

WEATHERFORD INTERNATIONAL LTD

Form 10-Q

August 07, 2008

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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, 2008

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 1-31339

WEATHERFORD INTERNATIONAL LTD.

(Exact name of Registrant as specified in its Charter)

Bermuda

98-0371344

(State or other jurisdiction of incorporation or organization)

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

515 Post Oak Boulevard
Suite 600
Houston, Texas

77027-3415

(Address of principal executive offices)

(Zip Code)

(713) 693-4000

(Registrant's telephone number, include area code)

(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 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 shares, as of the latest practicable date:

Title of Class

Outstanding at August 4, 2008

Common Shares, par value \$1.00

680,648,807

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Certification of CEO Pursuant to Section 906

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)**

| | June 30, 2008 | December 31, 2007 |
|---|--------------------------|------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 267,978 | \$ 170,714 |
| Accounts Receivable, Net of Allowance for Uncollectible Accounts of \$12,687 and \$13,760, Respectively | 2,111,299 | 1,961,854 |
| Inventories | 1,909,239 | 1,607,684 |
| Other Current Assets | 639,145 | 731,517 |
| | 4,927,661 | 4,471,769 |
| Property, Plant and Equipment, Net of Accumulated Depreciation of \$2,592,818 and \$2,400,062, Respectively | 4,979,621 | 4,153,845 |
| Goodwill | 3,510,619 | 3,358,490 |
| Other Intangible Assets, Net of Accumulated Amortization of \$250,224 and \$227,307 Respectively | 584,005 | 596,999 |
| Equity Investments | 473,571 | 368,618 |
| Other Assets | 321,065 | 241,236 |
| | \$ 14,796,542 | \$ 13,190,957 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 49,593 | \$ 774,220 |
| Accounts Payable | 664,421 | 612,775 |
| Other Current Liabilities | 734,986 | 815,370 |
| | 1,449,000 | 2,202,365 |
| Long-term Debt | 4,539,706 | 3,066,335 |
| Other Liabilities | 572,578 | 482,211 |
| | 6,561,284 | 5,750,911 |
| Minority Interest in Consolidated Subsidiaries | 66,288 | 33,327 |
| Shareholders Equity: | 728,181 | 727,204 |

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| | | |
|---|---------------|---------------|
| Common Shares, \$1 Par Value, Authorized 2,000,000 Shares, Issued 728,181 and 727,204 Shares, Respectively | | |
| Capital in Excess of Par Value | 4,078,849 | 3,995,747 |
| Treasury Shares, Net | (911,768) | (924,202) |
| Retained Earnings | 3,805,367 | 3,170,182 |
| Accumulated Other Comprehensive Income | 468,341 | 437,788 |
| | 8,168,970 | 7,406,719 |
| | \$ 14,796,542 | \$ 13,190,957 |

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)

| | Three Months | | Six Months | |
|---|-----------------------|-------------|-----------------------|--------------|
| | Ended June 30, | | Ended June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| Products | \$ 834,443 | \$ 676,851 | \$ 1,663,626 | \$ 1,359,103 |
| Services | 1,394,807 | 1,139,094 | 2,761,516 | 2,309,127 |
| | 2,229,250 | 1,815,945 | 4,425,142 | 3,668,230 |
| Costs and Expenses | | | | |
| Cost of Products | 621,836 | 614,154 | 1,220,626 | 1,103,023 |
| Cost of Services | 832,318 | 578,314 | 1,683,206 | 1,253,801 |
| Research and Development | 44,430 | 40,700 | 87,069 | 81,214 |
| Selling, General and Administrative Attributable to Segments | 268,798 | 219,775 | 509,665 | 421,416 |
| Corporate General and Administrative | 46,288 | 35,561 | 93,462 | 65,621 |
| Gain on Sale of Subsidiary | (81,344) | | (81,344) | |
| Operating Income | 496,924 | 327,441 | 912,458 | 743,155 |
| Other Expense: | | | | |
| Interest Expense, Net | (62,399) | (35,293) | (115,202) | (69,064) |
| Other, Net | (5,282) | (5,934) | (4,783) | (8,306) |
| Income from Continuing Operations Before Income Taxes and Minority Interest | 429,243 | 286,214 | 792,473 | 665,785 |
| Provision for Income Taxes | (57,875) | (105,271) | (131,500) | (196,649) |
| Income from Continuing Operations Before Minority Interest | 371,368 | 180,943 | 660,973 | 469,136 |
| Minority Interest, Net of Taxes | (7,324) | (4,463) | (12,860) | (8,837) |
| Income from Continuing Operations | 364,044 | 176,480 | 648,113 | 460,299 |
| Gain (Loss) from Discontinued Operation, Net of Taxes | 6,940 | (11,170) | (12,928) | (13,417) |
| Net Income | \$ 370,984 | \$ 165,310 | \$ 635,185 | \$ 446,882 |
| Basic Earnings Per Share: | | | | |
| Income from Continuing Operations | \$ 0.53 | \$ 0.26 | \$ 0.95 | \$ 0.68 |
| Gain (Loss) from Discontinued Operation | 0.01 | (0.02) | (0.02) | (0.02) |

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| | | | | | | | | |
|---|----|------|----|--------|----|--------|----|--------|
| Net Income | \$ | 0.54 | \$ | 0.24 | \$ | 0.93 | \$ | 0.66 |
| Diluted Earnings Per Share: | | | | | | | | |
| Income from Continuing Operations | \$ | 0.52 | \$ | 0.25 | \$ | 0.93 | \$ | 0.66 |
| Gain (Loss) from Discontinued Operation | | 0.01 | | (0.01) | | (0.02) | | (0.02) |
| Net Income | \$ | 0.53 | \$ | 0.24 | \$ | 0.91 | \$ | 0.64 |

Weighted Average Shares Outstanding:

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | 681,870 | 676,662 | 681,030 | 677,340 |
| Diluted | 701,927 | 695,634 | 699,507 | 694,124 |

