

Weatherford International Ltd./Switzerland

Form 10-Q

August 03, 2009

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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 June 30, 2009**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**WEATHERFORD INTERNATIONAL LTD.**

(Exact name of registrant as specified in its charter)

**001-34258**

(Commission file number)

**Switzerland**

(State or other jurisdiction of  
incorporation or organization)

**98-0606750**

(I.R.S. Employer  
Identification No.)

**4-6 Rue Jean-Francois Bartholoni, 1204 Geneva,  
Switzerland**

(Address of principal executive offices)

**Not Applicable**

(Zip Code)

**Registrant's telephone number, including area code: +41-22.816.15.00**

**Alpenstrasse 15, 6300 Zug, Switzerland**

(Former name, former address and former fiscal year, if changed since last report)

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. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☐  
(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:

As of July 30, 2009, there were 727,702,595 shares of Weatherford registered shares, 1.16 Swiss francs par value per share, outstanding.



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|                                                                                                             | <b>June 30,<br/>2009<br/>(unaudited)</b> | <b>December 31,<br/>2008</b> |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------|
| <b>ASSETS</b>                                                                                               |                                          |                              |
| Current Assets:                                                                                             |                                          |                              |
| Cash and Cash Equivalents                                                                                   | \$ 205,272                               | \$ 238,398                   |
| Accounts Receivable, Net of Allowance for Uncollectible Accounts of \$21,373 and \$16,425, Respectively     | 2,189,769                                | 2,442,848                    |
| Inventories                                                                                                 | 2,259,904                                | 2,088,342                    |
| Current Deferred Tax Assets                                                                                 | 250,579                                  | 270,252                      |
| Other Current Assets                                                                                        | 728,704                                  | 530,442                      |
| Total Current Assets                                                                                        | 5,634,228                                | 5,570,282                    |
| Property, Plant and Equipment, Net of Accumulated Depreciation of \$3,030,799 and \$2,690,996, Respectively | 6,533,003                                | 5,922,172                    |
| Goodwill                                                                                                    | 3,643,511                                | 3,530,915                    |
| Other Intangible Assets, Net of Accumulated Amortization of \$311,144 and \$268,857, Respectively           | 697,489                                  | 701,483                      |
| Equity Investments                                                                                          | 488,820                                  | 515,770                      |
| Other Assets                                                                                                | 368,608                                  | 235,891                      |
| Total Assets                                                                                                | \$ 17,365,659                            | \$ 16,476,513                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                 |                                          |                              |
| Current Liabilities:                                                                                        |                                          |                              |
| Short-term Borrowings and Current Portion of Long-term Debt                                                 | \$ 692,535                               | \$ 1,255,947                 |
| Accounts Payable                                                                                            | 844,953                                  | 886,104                      |
| Other Current Liabilities                                                                                   | 702,983                                  | 880,042                      |
| Total Current Liabilities                                                                                   | 2,240,471                                | 3,022,093                    |
| Long-term Debt                                                                                              | 5,805,036                                | 4,564,255                    |
| Other Liabilities                                                                                           | 487,535                                  | 524,116                      |
| Total Liabilities                                                                                           | 8,533,042                                | 8,110,464                    |
| Shareholders' Equity:                                                                                       | 728,889                                  | 728,689                      |

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Shares, CHF 1.16 Par Value, Authorized 1,093,303 Shares, Conditionally  
Authorized 364,434 Shares, Issued 728,889 Shares at June 30, 2009, Common  
Shares, \$1 Par Value, Authorized 1,000,000 Shares, Issued 728,689 Shares at  
December 31, 2008

|                                            |               |               |
|--------------------------------------------|---------------|---------------|
| Capital in Excess of Par Value             | 4,082,261     | 4,059,112     |
| Treasury Shares, Net                       | (690,981)     | (759,477)     |
| Retained Earnings                          | 4,730,868     | 4,524,085     |
| Accumulated Other Comprehensive Loss       | (101,587)     | (266,761)     |
| Weatherford Shareholders' Equity           | 8,749,450     | 8,285,648     |
| Noncontrolling Interests                   | 83,167        | 80,401        |
| Total Shareholders' Equity                 | 8,832,617     | 8,366,049     |
| Total Liabilities and Shareholders' Equity | \$ 17,365,659 | \$ 16,476,513 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

**(In thousands, except per share amounts)**

|                                                              | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |              |
|--------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|--------------|
|                                                              | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b>  |
| Revenues:                                                    |                                        |             |                                      |              |
| Products                                                     | \$ 650,553                             | \$ 834,443  | \$ 1,393,453                         | \$ 1,663,626 |
| Services                                                     | 1,344,279                              | 1,394,807   | 2,857,520                            | 2,761,516    |
|                                                              | 1,994,832                              | 2,229,250   | 4,250,973                            | 4,425,142    |
| Costs and Expenses:                                          |                                        |             |                                      |              |
| Cost of Products                                             | 525,180                                | 621,836     | 1,094,236                            | 1,220,626    |
| Cost of Services                                             | 917,662                                | 832,318     | 1,883,126                            | 1,683,206    |
| Research and Development                                     | 46,113                                 | 44,430      | 95,134                               | 87,069       |
| Selling, General and Administrative Attributable to Segments | 296,625                                | 268,798     | 605,369                              | 509,665      |
| Corporate General and Administrative                         | 55,887                                 | 46,288      | 109,018                              | 93,462       |
| Gain on Sale of Subsidiary                                   |                                        | (81,344)    |                                      | (81,344)     |
| Operating Income                                             | 153,365                                | 496,924     | 464,090                              | 912,458      |
| Other Expense:                                               |                                        |             |                                      |              |
| Interest Expense, Net                                        | (93,498)                               | (62,399)    | (184,561)                            | (115,202)    |
| Other, Net                                                   | (3,871)                                | (5,282)     | (17,410)                             | (4,783)      |
| Income from Continuing Operations Before Income Taxes        | 55,996                                 | 429,243     | 262,119                              | 792,473      |
| Provision for Income Taxes                                   | (5,441)                                | (57,875)    | (37,904)                             | (131,500)    |
| Income from Continuing Operations, Net of Taxes              | 50,555                                 | 371,368     | 224,215                              | 660,973      |
| Gain (Loss) from Discontinued Operation, Net of Taxes        |                                        | 6,940       |                                      | (12,928)     |
| Net Income                                                   | 50,555                                 | 378,308     | 224,215                              | 648,045      |
| Net Income Attributable to Noncontrolling Interests          | (8,574)                                | (7,324)     | (17,432)                             | (12,860)     |
| Net Income Attributable to Weatherford                       | \$ 41,981                              | \$ 370,984  | \$ 206,783                           | \$ 635,185   |

Basic Earnings Per Share Attributable to Weatherford:

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|                                         |    |      |    |      |    |      |    |        |
|-----------------------------------------|----|------|----|------|----|------|----|--------|
| Income from Continuing Operations       | \$ | 0.06 | \$ | 0.53 | \$ | 0.30 | \$ | 0.95   |
| Gain (Loss) from Discontinued Operation |    |      |    | 0.01 |    |      |    | (0.02) |
| Net Income                              | \$ | 0.06 | \$ | 0.54 | \$ | 0.30 | \$ | 0.93   |

Diluted Earnings Per Share Attributable to Weatherford:

|                                         |    |      |    |      |    |      |    |        |
|-----------------------------------------|----|------|----|------|----|------|----|--------|
| Income from Continuing Operations       | \$ | 0.06 | \$ | 0.52 | \$ | 0.29 | \$ | 0.93   |
| Gain (Loss) from Discontinued Operation |    |      |    | 0.01 |    |      |    | (0.02) |
| Net Income                              | \$ | 0.06 | \$ | 0.53 | \$ | 0.29 | \$ | 0.91   |

Amounts Attributable to Weatherford Registered Shareholders:

|                                                       |    |        |    |         |    |         |    |          |
|-------------------------------------------------------|----|--------|----|---------|----|---------|----|----------|
| Income from Continuing Operations, Net of Taxes       | \$ | 41,981 | \$ | 364,044 | \$ | 206,783 | \$ | 648,113  |
| Gain (Loss) from Discontinued Operation, Net of taxes |    |        |    | 6,940   |    |         |    | (12,928) |
| Net Income                                            | \$ | 41,981 | \$ | 370,984 | \$ | 206,783 | \$ | 635,185  |

Weighted Average Shares Outstanding:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | 700,424 | 681,870 | 699,375 | 681,030 |
| Diluted | 709,412 | 701,927 | 706,024 | 699,507 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

|                                                                                   | <b>Six Months<br/>Ended June 30,</b> |             |
|-----------------------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                                   | <b>2009</b>                          | <b>2008</b> |
| Cash Flows from Operating Activities:                                             |                                      |             |
| Net Income                                                                        | \$ 224,215                           | \$ 648,045  |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: |                                      |             |
| Depreciation and Amortization                                                     | 415,087                              | 340,998     |
| Loss (Gain) on Sales of Assets and Businesses, Net                                | 3,964                                | (85,815)    |
| Loss from Discontinued Operation                                                  |                                      | 12,928      |
| Employee Share-Based Compensation Expense                                         | 55,046                               | 48,134      |
| Excess Tax (Benefits) Deficits from Share-Based Compensation                      | 4,897                                | (15,194)    |
| Deferred Income Tax Benefit                                                       | (61,770)                             | (12,248)    |
| Other, Net                                                                        | (3,673)                              | (12,478)    |
| Change in Operating Assets and Liabilities, Net of Effect of Businesses Acquired  |                                      |             |
| Accounts Receivable                                                               | 285,915                              | (115,277)   |
| Inventories                                                                       | (132,380)                            | (288,328)   |
| Accounts Payable                                                                  | (57,303)                             | 45,041      |
| Other                                                                             | (434,085)                            | (178,370)   |
| Net Cash Provided by Operating Activities    Continuing Operations                | 299,913                              | 387,436     |
| Net Cash Used by Operating Activities    Discontinued Operation                   |                                      | (6,219)     |
| Net Cash Provided by Operating Activities                                         | 299,913                              | 381,217     |
| Cash Flows from Investing Activities:                                             |                                      |             |
| Acquisitions of Businesses, Net of Cash Acquired                                  | (22,049)                             | (160,351)   |
| Capital Expenditures for Property, Plant and Equipment                            | (970,384)                            | (1,144,530) |
| Acquisition of Intellectual Property                                              | (16,456)                             | (6,436)     |
| Acquisition of Equity Investments in Unconsolidated Affiliates                    | (26,509)                             |             |
| Proceeds from Sale of Assets and Businesses, Net                                  | 40,873                               | 255,121     |
| Net Cash Used by Investing Activities    Continuing Operations                    | (994,525)                            | (1,056,196) |
| Net Cash Provided by Investing Activities    Discontinued Operation               |                                      | 2,000       |
| Net Cash Used by Investing Activities                                             | (994,525)                            | (1,054,196) |
| Cash Flows from Financing Activities:                                             |                                      |             |
| Repayments on Short-term Debt, Net                                                | (564,808)                            | (728,801)   |
| Borrowings of Long-term Debt, Net                                                 | 1,230,214                            | 1,486,207   |
| Excess Tax Benefits from Share-Based Compensation                                 | (4,897)                              | 15,194      |
| Other Financing Activities, Net                                                   | 977                                  | (2,357)     |

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|                                                      |                        |            |            |
|------------------------------------------------------|------------------------|------------|------------|
| Net Cash Provided by Financing Activities            | Continuing Operations  | 661,486    | 770,243    |
| Net Cash Provided by Financing Activities            | Discontinued Operation |            |            |
| Net Cash Provided by Financing Activities            |                        | 661,486    | 770,243    |
| Net Increase (Decrease) in Cash and Cash Equivalents |                        | (33,126)   | 97,264     |
| Cash and Cash Equivalents at Beginning of Period     |                        | 238,398    | 170,714    |
| Cash and Cash Equivalents at End of Period           |                        | \$ 205,272 | \$ 267,978 |
| Supplemental Cash Flow Information:                  |                        |            |            |
| Interest Paid                                        |                        | \$ 167,332 | \$ 110,515 |
| Income Taxes Paid, Net of Refunds                    |                        | 258,482    | 148,123    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
**(In thousands)**

|                                                                  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                  | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Net Income                                                       | \$ 50,555                              | \$ 378,308  | \$ 224,215                           | \$ 648,045  |
| Other Comprehensive Income:                                      |                                        |             |                                      |             |
| Deferred Loss on Derivative Instruments                          |                                        |             |                                      | (12,576)    |
| Amortization of Pension Components                               | 3,348                                  | 980         | 4,528                                | 5,616       |
| Foreign Currency Translation Adjustment                          | 210,282                                | 32,449      | 160,222                              | 37,326      |
| Other                                                            | 152                                    | 147         | 303                                  | 187         |
| Comprehensive Income                                             | 264,337                                | 411,884     | 389,268                              | 678,598     |
| Comprehensive Income Attributable to<br>Noncontrolling Interests | (8,574)                                | (7,324)     | (17,311)                             | (12,860)    |
| Comprehensive Income Attributable to Weatherford                 | \$ 255,763                             | \$ 404,560  | \$ 371,957                           | \$ 665,738  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. General**

The accompanying unaudited condensed consolidated financial statements of Weatherford International Ltd. and all majority-owned subsidiaries (the Company) include all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the Company's Condensed Consolidated Balance Sheet at June 30, 2009, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income and Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2009 and 2008. Although the Company believes the disclosures in these financial statements are adequate to make the interim information presented not misleading, certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to U.S. Securities and Exchange Commission (SEC) rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008 and the related notes included in the Company's Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and disclosure of contingent liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to uncollectible accounts receivable, lower of cost or market of inventories, equity investments, intangible assets and goodwill, property, plant and equipment, income taxes, percentage-of-completion accounting for long-term contracts, self-insurance, pension and post retirement benefit plans and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

In February 2009, Weatherford International Ltd., a Bermuda exempted company (Weatherford Bermuda), and Weatherford International Ltd., a Swiss joint stock corporation (Weatherford Switzerland), completed a share exchange transaction under the terms of a share exchange agreement, dated as of December 10, 2008, effected by way of a scheme of arrangement under Bermuda law, for purposes of changing the Company's place of incorporation from Bermuda to Switzerland (collectively, the Transaction). Pursuant to the Transaction, each common share, par value U.S. \$1.00 per share, of Weatherford Bermuda was exchanged for one registered share, par value 1.16 Swiss francs (CHF) per share, of Weatherford Switzerland. As a result of the Transaction, Weatherford Bermuda became a direct, wholly-owned subsidiary of Weatherford Switzerland.

