

SCHLUMBERGER LTD /NV/
Form 10-Q
April 25, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter ended:
March 31, 2007

Commission file No.:
1-4601

SCHLUMBERGER N.V.

(SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

NETHERLANDS ANTILLES
(State or other jurisdiction of
incorporation or organization)

52-0684746
(I.R.S. Employer
Identification No.)

5599 SAN FELIPE, 17th FLOOR
HOUSTON, TEXAS, U.S.A.

77056

42 RUE SAINT-DOMINIQUE
PARIS, FRANCE

75007

PARKSTRAAT 83
THE HAGUE,
THE NETHERLANDS
(Addresses of principal executive offices)

2514 JG
(Zip Codes)

Registrant's telephone number: (713) 513-2000

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

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YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

YES NO

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

Class	Outstanding at March 31, 2007
COMMON STOCK, \$0.01 PAR VALUE	1,178,564,302

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SCHLUMBERGER LIMITED

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	Three Months Ended March 31,	
	2007	2006
	(Stated in thousands except	
	per share amounts)	
Operating revenue	\$ 5,464,405	\$ 4,239,017
Interest & other income	83,623	65,492
Expenses		
Cost of goods sold & services	3,617,424	2,991,891
Research & engineering	167,098	129,406
Marketing	16,683	15,148
General & administrative	124,170	98,145
Interest	68,147	47,844
Income before taxes and minority interest	1,554,506	1,022,075
Taxes on income	373,679	256,651
Income before minority interest	1,180,827	765,424
Minority interest		(42,913)
Net Income	\$ 1,180,827	\$ 722,511
Basic earnings per share:	\$ 1.00	\$ 0.61
Diluted earnings per share:	\$ 0.96	\$ 0.59
Average shares outstanding:		
Basic	1,178,453	1,180,344
Assuming dilution	1,236,491	1,240,694

See Notes to Consolidated Financial Statements

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

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

	Mar. 31, 2007 (Unaudited)	Dec. 31, 2006
	(Stated in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 135,320	\$ 165,817
Short-term investments	2,455,585	2,833,056
Receivables less allowance for doubtful accounts (2007 \$113,947; 2006 \$114,654)	4,688,452	4,242,000
Inventories	1,422,691	1,246,887
Deferred taxes	171,502	162,884
Other current assets	598,077	535,018
	9,471,627	9,185,662
FIXED INCOME INVESTMENTS, HELD TO MATURITY	216,001	153,000
INVESTMENTS IN AFFILIATED COMPANIES	1,286,432	1,208,323
FIXED ASSETS	5,805,745	5,576,041
MULTICLIENT SEISMIC DATA	224,355	226,681
GOODWILL	4,992,700	4,988,558
INTANGIBLE ASSETS	898,623	907,874
DEFERRED TAXES	413,993	412,802
OTHER ASSETS	199,308	173,197
	\$ 23,508,784	\$ 22,832,138
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 3,647,047	\$ 3,848,017
Estimated liability for taxes on income	1,093,566	1,136,529
Dividend payable	207,641	148,720
Long-term debt - current portion	228,134	602,919
Bank & short-term loans	731,773	718,610
	5,908,161	6,454,795
CONVERTIBLE DEBENTURES	1,424,987	1,424,990
OTHER LONG-TERM DEBT	3,194,689	3,238,952
POSTRETIREMENT BENEFITS	1,036,269	1,036,169
OTHER LIABILITIES	584,624	257,349
	12,148,730	12,412,255
STOCKHOLDERS EQUITY:		
Common stock	3,566,413	3,381,946
Income retained for use in the business	12,093,060	11,118,479

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Treasury stock at cost	(3,132,657)	(2,911,793)
Accumulated other comprehensive loss	(1,166,762)	(1,168,749)
	11,360,054	10,419,883
	\$ 23,508,784	\$ 22,832,138

See Notes to Consolidated Financial Statements

Table of Contents**SCHLUMBERGER LIMITED****(Schlumberger N.V., Incorporated in the Netherlands Antilles)****and Subsidiary Companies****CONSOLIDATED STATEMENT OF CASH FLOWS****(Unaudited)**