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)

| | Six Months | |
|---|-----------------------|-------------|
| | Ended June 30, | |
| | 2008 | 2007 |
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 635,185 | \$ 446,882 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 340,998 | 280,057 |
| Gain on Sales of Assets and Businesses, Net | (85,815) | (19,680) |
| Loss from Discontinued Operation | 12,928 | 13,417 |
| Employee Share-Based Compensation Expense | 48,134 | 37,213 |
| Excess Tax Benefits from Share-Based Compensation | (15,194) | (8,154) |
| Minority Interest | 12,860 | 8,837 |
| Deferred Income Tax (Benefit) Provision | (12,248) | 95,071 |
| Other, Net | (12,478) | 11,431 |
| Change in Operating Assets and Liabilities, Net of Effect of Businesses | | |
| Acquired Accounts Receivable | (115,277) | (158,108) |
| Inventories | (288,328) | (274,094) |
| Accounts Payable | 45,041 | 8,903 |
| Other | (178,370) | (161,551) |
| Net Cash Provided by Operating Activities - Continuing Operations | 387,436 | 280,224 |
| Net Cash Used by Operating Activities - Discontinued Operation | (6,219) | (14,038) |
| Net Cash Provided by Operating Activities | 381,217 | 266,186 |
| Cash Flows from Investing Activities: | | |
| Acquisitions of Businesses, Net of Cash Acquired | (160,351) | (211,044) |
| Capital Expenditures for Property, Plant and Equipment | (1,144,530) | (672,528) |
| Acquisition of Intellectual Property | (6,436) | (14,057) |
| Purchase of Equity Investment in Unconsolidated Affiliates | | (331,771) |
| Proceeds from Sale of Assets and Businesses, Net | 255,121 | 30,390 |
| Net Cash Used by Investing Activities - Continuing Operations | (1,056,196) | (1,199,010) |
| Net Cash Provided (Used) by Investing Activities - Discontinued Operation | 2,000 | (12,265) |
| Net Cash Used by Investing Activities | (1,054,196) | (1,211,275) |
| Cash Flows from Financing Activities: | | |
| Borrowings of (Repayments on) Short-term Debt, Net | (728,801) | (389,517) |
| Borrowings of Long-term Debt, Net | 1,486,207 | 1,483,443 |
| Purchase of Treasury Shares | | (179,262) |

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| | | |
|---|------------|------------|
| Proceeds from Exercise of Stock Options | 9,512 | 13,010 |
| Excess Tax Benefits from Share-Based Compensation | 15,194 | 8,154 |
| Other Financing Activities, Net | (11,869) | (1,522) |
| Net Cash Provided by Financing Activities | 770,243 | 934,306 |
| Net Cash Provided by Financing Activities | | |
| Continuing Operations | | |
| Discontinued Operation | | |
| Net Cash Provided by Financing Activities | 770,243 | 934,306 |
| Net Increase (Decrease)in Cash and Cash Equivalents | 97,264 | (10,783) |
| Cash and Cash Equivalents at Beginning of Period | 170,714 | 126,287 |
| Cash and Cash Equivalents at End of Period | \$ 267,978 | \$ 115,504 |
| Supplemental Cash Flow Information: | | |
| Interest Paid | \$ 110,515 | \$ 73,460 |
| Income Taxes Paid, Net of Refunds | 148,123 | 207,855 |

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)

| | Three Months | | Six Months | |
|---|-----------------------|-------------|-----------------------|-------------|
| | Ended June 30, | | Ended June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net Income | \$ 370,984 | \$ 165,310 | \$ 635,185 | \$ 446,882 |
| Other Comprehensive Income: | | | | |
| Deferred Loss on Derivative Instruments | | | (12,576) | |
| Amortization of Pension Components | 980 | 3,530 | 5,616 | 4,582 |
| Pension Remeasurement Loss | | (15,427) | | (15,427) |
| Foreign Currency Translation Adjustment | 32,449 | 124,453 | 37,326 | 128,375 |
| Other | 147 | 39 | 187 | 75 |
| Comprehensive Income | \$ 404,560 | \$ 277,905 | \$ 665,738 | \$ 564,487 |

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 condensed consolidated financial statements of Weatherford International Ltd. and all majority-owned subsidiaries (the Company) included herein are unaudited; however, they 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, 2008, 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, 2008 and 2007. 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 Securities and Exchange Commission rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the notes thereto included in the Company's Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2008 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, 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.

Certain reclassifications have been made to conform prior year financial information to the current period presentation.

The Company's Board of Directors approved a two-for-one share split of our 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.

2. Business Combinations

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. Final valuations of assets and liabilities are obtained and recorded within one year from the date of the acquisition.

In August of 2005, the Company acquired Precision Energy Services and Precision Drilling International. In association with the acquisition, the Company identified pre-acquisition contingencies related to duties and taxes associated with the importation of certain equipment assets to foreign jurisdictions. The Company calculated a range of reasonable estimates of the costs associated with these duties. As no amount within the range appeared to be a better estimate than any other, the Company used the amount that is the low end of the range. At June 30, 2008, the Company has a liability in the amount of \$13 million for this matter. If the Company used the high end of the range, the aggregate potential liability would be approximately \$19 million higher.

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

During the six months ended June 30, 2008, the Company acquired various businesses for cash consideration of approximately \$160 million and 824 thousand common shares valued at approximately \$35 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. The Company's investment in PBS is included in Equity Investments in the accompanying Condensed Consolidated Balance Sheets at June 30, 2008 and December 31, 2007. The assets and liabilities of the ESP product line were classified as held for sale at December 31, 2007 and included in Other Current Assets and Other Current Liabilities in the Condensed Consolidated Balance Sheet.

4. Discontinued Operations

In June 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, 2008 | December 31, 2007 |
|--|--------------------------|------------------------------|
| | <i>(In thousands)</i> | |
| Raw materials, components and supplies | \$ 400,182 | \$ 373,383 |
| Work in process | 155,325 | 118,407 |
| Finished goods | 1,353,732 | 1,115,894 |
| | \$ 1,909,239 | \$ 1,607,684 |

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

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. The Company's 2007 impairment test 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.

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

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 were as follows:

| | North America | Latin America | Europe/ West Africa/ CIS (In thousands) | Middle East/ North Africa/ Asia | Total |
|---|--------------------------|--------------------------|--|--|--------------|
| December 31, 2007 | \$ 1,918,411 | \$ 156,825 | \$ 678,433 | \$ 604,821 | \$ 3,358,490 |
| Acquisitions | 33,310 | | 112,392 | 8,063 | 153,765 |
| Disposals | (1,362) | (27) | | | (1,389) |
| Purchase price and other adjustments | 1,195 | 4,330 | 1,402 | (14,992) | (8,065) |
| Foreign currency translation | (25,363) | 3,987 | 25,971 | 3,223 | 7,818 |
| As of June 30, 2008 | \$ 1,926,191 | \$ 165,115 | \$ 818,198 | \$ 601,115 | \$ 3,510,619 |

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

The components of short-term borrowings were as follows:

| | June 30, 2008 | December 31, 2007 |
|---|------------------------------|----------------------------------|
| | <i>(In thousands)</i> | |
| Revolving credit facilities | \$ | \$ 491,000 |
| Commercial paper program | 13,479 | 191,621 |
| Other short-term bank loans | 25,025 | 80,025 |
| Total Short-term Borrowings | 38,504 | 762,646 |
| Current Portion of Long-term Debt | 11,089 | 11,574 |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 49,593 | \$ 774,220 |

In March 2008, the Company completed a \$1.5 billion long-term debt offering comprised of (i) \$500 million of 5.15% Senior Notes due in 2013 (5.15% Senior Notes), (ii) \$500 million of 6.00% Senior Notes due 2018 (6.00% Senior Notes) and (iii) \$500 million of 7.00% Senior Notes due 2038 (7.00% Senior Notes). Net proceeds of \$1.47 billion were used to repay short-term borrowings and for general corporate purposes, including capital expenditures and business acquisitions. Interest on these notes is due semi-annually on March 15 and September 15 of each year.

