HALLIBURTON CO
Form 10-K/A
January 15, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No. 1)

(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.)

5 Houston Center, 1401 McKinney, Suite 2400, Houston, Texas 77010
(Address of principal executive offices)
Telephone Number - Area code (713) 759-2600

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

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

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.

Explanatory Note

Amendments to our Historical Segment Reporting

We are amending the segment presentation in our 2002 Form 10-K to reflect additional segments of business. Previously, we reported two segments: the Energy Services Group and the Engineering and Construction Group (known as "KBR"). This amendment now reflects eight segments: Pressure Pumping, Drilling and Formation Evaluation and Other Energy Services (collectively, referred to as the Energy Services Group) and Onshore Operations, Offshore Operations, Government Operations, Operations and Maintenance Services and Infrastructure Operations (collectively, referred to as the Engineering and Construction Group, or as KBR). This eight segment presentation reflects financial information provided to our chief executive officer (chief operating decision maker or CODM) during the periods presented. See Note 4 to the consolidated financial statements for a description of the operations included in each of these segments.

Segment Changes Beginning in the Second Quarter of 2003

In the second quarter of 2003, we reorganized our Energy Services Group into four divisions, which is the basis for the four segments we have been reporting within the Energy Services Group beginning with our Form 10-Q for the quarter ended June 30, 2003. We grouped product lines in order to better align ourselves with how our customers procure our services, and to capture new business and achieve better integration, including joint research and development of new products and technologies and other synergies. The new segments mirror the way our CODM now regularly reviews the operating results, assesses performance and allocates resources. In addition, during the same period we changed the type of financial information provided to our CODM. The new CODM financial report reflects relevant financial data for the four new Energy Services Group divisions, as well as summary financial information for KBR as a whole. As a result, we have been reporting the following five segments since the second quarter of 2003:

- Drilling and Formation Evaluation;
- Fluids (which consists of our drilling fluids operations from the Other Energy Services segment reported in this Form 10-K/A and our cementing operations from the Pressure Pumping segment reported in this Form 10-K/A);
- Production Optimization (which consists of production enhancement services and tools and testing services from the Pressure Pumping segment reported in this Form 10-K/A and completion products and services from the Other Energy Services segment reported in this Form 10-K/A);
- Landmark and Other Energy Services; and
- Engineering and Construction Group.

Collectively, Drilling and Formation Evaluation, Fluids, Production Optimization, and Landmark and Other Energy Services make up the Energy Services Group.

Please see our Form 10-Q for the period ended June 30, 2003 and our Form 8-K filed on October 28, 2003 for a more detailed discussion of the new segment structure, including an update of all segment information included in

our Form 10-K for the year ended December 31, 2002. We will continue to report these five segments for future periods.

Changes to our 2002 Form 10-K

The sections of the Form 10-K affected by this amendment to reflect eight segments are the following:

- Item 1. Business - "General description of business", "Description of services and products", "Dispositions in 2002", and "Customers and backlog";
- Item 2. Properties;
- Item 6. Selected Financial Data;
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:
  - Business Environment;
  - Results of Operations in 2002 Compared to 2001;
  - Results of Operations in 2001 Compared to 2000;
  - Liquidity and Capital Resources;
  - Reorganization of Business Operations;
  - Forward-Looking Information - "Legal"; and
  - Independent Auditor's Report.
- Note 1 - "Significant Accounting Policies" under the headings "Description of Company", "Research and development", and "Goodwill";
- Note 2 - "Acquisitions and Dispositions" under the headings "Magic Earth acquisition", "PES acquisition", "PGS Data Management acquisition", "European Marine Contractors Ltd. disposition", "Subsea 7 formation", and "Bredero-Shaw disposition"; and
- Note 4 - "Business Segment Information".

In order to preserve the nature and character of the disclosures set forth in such items as originally filed, this report speaks as of the date of the original filing, and we have not updated the disclosures in this report to the date of the amended filing. While this report primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this report if they had taken place prior to the original filing. All information contained in this Amendment No. 1 is subject to updating and supplementing by our reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report on Form 10-K on March 28, 2003.

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.

