

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, 17 th 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 NO

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

YES 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 <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |
|---|---|--|---|

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(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 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 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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SCHLUMBERGER LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(Stated in millions, except per share amounts)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| <i>Revenue</i> | | |
| Oilfield Services | \$ 8,122 | \$ 5,598 |
| Distribution | 601 | |
| Intersegment eliminations | (7) | |
| | 8,716 | 5,598 |
| <i>Interest & other income, net</i> | 31 | 64 |
| <i>Expenses</i> | | |
| 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 |
| <i>Income before taxes</i> | 1,238 | 888 |
| Taxes on income | 295 | 214 |
| <i>Net Income</i> | 943 | 674 |
| Net loss (income) attributable to noncontrolling interests | 1 | (2) |
| <i>Net Income attributable to Schlumberger</i> | \$ 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

Table of Contents**SCHLUMBERGER LIMITED AND SUBSIDIARIES**
CONSOLIDATED BALANCE SHEET*(Stated in millions)*

| | Mar. 31, 2011 (Unaudited) | Dec. 31, 2010 |
|---|--|------------------|
| ASSETS | | |
| <i>Current Assets</i> | | |
| 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 |
| <i>Fixed Income Investments, held to maturity</i> | 458 | 484 |
| <i>Investments in Affiliated Companies</i> | 1,198 | 1,071 |
| <i>Fixed Assets less accumulated depreciation</i> | 12,218 | 12,071 |
| <i>Multiclient Seismic Data</i> | 434 | 394 |
| <i>Goodwill</i> | 13,978 | 13,952 |
| <i>Intangible Assets</i> | 5,079 | 5,162 |
| <i>Other Assets</i> | 796 | 535 |
| | \$ 52,372 | \$ 51,767 |
| LIABILITIES AND EQUITY | | |
| <i>Current Liabilities</i> | | |
| 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 |
| <i>Long-term Debt</i> | 6,422 | 5,517 |
| <i>Postretirement Benefits</i> | 1,253 | 1,262 |
| <i>Deferred Taxes</i> | 1,702 | 1,636 |
| <i>Other Liabilities</i> | 970 | 1,043 |
| | 20,746 | 20,323 |
| <i>Equity</i> | | |
| 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)

| | <i>(Stated in millions)</i> | |
|---|-----------------------------|--------------|
| | 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 | |
|--|--------------|------------|-----------|---------------------------------------|----------------|-----------|
| | In | | Earnings | Loss | Interests | Total |
| January 1, 2010 - March 31, 2010 | Issued | Treasury | | | | |
| 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 | |
|---|--------------|------------|-----------|---------------------------------------|----------------|-----------|
| | In | | Earnings | Loss | Interests | Total |
| January 1, 2010 - March 31, 2010 | Issued | Treasury | | | | |
| 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)

| | Issued | In Treasury | (Stated in millions) Shares 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:

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

| | Schlumberger Net Income | 2011 Average Shares Outstanding | Earnings per Share | Schlumberger Net Income | 2010 Average Shares Outstanding | 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 |

Table of Contents**6. Fixed Assets**

A summary of fixed assets follows:

| | <i>(Stated in millions)</i> | |
|--------------------------------|------------------------------|------------------|
| | 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:

| | <i>(Stated in millions)</i> | |
|------------------------------|-----------------------------|------|
| 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:

| | <i>(Stated in millions)</i> | | | | |
|---|-------------------------------|-------------------------|----------|--------------|-----------|
| | 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:

| | <i>(Stated in millions)</i> | | | | | |
|--|-----------------------------|--------------------|-----------------|---------------|-------------|----------|
| | 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:

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

| | | | |
|----------------------------|--------------|--------|---|
| Foreign exchange contracts | 13 | 14 | <i>Accounts payable and accrued liabilities</i> |
| | \$ 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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| | <i>(Stated in millions)</i> | | | |
|--|-----------------------------|-------------|-------------------------|-----------------|
| | Gain (Loss) | | | |
| | Recognized | | | |
| | in Income | | | |
| | First Quarter | | | |
| | 2011 | 2010 | Classification | |
| Derivatives designated as fair value hedges: | | | | |
| Foreign exchange contracts | \$ 2 | \$ (13) | <i>Cost of revenue</i> | <i>Oilfield</i> |
| Interest rate swaps | | 5 | <i>Services</i> | |
| | \$ 2 | \$ (8) | <i>Interest expense</i> | |
| Derivatives not designated as hedges: | | | | |
| Foreign exchange contracts | \$ (21) | \$ (7) | <i>Cost of revenue</i> | <i>Oilfield</i> |
| Commodity contracts | 1 | (1) | <i>Services</i> | <i>Oilfield</i> |
| | \$ (20) | \$ (8) | | |