The Company maintains a revolving credit agreement with a syndicate of banks. The aggregate lending commitment of this facility is \$1.5 billion and allows for a combination of borrowings, support of the Company's commercial paper program and issuances of letters of credit. There were \$34 million in outstanding letters of credit under this facility at June 30, 2008.

On March 19, 2008, the Company entered into an additional \$250 million revolving credit facility with a syndicate of banks. This facility allows for a combination of borrowings, support of the Company's commercial paper program

and issuances of letters of credit.

Both committed 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, 2008.

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.

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

The weighted average interest rate on the outstanding borrowings under the commercial paper program was 3.1% at June 30, 2008.

The Company has short-term borrowings with various domestic and international institutions pursuant to uncommitted facilities. At June 30, 2008, the Company had \$25 million in short-term borrowings under these arrangements with a weighted average interest rate of 12.0%. In addition, the Company had \$194 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, 2008 and December 31, 2007.

8. Derivative Instruments

Interest Rate Swaps

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. These agreements were outstanding at June 30, 2008. The aggregate fair value of the interest rate swaps at June 30, 2008 resulted in a liability of \$24 million with the offset to Long-term Debt on the accompanying Consolidated Balance Sheet.

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 7.00% Senior Notes issued in March 2008. Those hedges were terminated 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, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$561 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, 2008 resulted in a liability of \$7 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, 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, 2008, the Company had notional amounts outstanding of \$364 million. The total estimated fair value of these contracts at June 30, 2008 resulted in a liability of \$63 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.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*, (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option) with changes in fair value reported in earnings. The Company already records derivative contracts and hedging activities at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The adoption of SFAS No. 159 had no impact on the financial statements as the Company did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

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

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 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. Accordingly, the Company will defer the adoption of SFAS No. 157 for its nonfinancial assets and nonfinancial liabilities until January 1, 2009.

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, as it relates to financial assets, had no impact on the Company's consolidated financial position, results of operations and cash flows. The Company is currently evaluating the potential impact of SFAS No. 157, as it relates to nonfinancial assets and nonfinancial liabilities, on its 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). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs that are both significant to the fair value measurement and unobservable.

In accordance with SFAS No. 157, the following table presents the Company's assets and liabilities 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, 2008:

| | June 30, 2008 | | | Total |
|----------------------|-----------------------|----------------|--------------------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| | <i>(In thousands)</i> | | | |
| Assets: | | | | |
| Derivative contracts | \$ | \$ | \$ | \$ |
| Liabilities: | | | | |
| Derivative contracts | | 93,858 | | 93,858 |

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

9. Income Taxes

The Company's effective tax rates were 13.5% and 16.6% for the three and six months ended June 30, 2008, respectively, and 36.8% and 29.5% for the three and six months ended June 30, 2007, respectively. The decrease in the effective tax rate was due primarily to withholding taxes of \$50 million that were required to be paid on a distribution made to one of the Company's foreign subsidiaries during the second quarter of 2007. In addition, the Company recognized a gain of \$81 million, with no related tax effect, on its sale of a 50% interest in a subsidiary. The remainder of the decrease is due to the net benefits realized from the refinement of the Company's international tax structure and changes in the Company's geographic earnings mix.

There were no material changes to the total amount of unrecognized tax benefits during the first half of 2008.

10. Earnings Per Share

Basic earnings per share for all periods presented equals net income divided by the weighted average number of the Company's common shares, \$1.00 par value (Common Shares) outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of Common Shares outstanding during the period, as adjusted for the dilutive effect of the Company's stock option and restricted share plans and warrant.

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 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Basic weighted average shares outstanding | 681,870 | 676,662 | 681,030 | 677,340 |
| Dilutive effect of: | | | | |
| Warrant | 8,380 | 5,610 | 7,663 | 4,548 |
| Stock option and restricted share plans | 11,677 | 13,362 | 10,814 | 12,236 |
| Diluted weighted average shares outstanding | 701,927 | 695,634 | 699,507 | 694,124 |

11. Supplemental Cash Flow Information

During the six months ended June 30, 2007 there were non-cash investing activities of \$20 million related to a note received in exchange for the sale of a minority interest in a subsidiary of the Company.

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

12. Share-Based Compensation

The Company recognized the following employee share-based compensation expense:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------|--|-------------|--------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | <i>(In thousands)</i> | | | |
| Share-based compensation | \$ 24,660 | \$ 20,658 | \$ 48,134 | \$ 37,213 |
| Related tax benefit | 8,631 | 7,230 | 16,847 | 13,024 |

During the six months ended June 30, 2008, the Company granted six million restricted share awards and units at a weighted average grant date fair value of \$34.61 per share.

As of June 30, 2008, there was \$286 million of total unrecognized compensation cost related to the Company's unvested stock options and restricted share grants and that cost is expected to be recognized over a weighted-average period of 2.4 years.

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, 2008 and 2007 were as follows:

| | Three Months Ended June 30, | | | |
|---|------------------------------------|----------------------|--------------------------|----------------------|
| | 2008 | | 2007 | |
| | United States | International | United States | International |
| | <i>(In thousands)</i> | | | |
| Service cost | \$ 720 | \$ 3,555 | \$ 671 | \$ 2,736 |
| Interest cost | 1,511 | 2,659 | 1,430 | 2,022 |
| Expected return on plan assets | (179) | (2,320) | (165) | (1,960) |
| Amortization of transition obligation | | (1) | ¾ | (1) |
| Amortization of prior service cost (credit) | 458 | (20) | 494 | (26) |
| Amortization of loss | 964 | 107 | 1,433 | 37 |
| Curtailement/settlement loss | | | 1,484 | |
| Net periodic benefit cost | \$ 3,474 | \$ 3,980 | \$ 5,347 | \$ 2,808 |

| | Six Months Ended June 30, | | | |
|---|----------------------------------|----------------------|--------------------------|----------------------|
| | 2008 | | 2007 | |
| | United States | International | United States | International |
| | <i>(In thousands)</i> | | | |
| Service cost | \$ 1,440 | \$ 7,043 | \$ 1,321 | \$ 5,418 |
| Interest cost | 3,022 | 5,269 | 2,653 | 3,993 |
| Expected return on plan assets | (358) | (4,626) | (330) | (3,886) |
| Amortization of transition obligation | | (2) | | (2) |
| Amortization of prior service cost (credit) | 916 | (40) | 1,054 | (52) |
| Amortization of loss | 1,928 | 208 | 2,084 | 74 |
| Curtailement/settlement loss | 5,621 | | 1,881 | |

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| | | | | |
|---------------------------|-----------|----------|----------|----------|
| Net periodic benefit cost | \$ 12,569 | \$ 7,852 | \$ 8,663 | \$ 5,545 |
|---------------------------|-----------|----------|----------|----------|

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$13 million to its pension and other postretirement benefit plans during 2008. As of June 30,

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**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
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2008, the Company has contributed approximately \$5 million to these plans. Currently, the Company anticipates total contributions to approximate the original estimates previously disclosed.

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.

| | Three Months Ended June 30, 2008 | | |
|-------------------------------|---|---|--|
| | Net Operating Revenues | Income from Operations <i>(In thousands)</i> | Depreciation and Amortization |
| North America | \$ 1,012,244 | \$ 224,252 | \$ 75,093 |
| Middle East/North Africa/Asia | 556,251 | 130,650 | 45,982 |
| Europe/West Africa/CIS | 389,563 | 99,016 | 27,600 |
| Latin America | 271,192 | 58,355 | 20,368 |
| | 2,229,250 | 512,273 | 169,043 |
| Research and Development | | (44,430) | 1,867 |
| Corporate | | (35,275) | 800 |
| Other (a) | | 64,356 | |
| Total | \$ 2,229,250 | \$ 496,924 | \$ 171,710 |

| | Three Months Ended June 30, 2007 | | |
|-------------------------------|---|---|--|
| | Net Operating Revenues | Income from Operations <i>(In thousands)</i> | Depreciation and Amortization |
| North America | \$ 883,364 | \$ 192,268 | \$ 66,959 |
| Middle East/North Africa/Asia | 435,338 | 96,998 | 36,951 |
| Europe/West Africa/CIS | 290,639 | 69,790 | 20,936 |
| Latin America | 206,604 | 45,742 | 17,118 |
| | 1,815,945 | 404,798 | 141,964 |
| Research and Development | | (40,700) | 1,669 |
| Corporate | | (23,525) | 909 |
| Other (b) | | (13,132) | |
| Total | \$ 1,815,945 | \$ 327,441 | \$ 144,542 |

(a)

During the current quarter, 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 exit costs related to the Company's withdrawal from sanctioned countries.

- (b) The three months ended June 30, 2007 includes \$13 million for severance charges associated with the Company's reorganization

activities.

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

| | Six Months Ended June 30, 2008 | | |
|-------------------------------|---------------------------------------|---------------------------------------|--|
| | Net Operating Revenues | Income from Operations | Depreciation and Amortization |
| | <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/CIS | 737,192 | 192,229 | 54,221 |
| Latin America | 507,209 | 118,853 | 40,050 |
| | 4,425,142 | 1,078,311 | 335,869 |
| Research and Development | | (87,069) | 3,561 |
| Corporate | | (68,907) | 1,568 |
| Other (c) | | (9,877) | |
| Total | \$ 4,425,142 | \$ 912,458 | \$ 340,998 |

| | Six Months Ended June 30, 2007 | | |
|-------------------------------|---------------------------------------|---------------------------------------|--|
| | Net Operating Revenues | Income from Operations | Depreciation and Amortization |
| | <i>(In thousands)</i> | | |
| North America | \$ 1,889,997 | \$ 492,478 | \$ 128,723 |
| Middle East/North Africa/Asia | 830,090 | 180,471 | 73,118 |
| Europe/West Africa/CIS | 535,597 | 125,025 | 39,171 |
| Latin America | 412,546 | 94,331 | 33,857 |
| | 3,668,230 | 892,305 | 274,869 |
| Research and Development | | (81,214) | 3,289 |
| Corporate | | (50,620) | 1,899 |
| Other (d) | | (17,316) | |
| Total | \$ 3,668,230 | \$ 743,155 | \$ 280,057 |

(c) The six months ended June 30, 2008 includes \$57 million for costs incurred in connection with the Company's withdrawal from

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.

- (d) The six months ended June 30, 2007 includes \$17 million for severance charges associated with reorganization activities.

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

15. Disputes, Litigation and Contingencies

U.S. Government and Internal Investigations

We are currently involved in government and internal investigations involving various of our operations. We participated in the United Nations oil-for-food program governing sales of goods and services into Iraq. The SEC has subpoenaed certain documents in connection with an investigation into our participation in the oil-for-food program. The U.S. Department of Justice is also conducting an investigation of our participation in the oil-for-food program. We are cooperating fully with these investigations. We have retained legal counsel, reporting to our audit committee, to investigate this matter. These investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact of these investigations, financial or otherwise.

The U.S. Department of Commerce, Bureau of Industry & Security and the U.S. Department of Justice are investigating allegations of improper sales of products and services by us and our subsidiaries in sanctioned countries. We are cooperating fully with this investigation. We have retained legal counsel, reporting to our audit committee, to investigate this matter. This investigation is ongoing, and we 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, we decided in September 2007 to direct our foreign subsidiaries to discontinue doing business in countries that are subject to U.S. economic and trade sanctions, including Cuba, Iran, Sudan and Syria. Effective September 2007, we ceased entering into any new contracts relating to these countries and began an orderly discontinuation and winding down of our existing business in these sanctioned countries. Effective March 31, 2008, we completed our withdrawal from these countries.

With the assistance of outside counsel and in connection with the U.S. government investigations, we are conducting internal investigations regarding 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 and other laws worldwide. These internal investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact, if any, of the investigations, financial or otherwise. We have informed the SEC and the DOJ of these internal investigations, and the results of the internal investigations will be provided to the SEC and DOJ.

The DOJ, the 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 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 multi-million dollar fines and other penalties and sanctions. Under trading 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, our 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 our common shares. Based on available information, we cannot predict what, if any, actions the DOJ, SEC or other authorities may take in our situation or the effect any such actions may have on our consolidated financial position or results of operations. To the extent we violated U.S. export regulations, fines and other 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 our business, financial condition, liquidity or results of operations.

During the six months ended June 30, 2008, we incurred \$57 million for costs incurred in connection with our exit from sanctioned countries and \$19 million in connection with complying with these on-going investigations. We will have additional charges related to these matters in future periods, which costs may include labor claims,

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

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.

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 may 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 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R 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. SFAS No. 141R is effective for business combinations completed in fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued 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. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 160 will have on our financial position, results of operation and cash flows.

In March 2008, the FASB issued Statement 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. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on its consolidated financial position, results of operations and cash flows.

17. Condensed Consolidating Financial Statements

The following obligations of Weatherford International, Inc. (Issuer) were guaranteed by Weatherford International Ltd. (Parent) at June 30, 2008 and December 31, 2007: (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 the Parent were guaranteed by the Issuer at June 30, 2008: (i) both 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.

The following obligations of the Parent were guaranteed by the Issuer at December 31, 2007: (i) the revolving credit facility, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes and (v) issuances of notes under the commercial paper program.

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

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.

**Condensed Consolidating Balance Sheet
June 30, 2008
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|---|---------------|---------------|-------------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 25 | \$ 52,725 | \$ 215,228 | \$ | \$ 267,978 |
| Other Current Assets | 13,357 | 21,271 | 4,625,055 | | 4,659,683 |
| | 13,382 | 73,996 | 4,840,283 | | 4,927,661 |
| Equity Investments in Affiliates | 13,334,120 | 5,384,779 | 12,846,663 | (31,565,562) | |
| Shares Held in Parent | | 135,041 | 776,731 | (911,772) | |
| Intercompany Receivables, Net | 730,327 | 836,476 | | (1,566,803) | |
| Other Assets | 74,220 | 164,901 | 9,629,760 | | 9,868,881 |
| | \$ 14,152,049 | \$ 6,595,193 | \$ 28,093,437 | \$ (34,044,137) | \$ 14,796,542 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 14,264 | \$ 1,704 | \$ 33,625 | \$ | \$ 49,593 |
| Accounts Payable and Other Current Liabilities | 57,745 | 7,819 | 1,333,843 | | 1,399,407 |
| | 72,009 | 9,523 | 1,367,468 | | 1,449,000 |
| Long-term Debt | 2,669,180 | 1,850,020 | 20,506 | | 4,539,706 |
| Intercompany Payables, Net | | | 1,566,803 | (1,566,803) | |
| Other Long-term Liabilities | 77,679 | 9,024 | 485,875 | | 572,578 |
| | 2,818,868 | 1,868,567 | 3,440,652 | (1,566,803) | 6,561,284 |

| | | | | | |
|--|---------------|--------------|---------------|-----------------|---------------|
| Minority Interest in Consolidated Subsidiaries | | | 66,288 | | 66,288 |
| Shareholders Equity | 11,333,181 | 4,726,626 | 24,586,497 | (32,477,334) | 8,168,970 |
| | \$ 14,152,049 | \$ 6,595,193 | \$ 28,093,437 | \$ (34,044,137) | \$ 14,796,542 |

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Balance Sheet****December 31, 2007****(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|---|-----------------------------|-----------------------------|-------------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 228 | \$ 1,489 | \$ 168,997 | \$ | \$ 170,714 |
| Other Current Assets | 13,591 | 2,537 | 4,284,927 | | 4,301,055 |
| | 13,819 | 4,026 | 4,453,924 | | 4,471,769 |
| Equity Investments in Affiliates | 12,008,907 | 4,696,938 | 13,600,365 | (30,306,210) | |
| Shares Held in Parent | ³ / ₄ | 129,428 | 794,774 | (924,202) | |
| Intercompany Receivables, Net | (127,594) | 1,233,846 | ³ / ₄ | (1,106,252) | |
| Other Assets | 52,031 | 34,186 | 8,632,971 | | 8,719,188 |
| | \$ 11,947,163 | \$ 6,098,424 | \$ 27,482,034 | \$ (32,336,664) | \$ 13,190,957 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 582,389 | \$ 24,854 | \$ 166,977 | \$ | \$ 774,220 |
| Accounts Payable and Other Current Liabilities | 47,574 | 7,959 | 1,372,612 | | 1,428,145 |
| | 629,963 | 32,813 | 1,539,589 | | 2,202,365 |
| Long-term Debt | 1,198,418 | 1,850,594 | 17,323 | | 3,066,335 |
| Intercompany Payables, Net | | ³ / ₄ | 1,106,252 | (1,106,252) | |
| Other Long-term Liabilities | 91,392 | 22,556 | 368,263 | | 482,211 |
| | 1,919,773 | 1,905,963 | 3,031,427 | (1,106,252) | 5,750,911 |
| Minority Interest in Consolidated Subsidiaries | | | 33,327 | | 33,327 |
| Shareholders Equity | 10,027,390 | 4,192,461 | 24,417,280 | (31,230,412) | 7,406,719 |
| | \$ 11,947,163 | \$ 6,098,424 | \$ 27,482,034 | \$ (32,336,664) | \$ 13,190,957 |

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

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

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--|---------------|---------------|-------------------------------|---------------------|----------------------|
| 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 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 Operations Before Income Taxes and Minority Interest | 368,984 | 300,020 | 433,219 | (672,980) | 429,243 |
| Benefit (Provision) for Income Taxes | | 43,796 | (101,671) | | (57,875) |
| Income (Loss) from Continuing Operations Before Minority Interest | 368,984 | 343,816 | 331,548 | (672,980) | 371,368 |
| Minority Interest, Net of Taxes | | | (7,324) | | (7,324) |
| Income (Loss) from Continuing Operations | 368,984 | 343,816 | 324,224 | (672,980) | 364,044 |
| Gain from Discontinued Operation, Net of Taxes | 2,000 | | 4,940 | | 6,940 |
| Net Income (Loss) | \$ 370,984 | \$ 343,816 | \$ 329,164 | \$ (672,980) | \$ 370,984 |

**Condensed Consolidating Statements of Income
Three Months Ended June 30, 2007
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Revenues | \$ ¾ | \$ ¾ | \$ 1,815,945 | \$ ¾ | \$ 1,815,945 |
| Costs and Expenses | (4,185) | (2,243) | (1,482,076) | ¾ | (1,488,504) |

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| | | | | | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Operating Income (Loss) | (4,185) | (2,243) | 333,869 | ³ / ₄ | 327,441 |
| Other Income (Expense): | | | | | |
| Interest Income (Expense), Net | (27,638) | (8,663) | 1,008 | ³ / ₄ | (35,293) |
| Intercompany Charges, Net | (8,726) | 103,766 | (95,040) | ³ / ₄ | ³ / ₄ |
| Equity in Subsidiary Income | 207,926 | 146,768 | ³ / ₄ | (354,694) | ³ / ₄ |
| Other, Net | (2,067) | 1,461 | (5,328) | ³ / ₄ | (5,934) |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | | | | | |
| | 165,310 | 241,089 | 234,509 | (354,694) | 286,214 |
| Provision for Income Taxes | ³ / ₄ | (33,163) | (72,108) | ³ / ₄ | (105,271) |
| Income (Loss) from Continuing Operations Before Minority Interest | | | | | |
| | 165,310 | 207,926 | 162,401 | (354,694) | 180,943 |
| Minority Interest, Net of Taxes | ³ / ₄ | ³ / ₄ | (4,463) | ³ / ₄ | (4,463) |
| Income (Loss) from Continuing Operations | | | | | |
| | 165,310 | 207,926 | 157,938 | (354,694) | 176,480 |
| Loss from Discontinued Operation, Net of Taxes | ³ / ₄ | ³ / ₄ | (11,170) | ³ / ₄ | (11,170) |
| Net Income (Loss) | \$ 165,310 | \$ 207,926 | \$ 146,768 | \$ (354,694) | \$ 165,310 |

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

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

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--|---------------|---------------|-------------------------------|---------------------|----------------------|
| 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 Operations Before Income Taxes and Minority Interest | 633,214 | 572,680 | 845,931 | (1,259,352) | 792,473 |
| Benefit (Provision) for Income Taxes | (29) | 54,256 | (185,727) | | (131,500) |
| Income (Loss) from Continuing Operations Before Minority Interest | 633,185 | 626,936 | 660,204 | (1,259,352) | 660,973 |
| Minority Interest, Net of Taxes | | | (12,860) | | (12,860) |
| Income (Loss) from Continuing Operations | 633,185 | 626,936 | 647,344 | (1,259,352) | 648,113 |
| Gain (Loss) from Discontinued Operation, Net of Taxes | 2,000 | | (14,928) | | (12,928) |
| Net Income (Loss) | \$ 635,185 | \$ 626,936 | \$ 632,416 | \$ (1,259,352) | \$ 635,185 |

**Condensed Consolidating Statements of Income
Six Months Ended June 30, 2007
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Revenues | \$ ¾ | \$ ¾ | \$ 3,668,230 | \$ ¾ | \$ 3,668,230 |
| Costs and Expenses | (7,286) | (2,511) | (2,915,278) | ¾ | (2,925,075) |

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| | | | | | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Operating Income (Loss) | (7,286) | (2,511) | 752,952 | ³ / ₄ | 743,155 |
| Other Income (Expense): | | | | | |
| Interest Income (Expense), Net | (54,819) | (14,256) | 11 | ³ / ₄ | (69,064) |
| Intercompany Charges, Net | (8,610) | 93,602 | (84,992) | ³ / ₄ | ³ / ₄ |
| Equity in Subsidiary Income | 517,711 | 467,301 | ³ / ₄ | (985,012) | ³ / ₄ |
| Other, Net | (114) | 1,232 | (9,424) | ³ / ₄ | (8,306) |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | 446,882 | 545,368 | 658,547 | (985,012) | 665,785 |
| Provision for Income Taxes | ³ / ₄ | (27,657) | (168,992) | ³ / ₄ | (196,649) |
| Income (Loss) from Continuing Operations Before Minority Interest | 446,882 | 517,711 | 489,555 | (985,012) | 469,136 |
| Minority Interest, Net of Taxes | ³ / ₄ | ³ / ₄ | (8,837) | ³ / ₄ | (8,837) |
| Income (Loss) from Continuing Operations | 446,882 | 517,711 | 480,718 | (985,012) | 460,299 |
| Loss from Discontinued Operation, Net of Taxes | ³ / ₄ | ³ / ₄ | (13,417) | ³ / ₄ | (13,417) |
| Net Income (Loss) | \$ 446,882 | \$ 517,711 | \$ 467,301 | \$ (985,012) | \$ 446,882 |

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

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

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|---|---------------|---------------|-------------------------------|---------------------|----------------------|
| Cash Flows from Operating Activities: | | | | | |
| Net Income (Loss) | \$ 635,185 | \$ 626,936 | \$ 632,416 | \$ (1,259,352) | \$ 635,185 |
| 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) | (194,213) | | (248,429) |
| 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 | |

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| | | | | | |
|--|-----------|-----------|-------------|-----------|-------------|
| 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 |

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

**Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2007
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|---|---------------|---------------|-------------------------------|---------------------|----------------------|
| Cash Flows from Operating Activities: | | | | | |
| Net Income (Loss) | \$ 446,882 | \$ 517,711 | \$ 467,301 | \$ (985,012) | \$ 446,882 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Equity in (Earnings) Loss of Affiliates | (517,711) | (467,301) | ¾ | 985,012 | ¾ |
| Loss from Discontinued Operation | ¾ | ¾ | 13,417 | ¾ | 13,417 |
| Charges from Parent or Subsidiary | 8,610 | (93,602) | 84,992 | ¾ | ¾ |
| Deferred Income Tax Provision (Benefit) | ¾ | (5,217) | 100,288 | ¾ | 95,071 |
| Other Adjustments | (13,429) | (42,062) | (219,655) | ¾ | (275,146) |
| Net Cash Provided (Used) by Operating Activities- Continuing Operations | (75,648) | (90,471) | 446,343 | ¾ | 280,224 |
| Net Cash Used by Operating Activities- Discontinued Operation | ¾ | ¾ | (14,038) | ¾ | (14,038) |
| Net Cash Provided (Used) by Operating Activities | (75,648) | (90,471) | 432,305 | ¾ | 266,186 |
| Cash Flows from Investing Activities: | | | | | |
| Acquisition of Businesses, Net of Cash Acquired | ¾ | ¾ | (211,044) | ¾ | (211,044) |
| Capital Expenditures for Property, Plant and Equipment | ¾ | ¾ | (672,528) | ¾ | (672,528) |
| Acquisition of Intellectual Property | ¾ | ¾ | (14,057) | ¾ | (14,057) |
| Purchase of Equity Investment in Unconsolidated Affiliates | ¾ | ¾ | (331,771) | ¾ | (331,771) |
| Proceeds from Sale of Assets | ¾ | ¾ | 30,390 | ¾ | 30,390 |

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| | | | | | |
|---|-----------|-------------|-------------|-----------|-------------|
| Capital Contribution to Subsidiary | (592,134) | (23,100) | ¾ | 615,234 | ¾ |
| Distribution of Earnings from Subsidiary | ¾ | (1,486,365) | 1,486,365 | ¾ | ¾ |
| Net Cash Provided (Used) by Investing Activities- Continuing Operations | (592,134) | (1,509,465) | 287,355 | 615,234 | (1,199,010) |
| Net Cash Used by Investing Activities- Discontinued Operation | ¾ | ¾ | (12,265) | ¾ | (12,265) |
| Net Cash Provided (Used) by Investing Activities | (592,134) | (1,509,465) | 275,090 | 615,234 | (1,211,275) |
| Cash Flows from Financing Activities: | | | | | |
| Borrowings of (Repayments on) Short-term Debt, Net | (422,747) | 57,216 | (23,986) | ¾ | (389,517) |
| Borrowings of (Repayments on) Long-term Debt, Net | ¾ | 1,485,497 | (2,054) | ¾ | 1,483,443 |
| Borrowings (Repayments) Between Subsidiaries, Net | 1,090,518 | 36,057 | (1,126,575) | ¾ | ¾ |
| Purchase of Treasury Shares | ¾ | ¾ | (179,262) | ¾ | (179,262) |
| Proceeds from Exercise of Stock Options | ¾ | 13,010 | ¾ | ¾ | 13,010 |
| Proceeds from Capital Contribution | ¾ | ¾ | 615,234 | (615,234) | ¾ |
| Other, Net | ¾ | 6,632 | ¾ | ¾ | 6,632 |
| Net Cash Provided (Used) by Financing Activities- Continuing Operations | 667,771 | 1,598,412 | (716,643) | (615,234) | 934,306 |
| Net Cash Provided by Financing Activities- Discontinued Operation | ¾ | ¾ | ¾ | ¾ | ¾ |
| Net Cash Provided (Used) by Financing Activities | 667,771 | 1,598,412 | (716,643) | (615,234) | 934,306 |
| Net Decrease in Cash and Cash Equivalents | (11) | (1,524) | (9,248) | ¾ | (10,783) |
| Cash and Cash Equivalents at Beginning of Period | 35 | 2,271 | 123,981 | ¾ | 126,287 |
| Cash and Cash Equivalents at End of Period | \$ 24 | \$ 747 | \$ 114,733 | \$ ¾ | \$ 115,504 |

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 the remainder of 2008 and into 2009. Next, we analyze the results of our operations for the three and six months ended June 30, 2008 and 2007, including the trends in our overall business. Then we review our liquidity and capital resources. We conclude with a discussion of our critical accounting judgments and estimates and a summary of recently issued accounting pronouncements.

Overview**General**

The following discussion should be read in conjunction with our financial statements included with this report and our financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 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) artificial lift systems; 2) drilling services; 3) well construction; 4) drilling tools; 5) completion systems; 6) wireline and evaluation services; 7) re-entry and fishing; 8) stimulation and chemicals; 9) integrated drilling; and 10) pipeline and specialty services.

In June 2007, we approved a plan to sell our oil and gas development and production business. The business was formerly reported within our North America and Europe/West Africa/CIS segments and has been reclassified as a discontinued operation for all periods presented.

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:

| | WTI Oil (1) | Henry Hub Gas (2) | North American Rig Count (3) | International Rig Count (3) |
|-------------------|--------------------|--------------------------|-------------------------------------|------------------------------------|
| June 30, 2008 | \$140.00 | \$13.35 | 2,168 | 1,196 |
| December 31, 2007 | 95.98 | 7.48 | 2,171 | 1,122 |
| June 30, 2007 | 70.68 | 6.77 | 1,981 | 1,097 |

(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 have increased during the first half of 2008, ranging from a low of \$86.99 per barrel in mid-January to a high of \$140.00 per barrel at the end of June. Natural gas prices also increased during the first half of 2008, ranging from a low of \$7.62 MM/BTU in mid-January to a high of \$13.35 MM/BTU at the end of June. Factors influencing oil and natural gas prices during the period include hydrocarbon inventory levels, realized and expected

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

The North American rig count stayed flat in relation to the end of 2007 as a 5% increase in rig count in the U. S. was offset by a 26% reduction in the Canadian rig count. The international rig count increased approximately 7% since the end of 2007. Latin America and Middle East/North Africa/Asia regions were the most significant contributors to the sequential increase.

Drilling and completion spending increased in both the North America and international markets in 2007. According to Spears & Associates, 2007 drilling and completion spending increased 3% in North America and 19% in international markets as compared to 2006 levels. Drilling and completion spending growth during 2008 is anticipated to be driven by both the international and North American markets. According to a recent study by Lehman Brothers, 2008 international exploration and production expenditures are forecast to increase 22% over 2007 levels while expenditures in North America are expected to rise 14%.

Opportunities and Challenges

The nature of our industry offers many opportunities and challenges. We have created a long-term strategy aimed at growing our business, servicing our customers, and most importantly, creating value for our shareholders. The success of our long-term strategy will be determined by our ability to manage effectively any industry cyclicality, respond to industry demands and successfully maximize the benefits from our acquisitions.

The cyclicality of the energy industry impacts the demand for our products and services. Certain of our products and services, such as our drilling and evaluation services, well installation services and well completion services, depend on the level of exploration and development activity and the completion phase of the well life cycle. Other products and services, such as our production optimization and artificial lift systems, are dependent on production activity. We believe that decline rates, a measure of the fall in production from a well over time, are accelerating. We also believe that there has been, and will continue to be, a deterioration in the quality of incremental hydrocarbon formations that our customers develop and that these formations will require more of our products and services than higher quality formations. The market for oilfield services will grow year-on-year relative to the decline rates and the implicit rate of demand growth. We are aggressively, but methodically, growing our employee base, manufacturing capacity and equipment capacity to meet the demands of the industry.

2008 and 2009 Outlook

We believe the 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. Assuming the demand for hydrocarbons does not weaken, these phenomena provide us with a robust outlook. The acceleration of decline rates and the increasing complexity of the reservoirs increase our customers' requirements for technologies that improve productivity and efficiency.

Looking into the remainder of 2008 and into 2009, we expect average worldwide rig activity to grow as compared to second quarter 2008 levels, and we expect our business to continue to grow at a faster rate than the underlying rig count. We expect the Eastern Hemisphere to be our highest growth market during 2008, followed by the Latin America market. We expect our growth in 2008 and 2009 to be broad-based, with all of our product and service lines continuing to build on 2007 achievements. These improvements should be driven by the strength of our technology and our global infrastructure. We expect our newer technologies to continue to gain traction across a wider breadth of geographic markets, similar to our performance in 2007.

Geographic Markets. Climate, natural gas storage levels and commodity prices will dictate the rate of oilfield service activity growth in North America for the remainder of 2008 and into 2009. While these factors are difficult to predict with any certainty over short periods of time, we believe that the North American market has positive secular growth attributes over the longer term. Assuming current commodity prices, we expect that US activity levels for 2008 will improve over 2007 levels. We anticipate a recovery in the Canadian market in the second half of 2008 led by heavy oil, shale and broad scale new gas plays.

We expect most of our growth in 2008 and 2009 will come out of the international markets. We expect Eastern Hemisphere growth rates for 2008 to be similar to our growth rates achieved for 2007 as compared to 2006. Furthermore, we believe it is likely we will experience similar growth in 2009. We expect North Africa, Russia,

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Middle East, West Africa, China and Central Europe to show the largest year-on-year growth. In addition, we expect volume increases in Latin America with the larger growth improvements stemming from Brazil, Mexico, Venezuela and Argentina. We anticipate Latin America growth rates for 2008 and 2009 to exceed year-on-year growth rates achieved during 2007.

Pricing. The overall pricing outlook is positive. Overall pricing is trending upwards, concurrently with raw material and labor cost inflation. We expect pricing to remain positive throughout 2008, net of cost increases. Price improvements are being realized on a contract-by-contract basis and are occurring in different classes of products and service lines depending upon the region. In North America, we expect pricing across most product lines to improve commensurate with increases in rig activity.

Overall, the level of improvements for our businesses for 2008 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. The recruitment, training and retention of personnel will also be a critical factor in growing our business in 2008 and beyond. 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. The extreme volatility of our markets makes predictions regarding future results difficult.

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, 2008 and 2007.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|--|-------------|--------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | <i>(In thousands, except percentages and per share data)</i> | | | |
| Revenues: | | | | |
| North America | \$ 1,012,244 | \$ 883,364 | \$ 2,102,606 | \$ 1,889,997 |
| Middle East/North Africa/Asia | 556,251 | 435,338 | 1,078,135 | 830,090 |
| Europe/West Africa/CIS | 389,563 | 290,639 | 737,192 | 535,597 |
| Latin America | 271,192 | 206,604 | 507,209 | 412,546 |
| | 2,229,250 | 1,815,945 | 4,425,142 | 3,668,230 |
| Operating Income: | | | | |
| North America | 224,252 | 192,268 | 515,905 | 492,478 |
| Middle East/North Africa/Asia | 130,650 | 96,998 | 251,324 | 180,471 |
| Europe/West Africa/CIS | 99,016 | 69,790 | 192,229 | 125,025 |
| Latin America | 58,355 | 45,742 | 118,853 | 94,331 |
| Research and Development | (44,430) | (40,700) | (87,069) | (81,214) |
| Corporate | (35,275) | (23,525) | (68,907) | (50,620) |
| Exit and Restructuring | 64,356 | (13,132) | (9,877) | (17,316) |
| | 496,924 | 327,441 | 912,458 | 743,155 |
| Interest Expense, Net | (62,399) | (35,293) | (115,202) | (69,064) |
| Other, Net | (5,282) | (5,934) | (4,783) | (8,306) |
| Effective Tax Rate | 13.5% | 36.8% | 16.6% | 29.5% |
| | \$ 0.52 | \$ 0.25 | \$ 0.93 | \$ 0.66 |

Net Income per Diluted Share from
Continuing Operations

| | | | | |
|--|---------------|----------|----------|----------|
| Gain (Loss) from Discontinued Operation, Net of Taxes | 6,940 | (11,170) | (12,928) | (13,417) |
| Net Income per Diluted Share | \$ 0.53 | \$ 0.24 | \$ 0.91 | \$ 0.64 |
| Depreciation and Amortization | 171,710 24 | 144,542 | 340,998 | 280,057 |

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The following chart contains consolidated revenues by product line for the three and six months ended June 30, 2008 and 2007:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|------|------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Artificial Lift Systems | 17% | 17% | 16% | 17% |
| Well Construction | 17 | 16 | 17 | 16 |
| Drilling Services | 15 | 15 | 15 | 15 |
| Drilling Tools | 11 | 12 | 11 | 12 |
| Completion Systems | 10 | 11 | 10 | 10 |
| Re-entry & Fishing | 8 | 8 | 8 | 8 |
| Wireline | 7 | 7 | 8 | 9 |
| Stimulation & Chemicals Services | 7 | 7 | 7 | 6 |
| Integrated Drilling | 5 | 5 | 5 | 5 |
| Pipeline & Specialty Services | 3 | 2 | 3 | 2 |
| | 100% | 100% | 100% | 100% |

Consolidated revenues increased \$413 million, or 23%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase resulted primarily from organic growth as our businesses continued to benefit from increasing market activity and share gains. Approximately 69% of our revenue growth was derived outside of North America. International revenues increased \$284 million, or 30%, in the second quarter of 2008 as compared to the second quarter of 2007. This increase outpaced the 9% increase in average international rig count over the comparable period. All product lines grew compared to the levels achieved in the second quarter of 2007.

For the first six months of 2008, consolidated revenues increased \$757 million, or 21%, as compared to the first six months of 2007. Similar to what was experienced in the second quarter of 2008, the increase in revenues during the first half of 2008 was driven by our international businesses. Approximately 72% of our revenue growth was from our international regions.

Operating Income

Consolidated operating income increased \$169 million, or 52%, in the second quarter of 2008 as compared to the second quarter of 2007. Our operating segments contributed \$107 million of incremental operating income during the current quarter as compared to the same quarter of the prior year while corporate and research and development expenditures were \$15 million higher over the same period. The increase in corporate and research and development expenses was primarily attributable to higher employee compensation costs. In addition, current quarter results include a net gain from exit and restructuring activities of \$64 million as compared to a net charge of \$13 million in the second quarter of 2007.

During the current quarter, we sold a 50% interest in a subsidiary we control to Qatar Petroleum for cash consideration of \$113 million. The subsidiary contains 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 sanctioned countries. The \$13 million incurred during the second quarter of 2007 was for severance charges associated with our reorganization activities.

Consolidated operating income for the first six months of 2008 also increased \$169 million, or 23%, as compared to the first half of 2007. Our operating segments contributed \$186 million of incremental operating income during the first six months of 2008 as compared to the same period of the prior year while corporate and research and development expenditures were \$24 million higher over the same period of the prior year. In addition, results for the first six months of 2008 include exit and restructuring charges of \$10 million compared to charges of \$17 million

during the first six months of 2007.

The exit and restructuring charges during the first six months 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

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were offset by the \$81 million gain described above. The \$17 million incurred during the first half of 2007 was for severance charges associated with our reorganization activities.

Interest Expense, Net

Interest expense, net increased \$27 million, or 77%, and \$46 million, or 67% during the three and six months ended June 30, 2008 as compared to the same periods of the prior year, respectively. The increase in interest expense was due to an increase in our total debt. The incremental borrowings period-over-period were used to fund capital expenditures, acquisitions and repurchases of shares under our share repurchase program.

Income Taxes

Our effective tax rates were 13.5% and 36.8% for the second quarter of 2008 and 2007, respectively, and 16.6% and 29.5% for the first six months of 2008 and 2007, respectively. The decrease in our effective tax rates was due primarily to withholding taxes of \$50 million that were required to be paid on a distribution made to one of our foreign subsidiaries during the second quarter of 2007. In addition, we recognized a gain of \$81 million, with no related tax effect, from the sale of a 50% interest in a subsidiary. The remainder of the decrease is due to the net benefits realized from the refinement of our international tax structure and changes in our geographic earnings mix.

Segment Results***North America***

North America revenues increased \$129 million, or 15%, in the second quarter of 2008 as compared to the second quarter of 2007 and outpaced a 7% increase in average North American rig count. