, the Facility Agent has no duty:

(i) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of any Obligor or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or

(ii) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from any Obligor.

(d) In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.

(e) The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.

(f) Each Obligor irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

22.11 Indemnities

(a) Without limiting the liability of any Obligor under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the

Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct.

(b) The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.

22.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

22.13 Resignation of the Facility Agent

(a) The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.

(b) Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.

(c) If no successor Facility Agent has been appointed under paragraph (b) above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.

(d) The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment.

(e) The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term Facility Agent will mean the successor Facility Agent.

(f) The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.

(g) Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to paragraph (f) above, it will have no further obligations under any Finance Document.

(h) The Majority Lenders may, by notice to the Facility Agent, require it to resign under paragraph (b) above.

22.14 Relationship with Lenders

(a) The Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

(b) The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

(c) The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

22.15 Facility Agent's management time

If the Facility Agent requires after consultation with the Company, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

22.16 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23. Evidence and calculations

23.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

23.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

23.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

24. Fees

24.1 Facility Agent's fee

The Company must pay to the Facility Agent for its own account an agency fee in the manner agreed in the Fee Letter between the Facility Agent and the Company.

24.2 Arrangement fee

The Company must pay to the Mandated Lead Arrangers for their own account an arrangement fee in the manner agreed in the Fee Letter between the Mandated Lead Arrangers and the Company.

24.3 Term Loan commitment fee

(a) The Company must pay a commitment fee computed at the rate of 30 per cent. of the then prevailing Applicable Margin (on the basis of the rate that would apply by reference to the most recently delivered Compliance Certificate) on the daily undrawn, uncancelled amount of each Lender's Term Loan Commitment.

(b) Accrued commitment fee is payable quarterly in arrear. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Term Loan Commitment is cancelled in full.

24.4 Revolving Credit commitment fee

(a) The Company must pay a commitment fee computed at the rate of 30 per cent. of the then prevailing Applicable Margin (on the basis of the rate that would apply by reference to the most recently delivered Compliance Certificate) on the daily undrawn, uncancelled amount of each Lender's Revolving Credit Commitment.

(b) Accrued commitment fee is payable quarterly in arrear. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Revolving Credit Commitment is cancelled in full.

25. Indemnities and Break Costs

25.1 Currency indemnity

(a) The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

   (i) that Finance Party receiving an amount in respect of an Obligor's liability under the Finance Documents; or

   (ii) that liability being converted into a claim, proof, judgment or order, in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

(b) Unless otherwise required by law, each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

25.2 Other indemnities

(a) The Company must indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

(i) the occurrence of any Event of Default;

(ii) any failure by an Obligor to pay any amount due under a Finance Document on its due date, including any resulting from any distribution or redistribution of any amount among the Lenders under this Agreement;

(iii) (other than by reason of negligence or default by that Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

(iv) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment.

The Company's liability in each case includes any loss or expense on account of funds borrowed, contracted for or utilised to fund any amount payable under any Finance Document, any amount repaid or prepaid or any Loan.

(b) The Company must indemnify the Facility Agent against any loss or liability incurred by the Facility Agent as a result of:

(i) investigating any event which the Facility Agent reasonably believes to be a Default; or

(ii) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

25.3 Break Costs

(a) The Company must pay to each Lender its Break Costs.

(b) Break Costs are the amount (if any) determined by the relevant Lender by which:

(i) the interest which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or an overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(ii) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

(c) Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Subclause.

26. Expenses

26.1 Initial costs

The Company must pay to each Administrative Party the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

26.2 Subsequent costs

The Company must pay to the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

(a) the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate) executed after the date of this Agreement; and

(b) any amendment, waiver or consent requested by or on behalf of an Obligor or specifically allowed by this Agreement.

26.3 Enforcement costs

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

27. Amendments and waivers

27.1 Procedure

(a) Except as provided in this Clause, any term of the Finance Documents may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

(b) The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under paragraph (a) above. Any such amendment or waiver is binding on all the Parties.

27.2 Exceptions

(a) An amendment or waiver which relates to:

(i) the definition of Majority Lenders in Clause 1.1 (Definitions);

(ii) an extension of the date of payment of any amount to a Lender under the Finance Documents;

(iii) a reduction in the Applicable Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;

(iv) an increase in, or an extension of, a Commitment or the Total Commitments;

(v) a release of an Obligor;

(vi) a term of a Finance Document which expressly requires the consent of each Lender;

(vii) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents; or

(viii) this Clause, may only be made with the consent of all the Lenders.

(b) An amendment or waiver which relates to the rights or obligations of an Administrative Party may only be made with the consent of that Administrative Party.

27.3 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

27.4 Waivers and remedies cumulative

The rights of each Finance Party under the Finance Documents:

(a) may be exercised as often as necessary;

(b) are cumulative and not exclusive of its rights under the general law; and

(c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

28. Changes to the Parties

28.1 Assignments and transfers by Obligors

No Obligor may assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

28.2 Assignments and transfers by Lenders

(a) A Lender (the Existing Lender) may at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any other person (the New Lender).

(b) Unless the Company and the Facility Agent otherwise agree, a transfer of part of a Commitment or the rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of (pound)5,000,000.

(c) The consent of the Company is required for any assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender. The consent of the Company must not be unreasonably withheld or delayed. The Company will be deemed to have given its consent five Business Days after the Company is given notice of the request unless it is expressly refused by the Company within that time.

(d) A transfer of obligations will be effective only if either:

(i) the obligations are novated in accordance with the following provisions of this Clause; or

(ii) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the transfer becoming effective in this manner the Existing Lender will be released from its obligations under this Agreement to the extent that they are transferred to the New Lender.

(e) Any assignment or transfer by a Lender to a New Lender shall only be effective if it transfers or assigns the Lender's share of each Facility pro rata.

(f) Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of (pound)1,000.

(g) Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

28.3 Procedure for transfer by way of novations

(a) In this Subclause:

Transfer Date means, for a Transfer Certificate, the later of:

(i) the proposed Transfer Date specified in that Transfer Certificate; and

(ii) the date on which the Facility Agent executes that Transfer Certificate.

(b) A novation is effected if:

(i) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and

(ii) the Facility Agent executes it.

The Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

(c) Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

(d) On the Transfer Date:

(i) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and

(ii) the Existing Lender will be released from those obligations and cease to have those rights.

28.4 Limitation of responsibility of Existing Lender

(a) Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

(i) any Finance Document or any other document; or

(ii) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, and any representations or warranties implied by law are excluded.

(b) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

(i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of each Obligor and its related entities and the nature or extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and

(ii) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

(c) Nothing in any Finance Document requires an Existing Lender to:

(i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or

(ii) support any losses incurred by the New Lender by reason of the non-performance by any Obligor of its obligations under any Finance Document or otherwise.

28.5 Costs resulting from change of Lender or Facility Office

If:

(a) a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

(b) as a result of circumstances existing at the date the assignment, transfer or change occurs, an Obligor would be obliged to pay a Tax Payment or an Increased Cost,

then, unless the assignment, transfer or change is made by a Lender to mitigate any circumstances giving rise to the Tax Payment, Increased Cost or a right to be prepaid and/or cancelled by reason of illegality, the Obligor need only pay that Tax Payment or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

28.6 Additional Guarantors

(a) The Parent shall procure that, subject to paragraph (c) below, each company (other than a member of the LSC Restricted Group) which becomes one of its Subsidiaries after the date of this Agreement, or any of its Subsidiaries which ceases to be dormant or carries on business or owns any assets, becomes an Additional Guarantor within 30 days of it becoming a Subsidiary by delivering to the Facility Agent an Accession Agreement (containing such limits in relation to the guarantee as may be required by any applicable law), duly executed by that Subsidiary and the relevant documents and evidence listed in Part II of Schedule 2.

(b) If the Parent demonstrates to the satisfaction of the Facility Agent that:

(i) it is illegal; or

(ii) it is impractical,

for the Parent to comply with its obligations under paragraph (a) above, the Parent shall only be obliged so to comply within 21 days after it becomes legal or ceases to be impractical (as the case may be) to do so. "Impractical" in this context means that there is a risk that compliance by the Parent or the relevant Subsidiary with its obligations under paragraph (a) above would breach any duty of any officer of the Group where such duty is derived from the laws of the relevant jurisdiction and applies to directors generally and result in personal liability or criminal sanctions.

(c) The relevant Subsidiary will become an Additional Guarantor when the Facility Agent notifies the other Finance Parties and the Company that it has received all of the documents and evidence referred to in paragraph (a) above in form and substance satisfactory to it. The Facility Agent must give this notification as soon as reasonably practicable.

Delivery of an Accession Agreement, executed by the relevant Subsidiary and the Company, to the Facility Agent constitutes confirmation by that Subsidiary and the Company that the Repeating Representations are then correct.

28.7 Resignation of a Guarantor

(a) In this Subclause, Resignation Request means a letter in the form of Schedule 9 (Form of Resignation Request), with such amendments as the Facility Agent may approve or reasonably require.

(b) The Company may request that a Guarantor ceases to be a Guarantor by giving to the Facility Agent a duly completed Resignation Request.

(c) The Agent must accept a Resignation Request and notify the Company and the Lenders of its acceptance if:

(i) the Majority Lenders have consented to the Resignation Request;

(ii) it is not aware that a Default is outstanding or would result from the acceptance of the Resignation Request; and

(iii) no amount owed by that Guarantor under this Agreement is still outstanding.

(d) The Guarantor will cease to be a Guarantor when the Facility Agent gives the notification referred to in paragraph (c) above.

(e) A Guarantor may also cease to be a Guarantor in any other manner approved by the Majority Lenders.

28.8 Changes to the Reference Banks

If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29. Disclosure of information

(a) Each Finance Party must keep confidential any information supplied to it by or on behalf of any Obligor in connection with the Finance Documents and must only use such information in connection with the Finance Documents. However, a Finance Party is entitled to disclose information:

(i) which at the time of its disclosure is in the public domain;

(ii) which after disclosure comes into the public domain for any reason except failure on the part of any Finance Party to comply with the terms of this Clause;

(iii) which was lawfully in that Finance Party's possession before the disclosure;

(iv) by reason of law, legal process or any regulatory or government authority;

(v) to the extent allowed under paragraph (b) below; or

(vi) with the agreement of the relevant Obligor.

(b) A Finance Party may disclose to an Affiliate or any person with whom it may enter, or has entered into, any kind of transfer, participation or other agreement in relation to this Agreement (a participant):

(i) a copy of any Finance Document; and

(ii) any information which that Finance Party has acquired under or in connection with any Finance Document.

However, before a participant may receive any confidential information, it must agree with the relevant Finance Party to keep that information confidential on the terms of paragraph (a) above.

(c) This Clause supersedes any previous confidentiality undertaking given by a Finance Party in connection with this Agreement prior to it becoming a Party.

30. Set-off

A Finance Party may set off any matured obligation owed to it by an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

31. Pro rata sharing

31.1 Redistribution

If any amount owing by an Obligor under this Agreement to a Lender (the recovering Lender) is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a recovery), then:

(a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

(b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

(c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the redistribution).

31.2 Effect of redistribution

(a) The Facility Agent must treat a redistribution as if it were a payment by the relevant Obligor under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

(b) When the Facility Agent makes a distribution under paragraph (a) above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

(c) If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under paragraph (b) above, the relevant Obligor will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

(d) If:

(i) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to an Obligor; and

(ii) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in paragraph (b) above will operate in reverse to the extent of the reimbursement.

31.3 Exceptions

Notwithstanding any other term of this Clause, a recovering Lender need not pay a redistribution to the extent that:

(a) it would not, after the payment, have a valid claim against the relevant Obligor in the amount of the redistribution; or

(b) it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

(i) the recovering Lender notified the Facility Agent of those proceedings; and

(ii) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

32. Severability

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

(a) the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

(b) the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

33. Counterparts

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

34. Notices

34.1 In writing

(a) Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given in person, by post or fax;

(b) Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

34.2 Contact details

(a) Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

(b) The contact details of the Parent for this purpose are:

Address: Devonport Royal Dockyard,
Devonport,
Plymouth PL1 4SG
Fax number: 01752 564 541
Attention: Finance Director.

(c) The contact details of the Company for this purpose are:

Address: Devonport Royal Dockyard,
Devonport,
Plymouth PL1 4SG
Fax number: 01752 564 541
Attention: Finance Director.

(d) The contact details of the Facility Agent for this purpose are:

Address: Level 17,
8 Canada Square,
London E14 5HQ
Fax number: 020 7991 4348
Attention: Debt Finance, Support and Agency Services.

(e) Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

(f) Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

34.3 Effectiveness

(a) Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

(i) if delivered in person, at the time of delivery;

(ii) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and

(iii) if by fax, when received in legible form.

(b) A communication given under paragraph (a) above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

(c) A communication to the Facility Agent will only be effective on actual receipt by it.

34.4 Obligors

(a) All communications under the Finance Documents to or from an Obligor must be sent through the Facility Agent.

(b) All communications under the Finance Documents to or from an Obligor (other than the Company) must be sent through the Company.

(c) Each Obligor (other than the Company) irrevocably appoints the Company to act as its agent:

(i) to give and receive all communications under the Finance Documents;

(ii) to supply all information concerning itself to any Finance Party; and

(iii) to sign all documents under or in connection with the Finance Documents.

(d) Any communication given to the Company in connection with a Finance Document will be deemed to have been given also to the other Obligors.

(e) The Facility Agent may assume that any communication made by the Company is made with the consent of each other Obligor.

35. Governing law

This Agreement is governed by English law.

36. Enforcement

36.1 Jurisdiction

(a) The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document.

(b) The English courts are the most appropriate and convenient courts to settle any such dispute and each Obligor waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

(c) This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

(i) proceedings in any other court; and

(ii) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1

ORIGINAL PARTIES

Name of Original Guarantor	Registration number (or equivalent, if any)
DEVONPORT MANAGEMENT LIMITED	2959785

Name of Original Lender	Term Loan Commitments
THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND	(pound)23,333,333.33
HSBC BANK PLC	(pound)23,333,333.34
THE ROYAL BANK OF SCOTLAND PLC	(pound)23,333,333.33
Total Term Loan Commitments	(pound)70,000,000.00

Name of Original Lender	Revolving Credit Commitments
THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND	(pound)3,333,333.33
HSBC BANK PLC	(pound)3,333,333.34
THE ROYAL BANK OF SCOTLAND PLC	(pound)3,333,333.33
Total Revolving Credit Commitments	(pound)10,000,000.00

SCHEDULE 2

PART I

CONDITIONS PRECEDENT DOCUMENTS

TO BE DELIVERED BEFORE THE FIRST REQUEST

Original Obligors

1. A copy of the constitutional documents of each Original Obligor.

2. A copy of a resolution of the board of directors of each Original Obligor approving the terms of, and the transactions contemplated by, this Agreement.

