HALLIBURTON CO
Form 10-K
February 17, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______
Commission File Number 001-03492

HALLIBURTON COMPANY
(Exact name of registrant as specified in its charter)

Delaware	75-2677995
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3000 North Sam Houston Parkway East
Houston, Texas 77032
(Address of principal executive offices)
Telephone Number – Area code (281) 871-2699

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock par value $2.50 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No X

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 X 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer[X]	Accelerated filer	[ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X

The aggregate market value of Common Stock held by nonaffiliates on June 30, 2009, determined using the per share closing price on the New York Stock Exchange Composite tape of $20.70 on that date was approximately $18,573,000,000.

As of February 12, 2010, there were 905,090,232 shares of Halliburton Company Common Stock, $2.50 par value per share, outstanding.

Portions of the Halliburton Company Proxy Statement for our 2010 Annual Meeting of Stockholders (File No. 001-03492) are incorporated by reference into Part III of this report.

HALLIBURTON COMPANY
Index to Form 10-K
For the Year Ended December 31, 2009

PART I

Item 1. Business.

General description of business

Halliburton Company's predecessor was established in 1919 and incorporated under the laws of the State of Delaware in 1924. We provide a variety of services and products to customers in the energy industry related to the exploration, development, and production of oil and natural gas. We serve major, national, and independent oil and natural gas companies throughout the world and operate under two divisions, which form the basis for the two operating segments we report: the Completion and Production segment and the Drilling and Evaluation segment. See Note 2 to the consolidated financial statements for further financial information related to each of our business segments and a description of the services and products provided by each segment.

Business strategy

Our business strategy is to secure a distinct and sustainable competitive position as an oilfield service company by delivering products and services to our customers that maximize their production and recovery and realize proven reserves from difficult environments. Our objectives are to:

- create a balanced portfolio of products and services supported by global infrastructure and anchored by technology innovation with a well-integrated digital strategy to further differentiate our company;
- reach a distinguished level of operational excellence that reduces costs and creates real value from everything we do;
- preserve a dynamic workforce by being a preferred employer to attract, develop, and retain the best global talent; and
- uphold the ethical and business standards of the company and maintain the highest standards of health, safety, and environmental performance.

Markets and competition

We are one of the world's largest diversified energy services companies. Our services and products are sold in highly competitive markets throughout the world. Competitive factors impacting sales of our services and products include:

- price;
- service delivery (including the ability to deliver services and products on an "as needed, where needed" basis);
- health, safety, and environmental standards and practices;
- service quality;
- global talent retention;
- understanding of the geological characteristics of the hydrocarbon reservoir;
- product quality;
- warranty; and
- technical proficiency.

We conduct business worldwide in approximately 70 countries. The business operations of our divisions are organized around four primary geographic regions: North America, Latin America, Europe/Africa/CIS, and Middle East/Asia. In 2009, based on the location of services provided and products sold, 36% of our consolidated revenue was from the United States. In 2008 and 2007, 43% and 44% of our consolidated revenue was from the United States. No other country accounted for more than 10% of our consolidated revenue during these periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Environment and Results of Operations" and Note 2 to the consolidated financial statements for additional financial information about geographic operations in the last three years. Because the markets for our services and products are vast and cross numerous geographic lines, a meaningful estimate of the total number of competitors cannot be made. The industries we serve are highly competitive, and we have many substantial competitors. Largely, all of our services and products are marketed through our servicing and sales organizations.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, expropriation or other governmental actions, exchange control problems, and highly inflationary currencies. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be material to the conduct of our operations taken as a whole.

Information regarding our exposure to foreign currency fluctuations, risk concentration, and financial instruments used to minimize risk is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Instrument Market Risk" and in Note 12 to the consolidated financial statements.

Customers

Our revenue from continuing operations during the past three years was derived from the sale of services and products to the energy industry. No customer represented more than 10% of consolidated revenue in any period presented.

Raw materials

Raw materials essential to our business are normally readily available. Market conditions can trigger constraints in the supply of certain raw materials, such as sand, cement, and specialty metals. We are always seeking ways to ensure the availability of resources, as well as manage costs of raw materials. Our procurement department is using our size and buying power through several programs designed to ensure that we have access to key materials at competitive prices.

Research and development costs

We maintain an active research and development program. The program improves existing products and processes, develops new products and processes, and improves engineering standards and practices that serve the changing needs of our customers, such as those related to high pressure/high temperature environments. Our expenditures for research and development activities were $325 million in 2009, $326 million in 2008, and $301 million in 2007, of which over 96% was company-sponsored in each year.

Patents

We own a large number of patents and have pending a substantial number of patent applications covering various products and processes. We are also licensed to utilize patents owned by others. We do not consider any particular patent to be material to our business operations.

Seasonality

Weather and natural phenomena can temporarily affect the performance of our services, but the widespread geographical locations of our operations serve to mitigate those effects. Examples of how weather can impact our business include:

- the severity and duration of the winter in North America can have a significant impact on natural gas storage levels and drilling activity for natural gas;
- the timing and duration of the spring thaw in Canada directly affects activity levels due to road restrictions;
- typhoons and hurricanes can disrupt coastal and offshore operations; and
- severe weather during the winter months normally results in reduced activity levels in the North Sea and Russia.

In addition, due to higher spending near the end of the year by customers for software and completion tools and services, software and asset solutions and completion tools results of operations are generally stronger in the fourth quarter of the year than at the beginning of the year.

Employees

At December 31, 2009, we employed approximately 51,000 people worldwide compared to approximately 57,000 at December 31, 2008. At December 31, 2009, approximately 20% of our employees were subject to collective bargaining agreements. Based upon the geographic diversification of these employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

Environmental regulation

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. For further information related to environmental matters and regulation, see Note 8 to the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Factors" under the subheadings "Customers and Business—Environmental requirements."

Working capital

We fund our business operations through a combination of available cash and equivalents, short-term investments, and cash flow generated from operations. In addition, our revolving credit facility is available for additional working capital needs.

Web site access

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 Exchange Act of 1934 are made available free of charge on our internet web site at www.halliburton.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the Securities and Exchange Commission (SEC). The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains our reports, proxy and information statements, and our other SEC filings. The address of that site is www.sec.gov. We have posted on our web site our Code of Business Conduct, which applies to all of our employees and Directors and serves as a code of ethics for our principal executive officer, principal financial officer, principal accounting officer, and other persons performing similar functions. Any amendments to our Code of Business Conduct or any waivers from provisions of our Code of Business Conduct granted to the specified officers above are disclosed on our web site within four business days after the date of any amendment or waiver pertaining to these officers. There have been no waivers from provisions of our Code of Business Conduct for the years 2009, 2008, or 2007.

