SCHLUMBERGER LTD /NV/
Form 10-Q
April 27, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended:
March 31, 2011
Commission file No.:
1-4601
SCHLUMBERGER N.V.
(SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number: (713) 375-3400

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

YES þ NO o

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

YES þ NO o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o NO þ

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 March 31, 2011
COMMON STOCK, $0.01 PAR VALUE PER SHARE	1,356,940,119

SCHLUMBERGER LIMITED
First Quarter 2011 Form 10-Q
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(Stated in millions, except per share amounts)

	Three Months Ended March 31, 2011	2010
Revenue		
Oilfield Services	**$ 8,122**	$ 5,598
Distribution	**601**	
Intersegment eliminations	**(7)**	
	8,716	5,598
Interest & other income, net	**31**	64
Expenses		
Cost of Revenue:		
Oilfield Services	**6,490**	4,415
Distribution	**577**	
Intersegment eliminations	**(7)**	
Research & engineering	**249**	207
General & administrative	**93**	72
Merger & integration	**34**	35
Interest	**73**	45
Income before taxes	**1,238**	888
Taxes on income	**295**	214
Net Income	**943**	674
Net loss (income) attributable to noncontrolling interests	**1**	(2)
Net Income attributable to Schlumberger	**$ 944**	$ 672
Basic earnings per share of Schlumberger	**$ 0.69**	$ 0.56
Diluted earnings per share of Schlumberger	**$ 0.69**	$ 0.56
Average shares outstanding:		
Basic	**1,360**	1,195
Assuming dilution	**1,375**	1,215

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	(Stated in millions)	
	Mar. 31, 2011 (Unaudited)	Dec. 31, 2010
ASSETS		
Current Assets		
Cash	**$ 1,475**	$ 1,764
Short-term investments	**2,688**	3,226
Receivables less allowance for doubtful accounts (2011 $177; 2010 $185)	**8,891**	8,278
Inventories	**4,092**	3,804
Deferred taxes	**14**	51
Other current assets	**1,051**	975
	18,211	18,098
Fixed Income Investments, held to maturity	**458**	484
Investments in Affiliated Companies	**1,198**	1,071
Fixed Assets less accumulated depreciation	**12,218**	12,071
Multiclient Seismic Data	**434**	394
Goodwill	**13,978**	13,952
Intangible Assets	**5,079**	5,162
Other Assets	**796**	535
	$ 52,372	$ 51,767
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 6,328**	$ 6,488
Estimated liability for taxes on income	**1,544**	1,493
Long-term debt current portion	**1,739**	2,214
Short-term borrowings	**450**	381
Dividend payable	**338**	289
	10,399	10,865
Long-term Debt	**6,422**	5,517
Postretirement Benefits	**1,253**	1,262
Deferred Taxes	**1,702**	1,636
Other Liabilities	**970**	1,043
	20,746	20,323
Equity		
Common stock	**11,983**	11,920
Treasury stock	**(3,740)**	(3,136)
Retained earnings	**25,814**	25,210

Accumulated other comprehensive loss	**(2,643)**	(2,768)
Schlumberger stockholders equity	**31,414**	31,226
Noncontrolling interests	**212**	218
	31,626	31,444
	$ 52,372	$ 51,767

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Stated in millions)

	Three Months Ended Mar. 31, 2011	2010
Cash flows from operating activities:		
Net Income	**$ 943**	$ 674
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization (1)	**788**	620
Earnings of companies carried at equity, less dividends received	**(21)**	(47)
Deferred income taxes	**60**	33
Stock-based compensation expense	**67**	47
Pension and other postretirement benefits expense	**94**	79
Pension and other postretirement benefits funding	**(49)**	(64)
Change in assets and liabilities: (2)		
(Increase) decrease in receivables	**(561)**	125
(Increase) decrease in inventories	**(251)**	17
(Increase) decrease in other current assets	**(49)**	39
Decrease in accounts payable and accrued liabilities	**(177)**	(299)
Decrease in estimated liability for taxes on income	**(99)**	(1)
Decrease in other liabilities	**(41)**	(32)
Other net	**132**	(202)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**836**	989
Cash flows from investing activities:		
Capital expenditures	**(770)**	(449)
Multiclient seismic data capitalized	**(83)**	(91)
Business acquisitions and investments, net of cash acquired	**(74)**	(117)
Sale of investments, net	**565**	463
Other	**(23)**	(5)
NET CASH USED IN INVESTING ACTIVITIES	**(385)**	(199)
Cash flows from financing activities:		
Dividends paid	**(291)**	(254)
Proceeds from employee stock purchase plan	**90**	84
Proceeds from exercise of stock options	**146**	31
Stock repurchase program	**(844)**	(337)
Proceeds from issuance of long-term debt	**2,234**	
Repayment of long-term debt	**(2,146)**	(109)
Net increase (decrease) in short-term borrowings	**64**	(182)
NET CASH USED IN FINANCING ACTIVITIES	**(747)**	(767)

