SCHLUMBERGER LTD /NV/
Form 10-Q
October 22, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended:	Commission file No.:
September 30, 2008	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, 17th FLOOR HOUSTON, TEXAS, U.S.A.	77056
42 RUE SAINT-DOMINIQUE PARIS, FRANCE	75007

PARKSTRAAT 83 **THE HAGUE,** **THE NETHERLANDS**	**2514 JG**
(Addresses of principal executive offices)	**(Zip Codes)**

Registrant s telephone number: (713) 513-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES **x** NO ¨

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

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

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

YES ¨ NO x

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

Class	**Outstanding at September 30, 2008**
COMMON STOCK, $0.01 PAR VALUE PER SHARE	1,196,168,060

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SCHLUMBERGER LIMITED

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Third Quarter		Nine Months	
	2008	2007	2008	2007
	(Stated in thousands except per share amounts)			
Revenue	**$ 7,258,869**	$ 5,925,662	**$ 20,294,890**	$ 17,028,829
Interest & other income	**106,719**	107,578	**305,946**	288,685
Expenses				
Cost of goods sold & services	**4,966,384**	3,905,095	**13,933,558**	11,264,310
Research & engineering	**208,168**	190,194	**596,573**	531,971
Marketing	**22,645**	21,904	**71,484**	58,585
General & administrative	**149,623**	137,260	**434,085**	375,576
Interest	**61,148**	68,622	**188,543**	203,039
Income from Continuing Operations before taxes and minority interest	**1,957,620**	1,710,165	**5,376,593**	4,884,033
Taxes on income	**418,142**	356,168	**1,104,460**	1,090,730
Income from Continuing Operations before minority interest	**1,539,478**	1,353,997	**4,272,133**	3,793,303
Minority interest	**(13,116)**		**(25,322)**	
Income from Continuing Operations	**1,526,362**	1,353,997	**4,246,811**	3,793,303
Income from Discontinued Operations			**37,850**	
Net Income	**$ 1,526,362**	$ 1,353,997	**$ 4,284,661**	$ 3,793,303
Basic earnings per share:				
Income from Continuing Operations	**$ 1.27**	$ 1.13	**$ 3.55**	$ 3.20
Income from Discontinued Operations			**0.03**	
Net Income	**$ 1.27**	$ 1.13	**$ 3.58**	$ 3.20
Diluted earnings per share:				
Income from Continuing Operations	**$ 1.25**	$ 1.09	**$ 3.46**	$ 3.08
Income from Discontinued Operations			**0.03**	
Net Income (1)	**$ 1.25**	$ 1.09	**$ 3.50**	$ 3.08
Average shares outstanding:				
Basic	**1,198,823**	1,194,175	**1,196,660**	1,185,624
Assuming dilution	**1,225,112**	1,243,808	**1,228,579**	1,238,675

(1) Amounts may not add due to rounding

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	Sept. 30, 2008 (Unaudited)	Dec. 31, 2007
	(Stated in thousands)	
ASSETS		
CURRENT ASSETS		
Cash	**$ 187,753**	$ 197,233
Short-term investments	**3,305,666**	2,971,800
Receivables less allowance for doubtful accounts (2008 $89,507; 2007 $85,780)	**6,701,875**	5,361,114
Inventories	**1,877,893**	1,638,192
Deferred taxes	**186,908**	182,562
Other current assets	**817,766**	704,482
	13,077,861	11,055,383
FIXED INCOME INVESTMENTS, HELD TO MATURITY	**511,090**	440,127
INVESTMENTS IN AFFILIATED COMPANIES	**1,851,547**	1,412,189
FIXED ASSETS LESS ACCUMULATED DEPRECIATION	**9,213,113**	8,007,991
MULTICLIENT SEISMIC DATA	**277,260**	182,282
GOODWILL	**5,294,555**	5,142,083
INTANGIBLE ASSETS	**862,115**	902,700
DEFERRED TAXES	**224,353**	214,745
OTHER ASSETS	**285,782**	495,872
	$ 31,597,676	$ 27,853,372
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 4,997,311**	$ 4,550,728
Estimated liability for taxes on income	**1,164,439**	1,071,889
Dividend payable	**253,064**	210,599
Long-term debt current portion	**1,585,548**	638,633
Convertible debentures		353,408
Bank & short-term loans	**625,875**	679,594
	8,626,237	7,504,851
CONVERTIBLE DEBENTURES	**332,790**	415,897
OTHER LONG-TERM DEBT	**3,194,968**	3,378,569
POSTRETIREMENT BENEFITS	**830,659**	840,311
OTHER LIABILITIES	**741,678**	775,975
	13,726,332	12,915,603
MINORITY INTEREST	**73,588**	61,881
STOCKHOLDERS EQUITY:		
Common stock	**4,594,484**	4,136,363
Income retained for use in the business	**18,991,492**	15,461,767
Treasury stock at cost	**(4,663,045)**	(3,549,243)
Accumulated other comprehensive loss	**(1,125,175)**	(1,172,999)