Executive Officers of the Registrant

The following table indicates the names and ages of the executive officers of Halliburton Company as of February 12, 2010, including all offices and positions held by each in the past five years:

Name and Age	Offices Held and Term of Office
Evelyn M. Angelle (Age 42)	Vice President, Corporate Controller, and Principal Accounting Officer of Halliburton Company, since January 2008 Vice President, Operations Finance of Halliburton Company, December 2007 to January 2008 Vice President, Investor Relations of Halliburton Company, April 2005 to November 2007 Assistant Controller of Halliburton Company, April 2003 to March 2005
James S. Brown (Age 55)	President, Western Hemisphere of Halliburton Company, since January 2008 Senior Vice President, Western Hemisphere of Halliburton Company, June 2006 to December 2007 Senior Vice President, United States Region of Halliburton Company, December 2003 to June 2006
* Albert O. Cornelison, Jr. (Age 60)	Executive Vice President and General Counsel of Halliburton Company, since December 2002
David S. King (Age 53)	President, Completion and Production Division of Halliburton Company, since January 2008 Senior Vice President, Completion and Production Division of Halliburton Company, July 2007 to December 2007 Senior Vice President, Production Optimization of Halliburton Company, January 2007 to July 2007 Senior Vice President, Eastern Hemisphere of Halliburton Energy Services Group, July 2006 to December 2006 Senior Vice President, Global Operations of Halliburton Energy Services Group, July 2004 to July 2006
* David J. Lesar (Age 56)	Chairman of the Board, President, and Chief Executive Officer of Halliburton Company, since August 2000

4

Name and Age	Offices Held and Term of Office
Ahmed H. M. Lotfy (Age 55)	President, Eastern Hemisphere of Halliburton Company, since January 2008 Senior Vice President, Eastern Hemisphere of Halliburton Company, January 2007 to December 2007 Vice President, Africa Region of Halliburton Company, January 2005 to December 2006
* Mark A. McCollum (Age 50)	Executive Vice President and Chief Financial Officer of Halliburton Company, since January 2008 Senior Vice President and Chief Accounting Officer of Halliburton Company, August 2003 to December 2007
Craig W. Nunez (Age 48)	Senior Vice President and Treasurer of Halliburton Company, since January 2007 Vice President and Treasurer of Halliburton Company, February 2006 to January 2007 Treasurer of Colonial Pipeline Company, November 1999 to January 2006
* Lawrence J. Pope (Age 41)	Executive Vice President of Administration and Chief Human Resources Officer of Halliburton Company, since January 2008 Vice President, Human Resources and Administration of Halliburton Company, January 2006 to December 2007 Senior Vice President, Administration of Kellogg Brown & Root, Inc., August 2004 to January 2006
* Timothy J. Probert (Age 58)	President, Global Business Lines and Corporate Development of Halliburton Company, since January 2010 President, Drilling and Evaluation Division and Corporate Development of Halliburton Company, March 2009 to December 2009 Executive Vice President, Strategy and Corporate Development of Halliburton Company, January 2008 to March 2009 Senior Vice President, Drilling and Evaluation of Halliburton Company, July 2007 to December 2007 Senior Vice President, Drilling and Evaluation and Digital Solutions of Halliburton Company, May 2006 to July 2007 Vice President, Drilling and Formation Evaluation of Halliburton Company, January 2003 to May 2006

* Members of the Policy Committee of the registrant.

There are no family relationships between the executive officers of the registrant or between any director and any executive officer of the registrant.

Item 1(a). Risk Factors.
Information related to risk factors is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information and Risk Factors."

Item 1(b). Unresolved Staff Comments.
None.

Item 2. Properties.
We own or lease numerous properties in domestic and foreign locations. The following locations represent our major facilities and corporate offices.

Location	Owned/Leased	Description
Completion and Production segment:		
Arbroath, United Kingdom	Owned	Manufacturing facility
Johor, Malaysia	Leased	Manufacturing facility
Monterrey, Mexico	Leased	Manufacturing facility
Sao Jose dos Campos, Brazil	Leased	Manufacturing facility
Stavanger, Norway	Leased	Research and development laboratory
Drilling and Evaluation segment:		
Alvarado, Texas	Owned/Leased	Manufacturing facility
Nisku, Canada	Owned	Manufacturing facility
Singapore	Leased	Manufacturing and technology facility
The Woodlands, Texas	Leased	Manufacturing facility
Shared/corporate facilities:		
Carrollton, Texas	Owned	Manufacturing facility
Dubai, United Arab Emirates	Leased	Corporate executive offices
Duncan, Oklahoma	Owned	Manufacturing, technology, and campus facilities
Houston, Texas	Owned	Corporate executive offices, manufacturing, technology, and campus facilities
Houston, Texas	Owned	Campus facility
Houston, Texas	Leased	Campus facility
Pune, India	Leased	Technology facility

All of our owned properties are unencumbered.
In addition, we have 133 international and 103 United States field camps from which we deliver our services and products. We also have numerous small facilities that include sales offices, project offices, and bulk storage facilities throughout the world.
We believe all properties that we currently occupy are suitable for their intended use.

Item 3. Legal Proceedings.
Information related to various commitments and contingencies is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Information and Risk Factors" and in Note 8 to the consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of security holders during the fourth quarter of 2009.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Halliburton Company's common stock is traded on the New York Stock Exchange. Information related to the high and low market prices of common stock and quarterly dividend payments is included under the caption "Quarterly Data and Market Price Information" on page 87 of this annual report. Cash dividends on common stock in the amount of $0.09 per share were paid in March, June, September, and December of 2009 and 2008. Our Board of Directors intends to consider the payment of quarterly dividends on the outstanding shares of our common stock in the future. The declaration and payment of future dividends, however, will be at the discretion of the Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

The following graph and table compare total shareholder return on our common stock for the five-year period ended December 31, 2009, with the Standard & Poor's 500 Stock Index and the Standard & Poor's Energy Composite Index over the same period. This comparison assumes the investment of $100 on December 31, 2004, and the reinvestment of all dividends. The shareholder return set forth is not necessarily indicative of future performance.

	December 31					
	2004	2005	2006	2007	2008	2009
Halliburton	$ 100.00	$ 159.46	$ 161.23	$ 198.84	$ 96.52	$ 162.37
Standard & Poor's 500 Stock Index	100.00	104.91	121.48	128.16	80.74	102.11
Standard & Poor's Energy Composite Index	100.00	131.37	163.16	219.30	142.83	162.57

At February 12, 2010, there were 18,101 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Following is a summary of repurchases of our common stock during the three-month period ended December 31, 2009.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
October 1-31	36,895	$ 28.10	–
November 1-30	39,386	$ 30.18	–
December 1-31	73,920	$ 28.43	–
Total	150,201	$ 28.81	–

(a) All of the 150,201 shares purchased during the three-month period ended December 31, 2009 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants. These shares were not part of a publicly announced program to purchase common shares.

Item 6. Selected Financial Data.

Information related to selected financial data is included on page 86 of this annual report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Information related to Management's Discussion and Analysis of Financial Condition and Results of Operations is included on pages 10 through 45 of this annual report.

Item 7(a). Quantitative and Qualitative Disclosures About Market Risk.

Information related to market risk is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Instrument Market Risk" on page 33 of this annual report.

Item 8. Financial Statements and Supplementary Data.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9(a). Controls and Procedures.
In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2009 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

See page 46 for Management's Report on Internal Control Over Financial Reporting and page 47 for Report of Independent Registered Public Accounting Firm on its assessment of our internal control over financial reporting.

Item 9(b). Other Information.
None.

HALLIBURTON COMPANY
Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW

Organization

We are a leading provider of products and services to the energy industry. We serve the upstream oil and natural gas industry throughout the lifecycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field. Activity levels within our operations are significantly impacted by spending on upstream exploration, development, and production programs by major, national, and independent oil and natural gas companies. We report our results under two segments, Completion and Production and Drilling and Evaluation:

- our Completion and Production segment delivers cementing, stimulation, intervention, and completion services. The segment consists of production enhancement services, completion tools and services, and cementing services; and
- our Drilling and Evaluation segment provides field and reservoir modeling, drilling, evaluation, and precise wellbore placement solutions that enable customers to model, measure, and optimize their well construction activities. The segment consists of fluid services, drilling services, drill bits, wireline and perforating services, testing and subsea, software and asset solutions, and integrated project management services.

The business operations of our segments are organized around four primary geographic regions: North America, Latin America, Europe/Africa/CIS, and Middle East/Asia. We have significant manufacturing operations in various locations, including, but not limited to, the United States, Canada, the United Kingdom, Malaysia, Mexico, Brazil, and Singapore. With approximately 51,000 employees, we operate in approximately 70 countries around the world, and our corporate headquarters are in Houston, Texas and Dubai, United Arab Emirates.

Financial results

During 2009, we produced revenue of $14.7 billion and operating income of $2 billion, reflecting an operating margin of 14%. Revenue decreased $3.6 billion or 20% from 2008, while operating income decreased $2 billion or 50% from 2008. These decreases were caused by a significant decline in our customers' capital spending as a result of the global recession and its impact on commodity prices, which resulted in lower activity, lower pricing, and severe margin contraction.

Business outlook

We continue to believe in the strength of the long-term fundamentals of our business. However, due to the financial crisis that developed in mid-2008, the ensuing negative impact on credit availability and industry activity, and the current excess supply of oil and natural gas, the near-term outlook for our business and the industry remains uncertain. Forecasting the depth and length of the current cycle is challenging as it is different from past cycles due to the overlay of the financial crisis in combination with broad demand weakness.

In North America, the industry experienced an unprecedented decline in drilling activity during 2009 as rig counts declined approximately 43% from 2008 highs. This decline, coupled with natural gas storage levels reaching record levels, resulted in severe margin contraction in 2009. During the fourth quarter of 2009, we saw some rebound in rig activity as conditions began to improve with positive seasonal withdrawals from natural gas storage. With the trend toward increasing levels of service intensity, our equipment utilization is improving, and prices are stabilizing across many areas. However, this rebound will require a sustained increase in natural gas drilling activity. In order for this to occur, we believe it will be important that North America exits the winter heating season with storage levels in line with historical averages and there is increased recovery in industrial demand.

Outside of North America, 2009 rig count declined approximately 8% from 2008 highs. Margins declined throughout 2009, and we have not yet felt the full impact of pricing concessions that were renegotiated during last year's contract retendering process. As such, we believe margins will continue to be under pressure in 2010. We also believe that 2010 may be a period of transition for this market. Oil supply/demand fundamentals are showing some improvement as weak hydrocarbon demand shows signs of recovery, but the timing of reinvestment remains uneven across geographies and customers. Operators remain flexible in their spending patterns and continue to be heavily focused on restraining oilfield price and cost inflation.

Our operating performance and business outlook are described in more detail in "Business Environment and Results of Operations."

Financial markets, liquidity, and capital resources

Since mid-2008, the global financial markets have been volatile. While this has created additional risks for our business, we believe we have invested our cash balances conservatively and secured sufficient financing to help mitigate any near-term negative impact on our operations. To provide additional liquidity and flexibility in the current environment, we issued $2 billion in senior notes during the first quarter of 2009 and invested $1.5 billion in United States Treasury securities during the second quarter of 2009. For additional information, see "Liquidity and Capital Resources," "Risk Factors," "Business Environment and Results of Operations," and Notes 6 and 12 to the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

We ended 2009 with cash and equivalents of $2.1 billion compared to $1.1 billion at December 31, 2008. We also held $1.3 billion of short-term, United States Treasury securities at December 31, 2009.

Significant sources of cash

Cash flows from operating activities contributed $2.4 billion to cash in 2009. Our focus on managing working capital levels during the year helped to offset the significant reduction in income during 2009.

In March 2009, we issued $1 billion of 6.15% senior notes due 2019 and $1 billion of 7.45% senior notes due 2039.

In 2009, we sold approximately $300 million of United States Treasury securities.

We received payments of $90 million for our asbestos-related insurance settlements during 2009.

Further available sources of cash. We have an unsecured $1.2 billion, five-year revolving credit facility to provide commercial paper support, general working capital, and credit for other corporate purposes. There were no cash drawings under the facility as of December 31, 2009. In addition, we have $1.3 billion in United States Treasury securities that will be maturing at various dates through September 2010.

Significant uses of cash

Capital expenditures were $1.9 billion in 2009 and were predominantly made in the production enhancement, drilling services, wireline and perforating, and cementing product service lines.