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

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

| | <i>(Stated in millions)</i> | |
|----------------------------|-----------------------------|-------------|
| | Gain (Loss) | |
| | Recognized in OCI | |
| | First Quarter | |
| | 2011 | 2010 |
| Foreign exchange contracts | \$ 191 | \$ (158) |

Table of Contents**11. Long-term Debt**

A summary of *Long-term Debt* follows:

| | <i>(Stated in millions)</i> | |
|---------------------------------|------------------------------|------------------|
| | 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:

| | <i>(Stated in millions)</i> | |
|-----------------------|-----------------------------|--------|
| | 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:

| | <i>(Stated in millions)</i> | |
|------------------------------------|------------------------------|------------------|
| | 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:

| | <i>(Stated in millions)</i> | |
|------------------------------|------------------------------|--------|
| | 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. Contingencies

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

| | First Quarter 2011 | | <i>(Stated in millions)</i> 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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Table of Contents**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 1 | US | Int 1 |
| Service cost – benefits earned during period | \$ 16 | \$ 17 | \$ 15 | \$ 14 |
| Interest cost on projected benefit obligation | 38 | 56 | 36 | 52 |
| Expected return on plan assets | (43) | (70) | (48) | (58) |
| Amortization of net loss | 22 | 8 | 16 | 5 |
| Amortization of prior service cost | 3 | 31 | 1 | 28 |
| | \$ 36 | \$ 42 | \$ 20 | \$ 41 |

During the first quarter of 2011, Schlumberger made contributions to its US and international defined benefit pension plans of \$49 million.

The net periodic benefit cost for the Schlumberger US postretirement medical plan included the following components:

(Stated in millions)

| | First Quarter | |
|--|----------------------|--------------|
| | 2011 | 2010 |
| Service cost – benefits earned during period | \$ 7 | \$ 5 |
| Interest cost on accumulated postretirement benefit obligation | 14 | 15 |
| Expected return on plan assets | (5) | (1) |
| Amortization of prior service cost | (3) | (5) |
| Amortization of net loss | 3 | 4 |
| | \$ 16 | \$ 18 |

16. Subsequent Event

On April 5, 2011 Schlumberger completed the divestiture of its Global Connectivity Services business for \$397.5 million in cash.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
First Quarter 2011 Compared to Fourth Quarter 2010
Product Groups

| | <i>(Stated in millions)</i> | | | |
|------------------------------|-----------------------------|------------------------------------|----------------------------|------------------------------------|
| | First Quarter 2011 | | Fourth Quarter 2010 | |
| | Revenue | Income Before Taxes | Revenue | Income Before Taxes |
| Oilfield Services | | | | |
| Reservoir Characterization | \$ 2,193 | \$ 460 | \$ 2,490 | \$ 673 |
| Drilling | 3,204 | 467 | 3,226 | 467 |
| Reservoir Production | 2,716 | 528 | 2,782 | 581 |
| Eliminations & other | 9 | | (7) | (25) |
| | 8,122 | 1,455 | 8,491 | 1,696 |
| Distribution | 601 | 22 | 576 | 21 |
| Eliminations | (7) | | | |
| | 8,716 | 1,477 | 9,067 | 1,717 |
| Corporate & Other | | (143) | | (153) |
| Interest Income | | 9 | | 9 |
| Interest Expense | | (71) | | (58) |
| Charges | | (34) | | (180) |
| | \$ 8,716 | \$ 1,238 | \$ 9,067 | \$ 1,335 |

Geographic Areas

| | <i>(Stated in millions)</i> | | | |
|------------------------------|-----------------------------|------------------------------------|----------------------------|------------------------------------|
| | First Quarter 2011 | | Fourth Quarter 2010 | |
| | Revenue | Income Before Taxes | Revenue | Income Before Taxes |
| Oilfield Services | | | | |
| North America | \$ 2,589 | \$ 595 | \$ 2,596 | \$ 588 |
| Latin America | 1,386 | 217 | 1,389 | 207 |
| Europe/CIS/Africa | 2,190 | 273 | 2,454 | 451 |
| Middle East & Asia | 1,848 | 405 | 1,983 | 464 |
| Eliminations & other | 109 | (35) | 69 | (14) |
| | 8,122 | 1,455 | 8,491 | 1,696 |
| Distribution | 601 | 22 | 576 | 21 |
| Eliminations | (7) | | | |
| | 8,716 | 1,477 | 9,067 | 1,717 |
| Corporate & Other | | (143) | | (153) |

| | | |
|-------------------------|-----------------|-----------------|
| Interest Income | 9 | 9 |
| Interest Expense | (71) | (58) |
| Charges | (34) | (180) |
| | \$ 8,716 | \$ 1,238 |
| | | \$ 9,067 |
| | | \$ 1,335 |

Pretax operating income represents the segments' income before taxes and noncontrolling interests. The pretax operating income excludes such items as corporate expenses and interest income and interest expense not allocated to the segments as well as the charges described in detail in Note 2 to the *Consolidated Financial Statements*, interest on postretirement medical benefits, stock-based compensation costs and amortization expense associated with intangible assets recorded as a result of the merger with Smith International Inc. (Smith).

Sequentially, Oilfield Services revenue of \$8.12 billion decreased 4% while pretax segment operating income of \$1.46 billion was down 14% sequentially.

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Distribution revenue of \$601 million increased 4% sequentially. Pretax segment operating income of \$22 million improved 7% sequentially.

OILFIELD SERVICES

First-quarter revenue of \$8.12 billion decreased 4% sequentially. The impacts of extraordinary geopolitical events in North Africa and the Middle East as well as severe weather in the US and Australia during the quarter affected all three Product Groups and accounted for approximately half of the sequential decrease in total Oilfield Services revenue.

Excluding the impact of these geopolitical and weather events, sequential revenue performance varied by Group. Reservoir Characterization revenue decreased primarily on lower WesternGeco multiclient and Schlumberger Information Solutions (SIS) software sales following their fourth-quarter 2010 seasonal highs as well as on lower Testing Services activity, but these effects were partially offset by higher Wireline activity, particularly in North America. Drilling revenue increased on higher Integrated Project Management (IPM) Well Construction activity in the Middle East & Asia, Latin America and Europe/CIS/Africa Areas, which was partially offset by a decrease in M-I SWACO revenue following the high product sales of the fourth quarter, and by lower Drilling & Measurements revenue through a less favorable activity mix and lower pricing in Europe/CIS/Africa. Reservoir Production revenue increased sequentially on higher pricing and activity in North America, although this was partially offset by the absence of the IPM gain share payout in North America and the absence of the Artificial Lift and Completions Systems equipment sales seen in the fourth quarter.

On a geographical basis, Europe/CIS/Africa revenue decreased sequentially primarily due to disruptions resulting from the political unrest in North Africa, a less favorable revenue mix coupled with lower software sales in the North Sea GeoMarket, and seasonally lower activity in Russia. Middle East & Asia revenue was lower as increasing IPM activity in Iraq and shale gas activity in India were insufficient to offset the impact of geopolitical events in the Middle East, seasonally lower software and equipment sales, and weather-related slowdowns in Australia. In North America, higher pricing for Well Services technologies, stronger winter season activity in Canada, and increased demand for M-I SWACO services fully offset lower WesternGeco multiclient sales, the non-recurrence of the IPM gain share payout, and the impact of weather-related slowdowns on land in the US. In Latin America, increased WesternGeco and M-I SWACO activity in the Brazil GeoMarket balanced lower offshore activity and reduced software sales in the Mexico/Central America GeoMarket.

First-quarter pretax operating income of \$1.46 billion decreased 14% sequentially. Pretax operating margin decreased 206 basis points (bps) sequentially to 17.9% primarily due to the reduced software and equipment sales as well as the lower WesternGeco multiclient sales; the non-recurrence of the IPM gain share payout; the impact of the geopolitical events in North Africa and the Middle East; and the weather-related slowdowns in the US and Australia.