Our eight business segments are organized as follows: Pressure Pumping, Drilling and Formation Evaluation, and Other Energy Services (collectively, the "Energy Services Group"), and Onshore Operations, Offshore Operations, Government Operations, Operations and Maintenance Services, and Infrastructure Operations (collectively, the "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 our eight business segments. The following summarizes our services and products for each business segment.

ENERGY SERVICES GROUP

The Energy Services Group consists of the Pressure Pumping, Drilling and Formation Evaluation and Other Energy Services business segments. It 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 Energy Services Group serves major, national and independent oil and gas companies throughout the world.

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Pressure Pumping

The Pressure Pumping segment provides services used to complete oil and gas wells and to increase the amount of oil or gas recoverable from those wells.

Major services and products offered include:

- production enhancement;
- cementing; and
- tools and testing services.

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

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.

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

Drilling and Formation Evaluation

The Drilling and Formation Evaluation segment is primarily involved in drilling and evaluating the formations related to bore-hole construction and oil and gas formation evaluation. Major services and products offered include:

- drilling systems and services;
- drill bits; and
- logging and perforating.

Our Sperry-Sun business line 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 our Security DBS business line, include roller cone rock bits, fixed cutter bits, coring equipment and services and other downhole tools used to drill wells.

Logging and perforating 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.

Other Energy Services

The Other Energy Services segment provides drilling fluids systems, completion products, integrated exploration and production software information systems, consulting services, real-time operations, smartwells, integrated solutions, and subsea operations.

Our Baroid business line 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.

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 Graphics 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 Graphics broad range of professional services enables our worldwide

customers to optimize technical, business and decision processes. Data management services provide efficient storage, browsing and retrieval of large volumes of exploration and petroleum data. The products and services offered by Landmark Graphics integrate data workflows and operational processes across disciplines including geophysics, geology, drilling, engineering, production, economics, finance and corporate planning, and key partners and suppliers.

This segment provides value-added oilfield project management and integrated 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 of our products and technologies, as well as project management capabilities.

Also included in this segment is our equity method investment in Well Dynamics B.V., an intelligent well completions joint venture, our equity method investment in Enventure Global Technology, LLC, which is an expandable casing joint venture and our subsea operations conducted in our 50% owned company, Subsea 7, Inc. Other services provide installation and servicing of subsea facilities and pipelines.

ENGINEERING AND CONSTRUCTION GROUP

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

KBR offers the following:

- Onshore Operations segment provides engineering and construction activities, including engineering and construction of liquefied natural gas, ammonia and crude oil refineries and natural gas plants;
- Offshore Operations segment provides deepwater engineering and marine technology and related worldwide fabrication capabilities;
- Government Operations segment provides construction, maintenance and logistics activities for government facilities and installations;
- Operations and Maintenance Services segment provides 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 Operations segment provides civil engineering, consulting and project management services.

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

- In January 2002, we sold our 50% interest in European Marine Contractors Limited, an unconsolidated joint venture, which provided offshore pipeline services, to our joint venture partner, Saipem;
- In August 2002, we sold several 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, Inc.

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.

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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, principally in the Other Energy Services segment. 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 Graphics. 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 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 Drilling and Formation Evaluation Segment:			
Dallas, Texas	Owned	352,000	Manufacturing facility includes o and warehouse space that primaril cone drill bits. In 2002, we ann move production from this facilit in The Woodlands, Texas. The pla expected in 2003.
Other Energy Services Segment:			
Carrollton, Texas	Owned	792,000	Manufacturing facility including engineering and sales, testing, t research. The manufacturing plan equipment for the Other Energy Se including surface and subsurface packer assemblies.
Shared Facilities:			
Duncan, Oklahoma	Owned	1,275,000	Four locations which include manu totaling 655,000 square feet. Th facility is the main manufacturin cementing, fracturing and acidizi Duncan facilities also include a research center, training facilit offices and warehousing. These f our Pressure Pumping, Drilling an Evaluation and Other Energy Servi

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Location	Owned/ Leased	Sq. Footage	Description
Shared Facilities (cont'd):			
Houston, Texas	Owned	690,000	Two suburban campus locations uti Drilling and Formation Evaluation Services segments. One campus is consisting of office, training, t warehouse, manufacturing and labo The manufacturing facility, which square feet, produces highly spec equipment for our Drilling and Fo segment. The other campus is a m facility with limited office, lab warehouse space that primarily pr drill bits.
Houston, Texas	Owned	593,000	A campus facility that is the hom Energy Services Group.

Alvarado, Texas	Owned	238,000	Manufacturing facility including warehouse space. The manufacturi produces perforating products and formation evaluation tools for ou Formation Evaluation and Pressure
Europe/Africa			
Other Energy Services Segment:			
Arbroath, United Kingdom	Owned	119,000	Manufacturing site that produces
Montrose, United Kingdom	Owned	213,000	Service operation center for comp services equipment set on a 7.5 a office, workshop, warehouse, and storage. Also accommodates a dev with two training wells.
Shared Facilities:			
Aberdeen, United Kingdom	Owned Leased	1,216,000 365,000	A total of 26 sites including 866 manufacturing capacity used by va segments.
Tananger, Norway	Leased	319,000	Service center with workshops, te warehousing and office facilities Norwegian North Sea operations.

Location	Owned/ Leased	Sq. Footage	Description
Engineering and Construction Group			
North America			
Shared Facilities:			
Houston, Texas	Leased	851,000	Engineering and project support c occupies 33 full floors in 2 offi of these buildings is owned by a which we have a 50% ownership. T the joint venture is owned by a s Properties Inc. (NYSE: TRZ). Tri affiliated with Halliburton Compa directors or executive officers.
Houston, Texas	Owned	1,017,000	A campus facility occupying 135 a primarily for administrative and Approximately 221,000 square feet maintenance and warehousing of co equipment. This campus also serv facilities for KBR's headquarters corporate headquarters.
Europe/Africa			
Shared Facilities:			
Leatherhead, United Kingdom	Owned	226,000	Engineering and project support c 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 the Energy Services Group 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.

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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 19
Cedric W. Burgher (Age 42)	Vice President - Investor Relations of Halliburton Company, since Vice President of Enron Corp. and Enron Oil & Gas Company, March 1 September 2001 Assistant Treasurer of Baker Hughes, Inc., March 1993 to March 199
Margaret E. Carriere (Age 51)	Vice President, Secretary and Corporate Counsel of Halliburton Com September 2002 Vice President and Corporate Counsel of Halliburton Company, May 2002 to September 2002 Vice President - Human Resources of Halliburton Company, August 20 2002 Vice President - Legal and Secretary of Halliburton Energy Service 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 Hall

		Energy Services, Inc., May 1994 to September 1998
*	Albert O. Cornelison, Jr. (Age 53)	Executive Vice President and General Counsel of Halliburton Compan December 2002 Vice President and General Counsel of Halliburton Company, May 200 December 2002 Vice President and Associate General Counsel of Halliburton Compan 1998 to May 2002 Staff Vice President and Associate General Counsel of Dresser Indu February 1994 to September 1998
	Charles E. Dominy (Age 62)	Vice President - Government Affairs of Halliburton Company, since Vice President, Business Development of Kellogg Brown & Root, Inc. 1995 to December 2000
*	Douglas L. Foshee (Age 43)	Executive Vice President and Chief Financial Officer of Halliburto August 2001 Chairman, President and CEO of Nuevo Energy Company, July 1997 to President and Chief Executive Officer of Torch Energy Advisors, In July 1997
*	John W. Gibson, Jr. (Age 45)	Chief Executive Officer of Energy Services Group, since January 20 President of Halliburton Energy Services, March 2002 to December 2 President and Chief Executive Officer of Landmark, May 2000 to Feb Chief Operating Officer of Landmark, July 1999 to April 2000 Executive Vice President of Integrated Products Group, February 19

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 President of Kellogg Brown & Root, Inc., since October 2000 Vice President of Kellogg Brown & Root, Inc., March 1999 to Octobe Chief Executive Officer and President of Brown & Root Energy Servi of Kellogg Brown & Root, Inc., April 2000 to February 2001 Chief Executive Officer of Brown & Root Services Division of Kello Root, Inc., January 1999 to April 2000 Chief Executive Officer and President of Brown & Root Services Cor 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 Compan August 2000 Chief Information Officer of Group Air Liquide, 1997 to August 200 Vice President - Information Technology of Air Liquide America Cor 1995 to 1997
*	David J. Lesar (Age 49)	Chairman of the Board, President and Chief Executive Officer of Ha Company, since August 2000 Director of Halliburton Company, since August 2000 President and Chief Operating Officer of Halliburton Company, May August 2000 Executive Vice President and Chief Financial Officer of Halliburto August 1995 to May 1997 Chairman of the Board of Kellogg Brown & Root, Inc., January 1999 President and Chief Executive Officer of Brown & Root, Inc., Septe December 1998