3. A specimen of the signature of each person authorised on behalf of an Original Obligor to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document (including a Request).

4. A certificate of an authorised signatory of the Company:

   (a) confirming that utilising the Total Commitments in full would not breach any limit binding on any Original Obligor; and

   (b) certifying that each copy document specified in Part I of this Schedule is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Security Document(s)

1. The following Security Document(s) each duly executed by the parties to it:

   - Security Agreement by the Company in favour of the Facility Agent.

2. The Letters of Awareness.

3. The Inter-creditor Deed.

Legal opinions

A legal opinion of Allen & Overy, legal advisers to the Mandated Lead Arrangers and the Facility Agent, substantially in the form of Schedule 11 (Form of legal opinion of Allen & Overy), addressed to the Finance Parties.

Other documents and evidence

1. Evidence that all fees and expenses then due and payable from the Company under this Agreement have been or will be paid by the first Utilisation Date.

2. Evidence that the Current Facility will be prepaid and cancelled in full on or by the first Utilisation Date.

3. Due diligence report addressed to the Finance Parties by Bond Pearce.

4. List of Strategic Assets and confirmation that none of the Security Assets are Strategic Assets.

5. List of Material Contracts and certified copies of same.

6. Certified copy of the Shareholders Agreement.

7. A certificate of the finance director of the Company in respect of the Existing Works, setting out the costs and expenses incurred by the Company in respect of the Existing Works, less amounts provided by the Secretary of State for Defence and members of the DART Alliance to finance the Existing Works.

8. The Original Accounts (unsigned by the Company's auditors).

9. The Works Budget.

10. A copy of any other authorisation or other document, opinion or assurance which the Facility Agent has notified the Company is necessary or desirable in connection with the entry into and performance of, and the transactions contemplated by, any Finance Document or for the validity and enforceability of any Finance Document.

PART II

FOR AN ADDITIONAL GUARANTOR

Additional Guarantors

1. An Accession Agreement, duly executed by the Company and the Additional Guarantor.

2. A copy of the constitutional documents of the Additional Guarantor.

3. A copy of a resolution of the board of directors of the Additional Guarantor approving the terms of, and the transactions contemplated by, the Accession Agreement.

4. A specimen of the signature of each person authorised on behalf of the Additional Guarantor to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.

5. In the case of an Additional Guarantor incorporated in the U.K., a copy of a resolution, signed by all (or any lower percentage agreed by the Facility Agent) of the holders of its issued or allotted shares, approving the terms of, and the transactions contemplated by, the Accession Agreement.

6. If applicable, a copy of a resolution of the board of directors of each corporate shareholder in the Additional Guarantor approving the resolution referred to in paragraph 5 above.

7. A certificate of an authorised signatory of the Additional Guarantor:

   (a) confirming that utilising the Total Commitments in full would not breach any limit binding on it; and

   (b) certifying that each copy document specified in Part II of this Schedule is correct, complete and in full force and effect as at a date no earlier than the date of the Accession Agreement.

8. If available, a copy of the latest audited accounts of the Additional Guarantor.

Security Document(s)

1. Security Document(s) over its assets, duly executed by the Additional Guarantor.

2. A copy of any notices required to be sent under the Security Document(s).

3. Evidence that the procedure contemplated by sections 155-158 of the Companies Act 1985 has been completed in relation to any relevant Finance Document.

4. Evidence of insurance cover in compliance with this Agreement.

Legal opinions

1. A legal opinion of Allen & Overy, legal advisers to the Facility Agent, addressed to the Finance Parties.

2. If the Additional Guarantor is incorporated in a jurisdiction other than England, a legal opinion from legal advisers in that jurisdiction, addressed to the Finance Parties.

Other documents and evidence

1. Evidence that all expenses due and payable from the Company under this Agreement in respect of the Accession Agreement have been paid.

2. A copy of any other authorisation or other document, opinion or assurance which the Facility Agent has notified the Company is necessary or desirable in connection with the entry into and performance of, and the transactions contemplated by, the Accession Agreement or for the validity and enforceability of any Finance Document.

SCHEDULE 3

PART I

FORM OF REQUEST

To: HSBC BANK PLC as Facility Agent

From: [ ]

Date: [ ]

DEVONPORT ROYAL DOCKYARD LIMITED-(pound)80,000,000 Credit Agreement dated [ ], 2002 (the "Agreement")

1. We refer to the Agreement. This is a Request.

2. We wish to borrow a[n] [Initial Term Loan/ Term Loan/Revolving Credit Loan]1 on the following terms:

   (a) Utilisation Date: [ ]

   (b) Amount/currency: [ ]

   (c) Term: [ ].

3. Our payment instructions are: [ ].

4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.

5. This Request is irrevocable.

6. Attached with this Request is a Costs Report.2

By:

Authorised signatory for

Devonport Royal Dockyard Limited

- --------------------------------

1 Delete as appropriate.
2 To be attached to any Request for a Term Loan (other than the Initial Term Loan).

PART II

FORM OF COSTS REPORT

D154 Project

Total Amount paid out as per attached summary as at [ ]		
- - See attached		(pound)[ ]
Amounts received from Ministry of Defence		
[Datails of Claims]	(pound)[ ]	
Total Paid by MoD		(pound)[ ]
Amount Recovered from Alliance Partners		
Rolls Royce Contribution	(pound)[ ]	
S&H Contribution	(pound)[ ]	
B&R Contribution	(pound)[ ]	
Babtie Contribution	(pound)[ ]	
BNFL Contribution	(pound)[ ]	
Total Paid by Alliance Partners		(pound)[ ]

Total Net Cost Incurred by DRDL		(pound)[ ]
		===========================

LAST ACCOUNTS AVAILABLE TO PERIOD END: [ ]

Major Contractor Costs

Supplier	Previous Claims on MoD (pound)	Post MS 52 (Last Claim on MoD) (pound)	Total (pound)
ALLIANCE PARTNERS			
[Partners Listed]	(pound)[ ]		
	(pound)[ ]	(pound)[ ]	(pound)[ ]
PRIME SUPPLY			
[Supplier(s) Listed]	(pound)[ ]	(pound)[ ]	(pound)[ ]
CONSTRUCTION & ENGINEERING			
[Suppliers Listed]	(pound)[ ]	(pound)[ ]	(pound)[ ]
Transferred Costs Equipment Costs	(pound)[ ]	(pound)[ ]	(pound)[ ]
14 Dock Costs	(pound)[ ]	(pound)[ ]	(pound)[ ]
A/c 6500 Materials	(pound)[ ]	(pound)[ ]	(pound)[ ]
Minor Sub-Contract Costs	(pound)[ ]	(pound)[ ]	(pound)[ ]
Sub-total Construction & Prime Supply	(pound)[ ]	(pound)[ ]	(pound)[ ]
Alliance Project Team	(pound)[ ]	(pound)[ ]	(pound)[ ]
Insurance Costs & Management Fee	(pound)[ ]	(pound)[ ]	(pound)[ ]
Dis-allowed Costs	(pound)[ ]		
Total Professional & Technical Service Costs	(pound)[ ]	(pound)[ ]	(pound)[ ]

CONTRACTOR / AREA	End of [Previous month]	[Week 1]	[Week 2]	[Week 3]	[Week 4]
ROLLS CUMULATIVE	[ ]				
ROLLS IN WEEK		[ ]	[ ]	[ ]	[ ]
S&H CUMULATIVE	[ ]				
S&H IN WEEK		[ ]	[ ]	[ ]	[ ]
BABTIE CUMULATIVE	[ ]				
BABTIE IN WEEK		[ ]	[ ]	[ ]	[ ]
BEL CUMULATIVE	[ ]				
BEL IN WEEK		[ ]	[ ]	[ ]	[ ]
B&R CUMULATIVE	[ ]				
B&R IN WEEK		[ ]	[ ]	[ ]	[ ]
CARILLION CUMULATIVE	[ ]				
CARILLION IN WEEK		[ ]	[ ]	[ ]	[ ]
KIERS CUMULATIVE	[ ]				
KIERS IN WEEK		[ ]	[ ]	[ ]	[ ]
JAMES SCOTT CUMULATIVE	[ ]				
JAMES SCOTT IN WEEK		[ ]	[ ]	[ ]	[ ]
AMEC LLRF CUMULATIVE	[ ]				
AMEC LLRF IN WEEK		[ ]	[ ]	[ ]	[ ]
AMEC CSS CUMULATIVE	[ ]				
AMEC CSS IN WEEK		[ ]	[ ]	[ ]	[ ]
NUTTALLS CUMULATIVE	[ ]				
NUTTALLS IN WEEK		[ ]	[ ]	[ ]	[ ]
TAYLOR CUMULATIVE	[ ]				
TAYLOR IN WEEK		[ ]	[ ]	[ ]	[ ]
DOCKSIDE CRANES CUMULATIVE	[ ]				
DOCKSIDE CRANES IN WEEK		[ ]	[ ]	[ ]	[ ]
OTHERS CUMULATIVE	[ ]				

CONTRACTOR / AREA	End of [Previous month]	[Week 1]	[Week 2]	[Week 3]	[Week 4]
OTHERS IN WEEK		[ ]	[ ]	[ ]	[ ]
Insurance costs to go (7.54761488 paid as at 27/90		[ ]	[ ]	[ ]	[ ]
15 Dock Kier costs to go		[ ]	[ ]	[ ]	[ ]
SEC		[ ]	[ ]	[ ]	[ ]
B&R Management fee costs to go (2.5 paid as at 27/9)		[ ]	[ ]	[ ]	[ ]
Ritchies (m dinham)		[ ]	[ ]	[ ]	[ ]
Serco (m dinham)		[ ]	[ ]	[ ]	[ ]
Halcrow		[ ]	[ ]	[ ]	[ ]
CSS Misc (B Smith/J Kerry)		[ ]	[ ]	[ ]	[ ]
AEA (p burkhalter)		[ ]	[ ]	[ ]	[ ]
Simon Hartley (p burkhalter)		[ ]	[ ]	[ ]	[ ]
Jordan llrf claim (g podmore)		[ ]	[ ]	[ ]	[ ]
Claims		[ ]	[ ]	[ ]	[ ]
Error adj to match accounts		[ ]	[ ]	[ ]	[ ]
Others estimated		[ ]	[ ]	[ ]	[ ]
Others authorised		[ ]	[ ]	[ ]	[ ]
Others estimated		[ ]	[ ]	[ ]	[ ]
		[ ]	[ ]	[ ]	[ ]
APT CUMULATIVE	[ ]				
APT IN WEEK		[ ]	[ ]	[ ]	[ ]
APT authorised in week		[ ]	[ ]	[ ]	[ ]
APT estimated in week		[ ]	[ ]	[ ]	[ ]
APT Labour estimated in week		[ ]	[ ]	[ ]	[ ]
B&R Money due		[ ]	[ ]	[ ]	[ ]
Babtie 75% payments		[ ]	[ ]	[ ]	[ ]
B&R 95% payments		[ ]	[ ]	[ ]	[ ]
TOTAL PAYMENTS CUMULATIVE	[ ]				
TOTAL PAYMENTS IN WEEK		[ ]	[ ]	[ ]	[ ]

SCHEDULE 4

CALCULATION OF THE MANDATORY COST

1. General

The Mandatory Cost is the weighted average of the rates calculated below by the Facility Agent on the first day of a Term. The Facility Agent must distribute each amount of Mandatory Cost among the Lenders on the basis of the rate for each Lender.

2. For a Lender lending from a Facility Office in the U.K.

(a) The relevant rate for a Lender lending from a Facility Office in the U.K. is the arithmetic mean of the rates notified by each of the Reference Banks to the Facility Agent and calculated in accordance with the following formulae:

for a Loan in Sterling:

$$\frac{AB + C(B - D) + E \times 0.01}{100 - (A + C)} \text{ per cent. per annum}$$

for any other Loan:

$$\frac{E \times 0.0l}{300} \text{ per cent. per annum}$$

where on the day of application of the formula:

A is the percentage of the Reference Bank's eligible liabilities (in excess of any stated minimum) which the Bank of England requires it to hold on a non-interest-bearing deposit account in accordance with its cash ratio requirements;

B is LIBOR for that Term;

C is the percentage of the Reference Bank's eligible liabilities which the Bank of England requires it to place as a special deposit;

D is the interest rate per annum allowed by the Bank of England on a special deposit; and

E is the charge payable by the Reference Bank to the Financial Services Authority under the fees rules (but, for this purpose, ignoring any minimum fee required under the fees rules) and expressed in pounds per (pound)1 million of the tariff base of that Reference Bank.

(b) For the purposes of this paragraph 2:

(i) "eligible liabilities" and "special deposit" have the meanings given to them at the time of application of the formula by the Bank of England;

(ii) "fees rules" means the then current rules on periodic fees in the Supervision Manual of the FSA Handbook; and

(iii) "tariff base" has the meaning given to it in the fees rules.

(c) (i) In the application of the formulae, A, B, C and D are included as figures and not as percentages, e.g. if A = 0.5% and B = 15%, AB is calculated as 0.5 x 15. A negative result obtained by subtracting D from B is taken as zero.

(ii) Each rate calculated in accordance with a formula is, if necessary, rounded upward to four decimal places.

(d) (i) Each Reference Bank must supply to the Facility Agent the information required by it to make a calculation of the rate for that Reference Bank. The Facility Agent may assume that this information is correct in all respects.

(ii) If a Reference Bank fails to do so, the Facility Agent may assume that the Reference Bank's obligations in respect of cash ratio deposits, special deposits and the fees rules are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.

(iii) The Facility Agent has no liability to any Party if its calculation over or under compensates any Lender.

3. For a Lender lending from a Facility Office in a Participating Member State

(a) The relevant rate for a Lender lending from a Facility Office in a Participating Member State is the percentage rate per annum notified by that Lender to the Facility Agent as its cost of complying with the minimum reserve requirements of the European Central Bank.

(b) If a Lender fails to specify a rate under paragraph (a) above, the Facility Agent will assume that the Lender has not incurred any such cost.

4. Changes

The Facility Agent may, after consultation with the Company and the Lenders, notify all the Parties of any amendment to this Schedule which is required to reflect:

(a) any change in law or regulation; or

(b) any requirement imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any successor authority).

Any notification will be, in the absence of manifest error, conclusive and binding on all the Parties.

SCHEDULE 5

FORM OF TRANSFER CERTIFICATE

To: HSBC BANK PLC as Facility Agent

From: [THE EXISTING LENDER] (the Existing Lender) and [THE NEW LENDER] (the New Lender)

Date: [ ]

DEVONPORT ROYAL DOCKYARD LIMITED - (pound)80,000,000 Credit Agreement dated [ ], 2002 (the Agreement)

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender transfers by novation to the New Lender the Existing Lender's rights and obligations referred to in the Schedule below in accordance with the terms of the Agreement.

2. The proposed Transfer Date is [ ].

3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.

4. This Transfer Certificate is governed by English law.

THE SCHEDULE

Rights and obligations to be transferred by novation
[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender
[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER] [NEW LENDER]

By: By:

The Transfer Date is confirmed by the Facility Agent as [ ].

HSBC BANK PLC

By:

SCHEDULE 6

EXISTING SECURITY

Member of the Group creating security	Details of security	Maximum principal amount secured
Devonport Management Limited	Fixed Charge on book debts dated 13.03.97 i.f.o. HSBC Bank plc	Unlimited
Devonport Royal Dockyard Limited	Fixed Charge on book debts dated 13.03.97 i.f.o. HSBC Bank plc	Unlimited
Dorhold Limited	Fixed Charge on book debts dated 13.03.97 i.f.o. HSBC Bank plc	Unlimited
Devonport Engineering Services Limited	Fixed Charge on book debts dated 13.03.97 i.f.o. HSBC Bank plc	Unlimited

SCHEDULE 7

FORM OF COMPLIANCE CERTIFICATE

To: HSBC BANK PLC as Facility Agent

From: DEVONPORT ROYAL DOCKYARD LIMITED

Date: [ ]

DEVONPORT ROYAL DOCKYARD LIMITED - (pound)80,000,000 Credit Agreement dated [ ], 2002 (the Agreement)

1. We refer to the Agreement. This is a Compliance Certificate.

2. We confirm that as at [relevant testing date]:

   (a) Adjusted Tangible Net Worth is [ ];

   (b) EBITDA was [ ]; and Total Borrowings are [ ]; therefore, Total Borrowings are [ ] x EBITDA;

   (c) EBITDA was [ ] and Net Interest Payable was [ ]; therefore, the ratio of EBITDA to Net Interest Payable was [ ] to 1; and

3. We set out below calculations establishing the figures in paragraph 2 above:

   [ ].

4. Total Borrowings are [ ] x EBITDA so therefore, the Applicable Margin is [ ]% for Revolving Credit Loans and [ ]% for Term Loans.

5. [We confirm that no Default is outstanding as at [relevant testing date].3

DEVONPORT ROYAL DOCKYARD LIMITED

By:

3 If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 8

FORM OF ACCESSION AGREEMENT

To: HSBC BANK PLC as Facility Agent

From: DEVONPORT ROYAL DOCKYARD LIMITED and [Proposed Guarantor]

Date: [ ]

DEVONPORT ROYAL DOCKYARD LIMITED - (pound)80,000,000 Credit Agreement
dated [ ], 2002 (the Agreement)

We refer to the Agreement. This is an Accession Agreement.

[Name of company] of [address/registered office] agrees to become an Additional Guarantor and to be bound by the terms of the Agreement as an Additional Guarantor.

This Accession Agreement is governed by English law.

DEVONPORT ROYAL DOCKYARD LIMITED

By:

[PROPOSED GUARANTOR]

By:

SCHEDULE 9

FORM OF RESIGNATION REQUEST

To: HSBC BANK PLC as Facility Agent

From: DEVONPORT ROYAL DOCKYARD LIMITED and [relevant Guarantor]

Date: [ ]

DEVONPORT ROYAL DOCKYARD LIMITED - (pound)80,000,000 Credit Agreement dated [ ], 2002 (the Agreement)

1. We refer to the Agreement. This is a Resignation Request.

2. We request that [resigning Guarantor] be released from its obligations as a Guarantor under the Agreement.

3. We confirm that no Default is outstanding or would result from the acceptance of this Resignation Request.

4. We confirm that as at the date of this Resignation Request no amount owed by [resigning Guarantor] under the Agreement is outstanding.

5. This Resignation Request is governed by English law.

DEVONPORT ROYAL DOCKYARD LIMITED [Relevant Guarantor]

By: By:

The Facility Agent confirms that this resignation takes effect on [ ].

HSBC BANK PLC

By:

SCHEDULE 10

FORM OF SECURITY AGREEMENT

SECURITY AGREEMENT

DATED

BETWEEN

DEVONPORT ROYAL DOCKYARD LIMITED

- and -

HSBC BANK PLC

INDEX

Clause Page

Schedule

THIS DEED is dated between:

(1) DEVONPORT ROYAL DOCKYARD LIMITED (registered number 02077752) (the Chargor);

(2) HSBC BANK PLC (the Security Trustee) as agent and trustee for the Transaction Parties (as defined in the Credit Agreement defined below).

BACKGROUND:

(A) The Chargor enters into this Deed in connection with the Credit Agreement (as defined below).

(B) It is intended that this document takes effect as a deed notwithstanding the fact that a party may only execute this document under hand.

IT IS AGREED as follows:

1. Interpretation

1.1 Definitions

In this Deed:

Act means the Law of Property Act 1925.

Credit Agreement means the(pound)80,000,000 credit agreement dated on or about the date of this Deed between (among others) the Chargors and the Security Trustee.

Party means a party to this Deed.

Receiver means a receiver and manager or (if the Security Trustee so specifies in the relevant appointment) a receiver, in either case, appointed under this Deed.

Secured Liabilities means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of the Chargor to any Transaction Party including, without limitation, under each Transaction Document to which the Chargor is a party, except for any obligation which, if it were so included, would result in this Deed contravening Section 151 of the Companies Act 1985.

Security Assets means all assets of the Chargor the subject of any security created by this Deed.

Security Period means the period beginning on the date of this Deed and ending on the date on which all the Secured Liabilities have been unconditionally and irrevocably paid and discharged in full.

1.2 Construction

(a) Capitalised terms defined in the Credit Agreement have, unless expressly defined in this Deed, the same meaning in this Deed.

(b) The provisions of Clause 1.2 (Construction) of the Credit Agreement apply to this Deed as though they were set out in full in this Deed, except that references to the Credit Agreement will be construed as references to this Deed.

(c) (i) The term Finance Document includes all amendments and supplements including supplements providing for further advances; and

(ii) the term this Security means any security created by this Deed.

(d) Any covenant of the Chargor under this Deed (other than a payment obligation) remains in force during the Security Period.

(e) If the Security Trustee considers that an amount paid to a Finance Party under a Finance Document is capable of being avoided or otherwise set aside on the liquidation or administration of the payer or otherwise, then that amount will not be considered to have been irrevocably paid for the purposes of this Deed.

(f) Unless the context otherwise requires, a reference to a Security Asset includes the proceeds of sale of that Security Asset.

2. Creation of Security

2.1 General

(a) All the security created under this Deed:

(i) is created in favour of the Security Trustee;

(ii) is created over present and future assets of the Chargor;

(iii) is security for the payment of all the Secured Liabilities; and

(iv) is made with full title guarantee in accordance with the Law of Property (Miscellaneous Provisions) Act 1994.

(b) If the rights of the Chargor under a document cannot be secured without the consent of a party to that document;

(i) this Security will secure all amounts which the Chargor may receive, or has received, under that document but exclude the document itself and all rights or assets which the document provides may not be charged or secured without that consent; and

(ii) in relation to all present and future agreements between the Chargor and the Secretary of State for Defence (together with other parties, as the case may be), the Chargor must use reasonable endeavours to obtain the consent of the Secretary of State for Defence to such documents being secured under this Deed and in any event such consent must be obtained within 3 calendar months of the date of this Deed in form and substance satisfactory to the Security Trustee.

(c) The Security Trustee holds the benefit of this Deed on trust for the Finance Parties.

2.2 Credit balances

The Chargor charges by way of a first fixed charge all of its rights in respect of any amount standing to the credit of any account (including any account contemplated by this Deed) it has with any person and the debt represented by it.

2.3 Book debts etc.

The Chargor charges by way of a first fixed charge:

(a) all of its book and other debts;

(b) all other moneys due and owing to it; and

(c) the benefit of all rights, securities or guarantees of any nature enjoyed or held by it in relation to any item under paragraph (a) or (b) above.

2.4 Other contracts

To the extent that it is legally able to do so without breaching the terms of the relevant agreement and subject to Clause 2.1(b) (General) above, the Chargor charges by way of a first fixed charge, all of its rights in respect of any agreement to which it is a party.

2.5 Assignment

To the extent it is legally able to do so without breaching the terms of the relevant agreement and subject to Clause 2.1(b) (General) above, the Chargor assigns absolutley, subject to a proviso for re-assignment on redemption, all of its rights in respect of any agreement to which it is a party; this includes the Relevant Contracts.

2.6 Floating charge

(a) Except to the extent that it is subject to any fixed security created under any other term of this Clause and to the extent that it is legally able to do so without breaching the terms of the relevant agreement, the Chargor charges by way of a first floating charge all of its rights in respect of the assets referred to in Clauses 2.2 (Credit balances) to 2.5 (Assignment) (both inclusive).

(b) The Lender may by notice to the Chargor convert the floating charge created by the Chargor under this Subclause into a fixed charge as regards any of the Chargor's assets specified in that notice, if:

(i) an Event of Default is outstanding; or

(ii) the Lender considers those assets to be in danger of being seized or sold under any form of distress, attachment, execution or other legal process or to be otherwise in jeopardy.

3. Representations - general

3.1 Nature of security

The Chargor represents to each Finance Party that this Deed creates those Security Interests it purports to create and is not liable to be amended or otherwise set aside on its liquidation or administration or otherwise.

3.2 Times for making representations

(a) The representations set out in this Deed (including in this Clause) are made on the date of this Deed.

(b) Unless a representation is expressed to be given at a specific date, each representation under this Deed is deemed to be repeated by the Chargor on each date during the Security Period.

(c) When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

4. Restrictions on dealings

No Chargor may:

(a) create or permit to subsist any Security Interest on any Security Asset; or

(b) sell, transfer, licence, lease or otherwise dispose of any Security Asset, except as expressly allowed under the Credit Agreement.

5. Contracts

5.1 Notices of assignment

If an Event of Default is outstanding and the Security Trustee requests, the Chargor must:

(a) immediately serve a notice of assignment, substantially in the form of Part I of Schedule 1 (Forms of letter for Contracts), on each counterparty to such contracts as the Secrity Trustee may specify to which it is a party; and

(b) use its reasonable endeavours to procure that each such party acknowledges that notice, substantially in the form of Part II of Schedule 1 (Forms of letter for Contracts).

6. When Security becomes enforceable

6.1 Event of Default

This Security will become immediately enforceable if if an Event of Default is outstanding and the Security Trustee gives notice to the Chargor that this Security is enforceable.

6.2 Discretion

After this Security has become enforceable, the Security Trustee may in its absolute discretion enforce all or any part of this Security in any manner it sees fit or as the Majority Lenders direct.

6.3 Power of sale

The power of sale and other powers conferred by Section 101 of the Act, as amended by this Deed, will be immediately exercisable at any time after this Security has become enforceable.

7. Enforcement of Security

7.1 General

(a) For the purposes of all powers implied by statute, the Secured Liabilities are deemed to have become due and payable on the date of this Deed.

(b) Section 103 of the Act (restricting the power of sale) and Section 93 of the Act (restricting the right of consolidation) do not apply to this Security.

7.2 No liability as mortgagee in possession

Neither the Security Trustee nor any Receiver will be liable, by reason of entering into possession of a Security Asset, to account as mortgagee in possession or for any loss on realisation or for any default or omission for which a mortgagee in possession might be liable.

7.3 Privileges

Each Receiver and the Security Trustee is entitled to all the rights, powers, privileges and immunities conferred by the Act on mortgagees and receivers duly appointed under the Act, except that Section 103 of the Act does not apply.

7.4 Protection of third parties

No person (including a purchaser) dealing with the Security Trustee or a Receiver or its or his agents will be concerned to enquire:

(a) whether the Secured Liabilities have become payable;

(b) whether any power which the Security Trustee or a Receiver is purporting to exercise has become exercisable or is being properly exercised;

(c) whether any money remains due under the Finance Documents; or

(d) how any money paid to the Security Trustee or to that Receiver is to be applied.

7.5 Redemption of prior mortgages

(a) At any time after this Security has become enforceable, the Security Trustee may:

(i) redeem any prior Security Interest against any Security Asset; and/or

(ii) procure the transfer of that Security Interest to itself; and/or

(iii) settle and pass the accounts of the prior mortgagee, chargee or encumbrancer; any accounts so settled and passed will be, in the absence of manifest error, conclusive and binding on the Chargor.

(b) The Chargor must pay to the Security Trustee, immediately on demand, the costs and expenses incurred by the Security Trustee in connection with any such redemption and/or transfer, including the payment f any principal or interest.

7.6 Contingencies

If this Security is enforced at a time when no amount is due under the Finance Documents but at a time when amounts may or will become due, the Security Trustee (or the Receiver) may pay the proceeds of any recoveries effected by it into a suspense account.

8. Receiver

8.1 Appointment of Receiver

(a) The Security Trustee may appoint any one or more persons to be a Receiver of all or any part of the Security Assets if:

(i) this Security has become enforceable; or

(ii) the Chargor so requests the Security Trustee in writing at any time.

(b) Any appointment under paragraph (a) above may be by deed, under seal or in writing under its hand.

(c) Section 109(1) of the Act does not apply to this Deed.

8.2 Removal

The Security Trustee may by writing under its hand (subject to any requirement for an order of the court in the case of an administrative receiver) remove any Receiver appointed by it and may, whenever it thinks fit, appoint a new Receiver in the place of any Receiver whose appointment may for any reason have terminated.