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. This standard changed the accounting for and reporting of minority interest (now called noncontrolling interest) in the consolidated financial statements. Upon adoption, certain prior period amounts have been reclassified to conform to the current period financial statement presentation.

During the second quarter of 2009, the Company adopted SFAS No. 165, *Subsequent Events*, which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events. The Company has evaluated subsequent events through August 3, 2009, the

date of issuance of the condensed consolidated financial statements.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**2. Business Combinations**

Effective January 1, 2009, the Company adopted SFAS No. 141(R), *Business Combination*, ( SFAS No. 141(R) ). SFAS No. 141(R) establishes principles and requirements for how a company recognizes assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at fair value at the acquisition date. The statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effect of the business combination. Due to the fact that SFAS No. 141(R) is applicable to acquisitions completed after January 1, 2009 and the Company did not have any material business combinations during the first six months of 2009, the adoption of SFAS No. 141(R) did not have a material impact on the Company's condensed consolidated financial statements.

The Company has acquired businesses critical to its long-term growth strategy. Results of operations for acquisitions are included in the accompanying Condensed Consolidated Statements of Income from the date of acquisition. The balances included in the Condensed Consolidated Balance Sheets related to recent acquisitions are based on preliminary information and are subject to change when final asset valuations are obtained and the potential for liabilities has been evaluated. Acquisitions are accounted for using the purchase method of accounting and the purchase price is allocated to the net assets acquired based upon their estimated fair values at the date of acquisition.

During the six months ended June 30, 2009, the Company acquired businesses for cash consideration of \$22 million and approximately three million common shares valued at \$54 million.

**3. Equity Investment Acquisition**

The Company acquired a 33% ownership interest in Premier Business Solutions ( PBS ) in June 2007 for approximately \$330 million. PBS conducts business in Russia and is the world's largest electric submersible pump manufacturer by volume. In January 2008, the Company sold its electrical submersible pumps ( ESP ) product line to PBS and received a combination of cash and an additional equity investment in PBS in consideration of the sale. This transaction increased the Company's ownership percentage to approximately 40%. The Company's investment in PBS is included in Equity Investments in the accompanying Condensed Consolidated Balance Sheets at June 30, 2009 and December 31, 2008.

**4. Discontinued Operations**

In 2007, the Company's management approved a plan to sell its oil and gas development and production business. The Company finalized the divestiture of the business in June 2008 and recorded an \$11 million gain, net of taxes, during the three months ended June 30, 2008. This gain was partially offset by operating and legal expenses incurred during the period. Included in the loss for the six months ended June 30, 2008, is approximately \$21 million, net of taxes, incurred in connection with the settlement of a legal dispute regarding the business.

**5. Inventories**

The components of inventory were as follows:

|                                        | June 30,<br>2009 | December 31,<br>2008 |
|----------------------------------------|------------------|----------------------|
|                                        | (In thousands)   |                      |
| Raw materials, components and supplies | \$ 358,045       | \$ 430,352           |
| Work in process                        | 134,433          | 152,864              |
| Finished goods                         | 1,767,426        | 1,505,126            |
|                                        | \$ 2,259,904     | \$ 2,088,342         |

Work in process and finished goods inventories include the cost of materials, labor and plant overhead.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**6. Goodwill**

Goodwill is evaluated for impairment on at least an annual basis. The Company performs its annual goodwill impairment test as of October 1. In addition, the Company updated its goodwill impairment test in December 2008 as a result of the decline in its common share price during the fourth quarter of 2008. The Company's 2008 impairment tests indicated goodwill was not impaired. The Company will continue to test its goodwill annually as of October 1 unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 were as follows:

|                                         | <b>North<br/>America</b> | <b>Middle<br/>East/<br/>North<br/>Africa/<br/>Asia</b> | <b>Europe/<br/>West<br/>Africa/<br/>FSU</b> | <b>Latin<br/>America</b> | <b>Total</b> |
|-----------------------------------------|--------------------------|--------------------------------------------------------|---------------------------------------------|--------------------------|--------------|
|                                         | <i>(In thousands)</i>    |                                                        |                                             |                          |              |
| As of December 31, 2008                 | \$ 1,813,710             | \$ 675,558                                             | \$ 734,930                                  | \$ 306,717               | \$ 3,530,915 |
| Acquisitions                            | 1,857                    | 5,571                                                  | 3,302                                       | 1,857                    | 12,587       |
| Disposals                               | (5,097)                  |                                                        |                                             |                          | (5,097)      |
| Purchase price and other<br>adjustments | 5,711                    | 9,232                                                  | 6,234                                       | (762)                    | 20,415       |
| Foreign currency translation            | 45,019                   | 8,624                                                  | 27,424                                      | 3,624                    | 84,691       |
| As of June 30, 2009                     | \$ 1,861,200             | \$ 698,985                                             | \$ 771,890                                  | \$ 311,436               | \$ 3,643,511 |

**7. Short-term Borrowings and Current Portion of Long-term Debt**

The components of short-term borrowings were as follows:

|                                                             | <b>June 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|-------------------------------------------------------------|--------------------------|------------------------------|
|                                                             | <i>(In thousands)</i>    |                              |
| Revolving credit facilities                                 | \$ 542,500               | \$ 1,068,000                 |
| Commercial paper program                                    | 75,618                   | 127,884                      |
| Other short-term bank loans                                 | 61,897                   | 44,205                       |
| Total short-term borrowings                                 | 680,015                  | 1,240,089                    |
| Current portion of long-term debt                           | 12,520                   | 15,858                       |
| Short-term borrowings and current portion of long-term debt | \$ 692,535               | \$ 1,255,947                 |

In January 2009, the Company completed a \$1.25 billion long-term debt offering comprised of (i) \$1 billion of 9.625% senior notes due in 2019 ( 9.625% Senior Notes ) and (ii) \$250 million of 9.875% senior notes due in 2039 ( 9.875% Senior Notes ). Net proceeds of \$1.23 billion were used to repay short-term borrowings and for general corporate purposes. Interest on these notes is due semi-annually on March 1 and September 1 of each year.

The Company maintains various revolving credit facilities with syndicates of banks. These facilities allow for an aggregate availability of \$2.3 billion, and can be used for a combination of borrowings, support of the Company's commercial paper program and issuances of letters of credit. Facilities with \$550 million in availability will mature in

October 2009 and the remaining facilities mature in May 2011. There were \$74 million in outstanding letters of credit under these facilities at June 30, 2009.

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These borrowing facilities require the Company to maintain a debt-to-capitalization ratio of less than 60% and contain other covenants and representations customary for an investment-grade commercial credit. The Company was in compliance with these covenants at June 30, 2009.

The Company has a \$1.5 billion commercial paper program under which it may from time to time issue short-term unsecured notes. The commercial paper program is supported by the Company's revolving credit facilities. The weighted average interest rate related to outstanding commercial paper issuances at June 30, 2009 was 0.5%.

The Company has short-term borrowings with various domestic and international institutions pursuant to uncommitted facilities. At June 30, 2009, the Company had \$62 million in short-term borrowings outstanding under these arrangements with a weighted average interest rate of 4.9%. In addition, the Company had \$192 million of letters of credit and bid and performance bonds outstanding under these uncommitted facilities.

The Company's short-term borrowings approximate their fair value at June 30, 2009 and December 31, 2008.

**8. Financial Instruments and Fair Value Measures**

Effective January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activity. Entities are required to provide enhanced disclosures about how and why they use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

The Company is exposed to market risk from changes in foreign currency and changes in interest rates. From time to time, the Company may enter into derivative financial instrument transactions to manage or reduce its market risk, but does not enter into derivative transactions for speculative purposes. The Company manages its debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions. The counterparties to the Company's interest rate swaps are multinational commercial banks.

*Interest Rate Swaps*

In December 2008, the Company entered into an interest rate swap agreement on an aggregate notional amount of \$150 million against one of its revolving credit facilities. This agreement matured in June 2009.

Upon completion of the long-term debt offering in March 2008, the Company entered into interest rate swap agreements on an aggregate notional amount of \$500 million against its 5.15% senior notes due in 2013 (5.15% Senior Notes). These agreements were terminated in December 2008. As a result of these terminations, the Company received cash proceeds, net of accrued interest, of \$12 million. The gain associated with this interest rate swap termination has been deferred and will be amortized to interest expense over the remaining term of the 5.15% Senior Notes.

*Cash Flow Hedges*

In March 2008, the Company entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the issuance of the 7.00% senior notes due in 2038 (7.00% Senior Notes). Those hedges were terminated in March 2008 at the time of the issuance. The Company paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

*Other Derivative Instruments*

As of June 30, 2009, the Company had several foreign currency forward and option contracts with notional amounts aggregating \$843 million, which were entered into to hedge exposure to currency fluctuations in various

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foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro and the Norwegian kroner. The total estimated fair value of these contracts at June 30, 2009 resulted in a net liability of \$17 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in Other, net in the accompanying Condensed Consolidated Statements of Income.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International, the Company entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At June 30, 2009, the Company had notional amounts outstanding of \$168 million. The total estimated fair value of these contracts at June 30, 2009 resulted in a liability of \$6 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in the accompanying Condensed Consolidated Statements of Income.

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, ( SFAS No. 157 ) as it relates to financial assets and financial liabilities. In February 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities.

On January 1, 2009, the Company adopted without material impact on its condensed consolidated financial statements the provisions of SFAS No. 157 related to nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment and those initially measured at fair value in a business combination.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principals and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. The adoption of SFAS No. 157 had no impact on the Company's consolidated financial position, results of operations and cash flows.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from independent sources (observable inputs) and an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

In accordance with SFAS No. 157 and SFAS No. 161, the following table presents the Company's assets and liabilities (along with their balance sheet classification) that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2009:

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|                            | <b>June 30, 2009</b> |                       |              |              |
|----------------------------|----------------------|-----------------------|--------------|--------------|
|                            | <b>Level</b>         |                       | <b>Level</b> |              |
|                            | <b>1</b>             | <b>Level 2</b>        | <b>3</b>     | <b>Total</b> |
|                            |                      | <i>(In thousands)</i> |              |              |
| Other Current Assets:      |                      |                       |              |              |
| Foreign exchange contracts | \$                   | \$ 19,624             | \$           | \$ 19,624    |
| Other Assets:              |                      |                       |              |              |
| Other investments          |                      | 34,486                |              | 34,486       |
| Other Current Liabilities: |                      |                       |              |              |
| Foreign exchange contracts |                      | 36,598                |              | 36,598       |
| Other Liabilities:         |                      |                       |              |              |
| Foreign exchange contracts |                      | 5,549                 |              | 5,549        |

**9. Income Taxes**

The Company's effective tax rates were 9.7% and 14.5% for the three and six months ended June 30, 2009, respectively, and were 13.5% and 16.6% for the three and six months ended June 30, 2008, respectively. The decrease in the effective tax rate is due to the decrease in earnings in certain jurisdictions, largely in North America, and benefits realized from the refinement of the Company's international tax structure.

**10. Shareholders' Equity**

The following summarizes the Company's shareholders' equity activity for the period presented:

|                                            | <b>Total</b>        | <b>Company</b>      | <b>Noncontrolling</b> |
|--------------------------------------------|---------------------|---------------------|-----------------------|
|                                            | <b>Shareholders</b> | <b>Shareholders</b> | <b>Interests in</b>   |
|                                            | <b>Equity</b>       | <b>Equity</b>       | <b>Consolidated</b>   |
|                                            |                     | <i>(In</i>          | <b>Subsidiaries</b>   |
|                                            |                     | <i>thousands)</i>   |                       |
| Balance at December 31, 2008               | \$ 8,366,049        | \$ 8,285,648        | \$ 80,401             |
| Comprehensive Income:                      |                     |                     |                       |
| Net Income                                 | 224,215             | 206,783             | 17,432                |
| Amortization of Pension Components         | 4,528               | 4,528               |                       |
| Foreign Currency Translation Adjustments   | 160,222             | 160,343             | (121)                 |
| Other                                      | 303                 | 303                 |                       |
| Comprehensive Income                       | 389,268             | 371,957             | 17,311                |
| Transactions with Shareholders             | 91,845              | 91,845              |                       |
| Dividends paid to Noncontrolling Interests | (16,047)            |                     | (16,047)              |
| Other                                      | 1,502               |                     | 1,502                 |
| Balance at June 30, 2009                   | \$ 8,832,617        | \$ 8,749,450        | \$ 83,167             |

**11. Earnings Per Share**

Basic earnings per share for all periods presented equals net income divided by the weighted average number of the Company's registered shares, par value CHF 1.16 ( Registered Shares ) outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of Registered Shares outstanding

during the period, as adjusted for the dilutive effect of the Company's stock option and restricted share plans and warrant.

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Effective January 1, 2009, the Company implemented FASB Staff Position ( FSP ) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. Accordingly, the Company now includes its restricted share awards that contain the right to vote and receive dividends in the computation of both basic and diluted earnings per share. FSP EITF 03-6-1 has not been applied to prior periods as the impact is immaterial.

The Company's Board of Directors approved a two-for-one share split of its common shares effected through a share dividend. Shareholders of record on May 9, 2008 were entitled to the dividend, which was distributed on May 23, 2008. All share and option amounts included in the accompanying consolidated financial statements and related notes reflect the effect of the share split.

The following reconciles basic and diluted weighted average shares outstanding:

|                                             | <b>Three Months</b>   |             | <b>Six Months</b>     |             |
|---------------------------------------------|-----------------------|-------------|-----------------------|-------------|
|                                             | <b>Ended June 30,</b> |             | <b>Ended June 30,</b> |             |
|                                             | <b>2009</b>           | <b>2008</b> | <b>2009</b>           | <b>2008</b> |
|                                             | <i>(In thousands)</i> |             |                       |             |
| Basic weighted average shares outstanding   | 700,424               | 681,870     | 699,375               | 681,030     |
| Dilutive effect of:                         |                       |             |                       |             |
| Warrant                                     | 2,105                 | 8,380       | 1,053                 | 7,663       |
| Stock option and restricted share plans     | 6,883                 | 11,677      | 5,596                 | 10,814      |
| Diluted weighted average shares outstanding | 709,412               | 701,927     | 706,024               | 699,507     |

The diluted earning per share calculation excludes four million potential shares for the three months ended June 30, 2009 and 11 million potential shares for the six months ended June 30, 2009, due to their antidilutive effect. Antidilutive potential shares were not significant for the three and six months ended June 30, 2008.

