

SCHLUMBERGER LTD /NV/  
Form 10-Q  
July 25, 2007

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

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For the quarterly period ended:  
June 30, 2007

Commission file No.:  
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.)

**5599 SAN FELIPE, 17<sup>th</sup> FLOOR**  
**HOUSTON, TEXAS, U.S.A.**

**77056**

**42 RUE SAINT-DOMINIQUE**  
**PARIS, FRANCE**

**75007**

**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  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

YES

NO

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, 2007 |
|--|------------------------------|
| COMMON STOCK, \$0.01 PAR VALUE PER SHARE | 1,192,062,611                |

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**SCHLUMBERGER LIMITED**

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## PART I. FINANCIAL INFORMATION

## Item 1: Financial Statements

## SCHLUMBERGER LIMITED

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

## CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

|   | Second Quarter                                 |              | Six Months    |              |
|---|--|--------------|---------------|--------------|
|   | 2007   | 2006         | 2007          | 2006         |
|   | (Stated in thousands except per share amounts) |              |               |              |
| Revenue                                   | \$ 5,638,762                                   | \$ 4,686,775 | \$ 11,103,167 | \$ 8,925,792 |
| Interest & other income                   | 97,484   | 63,590       | 181,107       | 129,082      |
| Expenses                                  |  |              |               |              |
| Cost of goods sold & services             | 3,736,871                                      | 3,251,926    | 7,359,215     | 6,243,817    |
| Research & engineering                    | 174,679  | 170,890      | 341,777       | 300,296      |
| Marketing                                 | 19,998   | 16,694       | 36,681        | 31,842       |
| General & administrative                  | 119,066  | 108,294      | 238,316       | 206,439      |
| Interest                                  | 66,270   | 61,421       | 134,417       | 109,265      |
| Income before taxes and minority interest | 1,619,362                                      | 1,141,140    | 3,173,868     | 2,163,215    |
| Taxes on income                           | 360,883  | 278,419      | 734,562       | 535,070      |
| Income before minority interest           | 1,258,479                                      | 862,721      | 2,439,306     | 1,628,145    |
| Minority interest                         |  | (5,821)      |               | (48,734)     |
| Net Income                                | \$ 1,258,479                                   | \$ 856,900   | \$ 2,439,306  | \$ 1,579,411 |
| Basic earnings per share:                 | \$ 1.06  | \$ 0.72      | \$ 2.06       | \$ 1.34      |
| Diluted earnings per share:               | \$ 1.02  | \$ 0.69      | \$ 1.98       | \$ 1.28      |
| Average shares outstanding:               |  |              |               |              |
| Basic                                     | 1,184,243                                      | 1,184,357    | 1,181,348     | 1,182,351    |
| Assuming dilution                         | 1,240,911                                      | 1,246,077    | 1,237,814     | 1,243,386    |

See Notes to Consolidated Financial Statements

## SCHLUMBERGER LIMITED

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

## CONSOLIDATED BALANCE SHEET

|  | June 30, 2007<br>(Unaudited) | Dec. 31, 2006        |
|--|------------------------------|----------------------|
|  | (Stated in thousands)        |                      |
| <b>ASSETS</b>  |                              |                      |
| CURRENT ASSETS:  |                              |                      |
| Cash   | \$ 146,555                   | \$ 165,817           |
| Short-term investments   | 2,738,032                    | 2,833,056            |
| Receivables less allowance for doubtful accounts<br>(2007 \$108,460; 2006 \$114,654) | 4,896,449                    | 4,242,000            |
| Inventories  | 1,519,751                    | 1,246,887            |
| Deferred taxes   | 172,237                      | 162,884              |
| Other current assets   | 574,808                      | 535,018              |
|  | <b>10,047,832</b>            | <b>9,185,662</b>     |
| FIXED INCOME INVESTMENTS, HELD TO MATURITY   | 322,677                      | 153,000              |
| INVESTMENTS IN AFFILIATED COMPANIES  | 1,287,468                    | 1,208,323            |
| FIXED ASSETS   | <b>6,282,265</b>             | <b>5,576,041</b>     |
| MULTICLIENT SEISMIC DATA   | 221,108                      | 226,681              |
| GOODWILL   | 5,053,838                    | 4,988,558            |
| INTANGIBLE ASSETS  | 911,958                      | 907,874              |
| DEFERRED TAXES   | 404,461                      | 412,802              |
| OTHER ASSETS   | 241,155                      | 173,197              |
|  | <b>\$ 24,772,762</b>         | <b>\$ 22,832,138</b> |
| <b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>   |                              |                      |
| CURRENT LIABILITIES:   |                              |                      |
| Accounts payable and accrued liabilities   | \$ 3,873,109                 | \$ 3,848,017         |
| Estimated liability for taxes on income  | 912,824                      | 1,136,529            |
| Dividend payable   | 209,907                      | 148,720              |
| Long-term debt - current portion   | 133,857                      | 602,919              |
| Convertible debentures   | 578,570                      |                      |
| Bank & short-term loans  | 662,553                      | 718,610              |
|  | <b>6,370,820</b>             | <b>6,454,795</b>     |
| CONVERTIBLE DEBENTURES   | 450,000                      | 1,424,990            |
| OTHER LONG-TERM DEBT   | 3,466,373                    | 3,238,952            |
| POSTRETIREMENT BENEFITS  | 1,045,942                    | 1,036,169            |
| OTHER LIABILITIES  | 600,973                      | 257,349              |
|  | <b>11,934,108</b>            | <b>12,412,255</b>    |
| STOCKHOLDERS EQUITY:   |                              |                      |
| Common stock   | 3,863,029                    | 3,381,946            |
| Income retained for use in the business  | 13,143,026                   | 11,118,479           |
| Treasury stock at cost   | (2,985,608)                  | (2,911,793)          |
| Accumulated other comprehensive loss   | (1,181,793)                  | (1,168,749)          |

|                   |            |
|-------------------|------------|
| <b>12,838,654</b> | 10,419,883 |
|-------------------|------------|

|                      |               |
|----------------------|---------------|
| <b>\$ 24,772,762</b> | \$ 22,832,138 |
|----------------------|---------------|

See Notes to Consolidated Financial Statements

## SCHLUMBERGER LIMITED

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

|   | Six Months Ended      |                    |
|---|-----------------------|--------------------|
|   | 2007                  | 2006               |
|   | June 30,              |                    |
|   | (Stated in thousands) |                    |
| Cash flows from operating activities:   |                       |                    |
| Net Income  | \$ 2,439,306          | \$ 1,579,411       |
| Adjustments to reconcile net income to cash provided by operating activities: |                       |                    |
| Depreciation and amortization <sup>(1)</sup>                                  | 901,909               | 729,645            |
| Charges and credits, net of tax & minority interest <sup>(2)</sup>            | 42,822                | 42,822             |
| Earnings of companies carried at equity, less dividends received              | (76,588)              | (73,903)           |
| Deferred income taxes   | (23,910)              | 36,106             |
| Stock-based compensation expense  | 70,283                | 53,519             |
| Provision for losses on accounts receivable                                   | 8,393                 | 6,233              |
| Change in operating assets and liabilities <sup>(3)</sup>                     |                       |                    |
| Increase in receivables   | (626,999)             | (557,844)          |
| Increase in inventories   | (260,263)             | (138,005)          |
| Increase in other current assets  | (34,377)              | (47,881)           |
| Decrease in accounts payable and accrued liabilities                          | (19,234)              | (58,800)           |
| Increase in estimated liability for taxes on income                           | 90,641                | 135,877            |
| Increase in postretirement benefits   | 30,149                | 18,535             |
| Other net   | (12,769)              | 73,827             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                              | <b>2,486,541</b>      | <b>1,799,542</b>   |
| Cash flows from investing activities:   |                       |                    |
| Purchase of fixed assets  | (1,294,521)           | (1,017,639)        |
| Multiclient seismic data capitalized  | (122,222)             | (70,094)           |
| Capitalization of intangible assets   | (9,045)               | (9,045)            |
| Acquisition of minority interest in WesternGeco                               | (2,405,817)           | (2,405,817)        |
| Other business acquisitions and related payments                              | (143,010)             | (320,288)          |
| Sale (purchases) of investments, net  | (72,372)              | 1,667,039          |
| Other   | (124,400)             | (89,339)           |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>                                  | <b>(1,756,525)</b>    | <b>(2,245,183)</b> |
| Cash flows from financing activities:   |                       |                    |
| Dividends paid  | (353,573)             | (271,364)          |
| Distribution to joint venture partner   | (59,647)              | (59,647)           |
| Proceeds from employee stock purchase plan                                    | 70,008                | 54,565             |
| Proceeds from exercise of stock options                                       | 334,348               | 250,742            |
| Stock repurchase program  | (504,677)             | (466,963)          |
| Proceeds from issuance of long-term debt                                      | 198,136               | 750,300            |
| Repayment of long-term debt   | (469,061)             | (105,793)          |
| Net (decrease) increase in short-term debt                                    | (76,970)              | 270,714            |
| Other   | 52,160                | 52,160             |

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|   |                       |                |
|---|-----------------------|----------------|
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | <b>(749,629)</b>      | 422,554        |
| Net decrease in cash before translation effect      | <b>(19,613)</b>       | (23,087)       |
| Translation effect on cash                          | <b>351</b>            | 5,145          |
| Cash, beginning of period                           | <b>165,817</b>        | 190,954        |
| <br>CASH, END OF PERIOD                             | <br><b>\$ 146,555</b> | <br>\$ 173,012 |

- 
- (1) Includes multiclient seismic data costs.
  - (2) See Note 3 *Charges and Credits*.
  - (3) Net of the effect of business acquisitions.