	Three Months Ended	
	Mar. 31,	
	2007	2006
	(Stated in thousands)	
Cash flows from operating activities:		
Net Income	\$ 1,180,827	\$ 722,511
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization ⁽¹⁾	440,977	354,603
Earnings of companies carried at equity	(48,961)	(30,672)
Deferred income taxes	(30,360)	61,963
Stock-based compensation expense	36,734	25,828
Provision for losses on accounts receivable	9,028	5,692
Change in operating assets and liabilities ⁽²⁾		
Increase in receivables	(455,205)	(379,142)
Increase in inventories	(175,775)	(49,715)
Increase in other current assets	(63,004)	(17,186)
Decrease in accounts payable and accrued liabilities	(175,472)	(237,009)
Increase in estimated liability for taxes on income	280,029	56,058
Increase in postretirement benefits	7,194	15,849
Other net	10,774	36,444
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,016,786	565,224
Cash flows from investing activities:		
Purchase of fixed assets	(553,460)	(466,945)
Multiclient seismic data capitalized	(61,608)	(32,494)
Capitalization of intangible assets	(863)	(7,126)
Business acquisitions and related payments	(18,172)	(66,338)
Sale of investments, net	314,674	184,470
Other	(52,024)	(39,807)
NET CASH USED BY INVESTING ACTIVITIES	(371,453)	(428,240)
Cash flows from financing activities:		
Dividends paid	(147,326)	(123,857)
Proceeds from employee stock purchase plan	10,004	7,355
Proceeds from exercise of stock options	174,315	156,352
Stock repurchase program	(332,437)	(254,296)
Proceeds from issuance of long-term debt	49,261	
Repayment of long-term debt	(469,243)	(9,095)
Net increase in short-term debt	13,163	48,964
Other	26,284	
NET CASH USED BY FINANCING ACTIVITIES	(675,979)	(174,577)

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Net decrease in cash before translation effect	(30,646)	(37,593)
Translation effect on cash	149	(44)
Cash, beginning of period	165,817	190,954
CASH, END OF PERIOD	\$ 135,320	\$ 153,317

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

See Notes to Consolidated Financial Statements

Table of Contents**SCHLUMBERGER LIMITED****(Schlumberger N.V., Incorporated in the Netherlands Antilles)****and Subsidiary Companies****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****(Unaudited)**

	Common Stock		Retained Income	Accumulated Other Comprehensive Income (Loss)			Comprehensive Income (Loss)
	Issued	In Treasury		Marked to Market	Postretirement Liability	Translation Adjustment	
	(Stated in thousands)						
Balance, January 1, 2007	\$ 3,381,946	\$ (2,911,793)	\$ 11,118,479	\$ 20,712	\$ (401,648)	\$ (787,813)	\$ 3,877,035
Net income			1,180,827				1,180,827
Derivatives marked to market, net of tax				(2,793)			(2,793)
Translation adjustment					4,010		4,010
Amortization of prior service cost, net of tax					(3,243)		(3,243)
Amortization of actuarial net loss, net of tax					8,103		8,103
Other					(4,090)		(4,090)
Dividends declared			(206,246)				
Stock repurchase plan		(332,437)					
Proceeds from employee stock purchase plan	39,939	18,765					
Proceeds from shares sold to optionees less shares exchanged	81,510	92,805					
Stock based compensation cost	36,734						
Shares issued on conversion of debentures		3					
Tax benefits on stock options	26,284						
Balance, March 31, 2007	\$ 3,566,413	\$ (3,132,657)	\$ 12,093,060	\$ 17,919	\$ (400,878)	\$ (783,803)	\$ 1,182,814

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED

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

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SHARES OF COMMON STOCK

(Unaudited)

	Issued	In Treasury	Shares Outstanding
Balance, January 1, 2007	1,334,212,164	(156,318,705)	1,177,893,459
Employee stock plan		1,007,116	1,007,116
Stock repurchase plan		(5,179,000)	(5,179,000)
Shares sold to optionees less shares exchanged		4,842,645	4,842,645
Shares issued on conversion of debentures		82	82
Balance, March 31, 2007	1,334,212,164	(155,647,862)	1,178,564,302

See Notes to Consolidated Financial Statements

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which include the accounts of Schlumberger Limited (Schlumberger) and its subsidiaries, 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, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. The December 31, 2006 balance sheet information has been derived from the audited 2006 financial statements. For further information, refer to the *Consolidated Financial Statements* and notes thereto, included in Schlumberger's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on February 16, 2007.

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

2. Earnings Per Share

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

Three Months	Net Income	2007	Earnings Per Share	Net Income	2006	Earnings Per Share
		Average Shares Outstanding			Average Shares Outstanding	
(Stated in thousands except per share amounts)						
Basic	\$ 1,180,827	1,178,453	\$ 1.00	\$ 722,511	1,180,344	\$ 0.61
Assumed conversion of debentures	7,197	38,209		7,197	38,210	
Assumed exercise of stock options		18,967			22,140	
Unvested restricted stock		862				
Diluted	\$ 1,188,024	1,236,491	\$ 0.96	\$ 729,708	1,240,694	\$ 0.59

At March 31, 2007, approximately 624,000 of outstanding options to purchase shares of common stock were not included in the computation of diluted earnings per share because to do so would have had an antidilutive effect.

3. Investments in Affiliated Companies

Schlumberger and Smith International, Inc. operate a drilling fluids joint venture of which Schlumberger owns a 40% interest and records income using the equity method of accounting. Schlumberger's investment on March 31, 2007 was \$1.02 billion and on December 31, 2006 was \$970 million. Schlumberger's equity income from this joint venture, which is recorded one month in arrears, was \$38 million for the first quarter

of 2007 and \$28 million for the first quarter of 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. Inventory

A summary of inventory follows:

	Mar. 31 2007	Dec. 31 2006
	(Stated in millions)	
Raw Materials & Field Materials	\$ 1,367	\$ 1,186
Work in Process	108	127
Finished Goods	102	91
	1,577	1,404
Less reserves for obsolescence	154	157
	\$ 1,423	\$ 1,247

5. Fixed Assets

A summary of fixed assets follows:

	Mar. 31 2007	Dec. 31 2006
	(Stated in millions)	
Property plant & equipment	\$ 14,337	\$ 13,912
Less: Accumulated depreciation	8,531	8,336
	\$ 5,806	\$ 5,576

Depreciation and amortization expense relating to fixed assets was \$348 million during the first quarter of 2007 and \$285 million during the first quarter of 2006.

6. Multiclient Seismic Data

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

	(Stated in millions)
Balance at December 31, 2006	\$ 227
Capitalized in period	62
Charged to cost of goods sold & services	(65)
Balance at March 31, 2007	\$ 224

7. Goodwill

The changes in the carrying amount of goodwill by business segment for the three months ended March 31, 2007 are as follows:

	Oilfield Services	Western Geco	Total
	(Stated in millions)		
Balance at December 31, 2006	\$ 4,049	\$ 940	\$ 4,989
Additions	4		4
Other	2	(2)	
Balance at March 31, 2007	\$ 4,055	\$ 938	\$ 4,993

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. Intangible Assets

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

	Mar. 31, 2007			Dec. 31, 2006		
	Gross Book Value	Accumulated Amortization	Net Book Value (Stated in millions)	Gross Book Value	Accumulated Amortization	Net Book Value
Software	\$ 427	\$ 254	\$ 173	\$ 427	\$ 241	\$ 186
Technology	514	128	386	545	140	405
Customer Relationships	295	16	279	251	12	239
Other	97	36	61	112	34	78
	\$ 1,333	\$ 434	\$ 899	\$ 1,335	\$ 427	\$ 908

Amortization expense was \$29 million during the first quarter of 2007 and \$21 million during the first quarter of 2006.

The weighted average amortization period for all intangible assets is approximately 10 years.

Based on the net book value of intangible assets at March 31, 2007, amortization charged to income for the subsequent five years is estimated to be: remainder of 2007 \$92 million, 2008 \$110 million, 2009 \$87 million, 2010 \$77 million, 2011 \$70 million and 2012 \$66 million.

9. Stock-Based Compensation

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

The following summarizes stock-based compensation expense recognized in the first quarter of 2007 and 2006:

	First Quarter 2007	First Quarter 2006
	(Stated in millions)	
Stock options	\$ 26	\$ 23
Restricted stock	5	
DSPP	6	3

\$ 37 \$ 26

10. Income Tax

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

	First Quarter	
	2007	2006
	(Stated in millions)	
United States	\$ 485	\$ 321
Outside United States	1,070	701
Pretax income	\$ 1,555	\$ 1,022

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The components of net deferred tax assets were as follows:

	Mar. 31 2007	Dec. 31 2006
	(Stated in millions)	
Postretirement and other long-term benefits	\$ 407	\$ 394
Current employee benefits	30	31
Fixed assets, inventory and other	146	148
Net operating losses	2	3
	\$ 585	\$ 576

The deferred tax assets relating to net operating losses at March 31, 2007 and December 31, 2006 are net of valuation allowances in certain countries of \$219 million and \$218 million, respectively.

The components of consolidated income tax expense from continuing operations were as follows:

	First Quarter 2007	2006
	(Stated in millions)	
Current:		
United States Federal	\$ 190	\$ 47
United States State	16	4
Outside United States	198	144
	\$ 404	\$ 195
Deferred:		
United States Federal	\$ (36)	\$ 53
United States State	7	4
Outside United States	(1)	8
Valuation allowance		(3)
	\$ (30)	\$ 62
Consolidated taxes on income	\$ 374	\$ 257

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

	First Quarter	
	2007	2006
US federal statutory rate	35%	35%
US state income taxes	1	1
Non US income taxed at different rates	(10)	(8)
Effect of equity method investment	(1)	(1)
Minority partner's share of LLC earnings		(1)
Domestic production and other deductions/credits	(1)	(1)
Effective income tax rate	24%	25%

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

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

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

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

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

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

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

11. Contingencies

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

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Schlumberger operates two business segments: Oilfield Services and WesternGeco.

	FIRST QUARTER 2007					FIRST QUARTER 2006 ⁽¹⁾				
	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI	Revenue	Income after tax & MI	Minority Interest	Tax Expense	Income before tax & MI
Oilfield Services										
North America	\$ 1,374	\$ 284	\$	\$ 147	\$ 431	\$ 1,226	\$ 245	\$	\$ 130	\$ 375
Latin America	728	131		32	163					