Net increase (decrease) increase in cash before translation effect	**(296)**	23
Translation effect on cash	**7**	
Cash, beginning of period	**1,764**	617
Cash, end of period	**$ 1,475**	$ 640

(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 EQUITY
(Unaudited)

(Stated in millions)

	Common Stock		Retained	Accumulated Other Comprehensive	Noncontrolling	
January 1, 2010 - March 31, 2010	Issued	In Treasury	Earnings	Loss	Interests	Total
Balance, January 1, 2010	$ 4,777	$ (5,002)	$ 22,019	$ (2,674)	$ 109	$ 19,229
Comprehensive income						
Net income			672		2	
Currency translation adjustments				11		
Changes in fair value of derivatives				(22)		
Deferred employee benefits liabilities				53		
Total comprehensive income						716
Shares sold to optionees, less shares exchanged		31				31
Vesting of restricted stock	(8)	8				
Shares issued under employee stock purchase plan	25	59				84
Stock repurchase program		(337)				(337)
Stock-based compensation cost	47					47
Shares issued on conversion of debentures	2	20				22
Other	(2)					(2)
Dividends declared ($0.21 per share)			(251)			(251)
Balance, March 31, 2010	$ 4,841	$ (5,221)	$ 22,440	$ (2,632)	$ 111	$ 19,539

(Stated in millions)

	Common Stock		Retained	Accumulated Other Comprehensive	Noncontrolling	
January 1, 2010 - March 31, 2010	Issued	In Treasury	Earnings	Loss	Interests	Total
Balance, January 1, 2011	$ 11,920	$ (3,136)	$ 25,210	$ (2,768)	$ 218	$ 31,444
Comprehensive income						
Net income			944		(1)	
Currency translation adjustments				129	2	
Changes in fair value of derivatives				(35)		
Deferred employee benefits liabilities				31		
Total comprehensive income						1,070
Shares sold to optionees, less shares exchanged	(8)	154				146

Vesting of restricted stock	(10)	10				
Shares issued under employee stock purchase plan	14	76				90
Stock repurchase program		(844)				(844)
Stock-based compensation cost	67					67
Other					(7)	(7)
Dividends declared ($0.25 per share)			(340)			(340)
Balance, March 31, 2011	$ 11,983	$ (3,740)	$ 25,814	$ (2,643)	$ 212	$ 31,626

SHARES OF COMMON STOCK
(Unaudited)

			(Stated in millions) Shares
	Issued	In Treasury	Outstanding
Balance, January 1, 2011	1,434	(73)	1,361
Shares sold to optionees, less shares exchanged		4	4
Shares issued under employee stock purchase plan		2	2
Stock repurchase program		(10)	(10)
Balance, March 31, 2011	1,434	(77)	1,357

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 three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011. The December 31, 2010 balance sheet information has been derived from the audited 2010 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, 2010, filed with the Securities and Exchange Commission on February 4, 2011.

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

2. Charges

Schlumberger recorded the following charges during the first quarters of 2011 and 2010:

2011

Schlumberger recorded $34 million of pretax merger and integration-related charges ($28 million after-tax) in connection with the merger with Smith International, Inc. (Smith) and the acquisition of Geoservices. This amount is classified in *Merger & integration* in the *Consolidated Statement of Income*.