Weldon J. Mire (Age 55)	Vice President - Human Resources of Halliburton Company, since May Division Vice President of Halliburton Energy Services, January 20 Asia Pacific Sales Manager of Halliburton Energy Services, Novembe January 2001 Director of Business Development, September 1999 to November 1999 Global Director of Strategic Business Development, January 1999 to 1999 Senior Shared Service Manager Houston, November 1998 to January 19 IS Project Manager II - 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

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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., Septemb 2002 Vice President - Tax of Dresser Industries, Inc., 1993 to Septembe

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 14 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.

Independent Auditor's Report
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000
Consolidated Balance Sheets at December 31, 2002 and 2001
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
Notes to Annual Financial Statements
1. Significant Accounting Policies
2. Acquisitions and Dispositions
3. Discontinued Operations
4. Business Segment Information
5. Restricted Cash
6. Receivables
7. Inventories
8. Unapproved Claims and Long-Term Construction Contracts
9. Property, Plant and Equipment
10. Related Companies
11. Lines of Credit, Notes Payable and Long-Term Debt
12. Commitments and Contingencies
13. Income (loss) Per Share
14. Reorganization of Business Operations
15. Change in Accounting Method
16. Income Taxes
17. Common Stock
18. Series A Junior Participating Preferred Stock
19. Financial Instruments and Risk Management
20. Retirement Plans
21. Dresser Industries, Inc. Financial Information
22. Goodwill and Other Intangible Assets
Selected Financial Data (Unaudited)
Quarterly Data and Market Price Information (Unaudited)

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.

HALLIBURTON COMPANY
Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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 products and services 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. Our eight business segments are as follows: Pressure Pumping, Drilling and Formation Evaluation, and Other Energy Services (collectively, referred to as the Energy Services Group), and Onshore Operations, Offshore Operations, Government Operations, Operations and Maintenance Services, and Infrastructure Operations (collectively, referred to as the Engineering and Construction Group, or as KBR).

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 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

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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
United States	847	853	806	818	1,004
Canada	283	250	147	383	278
International (excluding Canada)	753	718	725	731	748
Worldwide Total	1,883	1,821	1,678	1,932	2,030

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 products and services 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 Energy Services Group to discount prices. The price increases we implemented last year have mostly been eroded by additional discounts. Our Pressure Pumping segment 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 and services included in our Drilling and Formation Evaluation segment, 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 national 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 of offshore projects was using a disproportionate share of our bonding and letter of credit capacity relative to its profit contribution, and

determined to not pursue those types of projects in the future. 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 Group segments contracts are as follows:

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

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 subsidiaries facilitated the separation, organizationally and financially of our business groups, which we believe will significantly improve operating efficiencies, 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 business groups in the future if we identify an opportunity that produces greater value for our shareholders than continuing to own both business groups.

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 (which currently consists of the Barracuda-Caratinga project in Brazil), 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.

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)
Pressure Pumping	$ 2,770	$ 3,127	$ (357)
Drilling and Formation Evaluation	1,633	1,643	(10)
Other Energy Services	2,433	3,041	(608)
Total Energy Services Group	6,836	7,811	(975)
Onshore Operations	1,813	1,422	391
Offshore Operations	1,457	1,156	301
Government Operations	1,217	1,436	(219)
Operations and Maintenance Services	927	956	(29)
Infrastructure Operations	322	265	57
Total 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.

Pressure Pumping revenues decreased $357 million compared to 2001. The decrease was attributable to reduced production enhancement services of $197 million and reduced cementing services of $160 million due to decreased rig counts in North America which put significant pricing pressures on the segment.

On a geographic basis, the decrease in revenues was primarily due to a $443 million decrease of North America revenues, as a result of decreased rig counts. This was partially offset by increases in Middle East/Asia of $67 million from increased rig counts and new contracts in the region and Europe/Africa of $22 million from increased rig counts. International revenues were 50% in 2002 compared with 42% in 2001 for the segment.

