SCHLUMBERGER LTD /NV/
Form 10-Q
July 29, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended:	**Commission file No.:**
June 30, 2010	**1-4601**

SCHLUMBERGER N.V.

(SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

NETHERLANDS ANTILLES **(State or other jurisdiction of incorporation or organization)**	**52-0684746** **(I.R.S. Employer Identification No.)**
42 RUE SAINT-DOMINIQUE **PARIS, FRANCE**	**75007**
5599 SAN FELIPE, 17th FLOOR **HOUSTON, TEXAS, U.S.A.**	**77056**
PARKSTRAAT 83 **THE HAGUE,** **THE NETHERLANDS** **(Addresses of principal executive offices)**	**2514 JG** **(Zip Codes)**

Registrant s telephone number: (713) 513-2000

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 and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES **x** NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at June 30, 2010**
COMMON STOCK, $0.01 PAR VALUE PER SHARE	1,193,236,410

Table of Contents

SCHLUMBERGER LIMITED

Table of Contents

Second Quarter 2010 Form 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Stated in millions, except per share amounts)

	Second Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
Revenue	**$ 5,937**	$ 5,528	**$ 11,534**	$ 11,528
Interest & other income, net	**51**	60	**115**	137
Expenses				
Cost of revenue	**4,576**	4,432	**8,918**	8,942
Research & engineering	**216**	197	**423**	386
General & administrative	**145**	131	**289**	261
Merger & integration	**4**		**39**	
Interest	**53**	61	**98**	116
Income before taxes	**994**	767	**1,882**	1,960
Taxes on income	**177**	152	**391**	404
Net Income	**817**	615	**1,491**	1,556
Net income attributable to noncontrolling interests	**1**	(2)	**(1)**	(4)
Net Income attributable to Schlumberger	**$ 818**	$ 613	**$ 1,490**	$ 1,552
Schlumberger amounts attributable to:				
Net Income	**$ 818**	$ 613	**$ 1,490**	$ 1,552
Basic earnings per share of Schlumberger:				
Net Income	**$ 0.69**	$ 0.51	**$ 1.25**	$ 1.30
Diluted earnings per share of Schlumberger:				
Net Income	**$ 0.68**	$ 0.51	**$ 1.23**	$ 1.28
Average shares outstanding:				
Basic	**1,192**	1,197	**1,194**	1,197
Assuming dilution	**1,208**	1,214	**1,211**	1,212

See Notes to Consolidated Financial Statements

3

Table of Contents

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

		(Stated in millions)
	Jun. 30, 2010 (Unaudited)	**Dec. 31, 2009**
ASSETS		
Current Assets		
Cash	**$ 229**	$ 243
Short-term investments	**2,849**	4,373
Receivables less allowance for doubtful accounts (2010 $141; 2009 $160)	**6,234**	6,088
Inventories	**1,865**	1,866
Deferred taxes	**148**	154
Other current assets	**905**	926
	12,230	13,650
Fixed Income Investments, held to maturity	**652**	738
Investments in Affiliated Companies	**2,396**	2,306
Fixed Assets less accumulated depreciation	**9,657**	9,660
Multiclient Seismic Data	**369**	288
Goodwill	**5,854**	5,305
Intangible Assets	**1,360**	786
Deferred Taxes	**199**	376
Other Assets	**300**	356
	$ 33,017	$ 33,465
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 4,852**	$ 5,003
Estimated liability for taxes on income	**908**	878
Dividend payable	**249**	253
Long-term debt current portion	**440**	444
Short-term borrowings	**327**	360
Convertible debentures		321
	6,776	7,259
Long-term Debt	**3,729**	4,355
Postretirement Benefits	**1,581**	1,660
Other Liabilities	**1,047**	962
	13,133	14,236
Equity		
Common stock	**4,920**	4,777
Treasury stock	**(5,420)**	(5,002)
Retained earnings	**23,007**	22,019
Accumulated other comprehensive loss	**(2,729)**	(2,674)
Schlumberger stockholders equity	**19,778**	19,120
Noncontrolling interests	**106**	109

	19,884	19,229
	$ 33,017	$ 33,465

See Notes to Consolidated Financial Statements

4

Table of Contents

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	(Stated in millions) Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net Income	**$ 1,491**	$ 1,556
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization [1]	**1,258**	1,235
Earnings of companies carried at equity, less dividends received	**(83)**	(37)
Deferred income taxes	**31**	81
Stock-based compensation expense	**95**	92
Pension and other postretirement benefits expense	**149**	168
Pension and other postretirement benefits funding	**(130)**	(518)
Pension and other postretirement benefits curtailment charge		136
Other non-cash items	**14**	66
Change in assets and liabilities: [2]		
(Increase) decrease in receivables	**(49)**	130
Decrease (increase) in inventories	**30**	(101)
Decrease (increase) in other current assets	**24**	(113)
Decrease in accounts payable and accrued liabilities	**(243)**	(515)
Increase (decrease) in estimated liability for taxes on income	**30**	(120)
Decrease in other liabilities	**(81)**	
Other net	**(250)**	4
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,286**	2,064
Cash flows from investing activities:		
Capital expenditures	**(1,083)**	(1,252)
Multiclient seismic data capitalized	**(172)**	(89)
Acquisition of Geoservices, net of cash acquired	**(889)**	
Other business acquisitions and investments, net of cash acquired	**(145)**	(198)
Sale (purchase) of investments, net	**1,603**	(680)
Other	**(12)**	105
NET CASH USED BY INVESTING ACTIVITIES	**(698)**	(2,114)
Cash flows from financing activities:		
Dividends paid	**(505)**	(502)
Proceeds from employee stock purchase plan	**84**	1
Proceeds from exercise of stock options	**80**	41
Tax benefits on stock options	**14**	4
Stock repurchase program	**(872)**	
Proceeds from issuance of long-term debt	**70**	1,405
Repayment of long-term debt	**(439)**	(833)
Net decrease in short-term borrowings	**(33)**	(38)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(1,601)**	78

Net (decrease) increase in cash before translation effect		**(13)**		28
Translation effect on cash		**(1)**		(1)
Cash, beginning of period		**243**		189
Cash, end of period	**$**	**229**	$	216

(1) Includes multiclient seismic data costs.
(2) Net of the effect of business acquisitions.

See Notes to Consolidated Financial Statements

Table of Contents

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(Stated in millions)

January 1, 2009 - June 30, 2009	Common Stock Issued	Common Stock In Treasury	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, January 1, 2009	$ 4,668	$ (4,796)	$ 19,891	$ (2,901)	$ 72	$ 16,934
Comprehensive income						
Net income			1,552		4	
Currency translation adjustments				(67)		
Changes in fair value of derivatives				155		
Deferred employee benefits liabilities				450		
Total comprehensive income						2,094
Shares sold to optionees, less shares exchanged	(9)	50				41
Shares granted to Directors		1				1
Vesting of restricted stock	(15)	15				
Shares issued under employee stock purchase plan	9	62				71
Stock-based compensation cost	92					92
Acquisition of noncontrolling interests	(6)					(6)
Other	(25)				31	6
Dividends declared ($0.42 per share)			(503)			(503)
Tax benefits on stock options	4					4
Balance, June 30, 2009	$ 4,718	$ (4,668)	$ 20,940	$ (2,363)	$ 107	$ 18,734

(Stated in millions)

January 1, 2010 - June 30, 2010	Common Stock Issued	Common Stock In Treasury	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balance, January 1, 2010	$ 4,777	$ (5,002)	$ 22,019	$ (2,674)	$ 109	$ 19,229
Comprehensive income						
Net income			1,490		1	
Currency translation adjustments				(69)		
Changes in fair value of derivatives				(81)		
Deferred employee benefits liabilities				95		
Total comprehensive income						1,436
Shares sold to optionees, less shares exchanged	(3)	83				80
Shares granted to Directors	1	1				2
Vesting of restricted stock	(8)	8				
Shares issued under employee stock purchase plan	25	59				84
Stock repurchase program		(872)				(872)
Stock-based compensation cost	95					95
Shares issued on conversion of debentures	17	303				320
Acquisition of noncontrolling interests	3				(8)	(5)
Other	(1)				4	3

Dividends declared ($0.42 per share)			(502)			(502)
Tax benefits on stock options	14					14
Balance, June 30, 2010	$ 4,920	$ (5,420)	$ 23,007	$ (2,729)	$ 106	$ 19,884

See Notes to Consolidated Financial Statements

Table of Contents

SCHLUMBERGER LIMITED AND SUBSIDIARIES

SHARES OF COMMON STOCK

(Unaudited)

			(Stated in millions)
	Issued	**In Treasury**	**Shares Outstanding**
Balance, January 1, 2010	1,334	(139)	1,195
Shares sold to optionees, less shares exchanged		2	2
Shares issued under employee stock purchase plan		2	2
Stock repurchase plan		(14)	(14)
Shares issued on conversion of debebtures		8	8
Balance, June 30, 2010	1,334	(141)	1,193

See Notes to Consolidated Financial Statements

Table of Contents

SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of Schlumberger Limited and its subsidiaries (Schlumberger), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the accompanying unaudited financial statements. All intercompany transactions and balances have been eliminated in consolidation. Operating results for the six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010. The December 31, 2009 balance sheet information has been derived from the audited 2009 financial statements. For further information, refer to the *Consolidated Financial Statements* and notes thereto, included in the Schlumberger Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 5, 2010.

Certain items from prior year have been reclassified to conform to the current year presentation.

2. Merger with Smith International, Inc.

On February 21, 2010, Schlumberger and Smith International, Inc. (Smith) jointly announced that their Boards of Directors approved a definitive merger agreement in which the companies would combine in a stock-for-stock transaction. Under the terms of the agreement, Smith shareholders will receive 0.6966 shares of Schlumberger in exchange for each Smith share. Schlumberger estimates that it will issue approximately 176 million shares of its common stock in this transaction. The value of this transaction using Schlumberger s stock price at the end of June is approximately $9.8 billion. Such amount excludes Smith s net debt which was $1.3 billion as of March 31, 2010. Smith is a leading supplier of premium products and services to the oil and gas exploration and production industry and reported revenues of $8.2 billion in 2009. The transaction is subject to various conditions including Smith stockholder approval. Subject to receipt of approval from Smith Stockholders, Schlumberger expects that the closing of the transaction will occur on August 27, 2010.

3. Charges

Schlumberger recorded the following charges during the first six months of 2010 and 2009:

2010

First quarter of 2010:

Schlumberger incurred $35 million of merger-related costs in connection with the Smith and Geoservices transactions (see Notes 2 and 5). These costs primarily consist of advisory and legal fees and are classified in *Merger & integration* in the *Consolidated Statement of Income*.

During March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law in the United States. Among other things, the PPACA eliminates the tax deductibility of retiree prescription drug benefits to the extent of the Medicare Part D Subsidy that companies, such as Schlumberger, receive. As a result of this change in law, Schlumberger recorded a $40 million charge to adjust its deferred tax assets to reflect the loss of this future tax deduction. This charge is classified in *Taxes on income* in the *Consolidated Statement of Income*.

Table of Contents

The following is a summary of these charges:

			(Stated in millions)
	Pretax	**Tax**	**Net**
Charges			
- Merger-related transaction costs	$ 35	$	$ 35
- Impact of elimination of tax deduction related to Medicare Part D subsidy		40	40
	$ 35	$ 40	$ 75

2009

Second quarter of 2009:

Schlumberger continued to reduce its global workforce as a result of the slowdown in oil and gas exploration and production spending and its effect on activity in the oilfield services sector. As a result of these actions, Schlumberger recorded a pretax charge of $102 million ($85 million after-tax), which is classified in *Cost of revenue* in the *Consolidated Statement of Income*.

Schlumberger experienced a significant reduction in the expected aggregate years of future service of its employees in certain of its pension plans and its postretirement medical plan as a consequence of the above mentioned workforce reductions. Accordingly, Schlumberger recorded pretax non-cash pension and other postretirement benefit curtailment charges of $136 million ($122 million after-tax). The curtailment charge included recognition of the change in benefit obligations as well as a portion of the previously unrecognized prior service costs, reflecting the reduction in expected future service for the impacted plans. These costs are classified in *Cost of revenue* in the *Consolidated Statement of Income*.

The following is a summary of these charges:

			(Stated in millions)
	Pretax	**Tax**	**Net**
Charges			
- Workforce reductions	$ 102	$ (17)	$ 85
- Postretirement benefits curtailment	136	(14)	122
	$ 238	$ (31)	$ 207

9

Table of Contents

4. Earnings Per Share

The following is a reconciliation from basic earnings per share of Schlumberger to diluted earnings per share of Schlumberger:

(Stated in millions, except per share amounts)

Second Quarter	2010 Schlumberger Net Income	2010 Average Shares Outstanding	2010 Earnings per Share	2009 Schlumberger Net Income	2009 Average Shares Outstanding	2009 Earnings per Share
Basic	**$ 818**	**1,192**	**$ 0.69**	$ 613	1,197	$ 0.51
Assumed conversion of debentures	**1**	**6**		2	8	
Assumed exercise of stock options		**8**			8	
Unvested restricted stock		**2**			1	
Diluted	**$ 819**	**1,208**	**$ 0.68**	$ 615	1,214	$ 0.51

Six Months	Schlumberger Net Income	Average Shares Outstanding	Earnings per Share	Schlumberger Net Income	Average Shares Outstanding	Earnings per Share
Basic	**$ 1,490**	**1,194**	**$ 1.25**	$ 1,552	1,197	$ 1.30
Assumed conversion of debentures	**3**	**6**		4	8	
Assumed exercise of stock options		**9**			6	
Unvested restricted stock		**2**			1	
Diluted	**$ 1,493**	**1,211**	**$ 1.23**	$ 1,556	1,212	$ 1.28

The number of outstanding options to purchase shares of Schlumberger common stock which were not included in the computation of diluted earnings per share, because to do so would have had an antidilutive effect, were as follows:

(Stated in millions)

	2010	2009
Second Quarter	**14**	17
Six Months	**13**	17

5. Acquisitions

On April 23, 2010, Schlumberger completed the acquisition of Geoservices, a privately owned oilfield services company specializing in mud logging, slickline and production surveillance operations, for approximately $915 million in cash.

Table of Contents

The purchase price has been preliminarily allocated to the net assets acquired upon their estimated fair values as follows:

(Stated in millions)	
Cash	$ 26
Other assets	183
Fixed assets	91
Goodwill	466
Intangible assets	546
Long-term debt	(144)
Deferred tax liabilities	(98)
Other liabilities	(155)
	$ 915

The recorded amounts for certain assets and liabilities, primarily relating to intangible assets, goodwill and deferred tax liabilities, are preliminary and subject to change. Any further adjustments are not expected to be material.

Geoservices long-term debt was repaid at the time of closing. Schlumberger will record the results of Geoservices one month in arrears. Geoservices revenue in 2009 was approximately $500 million.

Intangible assets recorded in connection with this transaction, which primarily relate to customer relationships, will be amortized over a weighted average period of approximately 19 years.

The amount allocated to goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The goodwill is not tax deductible.

Other Acquisitions

During the first six months of 2010, Schlumberger made certain other acquisitions and minority interest investments for $145 million, net of cash acquired, none of which were significant on an individual basis or in the aggregate.

Pro forma results pertaining to the above acquisitions are not presented as the impact was not significant.

6. Inventory

A summary of inventory follows:

		(Stated in millions)
	Jun. 30 2010	**Dec. 31 2009**
Raw materials & field materials	**$ 1,665**	$ 1,646
Work in process	**84**	74
Finished goods	**116**	146
	$ 1,865	$ 1,866

Table of Contents

7. Fixed Assets

A summary of fixed assets follows:

	(Stated in millions) Jun. 30 2010	Dec. 31 2009
Property, plant & equipment	**$ 22,279**	$ 21,505
Less: Accumulated depreciation	**12,622**	11,845
	$ 9,657	$ 9,660

Depreciation expense relating to fixed assets was as follows:

	(Stated in millions) 2010	2009
Second Quarter	**$ 558**	$ 537
Six Months	**$ 1,105**	$ 1,067

8. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the six months ended June 30, 2010 was as follows:

	(Stated in millions)
Balance at December 31, 2009	$ 288
Capitalized in period	172
Charged to cost of revenue	(91)
Balance at June 30, 2010	$ 369

9. Goodwill

The changes in the carrying amount of goodwill by business segment for the six months ended June 30, 2010 were as follows:

	Oilfield Services	Western Geco	*(Stated in millions)* Total
Balance at December 31, 2009	$ 4,290	$ 1,015	$ 5,305
Additions	557	17	574
Impact of change in exchange rates	(25)		(25)
Balance at June 30, 2010	$ 4,822	$ 1,032	$ 5,854

Table of Contents

10. Intangible Assets

Intangible assets principally comprise software, technology and customer relationships. The gross book value and accumulated amortization of intangible assets were as follows:

(Stated in millions)

	Jun. 30, 2010			Dec. 31, 2009		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	**Gross Book Value**	**Accumulated Amortization**	**Net Book Value**
Software	**$ 332**	**$ 261**	**$ 71**	$ 339	$ 262	$ 77
Technology	**704**	**178**	**526**	527	163	364
Customer Relationships	**746**	**93**	**653**	355	80	275
Other	**169**	**59**	**110**	121	51	70
	$ 1,951	**$ 591**	**$ 1,360**	$ 1,342	$ 556	$ 786

Amortization expense charged to income was as follows:

(Stated in millions)

	2010	**2009**
Second Quarter	**$ 35**	$ 28
Six Months	**$ 63**	$ 57

The weighted average amortization period for all intangible assets is approximately 14 years.

Based on the net book value of intangible assets at June 30, 2010, amortization charged to income for the subsequent five years is estimated to be: remainder of 2010 $69 million; 2011 $134 million; 2012 $122 million; 2013 $107 million; 2014 $97 million and 2015 $89 million.

11. Derivative Instruments and Hedging Activities

Schlumberger is exposed to market risks related to fluctuations in foreign currency exchange rates, commodity prices and interest rates. To mitigate these risks, Schlumberger utilizes derivative instruments. Schlumberger does not enter into derivatives for speculative purposes.

Foreign Currency Exchange Rate Risk

As a multinational company, Schlumberger conducts its business in approximately 80 countries. Schlumberger s functional currency is primarily the US dollar, which is consistent with the oil and gas industry. However, outside the United States, a significant portion of Schlumberger s expenses is incurred in foreign currencies. Therefore, when the US dollar weakens (strengthens) in relation to the foreign currencies of the countries in which Schlumberger conducts business, the US dollar reported expenses will increase (decrease).

Schlumberger is exposed to risks on future cash flows to the extent that local currency expenses exceed revenues denominated in local currency that are other than the functional currency. Schlumberger uses foreign currency forward contracts and foreign currency options to provide a hedge against a portion of these cash flow risks. These contracts are accounted for as cash flow hedges, with the effective portion of changes in the fair value of the hedge recorded on the *Consolidated Balance Sheet* and in *Other Comprehensive Income (Loss).* Amounts recorded in *Other Comprehensive Income (Loss)* are reclassified into earnings in the same period or periods that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of the hedged item is recorded directly to earnings.

At June 30, 2010, Schlumberger recognized a cumulative net $41 million loss in *Equity* relating to revaluation of foreign currency forward contracts and foreign currency options designated as cash flow hedges, the majority of which is expected to be reclassified into earnings within the next twelve months.

Table of Contents

Schlumberger is also exposed to changes in the fair value of assets and liabilities, including certain of its long-term debt, which are denominated in currencies other than the functional currency. Schlumberger uses foreign currency forward contracts and foreign currency options to hedge this exposure as it relates to certain currencies. These contracts are accounted for as fair value hedges with the fair value of the contracts recorded on the *Consolidated Balance Sheet* and changes in the fair value recognized in the *Consolidated Statement of Income* along with the change in fair value of the hedged item.

At June 30, 2010, contracts were outstanding for the US dollar equivalent of $3.8 billion in various foreign currencies.

Commodity Price Risk

Schlumberger is exposed to the impact of market fluctuations in the price of commodities, such as copper and lead. Schlumberger has entered into forward contracts on these commodities to manage the price risk associated with forecasted purchases. The objective of these contracts is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. These contracts do not qualify for hedge accounting treatment and therefore, changes in the fair value of the forward contracts are recorded directly to earnings.

Interest Rate Risk

Schlumberger is subject to interest rate risk on its debt and its investment portfolio. Schlumberger maintains an interest rate risk management strategy that uses a mix of variable and fixed rate debt combined with its investment portfolio and interest rate swaps to mitigate the exposure to changes in interest rates.

During the third quarter of 2009, Schlumberger entered into interest rate swaps relating to two of its debt instruments. The first swap was for a notional amount of $600 million in order to hedge a portion of the changes in fair value of Schlumberger s $650 million 6.50% Notes due 2012. Under the terms of this swap agreement, Schlumberger will receive interest at a fixed rate of 6.5% semi-annually and will pay interest semi-annually at a floating rate of one-month LIBOR plus a spread of 4.84%. The second swap was for a notional amount of $450 million in order to hedge changes in the fair value of Schlumberger s $450 million 3.00% Notes due 2013. Under the terms of this swap, Schlumberger will receive interest at a fixed rate of 3.0% annually and will pay interest quarterly at a floating rate of three-month LIBOR plus a spread of 0.765%.

These interest rate swaps are designated as fair value hedges of the underlying debt. These derivative instruments are marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on changes in the fair value of the hedged debt. This results in no net gain or loss being recognized in the *Consolidated Statement of Income*.

At June 30, 2010, Schlumberger had fixed rate debt aggregating approximately $2.4 billion and variable rate debt aggregating approximately $2.1 billion, after taking into account the effects of the interest rate swaps.

Short-term investments and *Fixed income investments*, *held to maturity*, totaled approximately $3.5 billion at June 30, 2010, and are comprised primarily of money market funds, eurodollar time deposits, certificates of deposit, commercial paper, euro notes and Eurobonds, and are substantially all denominated in US dollars. The carrying value of these investments approximates fair value, which was estimated using quoted market prices for those or similar investments.

Table of Contents

The fair values of outstanding derivative instruments is summarized as follows:

(Stated in millions)

	Fair Value of Derivatives Jun. 30 2010	Dec. 31 2009	Classification
Derivative assets			
Derivative designated as hedges:			
Foreign exchange contracts	**$ 2**	$ 14	*Other current assets*
Foreign exchange contracts		216	*Other Assets*
Interest rate swaps	**22**		*Other Assets*
	$ 24	$ 230	
Derivative not designated as hedges:			
Commodity contracts	**$ 1**	$ 1	*Other current assets*
Foreign exchange contracts	**5**	11	*Other current assets*
Foreign exchange contracts	**12**	28	*Other Assets*
	$ 18	$ 40	
	$ 42	$ 270	
Derivative Liabilities			
Derivative designated as hedges:			
Foreign exchange contracts	**$ 33**	$ 15	*Accounts payable and accrued liabilities*
Foreign exchange contracts	**199**	51	*Other Liabilities*
	$ 232	$ 66	
Derivative not designated as hedges:			
Commodity contracts	**$ 1**	$ 3	*Accounts payable and accrued liabilities*
Foreign exchange contracts	**3**		*Accounts payable and accrued liabilities*
Foreign exchange contracts		25	*Other Liabilities*
	$ 4	$ 28	
	$ 236	$ 94	

The fair value of all outstanding derivatives is determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable data.

The effect on the *Consolidated Statement of Income* of derivative instruments designated as fair value hedges and those not designated as hedges was as follows:

(Stated in millions)

	Gain/(Loss) Recognized in Income Second Quarter 2010	2009	Six Months 2010	2009	Classification
Derivatives designated as fair value hedges:					
Foreign exchange contracts	**$**	$ 61	**$ (13)**	$ 39	*Cost of revenue*

Interest rate swaps	**4**		**9**		*Interest expense*
	$ 4	$ 61	**$ (4)**	$ 39	
Derivatives not designated as hedges:					
Foreign exchange contracts	**$ (38)**	$ 1	**$ (45)**	$ (22)	*Cost of revenue*
Commodity contracts	**(1)**	1	**(2)**		*Cost of revenue*
	$ (39)	$ 2	**$ (47)**	$ (22)	

15

Table of Contents

The effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income (OCI) was as follows:

(Stated in millions)

	Gain (Loss) Reclassified from Accumulated OCI into Income				
	Second Quarter		Six Months		
	2010	2009	2010	2009	Classification
Foreign exchange contracts	**$ (200)**	$ 91	**$ (335)**	$ 27	*Cost of revenue*
Foreign exchange contracts	**(5)**	(7)	**(6)**	(14)	*Research & engineering*
	$ (205)	$ 84	**$ (341)**	$ 13	

(Stated in millions)

	Gain (Loss) Recognized in OCI			
	Second Quarter		Six Months	
	2010	2009	2010	2009
Foreign exchange contracts	**$ (264)**	$ 227	**$ (422)**	$ 168

12. Long-term Debt

A summary of *Long-Term Debt* follows:

(Stated in millions)

	Jun. 30, 2010	Dec. 31, 2009
5.25% Guaranteed Notes due 2013	**$ 614**	$ 727
6.50% Notes due 2012	**649**	649
5.875% Guaranteed Bonds due 2011	**311**	362
4.50% Guaranteed Bonds due 2014	**1,227**	1,449
3.00% Guaranteed Notes due 2013	**450**	449
Commercial paper borrowings	**234**	358
Other variable rate debt	**222**	360
	3,707	4,354
Fair value adjustment hedging	**22**	1
	$ 3,729	$ 4,355

The fair value adjustment presented above represents changes in the fair value of the portion of Schlumberger s fixed rate debt that is hedged through the use of interest rate swaps.

The fair value of Schlumberger s *Long-term Debt* at June 30, 2010 and December 31, 2009 was $4.0 billion and $4.6 billion, respectively and was estimated based on quoted market prices.

At December 31, 2009 there were $321 million outstanding of 2.125% Series B Convertible Debentures due June 1, 2023. The fair value of these Series B debentures at December 31, 2009 was $527 million. During the six months ended June 30, 2010, $320 million of these debentures were converted by holders into 7,997,300 shares of Schlumberger common stock and the remaining $1 million of outstanding Series B debentures were redeemed for cash.

Table of Contents

13. Income Tax

Income from Continuing Operations before taxes which was subject to US and non-US income taxes was as follows:

				(Stated in millions)
	Second Quarter		**Six Months**	
	2010	**2009**	**2010**	**2009**
United States	**$ 83**	$ (64)	**$ 144**	$ 40
Outside United States	**911**	831	**1,738**	1,920
	$ 994	$ 767	**$ 1,882**	$ 1,960

During the first quarter of 2010, Schlumberger recorded pretax charges of $35 million outside of the US. During the second quarter of 2009, Schlumberger recorded pretax charges of $73 million in the US and $165 million outside of the US. These charges are included in the table above and are more fully described in Note 3 Charges.

The components of net deferred tax assets were as follows:

		(Stated in millions)
	Jun. 30 2010	**Dec. 31 2009**
Postretirement benefits, net	**$ 392**	$ 447
Multiclient seismic data	**100**	104
Intangible assets	**(246)**	(122)
Other, net	**101**	101
	$ 347	$ 530

The above deferred tax assets at June 30, 2010 and December 31, 2009 are net of valuation allowances relating to net operating losses in certain countries of $220 million and $251 million, respectively. The deferred tax assets are also net of valuation allowances relating to a capital loss carryforward of $16 million at June 30, 2010 ($17 million at December 31, 2009), which expires in 2010 and a foreign tax credit carryforward of $21 million at June 30, 2010 ($30 million at December 31, 2009) which expires in 2012.

The components of consolidated *Taxes on income* were as follows:

				(Stated in millions)
	Second Quarter		**Six Months**	
	2010	**2009**	**2010**	**2009**
Current:				
United States - Federal	**$ 26**	$ (20)	**$ 48**	$ (55)
United States - State	**3**	(1)	**6**	(2)
Outside United States	**150**	169	**306**	380
	$ 179	$ 148	**$ 360**	$ 323
Deferred:				
United States - Federal	**$ (3)**	$ (2)	**$ 39**	$ 71
United States - State			**2**	4
Outside United States	**10**	6		7

Valuation allowance	**(9)**		**(10)**	(1)
	$ (2)	$ 4	**$ 31**	$ 81
Consolidated taxes on income	**$ 177**	$ 152	**$ 391**	$ 404

Table of Contents

A reconciliation of the US statutory federal tax rate of 35% to the consolidated effective income tax rate follows:

	Second Quarter		Six Months	
	2010	**2009**	**2010**	**2009**
US federal statutory rate	**35%**	35%	**35%**	35%
Non-US income taxed at different rates	**(14)**	(16)	**(14)**	(15)
Effect of equity method investment	**(1)**	(1)	**(1)**	
Charges (See Note 3)		2	**2**	2
Other	**(2)**		**(1)**	(1)
Effective income tax rate	**18%**	20%	**21%**	21%

14. Contingencies

In 2007, Schlumberger received an inquiry from the United States Department of Justice (DOJ) related to the DOJ s investigation of whether certain freight forwarding and customs clearance services of Panalpina, Inc., and other companies provided to oil and oilfield service companies, including Schlumberger, violated the Foreign Corrupt Practices Act. Schlumberger is cooperating with the DOJ and is currently continuing its own investigation with respect to these services.

In 2009, Schlumberger learned that United States officials began a grand jury investigation and an associated regulatory inquiry, both related to certain Schlumberger operations in specified countries that are subject to United States trade and economic sanctions. Schlumberger is cooperating with the governmental authorities and is currently unable to predict the outcome of these matters.

Schlumberger and its subsidiaries are party to various other legal proceedings from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. At this time the ultimate disposition of these proceedings is not determinable and therefore, it is not possible to estimate the amount of loss or range of possible losses that might result from an adverse judgment or settlement in any of these matters. However, in the opinion of management, any liability that might ensue would not be material in relation to Schlumberger s consolidated liquidity, financial position or future results of operations.

15. Segment Information

Schlumberger operates two business segments: Oilfield Services and WesternGeco.

(Stated in millions)

	Second Quarter 2010		Second Quarter 2009	
	Revenue	**Income before taxes**	**Revenue**	**Income before taxes**
Oilfield Services				
North America	**$ 1,115**	**$ 116**	$ 819	$ 8
Latin America	**1,144**	**205**	995	176
Europe/CIS/Africa	**1,740**	**319**	1,782	432
Middle East & Asia	**1,371**	**427**	1,312	421
Other	**66**	**7**	48	(15)
	5,436	**1,074**	4,956	1,022
WesternGeco	**476**	**47**	559	97
Corporate & Other	**25**	**(90)**	13	(77)
Interest Income (1)		**11**		13
Interest Expense (2)		**(48)**		(50)
Charges				(238)

	$ 5,937	**$ 994**	$ 5,528	$ 767

Table of Contents

1. Excludes interest income included in the segment results ($4 million in 2010; $4 million in 2009).
2. Excludes interest expense included in the segment results ($5 million in 2010; $11 million in 2009).

(Stated in millions)

	Six Months 2010		Six Months 2009	
	Revenue	Income before taxes	Revenue	Income before taxes
Oilfield Services				
North America	**$ 2,148**	**$ 198**	$ 2,011	$ 171
Latin America	**2,200**	**390**	2,024	378
Europe/CIS/Africa	**3,365**	**613**	3,585	899
Middle East & Asia	**2,693**	**837**	2,687	876
Other	**127**	**4**	88	(46)
	10,533	**2,042**	10,395	2,278
WesternGeco	**948**	**114**	1,110	151
Corporate & Other	**53**	**(171)**	23	(166)
Interest Income [(1)]		**24**		27
Interest Expense [(2)]		**(92)**		(92)
Charges		**(35)**		(238)
	$ 11,534	**$ 1,882**	$ 11,528	$ 1,960

1. Excludes interest income included in the segment results ($7 million in 2010; $9 million in 2009).
2. Excludes interest expense included in the segment results ($6 million in 2010; $24 million in 2009).

16. <u>Pension and Other Postretirement Benefits</u>

Net pension cost for the Schlumberger pension plans included the following components:

(Stated in millions)

	Second Quarter				Six Months			
	2010		2009		2010		2009	
	US	Int l	US	Int l	US	Int l	US	Int l
Service cost benefits earned during period	**$ 13**	**$ 10**	$ 14	$ 15	**$ 28**	**$ 24**	$ 30	$ 29
Interest cost on projected benefit obligation	**35**	**51**	38	45	**71**	**103**	77	90
Expected return on plan assets	**(47)**	**(57)**	(45)	(40)	**(95)**	**(115)**	(88)	(80)
Amortization of net loss	**15**	**5**	9		**31**	**10**	18	
Amortization of prior service cost	**1**	**29**	1	31	**2**	**57**	3	62