2010

Schlumberger incurred $35 million of merger-related costs in connection with the Smith and Geoservices transactions. These costs primarily consisted of legal and other advisory fees.

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

The following is a summary of these charges:

	(Stated in millions)			Consolidated Statement of Income
	Pretax	Tax	Net	Classification
Merger-related transaction costs	$ 35	$	$ 35	*Merger & integration*
Impact of elimination of tax deduction related to Medicare Part D subsidy		(40)	40	*Taxes on income*
	$ 35	$ (40)	$ 75	

3. Earnings Per Share

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

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(Stated in millions, except per share amounts)

	2011 Schlumberger Net Income	2011 Average Shares Outstanding	2011 Earnings per Share	2010 Schlumberger Net Income	2010 Average Shares Outstanding	2010 Earnings per Share
First Quarter						
Basic	**$ 944**	**1,360**	**$ 0.69**	$ 672	1,195	$ 0.56
Assumed conversion of debentures				2	7	
Assumed exercise of stock options		**13**			11	
Unvested restricted stock		**2**			2	
Diluted	**$ 944**	**1,375**	**$ 0.69**	$ 674	1,215	$ 0.56

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

(Stated in millions)

	2011	2010
First Quarter	**1**	13

4. Acquisitions

On August 27, 2010, Schlumberger acquired all of the outstanding shares of Smith, a leading supplier of premium products and services to the oil industry. Schlumberger issued approximately 176 million shares of its common stock which were valued at $9.8 billion at the time of closing, to effect this transaction. Smith reported revenue of approximately $2.1 billion during the first quarter of 2010.

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

During the first quarter of 2011, Schlumberger made certain acquisitions and minority interest investments, none of which were significant on an individual basis, for cash payments, net of cash acquired, of $74 million.

5. Inventory

A summary of inventory follows:

(Stated in millions)

	Mar. 31, 2011	Dec. 31, 2010
Raw materials & field materials	**$ 1,757**	$ 1,833
Work in process	**335**	249
Finished goods	**2,000**	1,722
	$ 4,092	$ 3,804

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6. Fixed Assets

A summary of fixed assets follows:

	(Stated in millions)	
	Mar. 31, 2011	Dec. 31, 2010
Property, plant & equipment	**$ 27,330**	$ 26,679
Less: Accumulated depreciation	**15,112**	14,608
	$ 12,218	$ 12,071

Depreciation expense was $661 million and $547 million in the first quarter of 2011 and 2010, respectively.

7. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the three months ended March 31, 2011 was as follows:

		(Stated in millions)
Balance at December 31, 2010	$	394
Capitalized in period		83
Charged to expense		(43)
Balance at March 31, 2011	$	434

8. Goodwill

In connection with the change in reportable segments as discussed in Note 14 *Segment Information*, Schlumberger reallocated the goodwill that existed as of December 31, 2010 to the new reporting units on a relative fair value basis. The changes in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2011 were as follows:

(Stated in millions)	Reservoir Characterization	Reservoir Production	Drilling	Distribution	Total
Balance at January 1, 2011	$ 3,381	$ 2,351	$ 8,150	$ 70	$ 13,952
Adjustments relating to Smith acquisition		1	(25)	4	(20)
Impact of changes in exchange rates and other	16	12	18		46
Balance at March 31, 2011	$ 3,397	$ 2,364	$ 8,143	$ 74	$ 13,978

9. Intangible Assets

Intangible assets principally comprise technology/technical know-how, tradenames and customer relationships. The gross book value, accumulated amortization and net book value of intangible assets were as follows:

	(Stated in millions)					
	Mar. 31, 2011			Dec. 31, 2010		
	Gross	**Accumulated**	**Net Book**	Gross	Accumulated	Net Book

	Book Value	**Amortization**	**Value**	Book Value	Amortization	Value
Technology/Technical Know-How	**$1,847**	**$ 250**	**$1,597**	$1,846	$ 215	$1,631
Tradenames	**1,678**	**79**	**1,599**	1,678	61	1,617
Customer Relationships	**1,971**	**157**	**1,814**	1,963	129	1,834
Other	**366**	**297**	**69**	378	298	80
	$5,862	**$ 783**	**$5,079**	$5,865	$ 703	$5,162

Amortization expense charged to income was $84 million during the first quarter of 2011 and $28 million during the same period of 2010.

The weighted average amortization period for all intangible assets is approximately 21 years.

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Based on the net book value of intangible assets at March 31, 2011, amortization charged to income for the subsequent five years is estimated to be: remainder of 2011 $240 million; 2012 - $311 million; 2013 $295 million; 2014 $290 million; 2015 $275 million and 2016 $260 million.

10. Derivative Instruments and Hedging Activities

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

Foreign Currency Exchange Rate Risk

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

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

At March 31, 2011, Schlumberger recognized a cumulative net $10 million gain in *Equity* relating to revaluation of foreign currency forward contracts and foreign currency options designated as cash flow hedges, the majority of which is expected to be reclassified into earnings within the next twelve months.

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

At March 31, 2011, contracts were outstanding for the US dollar equivalent of $7.5 billion in various foreign currencies.

Commodity Price Risk

Schlumberger is exposed to the impact of market fluctuations in the price of certain commodities, such as metals and fuel. Schlumberger utilizes forward contracts to manage a small percentage of the price risk associated with forecasted metal purchases. The objective of these contracts is to reduce the variability of cash flows associated with the forecasted purchase of those commodities. These contracts do not qualify for hedge accounting treatment and therefore, changes in the fair value of the forward contracts are recorded directly to earnings.

At March 31, 2011, $27 million of commodity forward contracts were outstanding.

Interest Rate Risk

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

During the third quarter of 2009, Schlumberger entered into an interest rate swap for a notional amount of $450 million in order to hedge changes in the fair value of Schlumberger s $450 million 3.00% Notes due 2013. Under the terms of this swap, Schlumberger receives interest at a fixed rate of 3.0% annually and pays interest quarterly at a floating rate of three-month LIBOR plus a spread of 0.765%. This interest rate swap is designated as a fair value hedge of the underlying debt. This derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective gains and losses recognized on

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changes in the fair value of the hedged debt. This results in no net gain or loss being recognized in the *Consolidated Statement of Income*.

At March 31, 2011, Schlumberger had fixed rate debt aggregating $5.5 billion and variable rate debt aggregating $3.1 billion, after taking into account the effects of the interest rate swaps.

Short-term investments and *Fixed income investments*, *held to maturity*, totaled $3.1 billion at March 31, 2011, and were comprised primarily of money market funds, eurodollar time deposits, certificates of deposit, commercial paper, euro notes and Eurobonds, and were substantially all denominated in US dollars. The carrying value of these investments approximated fair value, which was estimated using quoted market prices for those or similar investments.

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

	(Stated in millions) **Fair Value of Derivatives**		
	Mar. 31, 2011	Dec. 31, 2010	**Classification**
Derivative Assets			
Derivative designated as hedges:			
Foreign exchange contracts	**$ 30**	$ 4	*Other current assets*
Foreign exchange contracts	**100**	37	*Other Assets*
Interest rate swaps	**12**	14	*Other Assets*
	$ 142	$ 55	
Derivative not designated as hedges:			
Commodity contracts	**$ 2**	$ 3	*Other current assets*
Foreign exchange contracts	**11**	9	*Other current assets*
Foreign exchange contracts	**5**	9	*Other Assets*
	$ 18	$ 21	
	$ 160	$ 76	
Derivative Liabilities			
Derivative designated as hedges:			
Foreign exchange contracts	**$ 8**	$ 9	*Accounts payable and accrued liabilities*
Foreign exchange contracts	**42**	77	*Other Liabilities*
Interest rate swaps		7	*Accounts payable and accrued liabilities*
	$ 50	$ 93	
Derivative not designated as hedges:			

Foreign exchange contracts		**13**		14	*Accounts payable and accrued liabilities*
	$	**13**	$	14	
	$	**63**	$	107	