During 2009, we purchased approximately $1.6 billion in United States Treasury securities, with varying maturity dates.

We paid $417 million to the Department of Justice (DOJ) and Securities and Exchange Commission (SEC) in 2009 related to the settlements with them and under the indemnity provided to KBR, Inc. (KBR) upon separation.

We paid $324 million in dividends to our shareholders in 2009.

We contributed $99 million to fund our defined benefit plans in 2009.

Future uses of cash. Capital spending for 2010 is expected to be approximately $2.0 billion. The capital expenditures plan for 2010 is primarily directed toward our production enhancement, drilling services, wireline and perforating, and cementing product service lines and toward retiring old equipment to replace it with new equipment to improve our fleet reliability and efficiency. We are currently exploring opportunities for acquisitions that will enhance or augment our current portfolio of products and services, including those with unique technologies or distribution networks in areas where we do not already have large operations.

We currently intend to retire our $750 million principal amount of 5.5% senior notes at maturity in October 2010 with available cash and equivalents.

As a result of the resolution of the DOJ and SEC Foreign Corrupt Practices Act (FCPA) investigations, we will pay a total of $142 million in equal installments over the next three quarters for the settlement with the DOJ and under the indemnity provided to KBR upon separation. See Notes 7 and 8 to our consolidated financial statements for more information.

Subject to Board of Directors approval, we expect to pay quarterly dividends of approximately $80 million during 2010. We also have approximately $1.8 billion remaining available under our share repurchase authorization, which may be used for open market share purchases.

The following table summarizes our significant contractual obligations and other long-term liabilities as of December 31, 2009:

	Payments Due						
Millions of dollars	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	$ 750	$ –	$ –	$ –	$ –	$ 3,824	$ 4,574
Interest on debt (a)	304	263	263	262	262	5,622	6,976
Operating leases	149	112	70	42	29	142	544
Purchase obligations (b)	1,022	72	39	15	2	6	1,156
Pension funding obligations (c)	38	–	–	–	–	–	38
DOJ and SEC settlement and indemnity	142	–	–	–	–	–	142
Other long-term liabilities	9	9	9	9	–	–	36
Total	$ 2,414	$ 456	$ 381	$ 328	$ 293	$ 9,594	$ 13,466

(a) Interest on debt includes 87 years of interest on $300 million of debentures at 7.6% interest that become due in 2096.
(b) Primarily represents certain purchase orders for goods and services utilized in the ordinary course of our business.
(c) Amount based on assumptions that are subject to change. Also, we may choose to make additional discretionary contributions. We are currently not able to reasonably estimate our contributions for years after 2010. See Note 13 to the consolidated financial statements for further information regarding pension contributions.

We had $292 million of gross unrecognized tax benefits at December 31, 2009, of which we estimate $43 million may require a cash payment. We estimate that $12 million of the total $43 million may be settled within the next 12 months, although the amounts are not agreed with tax authorities. We are not able to reasonably estimate in which future periods the remaining amounts will ultimately be settled and paid.

Other factors affecting liquidity

Letters of credit. In the normal course of business, we have agreements with financial institutions under which approximately $1.8 billion of letters of credit, bank guarantees, or surety bonds were outstanding as of December 31, 2009, including $380 million of surety bonds related to Venezuela. In addition, $390 million of the total $1.8 billion relates to KBR letters of credit, bank guarantees, or surety bonds that are being guaranteed by us in favor of KBR's customers and lenders. KBR has agreed to compensate us for these guarantees and indemnify us if we are required to perform under any of these guarantees. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Financial position in current market. Our $2.1 billion of cash and equivalents and $1.3 billion in investments in marketable securities as of December 31, 2009 provide sufficient liquidity and flexibility, given the current market environment. Our debt maturities extend over a long period of time. We currently have a total of $1.2 billion of committed bank credit under our revolving credit facility to support our operations and any commercial paper we may issue in the future. We have no financial covenants or material adverse change provisions in our bank agreements. Currently, there are no borrowings under the revolving credit facility. Although a portion of earnings from our foreign subsidiaries is reinvested overseas indefinitely, we do not consider this to have a significant impact on our liquidity.

In addition, we manage our cash investments by investing principally in United States Treasury securities and repurchase agreements collateralized by United States Treasury securities.

Credit ratings. Credit ratings for our long-term debt remain A2 with Moody's Investors Service and A with Standard & Poor's. The credit ratings on our short-term debt remain P-1 with Moody's Investors Service and A-1 with Standard & Poor's.

Customer receivables. In line with industry practice, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customer's cash flow from operations and their access to the credit markets. For example, we have seen a delay in receiving payment on our receivables from one of our primary customers in Venezuela. However, during the fourth quarter of 2009, we reached a settlement with this customer and received payment on approximately one-third of our outstanding receivables. If our customers delay in paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We operate in approximately 70 countries throughout the world to provide a comprehensive range of discrete and integrated services and products to the energy industry. The majority of our consolidated revenue is derived from the sale of services and products to major, national, and independent oil and natural gas companies worldwide. We serve the upstream oil and natural gas industry throughout the lifecycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production throughout the life of the field. Our two business segments are the Completion and Production segment and the Drilling and Evaluation segment. The industries we serve are highly competitive with many substantial competitors in each segment. In 2009, based upon the location of the services provided and products sold, 36% of our consolidated revenue was from the United States. In 2008, 43% of our consolidated revenue was from the United States. No other country accounted for more than 10% of our revenue during these periods.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange control problems, and highly inflationary currencies. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be materially adverse to our consolidated results of operations.

Activity levels within our business segments are significantly impacted by spending on upstream exploration, development, and production programs by major, national, and independent oil and natural gas companies. Also impacting our activity is the status of the global economy, which impacts oil and natural gas consumption. See "Risk Factors—Worldwide recession and effect on exploration and production activity" for further information related to the effect of the current recession.

Some of the more significant barometers of current and future spending levels of oil and natural gas companies are oil and natural gas prices, the world economy, the availability of credit, and global stability, which together drive worldwide drilling activity. Our financial performance is significantly affected by oil and natural gas prices and worldwide rig activity, which are summarized in the following tables.