Drilling and Formation Evaluation revenues declined slightly in 2002 compared to 2001. Approximately $62 million of the decrease was due to lower North American logging and perforating activity. An additional $21 million of the change resulted from decreased drill bit sales principally in North America. These decreases were partially offset by $74 million of increased drilling systems activity primarily in international locations such as Saudi Arabia, Thailand, Mexico, Brazil, and the United Arab Emirates.

On a geographic basis, the decline in revenue is attributable to lower levels of rig activity in North America, which also put pressure on pricing of work in the United States. Latin American revenues decreased 1% 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. International revenues were 72% of Drilling and Formation Evaluation's revenues in 2002 compared to 66% in 2001.

Other Energy Services revenues declined $608 million, or 20%, in 2002 compared to 2001. Approximately $353 million of the decline is due to lower

revenues from subsea operations as most of the assets of Halliburton Subsea were contributed to the formation of Subsea 7, Inc. (which was formed in May 2002 and

is accounted for under the equity method). In addition, approximately $117 million of the decline is from lower revenues from integrated solutions projects as a result of the sale of several properties during 2002. Further, revenue decreased $89 million from drilling fluid sales and $56 million from lower completion products and services. Both reductions occurred primarily in North America from decreased rig counts. Partially offsetting the decline is a $40 million increase in software and professional services revenues due to strong 2002 sales in all geographic areas by Landmark Graphics.

Onshore Operations segment revenues increased $391 million, or 27%, in 2002 compared to 2001. The improvement was due to increased activities on liquefied natural gas projects in Nigeria and Egypt, startup of an oil and gas project in Algeria, and progress on projects in Chad, Cameroon, and Belgium. Partially offsetting the revenue increase were lower revenues of $155 million on hydrocarbon projects in Canada and Qatar and liquefied natural gas activities in Malaysia.

Offshore Operations segment revenues increased $301 million, or 26%, in 2002 compared to 2001. The improvement was due to progress on the Barracuda-Caratinga project in Brazil and the Belanak project in Indonesia. Partially offsetting the revenue increase were lower revenues of $406 million on oil and gas projects in the Philippines, Mexico and Nigeria.

Government Operations segment revenues decreased $219 million, or 15%, in 2002 compared to 2001. The decrease is due to completion of a major project at our shipyard in the United Kingdom during 2002 and lower volumes of logistical support in the Balkans in 2002 compared to 2001.

Operations and Maintenance Services segment revenues decreased $29 million, or 3%, in 2002 compared to 2001. The decrease was due to reduced downstream maintenance activity in the United States. Partially offsetting the decrease was increased revenue on upstream projects in Canada and in the Middle East.

Infrastructure Operations segment revenues increased $57 million, or 22%, in 2002 compared to 2001. The improvement was due to increased progress on the Alice Springs to Darwin Rail Line project in Australia and revenues from Europe/Africa.

OPERATING INCOME (LOSS)

Millions of dollars	2002	2001	Increase/ (Decrease)
Pressure Pumping	$ 454	$ 676	$ (222)
Drilling and Formation Evaluation	160	171	(11)
Other Energy Services	24	189	(165)
Total Energy Services Group	638	1,036	(398)
Onshore Operations	43	79	(36)
Offshore Operations	(179)	(15)	(164)
Government Operations	60	42	18
Operations and Maintenance Services	5	6	(1)
Infrastructure Operations	30	10	20
Asbestos and Silica Charges	(644)	(11)	(633)
Total 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 included:

- $564 million expense in the Engineering and Construction Group related to asbestos and silica liabilities;
- $117 million loss in the Offshore Operations segment on the Barracuda-Caratinga project in Brazil;
- $108 million gain in Other Energy Services on the sale of our 50% interest in European Marine Contractors;

- $107 million in expense related to restructuring charges, of which $64 million related to Other Energy Services, $18 million related to the Engineering and Construction Group segments and $25 million related to general corporate;
- $98 million expense in Other Energy Services related to patent infringement litigation;
- $80 million expense resulting from the write-off of billed and accrued receivables related to the Highlands Insurance Company litigation in the asbestos and silica charges, formerly reported in general corporate;
- $79 million loss in Other Energy Services on the sale of our 50% equity investment in the Bredero-Shaw joint venture; and
- $29 million 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 2001, we recorded $42 million in goodwill amortization ($2 million in Drilling and Formation Evaluation, $22 million in Other Energy Services, $8 million in Onshore Operations, $5 million in Offshore Operations, $3 million in Operations and Maintenance Services, and $2 million in Infrastructure Operations).