See Notes to Consolidated Financial Statements



**SCHLUMBERGER LIMITED**

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Unaudited)

|  | Common Stock |                | Accumulated Other Comprehensive Income (Loss) |   |                             |                           | Comprehensive<br>Income (Loss) |
|--|--------------|----------------|---|---|-----------------------------|---------------------------|--------------------------------|
|  |              |                | Retained<br>Income                            | Marked<br>to<br>Market<br>(Stated in thousands) | Postretirement<br>Liability | Translation<br>Adjustment |                                |
|  | Issued       | In Treasury    |   |   |                             |                           |                                |
| Balance, January 1, 2007   | \$ 3,381,946 | \$ (2,911,793) | \$ 11,118,479                                 | \$ 20,712                                       | \$ (401,648)                | \$ (787,813)              | \$ 3,877,035                   |
| Net income   |              |                | 2,439,306                                     |   |                             |                           | 2,439,306                      |
| Derivatives marked to market, net<br>of tax                      |              |                |   | (4,063)   |                             |                           | (4,063)                        |
| Translation adjustment   |              |                |   |   |                             | (14,660)                  | (14,660)                       |
| Amortization of prior service cost,<br>net of tax                |              |                |   |   | (6,485)                     |                           | (6,485)                        |
| Amortization of actuarial net loss,<br>net of tax                |              |                |   |   | 16,254                      |                           | 16,254                         |
| Other  | (1,398)      |                |   |   | (4,090)                     |                           | (4,090)                        |
| Dividends declared   |              |                | (414,759)                                     |   |                             |                           |                                |
| Stock repurchase plan  |              | (504,677)      |   |   |                             |                           |                                |
| Proceeds from employee stock<br>purchase plan                    | 39,943       | 18,765         |   |   |                             |                           |                                |
| Proceeds from shares sold to<br>optionees, less shares exchanged | 146,475      | 187,873        |   |   |                             |                           |                                |
| Shares granted to directors                                      | 1,021        | 403            |   |   |                             |                           |                                |
| Stock-based compensation cost                                    | 70,283       |                |   |   |                             |                           |                                |
| Shares issued on conversion of<br>debentures                     | 172,599      | 223,821        |   |   |                             |                           |                                |
| Tax benefits on stock options                                    | 52,160       |                |   |   |                             |                           |                                |
| Balance, June 30, 2007   | \$ 3,863,029 | \$ (2,985,608) | \$ 13,143,026                                 | \$ 16,649                                       | \$ (395,969)                | \$ (802,473)              | \$ 2,426,262                   |

See Notes to Consolidated Financial Statements

**SCHLUMBERGER LIMITED**

**(Schlumberger N.V., Incorporated in the Netherlands Antilles)**

**and Subsidiary Companies**

**SHARES OF COMMON STOCK**

**(Unaudited)**

|   | <b>Issued</b> | <b>In Treasury</b> | <b>Shares<br/>Outstanding</b> |
|---|---------------|--------------------|-------------------------------|
| Balance, January 1, 2007                        | 1,334,212,164 | (156,318,705)      | 1,177,893,459                 |
| Employee stock purchase plan                    |               | 1,007,211          | 1,007,211                     |
| Stock repurchase plan                           |               | (7,380,700)        | (7,380,700)                   |
| Shares sold to optionees, less shares exchanged |               | 9,561,242          | 9,561,242                     |
| Shares granted to directors                     |               | 20,000             | 20,000                        |
| Shares issued on conversion of debentures       |               | 10,961,399         | 10,961,399                    |
| Balance, June 30, 2007                          | 1,334,212,164 | (142,149,553)      | 1,192,062,611                 |

See Notes to Consolidated Financial Statements

**SCHLUMBERGER LIMITED**

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

**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, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. The December 31, 2006 balance sheet information has been derived from the audited 2006 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 fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on February 16, 2007.

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

**2. Earnings Per Share**

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

| Second Quarter                      | Net Income   | 2007                             | Earnings<br>per Share | Net Income | 2006                             | Earnings<br>per Share |
|-------------------------------------|--------------|----------------------------------|-----------------------|------------|----------------------------------|-----------------------|
|                                     |              | Average<br>Shares<br>Outstanding |                       |            | Average<br>Shares<br>Outstanding |                       |
| Basic                               | \$ 1,258,479 | 1,184,243                        | \$ 1.06               | \$ 856,900 | 1,184,357                        | \$ 0.72               |
| Assumed conversion of<br>debentures | 6,568        | 34,440                           |                       | 7,197      | 38,210                           |                       |
| Assumed exercise of stock options   |              | 21,361                           |                       |            | 23,035                           |                       |
| Unvested restricted stock           |              | 867                              |                       |            | 475                              |                       |
| Diluted                             | \$ 1,265,047 | 1,240,911                        | \$ 1.02               | \$ 864,097 | 1,246,077                        | \$ 0.69               |

| Six Months                       | Net Income   | Average               | Earnings<br>per Share | Net Income   | Average               | Earnings<br>per Share |
|----------------------------------|--------------|-----------------------|-----------------------|--------------|-----------------------|-----------------------|
|                                  |              | Shares<br>Outstanding |                       |              | Shares<br>Outstanding |                       |
| Basic                            | \$ 2,439,306 | 1,181,348             | \$ 2.06               | \$ 1,579,411 | 1,182,351             | \$ 1.34               |
| Assumed conversion of debentures | 13,765       | 35,437                |                       | 14,394       | 38,210                |                       |

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|                                   |                     |                  |                |                     |                  |                |  |
|-----------------------------------|---------------------|------------------|----------------|---------------------|------------------|----------------|--|
| Assumed exercise of stock options | <b>20,164</b>       |                  |                |                     | 22,587           |                |  |
| Unvested restricted stock         | <b>865</b>          |                  |                |                     | 238              |                |  |
| <b>Diluted</b>                    | <b>\$ 2,453,071</b> | <b>1,237,814</b> | <b>\$ 1.98</b> | <b>\$ 1,593,805</b> | <b>1,243,386</b> | <b>\$ 1.28</b> |  |

**SCHLUMBERGER LIMITED**

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

During the second quarter of 2007, \$396 million of the \$975 million 1.5% Series A Convertible Debentures due June 1, 2023 were converted by holders into approximately 11 million shares of Schlumberger common stock.

The number of outstanding options to purchase shares of 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:

|                | 2007                 | 2006 |
|----------------|----------------------|------|
|                | (Stated in millions) |      |
| Second quarter |                      | 0.6  |
| Six months     | 0.1                  | 0.6  |

### 3. Charges and Credits

#### 2006

Second quarter of 2006:

Schlumberger acquired the 30% minority interest in WesternGeco held by Baker Hughes Incorporated for \$2.4 billion in cash during the second quarter of 2006. In connection with this transaction, a pretax and after-tax charge of \$21 million was recorded, representing the portion of the purchase price that was allocated to in-process research and development. Schlumberger recorded an additional \$6 million of in-process research and development charges, primarily related to a small acquisition which was also completed in the second quarter of 2006. These amounts were determined by identifying research and development projects that had not yet reached technological feasibility at the time of the acquisition. These charges are classified in *Research & engineering* in the *Consolidated Statement of Income*.

Schlumberger recorded a pretax and after-tax loss of \$9 million relating to the liquidation of certain investments in connection with the funding of the previously mentioned WesternGeco transaction. These losses are classified in *Interest & other income* in the *Consolidated Statement of Income*.

In connection with the settlement of the WesternGeco visa matter described in Note 13, a pretax charge of \$10 million (\$7 million after-tax and minority interest) was recorded and is classified in *Cost of goods sold & services* in the *Consolidated Statement of Income*.

The following is a summary of 2006 Charges and Credits:

| Pretax | Minority<br>Interest | Net |
|--------|----------------------|-----|
|--------|----------------------|-----|

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(Stated in millions)

|  |       |        |       |
|--|-------|--------|-------|
| Charges and Credits                        |       |        |       |
| WesternGeco in-process R&D charges         | \$ 21 | \$     | \$ 21 |
| Loss on liquidation of investments to fund |       |        |       |
| WesternGeco transaction                    | 9     |        | 9     |
| WesternGeco visa settlement                | 10    | (3)    | 7     |
| Other in-process R&D charges               | 6     |        | 6     |
| Net Charges                                | \$ 46 | \$ (3) | \$ 43 |

**SCHLUMBERGER LIMITED****(Schlumberger N.V., Incorporated in the Netherlands Antilles)****and Subsidiary Companies****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Schlumberger did not record any Charges and Credits during the first six months of 2007.

**4. Acquisitions**

During 2007, Schlumberger made certain acquisitions and minority interest investments, none of which were significant on an individual basis, for an aggregate amount of \$143 million.

**5. Investments in Affiliated Companies**

The MI-SWACO drilling fluids joint venture is owned 40% by Schlumberger and 60% by Smith International, Inc. Schlumberger records income from this joint venture using the equity method of accounting. The Schlumberger investment in the joint venture at June 30, 2007 was \$1.054 billion and at December 31, 2006 was \$970 million. Schlumberger's equity income from this joint venture, which is recorded one month in arrears, was as follows:

|                | 2007                 | 2006  |
|----------------|----------------------|-------|
|                | (Stated in millions) |       |
| Second Quarter | \$ 42                | \$ 29 |
| Six Months     | \$ 80                | \$ 57 |

Schlumberger received cash distributions from the joint venture of \$28 million in the first six months of 2007.