## **12. Share-Based Compensation**

The Company recognized the following employee share-based compensation expense during the three and six months ended June 30, 2009 and 2008:

|                          | <b>Three Months</b>   |             | <b>Six Months</b>     |             |
|--------------------------|-----------------------|-------------|-----------------------|-------------|
|                          | <b>Ended June 30,</b> |             | <b>Ended June 30,</b> |             |
|                          | <b>2009</b>           | <b>2008</b> | <b>2009</b>           | <b>2008</b> |
|                          | <i>(In thousands)</i> |             |                       |             |
| Share-based compensation | \$28,617              | \$24,660    | \$55,046              | \$48,134    |
| Related tax benefit      | 10,016                | 8,631       | 19,266                | 16,847      |

During the six months ended June 30, 2009, the Company granted six million restricted share awards and units at a weighted average grant date fair value of \$13.17 per share.

As of June 30, 2009, there was \$268 million of total unrecognized compensation cost related to the Company's unvested stock options and restricted share grants. This cost is expected to be recognized over a weighted-average period of two years.

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**13. Retirement and Employee Benefit Plans**

The Company has defined benefit pension and other post-retirement benefit plans covering certain employees. The components of net periodic benefit cost for the three and six months ended June 30, 2009 and 2008 were as follows:

|                                             | <b>Three Months Ended June 30,</b> |                      | <b>2008</b>          |                      |
|---------------------------------------------|------------------------------------|----------------------|----------------------|----------------------|
|                                             | <b>2009</b>                        |                      |                      |                      |
|                                             | <b>United States</b>               | <b>International</b> | <b>United States</b> | <b>International</b> |
|                                             | <i>(In thousands)</i>              |                      |                      |                      |
| Service cost                                | \$ 906                             | \$ 1,681             | \$ 720               | \$ 3,555             |
| Interest cost                               | 2,079                              | 1,654                | 1,511                | 2,659                |
| Expected return on plan assets              | (166)                              | (979)                | (179)                | (2,320)              |
| Amortization of transition obligation       |                                    |                      |                      | (1)                  |
| Amortization of prior service cost (credit) | 1,535                              | (12)                 | 458                  | (20)                 |
| Amortization of loss                        | 2,209                              | 235                  | 964                  | 107                  |
| Curtailment/settlement loss                 | 1,063                              |                      |                      |                      |
| Net periodic benefit cost                   | \$ 7,626                           | \$ 2,579             | \$ 3,474             | \$ 3,980             |

|                                             | <b>Six Months Ended June 30,</b> |                      | <b>2008</b>          |                      |
|---------------------------------------------|----------------------------------|----------------------|----------------------|----------------------|
|                                             | <b>2009</b>                      |                      |                      |                      |
|                                             | <b>United States</b>             | <b>International</b> | <b>United States</b> | <b>International</b> |
|                                             | <i>(In thousands)</i>            |                      |                      |                      |
| Service cost                                | \$ 1,781                         | \$ 3,285             | \$ 1,440             | \$ 7,043             |
| Interest cost                               | 3,785                            | 3,250                | 3,022                | 5,269                |
| Expected return on plan assets              | (331)                            | (1,933)              | (358)                | (4,626)              |
| Amortization of transition obligation       |                                  | (1)                  |                      | (2)                  |
| Amortization of prior service cost (credit) | 1,993                            | (23)                 | 916                  | (40)                 |
| Amortization of loss                        | 3,234                            | 463                  | 1,928                | 208                  |
| Curtailment/settlement loss                 | 1,063                            |                      | 5,621                |                      |
| Net periodic benefit cost                   | \$ 11,525                        | \$ 5,041             | \$ 12,569            | \$ 7,852             |

The Company previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute approximately \$10 million to its pension and other postretirement benefit plans during 2009. Due to the amendment of one of our foreign plans, the Company currently anticipates total 2009 contributions for the defined benefit plans to approximate \$7 million. As of June 30, 2009, the Company has contributed approximately \$4 million to these plans.

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**14. Segment Information**

Financial information by segment is summarized below. Revenues are attributable to countries based on the ultimate destination of the sale of products or performance of services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

|                                        | <b>Three Months Ended June 30, 2009</b> |                                                                         |                                              |
|----------------------------------------|-----------------------------------------|-------------------------------------------------------------------------|----------------------------------------------|
|                                        | <b>Net<br/>Operating<br/>Revenues</b>   | <b>Income<br/>(Loss)<br/>from<br/>Operations<br/>(In<br/>thousands)</b> | <b>Depreciation<br/>and<br/>Amortization</b> |
| North America                          | \$ 571,415                              | \$ (709)                                                                | \$ 77,253                                    |
| Middle East/North Africa/Asia          | 592,908                                 | 123,553                                                                 | 60,921                                       |
| Europe/West Africa/FSU                 | 364,968                                 | 62,614                                                                  | 35,190                                       |
| Latin America                          | 465,541                                 | 85,759                                                                  | 35,971                                       |
|                                        | 1,994,832                               | 271,217                                                                 | 209,335                                      |
| Corporate and Research and Development |                                         | (86,947)                                                                | 4,358                                        |
| Other (a)                              |                                         | (30,905)                                                                |                                              |
| Total                                  | \$ 1,994,832                            | \$ 153,365                                                              | \$ 213,693                                   |

|                                        | <b>Three Months Ended June 30, 2008</b> |                                                              |                                              |
|----------------------------------------|-----------------------------------------|--------------------------------------------------------------|----------------------------------------------|
|                                        | <b>Net<br/>Operating<br/>Revenues</b>   | <b>Income<br/>from<br/>Operations<br/>(In<br/>thousands)</b> | <b>Depreciation<br/>and<br/>Amortization</b> |
| North America                          | \$ 1,012,244                            | \$ 224,252                                                   | \$ 75,093                                    |
| Middle East/North Africa/Asia          | 556,251                                 | 130,650                                                      | 45,982                                       |
| Europe/West Africa/FSU                 | 389,563                                 | 99,016                                                       | 27,600                                       |
| Latin America                          | 271,192                                 | 58,355                                                       | 20,368                                       |
|                                        | 2,229,250                               | 512,273                                                      | 169,043                                      |
| Corporate and Research and Development | ¾                                       | (79,705)                                                     | 2,667                                        |
| Other (b)                              | ¾                                       | 64,356                                                       | ¾                                            |
| Total                                  | \$ 2,229,250                            | \$ 496,924                                                   | \$ 171,710                                   |

(a) The three  
months ended  
June 30, 2009

includes  
\$14 million for  
costs incurred in  
connection with  
on-going  
investigations  
by the U.S.  
government,  
\$13 million for  
severance and  
facility closure  
costs associated  
with  
reorganization  
activities and  
\$4 million in  
costs related to  
the Company's  
withdrawal from  
certain  
sanctioned  
countries.

- (b) During the three months ended June 30, 2008, the Company sold a 50% interest in a subsidiary it controls to Qatar Petroleum for cash consideration of \$113 million. The subsidiary contains substantially all of the Company's Qatar operations. The sale resulted in a gain of \$81 million, after deducting direct costs of the transaction. The gain was partially offset by \$11 million

in costs incurred  
in connection  
with the  
Company's  
on-going  
investigations  
and \$6 million  
in costs related  
to the  
Company's  
withdrawal from  
certain  
sanctioned  
countries.

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|                                        | <b>Six Months Ended June 30, 2009</b> |                                       |                                              |
|----------------------------------------|---------------------------------------|---------------------------------------|----------------------------------------------|
|                                        | <b>Net<br/>Operating<br/>Revenues</b> | <b>Income<br/>from<br/>Operations</b> | <b>Depreciation<br/>and<br/>Amortization</b> |
|                                        |                                       | <i>(In<br/>thousands)</i>             |                                              |
| North America                          | \$ 1,408,768                          | \$ 122,327                            | \$ 152,351                                   |
| Middle East/North Africa/Asia          | 1,174,854                             | 257,579                               | 118,555                                      |
| Europe/West Africa/FSU                 | 733,811                               | 137,557                               | 69,868                                       |
| Latin America                          | 933,540                               | 177,976                               | 66,413                                       |
|                                        | 4,250,973                             | 695,439                               | 407,187                                      |
| Corporate and Research and Development |                                       | (175,567)                             | 7,900                                        |
| Other (c)                              |                                       | (55,782)                              |                                              |
| Total                                  | \$ 4,250,973                          | \$ 464,090                            | \$ 415,087                                   |

|                                        | <b>Six Months Ended June 30, 2008</b> |                                       |                                              |
|----------------------------------------|---------------------------------------|---------------------------------------|----------------------------------------------|
|                                        | <b>Net<br/>Operating<br/>Revenues</b> | <b>Income<br/>from<br/>Operations</b> | <b>Depreciation<br/>and<br/>Amortization</b> |
|                                        |                                       | <i>(In thousands)</i>                 |                                              |
| North America                          | \$ 2,102,606                          | \$ 515,905                            | \$ 149,880                                   |
| Middle East/North Africa/Asia          | 1,078,135                             | 251,324                               | 91,718                                       |
| Europe/West Africa/FSU                 | 737,192                               | 192,229                               | 54,221                                       |
| Latin America                          | 507,209                               | 118,853                               | 40,050                                       |
|                                        | 4,425,142                             | 1,078,311                             | 335,869                                      |
| Corporate and Research and Development |                                       | (155,976)                             | 5,129                                        |
| Other (d)                              |                                       | (9,877)                               |                                              |
| Total                                  | \$ 4,425,142                          | \$ 912,458                            | \$ 340,998                                   |

(c) The six months ended June 30, 2009 includes \$27 million for costs incurred in connection with on-going investigations by the U.S.

government,  
\$25 million for  
severance and  
facility closure  
costs associated  
with  
reorganization  
activities and \$4  
million in costs  
related to the  
Company's  
withdrawal from  
certain  
sanctioned  
countries.

- (d) The six months ended June 30, 2008 includes \$57 million for costs incurred in connection with the Company's withdrawal from certain sanctioned countries. These costs were included in the Cost of Products line item in the Condensed Consolidated Statements of Income. In addition, severance costs of \$15 million were incurred associated with reorganization activities and \$19 million was expended in connection with the Company's on-going investigations. These charges were partially offset by the

\$81 million gain  
discussed  
above.

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**15. Disputes and Litigation**

***U.S. Government and Internal Investigations***

The Company is currently involved in government and internal investigations involving various areas of its operations.

The Company participated in the United Nations oil-for-food program governing sales of goods and services into Iraq. The U.S. Department of Justice ( DOJ ) and the SEC are conducting investigations of the Company's participation in the oil-for-food program and have subpoenaed certain documents in connection with these investigations. The Company is cooperating fully with these investigations. The Company has retained legal counsel, reporting to its audit committee, to investigate this matter. These investigations are ongoing, and the Company cannot anticipate the timing, outcome or possible impact of these investigations, financial or otherwise.

The U.S. Department of Commerce, Bureau of Industry & Security, Office of Foreign Assets Control, DOJ and SEC are investigating allegations of improper sales of products and services by the Company and its subsidiaries in certain sanctioned countries. The Company is cooperating fully with this investigation. The Company has retained legal counsel, reporting to its audit committee, to investigate these matters and to cooperate fully with these agencies. This investigation is ongoing, and the Company cannot anticipate the timing, outcome or possible impact of the investigation, financial or otherwise.

In light of this investigation and of the current U.S. and foreign policy environment and the inherent uncertainties surrounding these countries, the Company decided in September 2007 to direct its foreign subsidiaries to discontinue doing business in countries that are subject to comprehensive U.S. economic and trade sanctions, specifically Cuba, Iran, and Sudan, as well as Syria. Effective September 2007, the Company ceased entering into any new contracts relating to these countries and began an orderly discontinuation and winding down of its existing business in these sanctioned countries. Effective March 31, 2008, the Company substantially completed its withdrawal from these countries. The Company's remaining activities in these countries consist primarily of attempts to collect accounts receivable and recover or liquidate assets, including funds. Certain of the Company's subsidiaries continue to conduct business in countries such as Myanmar that are subject to more limited U.S. trading sanctions.

The DOJ and SEC are investigating the embezzlement of approximately \$175,000 at a European subsidiary and the possible improper use of these funds, including possible payments to government officials in Europe, during the period from 2000 to 2004, and the Company's compliance with the Foreign Corrupt Practices Act ( FCPA ) and other laws worldwide. The Company has retained legal counsel, reporting to its audit committee, to investigate these matters and to cooperate fully with the DOJ and SEC. As part of its investigations, the Company has uncovered potential violations of U.S. law in connection with activities in West Africa. These investigations are ongoing, and the Company cannot anticipate the timing, outcome or possible impact, if any, of the investigations, financial or otherwise.

The DOJ, SEC and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trade sanctions laws, the FCPA and other federal statutes including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs. In recent years, these agencies and authorities have entered into agreements with, and obtained a range of penalties against, several public corporations and individuals in similar investigations, under which civil and criminal penalties were imposed, including in some cases fines and other penalties and sanctions in the tens and hundreds of millions of dollars. Under trade sanctions laws, the DOJ may also seek to impose modifications to business practices, including immediate cessation of all business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs. In addition, the Company's activities in sanctioned countries, such as Sudan and Iran, could result in certain investors, such as government sponsored pension funds, divesting or not investing in its registered shares. Based on available information, the Company cannot predict what, if any, actions the DOJ, SEC or other authorities will take in its situation or the effect any such actions will have on its consolidated financial position or results of operations. To the extent the Company violated trade sanctions laws, the FCPA, or other laws or regulations, fines and other



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penalties may be imposed. Because these matters are now pending before the indicated agencies, there can be no assurance that actual fines or penalties, if any, will not have a material adverse affect on its business, financial condition, liquidity or results of operations.

During the six months ended June 30, 2009 and 2008, the Company incurred \$27 million and \$19 million, respectively, in connection with these on-going investigations. In addition, the Company incurred \$57 million for costs incurred in connection with our exit from certain sanctioned countries during the six months ended June 30, 2008.

***Other Litigation and Disputes***

The Company is aware of various disputes and potential claims and is a party in various litigation involving claims against the Company, some of which are covered by insurance. Based on facts currently known, the Company believes that the ultimate liability, if any, which is probable to result from known claims, disputes and pending litigation, would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**16. New Accounting Pronouncements**

In December 2008, the FASB issued FSP SFAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP SFAS No. 132(R)-1 ). This FSP amends the disclosure requirements for employer's disclosure of plan assets for defined benefit pensions and other postretirement plans. The objective of this FSP is to provide users of financial statements with an understanding of how investment allocation decisions are made, the major categories of plan assets held by the plans, the inputs and valuation techniques used to measure the fair value of plan assets, significant concentration of risk within the Company's plan assets, and for fair value measurements determined using significant unobservable inputs, a reconciliation of changes between the beginning and ending balances. FSP SFAS No. 132(R)-1 is effective for fiscal years ending after December 15, 2009. The Company will adopt the new disclosure requirements in the 2009 annual reporting period.

In June 2009, the FASB issued SFAS 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ). SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The objective of this SFAS is to improve financial reporting by enterprises involved with variable interest entities. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. The Company will adopt the new disclosure requirements beginning January 1, 2010.

**17. Commitments and Contingencies**

In association with a prior acquisition, the Company identified pre-acquisition contingencies related to duties and taxes associated with the importation of certain equipment assets to foreign jurisdictions. At June 30, 2009, the Company has a liability in the amount of \$9 million for this matter. If the Company used the high end of the range, the aggregate potential liability would be approximately \$10 million higher.

The Company's former Senior Vice President and General Counsel (the Executive ) left the Company in June 2009. The Executive had employment agreements with the Company that terminated on his departure. There is currently a dispute between the Executive and the Company as to the amount of compensation the Company is obligated to pay under these employment agreements based on the Executive's separation. It is the Company's belief that an unfavorable outcome regarding this dispute is not probable, and as such, the Company has not accrued for \$9 million of the Executive's claimed severance and other benefits.

**18. Subsequent Event**

On July 27, 2009, the Company completed its acquisition of the Oilfield Services Division of TNK-BP ( TNK-BP ) for 24.3 million shares valued at approximately \$450 million. In addition, if TNK-BP sells its shares in the

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

Company for a price less than \$18.50 per share prior to June 29, 2010, the Company is obligated to pay TNK-BP additional consideration in an amount equal to the difference between the price at which the shares were sold and \$18.50. The Company will pay any additional consideration in cash or, at the Company's option in certain instances, in additional shares following such date.

**19. Condensed Consolidating Financial Statements**

During the first quarter of 2009, the Company completed a transaction that changed its place of incorporation from Bermuda to Switzerland. A new Swiss corporation named Weatherford International Ltd. was formed and is now the ultimate parent (Weatherford Switzerland) of the Weatherford group. It guarantees the obligations of Weatherford International Ltd. incorporated in Bermuda (Weatherford Bermuda) and Weatherford International, Inc. incorporated in Delaware (Weatherford Delaware) noted below.

The following obligations of Weatherford Delaware were guaranteed by Weatherford Bermuda at June 30, 2009 and December 31, 2008: (i) the 6.625% Senior Notes, (ii) the 5.95% Senior Notes, (iii) the 6.35% Senior Notes and (iv) the 6.80% Senior Notes.

The following obligations of Weatherford Bermuda were guaranteed by Weatherford Delaware at June 30, 2009: (i) the revolving credit facilities, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes, (v) the 5.15% Senior Notes, (vi) the 6.00% Senior Notes, (vii) the 7.00% Senior Notes, (viii) the 9.625% Senior Notes, (ix) the 9.875% Senior Notes and (x) issuances of notes under the commercial paper program.

The following obligations of Weatherford Bermuda were guaranteed by Weatherford Delaware at December 31, 2008: (i) the revolving credit facilities, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes, (v) the 5.15% Senior Notes, (vi) the 6.00% Senior Notes, (vii) the 7.00% Senior Notes and (viii) issuances of notes under the commercial paper program.

As a result of these guarantee arrangements, the Company is required to present the following condensed consolidating financial information. The accompanying guarantor financial information is presented on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the Company's share in the subsidiaries' cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries relate primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions. Certain prior year amounts have been reclassified to conform to the current year presentation.

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**Condensed Consolidating Balance Sheet**  
**June 30, 2009**  
**(unaudited)**  
**(In thousands)**

|                                                    | Parent       | Bermuda       | Delaware     | Other<br>Subsidiaries | Eliminations    | Consolidation |
|----------------------------------------------------|--------------|---------------|--------------|-----------------------|-----------------|---------------|
| <b>ASSETS</b>                                      |              |               |              |                       |                 |               |
| Current Assets:                                    |              |               |              |                       |                 |               |
| Cash and Cash                                      |              |               |              |                       |                 |               |
| Equivalents                                        | \$ 132       | \$ 26         | \$ 21        | \$ 205,093            | \$              | \$ 205,272    |
| Other Current Assets                               | 1,209        | 19,422        | 78,967       | 5,329,358             |                 | 5,428,956     |
| Total Current Assets                               | 1,341        | 19,448        | 78,988       | 5,534,451             |                 | 5,634,228     |
| Equity Investments in                              |              |               |              |                       |                 |               |
| Affiliates                                         | 8,493,192    | 14,920,933    | 6,563,691    | 12,275,120            | (42,252,936)    |               |
| Shares Held in Parent                              |              |               | 125,234      | 565,747               | (690,981)       |               |
| Intercompany                                       |              |               |              |                       |                 |               |
| Receivables, Net                                   |              | 1,645,391     | 1,040,358    |                       | (2,685,749)     |               |
| Other Assets                                       | 747          | 67,801        | 183,731      | 11,479,152            |                 | 11,731,431    |
| Total Assets                                       | \$ 8,495,280 | \$ 16,653,573 | \$ 7,992,002 | \$ 29,854,470         | \$ (45,629,666) | \$ 17,365,659 |
| <b>LIABILITIES AND<br/>SHAREHOLDERS<br/>EQUITY</b> |              |               |              |                       |                 |               |
| Current Liabilities:                               |              |               |              |                       |                 |               |
| Short-term Borrowings                              |              |               |              |                       |                 |               |
| and Current Portion of                             |              |               |              |                       |                 |               |
| Long-term Debt                                     | \$           | \$ 229,196    | \$ 1,812     | \$ 461,527            | \$              | \$ 692,535    |
| Accounts Payable and                               |              |               |              |                       |                 |               |
| Other Current                                      |              |               |              |                       |                 |               |
| Liabilities                                        |              | 110,066       | 76,054       | 1,361,816             |                 | 1,547,936     |
| Total Current                                      |              |               |              |                       |                 |               |
| Liabilities                                        |              | 339,262       | 77,866       | 1,823,343             |                 | 2,240,471     |
| Long-term Debt                                     |              | 3,942,545     | 1,848,819    | 13,672                |                 | 5,805,036     |
| Intercompany                                       |              |               |              |                       |                 |               |
| Payables, Net                                      | 7,741        |               |              | 2,678,008             | (2,685,749)     |               |
|                                                    |              | 116,476       | 2,405        | 368,654               |                 | 487,535       |

Other Long-term  
Liabilities

|                   |       |           |           |           |             |           |
|-------------------|-------|-----------|-----------|-----------|-------------|-----------|
| Total Liabilities | 7,741 | 4,398,283 | 1,929,090 | 4,883,677 | (2,685,749) | 8,533,042 |
|-------------------|-------|-----------|-----------|-----------|-------------|-----------|

|                                     |           |            |           |            |              |           |
|-------------------------------------|-----------|------------|-----------|------------|--------------|-----------|
| Weatherford<br>Shareholders' Equity | 8,487,539 | 12,255,290 | 6,062,912 | 24,887,626 | (42,943,917) | 8,749,450 |
|-------------------------------------|-----------|------------|-----------|------------|--------------|-----------|

|                             |  |  |  |        |  |        |
|-----------------------------|--|--|--|--------|--|--------|
| Noncontrolling<br>Interests |  |  |  | 83,167 |  | 83,167 |
|-----------------------------|--|--|--|--------|--|--------|

|                                               |              |               |              |               |                 |               |
|-----------------------------------------------|--------------|---------------|--------------|---------------|-----------------|---------------|
| Total Liabilities and<br>Shareholders' Equity | \$ 8,495,280 | \$ 16,653,573 | \$ 7,992,002 | \$ 29,854,470 | \$ (45,629,666) | \$ 17,365,659 |
|-----------------------------------------------|--------------|---------------|--------------|---------------|-----------------|---------------|

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**Condensed Consolidating Balance Sheet**  
**December 31, 2008**  
**(In thousands)**

|                                                                   | <b>Bermuda</b>              | <b>Delaware</b>             | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|-------------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                                                     |                             |                             |                               |                     |                      |
| Current Assets:                                                   |                             |                             |                               |                     |                      |
| Cash and Cash Equivalents                                         | \$ 24                       | \$ 50                       | \$ 238,324                    | \$                  | \$ 238,398           |
| Other Current Assets                                              | 11,547                      | 90,626                      | 5,229,711                     |                     | 5,331,884            |
| Total Current Assets                                              | 11,571                      | 90,676                      | 5,468,035                     |                     | 5,570,282            |
| Equity Investments in Affiliates                                  | 14,335,661                  | 6,231,144                   | 12,611,943                    | (33,178,748)        |                      |
| Shares Held in Parent                                             | <sup>3</sup> / <sub>4</sub> | 133,519                     | 625,958                       | (759,477)           |                      |
| Intercompany Receivables, Net                                     | 1,289,507                   | 906,534                     | <sup>3</sup> / <sub>4</sub>   | (2,196,041)         |                      |
| Other Assets                                                      | 59,325                      | 184,869                     | 10,662,037                    |                     | 10,906,231           |
| Total Assets                                                      | \$ 15,696,064               | \$ 7,546,742                | \$ 29,367,973                 | \$ (36,134,266)     | \$ 16,476,513        |
| <b>LIABILITIES AND<br/>SHAREHOLDERS EQUITY</b>                    |                             |                             |                               |                     |                      |
| Current Liabilities:                                              |                             |                             |                               |                     |                      |
| Short-term Borrowings and<br>Current Portion of Long-term<br>Debt | \$ 781,443                  | \$ 1,758                    | \$ 472,746                    | \$                  | \$ 1,255,947         |
| Accounts Payable and Other<br>Current Liabilities                 | 59,534                      | 39,764                      | 1,666,848                     |                     | 1,766,146            |
| Total Current Liabilities                                         | 840,977                     | 41,522                      | 2,139,594                     |                     | 3,022,093            |
| Long-term Debt                                                    | 2,701,747                   | 1,849,428                   | 13,080                        |                     | 4,564,255            |
| Intercompany Payables, Net                                        |                             | <sup>3</sup> / <sub>4</sub> | 2,196,041                     | (2,196,041)         |                      |
| Other Long-term Liabilities                                       | 110,627                     | 2,502                       | 410,987                       |                     | 524,116              |
| Total Liabilities                                                 | 3,653,351                   | 1,893,452                   | 4,759,702                     | (2,196,041)         | 8,110,464            |
| Weatherford Shareholders<br>Equity                                | 12,042,713                  | 5,653,290                   | 24,527,870                    | (33,938,225)        | 8,285,648            |
| Noncontrolling Interests                                          |                             |                             | 80,401                        |                     | 80,401               |

|                                               |               |              |               |                 |               |
|-----------------------------------------------|---------------|--------------|---------------|-----------------|---------------|
| Total Liabilities and<br>Shareholders' Equity | \$ 15,696,064 | \$ 7,546,742 | \$ 29,367,973 | \$ (36,134,266) | \$ 16,476,513 |
|-----------------------------------------------|---------------|--------------|---------------|-----------------|---------------|

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Condensed Consolidating Statements of Income**

**Three Months Ended June 30, 2009**

**(unaudited)**

**(In thousands)**

|                                                                                                        | <b>Parent</b> | <b>Bermuda</b> | <b>Delaware</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|--------------------------------------------------------------------------------------------------------|---------------|----------------|-----------------|-------------------------------|---------------------|----------------------|
| Revenues                                                                                               | \$            | \$             | \$              | \$ 1,994,832                  | \$                  | \$ 1,994,832         |
| Costs and Expenses                                                                                     | (704)         | (4,083)        | (532)           | (1,836,148)                   |                     | (1,841,467)          |
| Operating Income<br>(Loss)                                                                             | (704)         | (4,083)        | (532)           | 158,684                       |                     | 153,365              |
| Other Income<br>(Expense):                                                                             |               |                |                 |                               |                     |                      |
| Interest Income<br>(Expense), Net                                                                      |               | (66,066)       | (28,734)        | 1,302                         |                     | (93,498)             |
| Intercompany Charges,<br>Net                                                                           | (17)          | (67,320)       | (60,101)        | 127,438                       |                     |                      |
| Equity in Subsidiary<br>Income                                                                         | 42,708        | 81,932         | 155,715         |                               | (280,355)           |                      |
| Other, Net                                                                                             | (6)           | 98,245         | (46)            | (102,064)                     |                     | (3,871)              |
| Income (Loss) from<br>Continuing Operations<br>Before Income Taxes                                     | 41,981        | 42,708         | 66,302          | 185,360                       | (280,355)           | 55,996               |
| Provision for Income<br>Taxes                                                                          |               |                | 15,630          | (21,071)                      |                     | (5,441)              |
| Income (Loss) from<br>Continuing Operations<br>Loss from<br>Discontinued<br>Operation, Net of<br>Taxes | 41,981        | 42,708         | 81,932          | 164,289                       | (280,355)           | 50,555               |
| Net Income (Loss)                                                                                      | 41,981        | 42,708         | 81,932          | 164,289                       | (280,355)           | 50,555               |
| Noncontrolling<br>Interests                                                                            |               |                |                 | (8,574)                       |                     | (8,574)              |
| Net Income<br>Attributable to<br>Weatherford                                                           | \$ 41,981     | \$ 42,708      | \$ 81,932       | \$ 155,715                    | \$ (280,355)        | \$ 41,981            |

**Condensed Consolidating Statements of Income**  
**Three Months Ended June 30, 2008**  
**(unaudited)**  
**(In thousands)**

|                                                                 | <b>Bermuda</b> | <b>Delaware</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|-----------------------------------------------------------------|----------------|-----------------|-------------------------------|---------------------|----------------------|
| Revenues                                                        | \$             | \$              | \$ 2,229,250                  | \$                  | \$ 2,229,250         |
| Costs and Expenses                                              | (5,266)        | (151)           | (1,726,909)                   |                     | (1,732,326)          |
| Operating Income (Loss)                                         | (5,266)        | (151)           | 502,341                       |                     | 496,924              |
| Other Income (Expense):                                         |                |                 |                               |                     |                      |
| Interest Income (Expense), Net                                  | (34,877)       | (28,684)        | 1,162                         |                     | (62,399)             |
| Intercompany Charges, Net                                       | 73,303         |                 | (73,303)                      |                     |                      |
| Equity in Subsidiary Income                                     | 343,816        | 329,164         |                               | (672,980)           |                      |
| Other, Net                                                      | (7,992)        | (309)           | 3,019                         |                     | (5,282)              |
| Income (Loss) from Continuing<br>Operations Before Income Taxes | 368,984        | 300,020         | 433,219                       | (672,980)           | 429,243              |
| Provision for Income Taxes                                      |                | 43,796          | (101,671)                     |                     | (57,875)             |
| Income (Loss) from Continuing<br>Operations                     | 368,984        | 343,816         | 331,548                       | (672,980)           | 371,368              |
| Gain from Discontinued<br>Operation, Net of Taxes               | 2,000          |                 | 4,940                         |                     | 6,940                |
| Net Income (Loss)                                               | 370,984        | 343,816         | 336,488                       | (672,980)           | 378,308              |
| Noncontrolling Interests                                        |                |                 | (7,324)                       |                     | (7,324)              |
| Net Income Attributable to<br>Weatherford                       | \$ 370,984     | \$ 343,816      | \$ 329,164                    | \$ (672,980)        | \$ 370,984           |