Pressure Pumping operating income decreased $222 million, or 33%, in 2002 compared to 2001. Reduced production enhancement activities contributed $149 million of the decrease and cementing services contributed $70 million, both affected primarily by the reduced oil and gas drilling in North America.

On a geographic basis, the decline in operating income was mainly attributable to North America, which decreased $248 million, as a result of reduction of average rig counts in the United States of 28%. This was offset by an increase in Europe/Africa of $21 million from increased rig activity in the region.

Drilling and Formation Evaluation operating income declined 6% in 2002 compared to 2001. Approximately $37 million of the decrease related to reduced operating income in logging and perforating services and $8 million related to the drill bits business, both affected by the reduced oil and gas drilling activity in North America. Offsetting these declines was a $22 million increase in drilling systems operating income due to improved international activity.

On a geographic basis, the decline in operating income is attributable to lower levels of rig activity and pricing pressures in North America. The decrease in North America operating income was partially offset by higher operating income from international sources in Brazil, Mexico, Algeria, Angola, Egypt, China, and Saudi Arabia.

Other Energy Services operating income decreased $165 million in 2002 compared to 2001. Significant factors influencing the results included:

- $108 million gain on the sale of our 50% interest in European Marine Contractors in 2002;
- $98 million charge recorded in 2002 related to patent

infringement litigation;

- $79 million loss on the sale of our 50% equity investment in the Bredero-Shaw joint venture in 2002;
- $66 million of impairments recorded in 2002 on integrated solutions projects primarily in the United States, Indonesia and Columbia, partially offset by net gains of $45 million on 2002 disposals of properties in the United States; and
- $64 million in 2002 restructuring charges.

In addition, drilling fluids services contributed $35 million of the decrease, primarily due to the reduced level of oil and gas drilling in North America. This was partially offset by an $11 million increase in completion products and services operating income due to higher international activity which more than offset reduced oil and gas drilling in North America. Also partially offsetting the decrease was $22 million in goodwill amortization expense that was recorded in 2001 but not in 2002, as a result of our adoption of SFAS No. 142. Landmark Graphics experienced $32 million in improved profitability from increased sales of software and professional services.

Onshore Operations segment operating income decreased $36 million, or 46%, in 2002 compared to 2001. The decrease in income was due to completion of an oil and gas project in Algeria during 2002 and lower progress on the construction of a liquefied natural gas project in Malaysia. Partially offsetting the decrease in income were earnings from liquefied natural gas projects in Nigeria and Egypt that began in 2002.

Offshore Operations segment operating loss increased $164 million in 2002 compared to 2001. The increase in the loss was primarily due to losses recorded in 2002 on the Barracuda-Caratinga project in Brazil of $117 million and a project in the Philippines totaling $36 million.

Government Operations segment operating income increased $18 million, or 43%, in 2002 compared to 2001. The improved results were primarily due to activities at our shipyard in the United Kingdom and improved results from projects in Asia Pacific and Americas. Partially offsetting the increase in 2002 is non-recurring income earned on a contract with the United Kingdom Ministry of Defense recorded in 2001.

Operations and Maintenance Services segment operating income decreased $1 million, or 17%, in 2002 compared to 2001. The decrease in income was primarily due to lower volumes on downstream maintenance projects in the United States and a loss recorded on a project in the Middle East. Slightly offsetting these decreases was growth in facility services projects.

Infrastructure Operations segment operating income increased $20 million in 2002, tripling 2001 operating income. The improvement was primarily due to progress on the Alice Springs to Darwin Rail Line project in Australia, offset slightly by a loss on a road project in England.

Asbestos and silica charges of $644 million were recorded during 2002, which represents the best estimate of our asbestos and silica liability based on information we obtained while negotiating the global asbestos settlement and an $80 million expense resulting from the write-off of billed and accrued receivables related to the Highlands Insurance Company litigation.

General corporate expenses were $65 million for 2002 as compared to $63 million in 2001. Expenses in 2002 include restructuring charges of $25 million and a gain from the value of stock received from the demutualization of an insurance provider of $29 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)

Pressure Pumping	$ 3,127	$ 2,357	$ 770
Drilling and Formation Evaluation	1,643	1,287	356
Other Energy Services	3,041	2,589	452
Total Energy Services Group	7,811	6,233	1,578
Onshore Operations	1,422	2,228	(806)
Offshore Operations	1,156	916	240
Government Operations	1,436	1,355	81
Operations and Maintenance Services	956	869	87
Infrastructure Operations	265	343	(78)
Total 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 Energy Services Group experienced revenue growth despite a 14% decline in oil prices and a 3% decrease in natural gas prices between December 2000 and December 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.

Pressure Pumping revenues increased $770 million, or 33%, in 2001 compared to 2000. Production enhancement activities contributed $447 million of the improvement, cementing services accounted for $257 million and sales of tools and testing services contributed $65 million of the increase, all positively impacted by higher drilling activity, particularly in the Gulf of Mexico, and pricing improvements.

On a geographic basis, North America revenues increased $585 million as a result of higher drilling activity and pricing improvements. Latin America increased $59 million with the most significant improvements in Brazil and Venezuela. Europe/Africa increased $58 million primarily in Norway and the United Kingdom. International revenues were 42% of total segment revenues in 2001 compared to 48% in 2000.

Drilling and Formation Evaluation revenues increased $356 million, or 28%, in 2001 compared to 2000. Drilling systems contributed $208 million of the increase, logging and perforating services contributed $110 million, and drill bit sales contributed $38 million, all due to higher oil and gas rig counts and

pricing improvements, particularly in the United States. Geo-Pilot(TM) and other new products introduced in drilling services 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.

On a geographic basis, United States revenues increased by $148 million and international revenues increased $208 million, with the most significant improvements in Brazil, Venezuela, Nigeria, Norway, the United Kingdom, and Russia. International revenues were 66% of total segment revenues in 2001 compared to 68% in 2000.

Other Energy Services revenues increased $452 million, or 17%, in 2001 from 2000. Sales of drilling fluids accounted for $228 million of the improvement and completion products and services contributed $91 million, which were both positively impacted by higher drilling activity, particularly in the

Gulf of Mexico, and pricing improvements. Landmark Graphics experienced $60 million in growth in software and professional services sales of which $28 million related to the acquisition of PGS Data Management in March 2001. Integrated solutions revenues increased $69 million due to higher oil and gas prices in the United States in the first half of 2001. Subsea operations posted $15 million lower revenue due to lower activity levels in Norway.

Onshore Operations segment revenues decreased $806 million, or 36%, in 2001 compared to 2000. The decrease was primarily due to completion of hydrocarbon projects in Norway and Singapore, a power project in the United States, a gas project nearing completion in Nigeria, and highway and paving construction jobs in North America during 2001. Partially offsetting the revenue decrease were earnings from a new liquefied natural gas project in Malaysia and an oil and gas project in Algeria.

Offshore Operations segment revenues increased $240 million, or 26%, in 2001 from 2000. The increase was primarily due to progress on the Barracuda-Caratinga project in Brazil, which began operations in the third quarter of 2000. Partially offsetting the revenue increase were lower revenues on oil and gas projects in Mexico.

Government Operations segment revenues increased $81 million, or 6%, in 2001 from 2000. The improvement was primarily due to 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. Partially offsetting the revenue increase is lower activity on the logistical contract in the Balkans. The project moved to the sustainment phase, which involved providing support at the facilities which were constructed during the initial phase of the contract.

Operations and Maintenance Services segment revenues increased $87 million, or 10%, in 2001 from 2000. The increase was partially due to higher volumes on downstream maintenance activity in the United States as our customers focused on maintaining current facilities and plant operations. There was also increased activity on downstream projects in the United Kingdom, Middle East and Australia.

Infrastructure Operations segment revenues decreased $78 million, or 23%, in 2001 compared to 2000. The decrease in revenue was primarily due to the completion of the baseball stadium in Houston. Partially offsetting the decrease were revenues from start-up of the construction of the Alice Springs to Darwin Rail Line in Australia.

OPERATING INCOME

Millions of dollars	2001	2000	Increase/ (Decrease)
Pressure Pumping	$ 676	$ 314	$ 362
Drilling and Formation Evaluation	171	1	170
Other Energy Services	189	274	(85)
Total Energy Services Group	1,036	589	447
Onshore Operations	79	(45)	124
Offshore Operations	(15)	(63)	48
Government Operations	42	44	(2)
Operations and Maintenance Services	6	1	5
Infrastructure Operations	10	14	(4)
Asbestos and Silica Charges	(11)	(5)	(6)
Total Engineering and Construction Group	111	(54)	165
General corporate	(63)	(73)	10

Total operating income	$1,084	$ 462	$ 622

Consolidated operating income increased $622 million, or 135%, from 2000 to 2001. In 2000 our operating income included two significant items: an $88 million gain on the sale of marine vessels (reflected in our Other Energy Services segment) and a charge of $36 million related to the restructuring of the Engineering and Construction Group segments.

Pressure Pumping operating income increased $362 million in 2001 compared to 2000. Production enhancement services contributed $214 million of the increase, cementing services contributed $122 million and sales of tools and testing services contributed $26 million, all benefiting from increased activity levels, higher equipment utilization and improved pricing, particularly in the United States in the first nine months of 2001.

On a geographic basis, the increase in operating income was primarily in North America, which increased $290 million on increased drilling activity and pricing improvements.

Drilling and Formation Evaluation operating income increased to $171 million in 2001 compared to a breakeven position in 2000. Drilling systems contributed $118 million of the increase, logging and perforating services contributed $36 million, and drill bit sales contributed $27 million, all benefiting from increased activity levels, higher equipment utilization and improved pricing, particularly in the United States in the first nine months of 2001. Incremental margin, which is calculated by taking the change in operating income over the applicable periods and dividing by the change in revenues over the same period, increased by 48% for Drilling and Formation Evaluation.

On a geographic basis, United States operating income increased by $40 million and international operating income increased $130 million, with the largest improvements in Nigeria, the United Kingdom, Indonesia, and Russia.

Other Energy Services operating income decreased $85 million in 2001 from 2000. The primary reason for the decline in results was the recording of an $88 million gain in 2000 related to the sale of marine vessels. Subsea operations contributed $109 million to the decrease due to lower activity levels, job losses and the gain on sale of marine vessels in 2000 mentioned above. Additionally, Landmark Graphics operating income was $6 million lower in 2001 due primarily to increases in research and development costs. However, drilling fluids increased $13 million and completion products and services increased $37 million both benefiting from increased activity levels, higher equipment utilization and improved pricing, particularly in the United States in the first nine months of 2001. Integrated solutions operating income increased $4 million, benefiting from higher gas and oil prices in the United States in the first half of 2001.

Onshore Operations segment operating income increased $124 million in 2001 from a loss position in 2000. The increase was primarily due to significant losses recorded in the fourth quarter of 2000 of $131 million as a result of higher than estimated costs on specific jobs in North America, Latin America and Algeria and unfavorable claims negotiations on other jobs.

Offshore Operations segment operating loss decreased $48 million, or 76%, in 2001 compared to 2000. The improvement was primarily due to progress on oil and gas projects in Mexico and Nigeria and to losses recorded in the fourth quarter of 2000 of $26 million. Partially offsetting the improvement was a $4 million loss in 2001 on an offshore oil and gas project in the Philippines and a revised profit estimate on the Barracuda-Caratinga project in Brazil.

Government Operations segment operating income decreased $2 million, or 5%, in 2001 compared to 2000. The decrease in income was primarily due to lower activity on the logistical contract in the Balkans. Partially offsetting the decrease was non-recurring income from a contract with the United Kingdom Ministry of Defense.

Operations and Maintenance Services segment operating income increased $5 million in 2001 compared to 2000. The improvement was primarily due to upstream projects in the United Kingdom, partially offset by increased expenses in business development.

Infrastructure Operations segment operating income decreased $4 million, or 29%, in 2001 compared to 2000. The decrease in income was primarily due to a loss recorded on a highway project in the United Kingdom. Partially offsetting the decrease were earnings from the start-up of construction on the Alice Springs to Darwin Rail Line project in Australia.

Asbestos and silica charges of $11 million were recorded in 2001.

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

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 less than a $1 million gain in 2001 and a loss of $1 million in 2000.

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 the Energy

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Services Group, 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 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 millio