This table shows the average oil and natural gas prices for West Texas Intermediate (WTI), United Kingdom Brent crude oil, and Henry Hub natural gas:

Average Oil Prices (dollars per barrel)	2009	2008	2007
West Texas Intermediate	$ 61.65	$ 99.37	$ 71.91
United Kingdom Brent	$ 61.49	$ 96.86	$ 72.21
Average United States Gas Prices (dollars per thousand cubic feet, or mcf)			
Henry Hub	$ 4.06	$ 9.13	$ 7.18

The historical yearly average rig counts based on the Baker Hughes Incorporated rig count information were as follows:

Land vs. Offshore	2009	2008	2007
United States:			
Land	1,042	1,812	1,694
Offshore (incl. Gulf of Mexico)	44	65	73
Total	1,086	1,877	1,767
Canada:			
Land	220	378	341
Offshore	1	1	3
Total	221	379	344
International (excluding Canada):			
Land	722	784	719
Offshore	275	295	287
Total	997	1,079	1,006
Worldwide total	2,304	3,335	3,117
Land total	1,984	2,974	2,754
Offshore total	320	361	363

Oil vs. Natural Gas	2009	2008	2007
United States (incl. Gulf of Mexico):			
Oil	282	384	300
Natural Gas	804	1,493	1,467
Total	1,086	1,877	1,767
Canada:			
Oil	102	160	128
Natural Gas	119	219	216
Total	221	379	344
International (excluding Canada):			
Oil	776	825	776
Natural Gas	221	254	230
Total	997	1,079	1,006
Worldwide total	2,304	3,335	3,117
Oil total	1,160	1,369	1,204
Natural Gas total	1,144	1,966	1,913

Our customers' cash flows, in most instances, depend upon the revenue they generate from the sale of oil and natural gas. Lower oil and natural gas prices usually translate into lower exploration and production budgets. The opposite is true for higher oil and natural gas prices.

WTI oil spot prices fell from a high of approximately $145 per barrel in July 2008 to a low of approximately $30 per barrel in December 2008. Since then prices have rebounded. As noted above, during 2009, the WTI spot price averaged $61.65 per barrel. As of February 12, 2010 the WTI oil spot price was $74.13 per barrel. According to the International Energy Agency's (IEA) February 2010 "Oil Market Report," 2010 world petroleum demand is forecasted to increase 2% over 2009 levels. Despite the overall decline in oil and natural gas prices from 2008 levels and reduction in our customers' capital spending, we believe that, over the long term, any major macroeconomic disruptions may ultimately correct themselves as the underlying trends of smaller and more complex reservoirs, high depletion rates, and the need for continual reserve replacement should drive the long-term need for our services.

North America operations

Volatility in natural gas prices can impact our customers' drilling and production activities, particularly in North America. In 2009, we experienced an unprecedented decline in drilling activity as rig count dropped approximately 43% from 2008 highs. Correlating with this decline, the Henry Hub spot price decreased from an average of $9.13 per mcf in 2008 to $4.06 per mcf in 2009. As of February 12, 2010, the Henry Hub spot price was $5.65 per mcf. Weak domestic natural gas demand, coupled with the productivity of new shale resources, led to natural gas storage reaching record levels in 2009 and severe margin compression. We saw some rebound in rig activity toward the end of 2009 as conditions began to improve with seasonal withdrawals from natural gas storage. With the trend toward increasing levels of service intensity, our equipment utilization is improving, and prices are stabilizing across many areas. However, this rebound will require a sustained increase in natural gas drilling activity. For activity levels to improve, we believe it will be important that North America exits the winter heating season with storage levels in line with historical averages and there is increased recovery in industrial demand.

International operations

Consistent with our long-term strategy to grow our operations outside of North America, we expect to continue to invest capital in our international operations. During 2009, international energy services activity declined as well, but not to the extent the North American market fell. As of December 31, 2009, the international rig count had declined approximately 8% from 2008 highs. International margins declined throughout 2009, and we have not yet felt the full impact of pricing concessions that were renegotiated during last year's contract retendering process. As such, we believe margins will continue to be under pressure in 2010. We also believe that 2010 may be a period of transition for this market. Oil supply/demand fundamentals are showing some improvement as weak global hydrocarbon demand shows signs of recovery, but the timing of reinvestment remains uneven across geographies and customers. Operators are remaining flexible in their spending patterns and continue to be heavily focused on restraining oilfield price and cost inflation.

Venezuela. In January 2010, the Venezuelan government announced a devaluation of the Bolívar Fuerte under a new two-exchange rate system; one rate for essential products and the other rate for non-essential products. As a result of the devaluation, we are estimating a loss of approximately $30 million in the first quarter of 2010 based on our current understanding of how the new two-exchange rate system will work for oil services activity. Our estimate utilizes a 4.3 Bolívar Fuerte to United States dollar exchange rate.

Initiatives and recent contract awards

Following is a brief discussion of some of our recent and current initiatives:

- leveraging our technologies to deploy our packaged-services strategy to provide our customers with the ability to more efficiently drill and complete their wells, especially in service-intensive environments such as deepwater and shale plays;
- retaining key investments in technology and capital to accelerate growth opportunities;
- increasing our market share in unconventional and deepwater markets by enhancing our technological position and leveraging our technical expertise and wide portfolio of products and services;
- lowering our input costs from vendors by negotiating price reductions for both materials used in our operations and those utilized in the manufacturing of capital equipment;
- negotiating with our customers to trade an expansion of scope and a lengthening of contract duration for price concessions;
- optimizing headcount in locations experiencing significant changes in activity;
- improving working capital, operating within our cash flow, and managing our balance sheet to maximize our financial flexibility;
- continuing the globalization of our manufacturing and supply chain processes, preserving work at our lower-cost manufacturing centers, and utilizing our international infrastructure to lower costs from our supply chain through delivery;
- expanding our business with national oil companies; and
- minimizing discretionary spending.

Contract wins positioning us to grow our operations over the long term include:

- a five-year integrated turnkey drilling contract, with an option for an additional five-year period, which includes drilling and completion activities in South Ghawar, Saudi Arabia;
- a three-year, $122 million contract, to provide drilling and completion fluid solutions in Indonesia;
- a three-year technical cooperation agreement by Brazil's state energy company for research and development in Brazil's subsalt areas;
- a two-year, $229 million contract with multiple extension options, to provide drilling fluids and associated services in Norway;
- a three-year contract renewal for continued access to a broad suite of software technology and petro-technical consulting services for the development, deployment, and ongoing global support of exploration and production technology and workflows;
- a five-year, $1.5 billion contract to provide a broad base of products and services to an international oil company for its work associated with North America;
- several wins totaling $1 billion, including $700 million to provide deepwater drilling fluid services in the Gulf of Mexico, Brazil, Indonesia, Angola, and other countries, which solidifies our position in the deepwater drilling fluids market and $300 million for shelf- and land-related work; and
- a two-year contract extension, estimated to be valued at $450 million, to provide cementing services and completion and drilling fluids for StatoilHydro in offshore fields on the Norwegian continental shelf.