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

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

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	(Stated in millions) Gain (Loss) Recognized in Income First Quarter		
	2011	2010	**Classification**
Derivatives designated as fair value hedges:			
Foreign exchange contracts	**$ 2**	$ (13)	*Cost of revenue Oilfield Services*
Interest rate swaps		5	*Interest expense*
	$ 2	$ (8)	
Derivatives not designated as hedges:			
Foreign exchange contracts	**$ (21)**	$ (7)	*Cost of revenue Oilfield Services*
Commodity contracts	**1**	(1)	*Cost of revenue Oilfield Services*
	$ (20)	$ (8)	

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

	(Stated in millions) Gain (Loss) Reclassified from Accumulated OCI into Income First Quarter		
	2011	2010	**Classification**
Foreign exchange contracts	**$ 225**	$ (135)	*Cost of revenue Oilfield Services*
Foreign exchange contracts	**2**	(1)	*Research & engineering*
	$ 227	$ (136)	

	(Stated in millions) Gain (Loss) Recognized in OCI First Quarter	
	2011	2010
Foreign exchange contracts	**$ 191**	$ (158)

11. Long-term Debt

A summary of *Long-term Debt* follows:

	(Stated in millions)	
	Mar. 31, 2011	Dec. 31, 2010
4.50% Guaranteed Notes due 2014	**$ 1,406**	$ 1,319
2.75% Guaranteed Notes due 2015	**1,398**	1,310
4.20% Guaranteed Notes due 2021	**1,100**	
5.25% Guaranteed Notes due 2013	**703**	659
2.65% Guaranteed Notes due 2016	**500**	
3.00% Guaranteed Notes due 2013	**450**	450
9.75% Senior Notes due 2019		776
8.625% Senior Notes due 2014		272
6.00% Senior Notes due 2016		218
Commercial paper borrowings	**756**	367
Other variable rate debt	**97**	133
	6,410	5,504
Fair value adjustment hedging	**12**	13
	$ 6,422	$ 5,517

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

During the first quarter of 2011, Schlumberger repurchased all of the outstanding 9.75% Senior Notes due 2019, the 8.625% Senior Notes due 2014 and the 6.00% Senior Notes due 2016 for approximately $1.26 billion. These transactions did not result in any significant gains or losses.

During the first quarter of 2011, Schlumberger issued $1.1 billion of 4.20% Guaranteed Notes due 2021.

During the first quarter of 2011, Schlumberger issued $500 million of 2.65% Guaranteed Notes due 2016. Schlumberger entered into agreements to swap these dollar notes for euros on the date of issue until maturity, effectively making this a euro denominated debt on which Schlumberger will pay interest in euros at a rate of 2.39%.

The fair value of Schlumberger s *Long-term Debt* at March 31, 2011 and December 31, 2010 was $6.5 billion and $5.6 billion, respectively, and was estimated based on quoted market prices.

12. Income Tax

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

	(Stated in millions)	
	First Quarter	
	2011	2010
United States	**$ 365**	$ 61
Outside United States	**873**	827
	$ 1,238	$ 888

During the first quarter of 2011, Schlumberger recorded pretax charges of $34 million, consisting of net charges in the US of $23 million and $11 million outside of the US.

During the first quarter of 2010, Schlumberger recorded net pretax charges of $35 million outside of the US.

These charges are included in the table above and are more fully described in Note 2 *Charges.*

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The components of net deferred tax assets (liabilities) were as follows:

	(Stated in millions)	
	Mar. 31, 2011	Dec. 31, 2010
Postretirement benefits, net	**$ 316**	$ 327
Intangible assets	**(1,683)**	(1,674)
Investments in non-US subsidiaries	**(471)**	(353)
Other, net	**150**	115
	$ (1,688)	$ (1,585)

The above deferred tax balances at March 31, 2011 and December 31, 2010 were net of valuation allowances relating to net operating losses in certain countries of $277 million and $263 million, respectively.
The components of consolidated *Taxes on income* were as follows:

	(Stated in millions)	
	First Quarter	
	2011	2010
Current:		
United States Federal	**$ 155**	$ 22
United States State	**16**	3
Outside United States	**64**	156
	$ 235	$ 181
Deferred:		
United States Federal	**$ (29)**	$ 42
United States State	**3**	2
Outside United States	**93**	(10)
Valuation allowance	**(7)**	(1)
	$ 60	$ 33
Consolidated taxes on income	**$ 295**	$ 214