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Condensed Consolidating Statements of Income**  
**Six Months Ended June 30, 2009**  
**(unaudited)**  
**(In thousands)**

|                                                                                                               | <b>Parent</b> | <b>Bermuda</b> | <b>Delaware</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|---------------------------------------------------------------------------------------------------------------|---------------|----------------|-----------------|-------------------------------|---------------------|----------------------|
| Revenues                                                                                                      | \$            | \$             | \$              | \$ 4,250,973                  | \$                  | \$ 4,250,973         |
| Costs and Expenses                                                                                            | (738)         | (10,591)       | (876)           | (3,774,678)                   |                     | (3,786,883)          |
| Operating Income<br>(Loss)                                                                                    | (738)         | (10,591)       | (876)           | 476,295                       |                     | 464,090              |
| Other Income<br>(Expense):                                                                                    |               |                |                 |                               |                     |                      |
| Interest Income<br>(Expense), Net                                                                             |               | (130,118)      | (57,166)        | 2,723                         |                     | (184,561)            |
| Intercompany<br>Charges, Net                                                                                  | (17)          | 3,804          | (60,101)        | 56,314                        |                     |                      |
| Equity in Subsidiary<br>Income                                                                                | 207,544       | 248,488        | 332,508         |                               | (788,540)           |                      |
| Other, Net                                                                                                    | (6)           | 95,961         | (333)           | (113,032)                     |                     | (17,410)             |
| Income (Loss) from<br>Continuing Operations<br>Before Income Taxes                                            | 206,783       | 207,544        | 214,032         | 422,300                       | (788,540)           | 262,119              |
| Provision for Income<br>Taxes                                                                                 |               |                | 34,456          | (72,360)                      |                     | (37,904)             |
| Income (Loss) from<br>Continuing Operations<br>Gain (Loss) from<br>Discontinued<br>Operation, Net of<br>Taxes | 206,783       | 207,544        | 248,488         | 349,940                       | (788,540)           | 224,215              |
| Net Income (Loss)                                                                                             | 206,783       | 207,544        | 248,488         | 349,940                       | (788,540)           | 224,215              |
| Noncontrolling<br>Interests                                                                                   |               |                |                 | (17,432)                      |                     | (17,432)             |
| Net Income<br>Attributable to<br>Weatherford                                                                  | \$ 206,783    | \$ 207,544     | \$ 248,488      | \$ 332,508                    | \$ (788,540)        | \$ 206,783           |

**Condensed Consolidating Statements of Income**  
**Six Months Ended June 30, 2008**  
**(unaudited)**  
**(In thousands)**

|                                                                 | <b>Bermuda</b> | <b>Delaware</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|-----------------------------------------------------------------|----------------|-----------------|-------------------------------|---------------------|----------------------|
| Revenues                                                        | \$             | \$              | \$ 4,425,142                  | \$                  | \$ 4,425,142         |
| Costs and Expenses                                              | (17,421)       | (841)           | (3,494,422)                   |                     | (3,512,684)          |
| Operating Income (Loss)                                         | (17,421)       | (841)           | 930,720                       |                     | 912,458              |
| Other Income (Expense):                                         |                |                 |                               |                     |                      |
| Interest Income (Expense), Net                                  | (57,573)       | (58,329)        | 700                           |                     | (115,202)            |
| Intercompany Charges, Net                                       | 76,298         |                 | (76,298)                      |                     |                      |
| Equity in Subsidiary Income                                     | 626,936        | 632,416         |                               | (1,259,352)         |                      |
| Other, Net                                                      | 4,974          | (566)           | (9,191)                       |                     | (4,783)              |
| Income (Loss) from Continuing<br>Operations Before Income Taxes | 633,214        | 572,680         | 845,931                       | (1,259,352)         | 792,473              |
| Provision for Income Taxes                                      | (29)           | 54,256          | (185,727)                     |                     | (131,500)            |
| Income (Loss) from Continuing<br>Operations                     | 633,185        | 626,936         | 660,204                       | (1,259,352)         | 660,973              |
| Gain (Loss) from Discontinued<br>Operation, Net of Taxes        | 2,000          |                 | (14,928)                      |                     | (12,928)             |
| Net Income (Loss)                                               | 635,185        | 626,936         | 645,276                       | (1,259,352)         | 648,045              |
| Noncontrolling Interests                                        |                |                 | (12,860)                      |                     | (12,860)             |
| Net Income Attributable to<br>Weatherford                       | \$ 635,185     | \$ 626,936      | \$ 632,416                    | \$ (1,259,352)      | \$ 635,185           |

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended June 30, 2009**  
**(unaudited)**  
**(In thousands)**

|                                                                                                          | <b>Parent</b> | <b>Bermuda</b> | <b>Delaware</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b>  |
|----------------------------------------------------------------------------------------------------------|---------------|----------------|-----------------|-------------------------------|---------------------|-----------------------|
| Cash Flows from<br>Operating Activities:                                                                 |               |                |                 |                               |                     |                       |
| Net Income                                                                                               | \$ 206,783    | \$ 207,544     | \$ 248,488      | \$ 349,940                    | \$ (788,540)        | \$ 224,215            |
| Adjustments to Reconcile<br>Net Income (Loss) to Net<br>Cash Provided (Used) by<br>Operating Activities: |               |                |                 |                               |                     |                       |
| Charges from Parent or<br>Subsidiary                                                                     | 17            | (3,804)        | 60,101          | (56,314)                      |                     |                       |
| (Gain) Loss from<br>Discontinued Operations                                                              |               |                |                 |                               |                     |                       |
| Equity in (Earnings) Loss<br>of Affiliates                                                               | (207,544)     | (248,488)      | (332,508)       |                               | 788,540             |                       |
| Deferred Income Tax<br>Provision (Benefit)                                                               |               |                | 12,252          | (74,022)                      |                     | (61,770)              |
| Other Adjustments                                                                                        | (479)         | (82,216)       | 231,700         | (11,537)                      |                     | 137,468               |
| Net Cash Provided (Used)<br>by Operating<br>Activities-Continuing<br>Operations                          | (1,223)       | (126,964)      | 220,033         | 208,067                       |                     | 299,913               |
| Net Cash Used by<br>Operating<br>Activities-Discontinued<br>Operations                                   |               |                |                 |                               |                     |                       |
| Net Cash Provided (Used)<br>by Operating Activities                                                      | (1,223)       | (126,964)      | 220,033         | 208,067                       |                     | 299,913               |
| Cash Flows from Investing<br>Activities:                                                                 |               |                |                 |                               |                     |                       |
| Acquisitions of<br>Businesses, Net of Cash<br>Acquired                                                   |               |                |                 | (22,049)                      |                     | (22,049)              |
| Capital Expenditures for<br>Property, Plant and<br>Equipment                                             |               |                |                 | (970,384)<br>(16,456)         |                     | (970,384)<br>(16,456) |

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|                                                                          |       |           |           |           |           |           |
|--------------------------------------------------------------------------|-------|-----------|-----------|-----------|-----------|-----------|
| Acquisition of Intellectual Property                                     |       |           |           |           |           |           |
| Purchase of Equity                                                       |       |           |           |           |           |           |
| Investment in Unconsolidated Affiliate                                   |       |           | (26,509)  |           |           | (26,509)  |
| Proceeds from Sale of Assets and Businesses, Net                         |       |           | 40,873    |           |           | 40,873    |
| Capital Contribution to Subsidiary                                       |       | (336,784) | (39)      |           | 336,823   |           |
| Net Cash Provided (Used) by Investing Activities-Continuing Operations   |       | (336,784) | (39)      | (994,525) | 336,823   | (994,525) |
| Net Cash Provided by Investing Activities-Discontinued Operations        |       |           |           |           |           |           |
| Net Cash Provided (Used) by Investing Activities                         |       | (336,784) | (39)      | (994,525) | 336,823   | (994,525) |
| Cash Flows from Financing Activities:                                    |       |           |           |           |           |           |
| Borrowings of (Repayments on) Short-term Debt, Net                       |       | (552,247) | 54        | (12,615)  |           | (564,808) |
| Borrowings of (Repayments on) Long-term Debt, Net                        |       | 1,233,364 |           | (3,150)   |           | 1,230,214 |
| Borrowings (Repayments) Between Subsidiaries, Net                        | 1,253 | (217,367) | (216,157) | 432,271   |           |           |
| Proceeds from Capital Contribution                                       |       |           |           | 336,823   | (336,823) |           |
| Other, Net                                                               |       |           | (3,920)   |           |           | (3,920)   |
| Net Cash Provided (Used) by Financing Activities                         |       |           |           |           |           |           |
| Continuing Operations                                                    | 1,253 | 463,750   | (220,023) | 753,329   | (336,823) | 661,486   |
| Net Cash Provided (Used) by Financing Activities Discontinued Operations |       |           |           |           |           |           |
| Net Cash Provided (Used) by Financing Activities                         | 1,253 | 463,750   | (220,023) | 753,329   | (336,823) | 661,486   |
| Net Increase (Decrease) in Cash and Cash Equivalents                     | 30    | 2         | (29)      | (33,129)  |           | (33,126)  |
|                                                                          | 102   | 24        | 50        | 238,222   |           | 238,398   |

Cash and Cash Equivalents  
at Beginning of Year

|                                             |    |     |    |    |    |    |    |         |    |  |    |         |
|---------------------------------------------|----|-----|----|----|----|----|----|---------|----|--|----|---------|
| Cash and Cash Equivalents<br>at End of Year | \$ | 132 | \$ | 26 | \$ | 21 | \$ | 205,093 | \$ |  | \$ | 205,272 |
|---------------------------------------------|----|-----|----|----|----|----|----|---------|----|--|----|---------|

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Condensed Consolidating Statement of Cash Flows**  
**Six Months Ended June 30, 2008**  
**(unaudited)**  
**(In thousands)**

|                                                                                                 | <b>Parent</b> | <b>Issuer</b> | <b>Other<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidation</b> |
|-------------------------------------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Cash Flows from Operating Activities:                                                           |               |               |                               |                     |                      |
| Net Income                                                                                      | \$ 635,185    | \$ 626,936    | \$ 645,276                    | \$ (1,259,352)      | \$ 648,045           |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: |               |               |                               |                     |                      |
| Charges from Parent or Subsidiary                                                               | (76,298)      |               | 76,298                        |                     |                      |
| (Gain) Loss from Discontinued Operations                                                        | (2,000)       |               | 14,928                        |                     | 12,928               |
| Equity in (Earnings) Loss of Affiliates                                                         | (626,936)     | (632,416)     |                               | 1,259,352           |                      |
| Deferred Income Tax Provision (Benefit)                                                         |               | (21,598)      | 9,350                         |                     | (12,248)             |
| Other Adjustments                                                                               | 25,359        | (79,575)      | (207,073)                     |                     | (261,289)            |
| Net Cash Provided (Used) by Operating Activities-Continuing Operations                          | (44,690)      | (106,653)     | 538,779                       |                     | 387,436              |
| Net Cash Used by Operating Activities- Discontinued Operations                                  |               |               | (6,219)                       |                     | (6,219)              |
| Net Cash Provided (Used) by Operating Activities                                                | (44,690)      | (106,653)     | 532,560                       |                     | 381,217              |
| Cash Flows from Investing Activities:                                                           |               |               |                               |                     |                      |
| Acquisitions of Businesses, Net of Cash Acquired                                                |               |               | (160,351)                     |                     | (160,351)            |
| Capital Expenditures for Property, Plant and Equipment                                          |               |               | (1,144,530)                   |                     | (1,144,530)          |
| Acquisition of Intellectual Property                                                            |               |               | (6,436)                       |                     | (6,436)              |
| Proceeds from Sale of Assets and Businesses, Net                                                |               |               | 255,121                       |                     | 255,121              |
| Capital Contribution to Subsidiary                                                              | (116,454)     |               |                               | 116,454             |                      |

|                                                                        |           |           |             |           |             |
|------------------------------------------------------------------------|-----------|-----------|-------------|-----------|-------------|
| Net Cash Provided (Used) by Investing Activities-Continuing Operations | (116,454) |           | (1,056,196) | 116,454   | (1,056,196) |
| Net Cash Provided by Investing Activities- Discontinued Operations     |           |           | 2,000       |           | 2,000       |
| Net Cash Provided (Used) by Investing Activities                       | (116,454) |           | (1,054,196) | 116,454   | (1,054,196) |
| Cash Flows from Financing Activities:                                  |           |           |             |           |             |
| Repayments on Short-term Debt, Net                                     | (568,124) | (21,495)  | (139,182)   |           | (728,801)   |
| Borrowings of (Repayments on) Long-term Debt, Net                      | 1,483,931 | (574)     | 2,850       |           | 1,486,207   |
| Proceeds from Exercise of Stock Options                                |           | 9,512     |             |           | 9,512       |
| Borrowings (Repayments) Between Subsidiaries, Net                      | (742,395) | 154,650   | 587,745     |           |             |
| Proceeds from Capital Contribution                                     |           |           | 116,454     | (116,454) |             |
| Other, Net                                                             | (12,471)  | 15,796    |             |           | 3,325       |
| Net Cash Provided (Used) by Financing Activities                       | 160,941   | 157,889   | 567,867     | (116,454) | 770,243     |
| Net Decrease in Cash and Cash Equivalents                              | (203)     | 51,236    | 46,231      |           | 97,264      |
| Cash and Cash Equivalents at Beginning of Year                         | 228       | 1,489     | 168,997     |           | 170,714     |
| Cash and Cash Equivalents at End of Year                               | \$ 25     | \$ 52,725 | \$ 215,228  | \$        | \$ 267,978  |

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) begins with an executive level overview, which provides a general description of our company today, a synopsis of industry market trends, insight into management's perspective of the opportunities and challenges we face and our outlook for 2009. Next, we analyze the results of our operations for the six months ended June 30, 2009 and 2008, including the trends in our overall business. Then we review our liquidity and capital resources. We conclude with a discussion of our critical accounting policies and estimates and a summary of recently issued accounting pronouncements.

The Company, we, us and our refer to Weatherford International Ltd., a Swiss joint stock corporation, or, prior to February 26, 2009, to Weatherford International Ltd., a Bermuda exempted company, which, as of that date, became a direct, wholly owned subsidiary of Weatherford International Ltd., a Swiss joint stock corporation.

**Overview*****General***

The following discussion should be read in conjunction with our financial statements included with this report and our financial statements and related MD&A for the year ended December 31, 2008 included in our Annual Report on Form 10-K. Our discussion includes various forward-looking statements about our markets, the demand for our products and services and our future results. These statements are based on certain assumptions we consider reasonable. For information about these assumptions, you should refer to the section entitled Forward-Looking Statements.

We provide equipment and services used for drilling, completion and production of oil and natural gas wells throughout the world. We conduct operations in approximately 100 countries and have service and sales locations in nearly all of the oil and natural gas producing regions in the world. Our product offerings can be grouped into ten service lines: 1) drilling services; 2) artificial lift systems; 3) well construction; 4) completion systems; 5) integrated drilling; 6) drilling tools; 7) re-entry and fishing; 8) stimulation and chemicals services; 9) wireline and evaluation services; and 10) pipeline and specialty services.

***Industry Trends***

Changes in the current price and expected future prices of oil and natural gas influence the level of energy industry spending. Changes in expenditures result in an increased or decreased demand for our products and services. Rig count is an indicator of the level of spending for the exploration for and production of oil and natural gas reserves.

The following chart sets forth certain statistics that reflect historical market conditions:

|                   |                    | <b>Henry<br/>Hub</b> | <b>North<br/>American</b> | <b>International<br/>Rig Count</b> |
|-------------------|--------------------|----------------------|---------------------------|------------------------------------|
|                   | <b>WTI Oil (1)</b> | <b>Gas (2)</b>       | <b>Rig Count (3)</b>      | <b>(3)</b>                         |
| June 30, 2009     | \$ 69.89           | \$ 3.84              | 1,019                     | 1,053                              |
| December 31, 2008 | 44.60              | 5.62                 | 2,143                     | 1,175                              |
| June 30, 2008     | 140.00             | 13.35                | 2,168                     | 1,196                              |

- (1) Price per barrel  
as of June 30  
and  
December 31

*Source:*

Thomson  
Reuters

- (2) Price per  
MM/BTU as of

June 30 and  
December 31

*Source:*

Thomson  
Reuters

- (3) Average rig  
count for the  
applicable  
month *Source:*  
Baker Hughes  
Rig Count and  
other third-party  
data

Oil prices increased during the first six months of 2009, ranging from a low of \$33.98 per barrel in mid-February to a high of \$72.68 per barrel in mid June. Natural gas prices decreased during the first half of 2009, ranging from a high of \$6.07 MM/BTU in early January to a low of \$3.25 MM/BTU near the end of April. Factors influencing oil and natural gas prices during the period include hydrocarbon inventory levels, realized and expected

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economic growth, realized and expected levels of hydrocarbon demand, levels of spare production capacity within the Organization of Petroleum Exporting Countries ( OPEC ), weather and geopolitical uncertainty.

According to a recent study by Barclays Capital, exploration and production expenditures during 2009 are anticipated to decrease 37% in North America and 6% internationally. The decrease is in response to the significant decline in commodity prices, constrained cash flows of customers and less favorable credit markets.

### ***Outlook***

We believe the long-term outlook for our businesses is favorable. As decline rates accelerate and reservoir productivity complexities increase, our clients will face growing challenges securing desired rates of production growth. The acceleration of decline rates and the increasing complexity of the reservoirs increase our customers requirements for technologies that improve productivity and efficiency and for our products and services. These phenomena provide us with a positive outlook over the longer term.

The near-term outlook is more difficult to assess given the dramatically weakened picture of the global economy stemming from a severe dislocation in credit markets and money flows around the world in late 2008 and early 2009. Climate, natural gas storage levels and commodity prices, as well as expectations for the U.S. economy, will dictate the level of oilfield service activity in North America for the remainder of 2009. While global economies and money flows have stabilized somewhat, it remains difficult to predict with any certainty the timing or intensity of a full recovery.

North America rig activity appeared to have reached its trough during the second quarter of 2009. The pull back experienced during the last quarter of 2008 and the first six months of 2009 was driven by natural gas storage levels, lower natural gas prices and a dampened prognosis for the U.S. economy. We have aggressively adjusted our cost structure in North America to be better aligned with current activity levels and to reflect the reality of the reservoirs our customers will pursue for the foreseeable future. We do not expect a robust recovery in North American activity until the latter part of 2010.

International rig activity also decreased in the first half of 2009, but at a much less severe rate than North America given that international spending is driven by major and national oil companies that typically take a longer-term view on larger, more complex projects. The pull back in the international markets during the first half of the year was quick, and we believe it to be substantially completed.

While it is difficult to predict exact growth rates given the current fluid economic conditions and volatility, we expect our total international businesses to grow revenue in the double digits on a percentage basis. We expect Latin America to account for a significant portion of this growth, based on increases in work volumes in Mexico and Brazil. In the Eastern Hemisphere, North Africa, Middle East, the Former Soviet Union ( FSU ) and pockets of Asia Pacific should show the largest year-on-year growth.

Given the activity declines experienced during the first half of 2009 in North America, pricing in the U.S. and Canada has seen significant weakness, with rigs, tubulars and stimulation showing the strongest pressures. With a pull back in activity in North America reaching its trough in the second quarter, we would expect pricing in general to stabilize during the second half of 2009. In the international markets, pricing is softening where and when contractual terms come to renewal time. Requests by clients to renegotiate existing contracts are yielding more modest price erosion with significant differences between international regions.

Overall, the level of improvements for our businesses for 2009 will continue to depend heavily on our ability to further penetrate existing markets with our younger technologies and to successfully introduce these technologies to new markets. In addition, our ability to continue to grow our business aggressively will rely on our continued demonstration of a high level of operational efficacy for our clients on project management opportunities. The recruitment, training and retention of personnel will also be a critical factor in growing our businesses. The continued strength of the industry will be highly dependent on many external factors, such as world economic and political conditions, member country quota compliance within OPEC and weather conditions.

**Table of Contents****Results of Operations**

The following charts contain selected financial data comparing our consolidated and segment results from operations for the three and six months ended June 30, 2009 and 2008.

|                                                           | <b>Three Months<br/>Ended June 30,</b>                       |              | <b>Six Months<br/>Ended June 30,</b> |              |
|-----------------------------------------------------------|--------------------------------------------------------------|--------------|--------------------------------------|--------------|
|                                                           | <b>2009</b>                                                  | <b>2008</b>  | <b>2009</b>                          | <b>2008</b>  |
|                                                           | <i>(In thousands, except percentages and per share data)</i> |              |                                      |              |
| Revenues:                                                 |                                                              |              |                                      |              |
| North America                                             | \$ 571,415                                                   | \$ 1,012,244 | \$ 1,408,768                         | \$ 2,102,606 |
| Middle East/North Africa/Asia                             | 592,908                                                      | 556,251      | 1,174,854                            | 1,078,135    |
| Europe/West Africa/FSU                                    | 364,968                                                      | 389,563      | 733,811                              | 737,192      |
| Latin America                                             | 465,541                                                      | 271,192      | 933,540                              | 507,209      |
|                                                           | 1,994,832                                                    | 2,229,250    | 4,250,973                            | 4,425,142    |
| Operating Income:                                         |                                                              |              |                                      |              |
| North America                                             | (709)                                                        | 224,252      | 122,327                              | 515,905      |
| Middle East/North Africa/Asia                             | 123,553                                                      | 130,650      | 257,579                              | 251,324      |
| Europe/West Africa/FSU                                    | 62,614                                                       | 99,016       | 137,557                              | 192,229      |
| Latin America                                             | 85,759                                                       | 58,355       | 177,976                              | 118,853      |
| Research and Development                                  | (46,113)                                                     | (44,430)     | (95,134)                             | (87,069)     |
| Corporate                                                 | (40,834)                                                     | (35,275)     | (80,433)                             | (68,907)     |
| Exit and Restructuring                                    | (30,905)                                                     | 64,356       | (55,782)                             | (9,877)      |
|                                                           | 153,365                                                      | 496,924      | 464,090                              | 912,458      |
| Interest Expense, Net                                     | (93,498)                                                     | (62,399)     | (184,561)                            | (115,202)    |
| Other, Net                                                | (3,871)                                                      | (5,282)      | (17,410)                             | (4,783)      |
| Effective Tax Rate                                        | 9.7%                                                         | 13.5%        | 14.5%                                | 16.6%        |
| Net Income per Diluted Share from Continuing Operations   | \$ 0.06                                                      | \$ 0.52      | \$ 0.29                              | \$ 0.93      |
| Gain (Loss) from Discontinued Operation Per Diluted Share |                                                              | 0.01         |                                      | (0.02)       |
| Net Income per Diluted Share                              | \$ 0.06                                                      | \$ 0.53      | \$ 0.29                              | \$ 0.91      |
| Depreciation and Amortization                             | 213,693                                                      | 171,710      | 415,087                              | 340,998      |

**Table of Contents****Revenues**

The following chart contains consolidated revenues by product line for the three and six months ended June 30, 2009 and 2008.

|                                  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|----------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                  | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Well Construction                | 17%                                    | 17%         | 16%                                  | 17%         |
| Drilling Services                | 16                                     | 15          | 16                                   | 15          |
| Artificial Lift Systems          | 16                                     | 17          | 16                                   | 16          |
| Integrated Drilling              | 12                                     | 5           | 11                                   | 5           |
| Completion Systems               | 11                                     | 10          | 11                                   | 10          |
| Drilling Tools                   | 9                                      | 11          | 9                                    | 11          |
| Re-entry & Fishing               | 6                                      | 8           | 6                                    | 8           |
| Wireline                         | 5                                      | 7           | 6                                    | 8           |
| Stimulation & Chemicals Services | 5                                      | 7           | 6                                    | 7           |
| Pipeline & Specialty Services    | 3                                      | 3           | 3                                    | 3           |
|                                  | 100%                                   | 100%        | 100%                                 | 100%        |

Consolidated revenues decreased \$234 million, or 11%, in the second quarter of 2009 as compared to the second quarter of 2008 against a 35% decrease in rig count activity. This decrease in revenue is entirely attributable to the significant declines experienced in North America. International revenues increased \$206 million, or 17%, in the second quarter of 2009 as compared to the second quarter of 2008. This international growth was against a 9% decline in international rig count. Our integrated drilling product line was the strongest contributor to the quarter over quarter increase.

For the first six months of 2009, consolidated revenues decreased \$174 million, or 4%, as compared to the first six months of 2008. Similar to what was experienced in the second quarter of 2009, the decrease in revenues during the first six months of 2009 was driven by our North American businesses. International revenue increased \$520 million, or 22% as compared to the first six months of 2008.

**Operating Income**

Consolidated operating income decreased \$344 million, or 69%, in the second quarter of 2009 as compared to the second quarter of 2008. Our operating segments contributed \$241 million of this decrease. The remainder of this decrease is primarily due to a change in exit and restructuring charges of \$95 million.

Exit and restructuring costs during the current quarter were \$31 million and were comprised of (i) \$14 million for legal costs associated with on-going investigations by the U.S. Department of Justice and the U.S. Securities and Exchange Commission ( SEC ), (ii) \$13 million for employee separation and facility closure costs incurred in connection with our efforts to reduce our cost structure base and (iii) \$4 million for unusable assets and cost accruals in certain sanctioned countries.

Exit and restructuring costs during the second quarter of 2008 were a net gain of \$64 million. During the three months ended June 30, 2008, we sold a 50% interest in a subsidiary we controlled to Qatar Petroleum for cash consideration of \$113 million. The subsidiary contained substantially all of our Qatar operations. The sale resulted in a gain of \$81 million, after deducting direct costs of the transaction. This gain is partially offset by \$11 million in costs incurred in connection with our on-going investigations and \$6 million in exit costs related to our withdrawal from certain sanctioned countries.

During the first six months of 2009, consolidated operating income decreased \$448 million, or 49%, as compared to the first six months of 2008. Our operating segments contributed \$383 million of this decrease. In addition, exit and restructuring charges during the first half of 2009 increased \$46 million compared to the first half of 2008.

Exit and restructuring charges for the six months of 2009 includes (i) \$27 million for legal costs incurred in connection with our on-going investigations, (ii) \$25 million for employee separation and facility closure costs and

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(iii) \$4 million for unusable assets and cost accruals in certain sanctioned countries. Exit and restructuring charges during the first half of 2008 include \$57 million for costs incurred in connection with our withdrawal from sanctioned countries, \$15 million for severance costs incurred associated with reorganization activities and \$19 million incurred in connection with our on-going investigations. These charges were offset by the \$81 million gain recognized on the Qatar joint venture described above.

### ***Interest Expense, Net***

Interest expense, net increased \$31 million, or 50%, and \$69 million, or 60% during the three and six months ended June 30, 2009 as compared to the same periods of the prior year, respectively. We issued \$1.5 billion in senior notes in March 2008 and an additional \$1.25 billion of senior notes in January 2009. The incremental borrowings added during the comparable periods were used primarily to fund capital expenditures and business acquisitions.

### ***Income Taxes***

Our effective tax rates were 9.7% and 13.5% for the second quarter of 2009 and 2008, respectively, and 14.5% and 16.6% for the first six months of 2009 and 2008, respectively. The decrease in our effective tax rate is due to the decrease in earnings in certain jurisdictions, largely in North America, and the net benefits realized from the refinement of our international tax structure.

## **Segment Results**

### ***North America***

North American revenues decreased \$441 million, or 44%, in the second quarter of 2009 as compared to the second quarter of 2008 on a 50% decline in average North American rig count over the comparable period. Revenues decreased \$694 million, or 33%, during the first six months of 2009 as compared to the same period of the prior year on a 37% decline in rig count. The decrease in revenues is the result of the steep decline in drilling activity both in Canada and the United States. Canadian rig count during the second quarter of 2009 reached a low not seen since 1999. In addition, the region continued to see significant declines in pricing.

North America had an operating loss of \$1 million in the second quarter of 2009 compared to operating income of \$224 million in the second quarter of 2008. For the first half of 2009, operating income decreased \$394 million, or 76%, compared to same period of the prior year. Operating margins were 9% for the first six months of 2009 compared to 25% for the first six months of 2008. The combination of the significant reduction in drilling activity in the region and greater than anticipated pricing declines was the primary reason for the deterioration in margins.