- a five-year, $190 million contract to provide drilling fluid, completion fluid, and drilling waste management services for Petrobras in the offshore markets of Brazil;
- a five-year, $100 million contract to provide directional-drilling and logging-while-drilling services in the Middle East;
- a contract award in Algeria to provide integrated project management services for a number of delineation wells initially with the potential to expand to 120 wells for full field development;
- a four-year contract to provide directional-drilling, measurement-while-drilling, and logging-while-drilling, along with drilling fluids and cementing services in Russia; and
- a multi-year contract scheduled to commence in 2010 to provide completion products and services and drilling and completion fluids in the deepwater, offshore fields of Angola.

RESULTS OF OPERATIONS IN 2009 COMPARED TO 2008

REVENUE: Millions of dollars	2009	2008	Increase (Decrease)	Percentage Change
Completion and Production	$7,419	$9,610	$(2,191)	(23)%
Drilling and Evaluation	7,256	8,669	(1,413)	(16)
Total revenue	$14,675	$18,279	$(3,604)	(20)%

By geographic region:				
Completion and Production:				
North America	$ 3,589	$ 5,327	$ (1,738)	(33)%
Latin America	887	978	(91)	(9)
Europe/Africa/CIS	1,771	1,938	(167)	(9)
Middle East/Asia	1,172	1,367	(195)	(14)
Total	7,419	9,610	(2,191)	(23)
Drilling and Evaluation:				
North America	2,073	3,013	(940)	(31)
Latin America	1,294	1,447	(153)	(11)
Europe/Africa/CIS	2,177	2,408	(231)	(10)
Middle East/Asia	1,712	1,801	(89)	(5)
Total	7,256	8,669	(1,413)	(16)
Total revenue by region:				
North America	5,662	8,340	(2,678)	(32)
Latin America	2,181	2,425	(244)	(10)
Europe/Africa/CIS	3,948	4,346	(398)	(9)
Middle East/Asia	2,884	3,168	(284)	(9)

OPERATING INCOME: Millions of dollars	2009	2008	Increase (Decrease)	Percentage Change
Completion and Production	$ 1,016	$ 2,304	$ (1,288)	(56)%
Drilling and Evaluation	1,183	1,970	(787)	(40)
Corporate and other	(205)	(264)	59	22
Total operating income	$ 1,994	$ 4,010	$ (2,016)	(50)%
By geographic region:				
Completion and Production:				
North America	$ 272	$ 1,426	$ (1,154)	(81)%
Latin America	172	214	(42)	(20)
Europe/Africa/CIS	315	360	(45)	(13)
Middle East/Asia	257	304	(47)	(15)
Total	1,016	2,304	(1,288)	(56)
Drilling and Evaluation:				
North America	178	679	(501)	(74)
Latin America	187	307	(120)	(39)
Europe/Africa/CIS	380	497	(117)	(24)
Middle East/Asia	438	487	(49)	(10)
Total	1,183	1,970	(787)	(40)
Total operating income by region (excluding Corporate and other):				
North America	450	2,105	(1,655)	(79)
Latin America	359	521	(162)	(31)
Europe/Africa/CIS	695	857	(162)	(19)
Middle East/Asia	695	791	(96)	(12)

Note–All periods presented reflect the movement of certain operations from the Completion and Production segment to the Drilling and Evaluation segment during the first quarter of 2009.

The 20% decline in consolidated revenue in 2009 compared to 2008 was primarily due to pricing declines and lower demand for our products and services in North America due to a significant reduction in rig count. As a result of an approximate 42% reduction in average rig count in North America during 2009 compared to 2008, we experienced a 32% decline in North America revenue from 2008. Revenue outside of North America was 61% of consolidated revenue in 2009 and 54% of consolidated revenue in 2008.

The decrease in consolidated operating income compared to 2008 primarily stemmed from a 79% decrease in North America due to a decline in rig count and severe margin contraction, a $73 million charge associated with employee separation costs, and a $15 million charge related to the settlement of a customer receivable in Venezuela. Operating income in 2008 was favorably impacted by a $35 million gain on the sale of a joint venture interest in the United States, a combined $25 million gain related to the sale of two investments in the United States, and a net $5 million gain on the settlement of two patent disputes. Operating income in 2008 was adversely impacted by approximately $52 million as a result of hurricanes in the Gulf of Mexico, a $23 million impairment charge related to an oil and natural gas property in Bangladesh, and a $22 million acquisition-related charge for WellDynamics.

Following is a discussion of our results of operations by reportable segment.

Completion and Production decrease in revenue compared to 2008 was primarily a result of overall pricing declines and lower demand for our products and services in North America. More specifically, North America revenue fell 33% as a result of pricing declines and a drop in demand for production enhancement services and cementing services. Latin America revenue decreased 9% as increased activity for all product service lines in Mexico and Colombia was outweighed by lower activity across all product service lines in Venezuela and Argentina. Europe/Africa/CIS revenue decreased 9% on lower demand for completion tools and services in Africa. In addition, production enhancement services in Europe were negatively impacted by job delays in the North Sea. Middle East/Asia revenue fell 14% due to job delays and a decrease in demand for all products and services in the Middle East. Revenue outside of North America was 52% of total segment revenue in 2009 and 45% of total segment revenue in 2008.

The Completion and Production segment operating income decrease compared to 2008 was primarily due to the North America region, where operating income fell 81% largely due to pricing declines and significant reductions in rig count resulting in lower demand for our products and services. Results in 2009 were adversely impacted by $34 million in employee separation costs. In 2008, North America was negatively impacted by approximately $25 million due to Gulf of Mexico hurricanes but benefited from a $35 million gain on the sale of a joint venture interest. Latin America operating income decreased 20% driven by lower activity across all product service lines in Venezuela and Argentina. Europe/Africa/CIS operating income decreased 13% as improved cost management and higher demand for cementing services across the region were outweighed by job delays and lower demand for completion tools and services in Africa and production enhancement services in the North Sea and Angola. Middle East/Asia operating income decreased 15% primarily due to lower completion tools sales in Saudi Arabia and lower demand for production enhancement services in Oman and Malaysia.

