



CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors of Baker Hughes Incorporated (the "Company") has heretofore constituted and established a Compensation Committee (the "Committee") with authority, responsibility and specific duties as described in this Charter. This document replaces and supersedes in its entirety the previous Charter of Responsibilities of the Compensation Committee adopted by the Board of Directors of the Company.

PURPOSE

The purpose of the Compensation Committee is to discharge the Board of Directors' responsibilities relating to compensation of the Company's executives. The Committee shall have overall responsibility for reviewing and evaluating and, as applicable, approving the officer compensation plans of the Company. It is also the purpose of the Committee to produce an annual report on executive compensation for inclusion in the Company's proxy statement.

COMPOSITION

The Committee and Chairman of the Committee shall be elected annually by the Board of Directors and subject to removal pursuant to the terms of the Company's Bylaws. The Committee shall be comprised of not less than three nor more than six of its independent and non-employee members. Such members shall meet the requirements for "independent" pursuant to the rules of the New York Stock Exchange and shall meet the requirements for "disinterested non-employee directors" pursuant to Rule 16b-3 of the Securities Exchange Act of 1934, as amended. The Committee may, if appropriate, delegate its authority to subcommittees.

PRINCIPAL RESPONSIBILITIES

The principal responsibility of the Committee is to assure that the senior executives of the Company are compensated effectively in a manner consistent with the stated compensation strategy of the Company, internal equity considerations and competitive practice. The Committee will also communicate to the stockholders of the Company, the Company's compensation policies and the reasoning behind such policies as required by the rules and regulations of the Securities and Exchange

Commission ("SEC"). More specifically, the Committee shall be responsible for the following:

- Review from time to time and approve the Company's stated compensation strategy to ensure that management is rewarded appropriately for its contributions to Company growth and profitability and that the executive compensation strategy supports organization objectives and stockholder interests.
- Review and approve corporate goals and objectives relevant to the Chief Executive Officer's ("CEO") compensation, evaluate the CEO's performance in light of such goals and objectives, and determine the CEO's compensation level based on this evaluation and other relevant information.
- Review annually and determine the individual elements of total compensation of the CEO, including annual salary, annual bonus and long-term incentive compensation, and report such determination to the Board of Directors, provided, however, that the annual salary, annual bonus and long-term incentive compensation shall be subject to the approval of the Board of Directors.
- Communicate in the annual proxy statement to stockholders, in accordance with SEC rules and regulations, information with respect to executive compensation, which shall include the factors and criteria on which the CEO's compensation for the last year was based, including the relationship of the Company's performance to the CEO's compensation.
- Review and approve the individual elements of total compensation for the senior management of the Company other than the CEO.
- Review with the CEO matters relating to management succession, including, but not limited to, compensation.
- Maintain and review with Board of Directors a list for the Board of potential successors to the CEO, including in the event of an emergency or retirement of the CEO on short notice.
- Assure that the Company's incentive compensation program, including the annual and

long-term incentive plans, is administered in a manner consistent with the Company's compensation strategy as to participation, target annual incentive awards, corporate financial goals and actual awards paid to senior management.

- Approve and make recommendations to the Board of Directors, subject, where appropriate, to submission to stockholders, new incentive-compensation plans and equity-based compensation plans.
- Approve revisions to the Company's executive annual salary increases and review compensation arrangements of the Company's senior management.
- Review and report to the Board of Directors on levels of stock ownership by the officers of the Company in accordance with Stock Ownership Guidelines adopted by the Board of Directors, including resolution of out of compliance situations.
- Review the Company's employee benefit programs, as administered by an Administrative Committee and an Investment Committee, approve all committee administrative changes and approve changes, subject, where appropriate, to approval by the stockholders or Board of Directors.
- Produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations.

- Sole authority to retain, terminate and approve fees and other retention terms of any compensation consultant used to assist the Committee in the evaluation of executive compensation with funding provided by the Company.
- Establish performance criteria for the Committee, conduct an annual self-evaluation and report results to Governance Committee.
- Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Governance Committee for approval who will then present to the Board of Directors for approval.
- Such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board of Directors, or as designated in plan documents.

MEETINGS

The Committee will meet at least three times year, as determined by the Board of Directors. Special meetings may be called, as needed, by the Chairman of the Board or the Chairman of the Committee. All meetings of the Committee will be held pursuant to the Bylaws of the Company with regard to notice and waiver thereof, and written minutes of each meeting will be duly filed in the Company records. Reports of meetings of the Committee shall be made to the Board of Directors at its next regularly scheduled meeting following the Committee meeting accompanied by any recommendations to the Board of Directors approved by the Committee.