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

	First Quarter	
	2011	2010
US federal statutory rate	**35%**	35%
US state income taxes	**1**	
Non-US income taxed at different rates	**(11)**	(16)
Charges (See Note 2)		5
Other	**(1)**	

Effective income tax rate	**24%**	24%

13. <u>Contingencies</u>

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

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

On April 20, 2010, a fire and explosion occurred onboard the semisubmersible drilling rig *Deepwater Horizon*, owned by Transocean Ltd. and under contract to a subsidiary of BP plc. Pursuant to a contract between M-I SWACO and BP, M-I SWACO provided certain services under the direction of BP. A number of legal actions, certain of which name an M-I SWACO entity as a defendant, have been filed in connection with the *Deepwater Horizon* incident, and additional legal actions may be filed in the future. Based on information currently known, the amount of any potential

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loss attributable to M-I SWACO with respect to potential liabilities related to the incident would not be material to Schlumberger s consolidated financial position.

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. Management believes that the probability of a material loss is remote and, as such, that any liability that might ensue would not be material in relation to Schlumberger s consolidated financial position. However, litigation is inherently uncertain and it is not possible to predict the ultimate disposition of these proceedings.

14. Segment Information

Schlumberger previously reported its results on the basis of five business segments Schlumberger Oilfield Services, WesternGeco, M-I SWACO, Smith Oilfield and Distribution and by geographical areas within Schlumberger Oilfield Services. As a result of the recent acquisitions of Smith and Geoservices, Schlumberger has reached a point where its coverage of the various activities comprising exploration and production services is so broad that Schlumberger has changed the primary way in which it allocates resources and assesses performance. Consequently, effective with the first quarter of 2011, Schlumberger changed its primary reporting to product group segments (the Groups).

The Groups are as follows:

> ***Reservoir Characterization Group*** This group consists of the principal technologies involved in the finding and defining of hydrocarbon deposits. These include WesternGeco, Wireline, Testing Services, Schlumberger Information Services and Data & Consulting Services.
>
> ***Drilling Group*** Consists of the principal technologies involved in the drilling and positioning of oil and gas wells and is comprised of Bits & Advanced Technologies, M-I SWACO, Geoservices, Drilling and Measurements, Pathfinder, Drilling Tools and Remedial Services, Dynamic Pressure Management and Integrated Project Management well construction projects.
>
> ***Reservoir Production Group*** Consists of the principal technologies involved in the lifetime production of oil and gas reservoirs and includes Well Services, Completions and Artificial Lift, together with the Subsea and Water and Carbon Services activities and the production activities of IPM.

The Groups are collectively referred to as Oilfield Services . Additionally, Schlumberger also reports the Distribution business, acquired in the Smith transaction, as a separate segment.

All prior period segment disclosures have been recast to reflect the new segments.

(Stated in millions)

	First Quarter 2011		First Quarter 2010	
	Revenue	**Income before taxes**	Revenue	Income before taxes
Oilfield Services				
Reservoir Characterization	**$ 2,193**	**$ 460**	$ 2,247	$ 568
Drilling	**3,204**	**467**	1,455	274
Reservoir Production	**2,716**	**528**	1,883	159
Eliminations & other	**9**		13	35
	8,122	**1,455**	5,598	1,036
Distribution	**601**	**22**		
Eliminations	**(7)**			
	8,716	**1,477**	5,598	1,036

Corporate & other		**(143)**		(82)
Interest income [1]		**9**		13
Interest expense [2]		**(71)**		(44)
Charges (see Note 2)		**(34)**		(35)
	$ 8,716	**$ 1,238**	$ 5,598	$ 888

(1) Excludes interest income included in the segment results ($ million in 2011; $4 million in 2010).

(2) Excludes interest expense included in the segment results ($2 million in 2011; $1 million in 2010).

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15. Pension and Other Postretirement Benefits

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

				(Stated in millions)
	First Quarter			
	2011		2010	
	US	**Int l**	US	Int l