### ***Middle East/North Africa/Asia***

Middle East/North Africa/Asia revenues increased \$37 million, or 7%, in the second quarter of 2009 as compared to the second quarter of 2008. This increase was against a 7% decline in rig count over the comparable period. Revenues increased \$97 million, or 9%, during the first six months of 2009 as compared to the first six months of 2008. The region had strong performances out of our integrated drilling, drilling services and artificial lift service lines on both a quarterly and year-to-date basis as compared to the same periods of the prior year.

Operating income decreased \$7 million, or 5%, during the second quarter of 2009 compared to the same quarter of the prior year and increased \$6 million, or 3%, during the first six months of 2009 compared to the first six months of 2008. Operating margins were 21% in the second quarter of 2009 and 24% in the second quarter of 2008. On a year-to-date basis, operating margins were 22% for the first six months of 2009 as compared to 23% for the first six months of 2008. The deterioration in margins during the second quarter of 2009 was primarily the result of pricing declines experienced in the region.

### ***Europe/West Africa/FSU***

Revenues in our Europe/West Africa/FSU segment decreased \$25 million, or 6%, in the second quarter of 2009 compared to the same quarter of the prior year against a 20% rig count decrease over the comparable period. On a year-to-date basis, revenues decreased \$3 million, or 1%, compared to the same period of 2008. Drilling services, stimulation & chemicals and integrated drilling were the strongest performers from a product line perspective.

Operating income decreased \$36 million, or 37%, during the second quarter of 2009 compared to the same quarter of the prior year and \$55 million, or 28%, during the first six months of 2009 compared to the first six

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months of 2008. Operating margins were 17% in the second quarter of 2009 and 25% in the second quarter of 2008. On a year-to-date basis, margins decreased from 26% during the first six months of 2008 to 19% for the first six months of 2009. The decline in operating income and margin was primarily due to pricing declines and changes in sales mix over the comparable periods.

***Latin America***

Revenues in our Latin America segment increased \$194 million, or 72%, in the second quarter of 2009 as compared to the same quarter of the prior year against an average rig count decrease of 9% over the comparable period. Revenues increased \$426 million, or 84%, during the first six months of 2009 compared to the same period of the prior year. Our revenue growth in this region came principally out of Mexico. From a service line perspective, our integrated drilling, drilling services and completion systems lines were the strongest contributors to the increase on a quarterly and year-to-date basis.

Operating income increased \$27 million, or 47%, and \$59 million, or 50%, for the three and six months ended June 30, 2009, respectively, over the comparable periods of the prior year. Operating margins decreased by four hundred basis points in both the three and six months ended June 30, 2009 as compared to the same periods of the prior year, from 22% during the second quarter 2008 to 18% for the second quarter 2009 and from 23% for the first six months of 2008 to 19% during the first six months of 2009. Strong performance in Mexico was largely offset by declines in other markets, including Venezuela and Argentina.

**Discontinued Operations**

We finalized the divestiture of our discontinued operation consisting of our oil and gas development and production company during the second quarter of 2008. We recorded a gain of \$11 million, net of taxes, in connection with the finalization of the divestiture, which was partially offset by operating and legal expenses incurred during the three months ended June 30, 2008. In the first half of 2008 we had a net loss from our discontinued operation, net of taxes, of \$13 million, which included approximately \$21 million incurred in connection with the settlement of a legal dispute regarding the business. This loss was partially offset by the gain recognized in the second quarter of 2008.

**Liquidity and Capital Resources*****Sources of Liquidity***

Our sources of liquidity include current cash and cash equivalent balances, cash generated from operations and committed availabilities under bank lines of credit. We maintain a shelf registration statement covering the future issuance of various types of securities, including debt, registered shares, preferred shares and warrants.

***Committed Borrowing Facilities***

We maintain various revolving credit facilities with syndicates of banks. These facilities allow for an aggregate availability of \$2.3 billion, and can be used for a combination of borrowings, support of our commercial paper program and issuances of letters of credit. Facilities with \$550 million in availability will mature in October 2009, and the remaining facilities mature in May 2011. Our committed borrowing facilities require us to maintain a debt-to-capitalization ratio of less than 60% and contain other covenants and representations customary for an investment-grade commercial credit. Our debt-to-capitalization ratio was 43% at June 30, 2009, which is in compliance with these covenants.

The following is a recap of our availability under our committed borrowing facilities at June 30, 2009 (in millions):

|                   |          |
|-------------------|----------|
| Facilities        | \$ 2,300 |
| Less:             |          |
| Amount drawn      | 543      |
| Commercial paper  | 76       |
| Letters of credit | 74       |
| Availability      | \$ 1,607 |



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### *Commercial Paper*

We have a \$1.5 billion commercial paper program under which we may from time to time issue short-term, unsecured notes, subject to market conditions. The commercial paper program is supported by our revolving credit facilities. The weighted average interest rate related to outstanding commercial paper issuances at June 30, 2009 was 0.5%.

### *Debt Offering*

In January 2009, we completed a \$1.25 billion long-term debt offering comprised of (i) \$1 billion of 9.625% senior notes due in 2019 ( 9.625% Senior Notes ) and (ii) \$250 million of 9.875% senior notes due in 2039 ( 9.875% Senior Notes ). Net proceeds of \$1.23 billion were used to repay short-term borrowings with maturities of less than one month and for general corporate purposes. Interest on these notes is due semi-annually on March 1 and September 1 of each year.

### *Cash Requirements*

During 2009, we anticipate our cash requirements will include working capital needs, capital expenditures and may include opportunistic business acquisitions. We anticipate funding these requirements from cash generated from operations and availability under our committed borrowing facilities.

Capital expenditures for 2009 are projected to be approximately \$1.4 billion, net of proceeds from tools lost down hole. The expenditures are expected to be used primarily to support the growth of our business and operations. Capital expenditures during the six months ended June 30, 2009 were \$922 million, net of proceeds from tools lost down hole.

### *Derivative Instruments*

#### *Interest Rate Swaps*

In December 2008, we entered into an interest rate swap agreement on an aggregate notional amount of \$150 million against one of our revolving credit facilities. This agreement matured in June 2009.

Upon completion of the long-term debt offering in March 2008, we entered into interest rate swap agreements on an aggregate notional amount of \$500 million against our 5.15% senior notes due 2013 ( 5.15% Senior Notes ). These agreements were terminated in December 2008. As a result of these terminations, we received cash proceeds, net of accrued interest, of \$12 million. The gain associated with this interest rate swap termination has been deferred and will be amortized over the remaining term of the 5.15% Senior Notes.

#### *Cash Flow Hedges*

In March 2008, we entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the issuance of the 7.00% senior notes due 2038 ( 7.00% Senior Notes ). Those hedges were terminated in March 2008 at the time of the issuance. We paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

#### *Other Derivative Instruments*

As of June 30, 2009, we had several foreign currency forward and option contracts with notional amounts aggregating \$843 million, which were entered into to hedge exposure to currency fluctuations in various foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro and the Norwegian kroner. The total estimated fair value of these contracts at June 30, 2009 resulted in a net liability of \$17 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts were recorded each period in current earnings.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International on August 31, 2005, we entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At June 30, 2009, we had

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notional amounts outstanding of \$168 million. The total estimated fair value of these contracts at June 30, 2009 resulted in a liability of \$6 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts were recorded each period in current earnings.

### ***Off Balance Sheet Arrangements***

During the first quarter of 2009, we completed a transaction that changed our place of incorporation from Bermuda to Switzerland. A new Swiss corporation named Weatherford International Ltd. was formed and is now the ultimate parent ( Weatherford Switzerland ) of the Weatherford group and guarantees the obligations of Weatherford International Ltd. incorporated in Bermuda ( Weatherford Bermuda ) and Weatherford International, Inc. incorporated in Delaware ( Weatherford Delaware ) noted below.

The following obligations of Weatherford Delaware were guaranteed by Weatherford Bermuda at June 30, 2009: (i) the 6.625% Senior Notes, (ii) the 5.95% Senior Notes, (iii) the 6.35% Senior Notes and (iv) the 6.80% Senior Notes.

The following obligations of Weatherford Bermuda were guaranteed by Weatherford Delaware at June 30, 2009: (i) the revolving credit facilities, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes, (v) the 5.15% Senior Notes, (vi) the 6.00% Senior Notes, (vii) the 7.00% Senior Notes, (viii) the 9.625% Senior Notes, (ix) the 9.875% Senior Notes and (x) issuances of notes under the commercial paper program.

### ***Letters of Credit***

We execute letters of credit in the normal course of business. While these obligations are not normally called, these obligations could be called by the beneficiaries at any time before the expiration date should we breach certain contractual or payment obligations. As of June 30, 2009, we had \$266 million of letters of credit and bid and performance bonds outstanding, consisting of \$192 million outstanding under various uncommitted credit facilities and \$74 million letters of credit outstanding under our committed facilities. If the beneficiaries called these letters of credit our available liquidity would be reduced by the amount called.

### **New Accounting Pronouncements**

See Note 16 to our condensed consolidated financial statements included elsewhere in this report.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2008.

### **Exposures**

An investment in our registered shares involves various risks. When considering an investment in our Company, you should consider carefully all of the risk factors described in our most recent Annual Report on Form 10-K under the heading *Item 1A. Risk Factors* as well as the information below and other information included and incorporated by reference in this report.

### **Forward-Looking Statements**

This report, as well as other filings made by us with the SEC, and our releases issued to the public contain various statements relating to future results, including certain projections and business trends. We believe these statements constitute *Forward-Looking Statements* as defined in the Private Securities Litigation Reform Act of 1995.

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These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, plan, may, should, will likely result, and similar expressions, although not all forward-looking statements contain these identifying words.

From time to time, we update the various factors we consider in making our forward-looking statements and the assumptions we use in those statements. However, we undertake no obligation to publicly update or revise any forward-looking events or circumstances that may arise after the date of this report. The following sets forth the various assumptions we use in our forward-looking statements, as well as risks and uncertainties relating to those statements. Certain of the risks and uncertainties may cause actual results to be materially different from projected results contained in forward-looking statements in this report and in our other disclosures. These risks and uncertainties include, but are not limited to, the following:

*Global political, economic and market conditions could affect projected results.* Our operating results and the forward-looking information we provide are based on our current assumptions about oil and natural gas supply and demand, oil and natural gas prices, rig count and other market trends. Our assumptions on these matters are in turn based on currently available information, which is subject to change. The oil and natural gas industry is extremely volatile and subject to change based on political and economic factors outside our control. Worldwide drilling activity, as measured by average worldwide rig counts, increased in each year from 2002 to 2008. However, activity began declining in the fourth quarter of 2008, particularly in North America. The weakened global economic climate has resulted in lower demand and lower prices for oil and natural gas, which has reduced drilling and production activity and may therefore affect our future revenues and income. Our projections assume that the decline in North America rig activity reached its trough during the second quarter of 2009. However, we are not certain as to the timing of the recovery in activity. We cannot accurately predict how much lower commodity prices and drilling activity may go, or when they may recover. Worldwide drilling activity and global demand for oil and natural gas may also be affected by changes in governmental policies, laws and regulations related to environmental or energy security matters, including those addressing alternative energy sources and the risks of global climate change. We have assumed global demand will be down in 2009 compared to 2008. In 2009, worldwide demand may be significantly weaker than we have assumed.

*Our ability to manage our workforce and fixed costs could affect our projected results.* In a climate of decreasing demand, we are faced with managing our workforce levels to control costs without impairing our ability to provide service to our customers. Our forward-looking statements assume we will be able to do so.

*Our long-term growth depends upon technological innovation and commercialization.* Our ability to deliver our long-term growth strategy depends in part on the commercialization of new technology. A central aspect of our growth strategy is to improve our products and services through innovation, to obtain technologically advanced products through internal research and development and/or acquisitions, to protect proprietary technology from unauthorized use and to expand the markets for new technology by leveraging our worldwide infrastructure. The key to our success will be our ability to commercialize the technology that we have acquired and demonstrate the enhanced value our technology brings to our customers' operations. Our major technological advances include, but are not limited to, those related to controlled pressure drilling and testing systems, expandable solid tubulars, expandable sand screens and intelligent well completion. Our forward-looking statements have assumed successful commercialization of, and above-average growth from, these new products and services, as well as legal protection of our intellectual property rights.

*Nonrealization of expected benefits from our recent redomestication could affect our projected results.* We operate through our various subsidiaries in numerous countries throughout the world including the United States. During the first quarter of 2009, we completed a transaction in which our former parent Bermuda company became a wholly-owned subsidiary of Weatherford International Ltd., a Swiss joint-stock corporation, and holders of common shares of the Bermuda company received one registered share of the

Swiss company in exchange for each common share that they held. Consequently, we are or may become subject to changes in tax laws, treaties or regulations or the interpretation or enforcement thereof in the U.S., Bermuda, Switzerland or jurisdictions in which we or any of our subsidiaries operates or is resident. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. If the U.S. Internal Revenue Service or other taxing authorities do not agree with our assessment of the effects of such laws, treaties and regulations, this could have a material

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adverse effect on us including the imposition of a higher effective tax rate on our worldwide earnings or a reclassification of the tax impact of our significant corporate restructuring transactions.

*The downturn in our industry could affect the carrying value of our goodwill.* As of June 30, 2009, we had approximately \$3.6 billion of goodwill. Our estimates of the value of our goodwill could be reduced in the future as a result of various factors, including market factors, some of which are beyond our control. Our forward-looking statements do not assume any future goodwill impairment. Any reduction in the fair value of our businesses may result in an impairment charge and therefore adversely affect our results.

*Currency fluctuations could have a material adverse financial impact on our business.* A material change in currency rates in our markets could affect our future results as well as affect the carrying values of our assets. World currencies have been subject to much volatility. Our forward-looking statements assume no material impact from future changes in currency exchange rates.

*Adverse weather conditions in certain regions could adversely affect our operations.* In the summers of 2005 and 2008, the Gulf of Mexico suffered several significant hurricanes. These hurricanes and associated hurricane threats reduced the number of days on which we and our customers could operate, which resulted in lower revenues than we otherwise would have achieved. In parts of 2006, and particularly in the second quarters of 2007 and 2008, climatic conditions in Canada were not as favorable to drilling as we anticipated, which limited our potential results in that region. Similarly, unfavorable weather in Russia and in the North Sea could reduce our operations and revenues from that area during the relevant period. Our forward-looking statements assume weather patterns in our primary areas of operations will be conducive to our operations.

*U.S. Government and internal investigations could affect our results of operations.* We are currently involved in government and internal investigations involving various of our operations. These investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact of these investigations, financial or otherwise. The governmental agencies involved in these investigations have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trading sanctions laws, the Foreign Corrupt Practices Act and other federal statutes including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs. In recent years, these agencies and authorities have entered into agreements with, and obtained a range of penalties against, several public corporations and individuals in similar investigations, under which civil and criminal penalties were imposed, including in some cases fines and other penalties and sanctions in the tens and hundreds of millions of dollars. Under trading sanctions laws, the U.S. Department of Justice may also seek to impose modifications to business practices, including immediate cessation of all business activities in specific countries or other limitations that decrease our business, and modifications to compliance programs, which may increase compliance costs. Any injunctive relief, disgorgement, fines, penalties, sanctions or imposed modifications to business practices resulting from these investigations could adversely affect our results of operations. Additionally, during 2008, we incurred \$56 million for costs in connection with our exit from certain sanctioned countries and, to date, we have incurred \$88 million for legal and professional fees in connection with complying with and conducting these on-going investigations. This amount excludes the costs we have incurred to augment and improve our compliance function in 2008 and 2009. We will have additional charges related to these matters in future periods, which costs may include labor claims, contractual claims, penalties assessed by customers, and costs, fines, taxes and penalties assessed by the local governments, but we cannot quantify those charges or be certain of the timing of them.

*Political disturbances, war, or terrorist attacks and changes in global trade policies could adversely impact our operations.* We have assumed there will be no material political disturbances or terrorist attacks and there will be no material changes in global trade policies. Any further military action undertaken by the U.S. or other

countries or political disturbances in the countries in which we conduct business could adversely affect our results of operations.

*Current turmoil in the credit markets may reduce our access to capital or reduce the availability of financial risk-mitigation tools.* In recent quarters, the worldwide credit markets have experienced almost unprecedented turmoil and uncertainty. Our forward-looking statements assume that the financial institutions that have committed to extend us credit will honor their commitments under our credit facilities. If one or more of those institutions becomes unwilling or unable to honor its commitments, our access to liquidity could be impaired and our cost of capital to fund growth could further increase. We use

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interest-rate and foreign-exchange swap transactions with financial institutions to mitigate certain interest-rate and foreign-exchange risks associated with our capital structure and our business. Our forward-looking statements assume that those tools will continue to be available to us. However, the failure of any swap counterparty to honor a swap agreement could reduce the availability of these financial risk-mitigation tools or could result in the loss of expected financial benefits. In response to credit market conditions and the global economic and business environment, we have undertaken measures to reduce our use of capital going forward. Our forward-looking statements assume that we will operate with lower capital expenditures in 2009 than in 2008. However, as the business climate changes and if attractive opportunities for organic or acquisitive growth become available, we may spend capital selectively above the amounts we have budgeted.

*Increases in the prices and availability of our raw materials could affect our results of operations.* We use large amounts of raw materials for manufacturing our products. The price of these raw materials has a significant impact on our cost of producing products for sale or producing fixed assets used in our business. We have assumed that the prices of our raw materials will remain within a manageable range and will be readily available. If we are unable to obtain necessary raw materials or if we are unable to minimize the impact of increased raw material costs or to realize the benefit of cost decreases in a timely fashion through our supply chain initiatives or pricing, our margins and results of operations could be adversely affected.

*Nonrealization of expected benefits from our acquisitions could affect our projected results.* We expect to gain certain business, financial and strategic advantages as a result of business acquisitions we undertake, including synergies and operating efficiencies. Our forward-looking statements assume that we will successfully integrate our business acquisitions and realize the benefits of that. An inability to realize expected strategic advantages as a result of any acquisition would negatively affect the anticipated benefits of the acquisition.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our other filings with the SEC. For additional information regarding risks and uncertainties, see our other filings with the SEC under the Securities Exchange Act of 1934, as amended, and the Securities Act of 1933, as amended, available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Available Information**

We make available, free of charge, on our website ([www.weatherford.com](http://www.weatherford.com)) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file or furnish them to the SEC.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

We are currently exposed to market risk from changes in foreign currency and changes in interest rates. From time to time, we may enter into derivative financial instrument transactions to manage or reduce our market risk, but we do not enter into derivative transactions for speculative purposes. A discussion of our market risk exposure in financial instruments follows.

### **Foreign Currency Exchange Rates**

We operate in virtually every oil and natural gas exploration and production region in the world. In some parts of the world, such as the Middle East and Southeast Asia, the currency of our primary economic environment is the U.S. dollar. We use this as our functional currency. In other parts of the world, we conduct our business in currencies other than the U.S. dollar and the functional currency is the applicable local currency. In those countries in which we operate in the local currency, the effects of foreign currency fluctuations are largely mitigated because local expenses of such foreign operations are also generally denominated in the same currency.

Assets and liabilities of which the functional currency is the local currency are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected as Accumulated Other Comprehensive Income in the shareholders' equity section on our Condensed Consolidated Balance Sheets. A portion of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar. We recorded a \$160 million adjustment to increase our equity account for the six month period ended June 30, 2009,

to reflect the net impact of the weakening of the U.S. dollar against various foreign currencies.

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As of June 30, 2009, we had several foreign currency forward and option contracts with notional amounts aggregating \$843 million to hedge exposure to currency fluctuations in various foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro, and the Norwegian kroner. The total estimated fair value of these contracts at June 30, 2009 resulted in a net liability of \$17 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International, we entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At June 30, 2009, we had notional amounts outstanding of \$168 million. The estimated fair value of these contracts at June 30, 2009 resulted in a liability of \$6 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

**Interest Rates**

We are subject to interest rate risk on our fixed-interest and variable-interest rate borrowings. Variable rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed-rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at a higher rate. All other things being equal, the fair value of our fixed-rate debt will increase or decrease as interest rates change.

Our long-term borrowings that were outstanding at June 30, 2009 subject to interest rate risk consisted of the following:

|                              | <b>June 30, 2009</b>       |                       | <b>December 31, 2008</b>   |                       |
|------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                              | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
|                              | <i>(In millions)</i>       |                       |                            |                       |
| 6.625% Senior Notes due 2011 | \$354                      | \$ 372                | \$354                      | \$330                 |
| 5.95% Senior Notes due 2012  | 599                        | 626                   | 599                        | 585                   |
| 5.15% Senior Notes due 2013  | 509                        | 499                   | 511                        | 463                   |
| 4.95% Senior Notes due 2013  | 254                        | 249                   | 254                        | 213                   |
| 5.50% Senior Notes due 2016  | 349                        | 338                   | 349                        | 306                   |
| 6.35% Senior Notes due 2017  | 600                        | 588                   | 600                        | 513                   |
| 6.00% Senior Notes due 2018  | 498                        | 493                   | 498                        | 456                   |
| 9.625% Senior Notes due 2019 | 995                        | 1,180                 |                            |                       |
| 6.50% Senior Notes due 2036  | 596                        | 525                   | 596                        | 495                   |
| 6.80% Senior Notes due 2037  | 298                        | 285                   | 298                        | 227                   |
| 7.00% Senior Notes due 2038  | 498                        | 486                   | 498                        | 394                   |
| 9.875% Senior Notes due 2039 | 247                        | 300                   |                            |                       |

We have various other long-term debt instruments of \$21 million, but believe the impact of changes in interest rates in the near term will not be material to these instruments. Short-term borrowings of \$693 million at June 30, 2009 approximate fair value.

As it relates to our variable rate debt, if market interest rates average 1% more for the remainder of 2009 than the rates as of June 30, 2009, interest expense for the remainder of 2009 would increase by approximately \$4 million. This amount was determined by calculating the effect of the hypothetical interest rate on our variable rate debt. This sensitivity analysis assumes there are no changes in our capital structure.

**Interest Rate Swaps and Derivatives**

We manage our debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market



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increases in floating interest rates and the creditworthiness of the counterparties in such transactions. The counterparties to our interest rate swaps are multinational commercial banks. In light of recent events in the global credit markets and the potential impact of these events on the liquidity of the banking industry, we continue to monitor the creditworthiness of our counterparties.

We use interest rate swap agreements to take advantage of available short-term interest rates. Amounts received upon termination of the swaps represent the fair value of the agreements at the time of termination and are recorded as an adjustment to the carrying value of the related debt. These amounts are being amortized as a reduction to interest expense over the remaining term of the debt.

In December 2008, we entered into an interest rate swap agreement on an aggregate notional amount of \$150 million against one of our revolving credit facilities. This agreement matured in June 2009.

Upon completion of the long-term debt offering in March 2008, we entered into interest rate swap agreements on an aggregate notional amount of \$500 million against our 5.15% Senior Notes. These agreements were terminated in December 2008. As a result of these terminations, we received cash proceeds, net of accrued interest, of \$12 million. The gain associated with this interest rate swap termination has been deferred and will be amortized over the remaining term of the 5.15% Senior Notes.

We may utilize interest rate derivatives to hedge projected exposures to interest rates in anticipation of future debt issuances. Amounts received or paid upon termination of these hedges represent the fair value of the agreements at the time of termination. These amounts are amortized as an adjustment to interest expense over the remaining life of the debt.

In March 2008, we entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the 7.00% Senior Notes issued in March 2008. Those hedges were terminated at the time of the issuance. We paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

## **ITEM 4. CONTROLS AND PROCEDURES**

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer ( CEO ) and the Chief Financial Officer ( CFO ), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act). Based upon that evaluation, the Company's CEO and CFO have concluded the Company's disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information relating to the Company (including its consolidated subsidiaries) required to be disclosed is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. The Company's management, including the CEO and CFO, identified no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

In connection with the appointment of a new Vice President and Chief Compliance Officer, the Company determined to devote additional attention and resources to the legal compliance function. For this purpose, the Company separated the functions of chief legal officer and chief compliance officer and believes that this change will also enhance the Company's internal controls over financial reporting consistent with its control objectives.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

See Notes 15 and 17 to our condensed consolidated financial statements included elsewhere in this report.

### **ITEM 1A. RISK FACTORS**

There have been no material changes during the six months ended June 30, 2009 to the risk factors set forth in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 24, 2009.



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On June 30, 2009, in connection with an acquisition, we sold 2,750,000 of our common shares to the shareholders of the acquired company as consideration for the shares of the acquired company. The sale of our common shares was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that act and pursuant to Regulation D and Regulation S promulgated under that act as a non-public sale to accredited investors and/or to non-U.S. persons outside the United States.

In December 2005, our Board of Directors approved a share repurchase program under which up to \$1 billion of our outstanding common shares (now registered shares) could be purchased. Future purchases of our shares can be made in the open market or privately negotiated transactions, at the discretion of management and as market conditions and our liquidity position warrant. During the quarter ended June 30, 2009, we did not purchase any of our registered shares.

Under our restricted share plan, employees may elect to have us withhold registered shares to satisfy minimum statutory federal, state and local tax withholding obligations arising on the vesting of restricted stock awards and exercise of options. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of the registered shares by us on the date of withholding. During the quarter ended June 30, 2009, we withheld registered shares to satisfy these tax withholding obligations as follows:

| <b>Period</b>             | <b>No. of<br/>Shares</b> | <b>Average<br/>Price</b> |
|---------------------------|--------------------------|--------------------------|
| April 1    April 30, 2009 | 41,006                   | \$ 11.34                 |
| May 1     May 31, 2009    | 5,981                    | 18.95                    |
| June 1    June 30, 2009   | 5,572                    | 19.83                    |

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

We held our Annual General Meeting of Shareholders on May 7, 2009. Our shareholders approved the election of seven directors to serve until the next annual general meeting of shareholders. The following sets forth the results of the voting with respect to such matter.

| <b>Election of Directors</b> | <b>For</b>  | <b>Against</b> | <b>Withheld</b> | <b>Broker<br/>Non-Votes</b> |
|------------------------------|-------------|----------------|-----------------|-----------------------------|
| Nicholas F. Brady            | 392,830,848 | 30,500,677     | 2,252,564       |                             |
| David J. Butters             | 319,797,053 | 103,517,354    | 2,248,896       | 20,786                      |
| Bernard J. Duroc-Danner      | 407,588,707 | 15,747,374     | 2,248,008       |                             |
| William E. Macaulay          | 420,305,069 | 3,023,257      | 2,255,763       |                             |
| Robert B. Millard            | 292,218,250 | 131,086,489    | 2,258,564       | 20,786                      |
| Robert K. Moses, Jr.         | 420,435,436 | 2,892,913      | 2,255,740       |                             |
| Robert A. Rayne              | 238,916,671 | 184,382,256    | 2,264,376       | 20,786                      |

In addition, the shareholders of the Company voted on the following proposal:  
The appointment of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2009, and the authorization of the Audit Committee of the Board of Directors to set Ernst & Young LLP's remuneration. The results of the voting with respect to such matter were 424,845,822 shares voted for, 661,482 shares voted against, 76,785 shares abstained, and zero broker non-votes.

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**ITEM 6. EXHIBITS**

(a) Exhibits:

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                             |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                       | Articles of Association of Weatherford International Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed July 27, 2009).                                                                    |
| 4.1                       | Registration Rights Agreement, dated as of July 27, 2009 between Weatherford International Ltd. and Novy Investments Limited (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed July 27, 2009). |
| *10.1                     | Employment Agreement, dated as of June 8, 2009, between Weatherford International Ltd. and Joseph C. Henry (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).                   |
| *10.2                     | Employment Agreement, dated as of June 8, 2009, between Weatherford International, Inc. and Joseph C. Henry (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).                  |
| *10.3                     | Indemnification Agreement, dated as of February 26, 2009, between Weatherford International Ltd. and Joseph C. Henry (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).         |
| *10.4                     | Employment Agreement, dated as of March 30, 2009, between Weatherford International Ltd. and William B. Jacobson (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).             |
| *10.5                     | Employment Agreement, dated as of March 30, 2009, between Weatherford International, Inc. and William B. Jacobson (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).            |
| *10.6                     | Indemnification Agreement, dated as of March 30, 2009 between Weatherford International Ltd. and William B. Jacobson (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K (File No. 1-34258) filed June 9, 2009).         |
| 10.7                      | Sale and Purchase Agreement, dated as of May 29, 2009 between Weatherford International Ltd. and Novy Investments Limited (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K/A (File No. 1-34258) filed June 3, 2009).  |
| 31.1                      | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                            |
| 31.2                      | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                            |
| 32.1                      | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                            |
| 32.2                      | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                            |

\* Management  
contract or  
compensatory  
plan or  
arrangement

Filed herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Weatherford International Ltd.

By: /s/ Bernard J. Duroc-Danner

Bernard J. Duroc-Danner  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Andrew P. Becnel

Andrew P. Becnel  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Jessica Abarca

Jessica Abarca  
Vice President Accounting and Chief Accounting Officer  
(Principal Accounting Officer)

Date: August 3, 2009

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