The absence of oil production from Libya, combined with continued recovery in demand, has reduced the world's spare capacity significantly. The call on both fuel oil and natural gas will increase as Japan recovers. The exploration and production industry has begun to respond and, absent a further leg to the recession, will have to substantially increase investment to maintain a comfortable supply cushion in an era of political uncertainty. We anticipate that high oil prices will continue to support additional drilling in the liquid-rich plays in North America. The upturn in deepwater activity more generally is becoming increasingly visible, and the rate of permitting in the US Gulf of Mexico is accelerating. Middle East activity is increasing substantially, led by Saudi Arabia and Iraq.

These activities will progressively mobilize over the next six months and the projected increases will reach levels where resources will become constrained. Schlumberger is ready for this scenario with new technology, equipment and people.

With respect to Libya, Schlumberger does not expect any return of activity in the short-term due to the ongoing political disturbances. The carrying value of Schlumberger's assets in Libya was approximately \$340 million as of March 31, 2011. This consists primarily of accounts receivable, inventories and fixed assets. Schlumberger's ability to recover these assets will ultimately depend on how the current situation evolves.

Reservoir Characterization

First-quarter revenue of \$2.19 billion was 12% lower versus the fourth quarter of 2010. Pretax operating income of \$460 million was 32% lower sequentially.

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Sequentially, Group revenue was severely impacted by disruptions from the geopolitical events in North Africa and the Middle East. WesternGeco revenue decreased following the fourth-quarter surge in multiclient sales in the US Gulf of Mexico and through lower Land activity as a consequence of the geopolitical events while Marine revenue increased due to a more favorable revenue mix. SIS revenue fell sharply from seasonally lower software sales across all geographic Areas. Testing revenue decreased on reduced equipment sales and activity, especially in Latin America; on completion of projects in the Australia/Papua New Guinea and East Asia GeoMarkets; on the winter seasonal slowdown in Russia; and on the geopolitical events. Wireline revenue was flat sequentially as strong winter activity in Canada was offset by the impact of the geopolitical events and weather slowdowns in Australia.

Pretax operating margin decreased 606 bps sequentially to 21% primarily due to the seasonally lower multiclient and software sales, the impact of the geopolitical events, the poor weather conditions in Australia, and the lower Testing activity in Latin America and Asia.

Drilling

First-quarter revenue of \$3.20 billion decreased 1% compared to the fourth quarter of 2010. Pretax operating income of \$467 million was flat sequentially.

Sequentially, the decrease in Group revenue was primarily due to disruptions resulting from geopolitical events in North Africa and the Middle East. Excluding the impact of these disruptions, Group revenue increased sequentially but varied by Technology. IPM Well Construction revenue increased on strong activity growth in Iraq, Mexico and Russia. Drilling & Measurements revenue declined from lower activity and pricing in Europe and Africa and the completion of offshore exploration projects in Australia/Papua New Guinea although these effects were mitigated by the return of some deepwater work in the US Gulf of Mexico and by an increase in activity in Latin America and Russia. Following strong product sales in the fourth quarter of 2010 and despite continued strong activity in North America, M-I SWACO revenue decreased as a result of the weather-related slowdowns in Australia as well as a result of delayed projects in the Europe/CIS/Africa Area.

Sequentially, pretax operating margin was essentially flat at 14.6% as the contribution from the increased IPM Well Construction activity was offset by the impact of activity declines for M-I SWACO and reduced pricing for Drilling & Measurements services.

Reservoir Production

First-quarter revenue of \$2.72 billion decreased 2% versus the fourth quarter of 2010. Pretax operating income of \$528 million was 9% lower sequentially.

Sequentially, the decrease in Group revenue was largely due to the impact of geopolitical events in North Africa and the Middle East as well as to the severe weather in the US and Australia. Excluding these impacts, Group revenue increased as higher pricing and strong demand for Well Services technologies in North America more than offset the non-recurring prior quarter's IPM gain share payout in North America and the seasonally lower Artificial Lift and Completions equipment sales.

First-quarter pretax operating margin decreased 145 bps to 19.4%, primarily due to the non-repetition of the IPM gain share payout, the lower Artificial Lift and Completions equipment sales, and the impact of geopolitical events and weather.

DISTRIBUTION

First-quarter revenue of \$601 million increased 4% as compared to the fourth quarter of 2010. Pretax operating income of \$22 million increased 8% sequentially.

The sequential revenue growth was primarily driven by increased project-based customer spending in the Industrial and Refining sector. Pretax margin was essentially flat at 3.7%.

Table of ContentsFirst Quarter 2011 Compared to First Quarter 2010
Product Groups

| | First Quarter 2011 | | <i>(Stated in millions)</i> 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 | | 9 | | 13 |
| Interest Expense | | (71) | | (44) |
| Charges | | (34) | | (35) |
| | \$ 8,716 | \$ 1,238 | \$ 5,598 | \$ 888 |

Geographic Areas

| | First Quarter 2011 | | <i>(Stated in millions)</i> First Quarter 2010 | |
|------------------------------|--------------------|---------------------------|---|---------------------------|
| | Revenue | Income Before Taxes | Revenue | Income Before Taxes |
| Oilfield Services | | | | |
| North America | \$ 2,589 | \$ 595 | \$ 1,225 | \$ 137 |
| Latin America | 1,386 | 217 | 1,126 | 193 |
| Europe/CIS/Africa | 2,190 | 273 | 1,688 | 312 |
| Middle East & Asia | 1,848 | 405 | 1,502 | 425 |
| Eliminations & other | 109 | (35) | 57 | (31) |
| | 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 | | 9 | | 13 |

| | | | | |
|-------------------------|-----------------|-----------------|-----------------|---------------|
| Interest Expense | | (71) | | (44) |
| Charges | | (34) | | (35) |
| | \$ 8,716 | \$ 1,238 | \$ 5,598 | \$ 888 |

OILFIELD SERVICES

First-quarter 2011 revenue of \$8.12 billion was 45% higher than the same period last year largely due to the acquisitions of Smith and Geoservices as well as the significantly improved activity and pricing for Well Services technologies in North America. These increases, however, were partially offset by the impact of extraordinary geopolitical events in North Africa and the Middle East, severe weather in the US and Australia and significantly lower deepwater drilling activity in the US Gulf of Mexico.

On a Product Group basis, Drilling revenue increased significantly primarily due to the acquisitions of Smith and Geoservices. Reservoir Production revenue increased mostly from a combination of higher activity and pricing for Well Services technologies in North America. These increases were partially offset by lower Reservoir Characterization revenue due to the impact of the geopolitical events, weather-related slowdowns and the significantly lower deepwater activity in the US Gulf of Mexico.

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On a Geographical basis, all Areas, particularly North America, grew appreciably from the acquisitions of Smith and Geoservices. Excluding the impact of these acquisitions, revenue performance varied by Area. North America revenue increased due to significant increase in activity and pricing improvements in US Land. These increases however were partially offset by lower revenue in the US Gulf of Mexico. Latin America revenue slightly decreased due to the decrease in IPM projects in Mexico more than offsetting the increase in activity throughout the Area.

Europe/CIS/Africa revenue slightly declined as the improved drilling activity in Russia was offset by North Africa geopolitical unrest. Middle East & Asia revenue grew with strong activity in Iraq and India which was partially offset by the impact of the severe weather in Australia and the geopolitical unrest in the region.

First-quarter 2011 pretax operating margin declined only 59 bps to 17.9% as a strong contribution from the increased activity and pricing for Well Services technologies in North America nearly offset the impacts of the Smith and Geoservices acquisitions, geopolitical events in North Africa and the Middle East, the lower deepwater activity in the US Gulf of Mexico, and the weather-related slowdowns in Australia and the US.

Reservoir Characterization

First-quarter 2011 revenue of \$2.19 billion was 2% lower than the same period last year primarily due to the impact of the geopolitical events in North Africa and the Middle East that affected Wireline, Testing Services and WesternGeco. Excluding the impact of the geopolitical events, Group revenue increased. By technology, Wireline revenue increased on stronger activity and pricing on land in the US although this was partially offset by significantly lower deepwater activity in the US Gulf of Mexico and by the impact of severe weather in Australia. WesternGeco revenue was higher primarily due to the addition of new vessels to the Marine fleet. SIS revenue increased on stronger software sales. Testing Services revenue was slightly lower as reduced equipment sales and pricing were nearly offset by increased service activity.

Year-on-year, pretax operating margin decreased 430 bps to 21.0% primarily due to lower activity in the US Gulf of Mexico, the impact of the geopolitical events in North Africa and the Middle East, and the weather-related slowdowns in Australia.

Drilling

First-quarter 2011 revenue of \$3.20 billion was 120% higher than the previous year primarily due to the acquisitions of Smith and Geoservices. However, these additions were partially offset by lower Drilling & Measurements revenue as the result of the cessation of deepwater activity in the Gulf of Mexico as well as from a less favorable activity mix and lower pricing, particularly in Europe/CIS/Africa and Middle East and Asia. IPM Well Construction revenue also decreased as significantly lower activity in Mexico was only partially offset by the ramp up of new projects in Iraq. Year-on-year, pretax operating margin decreased 423 bps to 14.6% primarily due to the combined impact of the reduced activity in the US Gulf of Mexico and the generally lower pricing for Drilling & Measurements services as well as to the impact of the Smith and Geoservices technologies.

Reservoir Production

First-quarter 2011 revenue of \$2.72 billion increased 44% year-on-year, particularly in North America, due to a combination of capacity additions, higher pricing and better assets utilization for Well Services Technologies. The addition of certain Smith businesses also contributed to the Group's growth. Artificial Lift increased on a combination of improved pricing and increased activity. These increases were partially offset by the impact of geopolitical events in North Africa and the Middle East and severe weather in the US and Australia.

Year-on-year, pretax operating margin improved 11 percentage points to 19.4% mainly due to the significant increase in activity, pricing and equipment utilization for Well Services technologies in North America partially offset by the impact of the geopolitical events in North Africa and the Middle East and the weather-related slowdowns in the US and Australia.

Table of Contents**INTEREST & OTHER INCOME, NET**

Interest & other income, net consisted of the following for the first quarters 2011 and 2010:

| | <i>(Stated in millions)</i> | |
|--|-----------------------------|--------------|
| | First Quarter | |
| | 2011 | 2010 |
| Equity in net earnings of affiliated companies | \$ 21 | \$ 47 |
| Interest income | 10 | 17 |
| | \$ 31 | \$ 64 |

The decrease in equity in net earnings of affiliated companies is primarily attributable to the loss of equity earnings from the M-I SWACO joint venture as Schlumberger now owns 100% of this venture following its merger with Smith on August 27, 2010.

OTHER

Research & engineering and *General & administrative* expenses, as a percentage of *Revenue*, for the first quarter ended March 31, 2011 and 2010 were as follows:

| | First Quarter | |
|--------------------------|---------------|------|
| | 2011 | 2010 |
| Research & engineering | 2.9% | 3.7% |
| General & administrative | 1.1% | 1.3% |

Although *Research & engineering* decreased as a percentage of revenue, it increased in absolute dollars by \$42 million.

The effective tax rate for the first quarter of 2011 was 23.6% compared to 24.1% for the same period in 2010. The charges described in Note 2 to the *Consolidated Financial Statements* negatively impacted the effective tax rate in the first quarter of 2010 by approximately 5 percentage points. Excluding the impact of these charges, the effective tax rate increased as compared to the same period last year. The increase was primarily attributable to the higher proportion of pretax earnings in North America in the first quarter of 2011 as compared to the first quarter of 2010.

CHARGES

Schlumberger recorded charges during the first three months of 2011 and 2010. These charges, which are summarized below, are more fully described in Note 2 to the *Consolidated Financial Statements*.

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

Schlumberger also recorded \$35 million of pretax charges (\$75 million after-tax) during the first quarter of 2010. The following is a summary of the first quarter 2010 charges:

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

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.

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Details of Net Debt follow:

| | <i>(Stated in millions)</i> | |
|---|------------------------------|------------------|
| | Mar. 31, 2011 | Mar. 31, 2010 |
| Net Debt, beginning of year | \$ (2,638) | \$ (126) |
| Net income | 943 | 674 |
| Depreciation and amortization ⁽¹⁾ | 788 | 620 |
| Pension and other postretirement benefits expense | 94 | 79 |
| Pension and other postretirement benefits funding | (49) | (64) |
| Excess of equity income over dividends received | (21) | (47) |
| Stock-based compensation expense | 67 | 47 |
| Increase in working capital | (1,216) | (152) |
| Capital expenditure | (770) | (449) |
| Multiclient seismic data capitalized | (83) | (91) |
| Dividends paid | (291) | (254) |
| Stock repurchase program | (844) | (337) |
| Proceeds from employee stock plans | 236 | 115 |
| Business acquisitions and minority interest investments | (74) | (117) |
| Conversion of debentures | | 23 |
| Translation effect on Net Debt | 2 | 24 |
| Other | (134) | (20) |
| Net Debt, end of period | \$ (3,990) | \$ (75) |

⁽¹⁾ Includes multiclient seismic data costs.

| | <i>(Stated in millions)</i> | | |
|---|-----------------------------|---------------------|------------------|
| | Mar. 31, 2011 | Mar. 31, 2010 | Dec. 31, 2010 |
| Components of Net Debt | | | |
| Cash | \$ 1,475 | \$ 640 | \$ 1,764 |
| Short-term investments | 2,688 | 3,563 | 3,226 |
| Fixed income investments, held to maturity | 458 | 708 | 484 |
| Short-term borrowings and current portion of long-term debt | (2,189) | (635) | (2,595) |
| Convertible debentures | | (299) | |
| Long-term debt | (6,422) | (4,052) | (5,517) |
| | \$ (3,990) | \$ (75) | \$ (2,638) |

Key liquidity events during the first three months of 2011 and 2010 included:

On January 10, 2011, Schlumberger issued \$1.1 billion of 4.200% Senior Notes due 2021 and \$500 million of 2.650% Senior Notes due 2016.

During the first quarter of 2011, Schlumberger repurchased all of its outstanding 9.75% Senior Notes due 2019, 8.625% Senior Notes due 2014 and 6.00% Senior Notes due 2016 for approximately \$1.26 billion.

On April 17, 2008, the Schlumberger Board of Directors approved an \$8 billion share repurchase program for shares of Schlumberger common stock, to be acquired in the open market before December 31, 2011, of which \$4.0 billion had been repurchased as of March 31, 2011.

The following table summarizes the activity, during the three months ended March 31, under the April 17, 2008 share repurchase program:

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(Stated in thousands except per share amounts)

| | Total cost of shares purchased | Total number of shares purchased | Average price paid per share |
|--------------------|--------------------------------------|--|---------------------------------------|
| First quarter 2011 | \$844,192 | 9,683.2 | \$ 87.18 |
| First quarter 2010 | \$337,262 | 5,292.8 | \$ 63.72 |

During the first quarter of 2011 Schlumberger made contributions of \$49 million to its defined benefit pension plans as compared to \$64 million during the same period last year.

Cash flow provided by operations was \$0.8 billion in the first quarter of 2011 compared to \$1.0 billion in the first quarter of 2010 reflecting an increase in working capital requirements, primarily accounts receivable following the strong collections experienced in the fourth quarter of 2010.

Capital expenditures were \$0.8 billion in the first quarter of 2011 compared to \$0.4 billion during the first quarter of 2010. Capital expenditures for the full year of 2011 are expected to approach \$4.0 billion as compared to \$2.9 billion in 2010.

During the first quarter of 2010, approximately \$22 million of the 2.125% Series B Convertible Debentures due June 1, 2023 were converted by holders into 565,000 shares of Schlumberger common stock.

As of March 31, 2011 Schlumberger had \$4.2 billion of cash and short-term investments on hand. Schlumberger had separate committed debt facility agreements aggregating \$5.9 billion with commercial banks, of which \$3.7 billion was available and unused as of March 31, 2011. This included \$3.1 billion of unused committed facilities which support commercial paper borrowings in the United States and Europe.

Schlumberger believes that these amounts are sufficient to meet future business requirements for at least the next twelve months.

Schlumberger's total outstanding debt at March 31, 2011 was \$8.6 billion and included \$1.8 billion of commercial paper borrowings. The total outstanding debt increased \$0.5 billion compared to December 31, 2010.

FORWARD-LOOKING STATEMENTS

This Form 10-Q and other statements we make contain forward-looking statements within the meaning of the federal securities laws, which include any statements that are not historical facts, such as our forecasts or expectations regarding business outlook; growth for Schlumberger as a whole and for each of its segments (and for specified products or geographic areas within each segment); oil and natural gas demand and production growth; oil and natural gas prices; operating margins; improvements in operating procedures and technology; capital expenditures by Schlumberger and the oil and gas industry; the business strategies of Schlumberger's customers; future global political and economic conditions; and future results of operations. These statements are subject to risks and uncertainties, including, but not limited to, current global economic conditions; changes in exploration and production spending by Schlumberger's customers and changes in the level of oil and natural gas exploration and development; general economic, geopolitical and business conditions in key regions of the world; pricing erosion; weather and seasonal factors; changes in government regulations and regulatory requirements, including those related to offshore oil and gas exploration, radioactive sources, explosives, chemicals, hydraulic fracturing services and climate-related initiatives; continuing operational delays or program reductions as of result of the lifted drilling moratorium in the Gulf of Mexico; the inability of technology to meet new challenges in exploration; and other risks and uncertainties detailed in our most recent Form 10-K and other filings that we make 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.

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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 fiscal year ended December 31, 2010. Schlumberger's exposure to market risk has not changed materially since December 31, 2010.

Item 4. Controls and Procedures.

Schlumberger has carried out an evaluation under the supervision and with the participation of Schlumberger's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of Schlumberger's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on this evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this report, Schlumberger's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that Schlumberger 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. Schlumberger's disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to its management, including the CEO and the CFO, as appropriate, 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 to which this report relates that has materially affected, or is reasonably likely to materially affect, Schlumberger's internal control over financial reporting.

* Mark of Schlumberger

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

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

Item 1A. Risk Factors.

As of the date of this filing, there have been no material changes from the risk factors previously disclosed in Part 1, Item 1A, of Schlumberger's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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

None.

Issuer Repurchases of Equity Securities

On April 17, 2008, the Schlumberger Board of Directors approved an \$8 billion share repurchase program for Schlumberger common stock, to be acquired in the open market before December 31, 2011.

Schlumberger's common stock repurchase program activity for the three months ended March 31, 2011 was as follows:

| | <i>(Stated in thousands, except per share amounts)</i> | | | |
|--------------------------------------|--|----------|--------------|-----------------|
| | Total | Average | Total number | Maximum value |
| | number | price | of | of |
| | of shares | paid per | shares | shares that may |
| | purchased | share | purchased | yet |
| | | | as part of | be purchased |
| | | | publicly | under the |
| | | | announced | program |
| | | | program | |
| January 1 through January 31, 2011 | 3,114.4 | \$ 83.54 | 3,114.4 | \$ 4,588,756 |
| February 1 through February 28, 2011 | 2,556.1 | \$ 90.31 | 2,556.1 | \$ 4,357,900 |
| March 1 through March 31, 2011 | 4,012.7 | \$ 88.01 | 4,012.7 | \$ 4,004,752 |
| | 9,683.2 | \$ 87.18 | 9,683.2 | |

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 requiring disclosure under this Item as the number of shares of Schlumberger common stock received from optionholders is not material.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved].**Item 5. Other Information.**

None.

Item 6. Exhibits.

Exhibit 3.1 Articles of Incorporation of Schlumberger Limited (Schlumberger N.V.) (incorporated by reference to Exhibit 3 to Schlumberger's Current Report on Form 8-K filed on April 7, 2011).

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.

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* Exhibit 31.2 Certification of Chief Financial 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 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.

** Exhibit 101 The following materials from Schlumberger Limited's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income; (ii) Consolidated Balance Sheet; (iii) Consolidated Statement of Cash Flows; (iv) Consolidated Statement of Equity, and (v) Notes to Consolidated Financial Statements.

* Filed with this Form 10-Q.

** Furnished with this Form 10-Q.

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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: April 27, 2011

/s/ Howard Guild
Howard Guild
Chief Accounting Officer and Duly
Authorized Signatory

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