The Schlumberger joint venture agreement with Smith International, Inc. contains a provision under which either party to the joint venture may offer to sell their entire interest in the venture to the other party at a cash purchase price per percentage interest specified in an offer notice. If the offer to sell is not accepted, the offering party will be obligated to purchase the entire interest of the other party at the same price per percentage interest as the price specified in the offer notice.

**6. Inventory**

A summary of inventory follows:

|                                 | Jun. 30<br>2007      | Dec. 31<br>2006 |
|---------------------------------|----------------------|-----------------|
|                                 | (Stated in millions) |                 |
| Raw materials & field materials | \$ 1,421             | \$ 1,186        |
| Work in process                 | 128                  | 127             |
| Finished goods                  | 127                  | 91              |
|                                 | <b>1,676</b>         | <b>1,404</b>    |

|                                |                 |          |
|--------------------------------|-----------------|----------|
| Less reserves for obsolescence | <b>156</b>      | 157      |
|                                | <b>\$ 1,520</b> | \$ 1,247 |



**SCHLUMBERGER LIMITED**

(Schlumberger N.V., Incorporated in the Netherlands Antilles)

and Subsidiary Companies

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**7. Fixed Assets**

A summary of fixed assets follows:

|                                | Jun. 30<br>2007      | Dec. 31<br>2006 |
|--------------------------------|----------------------|-----------------|
|                                | (Stated in millions) |                 |
| Property plant & equipment     | \$ 15,116            | \$ 13,912       |
| Less: Accumulated depreciation | 8,834                | 8,336           |
|                                | \$ 6,282             | \$ 5,576        |

Depreciation and amortization expense relating to fixed assets were as follows:

|                | 2007                 | 2006   |
|----------------|----------------------|--------|
|                | (Stated in millions) |        |
| Second Quarter | \$ 365               | \$ 306 |
| Six Months     | \$ 713               | \$ 591 |

**8. Multiclient Seismic Data**

The change in the carrying amount of multiclient seismic data is as follows:

|  | (Stated in millions) |       |
|--|----------------------|-------|
| Balance at December 31, 2006             | \$                   | 227   |
| Capitalized in period                    |                      | 122   |
| Charged to cost of goods sold & services |                      | (128) |
| Balance at June 30, 2007                 | \$                   | 221   |

**9. Goodwill**

The changes in the carrying amount of goodwill by business segment for the six months ended June 30, 2007 are as follows:

| Oilfield<br>Services | Western<br>Geco | Total |
|----------------------|-----------------|-------|
|----------------------|-----------------|-------|

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|                              | (Stated in millions) |        |          |
|------------------------------|----------------------|--------|----------|
| Balance at December 31, 2006 | \$ 4,049             | \$ 940 | \$ 4,989 |
| Additions                    | 63                   |        | 63       |
| Other                        | 4                    | (2)    | 2        |
| Balance at June 30, 2007     | \$ 4,116             | \$ 938 | \$ 5,054 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**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:

|                        | Jun. 30, 2007          |                             |  | Dec. 31, 2006          |                             |                      |
|------------------------|------------------------|-----------------------------|--|------------------------|-----------------------------|----------------------|
|                        | Gross<br>Book<br>Value | Accumulated<br>Amortization | Net<br>Book<br>Value<br>(Stated in millions) | Gross<br>Book<br>Value | Accumulated<br>Amortization | Net<br>Book<br>Value |
| Software               | \$ 381                 | \$ 216                      | \$ 165                                       | \$ 427                 | \$ 241                      | \$ 186               |
| Technology             | 416                    | 76                          | 340  | 496                    | 138                         | 358                  |
| Customer Relationships | 296                    | 24                          | 272  | 251                    | 12                          | 239                  |
| Other                  | 158                    | 23                          | 135  | 161                    | 36                          | 125                  |
|                        | <b>\$ 1,251</b>        | <b>\$ 339</b>               | <b>\$ 912</b>                                | <b>\$ 1,335</b>        | <b>\$ 427</b>               | <b>\$ 908</b>        |

Amortization expense charged to income was as follows:

|                | 2007                 | 2006         |
|----------------|----------------------|--------------|
|                | (Stated in millions) |              |
| Second Quarter | <b>\$ 32</b>         | <b>\$ 27</b> |
| Six Months     | <b>\$ 62</b>         | <b>\$ 48</b> |

The weighted average amortization period for all intangible assets is approximately 12 years.

Based on the net book value of intangible assets at June 30, 2007, amortization charged to income for the subsequent five years is estimated to be: remainder of 2007 \$62 million; 2008 \$114 million; 2009 \$91 million; 2010 \$81 million; 2011 \$76 million and 2012 \$74 million.

**11. Stock-Based Compensation**

Schlumberger has three types of stock-based compensation programs: stock options, restricted stock and a discounted stock purchase plan ( DSPP ).

The following summarizes stock-based compensation expense recognized in income:

|               | Second Quarter       |              | Six Months   |              |
|---------------|----------------------|--------------|--------------|--------------|
|               | 2007                 | 2006         | 2007         | 2006         |
|               | (Stated in millions) |              |              |              |
| Stock options | <b>\$ 23</b>         | <b>\$ 22</b> | <b>\$ 50</b> | <b>\$ 44</b> |

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|                  |              |       |              |       |
|------------------|--------------|-------|--------------|-------|
| Restricted stock | <b>5</b>     | 3     | <b>9</b>     | 7     |
| DSPP             | <b>6</b>     | 3     | <b>11</b>    | 3     |
|                  | <b>\$ 34</b> | \$ 28 | <b>\$ 70</b> | \$ 54 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**12. Income Tax**

Pretax book income subject to US and non-US income taxes was as follows:

|                       | Second Quarter       |          | Six Months      |          |
|-----------------------|----------------------|----------|-----------------|----------|
|                       | 2007                 | 2006     | 2007            | 2006     |
|                       | (Stated in millions) |          |                 |          |
| United States         | \$ 474               | \$ 360   | \$ 959          | \$ 681   |
| Outside United States | 1,145                | 781      | 2,215           | 1,482    |
| Pretax income         | <b>\$ 1,619</b>      | \$ 1,141 | <b>\$ 3,174</b> | \$ 2,163 |

The components of net deferred tax assets were as follows:

|   | Jun. 30<br>2007      | Dec. 31<br>2006 |
|---|----------------------|-----------------|
|   | (Stated in millions) |                 |
| Postretirement and other long-term benefits | \$ 406               | \$ 394          |
| Current employee benefits                   | 30                   | 31              |
| Fixed assets, inventory and other           | 139                  | 148             |
| Net operating losses                        | 2                    | 3               |
|   | <b>\$ 577</b>        | <b>\$ 576</b>   |

The deferred tax assets relating to net operating losses at June 30, 2007 and December 31, 2006 are net of valuation allowances in certain countries of \$209 million and \$218 million, respectively. The deferred tax assets presented above are also net of valuation allowances relating to a capital loss carryforward of \$151 million which expires in 2009 and 2010, and a foreign tax credit carryforward of \$55 million which expires in 2009 through 2012.

The components of consolidated income tax expense were as follows:

|                       | Second Quarter       |               | Six Months    |               |
|-----------------------|----------------------|---------------|---------------|---------------|
|                       | 2007                 | 2006          | 2007          | 2006          |
|                       | (Stated in millions) |               |               |               |
| Current:              |                      |               |               |               |
| United States Federal | \$ 138               | \$ 132        | \$ 328        | \$ 179        |
| United States State   | 11                   | 13            | 27            | 17            |
| Outside United States | 206                  | 159           | 404           | 303           |
|                       | <b>\$ 355</b>        | <b>\$ 304</b> | <b>\$ 759</b> | <b>\$ 499</b> |

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Deferred:

|                              |        |         |         |        |
|------------------------------|--------|---------|---------|--------|
| United States Federal        | \$ 11  | \$ (22) | \$ (25) | \$ 31  |
| United States State          |        | 9       | 7       | 13     |
| Outside United States        | 5      | (11)    | 4       | (3)    |
| Valuation allowance          | (10)   | (2)     | (10)    | (5)    |
|                              | \$ 6   | \$ (26) | \$ (24) | \$ 36  |
| Consolidated taxes on income | \$ 361 | \$ 278  | \$ 735  | \$ 535 |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

|  | Second Quarter |      | Six Months |      |
|--|----------------|------|------------|------|
|  | 2007           | 2006 | 2007       | 2006 |
| US federal statutory rate                        | 35%            | 35%  | 35%        | 35%  |
| US state income taxes                            | 1              | 2    | 1          | 1    |
| Non US income taxed at different rates           | (11)           | (12) | (10)       | (10) |
| Effect of equity method investment               | (1)            | (1)  | (1)        | (1)  |
| Domestic production and other deductions/credits | (2)            | (1)  | (2)        | (1)  |
| Charges and credits                              |                | 1    |            | 1    |
| Effective income tax rate                        | 22%            | 24%  | 23%        | 25%  |

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertain tax positions. This interpretation requires companies to recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Schlumberger adopted the provisions of FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have any impact on the total liabilities or stockholders' equity of Schlumberger.

Included in the Schlumberger *Consolidated Balance Sheet* at January 1, 2007 is approximately \$764 million of liabilities associated with uncertain tax positions in the over 100 jurisdictions in which Schlumberger conducts business. This amount includes \$94 million of accrued interest and penalties. Approximately \$739 million of unrecognized tax benefits, if recognized, would impact the Schlumberger effective tax rate.

Schlumberger classifies interest and penalties relating to uncertain tax positions within *Taxes on income* in the *Consolidated Statement of Income*.

The following table summarizes the tax years that are either currently under audit or remain open and subject to examination by the tax authorities in the most significant jurisdictions in which Schlumberger operates:

|                |             |
|----------------|-------------|
| Canada         | 2002 - 2006 |
| Mexico         | 2001 - 2006 |
| Russia         | 2003 - 2006 |
| Saudi Arabia   | 2001 - 2006 |
| United Kingdom | 2004 - 2006 |
| United States  | 2003 - 2006 |

In certain of the jurisdictions noted above, Schlumberger operates through more than one legal entity, each of which has different open years subject to examination. The table above presents the open years subject to examination for the most material of the legal entities in each jurisdiction. Additionally, it is important to note that years are technically not closed until the statute of limitations in each jurisdiction expires. In the jurisdictions noted above, the statute of limitations can extend beyond the open years subject to examination.





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

Due to the breadth of the operations of Schlumberger, numerous tax audits may be ongoing throughout the world at any point in time. Tax liabilities are recorded based on estimates of additional taxes which will be due upon the conclusion of these audits. Estimates of these tax liabilities are made based upon prior experience and are updated in light of changes in facts and circumstances. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in liabilities which could be materially different from these estimates.

**13. Contingencies**

The *Consolidated Balance Sheet* includes accruals for estimated future expenditures, relating to contractual obligations associated with business divestitures that have been completed. It is possible that the ultimate expenditures may differ from the amounts recorded. In the opinion of management, such differences are not expected to be material relative to consolidated liquidity, financial position or future results of operations.

The *Consolidated Balance Sheet* includes accruals for estimated future costs associated with certain environmental remediation activities related to the past use or disposal of hazardous materials where it is probable that Schlumberger has incurred a liability and such amount can be reasonably estimated. Substantially all such costs relate to divested operations and to facilities or locations that are no longer in operation. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, natural resource or property damage claims and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, any such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations.

In December 2004, WesternGeco L.L.C. and Schlumberger Technology Corporation received federal grand jury subpoenas issued by the United States District Court for the Southern District of Texas. The subpoenas sought documents relating to possible fraud in obtaining visas for foreign crewmembers working on vessels operating on the Outer Continental Shelf of the Gulf of Mexico. On June 16, 2006, WesternGeco L.L.C. entered into an agreement with the United States Attorney's Office for the Southern District of Texas resolving the issues raised in the federal investigation. Under the terms of the agreement, WesternGeco L.L.C. accepted responsibility for U.S. visa violations and agreed to pay a monetary penalty of \$18 million and reimburse the United States Government for \$1.6 million in investigation expenses. Additionally, WesternGeco L.L.C. entered into a twelve-month Deferred Prosecution Agreement (DPA), during which time its Gulf of Mexico activities were subject to monitoring by the United States Government. At the conclusion of this twelve-month period on June 16, 2007, WesternGeco L.L.C. was determined to have complied with the terms of the DPA. As a result, the DPA expired and no prosecution arising from the investigation will be brought. Moreover, WesternGeco has developed and implemented a comprehensive visa and immigration compliance program to prevent a recurrence of improper visa practices.

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 presently 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 Schlumberger, any liability that might ensue would not be material in relation to the consolidated liquidity, financial position or future results of operations.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**14. Segment Information**

Schlumberger operates two business segments: Oilfield Services and WesternGeco.

|                                    | SECOND QUARTER 2007 |                             |                      |                | SECOND QUARTER 2006 <sup>(1)</sup> |          |                             |                      |                |                              |
|------------------------------------|---------------------|-----------------------------|----------------------|----------------|------------------------------------|----------|-----------------------------|----------------------|----------------|------------------------------|
|                                    | Revenue             | Income<br>after tax<br>& MI | Minority<br>Interest | Tax<br>Expense | Income<br>before tax<br>& MI       | Revenue  | Income<br>after tax<br>& MI | Minority<br>Interest | Tax<br>Expense | Income<br>before tax<br>& MI |
| <b>Oilfield Services</b>           |                     |                             |                      |                |                                    |          |                             |                      |                |                              |
| North America                      | \$ 1,339            | \$ 289                      | \$                   | \$ 128         | \$ 417                             | \$ 1,266 | \$ 240                      | \$                   | \$ 136         | \$ 376                       |
| Latin America                      | 761                 | 148                         |                      | 31             | 179                                | 666      | 103                         |                      | 25             | 128                          |
| Europe/CIS/W. Africa               | 1,610               | 372                         |                      | 90             | 462                                | 1,240    | 264                         | 1                    | 52             | 317                          |
| Middle East & Asia                 | 1,212               | 381                         |                      | 47             | 428                                | 915      | 264                         |                      | 34             | 298                          |
| Elims/Other                        | 52                  | 9                           |                      | 18             | 27                                 | 39       | 11                          |                      | 4              | 15                           |
|                                    | 4,974               | 1,199                       |                      | 314            | 1,513                              | 4,126    | 882                         | 1                    | 251            | 1,134                        |
| <b>WesternGeco</b>                 |                     |                             |                      |                |                                    |          |                             |                      |                |                              |
|                                    | 665                 | 159                         |                      | 57             | 216                                | 563      | 111                         | 8                    | 50             | 169                          |
| Elims & Other                      | -                   | (68)                        |                      | (10)           | (78)                               | (2)      | (58)                        | (3)                  | (23)           | (84)                         |
|                                    | \$ 5,639            | \$ 1,290                    | \$                   | \$ 361         |                                    | \$ 4,687 | \$ 935                      | \$ 6                 | \$ 278         |                              |
| Interest Income                    |                     |                             |                      |                | 34                                 |          |                             |                      |                | 28                           |
| Interest Expense <sup>(2)</sup>    |                     |                             |                      |                | (66)                               |          |                             |                      |                | (60)                         |
| Charges and Credits <sup>(3)</sup> |                     |                             |                      |                |                                    |          |                             |                      |                | (46)                         |
|                                    |                     |                             |                      |                | \$ 1,619                           |          |                             |                      |                | \$ 1,141                     |

(1) Effective January 1, 2007, a GeoMarket\* that had been included in the Middle East & Asia Area was reassigned to the Europe/CIS/W.Africa Area. Certain activities have also been reallocated between Oilfield Services and WesternGeco. Prior period data has been reclassified to conform to the current organizational structure.

(2) Excludes interest expense included in the segment results (\$1 million in 2007; \$2 million in 2006).

(3) See Note 3 *Charges and Credits*.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

|                                    | SIX MONTHS 2007 |                             |                      |                | SIX MONTHS 2006 <sup>(1)</sup>                       |          |                             |                      |                |                              |
|------------------------------------|-----------------|-----------------------------|----------------------|----------------|--|----------|-----------------------------|----------------------|----------------|------------------------------|
|                                    | Revenue         | Income<br>after tax<br>& MI | Minority<br>Interest | Tax<br>Expense | Income<br>before tax<br>& MI<br>(Stated in millions) | Revenue  | Income<br>after tax<br>& MI | Minority<br>Interest | Tax<br>Expense | Income<br>before tax<br>& MI |
| <b>Oilfield Services</b>           |                 |                             |                      |                |  |          |                             |                      |                |                              |
| North America                      | \$ 2,713        | \$ 573                      | \$                   | \$ 275         | \$ 848   | \$ 2,492 | \$ 485                      | \$                   | \$ 266         | \$ 751                       |
| Latin America                      | 1,489           | 279                         |                      | 63             | 342  | 1,260    | 182                         |                      | 42             | 224                          |
| Europe/CIS/W. Africa               | 3,131           | 730                         |                      | 162            | 892  | 2,290    | 449                         | 2                    | 96             | 547                          |
| Middle East & Asia                 | 2,303           | 716                         |                      | 86             | 802  | 1,729    | 486                         |                      | 63             | 549                          |
| Elims/Other                        | 97              | 3                           |                      | 31             | 34   | 66       | 13                          |                      | 9              | 22                           |
|                                    | 9,733           | 2,301                       |                      | 617            | 2,918  | 7,837    | 1,615                       | 2                    | 476            | 2,093                        |
| <b>WesternGeco</b>                 | 1,370           | 347                         |                      | 135            | 482  | 1,093    | 182                         | 43                   | 93             | 318                          |
| Elims & Other                      |                 | (144)                       |                      | (17)           | (161)  | (4)      | (129)                       | 4                    | (34)           | (159)                        |
|                                    | \$ 11,103       | \$ 2,504                    | \$                   | \$ 735         |  | \$ 8,926 | \$ 1,668                    | \$ 49                | \$ 535         |                              |
| Interest Income                    |                 |                             |                      |                | 68   |          |                             |                      |                | 63                           |
| Interest Expense <sup>(2)</sup>    |                 |                             |                      |                | (133)  |          |                             |                      |                | (106)                        |
| Charges and Credits <sup>(3)</sup> |                 |                             |                      |                |  |          |                             |                      |                | (46)                         |
|                                    |                 |                             |                      |                | \$ 3,174   |          |                             |                      |                | \$ 2,163                     |

- (1) Effective January 1, 2007, a GeoMarket that had been included in the Middle East & Asia Area was reassigned to the Europe/CIS/W.Africa Area. Certain activities have also been reallocated between Oilfield Services and WesternGeco. Prior period data has been reclassified to conform to the current organizational structure.
- (2) Excludes interest expense included in the segment results (\$2 million in 2007; \$3 million in 2006).
- (3) See Note 3 *Charges and Credits*.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**15. Pension and Other Postretirement Benefits**

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

|   | Second Quarter       |       | Six Months |       |
|---|----------------------|-------|------------|-------|
|   | 2007                 | 2006  | 2007       | 2006  |
|   | (Stated in millions) |       |            |       |
| Service cost benefits earned during period    | \$ 14                | \$ 14 | \$ 28      | \$ 29 |
| Interest cost on projected benefit obligation | 30                   | 28    | 60         | 56    |
| Expected return on plan assets                | (36)                 | (35)  | (73)       | (65)  |
| Amortization of prior service cost            | 1                    | 2     | 3          | 4     |
| Amortization of net loss                      | 5                    | 6     | 10         | 13    |
| Net pension cost                              | \$ 14                | \$ 15 | \$ 28      | \$ 37 |

Net pension cost for the Schlumberger UK plan included the following components:

|   | Second Quarter       |      | Six Months |       |
|---|----------------------|------|------------|-------|
|   | 2007                 | 2006 | 2007       | 2006  |
|   | (Stated in millions) |      |            |       |
| Service cost benefits earned during period    | \$ 9                 | \$ 6 | \$ 17      | \$ 12 |
| Interest cost on projected benefit obligation | 13                   | 10   | 26         | 20    |
| Expected return on plan assets                | (17)                 | (12) | (33)       | (24)  |
| Amortization of net loss & other              | 5                    | 3    | 9          | 6     |
| Net pension cost                              | \$ 10                | \$ 7 | \$ 19      | \$ 14 |

Net postretirement benefit cost for the Schlumberger US plans included the following components:

|  | Second Quarter       |       | Six Months |       |
|--|----------------------|-------|------------|-------|
|  | 2007                 | 2006  | 2007       | 2006  |
|  | (Stated in millions) |       |            |       |
| Service cost benefits earned during period                     | \$ 7                 | \$ 6  | \$ 13      | \$ 14 |
| Interest cost on accumulated postretirement benefit obligation | 11                   | 11    | 23         | 22    |
| Expected return on plan assets                                 |                      |       | (1)        |       |
| Amortization of net loss                                       | 3                    | 4     | 6          | 8     |
| Amortization of prior service cost                             | (8)                  | (7)   | (14)       | (14)  |
| Net postretirement benefit cost                                | \$ 13                | \$ 14 | \$ 27      | \$ 30 |



**Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**BUSINESS REVIEW**

|                          | Second Quarter |                     |       | Six Months |                     |       |
|--------------------------|----------------|---------------------|-------|------------|---------------------|-------|
|                          | 2007           | 2006 <sup>(1)</sup> | % chg | 2007       | 2006 <sup>(1)</sup> | % chg |
| (Stated in millions)     |                |                     |       |            |                     |       |
| <b>Oilfield Services</b> |                |                     |       |            |                     |       |
| Revenue                  | \$ 4,974       | \$ 4,126            | 21%   | \$ 9,733   | \$ 7,837            | 24%   |
| Pretax Segment Income    | \$ 1,513       | \$ 1,134            | 33%   | \$ 2,918   | \$ 2,093            | 39%   |
| <b>WesternGeco</b>       |                |                     |       |            |                     |       |
| Revenue                  | \$ 665         | \$ 563              | 18%   | \$ 1,370   | \$ 1,093            | 25%   |
| Pretax Segment Income    | \$ 216         | \$ 169              | 28%   | \$ 482     | \$ 318              | 52%   |

(1) Effective January 1, 2007, a GeoMarket that had been included in the Middle East & Asia Area was reassigned to the Europe/CIS/W.Africa Area. Certain activities have also been reallocated between Oilfield Services and WesternGeco. Prior period data has been reclassified to conform to the current organizational structure.

Pretax operating income represents the business segments' income before taxes and minority interest. The pretax operating income excludes corporate expenses, interest income, interest expense, amortization of certain intangible assets, interest on postretirement medical benefits and stock-based compensation costs and the *Charges and Credits* described in detail in Note 3 to the *Consolidated Financial Statements*, as these items are not allocated to the segments.

#### Second Quarter 2007 Compared to Second Quarter 2006

Revenue for the second quarter of 2007 was \$5.64 billion versus \$4.69 billion for the same period last year. Income before income taxes and minority interest was \$1.62 billion in 2007 compared to \$1.14 billion in 2006. The 2006 results included pretax charges of \$46 million. These *Charges and Credits* are described in detail in Note 3 to the *Consolidated Financial Statements*.

#### OILFIELD SERVICES

Second-quarter revenue of \$4.97 billion was 5% higher sequentially and 21% higher year-on-year. Sequential revenue increases were highest in the US land, Brunei/Malaysia/Philippines, North Sea, Arabian and Eastern Mediterranean GeoMarkets. In addition, double-digit growth rates were experienced in the East and North Russia, Indonesia, China/Japan/Korea and Qatar GeoMarkets. Across all Areas demand was particularly strong for Drilling & Measurements, Schlumberger Information Solutions (SIS), Artificial Lift Systems, Wireline and Well Services technologies.

Pretax operating income of \$1.51 billion increased 8% sequentially and 33% year-on-year. The sequential increase was mainly driven by higher activity and a favorable technology mix in the Brunei/Malaysia/Philippines, Venezuela/Trinidad & Tobago, US land, Eastern Mediterranean, Gulf Coast, Arabian, North Africa and China/Japan/Korea GeoMarkets, and by a favorable technology mix and higher product sales in the North Sea. These resulted in Oilfield Services pretax operating margins reaching 30.4%, a sequential increase of 90 basis points (bps).

During the quarter, Integrated Project Management (IPM) saw increased demand for services in the Peru/Colombia/Ecuador and North Russia GeoMarkets. Since the beginning of the year, IPM has been awarded an impressive \$3.8 billion of new and extended contracts that cover project management, technology deployment

and third-party services in regions of Latin America, Russia, North Africa, Europe and Malaysia. Building on long-term customer relationships, these awards have increased contracted IPM work through the end of the decade to a total of \$4.8 billion.

### **North America**

Revenue of \$1.34 billion decreased 3% sequentially but increased 6% year-on-year. Pretax operating income of \$417 million decreased 3% sequentially but increased 11% year-on-year.

Sequentially, revenue in the US land GeoMarkets grew through increased activity following the lifting of seasonal land access restrictions, and continuing service intensity for Wireline, Drilling & Measurements and Well Services technologies on horizontal wells in unconventional gas reservoirs. Growth was also recorded in the US Gulf Coast driven by higher demand for Drilling & Measurements, Well Services and Well Testing technologies in deep-water reservoirs; and in Alaska as a result of higher exploration-related demand for Wireline, Well Testing and Well Services technologies. In addition, higher SIS product sales were recorded across the US GeoMarkets. However, growth in the US was more than offset by the significant activity slowdown in Western Canada that resulted from the early onset of the spring break-up, together with the lower prices for natural gas.

Year-on-year revenue growth was led by the US land GeoMarkets, driven by strong exploration activity and higher service intensity in unconventional gas reservoirs. Demand was particularly strong for Well Services, Drilling & Measurements and Wireline technologies. In addition, the US Gulf Coast and Alaska GeoMarkets recorded growth due to exploration-driven activities. This growth across the US was partially offset by the slowdown in Canada where revenues declined in line with rig count reductions reflecting the extended seasonal spring break-up and unfavorable customer sentiment driven by deteriorating economics.

Sequentially, pretax operating margins for the Area declined slightly by 21 bps to reach 31.2% primarily due to the activity slowdown in Canada and to pricing erosion in pressure pumping stimulation services in North America due to increases in equipment capacity. However, this decline was significantly offset by higher operating leverage in the US land GeoMarkets and a favorable exploration-driven activity mix in the US Gulf Coast and Alaska GeoMarkets.

Year-on-year pretax operating margins grew by 148 bps resulting from a favorable activity mix driven by exploration activity in the US Gulf Coast and Alaska, and improved efficiency in US land. This growth was partially offset by the activity slowdown in Canada and pricing erosion resulting from excess pressure pumping capacity for stimulation services.

### **Latin America**

Revenue of \$761 million increased 5% sequentially and 14% year-on-year. Pretax operating income of \$179 million increased 10% sequentially and 40% year-on-year.

During the quarter, the two remaining contracts associated with the drilling barges in Venezuela were finalized. The resulting recognition of certain previously deferred revenues and related costs had a marginal impact on the Area's sequential revenue and pretax operating income growth.

Sequential revenue growth was driven by increased demand for Wireline and Well Testing technologies together with higher Artificial Lift Systems product sales in the Venezuela/Trinidad & Tobago GeoMarket; strong demand for Wireline, Well Services and Well Testing technologies together with SIS and Completions product sales in Latin America South; continued strong exploration-driven Wireline activity and increased demand for IPM services in Peru/Colombia/Ecuador; and stronger Well Services activity in Mexico.

Year-on-year revenue increased due to higher Well Testing & Well Services activities in the Venezuela/Trinidad & Tobago GeoMarket, together with higher IPM activities in Peru/Colombia/Ecuador and by increased exploration activity in Latin America South.

Sequential pretax operating margins increased by 118 bps to reach 23.6% as a result of the more favorable activity mix in Venezuela/Trinidad & Tobago and Peru/Colombia/Ecuador. This performance was partially offset by start-up costs for projects in Mexico.

Year-on-year pretax operating margins expanded by a robust 432 bps driven by pricing gains in Venezuela/Trinidad & Tobago, a favorable revenue mix in Mexico reflecting the shift in revenue mix away from lower margin third-party billings, and increased higher margin Wireline activity in Latin America South.

#### **Europe/CIS/West Africa**

Revenue of \$1.61 billion increased 6% sequentially and 30% year-on-year. Pretax operating income of \$462 million increased 7% sequentially and 46% year-on-year.

Sequential revenue growth was driven by the higher rig count in the East Russia, Continental Europe, Libya and North Africa GeoMarkets; strong demand for exploration-related Wireline, Drilling & Measurements and Well Testing technologies together with higher Artificial Lift Systems and Completions product sales in the North Sea; and increased demand for Well Services technologies, higher Artificial Lift Systems product sales and higher IPM activity in North Russia. This growth was partially offset by seasonal weather-related effects in South Russia.

Year-on-year revenue increase was driven by higher rig count in the West and South Africa, Continental Europe and Nigeria GeoMarkets, increased exploration-driven activity in the North Sea together with higher demand for Drilling & Measurements technologies across the Russian GeoMarkets.

Sequential pretax operating margins reached 28.7% driven primarily by a more favorable activity mix in the North Sea, North Africa and Russia GeoMarkets. This performance was partially dampened by the weather-related seasonal effects in South Russia.

Year-on-year pretax operating margins grew by 309 bps driven primarily by increased demand for higher margin Drilling & Measurements technologies in the Caspian GeoMarket, increased demand for higher margin Wireline and Drilling & Measurements technologies in Eastern Europe together with favorable activity mix in West & South Africa and the North Sea. This was offset partially by a slight decline in the Russian GeoMarkets primarily due to pricing erosion resulting from pressure pumping capacity entering the market from Canada.

Schlumberger completed the acquisition of Tyumenpromgeofizika during the second quarter of 2007. Tyumenpromgeofizika provides a wide range of geophysical and wireline logging services in Western Siberia.

#### **Middle East & Asia**

Revenue of \$1.21 billion increased 11% sequentially and 32% year-on-year. Pretax operating income of \$428 million increased 14% sequentially and 43% year-on-year.

The sequential growth in revenue resulted from higher activity in the Brunei/Malaysia/Philippines, Indonesia, Qatar, Australia/Papua New Guinea and China/Japan/Korea GeoMarkets; stronger exploration-driven deep-water activity in Eastern Mediterranean; and higher demand for Wireline, Completions and Artificial Lift Systems technologies in the Arabian GeoMarket. This growth was partially offset by the lower rig count in Thailand/Vietnam.



Year-on-year revenue increased due to higher rig count and increased demand for Well Services, Wireline and Well Testing technologies in the Arabian GeoMarket, increased application of new technologies in deep-water environments in the East Mediterranean GeoMarket, increased levels of exploration activity in the Australia/New Zealand/Papua New Guinea, Thailand/Vietnam and Qatar GeoMarkets, and higher rig count, pricing gains and increased demand for Drilling & Measurements and Wireline technologies in India.

Pretax operating margins grew sequentially by 103 bps to reach 35.3%, driven by a more favorable deep-water exploration-driven activity mix in Brunei/Malaysia/Philippines, demand for higher-margin Wireline technology in China/Japan/Korea, and higher-margin Completions and Artificial Lift Systems product sales in the Arabian GeoMarket. This growth was offset by the slowdown in Thailand/Vietnam and lower deep-water activity in India.

Year-on-year pretax margins expanded by 271 bps due to a favorable exploration-driven technology mix in the Arabian, East Mediterranean, Thailand/Vietnam and India GeoMarkets.

#### WESTERNGECO

Second-quarter revenue of \$665 million was 6% lower sequentially but 18% higher compared to the same period last year. Pretax operating income of \$216 million decreased 19% sequentially but increased 28% year-on-year.

Sequentially, Marine revenue increased due to higher production and pricing despite seasonal transits and scheduled dry dock inspections. Data Processing revenue also increased driven primarily by higher sales in North America, Europe, Africa and the Middle East, while Land revenue remained flat. However, the improvement in Marine and Data Processing revenues was more than offset by the normal seasonal decline in Multiclient revenues.

Year-on-year revenue of \$665 million increased 18%. This was driven primarily by higher Multiclient sales recorded with the commencement of the significantly pre-funded E-Octopus surveys, continued demand for the E-Cat and E-Dog deep-water reprocessing surveys and demand for surveys offshore Africa; higher Marine revenues driven by higher production and price increases; and higher Data Processing revenue in Africa and Asia. These increases were partially offset by lower Land activity in the Middle East and Africa.

Sequentially, pretax operating margins declined to 32.5% due to the lower Multiclient sales and to crew costs associated with certain Land projects.

Year-on-year pretax operating income of \$216 million increased 28% due to higher-margin sales in Multiclient, Marine and Data Processing. This was partially offset by higher costs associated with Land.

#### Six Months 2007 Compared to Six Months 2006

Revenue for the six-month period ended June 30, 2007 was \$11.10 billion versus \$8.93 billion for the same period last year. Income before income taxes and minority interest was \$3.17 billion in 2007 compared to \$2.16 billion in 2006. The 2006 results included pretax charges of \$46 million. These *Charges and Credits* are described in detail in Note 3 to the *Consolidated Financial Statements*.

#### OILFIELD SERVICES

Six month revenue of \$9.73 billion was 24% higher versus the same period last year. Pretax operating income of \$2.92 billion increased 39% year-on-year. Year-on-year revenue growth was strongest in the Thailand/Vietnam, Australasia, Eastern Mediterranean, West & South Africa, and Venezuela/Trinidad & Tobago GeoMarkets. Double-digit growth was achieved in all Technologies.

### **North America**

Revenue of \$2.71 billion increased 9% versus the same period last year. Pretax operating income of \$848 million increased 13% year-on-year. Growth was driven by a strong exploration season in Alaska and increased application of high-margin Drilling & Measurements technologies in the deep-water environment of the Gulf Coast. In addition, GeoMarkets in US land generated solid growth from a combination of pressure pumping stimulation services pricing gains, and an increased volume of horizontal well drilling in unconventional gas plays. This was partially offset by declines in Canada with an extended spring break-up period and negative customer sentiment driven by deteriorating economics.

### **Latin America**

Revenue of \$1.49 billion was 18% higher year-on-year. Pretax operating income of \$342 million increased 53% versus the same period last year. Year-on-year increases were highest in the Venezuela/Trinidad & Tobago GeoMarket with strong demand for Drilling & Measurements technologies, increased Completion product sales, and rising Well Testing activity, coupled with the recognition of certain deferred revenues associated with the PRISA project. Additionally, Peru/Colombia/Ecuador recorded strong growth due to a ramp-up in IPM activity, followed by Latin America South with increased deep-water activity in Brazil, and Mexico with a surge in Well Services activity together with strong offshore Drilling & Measurements activity.

### **Europe/CIS/West Africa**

Revenue of \$3.13 billion increased 37% year-on-year. Pretax operating income of \$892 million increased 63% year-on-year. Growth was driven by increased activity and demand for new technologies in the West & South Africa and North Africa GeoMarkets; by a surge in exploration activity in the North Sea; and by a higher rig count and increased demand for higher-margin Drilling & Measurements technologies in the deep-water environment together with higher Completion product sales in Nigeria. Additionally, the Russian GeoMarkets witnessed a ramp-up in drilling programs across the region, boosted by the milder winter and by higher Artificial Lift product sales.

### **Middle East & Asia**

Revenue of \$2.30 billion was 33% higher year-on-year. Pretax operating income of \$802 million was 46% higher versus the same period last year. Year-on-year increases were primarily driven by an increased demand for exploration-driven higher-margin services in the Thailand/Vietnam, Qatar and Australia/Papua New Guinea GeoMarkets, higher demand for Well Services and Wireline technologies in Eastern Mediterranean together with continued rig count increases and higher Artificial Lift and Completion products sales in the Arabian GeoMarket. This growth was partially offset by lower margin activities in Brunei/Malaysia/Philippines following the completion of certain deep-water projects.

## **WESTERNGECO**

Six-month revenue for WesternGeco of \$1.37 billion was 25% higher compared to the same period last year. Year-on-year revenue increased primarily in Multiclient, Marine and Data Processing. Multiclient sales increased predominantly in North America, reflecting a strong Multiclient market and the success of large reprocessing and wide-azimuth projects. The increase in Marine was due to higher pricing on both Q and conventional surveys. Data Processing was ahead driven by higher pricing and an improved ability to bundle data processing services with acquisition services.

Pretax income of \$482 million improved by \$164 million year-on-year, reflecting strong multiclient margins and increased prices in Marine and Data Processing.

## Interest and Other Income

Interest and other income consisted of the following for the second quarter and six months ended June 30, 2007 and 2006:

|  | Second Quarter       |       | Six Months |        |
|--|----------------------|-------|------------|--------|
|  | 2007                 | 2006  | 2007       | 2006   |
|  | (Stated in millions) |       |            |        |
| Interest income  | \$ 35                | \$ 29 | \$ 70      | \$ 65  |
| Equity in net earnings of affiliated companies                                       | 62                   | 44    | 111        | 73     |
| Loss on liquidation of investment to fund the WesternGeco transaction <sup>(1)</sup> |                      | (9)   |            | (9)    |
|  | \$ 97                | \$ 64 | \$ 181     | \$ 129 |

(1) Refer to Note 3 to the *Consolidated Financial Statements* for details.

### Interest Income

Interest income increased \$6 million in the second quarter of 2007 as compared to the second quarter of 2006. This increase is primarily attributable to an increase in the average investment balance.

Interest income increased \$5 million for the six months ended June 30, 2007 as compared to the same period last year. This increase is primarily attributable to an increase in the average rate of return on invested funds.

### Equity in Net Earnings of Affiliated Companies

The increase in net earnings of affiliated companies is primarily due to the results of the drilling fluids joint venture that Schlumberger operates with Smith International, Inc.

## Interest Expense

Interest expense of \$66 million in the second quarter of 2007 increased by \$5 million compared to the same period last year. This increase is primarily attributable to an increase in the average debt balance.

Interest expense of \$134 million in the first six months of 2007 increased by \$25 million compared to the same period last year. This increase is attributable to an increase in the average debt balance combined with an increase in borrowing rates.

## Other

Gross margin was 33.7% and 30.6% in the second quarters of 2007 and 2006, and 33.7% and 30.0% in the six-month periods ended June 30, 2007 and 2006, respectively. The increase in gross margin was driven by higher overall activity, a favorable technology mix and efficiency gains in Oilfield Services, together with higher Multiclient sales in WesternGeco.

As a percentage of revenue, research & engineering, marketing and general & administrative expenses for the second quarters and six months ended June 30, 2007 and 2006 were as follows:

|                          | Second Quarter |      | Six Months |      |
|--------------------------|----------------|------|------------|------|
|                          | 2007           | 2006 | 2007       | 2006 |
| Research & engineering   | 3.1%           | 3.6% | 3.1%       | 3.4% |
| Marketing                | 0.4%           | 0.4% | 0.3%       | 0.4% |
| General & administrative | 2.1%           | 2.3% | 2.1%       | 2.3% |



Research and engineering expenditures, by segment for the second quarter and six months ended June 30, 2007 and 2006, were as follows:

|                   | Second Quarter       |        | Six Months |        |
|-------------------|----------------------|--------|------------|--------|
|                   | 2007                 | 2006   | 2007       | 2006   |
|                   | (Stated in millions) |        |            |        |
| Oilfield Services | \$ 142               | \$ 126 | \$ 278     | \$ 240 |
| WesternGeco       | 28                   | 17     | 55         | 31     |
| Other             | 5                    | 28     | 9          | 29     |
|                   | \$ 175               | \$ 171 | \$ 342     | \$ 300 |

The effective tax rate in the second quarter of 2007 was 22.3% compared to 24.4% in the second quarter of last year. The effective tax rate for the six months ended June 30, 2007 was 23.1% compared to 24.7% in the same period of the prior year. The decreases in the effective tax rate compared to prior year periods are primarily attributable to the geographic mix of earnings. Both Oilfield Services and WesternGeco had a lower proportion of pretax earnings in North America. Internationally, various GeoMarkets with lower tax rates contributed a greater percentage to pretax earnings. Furthermore, in North America in 2007 there was an increased impact from the deduction for domestic production activities and the *Charges and Credits* in the second quarter of last year, described in Note 3 to the *Consolidated Financial Statements*, were not tax deductible.

#### Minority Interest

Minority interest has decreased in 2007 compared to 2006 due to the fact that on April 28, 2006, Schlumberger acquired the 30% minority interest in WesternGeco from Baker Hughes for \$2.4 billion in cash.

#### Stock-Based Compensation

Stock-based compensation expense was \$34 million in the second quarter of 2007 compared to \$28 million in the second quarter of the prior year, and \$70 million for the six months ended June 30, 2007 compared to \$54 million for the six months ended June 30, 2006. Total stock-based compensation expense for all of fiscal 2006 was \$114 million, and it is currently estimated to be \$140 million in 2007.

This increase in stock-based compensation expense primarily reflects the increase in the valuations of stock-based compensation awards due to the upward movement in the Schlumberger stock price as compared to prior years.

**CASH FLOW**

Net Debt is gross debt less cash, short-term investments and fixed income investments held to maturity. Management believes that Net Debt provides useful information regarding the level of Schlumberger indebtedness. Details of Net Debt follow:

|  | Jun. 30<br>2007      | Jun. 30<br>2006 |
|--|----------------------|-----------------|
|  | (Stated in millions) |                 |
| Net Debt, beginning of period                    | \$ (2,834)           | \$ (532)        |
| Net income                                       | 2,439                | 1,579           |
| Charges and credits, net of tax                  |                      | 43              |
| Excess of equity income over dividends received  | (77)                 | (76)            |
| Depreciation and amortization <sup>(1)</sup>     | 902                  | 730             |
| Increase in working capital                      | (801)                | (443)           |
| US pension plan contributions                    |                      | (200)           |
| Capital expenditures <sup>(1)</sup>              | (1,417)              | (1,088)         |
| Proceeds from employee stock plans               | 404                  | 305             |
| Stock repurchase program                         | (505)                | (467)           |
| Dividends paid                                   | (354)                | (271)           |
| Acquisition of minority interest in WesternGeco  |                      | (2,406)         |
| Other business acquisitions and related payments | (147)                | (320)           |
| Conversion of debentures                         | 396                  |                 |
| Distribution to joint venture partner            |                      | (60)            |
| Translation effect on Net Debt                   | (43)                 | 77              |
| Other  | (47)                 | (39)            |
| Net Debt, end of period                          | \$ (2,084)           | \$ (3,168)      |

(1) Includes Multiclient seismic data costs.

| Components of Net Debt                           | Jun. 30<br>2007      | Jun. 30<br>2006 | Dec. 31<br>2006 |
|--|----------------------|-----------------|-----------------|
|  | (Stated in millions) |                 |                 |
| Cash and short-term investments                  | \$ 2,885             | \$ 2,108        | \$ 2,999        |
| Fixed income investments, held to maturity       | 323                  | 74              | 153             |
| Bank loans and current portion of long-term debt | (797)                | (1,213)         | (1,322)         |
| Convertible debentures                           | (1,029)              | (1,425)         | (1,425)         |
| Other long-term debt                             | (3,466)              | (2,712)         | (3,239)         |
|  | \$ (2,084)           | \$ (3,168)      | \$ (2,834)      |

During the second quarter of 2007, \$396 million of the \$975 million 1.5% Series A Convertible Debentures due June 1, 2023 were converted by holders into approximately 11 million shares of Schlumberger common stock.

During the first six months of 2007, cash provided by operations was \$2.49 billion as net income plus non-cash items were partially offset by an increase in working capital requirements. Cash used by investing activities was \$1.76 billion due mainly to the purchase of fixed assets (\$1.29 billion). Cash used by financing activities was \$750 million as the net repayments of debt (\$348 million), payment of dividends to shareholders (\$354 million) and stock repurchase program (\$505 million) were partially offset by the proceeds from employee stock plans (\$404 million).

On April 28, 2006, Schlumberger acquired the 30% minority interest in WesternGeco from Baker Hughes for \$2.4 billion in cash. Approximately 50% of the purchase price was funded from Schlumberger cash and investments. The remaining 50% was financed through existing Schlumberger credit facilities.



During the first six months of 2006, cash provided by operations was \$1.80 billion, as net income, depreciation/amortization and deferred income taxes were partially offset by increases in customer receivables and a decrease in accounts payable and accrued liabilities, which included a US pension funding contribution of \$200 million. Cash used by investing activities of \$2.25 billion primarily was due to capital expenditures (\$1.09 billion), the acquisition of the 30% minority interest in WesternGeco (\$2.40 billion) and the sales of investments (\$1.67 billion). Cash provided by financing activities was \$423 million as the payment of dividends to shareholders (\$271 million) and stock repurchase plan (\$467 million) were only partially offset by the proceeds from employee stock plans (\$305 million).

### **FORWARD-LOOKING STATEMENTS**

This report and other statements we make contain forward-looking statements, which include any statements that are not historical facts, such as our expectations regarding business outlook; growth for Schlumberger as a whole and for each of Oilfield Services and WesternGeco (and for specified products or geographic areas within each segment); oil and natural gas demand and production growth; operating margins; operating and capital expenditures by Schlumberger and the oil and gas industry; effective tax rate; the business strategies of Schlumberger customers; stock-based compensation expense; the Schlumberger stock buy-back program; and future results of operations. These statements involve risks and uncertainties, including, but not limited to, the global economy; changes in exploration and production spending by Schlumberger customers and changes in the level of oil and natural gas exploration and development; general economic and business conditions in key regions of the world; political and economic uncertainty and socio-political unrest; and other factors detailed in our most recent Form 10-K, this Form 10-Q and other filings with the Securities and Exchange Commission. If one or more of these risks or uncertainties materialize (or the consequences of such a development changes), or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Schlumberger disclaims any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

### **Item 3: Quantitative and Qualitative Disclosures about Market Risk**

For quantitative and qualitative disclosures about market risk affecting Schlumberger, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the Schlumberger Annual Report on Form 10-K for the year ended December 31, 2006. Schlumberger's exposure to market risk has not changed materially since December 31, 2006.

### **Item 4: Controls and Procedures**

An evaluation was carried out under the supervision and with the participation of Schlumberger management, including the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of Schlumberger's disclosure controls and procedures, as of the end of the period covered by this quarterly report, pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based on that evaluation, the CEO and CFO have concluded that Schlumberger's disclosure controls and procedures were effective as of June 30, 2007 to ensure that information required to be disclosed by Schlumberger in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. There has been no change in Schlumberger's internal control over financial reporting that occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, Schlumberger's internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**Item 1: Legal Proceedings**

The information with respect to Item 1 is set forth under Note 13 *Contingencies* to the *Consolidated Financial Statements*.

**Item 1A: Risk Factors**

*We urge you to carefully consider the risks described below and in the information contained in our Annual Report on Form 10-K for the year ended December 31, 2006 as well as other reports and materials that we file with the Securities and Exchange Commission. If any of the risks described were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also adversely affect our business and operations.*

**Demand for the majority of our oilfield services is substantially dependent on the level of expenditures by the oil and gas industry. A substantial or an extended decline in oil or gas prices could result in lower expenditures by the oil and gas industry and reduce our operating revenue.**

Demand for the majority of our oilfield services is substantially dependent on the level of expenditures by the oil and gas industry for the exploration, development and production of crude oil and natural gas reserves, which are sensitive to oil and natural gas prices and generally dependent on the industry's view of future oil and gas prices. Oil and gas prices have historically been volatile and are affected by numerous factors, including:

demand for energy, which is affected by worldwide population growth and general economic and business conditions;

the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels for oil;

oil and gas production by non-OPEC countries;

political and economic uncertainty and socio-political unrest;

the level of worldwide oil exploration and production activity;

the cost of exploring for, producing and delivering oil and gas;

technological advances affecting energy consumption; and

weather conditions.

The oil and gas industry has historically experienced periodic downturns, which have been characterized by diminished demand for our oilfield services and downward pressure on the prices we charge. A significant downturn in the oil and gas industry could result in a reduction in demand for oilfield services and could adversely impact our operating results.

**A significant portion of our revenue is derived from our non-United States operations, which exposes us to risks inherent in doing business in each of the approximately 80 countries in which we operate.**

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Our non-United States operations accounted for approximately 74% of our consolidated revenue in the first six months of 2007 and 73% for the same period in 2006. Operations in countries other than the United States are subject to various risks, including:

unsettled political and economic conditions in certain areas;

exposure to possible expropriation or other governmental actions;

social unrest, acts of terrorism, war or other armed conflict;

confiscatory taxation or other adverse tax policies;

deprivation of contract rights;

trade restrictions or embargoes imposed by the United States or other countries;

restrictions on the repatriation of income or capital;

exchange controls;

inflation; and

currency fluctuations and devaluations.

In addition, we are subject to risks associated with our operations in countries, including Iran, Syria, Sudan and Cuba, which are subject to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations.

The occurrence of any of the risks described above could reduce our earnings and our cash available for operations.

We are also subject to risks related to investment in our stock in connection with certain U.S. state divestment or investment limitation legislation applicable to companies with operations in these countries, and similar actions by some private investors, which could adversely affect the market for our common stock.

**Environmental compliance costs and liabilities could reduce our earnings and cash available for operations.**

We are subject to increasingly stringent laws and regulations relating to importation and use of hazardous materials, radioactive materials and explosives, environmental protection, including laws and regulations governing air emissions, water discharges and waste management. We incur, and expect to continue to incur, capital and operating costs to comply with environmental laws and regulations. The technical requirements of these laws and regulations are becoming increasingly expensive, complex and stringent. These laws may provide for strict liability for damages to natural resources or threats to public health and safety. Strict liability can render a party liable for damage without regard to negligence or fault on the part of the party. Some environmental laws provide for joint and several strict liability for remediation of spills and releases of hazardous substances.

We use and generate hazardous substances and wastes in our operations. In addition, many of our current and former properties are or have been used for industrial purposes. Accordingly, we could become subject to potentially material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as the result of exposures to, or releases of, hazardous substances. In addition, stricter enforcement of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could reduce our earnings and our cash available for operations. We believe we are currently in substantial compliance with environmental laws and regulations.

**We could be subject to substantial liability claims, which would adversely affect our results and financial condition.**

Certain equipment used in the delivery of oilfield services, such as directional drilling equipment, perforating systems, subsea completion equipment, radioactive materials and explosives and well completion systems, are used in hostile environments, such as exploration, development and production applications. An accident or a



failure of a product can cause personal injury, loss of life, damage to property, equipment or the environment, and suspension of operations. Our insurance may not adequately protect us against liability for some kinds of events, including events involving pollution, or against losses resulting from business interruption. Moreover, in the future we may not be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Substantial claims made under our policies could cause our premiums to increase. Any future damages caused by our products that are not covered by insurance, or are in excess of policy limits or are subject to substantial deductibles, could reduce our earnings and our cash available for operations.

**Our ability to maintain technology leadership in the form of services and products could affect any competitive advantage we hold.**

If we are unable to develop and produce competitive technology or deliver them to our clients in the form of services and products in a timely and cost-competitive manner in the various markets we serve, it could materially reduce our operating revenue and net income.

**Limitations on our ability to protect our intellectual property rights, including our trade secrets, could cause a loss in revenue and any competitive advantage we hold.**

Some of our products or services, and the processes we use to produce or provide them, have been granted United States patent protection, have patent applications pending or are trade secrets. Our business may be adversely affected if our patents are unenforceable, the claims allowed under our patents are not sufficient to protect our technology, our patent applications are denied, or our trade secrets are not adequately protected. Our competitors may be able to develop technology independently that is similar to ours without infringing on our patents or gaining access to our trade secrets.

**We may be subject to litigation if another party claims that we have infringed upon its intellectual property rights.**

The tools, techniques, methodologies, programs and components we use to provide our services may infringe upon the intellectual property rights of others. Infringement claims generally result in significant legal and other costs and may distract management from running our core business. Royalty payments under licenses from third parties, if available, would increase our costs. If a license were not available we might not be able to continue providing a particular product or service, which would reduce our operating revenue. Additionally, developing non-infringing technologies would increase our costs.

**Failure to obtain and retain skilled technical personnel could impede our operations.**

We require highly skilled personnel to operate and provide technical services and support for our business. Competition for the personnel required for our businesses intensifies as activity increases. In periods of high utilization it may become more difficult to find and retain qualified individuals. This could increase our costs or have other adverse effects on our operations.

**Severe weather conditions may affect our operations**

Our business may be materially affected by severe weather conditions in certain areas where we operate. This may entail the evacuation of personnel and stoppage of services. In addition, if particularly severe weather affects platforms or structures, this may result in a suspension of activities until the platforms or structures have been repaired. Any of these events may have a material adverse effect on our operating revenue.

**Item 2: Unregistered Sales of Equity Securities and Use of Proceeds***Unregistered Sales of Equity Securities*

During the quarter ended June 30, 2007, Schlumberger issued 10,961,317 shares of its common stock upon conversion by holders of \$396 million aggregate principal amount of its 1.5% Series A Convertible Debentures due June 1, 2023. Such shares were issued in a transaction exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended.

*Share Repurchases*

On April 20, 2006, the Board of Directors of Schlumberger approved a share buy-back program of up to 40 million shares of Schlumberger common stock to be acquired in the open market before April 2010, subject to market conditions.

The following table sets forth certain information with respect to the Schlumberger common stock repurchase program activity for the three months ended June 30, 2007.

|                                | Total<br>number<br>of shares<br>purchased | Average Price<br>paid per<br>share<br>(Stated in thousands except per share amounts) | Total number of<br>shares purchased as<br>part of publicly<br>announced program | Maximum number of<br>shares that may yet<br>be purchased under<br>the program |
|--------------------------------|---|--|---|---|
| April 1 through April 30, 2007 | 169.1                                     | \$ 69.69   | 169.1   | 21,088.0  |
| May 1 through May 31, 2007     | 982.6                                     | \$ 75.71   | 982.6   | 20,105.4  |
| June 1 through June 30, 2007   | 1,050.0                                   | \$ 81.96   | 1,050.0   | 19,055.4  |
|                                | 2,201.7                                   | \$ 78.23   | 2,201.7   |   |

In connection with the exercise of stock options under Schlumberger's incentive compensation plans, Schlumberger routinely receives shares of its common stock from optionholders in consideration of the exercise price of the stock options. Schlumberger does not view these transactions as implicating the disclosure required under this Item. The number of shares of Schlumberger common stock received from optionholders is immaterial.

**Item 3: Default Upon Senior Securities**

None.

**Item 4: Submission of Matters to a Vote of Security Holders**

None.

**Item 5: Other Information**

None.

**Item 6: Exhibits**

Exhibit 3.1 Articles of Incorporation of Schlumberger Limited (Schlumberger N.V.), as last amended on April 12, 2006 (incorporated by reference to Exhibit 3.1 to Schlumberger's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006).

Exhibit 3.2 Amended and Restated Bylaws of Schlumberger Limited (Schlumberger N.V.) (incorporated by reference to Exhibit 3.1 to Schlumberger's Current Report on Form 8-K filed on April 22, 2005).



\* Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\* Exhibit 31.2 Certification of Chief Financial Officer pursuant to 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\*\* Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*\* Exhibit 32.2 Certification Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed with this Form 10-Q.

\*\* Furnished with this Form 10-Q.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in his capacity as Chief Accounting Officer.

SCHLUMBERGER LIMITED

(Registrant)

Date: July 25, 2007

/s/ HOWARD GUILD  
Howard Guild

Chief Accounting Officer and Duly Authorized Signatory