Drilling and Evaluation revenue decrease compared to 2008 was primarily a result of pricing declines and decreased demand for our products and services stemming from a reduction in rig count in North America, where revenue fell 31%. Latin America revenue fell 11% as increased drilling activity in Brazil was outweighed by lower demand for all product service lines in Venezuela, Argentina, and Colombia. Europe/Africa/CIS revenue decreased 10% as increases in software sales and consulting services in Algeria were offset by decreased demand for drilling fluids services in Nigeria and Angola and drilling services in Europe. Pricing pressure also had a significant impact on revenue in Europe and Russia. Middle East/Asia revenue decreased 5% as increased demand for drilling fluid services and testing and subsea services in Asia Pacific were outweighed by lower drilling activity in the Middle East and declines in software sales and consulting services and wireline and perforating services in Asia Pacific. Revenue outside of North America was 71% of total segment revenue in 2009 and 65% of total segment revenue in 2008.

The decrease in segment operating income compared to 2008 was primarily due to a 74% decrease in North America operating income related to pricing declines and rig count reductions. Results in 2009 were also adversely impacted by $34 million in employee separation costs. In 2008, this segment's results were negatively impacted by approximately $27 million due to Gulf of Mexico hurricanes and a $23 million impairment charge related to an oil and natural gas property in Bangladesh, but benefited from $25 million of gains related to the sale of two investments in the United States. Latin America operating income fell 39% primarily due to lower activity across all product service lines in Venezuela and decreased demand and pricing pressure for drilling services and wireline and perforating services in Argentina, Colombia, and Mexico. The region was also adversely affected by a $12 million charge related to the settlement of a customer receivable in Venezuela. The Europe/Africa/CIS region operating income fell 24% as increased demand for drilling fluid services in Norway and Kazakhstan and increased software sales and consulting services in Africa were outweighed by pricing pressures and decreased drilling activity in Europe and lower demand for drilling fluid services in Africa. Middle East/Asia operating income decreased 10% over 2008 as declines in drilling activity in Saudi Arabia and China outweighed an increase in software sales and consulting services in the Middle East and higher demand for testing and subsea services in Asia. This region was negatively impacted by the impairment charge related to an oil and natural gas property in Bangladesh in 2008.

Corporate and other expenses were $205 million in 2009 compared to $264 million in 2008. The 2009 results include $5 million in employee separation costs. The 22% reduction was primarily attributable to our 2009 focus on reducing discretionary spending and optimizing headcount and a $22 million acquisition-related charge for WellDynamics related to employee incentive compensation awards in 2008. 2008 also included a net $5 million gain on the settlement of two patent disputes.

NONOPERATING ITEMS

Interest expense increased $130 million in 2009 compared to 2008 primarily due to the issuance of $2 billion in senior notes during the first quarter of 2009, partially offset by the redemption of our convertible senior notes early in the third quarter of 2008.

Interest income decreased $27 million in 2009 compared to 2008 due to a general decline in market interest rates.

Loss from discontinued operations, net of income tax in 2008 included $420 million in charges reflecting the resolution of the DOJ and SEC FCPA investigations and the impact of our assumption changes during that period regarding the resolution of the Barracuda-Caratinga bolt arbitration matter under the indemnities and guarantees provided to KBR upon separation.

Noncontrolling interest in net income of subsidiaries increased $19 million compared to 2008, primarily related to the impact of a change in effective ownership of a joint venture in 2008.

RESULTS OF OPERATIONS IN 2008 COMPARED TO 2007

REVENUE: Millions of dollars	2008	2007	Increase	Percentage Change
Completion and Production	$ 9,610	$ 8,138	$ 1,472	18 %
Drilling and Evaluation	8,669	7,126	1,543	22
Total revenue	$ 18,279	$ 15,264	$ 3,015	20 %
By geographic region:				
Completion and Production:				
North America	$ 5,327	$ 4,632	$ 695	15 %
Latin America	978	668	310	46
Europe/Africa/CIS	1,938	1,689	249	15
Middle East/Asia	1,367	1,149	218	19
Total	9,610	8,138	1,472	18
Drilling and Evaluation:				
North America	3,013	2,501	512	20
Latin America	1,447	1,130	317	28
Europe/Africa/CIS	2,408	2,011	397	20
Middle East/Asia	1,801	1,484	317	21
Total	8,669	7,126	1,543	22
Total revenue by region:				
North America	8,340	7,133	1,207	17
Latin America	2,425	1,798	627	35
Europe/Africa/CIS	4,346	3,700	646	17
Middle East/Asia	3,168	2,633	535	20

OPERATING INCOME: Millions of dollars	2008	2007	Increase (Decrease)	Percentage Change
Completion and Production	$ 2,304	$ 2,119	$ 185	9 %
Drilling and Evaluation	1,970	1,565	405	26
Corporate and other	(264)	(186)	(78)	(42)
Total operating income	$ 4,010	$ 3,498	$ 512	15 %
By geographic region:				
Completion and Production:				
North America	$ 1,426	$ 1,418	$ 8	1 %
Latin America	214	133	81	61
Europe/Africa/CIS	360	300	60	20
Middle East/Asia	304	268	36	13
Total	2,304	2,119	185	9
Drilling and Evaluation:				
North America	679	538	141	26
Latin America	307	216	91	42
Europe/Africa/CIS	497	444	53	12
Middle East/Asia	487	367	120	33
Total	1,970	1,565	405	26
Total operating income by region (excluding Corporate and other):				
North America	2,105	1,956	149	8
Latin America	521	349	172	49
Europe/Africa/CIS	857	744	113	15
Middle East/Asia	791	635	156	25

Note–All periods presented reflect the movement of certain operations from the Completion and Production segment to the Drilling and Evaluation segment during the first quarter of 2009

The increase in consolidated revenue in 2008 compared to 2007 spanned all four regions and was attributable to higher worldwide activity, particularly in North America, Asia, and Latin America. Approximately $74 million in revenue was lost during 2008 due to Gulf of Mexico hurricanes. Revenue outside of North America was 54% of consolidated revenue in 2008 and 53% of consolidated revenue in 2007.