	17,797,756	14,875,888
	$ 31,597,676	$ 27,853,372

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2008	2007
	(Stated in thousands)	
Cash flows from operating activities:		
Net Income	**$ 4,284,661**	$ 3,793,303
Less: Income from discontinued operations	**(37,850)**	
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization [1]	**1,655,895**	1,399,570
Earnings of companies carried at equity, less dividends received	**(178,417)**	(127,889)
Deferred income taxes	**(475)**	19,316
Stock-based compensation expense	**126,035**	102,542
Provision for losses on accounts receivable	**15,102**	7,853
Change in assets and liabilities [2]		
Increase in receivables	**(1,277,693)**	(1,029,225)
Increase in inventories	**(242,291)**	(320,986)
Increase in other current assets	**(167,330)**	(92,345)
Increase in accounts payable and accrued liabilities	**526,948**	314,272
Increase in estimated liability for taxes on income	**99,633**	213,926
Decrease in postretirement benefits	**(28,383)**	(89,833)
Other net	**115,459**	(79,234)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**4,891,294**	4,111,270
Cash flows from investing activities:		
Capital expenditures	**(2,552,507)**	(2,013,053)
Multiclient seismic data capitalized	**(262,649)**	(194,415)
Business acquisitions and investments	**(345,164)**	(192,258)
Purchases of investments, net	**(416,558)**	(456,342)
Other	**(170,694)**	(193,972)
NET CASH USED BY INVESTING ACTIVITIES	**(3,747,572)**	(3,050,040)
Cash flows from financing activities:		
Dividends paid	**(712,467)**	(562,085)
Proceeds from employee stock purchase plan	**107,632**	83,927
Proceeds from exercise of stock options	**164,453**	437,264
Stock option tax benefits	**109,293**	77,400
Stock repurchase plan	**(1,664,811)**	(797,804)
Proceeds from issuance of long-term debt	**1,052,203**	271,755
Repayment of long-term debt	**(223,913)**	(451,041)
Net decrease in short-term debt	**(48,602)**	(128,475)
NET CASH USED IN FINANCING ACTIVITIES	**(1,216,212)**	(1,069,059)
Cash flow from discontinued operations operating activities	**63,382**	
Net decrease in cash before translation effect	**(9,108)**	(7,829)

Translation effect on cash		**(372)**		4,022
Cash, beginning of period		**197,233**		165,817
CASH, END OF PERIOD	**$**	**187,753**	$	162,010

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

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock			Accumulated Other Comprehensive Income (Loss)			
	Issued	In Treasury	Retained Income	Marked to Market	Deferred Employee Benefits Liabilities	Translation Adjustment	Comprehensive Income (Loss)
	(Stated in thousands)						
Balance, January 1, 2008	$ 4,136,363	$ (3,549,243)	$ 15,461,767	$ 31,627	$ (383,741)	$ (820,885)	
Net income			4,284,661				$ 4,284,661
Derivatives marked to market				(87,015)			(87,015)
Translation adjustment						87,484	87,484
Amortization of prior service cost, net of tax					(9,350)		(9,350)
Amortization of actuarial net loss, net of tax					19,077		19,077
Other	(485)				37,628		37,628
Dividends declared ($0.63 per share)			(754,936)				
Stock repurchase plan		(1,664,811)					
Proceeds from employee stock purchase plan	115,389	56,773					
Proceeds from shares sold to optionees, less shares exchanged	22,256	142,197					
Shares granted to directors	1,156	453					
Stock-based compensation cost	126,035						
Shares issued on conversion of debentures	84,477	351,586					
Tax benefits on stock options	109,293						
Balance, September 30, 2008	$ 4,594,484	$ (4,663,045)	$ 18,991,492	$ (55,388)	$ (336,386)	$ (733,401)	$ 4,332,485

See Notes to Consolidated Financial Statements

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SHARES OF COMMON STOCK

(Unaudited)

	Issued	In Treasury	Shares Outstanding
Balance, January 1, 2008	1,334,212,164	(138,595,840)	1,195,616,324
Employee stock purchase plan		1,995,661	1,995,661
Stock repurchase plan		(18,364,662)	(18,364,662)
Shares sold to optionees, less shares exchanged		5,067,295	5,067,295
Shares granted to directors		16,000	16,000
Shares issued on conversion of debentures		11,837,442	11,837,442
Balance, September 30, 2008	1,334,212,164	(138,044,104)	1,196,168,060

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of Schlumberger Limited and its subsidiaries (Schlumberger), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the accompanying unaudited financial statements. All intercompany transactions and balances have been eliminated in consolidation. Operating results for the nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. The December 31, 2007 balance sheet information has been derived from the audited 2007 financial statements. For further information, refer to the *Consolidated Financial Statements* and notes thereto, included in the Schlumberger Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on February 13, 2008.

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest (previously referred to as minority interest) in the acquiree. The provisions of SFAS 141(R) are effective for business combinations occurring on or after January 1, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, *an Amendment of ARB No. 51* (SFAS 160). This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the loss of control of a subsidiary. Upon its adoption on January 1, 2009, noncontrolling interests will be classified as equity in the Schlumberger financial statements.

SFAS 160 also changes the way the consolidated income statement is presented by requiring net income to include the net income for both the parent and the noncontrolling interest, with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. The provisions of this standard must be applied retrospectively upon adoption.

2. Earnings Per Share

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

Third Quarter	2008 Income from Continuing Operations	2008 Average Shares Outstanding	2008 Earnings per Share	2007 Income from Continuing Operations	2007 Average Shares Outstanding	2007 Earnings per Share
	(Stated in thousands except per share amounts)					
Basic	**$ 1,526,362**	**1,198,823**	**$ 1.27**	$ 1,353,997	1,194,175	$ 1.13
Assumed conversion of debentures	**2,150**	**8,925**		5,204	24,669	
Assumed exercise of stock options		**16,126**			24,071	

Unvested restricted stock		**1,238**			893	
Diluted	**$ 1,528,512**	**1,225,112**	**$ 1.25**	$ 1,359,201	1,243,808	$ 1.09

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Nine Months	Income from Continuing Operations	Average Shares Outstanding	Earnings per Share	Income from Continuing Operations	Average Shares Outstanding	Earnings per Share
	(Stated in thousands except per share amounts)					
Basic	**$ 4,246,811**	**1,196,660**	**$ 3.55**	$ 3,793,303	1,185,624	$ 3.20
Assumed conversion of debentures	**9,596**	**14,624**		18,969	30,042	
Assumed exercise of stock options		**16,057**			22,135	
Unvested restricted stock		**1,238**			874	
Diluted	**$ 4,256,407**	**1,228,579**	**$ 3.46**	$ 3,812,272	1,238,675	$ 3.08

During the first nine months of 2008, the $353 million outstanding 1.5% Series A Convertible Debentures due June 1, 2023 and $83 million of the 2.125% Series B Convertible Debentures due June 1, 2023 were converted into 11.8 million shares of Schlumberger common stock.

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

	2008	2007
	(Stated in millions)	
Third quarter	**1.2**	
Nine months	**1.2**	0.5

3. Acquisitions

During the first nine months of 2008, Schlumberger made certain acquisitions and minority interest investments, none of which were significant on an individual basis, for an aggregate amount of $345 million in cash.

4. Inventory

A summary of inventory follows:

	Sept. 30 2008	Dec. 31 2007
	(Stated in millions)	
Raw materials & field materials	**$ 1,585**	$ 1,359
Work in process	**147**	145
Finished goods	**146**	134
	$ 1,878	$ 1,638

5. Fixed Assets

A summary of fixed assets follows:

	Sept. 30 2008	Dec. 31 2007
	(Stated in millions)	
Property, plant & equipment	**$ 19,474**	$ 17,345
Less: Accumulated depreciation	**10,261**	9,337
	$ 9,213	$ 8,008

SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	2008	2007
	(Stated in millions)	
Third Quarter	**$ 485**	$ 396
Nine Months	**$ 1,394**	$ 1,108

6. Multiclient Seismic Data

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

	(Stated in millions)
Balance at December 31, 2007	$ 182
Capitalized in period	263
Charged to cost of goods sold & services	(168)
Balance at September 30, 2008	$ 277

7. Goodwill

The changes in the carrying amount of goodwill by business segment for the nine months ended September 30, 2008 were as follows:

	Oilfield Services	Western Geco	Total
	(Stated in millions)		
Balance at December 31, 2007	$ 4,185	$ 957	$ 5,142
Additions	50	58	108
Impact of foreign currency	45		45
Balance at September 30, 2008	$ 4,280	$ 1,015	$ 5,295

8. Intangible Assets

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

	Sept. 30, 2008			Dec. 31, 2007		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
			(Stated in millions)			
Software	**$ 343**	**$ 228**	**$ 115**	$ 341	$ 204	$ 137
Technology	**469**	**110**	**359**	437	89	348
Customer Relationships	**362**	**53**	**309**	354	34	320
Other	**120**	**41**	**79**	128	30	98
	$ 1,294	**$ 432**	**$ 862**	$ 1,260	$ 357	$ 903

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Amortization expense charged to income was as follows:

	2008	2007
	(Stated in millions)	
Third Quarter	**$ 31**	$ 32
Nine Months	**$ 94**	$ 93

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

Based on the net book value of intangible assets at September 30, 2008, amortization charged to income for the subsequent five years is estimated to be: remainder of 2008 $33 million; 2009 $103 million; 2010 $94 million; 2011 $86 million; 2012 $74 million and 2013 $63 million.

9. 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:

	Third Quarter		Nine Months	
	2008	2007	2008	2007
		(Stated in millions)		
Stock options	**$ 28**	$ 21	**$ 84**	$ 71
Restricted stock	**7**	5	**21**	14
DSPP	**9**	6	**21**	17
	$ 44	$ 32	**$ 126**	$ 102

10. Income Tax

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

	Third Quarter		Nine Months	
	2008	2007	2008	2007
		(Stated in millions)		
United States	**$ 383**	$ 362	**$ 1,117**	$ 1,321
Outside United States	**1,575**	1,348	**4,260**	3,563
	$ 1,958	$ 1,710	**$ 5,377**	$ 4,884

The components of net deferred tax assets were as follows:

	Sept. 30 2008	**Dec. 31 2007**
	(Stated in millions)	
Postretirement and other long-term benefits	**$ 287**	$ 244
Current employee benefits	**30**	29
Fixed assets, inventory and other, net	**94**	124
	$ 411	$ 397

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The deferred tax assets at September 30, 2008 and December 31, 2007 are net of valuation allowances relating to net operating losses in certain countries of $195 million and $214 million, respectively. The deferred tax assets presented above are also net of valuation allowances relating to a capital loss carryforward of $138 million at September 30, 2008 ($144 million at December 31, 2007) which expires in 2009 and 2010, and a foreign tax credit carryforward of $49 million, at September 30, 2008 and $55 million at December 31, 2007, which expires in 2009 through 2012.

The components of consolidated income tax expense were as follows:

	Third Quarter		Nine Months	
	2008	**2007**	**2008**	**2007**
		(Stated in millions)		
Current:				
United States Federal	**$ 120**	$ 81	**$ 335**	$ 409
United States State	**14**	14	**27**	41
Outside United States	**280**	218	**743**	622
	$ 414	$ 313	**$ 1,105**	$ 1,072
Deferred:				
United States Federal	**$ 19**	$ 28	**$ 20**	$ 3
United States State		1		8
Outside United States	**(14)**	18	**(10)**	25
Valuation allowance	**(1)**	(4)	**(11)**	(17)
	$ 4	$ 43	**$ (1)**	$ 19
Consolidated taxes on income	**$ 418**	$ 356	**$ 1,104**	$ 1,091

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

	Third Quarter		Nine Months	
	2008	**2007**	**2008**	**2007**
US federal statutory rate	**35%**	35%	**35%**	35%
US state income taxes	**1**	1		1
Non US income taxed at different rates	**(12)**	(13)	**(12)**	(12)
Effect of equity method investment	**(1)**	(1)	**(1)**	(1)
Other	**(2)**	(1)	**(1)**	(1)
Effective income tax rate	**21%**	21%	**21%**	22%

11. Contingencies

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

Schlumberger and its subsidiaries are parties 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 dispositions of these proceedings are not determinable and therefore, it is not possible to estimate the amount of loss or range of possible losses that might result from an adverse judgment or settlement in any of these matters. However, in the opinion of management, any liability that might ensue would not be material in relation to Schlumberger s consolidated liquidity, financial position or future results of operations.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. Segment Information

Schlumberger operates two business segments: Oilfield Services and WesternGeco.

	THIRD QUARTER 2008					THIRD QUARTER 2007 [1]				
	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI
					(Stated in millions)					
Oilfield Services										
North America	$ 1,500	$ 218	$	$ 99	$ 317	$ 1,300	$ 236	$	$ 114	$ 350
Latin America	1,141	192		38	230	863	165		39	204
Europe/CIS/Africa	2,165	494	12	122	628	1,694	416		79	495
Middle East & Asia	1,495	471		59	530	1,225	391		46	437
Elims/Other	55	(12)		6	(6)	46	6		13	19
	6,356	1,363	12	324	1,699	5,128	1,214		291	1,505
WesternGeco	892	247	1	107	355	794	228		78	306
Elims & Other	11	(58)		(13)	(71)	4	(66)		(13)	(79)
	$ 7,259	$ 1,552	$ 13	$ 418		$ 5,926	$ 1,376	$	$ 356	
Interest Income [2]					28					44
Interest Expense [3]					(53)					(66)
					$ 1,958					$ 1,710

1. Effective January 1, 2008, a component of the Middle East & Asia Area was reallocated to the Europe/CIS/Africa Area. Prior period data has been reclassified to conform to the current organizational structure.
2. Excludes interest income included in the segment results ($3 million in 2008; $1 million in 2007).
3. Excludes interest expense included in the segment results ($9 million in 2008; $2 million in 2007).

	NINE MONTHS 2008					NINE MONTHS 2007 [1]				
	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI
					(Stated in millions)					
Oilfield Services										
North America	$ 4,357	$ 689	$	$ 335	$ 1,024	$ 4,012	$ 809	$	$ 389	$ 1,198
Latin America	3,119	530		128	658	2,352	445		101	546
Europe/CIS/Africa	6,132	1,372	22	317	1,711	4,832	1,149		241	1,390

Middle East & Asia	4,258	1,351		164	1,515	3,522	1,104		132	1,236
Elims/Other	161	(34)	1	30	(3)	144	9		45	54
	18,027	3,908	23	974	4,905	14,862	3,516		908	4,424
WesternGeco	2,239	541	2	205	748	2,165	576		213	789
Elims & Other	29	(122)		(75)	(197)	2	(212)		(30)	(242)
	$ 20,295	$ 4,327	$ 25	$ 1,104		$ 17,029	$ 3,880	$	$ 1,091	
Interest Income (2)					87					112
Interest Expense (3)					(166)					(199)
					$ 5,377					$ 4,884

1. Effective January 1, 2008, a component of the Middle East & Asia Area was reallocated to the Europe/CIS/Africa Area. Prior period data has been reclassified to conform to the current organizational structure.
2. Excludes interest income included in the segment results ($6 million in 2008; $2 million in 2007).
3. Excludes interest expense included in the segment results ($23 million in 2008; $4 million in 2007).

SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Pension and Other Postretirement Benefits

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

	Third Quarter 2008	Third Quarter 2007	Nine Months 2008	Nine Months 2007
	(Stated in millions)			
Service cost benefits earned during period	**$ 13**	$ 15	**$ 42**	$ 43
Interest cost on projected benefit obligation	**33**	30	**98**	90
Expected return on plan assets	**(40)**	(37)	**(121)**	(110)
Amortization of prior service cost	**2**	2	**5**	5
Amortization of net loss	**2**	8	**11**	18
Net pension cost	**$ 10**	$ 18	**$ 35**	$ 46

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

	Third Quarter 2008	Third Quarter 2007	Nine Months 2008	Nine Months 2007
	(Stated in millions)			
Service cost benefits earned during period	**$ 8**	$ 9	**$ 26**	$ 26
Interest cost on projected benefit obligation	**15**	13	**45**	39
Expected return on plan assets	**(20)**	(17)	**(60)**	(50)
Amortization of net loss & other	**3**	4	**10**	13
Net pension cost	**$ 6**	$ 9	**$ 21**	$ 28

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

	Third Quarter 2008	Third Quarter 2007	Nine Months 2008	Nine Months 2007
	(Stated in millions)			
Service cost benefits earned during period	**$ 5**	$ 4	**$ 17**	$ 17
Interest cost on accumulated postretirement benefit obligation	**13**	13	**39**	36
Expected return on plan assets	**(1)**		**(2)**	(1)
Amortization of net loss	**3**	3	**8**	9
Amortization of prior service cost	**(7)**	(7)	**(21)**	(21)
Net postretirement benefit cost	**$ 13**	$ 13	**$ 41**	$ 40

14. Discontinued Operations

During the first quarter of 2008, Schlumberger recorded an after-tax gain of $38 million relating to a previously disposed of business that was accounted for as a discontinued operation.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
BUSINESS REVIEW

	Third Quarter			Nine Months		
	2008	2007	% change	2008	2007	% chg
			(Stated in millions)			
Oilfield Services						
Revenue	**$ 6,356**	$ 5,128	24%	**$ 18,027**	$ 14,862	21%
Pretax Operating Income	**$ 1,699**	$ 1,505	13%	**$ 4,905**	$ 4,424	11%
WesternGeco						
Revenue	**$ 892**	$ 794	12%	**$ 2,239**	$ 2,165	3%
Pretax Operating Income	**$ 355**	$ 306	16%	**$ 748**	$ 789	(5)%

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 as these items are not allocated to the segments.

Third Quarter 2008 Compared to Third Quarter 2007

Revenue for the third quarter of 2008 was $7.26 billion versus $5.93 billion in the same period last year. Income before income taxes and minority interest was $1.96 billion for the three-month period ended September 30, 2008 compared to $1.71 billion for the same period in 2007. Net income was $1.53 billion an increase of 7% sequentially and 13% year-on-year. Diluted earnings-per-share was $1.25 versus $1.16 in the previous quarter, and $1.09 in the third quarter of 2007. The overall impact of the hurricane season on Schlumberger third-quarter 2008 earnings was estimated at $0.04 per share. Without this effect, diluted earnings-per-share would have been $1.29.

The recent rapid deterioration in credit markets will undoubtedly have an effect on Schlumberger s activity though it is anticipated this will largely be limited to North America and in some emerging exploration markets overseas. The strengthening production of North American natural gas has also led a number of customers to reduce spending early.

At the present time, the rate at which the world economy will slow has become increasingly uncertain. Schlumberger has always maintained that the one event that could slow the rate of increase in worldwide exploration and production spending would be a reduction in the demand for oil caused by a severe global recession. At the moment, it is still too soon to predict to what extent current events will affect overall activity in 2009, but a slowing in the rate of increase of customer spending is anticipated.

However, Schlumberger believes the weakness of the current supply base, the age of the production profile and the decrease in reserve replacement are such that any significant drop in exploration and production investment would rapidly provoke an even stronger recovery.

OILFIELD SERVICES

Third-quarter revenue of $6.36 billion was 5% higher sequentially and 24% higher year-on-year.

Sequential revenue increases were recorded across all Areas led by the Canada, Mexico/Central America, US land Central, Peru/Colombia/Ecuador and Russian GeoMarkets. In addition, double-digit growth rates were achieved in the US land North, Libya, Caspian, Brunei/Malaysia/Philippines and Qatar GeoMarkets. Among the Technologies, growth was strongest in Well Services, Wireline and Drilling & Measurements.

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Year-on-year, revenue grew across all Areas and Technologies. The most significant geographical increases were in the Mexico/Central America, Russian, US land Central and North Sea GeoMarkets. The consolidation of Framo Engineering AS (Framo) also contributed to the growth. Schlumberger acquired an additional 5.5% in Framo in November 2007 to take its holding to a majority 52.75%.

Third-quarter pretax operating income of $1.70 billion was flat sequentially but 13% higher year-on-year. Pretax operating margin decreased sequentially from 28.1% to 26.7%. Sequentially, pretax operating income growth was experienced from stronger demand for Well Services and Wireline technologies in Canada following the spring break-up; increased operating leverage in Russia; and increased higher-margin services in Peru/Colombia/Ecuador. However, this growth was offset by the hurricane-related effects in the US; an increased mix of low-margin third-party managed services for Integrated Project Management (IPM) in Mexico/Central America; and reduced high-technology services in the Gulf and North Sea GeoMarkets.

Year-on-year pretax operating income growth was primarily a result of higher activity levels and an overall more favorable revenue mix in Europe/CIS/Africa, Middle East & Asia and Latin America. These increases were partially offset by a decrease in North America as the positive impact of increased activity was offset mostly by cost inflation.

North America

Revenue of $1.5 billion increased 4% sequentially and 15% year-on-year. Pretax operating income of $317 million decreased 8% sequentially and 9% year-on-year.

Canada recorded strong sequential growth with the rapid recovery in rig count following spring break-up, resulting in robust demand for Well Services, Wireline and Drilling & Measurements technologies. The US land GeoMarkets experienced growth on a more favorable mix of Well Services, Drilling & Measurements and Wireline services. These increases were partially offset by a sharp reduction in activity in the US Gulf of Mexico due to Hurricanes Gustav and Ike and a slow-down in Alaska for seasonal rig and infrastructure maintenance.

The year-on-year revenue growth was led by the US land Central and West GeoMarkets on strong activity increases that resulted in robust demand for Wireline, Drilling & Measurements and Well Services technologies. The Canada GeoMarket also recorded growth primarily in Well Services technologies while the US Gulf of Mexico GeoMarket increased on improved pricing and higher Completion Systems product sales. These increases were partially offset by a decrease in Alaska due to reduced exploration-related services and Well Services activity.

Pretax operating margin decreased sequentially from 23.9% to 21.1% primarily as a result of the overall impact of the Gulf of Mexico hurricane season and the slow-down in Alaska. This impact was partially offset by a sharp margin improvement in Canada on increased activity and efficiency.

Year-on-year, pretax operating margin decreased from 26.9% to 21.1% as the positive impact of the increased activity levels was insufficient to offset the impact of cost inflation across the Area.

Latin America

Revenue of $1.14 billion was 8% higher sequentially and increased 32% year-on-year. Pretax operating income of $230 million decreased 5% sequentially but increased 13% year-on-year.

Sequential revenue growth was led by Mexico/Central America driven primarily by increased IPM activity and by Peru/Colombia/Ecuador on strong activity for Wireline and Drilling & Measurements services. In addition, the Brazil GeoMarket contributed to growth through robust demand for exploration-related technologies as well as through higher Schlumberger Information Solutions (SIS) software sales.

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Year-on-year revenue growth was recorded across the Area. The Mexico/Central America and Peru/Colombia/Ecuador GeoMarkets increased primarily due to higher IPM activity while the Venezuela/Trinidad & Tobago GeoMarket grew on strong demand for Well Services, Drilling & Measurements and Wireline technologies. The Brazil GeoMarket increased on strong demand for exploration-related services in addition to higher SIS and Completion Systems sales. Argentina/Bolivia/Chile recorded growth on increased demand for Well Services technologies and higher Artificial Lift sales.

Pretax operating margin declined sequentially from 23.0% to 20.1% as the increased demand for high-technology Wireline and Drilling & Measurements services in Peru/Colombia/Ecuador and Brazil was insufficient to offset an increased mix of low-margin third-party managed services in IPM projects in the Mexico/Central America GeoMarket. Cost inflation across the Area also contributed to the margin decline.

Year-on-year, pretax operating margin decreased from 23.7% to 20.1% as the positive impact of increased activity levels in the Peru/Colombia/Ecuador and Brazil GeoMarkets were offset by less favorable revenue mixes in the Mexico/Central America and Venezuela/Trinidad & Tobago GeoMarkets and by cost inflation across the Area.

Europe/CIS/Africa

Revenue of $2.17 billion increased 5% sequentially and 28% year-on-year. Pretax operating income of $628 million increased 8% sequentially and 27% year-on-year.

Sequentially, revenue growth was led by the Russian GeoMarkets with the summer seasonal offshore exploration campaigns in the East and strong demand for Well Services technologies in the North and South while the Caspian GeoMarket experienced a sharp rise in activity resulting in strong demand for exploration-related technologies. Libya revenue increased in both exploration- and development-related activities that led to robust demand for Wireline, Drilling & Measurements and Well Services technologies, and the West & South Africa GeoMarket recorded exploration-related growth for Wireline and Well Testing services. Framo technologies also contributed to growth. These increases, however, were partially offset by a decrease in both exploration and development rig activity in the North Sea GeoMarket that resulted in reduced demand for Wireline, Drilling & Measurements and Well Testing services.

Year-on-year, revenue growth was also led by the Russian GeoMarkets on increased demand for Drilling & Measurements, Well Services, Wireline and Well Testing services coupled with higher IPM activity. The North Sea, West & South Africa, Caspian and Continental Europe GeoMarkets recorded growth on increased exploration and development activity that led to robust demand for Wireline, Drilling & Measurements and Well Services technologies. The consolidation of Framo also contributed to the growth.

Pretax operating margin increased sequentially from 28.2% to 29.0% primarily due to higher activity coupled with the more favorable mix of exploration-related services in Russia. This increase was partially offset by the less favorable activity mix in the North Sea.

Year-on-year, pretax operating margin was essentially flat as improvements in the Russian, North Sea and Caspian GeoMarkets resulting from a stronger and more favorable activity mix were offset by reductions in Libya due to a more competitive pricing environment and in the North Africa and Continental Europe GeoMarkets primarily due to cost inflation.

Middle East & Asia

Revenue of $1.49 billion was 4% higher sequentially and 22% higher year-on-year. Pretax operating income of $530 million increased 1% sequentially and 21% year-on-year.

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Sequentially, the Brunei/Malaysia/Philippines GeoMarket grew on strong Completions product sales as well as on increased exploration activity that resulted in robust demand for Wireline and Well Testing services. The East Mediterranean, Qatar, Arabian and India GeoMarkets experienced growth from a more favorable mix of services. These increases were partially offset by a decrease in the Gulf GeoMarket due to a general shift from drilling to workover activity that resulted in sharply lower Wireline services.

Year-on-year revenue growth was recorded across the Area led by the Arabian, Australia/Papua New Guinea, East Mediterranean, Qatar and Brunei/Malaysia/Philippines GeoMarkets. Among the Technologies, growth was strongest for Drilling & Measurements, Wireline, Well Testing and Well Services.

Pretax operating margin moderated sequentially from 36.3% to 35.5% as the positive impact of high-technology services primarily in the Qatar and India GeoMarkets was insufficient to offset the combined effects of a less favorable revenue mix in Indonesia and the shift to lower-margin workover activity in the Gulf.

Year-on-year, pretax operating margin was essentially flat as increases in the Qatar GeoMarket due to a more favorable revenue mix and in the Arabian GeoMarket resulting from improved pricing for Well Testing services and higher margin Completions System sales were offset by decreases in the Gulf GeoMarket due to shift to lower-margin workover activity and in the Indonesia GeoMarket primarily as a result of cost inflation.

WESTERNGECO

Third-quarter revenue of $892 million increased 33% sequentially and 12% year-on-year. Pretax operating income of $355 million was 81% higher sequentially and increased 16% year-on-year.

Sequentially, Marine revenue increased sharply on strong activity in the North Sea and the transfer of three vessels from multi-client to proprietary surveys during the quarter. Multiclient revenue grew due to increased sales in North America, Latin America and Europe. Data Processing also recorded higher revenue primarily in Europe, North America and India. However, these increases were partially offset by a decrease in Land revenue on reduced activity and contract completions in North Africa and Latin America.

Year-on-year, Multiclient recorded growth on increased sales, most notably in Asia, Europe and Africa. Marine increased mostly due to higher pricing while Data Processing grew on stronger activity in India, Latin America and Europe. These increases were offset by a decrease in Land on the reduced activity and contract completions in North Africa and Latin America.

Pretax operating margin increased sequentially from 29.2% to 39.8% mainly due to increased Marine activity with seasonally stronger pricing and to Multiclient as a result of the increased sales and more favorable margin mix. These increases were partially offset by lower Land operating income resulting from the impact of reduced crew utilization and contract completions.

Year-on-year, pretax operating margin increased from 38.6% to 39.8% primarily due to the increased level of sales coupled with a more favorable margin mix in Multiclient. Marine and Data Processing pretax operating margins declined mostly as the result of cost inflation while Land decreased due to the lower level of activity.

Nine Months 2008 Compared to Nine Months 2007

Nine-month revenue for the period ended September 30, 2008 was $20.29 billion versus $17.03 billion for the same period last year. Income before income taxes and minority interest was $5.38 billion for the first nine months of 2008 compared to $4.88 billion for the first nine months of 2007.

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OILFIELD SERVICES

Nine-month revenue of $18.03 billion was 21% higher compared to the same period last year. All Areas recorded growth, most notably in the Mexico/Central America, Russian, North Sea, West & South Africa, Arabian and US land GeoMarkets. The consolidation of Framo also contributed to the increase.

Pretax operating margin decreased from 29.8% to 27.2% primarily due to reduced pricing for well stimulation services in the US land GeoMarkets, a higher mix of low-margin third party managed services in the Mexico/Central America GeoMarket and cost inflation across all Areas.

North America

Revenue of $4.36 billion grew 9% versus the same period last year. Growth was led by the US land Central GeoMarket primarily on increased gas shale activity and by the Canada GeoMarket as the result of extended winter drilling activity and record high activity following the spring break-up in the current year. The US land West GeoMarket increased on stronger rig activity coupled with higher Artificial Lift sales while the US Gulf of Mexico GeoMarket grew on increased deepwater activity. These increases were partially offset by a decrease in the US land North GeoMarket due to adverse weather conditions.

Pretax operating margin decreased from 29.9% to 23.5% mostly as the result of lower pricing for well stimulation services in the US land GeoMarkets and cost inflation across the Area.

Latin America

Revenue of $3.12 billion was 33% higher than the same period last year. All GeoMarkets recorded double-digit growth, most notably in Mexico/Central America and Peru/Colombia/Ecuador on strong IPM activity in addition to increased demand for conventional services. Brazil grew on a surge in offshore activity while the Venezuela/Trinidad & Tobago recorded strong rig-less activity and increased demand for SIS products and services. Argentina/Bolivia/Chile revenue increased on robust demand for Drilling & Measurements and Well Services technologies as well as Artificial Lift products.

Pretax operating margin decreased from 23.2% to 21.1% primarily as the result of a higher mix of low-margin third party managed services in the Mexico/Central America GeoMarket and cost inflation across the Area.

Europe/CIS/Africa

Revenue of $6.13 billion increased 27% versus the same period last year. Growth was led by the Russian GeoMarkets on stronger exploration activity and increased demand for Well Services technologies. The North Sea and West & South Africa GeoMarkets grew on increased exploration-related services as well as strong demand for Well Services technologies while the Continental Europe GeoMarket increased due to strong drilling-related and IPM activities. The consolidation of Framo also contributed to the increase.

Pretax operating magin decreased from 28.8% to 27.9% as improved revenue mix in Russia and in the North Sea GeoMarkets were offset by decreased margins in most other GeoMarkets and by the effect of the consolidation of Framo.

Middle East & Asia

Revenue of $4.26 billion was 21% higher than the same period last year, most notably in the Arabian GeoMarket on strong growth across the Technologies; in the Australia/Papua New Guinea GeoMarket on increased offshore exploration-related services; in the China/Japan/Korea on strong drilling-related services and higher SIS and Artificial lift services and product sales; and in the East Mediterranean and Gulf GeoMarkets.

Pretax operating margin increased slightly from 35.1% to 35.6% primarily due to the higher level of activity coupled with a more favorable revenue mix.

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WESTERNGECO

Nine-month revenue of $2.24 billion was 3% higher than the same period last year. Marine revenue increased as the result of higher pricing and the addition of one vessel to the fleet while Data Processing revenue grew on increased activity. These increases were partially offset by a decrease in Multiclient on lower late sales in North America, and in Land due to reduced activity and contract completions.

Pretax operating margin decreased from 36.4% to 33.4% primarily as the result of the impact of lower Multiclient late sales in North America and the reduced Land activity.

Interest & Other Income

Interest & other income consisted of the following for the third quarter and nine months ended September 30, 2008 and 2007:

	Third Quarter		Nine Months	
	2008	2007	2008	2007
	(Stated in millions)			
Interest income	**$ 31**	$ 44	**$ 94**	$ 114
Equity in net earnings of affiliated companies	**76**	64	**212**	175
	$ 107	$ 108	**$ 306**	$ 289

Equity in Net Earnings of Affiliated Companies

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

Other

Gross margin was 31.6% and 34.1% in the third quarter of 2008 and 2007, and 31.3% and 33.9% in the nine-month periods ended September 30, 2008 and 2007, respectively. The decrease in gross margin was primarily driven by pricing decreases for certain land well-stimulation related activities in the US, the impact of cost inflation, and an increased mix of low-margin IPM project activity in the Mexico/Central America GeoMarket.

As a percentage of Revenue, Research & engineering, Marketing and General & administrative expenses for the third quarter and nine months ended September 30, 2008 and 2007 were as follows:

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Research & engineering	**2.9%**	3.2%	**2.9%**	3.1%
Marketing	**0.3%**	0.4%	**0.4%**	0.3%
General & administrative	**2.1%**	2.3%	**2.1%**	2.2%

Research and engineering expenditures, by business segment for the third quarter and nine months ended September 30, 2008 and 2007, were as follows:

	Third Quarter		Nine Months	
	2008	2007	2008	2007
	(Stated in millions)			
Oilfield Services	**$ 177**	$ 151	**$ 500**	$ 429
WesternGeco	**28**	36	**86**	91

Other	**3**	3	**11**	12
	$ 208	$ 190	**$ 597**	$ 532

The effective tax rate for the third quarter of 2008 was 21.4% compared to 20.8% for the same period in 2007. This increase was primarily attributable to WesternGeco as a result of increased multiclient and marine activity in

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higher tax jurisdictions. The effective tax rate for the nine months ended September 30, 2008 was 20.5% compared to 22.3% in the same period of the prior year. This decrease was primarily attributable to the geographic mix of earnings in Oilfield Services which had a lower proportion of pretax earnings in North America.

CASH FLOW

Net Debt represents 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 by reflecting cash and investments that could be used to repay debt. Details of Net Debt follow:

	Sept. 30 2008	**Sept. 30 2007**
	(Stated in millions)	
Net Debt, beginning of period	**$ (1,857)**	$ (2,834)
Net income	**4,285**	3,793
Excess of equity income over dividends received	**(178)**	(128)
Depreciation and amortization [(1)]	**1,656**	1,400
Increase in working capital	**(918)**	(856)
US pension plan contribution		(150)
Capital expenditures [(1)]	**(2,815)**	(2,207)
Business acquisitions	**(345)**	(196)
Dividends paid	**(712)**	(562)
Proceeds from employee stock plans	**272**	521
Stock repurchase program	**(1,665)**	(798)
Conversion of debentures	**436**	490
Translation effect on Net Debt	**67**	(92)
Other	**39**	(64)
Net Debt, end of period	**$ (1,735)**	$ (1,683)

(1) Includes Multiclient seismic data costs.

Components of Net Debt	**Sept. 30 2008**	**Sept. 30 2007**	**Dec. 31 2007**
		(Stated in millions)	
Cash	**$ 188**	$ 162	$ 197
Short-term investments	**3,305**	3,076	