8.3 Remuneration

The Security Trustee may fix the remuneration of any Receiver appointed by it and the maximum rate specified in Section 109(6) of the Act will not apply.

8.4 Agent of the Chargor

(a) A Receiver will be deemed to be the agent of the Chargor for all purposes and accordingly will be deemed to be in the same position as a Receiver duly appointed by a mortgagee under the Act. The Chargor is responsible for the contracts, engagements, acts, omissions, defaults and losses of a Receiver and for liabilities incurred by a Receiver.

(b) No Finance Party will incur any liability (either to the Chargor or to any other person) by reason of the appointment of a Receiver or for any other reason.

8.5 Relationship with Security Trustee

To the fullest extent allowed by law, any right, power or discretion conferred by this Deed (either expressly or impliedly) or by law on a Receiver may after this Security becomes enforceable be exercised by the Security Trustee in relation to any Security Asset without first appointing a Receiver and notwithstanding the appointment of a Receiver.

9. Powers of Receiver

9.1 General

(a) A Receiver has all of the rights, powers and discretions set out below in this Clause in addition to those conferred on it by any law, including all the rights, powers and discretions conferred on a receiver under the Act and a receiver or an administrative receiver under the Insolvency Act, 1986.

(b) If there is more than one Receiver holding office at the same time, each Receiver may (unless the document appointing him states otherwise) exercise all of the powers conferred on a Receiver under this Deed individually and to the exclusion of any other Receiver.

9.2 Possession

A Receiver may take immediate possession of, get in and collect any Security Asset.

9.3 Carry on business

A Receiver may carry on the business of any Chargor in any manner he thinks fit.

9.4 Employees

(a) A Receiver may appoint and discharge managers, officers, agents, accountants, servants, workmen and others for the purposes of this Deed upon such terms as to remuneration or otherwise as he thinks fit.

(b) A Receiver may discharge any person appointed by any Chargor.

9.5 Borrow money

A Receiver may raise and borrow money either unsecured or on the security of any Security Asset either in priority to this Security or otherwise and generally on any terms and for whatever purpose which he thinks fit.

9.6 Sale of assets

(a) A Receiver may sell, exchange, convert into money and realise any Security Asset by public auction or private contract and generally in any manner and on any terms which he thinks fit.

(b) The consideration for any such transaction may consist of cash, debentures or other obligations, shares, stock or other valuable consideration and any such consideration may be payable in a lump sum or by instalments spread over any period which he thinks fit.

9.7 Compromise

A Receiver may settle, adjust, refer to arbitration, compromise and arrange any claim, account, dispute, question or demand with or by any person who is or claims to be a creditor of any Chargor or relating in any way to any Security Asset.

9.8 Legal actions

A Receiver may bring, prosecute, enforce, defend and abandon any action, suit or proceedings in relation to any Security Asset which he thinks fit.

9.9 Receipts

A Receiver may give a valid receipt for any moneys and execute any assurance or thing which may be proper or desirable for realising any Security Asset.

9.10 Subsidiaries

A Receiver may form a Subsidiary of any Chargor and transfer to that Subsidiary any Security Asset.

9.11 Delegation

A Receiver may delegate his powers in accordance with this Deed.

9.12 Lending

A Receiver may lend money or advance credit to any customer of any Chargor.

9.13 Protection of assets

A Receiver may:

(a) effect any repair or insurance and do any other act which any Chargor might do in the ordinary conduct of its business to protect or improve any Security Asset;

(b) commence and/or complete any building operation; and

(c) apply for and maintain any planning permission, building regulation approval or any other authorisation,

in each case as he thinks fit.

9.14 Other powers

A Receiver may:

(a) do all other acts and things which he may consider desirable or necessary for realising any Security Asset or incidental or conducive to any of the rights, powers or discretions conferred on a Receiver under or by virtue of this Deed or law;

(b) exercise in relation to any Security Asset all the powers, authorities and things which he would be capable of exercising if he were the absolute beneficial owner of that Security Asset; and

(c) use the name of any Chargor for any of the above purposes.

10. Application of proceeds

Any moneys received by the Security Trustee or any Receiver after this Security has become enforceable must be applied in the following order of priority:

(a) in or towards payment of or provision for all costs and expenses incurred by the Security Trustee or any Receiver under or in connection with this Deed and of all remuneration due to any Receiver under or in connection with this Deed;

(b) in or towards payment of or provision for the Secured Liabilities; and

(c) in payment of the surplus (if any) to any Chargor or other person entitled to it.

This Clause is subject to the payment of any claims having priority over this Security. This Clause does not prejudice the right of any Finance Party to recover any shortfall from the Chargor.

11. Expenses and indemnity

The Chargor must:

(a) immediately on demand pay all costs and expenses (including legal fees) incurred in connection with this Deed by any Finance Party, Receiver, attorney, manager, agent or other person appointed by the Security Trustee under this Deed; and

(b) keep each of them indemnified against any failure or delay in paying those costs or expenses; this includes any arising from any actual or alleged breach by any person of any law or regulation, whether relating to the environment or otherwise.

12. Delegation

12.1 Power of Attorney

The Security Trustee or any Receiver may delegate by power of attorney or in any other manner to any person any right, power or discretion exercisable by it under this Deed.

12.2 Terms

Any such delegation may be made upon any terms (including power to sub-delegate) which the Security Trustee or any Receiver may think fit.

12.3 Liability

Neither the Security Trustee nor any Receiver will be in any way liable or responsible to any Chargor for any loss or liability arising from any act, default, omission or misconduct on the part of any delegate or sub-delegate.

13. Further assurances

The Chargor must, at its own expense, take whatever action the Security Trustee or a Receiver may reasonably require for:

(a) creating, perfecting or protecting any security intended to be created by this Deed; or

(b) facilitating the realisation of any Security Asset, or the exercise of any right, power or discretion exercisable, by the Security Trustee or any Receiver or any of its delegates or sub-delegates in respect of any Security Asset.

This includes:

(i) the execution of any transfer, conveyance, assignment or assurance of any property, whether to the Security Trustee or to its nominee; or

(ii) the giving of any notice, order or direction and the making of any registration; or

(iii) the obtaining of any consents (including without limitation consents in relation to the charging or assignment of contracts referred to in Clauses 2.4 (Other contracts) to 2.6 (Floating charge) (both inclusive)). which, in any such case, the Security Trustee may think expedient.

14. Power of attorney

The Chargor, by way of security, irrevocably and severally appoints the Security Trustee, each Receiver and any of its delegates or sub-delegates to be its attorney to take any action which the Chargor is obliged to take under this Deed. The Chargor ratifies and confirms whatever any attorney does or purports to do under its appointment under this Clause.

15. Miscellaneous

15.1 Covenant to pay

The Chargor must pay or discharge the Secured Liabilities in the manner provided for in the Finance Documents.

15.2 Tacking

Each Lender must perform its obligations under the Credit Agreement (including any obligation to make available further advances).

15.3 New Accounts

(a) If any subsequent charge or other interest affects any Security Asset, the Finance Party may open a new account with the Chargor.

(b) If the Finance Party does not open a new account, it will nevertheless be treated as if it had done so at the time when it received or was deemed to have received notice of that charge or other account.

(c) As from that time all payments made to the Finance Party will be credited or be treated as having been credited to the new account and will not operate to reduce any Secured Liability.

15.4 Time deposits

Without prejudice to any right of set-off any Finance Party may have under any other Finance Document or otherwise, if any time deposit matures on any account the Chargor has with any Finance Party within the Security Period when:

(a) this Security has become enforceable; and

(b) no Secured Liability is due and payable,

that time deposit will automatically be renewed for any further maturity which that Finance Party considers appropriate.

15.5 Notice of assignment

This Deed constitutes notice in writing to the Chargor of any charge or assignment of a debt owed by the Chargor to any other member of the Group and contained in any other Security Document.

16. Release

At the end of the Security Period, the Finance Parties must, at the request and cost of the Chargor, take whatever action is necessary to release its Security Assets from this Security.

17. Governing law

This Deed is governed by English law.

This Deed has been entered into as a deed on the date stated at the beginning of this Deed.

SCHEDULE 1

FORMS OF LETTER FOR CONTRACTS

PART I

NOTICE TO COUNTERPARTY

To: [Contract party]

[Date]

Dear Sirs,

Security Document dated [ ] between Devonport Royal Dockyard Limited and HSBC BANK PLC (the Security Document)

This letter constitutes notice to you that under the Security Document we have assigned by way of security to HSBC Bank plc (the Security Trustee) all our rights in respect of [insert details of Contract] (the Contract).

We confirm that:

(a) we will remain liable under the Contract to perform all the obligations assumed by us under the Contract; and

(b) none of the Security Trustee, its agents, any receiver or any other person will at any time be under any obligation or liability to you under or in respect of the Contract.

We will also remain entitled to exercise all our rights, powers and discretions under the Contract, and you should continue to give notices under the Contract to us, unless and until you receive notice from the Security Trustee to the contrary stating that the security has become enforceable. In this event, all the rights, powers and discretions will be exercisable by, and notices must be given to, the Security Trustee or as it directs.

Please note that we have agreed that we will not amend or waive any provision of or terminate the Contract without the prior consent of the Security Trustee.

This letter is governed by English law.

Please acknowledge receipt of this letter by sending the attached acknowledgement to the Security Trustee at [ ].

Yours faithfully,

[Chargor]

(Authorised signatory)

PART II

ACKNOWLEDGEMENT OF COUNTERPARTY

To: [Security Trustee] as Security Trustee

Copy: [Chargor]

[Date]

Dear Sirs,

We confirm receipt from Devonport Royal Dockyard Limited (the Chargor) of a notice dated [ ] of an assignment on the terms of the Security Document dated [ ] of all the Chargor's rights in respect of [insert details of the Contract] (the Contract).

We confirm that we will pay all sums due, and give notices, under the Contract as directed in that notice.

This letter is governed by English law.

Yours faithfully,

(Authorised signatory)

[Counterparty]

SIGNATORIES

Chargor

EXECUTED AS A DEED by)
DEVONPORT ROYAL DOCKYARD)
LIMITED acting by)

Director

Director/Secretary

Security Trustee

HSBC BANK PLC

By:

SCHEDULE 11

FORM OF LEGAL OPINION OF ALLEN & OVERY

To: The Finance Parties named as original parties to the Credit Agreement (as defined below).

[DATE]

Dear Sirs,

DEVONPORT ROYAL DOCKYARD LIMITED - (pound)80,000,000 Credit Agreement dated [ ], 2002 (the Credit Agreement)

We have received instructions from [ ] in connection with the Credit Agreement.

Definitions

In this opinion words defined in the Credit Agreement have the same meaning in this opinion.

Documents and searches

For the purposes of this opinion we have examined the following documents:

(a) a signed copy of the Credit Agreement;

(b) a signed copy of [the/each] Security Agreement;

(c) a certified copy of the memorandum and articles of association and certificate of incorporation of each Original Obligor;

(d) [a certified copy of the minutes of a meeting of a committee of the board of directors of the Parent held on [ ];]

(e) a certified copy of the minutes of a meeting of the board of directors of the Company held on [ ];

(f) a certified copy of the minutes of a meeting of the board of directors of each Original Obligor (other than the Company) held on [ ];

(g) a certified copy of a resolution, signed by all the holders of the issued or allotted shares in each Original Guarantor, dated [ ]; and

(h) a certificate of the Company confirming, amongst other things, that the entry into and performance of the Agreements will not contravene any borrowing or guarantee limit contained in the articles of association of any Original Obligor.

On [ ] we carried out a search of each Original Obligor at the Companies Registry. On [ ] we made a telephone search of each Original Obligor at the winding-up petitions at the Companies court.

The above are the only documents or records we have examined and the only searches and enquiries we have carried out for the purposes of this opinion.

Assumptions

We assume that:

(a) each Original Obligor is not unable to pay its debts within the meaning of section 123 of the Insolvency Act, 1986 at the time it enters into an Agreement and will not as a result of any Agreement be unable to pay its debts within the meaning of that section;

(b) no step has been taken to wind up or dissolve any Original Obligor, put any Original Obligor into administration or appoint a receiver, administrator, administrative receiver, trustee in bankrupcy or similar officer in respect of it or any of its assets although the searches of the Companies Registry referred to above gave no indication that any winding-up, dissolution or administration order or appointment of a receiver, administrator, administrative receiver, trustee in bankrupcy or similar officer has been made;

(c) all signatures and documents are genuine;

(d) all documents are and remain up-to-date;

(e) the correct procedure was carried out at all the board meetings referred to above; for example, there was a valid quorum, all relevant interests of directors were declared and the resolutions were duly passed at each meeting;

(f) any restrictions on the ability of an Original Obligor to borrow or guarantee contained in its Articles of Association would not be contravened by the entry into and performance by it of any Agreement to which it is a party;

(g) the Agreements have been duly executed on behalf of the Original Obligors party to them by the person(s) authorised by the resolutions passed at the relevant meeting referred to above;

(h) each Agreement is a legally binding, valid and enforceable obligation of each party to it other than each Original Obligor;

(i) the guarantee contained in the Credit Agreement was given for the legitimate purposes of each Original Guarantor and the giving of the guarantee may reasonably be regarded as having been in its interests; and

(j) no foreign law affects the conclusions stated below.

Opinion

Subject to the qualifications set out below and to any matters not disclosed to us, it is our opinion that, so far as the present laws of England are concerned:

1. Status: Each Original Obligor is a company incorporated with limited liability under the laws of England and is not in liquidation.

2. Powers and authority: Each Original Obligor has the corporate power to enter into and perform the Agreements to which it is a party and has taken all necessary corporate action to authorise the execution, delivery and performance of those Agreements.

3. Legal validity: Each Agreement to which any Original Obligor is a party constitutes its legally binding, valid and enforceable obligation.

4. Non-conflict: The entry into and performance by each Original Obligor of each Agreement to which it is a party will not violate any provision of (i) any existing English law applicable to companies generally, or (ii) its memorandum or articles of association.

5. Consents: No authorisations of governmental, judicial or public bodies or authorities in England are required by any Original Obligor in connection with the performance, validity or enforceability of its payment obligations under each Agreement to which it is a party.

6. Taxes: All payments due from any Original Obligor resident for tax purposes in the U.K. under the Credit Agreement may be made without deduction of any U.K. Taxes, if, in the case of interest:

   (a) (i) the person that advanced the participation in the Loan to which the interest relates was a bank for the purpose of Section 349 of the Income and Corporation Taxes Act 1988 (as currently defined in section 840A of the Income and Corporation Taxes Act 1988) at the time the Loan was made; and

   (ii) the person beneficially entitled to that interest is within the charge to U.K. corporation tax as regards that interest at the time the interest is paid;

   (b) the person beneficially entitled to the income in respect of which the interest payment is made is:

      (i) a company resident in the U.K. for tax purposes;

      (ii) a partnership each member of which is a company resident in the U.K. for tax purposes; or

      (iii) a company not resident in the U.K. for tax purposes which carries on a trade in the U.K. through a branch or agency and brings into account payments to it under this Agreement in computing its chargeable profits for the purposes of section 11(2) of the Income and Corporation Taxes Act 1988; or

(c) the interest is payable to a Treaty Lender and the Financial Intermediaries and Claims Office has given the necessary authorisation.

7. Registration requirements: Except for registration of each Security Agreement at the appropriate registries, it is not necessary or advisable to file, register or record any Agreement in any public place or elsewhere in England.

8. Stamp duties: Except for any registration fees payable at Companies Registry in respect of each Security Agreement, no stamp, registration or similar tax or charge is payable in England in respect of any Agreement.

9. Security: Subject to due registration where required, each Security Agreement creates security interests in the Security Assets concerned.

Qualifications

This opinion is subject to the following qualifications:

(a) This opinion is subject to all insolvency and other laws affecting the rights of creditors generally.

(b) No opinion is expressed on matters of fact.

(c) No opinion is expressed as to:

(i) the title of any Original Obligor to any Security Asset;

(ii) the priority of any security created or to be created by any Security Agreement;

(iii) the nature of the security created by any Security Agreement (whether fixed or floating);

(iv) the marketability of, or rights of enforcement over, any Security Asset; or

(v) any other restriction affecting any Security Asset or the security created by the Security Agreement.

These matters are too lengthy to cover in this opinion.

(d) The term enforceable means that a document is of a type and form enforced by the English courts. It does not mean that each obligation will be enforced in accordance with its terms. Certain rights and obligations may be qualified by the non-conclusivity of certificates, doctrines of good faith and fair conduct, the availability of equitable remedies and other matters, but in our view these qualifications would not defeat your legitimate expectations in any material respect.

This opinion is given for your sole benefit and may not be relied upon by or disclosed to any other person.

Yours faithfully,

SCHEDULE 12

MATERIAL CONTRACTS

Contracts with MoD

1. WSMI Service Contract dated 17 June 2002 between (1) the Secretary of State for Defence (2) the Company and providing the terms on which the Company will provide warship support and maintenance services to the MOD.

2. Enabling Agreement dated 13 March 1997 between (1) the Secretary of State for Defence (2) the Company and providing the basic terms on which the Company is to carry out certain (non-competitive) work for the Secretary of State for Defence, together with:

   (a) HMS Vanguard agreement dated 14 August 2002 between (1) the Secretary of State for Defence (2) the Company which is a contract to undertake the long overhaul period (refuel) of HMS Vanguard including planning, management, materials and services procurement activities at Devonport Royal Dockyard.

   (b) HMS Trenchant agreement between (1) the Secretary of State for Defence (2) the Company to undertake the long overhaul period (refuel) of HMS Trenchant including planning, management, materials and services procurement activities at Devonport Royal Dockyard which commenced on 3 April 2000 the terms being accepted by the Company by way of letter dated 30 March 2001.

Signatories

Parent

DEVONPORT MANAGEMENT LIMITED

By: HENRY WILLIAM WARREN

Company

DEVONPORT ROYAL DOCKYARD LIMITED

By: HENRY WILLIAM WARREN

Original Guarantor

DEVONPORT MANAGEMENT LIMITED

By: HENRY WILLIAM WARREN

Mandated Lead Arrangers

HSBC BANK PLC

By: MICHAEL JESTER

THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND

By: STEVE HETHERINGTON

THE ROYAL BANK OF SCOTLAND PLC

By: RICHARD COLLENS

Original Lenders

HSBC BANK PLC

By: AIDAN R. HAILE

THE GOVERNOR AND COMPANY OF THE BANK OF SCOTLAND

By: STEVE HETHERINGTON

THE ROYAL BANK OF SCOTLAND PLC

By: RICHARD COLLENS

Facility Agent

HSBC BANK PLC

By: MICHAEL JESTER

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement ("Agreement"), is entered into by and between Dresser Industries, Inc. ("Employer") and David R. Smith, ("Employee"), to be effective on September 29, 1998 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Employee is currently employed by Employer; and

WHEREAS, Employer is desirous of continuing the employment of Employee after the Effective Date pursuant to the terms and conditions and for the consideration set forth in this Agreement, and Employee is desirous of continuing in the employ of Employer pursuant to such terms and conditions and for such consideration.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES:

1.1. Employer agrees to employ Employee, and Employee agrees to be employed by Employer, beginning as of the Effective Date and continuing until the date of termination of Employee's employment pursuant to the provisions of Article 3 (the "Term"), subject to the terms and conditions of this Agreement.

1.2. Beginning as of the Effective Date, Employee shall be employed as Vice President - Tax, Shared Services Division of Halliburton Energy Services, Inc. Employee agrees to serve in the assigned position or in such other executive capacities as may be requested from time to time by Employer and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such positions as reasonably determined by Employer, as well as such additional or different duties and services appropriate to such positions which Employee from time to time may be reasonably directed to perform by Employer.

1.3. Employee shall at all times comply with and be subject to such policies and procedures as Halliburton Company ("Halliburton") or Employer may establish from time to time, including, without limitation, the Halliburton Company Code of Business Conduct (the "Code of Business Conduct").

1.4. Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is contrary to the interest of Halliburton or any of its affiliated subsidiaries and divisions, including Employer (collectively, the "Halliburton Entities" or, individually, a "Halliburton Entity"), or requires any significant portion of Employee's business time. The foregoing notwithstanding, the parties recognize and agree that Employee may engage in passive personal investments and other business activities which do not conflict with the business and affairs of the Halliburton Entities or interfere with Employee's performance of his or her duties hereunder. Employee may not serve on the board of directors of any entity other than a Halliburton Entity during the Term without the approval thereof in accordance with Halliburton's policies and procedures regarding such service. Employee shall be permitted to retain any compensation received for approved service on any unaffiliated corporation's board of directors.

1.5. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of the Employer and the other Halliburton Entities and to do no act which would, directly or indirectly, injure any such entity's business, interests, or reputation. It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect Employer, or any Halliburton Entity, involves a possible conflict of interest. In keeping with Employee's fiduciary duties to Employer, Employee agrees that Employee shall not knowingly become involved in a conflict of interest with Employer or the Halliburton Entities, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee shall not engage in any activity which might involve a possible conflict of interest without first obtaining approval in accordance with Halliburton's policies and procedures.

1.6 Nothing contained herein shall be construed to preclude the transfer of Employee's employment to another Halliburton Entity ("Subsequent Employer") as of, or at any time after, the Effective Date and no such transfer shall be deemed to be a termination of employment for purposes of Article 3 hereof; provided, however, that, effective with such transfer, all of Employer's obligations hereunder shall be assumed by and be binding upon, and all of Employer's rights hereunder shall be assigned to, such Subsequent Employer and the defined term "Employer" as used herein shall thereafter be deemed amended to mean such Subsequent Employer. Except as otherwise provided above, all of the terms and conditions of this Agreement, including without limitation, Employee's rights and obligations, shall remain in full force and effect following such transfer of employment.

ARTICLE 2: COMPENSATION AND BENEFITS:

2.1. Employee's base salary during the Term shall be not less than

$240,000 per annum which shall be paid in accordance with the Employer's standard payroll practice for its executives. Employee's base salary may be increased from time to time with the approval of the Compensation Committee of Halliburton's Board of Directors (the "Compensation Committee") or its delegate, as applicable. Such increased base salary shall become the minimum base salary under this Agreement and may not be decreased thereafter without the written consent of Employee.

2.2. Employee shall be entitled to receive the bonus earned under the Dresser Industries, Inc. ("Dresser") 1998 Executive Incentive Compensation Plan (the "Dresser EVA Plan") for its fiscal year ended October 31, 1998, based upon the actual level of attainment of Dresser's established performance targets for the period ended October 31, 1998 or, if the actual level of performance cannot be determined, a reasonable estimate thereof, provided he or she remains employed by the Employer during the entirety of such period. Such bonus shall be payable by Dresser in a single lump sum payment as soon as practicable following October 31, 1998. For the period November 1, 1998 through December 31, 1998, Employee shall be entitled to a bonus in an amount determined as follows: (i) Employee's base salary shall be multiplied by the same percentage of base salary as used in the calculation of Employee's bonus earned under the Dresser EVA Plan for the period ended October 31, 1998 and (ii) the product thereof shall be multiplied by two-twelfths (2/12). Beginning January 1, 1999 and for the remainder of the Term, Employee shall participate in the Halliburton Annual Performance Pay Plan, or any successor annual incentive plan approved by the Compensation Committee; provided, however, that all determinations relating to Employee's participation, including, without limitation, those relating to the performance goals applicable to Employee and Employee's level of participation and payout opportunity, shall be made in the sole discretion of the person or committee to whom such authority has been granted pursuant to such plan's terms.

2.3. During the Term, Employer shall pay or reimburse Employee for all actual, reasonable and customary expenses incurred by Employee in the course of his or her employment; including, but not limited to, travel, entertainment, subscriptions and dues associated with Employee's membership in professional, business and civic organizations; provided that such expenses are incurred and accounted for in accordance with Employer's applicable policies and procedures.

2.4. While employed by Employer, Employee shall be allowed to participate, on the same basis generally as other executive employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the Effective Date or thereafter are made available by Employer or Halliburton to all or substantially all of Employer's similarly situated executive employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability protection, and qualified and non-qualified retirement plans. Except as specifically provided herein, nothing in this Agreement is to be construed or interpreted to increase or alter in any way the rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated executive employees pursuant to the terms and conditions of such benefit plans and programs. While employed by Employer, Employee shall be eligible to receive awards under the Halliburton Company 1993 Stock and Long-Term Incentive Plan (the "1993 Plan") or any successor stock-related plan adopted by Halliburton's Board of Directors; provided, however, that the foregoing shall not be construed as a guarantee with respect to the type, amount or frequency of such awards, if any, such decisions being solely within the discretion of the Compensation Committee or its delegate, as applicable.

2.5. Except as otherwise provided in Section 2.2 and 2.7 hereof, neither Halliburton nor Employer shall by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any incentive compensation, employee benefit or stock or stock option program or plan, so long as such actions are similarly applicable to covered employees generally.

2.6. Employer may withhold from any compensation, benefits, or amounts payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

2.7 Halliburton has assumed certain obligations with respect to certain plans and programs of Dresser pursuant to Section 7.09 of that certain Agreement and Plan of Merger by and among Halliburton, Dresser and Halliburton N.C., Inc. dated February 25, 1998, which obligations, as they may apply to Employee, are hereby acknowledged.

ARTICLE 3: TERMINATION OF EMPLOYMENT AND EFFECTS OF SUCH TERMINATION:

3.1. Employee's employment with Employer shall be terminated (i) upon the death of Employee, (ii) upon Employee's Retirement (as defined below), (iii) upon Employee's Permanent Disability (as defined below), or (iv) at any time by Employer upon notice to Employee, or by Employee upon thirty (30) days' notice to Employer, for any or no reason.

3.2. If Employee's employment is terminated by reason of any of the following circumstances, Employee shall not be entitled to receive the benefits set forth in Section 3.3 hereof:

(i) Death.

(ii) Retirement. "Retirement" shall mean either (a) Employee's retirement at or after normal retirement age (either voluntarily or pursuant to Halliburton's retirement policy) or (b) the voluntary termination of Employee's employment by Employee in accordance with Employer's early retirement policy for other than Good Reason (as defined below).

(iii) Permanent Disability. "Permanent Disability" shall mean Employee's physical or mental incapacity to perform his or her usual duties with such condition likely to remain continuously and permanently as determined by the Compensation Committee.

(iv) Voluntary Termination. "Voluntary Termination" shall mean a termination of employment in the sole discretion and at the election of Employee for other than Good Reason. "Good Reason" shall mean (a) a termination of employment by Employee because of a material breach by Employer of any material provision of this Agreement which remains uncorrected for thirty (30) days following notice of such breach by Employee to Employer, provided such termination occurs within sixty (60) days after the expiration of the notice period or (b) a termination of employment by Employee within six (6) months after a material reduction in Employee's rank or responsibility with Employer.

(v) Termination for Cause. Termination of Employee's employment by Employer for Cause. "Cause" shall mean any of the following: (a) Employee's gross negligence or willful misconduct in the performance of the duties and services required of Employee pursuant to this Agreement, (b) Employee's final conviction of a felony, (c) a material violation of the Code of Business Conduct or (d) Employee's material breach of any material provision of this Agreement which remains uncorrected for thirty (30) days following notice of such breach to Employee by Employer. Determination as to whether or not Cause exists for termination of Employee's employment will be made by the Compensation Committee.

In the event Employee's employment is terminated under any of the foregoing circumstances, all future compensation to which Employee is otherwise entitled and all future benefits for which Employee is eligible shall cease and terminate as of the date of termination, except as specifically provided in this Section 3.2. Employee, or his or her estate in the case of Employee's death, shall be entitled to pro rata base salary through the date of such termination and shall be entitled to any individual bonuses or individual incentive compensation not yet paid but payable under Employer's or Halliburton's plans for years prior to the year of Employee's termination of employment, but shall not be entitled to any bonus or incentive compensation for the year in which he or she terminates employment or any other payments or benefits by or on behalf of Employer except for those which may be payable pursuant to the terms of Employer's or Halliburton's employee benefit plans (as defined in Section 3.4), stock, stock option or incentive plans, or the applicable agreements underlying such plans.

3.3 If Employee's employment is terminated by Employer for any reason other than as set forth in Section 3.2 above Employee shall be entitled to each of the following:

(i) To the extent not otherwise specifically provided in any underlying restricted stock agreements, all shares of Halliburton common stock previously granted to Employee under the 1993 Plan, and any similar plan adopted by Halliburton in the future, which at the date of termination of employment are subject to restrictions (the "Restricted Shares") will be treated in a manner consistent with Halliburton's past practices for treatment of Restricted Shares held by executives whose employment was involuntarily terminated by a Halliburton Entity for reasons other than Cause, which, in most instances, have been to forfeit the Restricted Shares and pay to such executive a lump sum cash payment equal to the value of the Restricted Shares (based on the closing price of Halliburton common stock on the New York Stock Exchange on the date of termination of employment); although in some cases, Halliburton has, in lieu of, or in combination with, the foregoing and in its discretion, caused the forfeiture restrictions with respect to all or a portion of the Restricted Shares to lapse and provided for the retention of such shares by such executive.

(ii) Subject to the provisions of Section 3.4, Employer shall pay to Employee a severance benefit consisting of a single lump sum cash payment equal to two years' of Employee's base salary as in effect at the date of Employee's termination of employment. Such severance benefit shall be paid no later than sixty (60) days following Employee's termination of employment.

(iii) Employee shall be entitled to any individual bonuses or individual incentive compensation not yet paid but payable under Employer's or Halliburton's plans for years prior to the year of Employee's termination of employment. Such amounts shall be paid to Employee in a single lump sum cash payment no later than sixty (60) days following Employee's termination of employment.

(iv) Employee shall be entitled to any individual bonuses or individual incentive compensation under Employer's or Halliburton's plans for the year of Employee's termination of employment determined as if Employee had remained employed by the Employer for the entire year. Such amounts shall be paid to Employee at the time that such amounts are paid to similarly situated employees except that no portion of such amounts shall be deferred to future years.

3.4. The severance benefit paid to Employee pursuant to Section 3.3 shall be in consideration of Employee's continuing obligations hereunder after such termination, including, without limitation, Employee's obligations under Article 4. Further, as a condition to the receipt of such severance benefit, Employer, in its sole discretion, may require Employee to first execute a release, in the form established by Employer, releasing Employer and all other Halliburton Entities, and their officers, directors, employees, and agents, from any and all claims and from any and all causes of action of any kind or character, including, but not limited to, all claims and causes of action arising out of Employee's employment with Employer and any other Halliburton Entities or the termination of such employment. The performance of Employer's obligations under Section 3.3 and the receipt of the severance benefit provided thereunder by Employee shall constitute full settlement of all such claims and causes of action. Employee shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance benefit payment under Section 3.3 is owing and the amounts due Employee pursuant to Section 3.3 shall not be reduced or suspended if Employee accepts subsequent employment or earns any amounts as a self-employed individual. Employee's rights under Section 3.3 are Employee's sole and exclusive rights against the Employer or its affiliates and the Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort or otherwise, for the termination of his or her employment relationship with Employer. Employee agrees that all disputes relating to Employee's termination of employment, including, without limitation, any dispute as to "Cause" or "Voluntary Termination" and any claims or demands against Employer or Halliburton based upon Employee's employment for any monies other than those specified in Section 3.3, shall be resolved through the Halliburton Dispute Resolution Plan as provided in Section 5.6 hereof; provided, however, that decisions as to whether "Cause" exists for termination of the employment relationship with Employee and whether and as of what date Employee has become permanently disabled are delegated to the Compensation Committee for determination and any dispute of Employee with any such decision shall be limited to whether the Compensation Committee reached such decision in good faith. Nothing contained in this Article 3 shall be construed to be a waiver by Employee of any benefits accrued for or due Employee under any employee benefit plan (as such term is defined in the Employees' Retirement Income Security Act of 1974, as amended) maintained by Employer or Halliburton or any of the benefits, plans or programs provided for in Section 2.7 hereof maintained by Dresser, except that Employee shall not be entitled to any severance benefits pursuant to any severance plan or program of the Employer or Halliburton.

3.5. Termination of the employment relationship does not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Article 4.

ARTICLE 4: OWNERSHIP AND PROTECTION OF INTELLECTUAL PROPERTY AND CONFIDENTIAL INFORMATION:

4.1. All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer or any of its affiliates (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to the business, products or services of Employer or its affiliates (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks), and all writings or materials of any type embodying any of such items, shall be the sole and exclusive property of Employer or its affiliates, as the case may be.

4.2. Employee acknowledges that the businesses of Employer and its affiliates are highly competitive and that their strategies, methods, books, records, and documents, their technical information concerning their products, equipment, services, and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning their customers and business affiliates, all comprise confidential business information and trade secrets which are valuable, special, and unique assets which Employer or its affiliates use in their business to obtain a competitive advantage over their competitors. Employee further acknowledges that protection of such confidential business information and trade secrets against unauthorized disclosure and use is of critical importance to Employer and its affiliates in maintaining their competitive position. Employee hereby agrees that Employee will not, at any time during or after his or her employment by Employer, make any unauthorized disclosure of any confidential business information or trade secrets of Employer or its affiliates, or make any use thereof, except in the carrying out of his or her employment responsibilities hereunder. Confidential business information shall not include information in the public domain (but only if the same becomes part of the public domain through a means other than a disclosure prohibited hereunder). The above notwithstanding, a disclosure shall not be unauthorized if (i) it is required by law or by a court of competent jurisdiction or (ii) it is in connection with any judicial, arbitration, dispute resolution or other legal proceeding in which Employee's legal rights and obligations as an employee or under this Agreement are at issue; provided, however, that Employee shall, to the extent practicable and lawful in any such events, give prior notice to Employer of his or her intent to disclose any such confidential business information in such context so as to allow Employer or its affiliates an opportunity (which Employee will not oppose) to obtain such protective orders or similar relief with respect thereto as may be deemed appropriate.

4.3. All written materials, records, and other documents made by, or coming into the possession of, Employee during the period of Employee's employment by Employer which contain or disclose confidential business information or trade secrets of Employer or its affiliates shall be and remain the property of Employer, or its affiliates, as the case may be. Upon termination of Employee's employment by Employer, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.

4.4 For purposes of this Article 4, "affiliates" shall mean entities in which Employer or Halliburton has a 20% or more direct or indirect equity interest.

ARTICLE 5: MISCELLANEOUS:

5.1. Except as otherwise provided in Section 4.4 hereof, for purposes of this Agreement, the terms "affiliate" or "affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Halliburton or, as used in Section 5.8 hereof, Dresser or in which Halliburton or, as used in Section 5.8 hereof, Dresser has a 50% or more equity interest.

5.2. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when received by or tendered to Employee, Halliburton or Employer, as applicable, by pre-paid courier or by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employer or Halliburton, to Halliburton Company at 3600 Lincoln Plaza, 500 North Akard Street, Dallas, Texas 75201-3391, to the attention of the General Counsel.

If to Employee, to his or her last known personal residence.

5.3. This Agreement shall be governed by and construed and enforced, in all respects in accordance with the law of the State of Texas, without regard to principles of conflicts of law, unless preempted by federal law, in which case federal law shall govern; provided, however, that the Halliburton Dispute Resolution Plan and the Federal Arbitration Act shall govern in all respects with regard to the resolution of disputes hereunder.

5.4. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.5. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

5.6. It is the mutual intention of the parties to have any dispute concerning this Agreement resolved out of court. Accordingly, the parties agree that any such dispute shall, as the sole and exclusive remedy, be submitted for resolution through the Halliburton Dispute Resolution Plan; provided, however, that the Employer, on its own behalf and on behalf of any of the Halliburton Entities, shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any breach or the continuation of any breach of the provisions of Article 4 and Employee hereby consents that such restraining order or injunction may be granted without the necessity of the Employer posting any bond. The parties agree that the resolution of any such dispute through such Plan shall be final and binding.

5.7. This Agreement shall be binding upon and inure to the benefit of Employer, to the extent herein provided, Halliburton and any other person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Employer or Halliburton by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under this Agreement are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, without the prior written consent of Employer, other than in the case of death or incompetence of Employee.

5.8. This Agreement replaces and merges any previous agreements and discussions pertaining to the subject matter covered herein. Further, this Agreement specifically replaces and terminates that certain Employee Severance Agreement between Employee and Dresser dated February 25, 1998 and any other employment-related agreements which may be in effect between Employee and Dresser or a Dresser affiliate. This Agreement constitutes the entire agreement of the parties with regard to the terms of Employee's employment, termination of employment and severance benefits, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect to such matters. Each party to this Agreement acknowledges that no representation, inducement, promise, or agreement, oral or written, has been made by either party with respect to the foregoing matters which is not embodied herein, and that no agreement, statement, or promise relating to the employment of Employee by Employer that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Compensation Committee or its delegate, as appropriate.

IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the Effective Date.

DRESSER INDUSTRIES, INC.

By:

Name: David J. Lesar
Title: Executive Vice President

EMPLOYEE

David R. Smith

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement ("Agreement"), is entered into by and between Landmark Graphics Corporation ("Employer") and John W. Gibson, ("Employee"), to be effective on January 1, 2000 (the "Effective Date").

W I T N E S S E T H:

WHEREAS, Employee is currently employed by Employer; and

WHEREAS, Employer is desirous of continuing the employment of Employee after the Effective Date pursuant to the terms and conditions and for the consideration set forth in this Agreement, and Employee is desirous of continuing in the employ of Employer pursuant to such terms and conditions and for such consideration.

NOW, THEREFORE, for and in consideration of the mutual promises, covenants, and obligations contained herein, Employer and Employee agree as follows:

ARTICLE 1: EMPLOYMENT AND DUTIES:

1.1. Employer agrees to employ Employee, and Employee agrees to be employed by Employer, beginning as of the Effective Date and continuing until the date of termination of Employee's employment pursuant to the provisions of Article 3 (the "Term"), subject to the terms and conditions of this Agreement.

1.2. Beginning as of the Effective Date, Employee shall be employed as Chief Operating Officer of Employer. Employee agrees to serve in the assigned position or in such other executive capacities as may be requested from time to time by Employer and to perform diligently and to the best of Employee's abilities the duties and services appertaining to such positions as reasonably determined by Employer, as well as such additional or different duties and services appropriate to such positions which Employee from time to time may be reasonably directed to perform by Employer.

1.3. Employee shall at all times comply with and be subject to such policies and procedures as Halliburton Company ("Halliburton") or Employer may establish from time to time, including, without limitation, the Halliburton Company Code of Business Conduct (the "Code of Business Conduct").

1.4. Employee shall, during the period of Employee's employment by Employer, devote Employee's full business time, energy, and best efforts to the business and affairs of Employer. Employee may not engage, directly or indirectly, in any other business, investment, or activity that interferes with Employee's performance of Employee's duties hereunder, is contrary to the interest of Halliburton or any of its affiliated subsidiaries and divisions, including Employer (collectively, the "Halliburton Entities" or, individually, a "Halliburton Entity"), or requires any significant portion of Employee's business time. The foregoing notwithstanding, the parties recognize and agree that Employee may engage in passive personal investments and other business activities which do not conflict with the business and affairs of the Halliburton Entities or interfere with Employee's performance of his or her duties hereunder. Employee may not serve on the board of directors of any entity other than a Halliburton Entity during the Term without the approval thereof in accordance with Halliburton's policies and procedures regarding such service. Employee shall be permitted to retain any compensation received for approved service on any unaffiliated corporation's board of directors.

1.5. Employee acknowledges and agrees that Employee owes a fiduciary duty of loyalty, fidelity and allegiance to act at all times in the best interests of the Employer and the other Halliburton Entities and to do no act which would, directly or indirectly, injure any such entity's business, interests, or reputation. It is agreed that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might in any way adversely affect Employer, or any Halliburton Entity, involves a possible conflict of interest. In keeping with Employee's fiduciary duties to Employer, Employee agrees that Employee shall not knowingly become involved in a conflict of interest with Employer or the Halliburton Entities, or upon discovery thereof, allow such a conflict to continue. Moreover, Employee shall not engage in any activity which might involve a possible conflict of interest without first obtaining approval in accordance with Halliburton's policies and procedures.

1.6 Nothing contained herein shall be construed to preclude the transfer of Employee's employment to another Halliburton Entity ("Subsequent Employer") as of, or at any time after, the Effective Date and no such transfer shall be deemed to be a termination of employment for purposes of Article 3 hereof; provided, however, that, effective with such transfer, all of Employer's obligations hereunder shall be assumed by and be binding upon, and all of Employer's rights hereunder shall be assigned to, such Subsequent Employer and the defined term "Employer" as used herein shall thereafter be deemed amended to mean such Subsequent Employer. Except as otherwise provided above, all of the terms and conditions of this Agreement, including without limitation, Employee's rights and obligations, shall remain in full force and effect following such transfer of employment.

ARTICLE 2: COMPENSATION AND BENEFITS:

2.1. Employee's base salary during the Term shall be not less than $360,000 per annum which shall be paid in accordance with the Employer's standard payroll practice for its executives. Employee's base salary may be increased from time to time with the approval of the Compensation Committee of Halliburton's Board of Directors (the "Compensation Committee") or its delegate, as applicable. Such increased base salary shall become the minimum base salary under this Agreement and may not be decreased thereafter without the written consent of Employee.

2.2. During the Term, Employee shall participate in the Halliburton Annual Performance Pay Plan, or any successor annual incentive plan approved by the Compensation Committee; provided, however, that all determinations relating to Employee's participation, including, without limitation, those relating to the performance goals applicable to Employee and Employee's level of participation and payout opportunity, shall be made in the sole discretion of the person or committee to whom such authority has been granted pursuant to such plan's terms.

2.3. During the Term, Employer shall pay or reimburse Employee for all actual, reasonable and customary expenses incurred by Employee in the course of his or her employment; including, but not limited to, travel, entertainment, subscriptions and dues associated with Employee's membership in professional, business and civic organizations; provided that such expenses are incurred and accounted for in accordance with Employer's applicable policies and procedures.

2.4. While employed by Employer, Employee shall be allowed to participate, on the same basis generally as other executive employees of Employer, in all general employee benefit plans and programs, including improvements or modifications of the same, which on the Effective Date or thereafter are made available by Employer or Halliburton to all or substantially all of Employer's similarly situated executive employees. Such benefits, plans, and programs may include, without limitation, medical, health, and dental care, life insurance, disability protection, and qualified and non-qualified retirement plans. Except as specifically provided herein, nothing in this Agreement is to be construed or interpreted to increase or alter in any way the rights, participation, coverage, or benefits under such benefit plans or programs than provided to similarly situated executive employees pursuant to the terms and conditions of such benefit plans and programs. While employed by Employer, Employee shall be eligible to receive awards under the Halliburton Company 1993 Stock and Long-Term Incentive Plan (the "1993 Plan") or any successor stock-related plan adopted by Halliburton's Board of Directors; provided, however, that the foregoing shall not be construed as a guarantee with respect to the type, amount or frequency of such awards, if any, such decisions being solely within the discretion of the Compensation Committee or its delegate, as applicable.

2.5. Neither Halliburton nor Employer shall by reason of this Article 2 be obligated to institute, maintain, or refrain from changing, amending or discontinuing, any incentive compensation, employee benefit or stock or stock option program or plan, so long as such actions are similarly applicable to covered employees generally.

2.6. Employer may withhold from any compensation, benefits, or amounts payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

ARTICLE 3: TERMINATION OF EMPLOYMENT AND EFFECTS OF SUCH TERMINATION:

3.1. Employee's employment with Employer shall be terminated (i) upon the death of Employee, (ii) upon Employee's Retirement (as defined below), (iii) upon Employee's Permanent Disability (as defined below), or (iv) at any time by Employer upon notice to Employee, or by Employee upon thirty (30) days' notice to Employer, for any or no reason.

3.2. If Employee's employment is terminated by reason of any of the following circumstances, Employee shall not be entitled to receive the benefits set forth in Section 3.3 hereof:

(i) Death.

(ii) Retirement. "Retirement" shall mean either (a) Employee's retirement at or after normal retirement age (either voluntarily or pursuant to Halliburton's retirement policy) or (b) the voluntary termination of Employee's employment by Employee in accordance with Employer's early retirement policy for other than Good Reason (as defined below).

(iii) Permanent Disability. "Permanent Disability" shall mean Employee's physical or mental incapacity to perform his or her usual duties with such condition likely to remain continuously and permanently as determined by the Compensation Committee.

(iv) Voluntary Termination. "Voluntary Termination" shall mean a termination of employment in the sole discretion and at the election of Employee for other than Good Reason. "Good Reason" shall mean (a) a termination of employment by Employee because of a material breach by Employer of any material provision of this Agreement which remains uncorrected for thirty (30) days following notice of such breach by Employee to Employer, provided such termination occurs within sixty (60) days after the expiration of the notice period or (b) a termination of employment by Employee within six (6) months after a material reduction in Employee's rank or responsibility with Employer.

(v) Termination for Cause. Termination of Employee's employment by Employer for Cause. "Cause" shall mean any of the following: (a) Employee's gross negligence or willful misconduct in the performance of the duties and services required of Employee pursuant to this Agreement, (b) Employee's final conviction of a felony, (c) a material violation of the Code of Business Conduct or (d) Employee's material breach of any material provision of this Agreement which remains uncorrected for thirty (30) days following notice of such breach to Employee by Employer. Determination as to whether or not Cause exists for termination of Employee's employment will be made by the Compensation Committee.

In the event Employee's employment is terminated under any of the foregoing circumstances, all future compensation to which Employee is otherwise entitled and all future benefits for which Employee is eligible shall cease and terminate as of the date of termination, except as specifically provided in this Section 3.2. Employee, or his or her estate in the case of Employee's death, shall be entitled to pro rata base salary through the date of such termination and shall be entitled to any individual bonuses or individual incentive compensation not yet paid but payable under Employer's or Halliburton's plans for years prior to the year of Employee's termination of employment, but shall not be entitled to any bonus or incentive compensation for the year in which he or she terminates employment or any other payments or benefits by or on behalf of Employer except for those which may be payable pursuant to the terms of Employer's or Halliburton's employee benefit plans (as defined in Section 3.4), stock, stock option or incentive plans, or the applicable agreements underlying such plans.

3.3 If Employee's employment is terminated by Employee for Good Reason or by Employer for any reason other than as set forth in Section 3.2 above, Employee shall be entitled to each of the following:

(i) To the extent not otherwise specifically provided in any underlying restricted stock agreements, all shares of Halliburton common stock previously granted to Employee under the 1993 Plan, and any similar plan adopted by Halliburton in the future, which at the date of termination of employment are subject to restrictions (the "Restricted Shares") will be treated in a manner consistent with Halliburton's past practices for treatment of Restricted Shares held by executives whose employment was involuntarily terminated by a Halliburton Entity for reasons other than Cause, which, in most instances, have been to forfeit the Restricted Shares and pay to such executive a lump sum cash payment equal to the value of the Restricted Shares (based on the closing price of Halliburton common stock on the New York Stock Exchange on the date of termination of employment); although in some cases, Halliburton has, in lieu of, or in combination with, the foregoing and in its discretion, caused the forfeiture restrictions with respect to all or a portion of the Restricted Shares to lapse and provided for the retention of such shares by such executive.

(ii) Subject to the provisions of Section 3.4, Employer shall pay to Employee a severance benefit consisting of a single lump sum cash payment equal to two years' of Employee's base salary as in effect at the date of Employee's termination of employment. Such severance benefit shall be paid no later than sixty (60) days following Employee's termination of employment.

(iii) Employee shall be entitled to any individual bonuses or individual incentive compensation not yet paid but payable under Employer's or Halliburton's plans for years prior to the year of Employee's termination of employment. Such amounts shall be paid to Employee in a single lump sum cash payment no later than sixty (60) days following Employee's termination of employment.

(iv) Employee shall be entitled to any individual bonuses or individual incentive compensation under Employer's or Halliburton's plans for the year of Employee's termination of employment determined as if Employee had remained employed by the Employer for the entire year. Such amounts shall be paid to Employee at the time that such amounts are paid to similarly situated employees except that no portion of such amounts shall be deferred to future years.

3.4. The severance benefit paid to Employee pursuant to Section 3.3 shall be in consideration of Employee's continuing obligations hereunder after such termination, including, without limitation, Employee's obligations under Articles 4 and 5. Further, as a condition to the receipt of such severance benefit, Employer, in its sole discretion, may require Employee to first execute a release, in the form established by Employer, releasing Employer and all other Halliburton Entities, and their officers, directors, employees, and agents, from any and all claims and from any and all causes of action of any kind or character, including, but not limited to, all claims and causes of action arising out of Employee's employment with Employer and any other Halliburton Entities or the termination of such employment. The performance of Employer's obligations under Section 3.3 and the receipt of the severance benefit provided thereunder by Employee shall constitute full settlement of all such claims and causes of action. Employee shall not be under any duty or obligation to seek or accept other employment following a termination of employment pursuant to which a severance benefit payment under Section 3.3 is owing and the amounts due Employee pursuant to Section 3.3 shall not be reduced or suspended if Employee accepts subsequent employment or earns any amounts as a self-employed individual. Employee's rights under Section 3.3 are Employee's sole and exclusive rights against the Employer or its affiliates and the Employer's sole and exclusive liability to Employee under this Agreement, in contract, tort or otherwise, for the termination of his or her employment relationship with Employer. Employee agrees that all disputes relating to Employee's termination of employment, including, without limitation, any dispute as to "Cause" or "Voluntary Termination" and any claims or demands against Employer or Halliburton based upon Employee's employment for any monies other than those specified in Section 3.3, shall be resolved through the Halliburton Dispute Resolution Plan as provided in Section 6.6 hereof; provided, however, that decisions as to whether "Cause" exists for termination of the employment relationship with Employee and whether and as of what date Employee has become permanently disabled are delegated to the Compensation Committee for determination and any dispute of Employee with any such decision shall be limited to whether the Compensation Committee reached such decision in good faith. Nothing contained in this Article 3 shall be construed to be a waiver by Employee of any benefits accrued for or due Employee under any employee benefit plan (as such term is defined in the Employees' Retirement Income Security Act of 1974, as amended) maintained by Employer or Halliburton except that Employee shall not be entitled to any severance benefits pursuant to any severance plan or program of the Employer or Halliburton.

3.5. Termination of the employment relationship does not terminate those obligations imposed by this Agreement which are continuing obligations, including, without limitation, Employee's obligations under Articles 4 and 5.

ARTICLE 4: OWNERSHIP AND PROTECTION OF INTELLECTUAL PROPERTY AND CONFIDENTIAL INFORMATION:

4.1. All information, ideas, concepts, improvements, discoveries, and inventions, whether patentable or not, which are conceived, made, developed or acquired by Employee, individually or in conjunction with others, during Employee's employment by Employer or any of its affiliates (whether during business hours or otherwise and whether on Employer's premises or otherwise) which relate to the business, products or services of Employer or its affiliates (including, without limitation, all such information relating to corporate opportunities, research, financial and sales data, pricing and trading terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or marketing and merchandising techniques, prospective names, and marks), and all writings or materials of any type embodying any of such items, shall be the sole and exclusive property of Employer or its affiliates, as the case may be.

4.2. Employee acknowledges that the businesses of Employer and its affiliates are highly competitive and that Employer and its affiliates have developed and own and will develop and own valuable information which is confidential, unique and specific to Employer and its affiliates ("Proprietary and Confidential Information") and which includes, without limitation, financial information, projections and forecasts; marketing plans; business and implementation plans; names of and other information (such as credit and financial data) concerning their customers and business associates; and other concepts, ideas, plans, strategies, analyses, surveys, and proprietary information related to past, present or anticipated business of Employer and various of its affiliates. Employee further acknowledges that protection of such Proprietary and Confidential Information against unauthorized disclosure and use is of critical importance to Employer and its affiliates in maintaining their competitive position. Employee hereby agrees that Employee will not, at any time during or after his or her employment by Employer, make any unauthorized disclosure of any Proprietary and Confidential Information of Employer or its affiliates, or make any use thereof, except in the carrying out of his employment responsibilities hereunder. Proprietary and Confidential Information shall not include information in the public domain (but only if the same becomes part of the public domain through a means other than a disclosure prohibited hereunder). The above notwithstanding, a disclosure shall not be unauthorized if (i) it is required by law or by a court of competent jurisdiction or (ii) it is in connection with any judicial, arbitration, dispute resolution or other legal proceeding in which Employee's legal rights and obligations as an employee or under this Agreement are at issue; provided, however, that Employee shall, to the extent practicable and lawful in any such events, give prior notice to Employer of his intent to disclose any such Proprietary and Confidential Information in such context so as to allow Employer or its affiliates an opportunity (which Employee will not oppose) to obtain such protective orders or similar relief with respect thereto as may be deemed appropriate.

4.3. All written materials, records, and other documents made by, or coming into the possession of, Employee during the period of Employee's employment by Employer which contain or disclose Proprietary and Confidential Information of Employer or its affiliates shall be and remain the property of Employer, or its affiliates, as the case may be. Upon termination of Employee's employment by Employer, for any reason, Employee promptly shall deliver the same, and all copies thereof, to Employer.

4.4 For purposes of this Article 4 and Article 5, "affiliates" shall mean entities in which Employer or Halliburton has a 20% or more direct or indirect equity interest.

ARTICLE 5: POST-EMPLOYMENT AND NON-COMPETITION OBLIGATIONS:

5.1. Employee and Employer agree and acknowledge that Employer and its affiliates have developed and own and will develop and own valuable Proprietary and Confidential Information and that Employer and its affiliates have goodwill and will continue to have goodwill. Employer and Employee further agree and acknowledge that the Employer and its affiliates, have a substantial and legitimate interest in protecting their Proprietary and Confidential Information and goodwill. Therefore, as part of the consideration for the compensation and benefits to be paid to Employee hereunder, and as an additional incentive for Employer to enter into this Agreement, Employer and Employee agree to the non-competition provisions of this Article 5. Employee agrees that during the period of Employee's non-competition obligations hereunder, Employee will not, directly or indirectly for Employee or for others, in any geographic area or market where Employer or any of its affiliates are conducting any business (other than de minimis business operations) as of the date of termination of the employment relationship or have during the previous twelve months conducted any business (other than de minimis business operations):

(i) engage in any business directly competitive with any business (other than de minimis business operations) conducted by Employer or its affiliates;

(ii) render advice or services to, or otherwise assist, any other person, association, or entity who is engaged, directly or indirectly, in any business directly competitive with any business (other than de minimis business operations) conducted by Employer or its affiliates; or

(iii) induce any employee of Employer or any of its affiliates (other than Employee's personal secretary or administrative assistant) to terminate such employee's employment with Employer or its affiliates, or hire or assist in the hiring of any such induced employee by any person, association, or entity not affiliated with Employer.

These non-competition obligations shall extend until two years after termination of the employment relationship between Employer and Employee. The above notwithstanding, nothing in this Section 5.1 shall prohibit Employee from engaging in or being employed by any entity that engages in the provision of management consulting or other consulting services to third parties, even where such entity on occasion renders advice or services to, or otherwise assists, any other person, association, or entity who is engaged, directly or indirectly, in any business, directly competitive with any business conducted by Employer or any of Employer's affiliates, so long as Employee does not personally, directly or indirectly (A) participate in rendering such advice, services or assistance to any such competing person, association or entity, (B) provide any information or other assistance to any other person employed by Employee or by any such consulting entity for use, directly or indirectly, in rendering such assistance to any competing person, association or entity or (C) engage in any conduct which would be violative of the provisions of Article 4 hereof.

5.2. Employee understands that the foregoing restrictions may limit his ability to engage in certain businesses anywhere in the world during the period provided for above, but acknowledges that Employee will receive sufficiently high remuneration and other benefits under this Agreement to justify such restriction. Employee acknowledges that money damages would not be sufficient remedy for any breach of this Article 5 by Employee, and agrees that Employer, on its own behalf or on behalf of any of its affiliates, shall be entitled to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article 5, but shall be in addition to all remedies available at law or in equity to Employer and its affiliates, including, without limitation, the recovery of damages from Employee and his agents involved in such breach.

5.3. It is expressly understood and agreed that Employer and Employee consider the restrictions contained in this Article 5 to be reasonable and necessary to protect the Proprietary and Confidential Information and/or goodwill of Employer and its affiliates and that Employee's obligations to keep such information confidential shall survive this Agreement. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions therein set forth to be modified by such courts so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

ARTICLE 6: MISCELLANEOUS:

6.1. Except as otherwise provided in Section 4.4 hereof, for purposes of this Agreement, the terms "affiliate" or "affiliated" means an entity who directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with Halliburton or in which Halliburton has a 50% or more equity interest.

6.2. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when received by or tendered to Employee or Employer, as applicable, by pre-paid courier or by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employer, to Halliburton Company at 3600 Lincoln Plaza, 500 North Akard Street, Dallas, Texas 75201-3391, to the attention of the General Counsel.

If to Employee, to his or her last known personal residence.

6.3. This Agreement shall be governed by and construed and enforced, in all respects in accordance with the law of the State of Texas, without regard to principles of conflicts of law, unless preempted by federal law, in which case federal law shall govern; provided, however, that the Halliburton Dispute Resolution Plan and the Federal Arbitration Act shall govern in all respects with regard to the resolution of disputes hereunder.

6.4. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

6.5. It is a desire and intent of the parties that the terms, provisions, covenants, and remedies contained in this Agreement shall be enforceable to the fullest extent permitted by law. If any such term, provision, covenant, or remedy of this Agreement or the application thereof to any person, association, or entity or circumstances shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant, or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Agreement or the application thereof to any person, association, or entity or circumstances other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

6.6. It is the mutual intention of the parties to have any dispute concerning this Agreement resolved out of court. Accordingly, the parties agree that any such dispute shall, as the sole and exclusive remedy, be submitted for resolution through the Halliburton Dispute Resolution Plan; provided, however, that the Employer, on its own behalf and on behalf of any of the Halliburton Entities, shall be entitled to seek specific performance or injunctive relief in any court of competent jurisdiction to prevent any breach or the continuation of any breach of the provisions of Articles 4 and 5 and Employee hereby consents that such equitable relief may be granted without the necessity of the Employer posting any bond. The parties agree that the resolution of any dispute through the Halliburton Dispute Resolution Plan shall be final and binding.

6.7. This Agreement shall be binding upon and inure to the benefit of Employer, to the extent herein provided, Halliburton and any other person, association, or entity which may hereafter acquire or succeed to all or substantially all of the business or assets of Employer or Halliburton by any means whether direct or indirect, by purchase, merger, consolidation, or otherwise. Employee's rights and obligations under this Agreement are personal and such rights, benefits, and obligations of Employee shall not be voluntarily or involuntarily assigned, alienated, or transferred, whether by operation of law or otherwise, without the prior written consent of Employer, other than in the case of death or incompetence of Employee.

6.8. This Agreement replaces and merges any previous agreements and discussions pertaining to the subject matter covered herein. This Agreement constitutes the entire agreement of the parties with regard to the terms of Employee's employment, termination of employment and severance benefits, and contains all of the covenants, promises, representations, warranties, and agreements between the parties with respect to such matters. Each party to this Agreement acknowledges that no representation, inducement, promise, or agreement, oral or written, has been made by either party with respect to the foregoing matters which is not embodied herein, and that no agreement, statement, or promise relating to the employment of Employee by Employer that is not contained in this Agreement shall be valid or binding. Any modification of this Agreement will be effective only if it is in writing and signed by each party whose rights hereunder are affected thereby, provided that any such modification must be authorized or approved by the Compensation Committee or its delegate, as appropriate.

IN WITNESS WHEREOF, Employer and Employee have duly executed this Agreement in multiple originals to be effective on the Effective Date.

LANDMARK GRAPHICS CORPORATION

By:

Robert P. Peebler
Chief Executive Officer and President

EMPLOYEE

John W. Gibson

Exhibit 21

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2002

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
ADute Pty Ltd	Australia
Avalon Financial Services, Ltd	Cayman Islands
Baroid Corporation	United Kingdom
Baroid de Venezuela, S.A.	Venezuela
Baroid GmbH	Germany
Baroid International Inc.	United States
Baroid International Trading, LLC	United States
Baroid Limited	United Kingdom
Baroid Nigeria, Inc.	United States
Baroid of Nigeria Limited	Nigeria
Baroid Pigmina Industrial e Comercial Ltda.	Brazil
BITC (US) LLC	United States
BITC Holdings (US) LLC	United States
Bredero Price Holding B.V.	Netherlands
Breswater Marine Contracting B.V.	Netherlands
Brown & Root Cayman Holdings, Inc.	Cayman Islands
Brown & Root Construction Pty Ltd	Australia
Brown & Root Projects Pty Ltd	Australia
Brown & Root-Condor Spa	Algeria
Beheersmaatschappij van Aandelen in Textielverwerkende Ondernemingen "Betex" B.V."	Netherlands
Cebar Sdn. Bhd.	Brunei Darussalam
Consorcio Contrina SNC	France
Corporacion Mexicana de Mantenimiento Integral S. de R.L. de C. V.	Mexico
DB Stratabit GmbH	Germany
Devonport Engineering Services Limited	United Kingdom
Devonport Management Limited	United Kingdom
Devonport Royal Dockyard Limited	United Kingdom
Devonport Royal Dockyard Pension Trustees Limited	United Kingdom
DII Industries, LLC	United States
Dorhold Limited	United Kingdom
Dresser B.V.	Netherlands
Dresser Europe LLC	Egypt
Dresser Kellogg Energy Services Inc.	United States
Dresser Kellogg Energy Services (Nigeria) Ltd.	Nigeria
Dresser Oilfield Services B.V.	Netherlands
Dresser Kellogg South Africa Limited	South Africa
G&H Management LLC	United States
Georgetown Finance Ltd	Caymans Islands
Granherne & Co LLC	Oman

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2002
(continued)

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
Granherne International (Holdings) Ltd	United Kingdom
Granherne Limited	United Kingdom
Grove - TK Limited	United Kingdom
GVA Consultants Aktiebolag	Sweden
Halliburton Affiliates, LLC	United States
Halliburton Anstalt	Lichtenstein
Halliburton Argentina S.A.	Argentina
Halliburton Arkhangelsk, Ltd.	Russia
Halliburton AS	Norway
Halliburton Australia Pty. Ltd.	Australia
Halliburton B.V.	Netherlands
Halliburton C.I.C.S. Inc.	Cayman Islands
Halliburton Canada Holdings, Inc.	United States
Halliburton Company Germany G.m.b.H.	Germany
Halliburton Consolidated Pty Ltd	Australia
Halliburton de Mexico, S. de R.L. de C.V.	Mexico
Halliburton del Peru S.A.	Peru
Halliburton Denmark A/S	Denmark
Halliburton Energy Development Ltd.	Cayman Islands
Halliburton Energy Services (Malaysia) Sdn. Bhd.	Malaysia
Halliburton Energy Services Nigeria Limited	Nigeria
Halliburton Energy Services, Inc.	United States
Halliburton EPC-22 Holdings, S. de R.L. de C.V.	Mexico
Halliburton Equipment Company S.A.E.	Egypt
Halliburton Far East Pte Ltd	Singapore
Halliburton Global, Ltd.	Cayman Islands
Halliburton Group Canada (Partnership)	Canada
Halliburton Group Canada Inc.	Canada
Halliburton Holding B.V.	Netherlands
Halliburton Holding Germany GmbH	Germany

Halliburton Holdings (No. 2) Limited	United Kingdom
Halliburton Holdings (No. 3) Limited	United Kingdom
Halliburton Holdings 2002 B.V.	Netherlands
Halliburton I Cayman, Ltd.	Cayman Islands
Halliburton II Cayman, Ltd.	Cayman Islands
Halliburton Industries AG	Liechtenstein
Halliburton Interim, Inc.	United States
Halliburton International, Inc.	United States
Halliburton Italiana S.p.A.	Italy
Halliburton Latin America S.A.	Panama

Exhibit 21

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2002
(continued)

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
Halliburton Limited	United Kingdom
Halliburton Manufacturing and Services Limited	United Kingdom
Halliburton Netherlands Operations B.V.	Netherlands
Halliburton New Zealand Limited	New Zealand
Halliburton Offshore Services, Inc	Cayman Islands
Halliburton Operations Nigeria Limited	Nigeria
Halliburton Overseas Limited	Cayman Islands
Halliburton Partners Canada, Inc.	Canada
Halliburton Products & Services Limited	Cayman Islands
Halliburton Produtos Ltda.	Brazil
Halliburton Proprietary Ltd.	South Africa
Halliburton S.A.S.	France
Halliburton Servicos Ltda.	Brazil
Halliburton Trinidad Limited	Trinidad and Tobago
Halliburton West Africa Ltd.	Cayman Islands
Halliburton Worldwide Limited	Cayman Islands
HBR Energy, Inc.	United States
HBR NL Holdings, LLC	United States
HED (Indonesia), Inc.	United States
HES Corporation	United States
HES Holding, Inc.	United States
HES Mexico Holdings, LLC	United States
HES Oilfield Operations (Nigeria), Inc.	United States
Hobbymarkt Capelle B. V.	Netherlands
Hobbymarkt Capelle de Mexico, S.A. de C.V.	Mexico
IPEM Developments Limited	United Kingdom
KBR Australia Pty Ltd	Australia
KBR Caledonia Limited	United Kingdom
KBR Group Holdings, LLC	United States
KBR Holdings Pty Ltd	Australia
KBR Overseas, Inc.	United States
KBR Production Services Pty Ltd	Australia
KBR Water Services Pty Ltd	Australia
Kellogg Brown & Root Bangladesh Limited	Bangladesh
Kellogg Brown & Root (Canada) Company	Canada
Kellogg Brown & Root Consultancy (Malaysia) Sdn Bhd	Malaysia
Kellogg Brown & Root DH Limited	United Kingdom
Kellogg Brown & Root Energy Services Limited	United Kingdom
Kellogg Brown & Root Far East Pte Ltd	Singapore
Kellogg Brown & Root Holdings (U.K.) Limited	United Kingdom

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2002
(continued)

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
Kellogg Brown & Root Holdings Limited	United Kingdom
Kellogg Brown & Root International, Inc. (A Delaware Corporation)	United States
Kellogg Brown & Root International, Inc. (A Panamanian Corporation)	Panama
Kellogg Brown & Root Limited	United Kingdom
Kellogg Brown & Root Projects Limited	United Kingdom
Kellogg Brown & Root Pty Ltd	Australia
Kellogg Brown & Root Services, Inc.	United States
Kellogg Brown & Root, Inc.	United States
Kellogg (Malaysia) Sdn. Bhd.	Malaysia
Kellogg Overseas Corporation	United States
Kinhill Holdings Pty Ltd	Australia
Landmark America Latina, S.A. (DE)	United States
Landmark EAME Limited	United Kingdom
Landmark Graphics Europe/Africa, LLC	United States
Landmark Graphics AS	Norway
Landmark Graphics Corporation	United States
Landmark Graphics (Nigeria) Limited	Nigeria
Landmark Graphics Venezuela CA	Venezuela
LMK Resources Pakistan (Pvt.) Ltd.	Pakistan
M. W. Kellogg Constructors Inc.	United States
M. W. Kellogg Limited	United Kingdom
Magic Earth, Inc.	United States
Mashhor Well Services Sdn Bhd	Brunei Darussalam
Masoneilan International, LLC	United States
Monoflo Inc.	United States
Mono Pumps (Australia) Ltd.	Australia
Mono Pumps Limited	United Kingdom
Oilfield Innovations, C.V.	Netherlands
Oilfield Services Receivable Corporation	United States
P.T. Brown & Root Indonesia	Indonesia
PetroData AS	Norway
Petroleum Engineering Services Norge AS	Norway
PT Baroid Indonesia	Indonesia
PT Halliburton Drilling Systems Indonesia	Indonesia
PT Halliburton Indonesia	Indonesia
PT Halliburton Logging Services Indonesia	Indonesia
Rockwater Holdings Limited	United Kingdom
Rockwater Limited	United Kingdom
Saudi Halliburton Logging LLC	Saudi Arabia

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2002
(continued)

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
Seaforth Maritime Limited	United Kingdom
Security DBS N.V.	Belgium
Servicios Halliburton De Venezuela, S.A.	Venezuela
Servicios Profesionales Petroleros, S. de R.L. de C.V.	Mexico
Sperry Sun Saudi Company Limited	Saudi Arabia
Studebaker Worthington (U.K.) Limited	United Kingdom
SubSahara Serivces Inc	United States
Sub Sea Offshore (Holdings) Limited	United Kingdom
Wellstream, Inc.	United States
Wellstream Limited	United Kingdom

Exhibit 23.1

Independent Auditors' Consent

The Board of Directors
Halliburton Company:

We consent to the incorporation by reference in the registration statement (Nos. 33-65772, 333-32731, and 33-74408) on Form S-3 and registration statement (Nos. 33-54881, 333-40717, 333-37533, 333-13475, 333-65373, 333-55747, 33-83223, 333-45518, 333-73046, 33-76496, 333-91058, and 333-86080) on Form S-8 of Halliburton Company of our reports dated March 13, 2003, with respect to the consolidated balance sheet of Halliburton Company as of December 31, 2002 and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 2002 and all related financial statement schedules, which reports appear in the December 31, 2002 annual report on Form 10-K of Halliburton Company.

Our reports refer to our audit of the adjustments that were applied to Halliburton Company's reportable segments to revise the 2001 and 2000 consolidated financial statements, as more fully described in Note 4 to the consolidated financial statements, as well as to our audit of the revisions to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as more fully described in Note 22 to the consolidated financial statements. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements other than with respect to such adjustments.

/s/ KPMG LLP

KPMG LLP

Houston, Texas
March 26, 2003

EXHIBIT 23.2

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

In April 2002, the Company announced that the Board of Directors, upon recommendation of its Audit Committee, ended the engagement of Arthur Andersen LLP as the Company's independent public accountants, and engaged KPMG LLP to serve as the Company's independent public accountants for the fiscal year ending December 31, 2002. For more information, see the Company's current report on Form 8-K, filed with the SEC on April 18, 2002.

After reasonable efforts, we have been unable to obtain the consent of Arthur Andersen, our former independent public accountants, as to the incorporation by reference of their report for our fiscal years ended December 31,2001 and 2000 into our previously filed registration statements (Nos. 33-65772, 333-32731, 33-74408, 33-54881, 333-40717, 333-37533, 333-13475, 333-65373, 333-55747, 33-83223, 333-45518, 333-73046, 33-76496, 333-91058 and 333-86080) under the Securities Act, and we have not filed that consent with this Annual Report on Form 10-K in reliance on Rule 437a of the Securities Act of 1933. Because we have not been able to obtain Arthur Andersen's consent, you will not be able to recover against Arthur Andersen under Section 11 of the Securities Act for any untrue statements of a material fact contained in our financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated therein.