The increase in consolidated operating income in 2008 compared to 2007 was primarily due to a 49% increase in Latin America and a 25% increase in Middle East/Asia resulting from increased customer activity, new contracts, and improved pricing. Operating income in 2008 was positively impacted by a $35 million gain on the sale of a joint venture interest in the United States, a combined $25 million gain related to the sale of two investments in the United States, and a net $5 million gain on the settlement of two patent disputes. Operating income in 2008 was adversely impacted by $52 million due to Gulf of Mexico hurricanes, a $23 million impairment charge related to an oil and natural gas property in Bangladesh, and a $22 million acquisition-related charge for WellDynamics related to employee incentive compensation awards. Operating income in 2007 was positively impacted by a $49 million gain recorded on the sale of our remaining interest in Dresser, Ltd. and negatively impacted by $34 million in charges related to the impairment of an oil and natural gas property in Bangladesh and $32 million in charges for environmental reserves.

Following is a discussion of our results of operations by reportable segments.

Completion and Production increase in revenue compared to 2007 was derived from all regions. Europe/Africa/CIS revenue grew 15% primarily from increased production enhancement services activity, largely related to the acquisition of PSL Energy Services Limited. Additionally, completion tools revenue benefited from increased sales and service in Africa. Middle East/Asia revenue grew 19% from increased completion tools sales and deliveries and new contracts for production enhancement services in the region. Increased demand for cementing products and services in the Middle East and Australia also contributed to the increase. North America revenue grew 15% from improved demand for production enhancement services and cementing products and services largely driven by increased capacity and rig count in the United States. Partially offsetting the improvement in the United States was $34 million in lost revenue due to Gulf of Mexico hurricanes. Latin America revenue grew 46% as a result of higher activity for all product service lines, particularly in Mexico and Brazil. Higher demand for production enhancement services, new cementing contracts with more favorable pricing, and improved completion tools sales were large contributors to the increase in revenue. Revenue outside of North America was 45% of total segment revenue in 2008 and 43% in 2007.

The increase in segment operating income in 2008 compared to 2007 spanned all regions. Europe/Africa/CIS operating income increased 20% from increased completion tools sales and services in Africa and higher production enhancement activity in Europe. Middle East/Asia operating income increased 13% primarily due to increased sales and service revenue from completion tools and increased production enhancement activity in the region. North America operating income was essentially flat, primarily due to a $25 million negative impact from Gulf of Mexico hurricanes and pricing declines and cost increases in the United States for production enhancement, offset by improved completion tools sales and services and a $35 million gain on the sale of a joint venture interest in the United States. Latin America operating income increased 61% with improved cementing and production enhancement performance primarily in Mexico and Brazil.

Drilling and Evaluation revenue increase compared to 2007 was derived from all regions. Europe/Africa/CIS revenue grew 20% from increased drilling services activity and higher customer demand for fluid and wireline and perforating services throughout the region. Middle East/Asia revenue grew 21% primarily due to increased fluid services activity throughout the region and higher customer demand for drilling services in Asia. North America revenue grew 20% from higher activity across all product service lines in the United States primarily due to increased land rig count and higher demand for new technology. The region also benefited from higher activity for fluid services in Canada. Partially offsetting the improvement in the United States was $40 million in lost revenue due to Gulf of Mexico hurricanes. Latin America revenue grew 28% as a result of increased customer demand for drilling services, increased activity and new contracts for wireline and perforating services, and increased project management services. Revenue outside of North America was 65% of total segment revenue in 2008 and 2007.

The increase in segment operating income in 2008 compared to 2007 was derived from all regions led by growth in North America, Latin America, and Asia. Europe/Africa/CIS operating income increased 12% benefiting from higher customer demand for wireline and perforating services in Africa. Higher demand for software sales and consulting services in Europe also contributed to the increase. Middle East/Asia operating income grew 33% primarily due to increased fluid services results in the Middle East as well as higher demand for drilling services and improved wireline and perforating services and software sales and consulting services in Asia. Operating income was impacted by a $23 million impairment charge related to an oil and natural gas property in Bangladesh. North America operating income increased 26% primarily from increased activity in most of the product service lines including higher demand for fluid services and increased drilling activity. Negatively impacting the region was a loss of $27 million due to Gulf of Mexico hurricanes. This region's results also reflect $25 million of gains related to the sale of two investments in the United States. Latin America operating income increased 42% primarily due to increased activity in drilling services and wireline and perforating services and improvements in software sales and consulting services.

Corporate and other expenses were $264 million in 2008 compared to $186 million in 2007. 2008 included a $35 million gain in the fourth quarter and a $30 million charge in the second quarter related to patent dispute settlements, a $22 million acquisition-related charge for WellDynamics related to employee incentive compensation awards, higher legal costs, and increased corporate development costs. 2007 was impacted by a $49 million gain on the sale of our remaining interest in Dresser, Ltd. and a $12 million charge for executive separation costs.

NONOPERATING ITEMS

Interest income decreased $85 million in 2008 compared to 2007 due to a decrease of cash and equivalents and marketable securities balances and a general decline in market interest rates.

Other, net in 2008 included a $31 million loss on foreign exchange due to the general weakening of the United States dollar against certain foreign currencies.

Provision for income taxes from continuing operations of $1.2 billion in 2008 resulted in an effective tax rate of 31% compared to an effective tax rate of 26% in 2007. The lower tax rate in 2007 is primarily related to a $205 million favorable income tax impact from the ability to recognize foreign tax credits previously estimated not to be fully utilizable.

Income (loss) from discontinued operations, net of income tax in 2008 included $420 million in charges reflecting the resolution of the DOJ and SEC FCPA investigations and the impact of our assumption changes during that period regarding the resolution of the Barracuda-Caratinga bolt arbitration matter under the indemnities and guarantees provided to KBR upon separation. 2007 included a $933 million net gain on the disposition of KBR, which included the estimated fair value of the indemnities and guarantees provided to KBR and our 81% share of KBR's $28 million in net income in the first quarter of 2007.

Noncontrolling interest in net income of subsidiaries decreased $59 million compared to 2007, primarily related to a change in effective ownership of a joint venture in 2008.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires our most difficult, subjective, or complex estimates and assessments and is fundamental to our results of operations. We identified our most critical accounting estimates to be:

- forecasting our effective income tax rate, including our future ability to utilize foreign tax credits and the realizability of deferred tax assets, and providing for uncertain tax positions;
- legal and investigation matters;
- valuations of indemnities;
- valuations of long-lived assets, including intangible assets;
- purchase price allocation for acquired businesses;
- pensions;
- allowance for bad debts; and
- percentage-of-completion accounting for long-term, construction-type contracts.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and 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. We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this report.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure presented below.

Income tax accounting

We recognize the amount of taxes payable or refundable for the current year and use an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We apply the following basic principles in accounting for our income taxes: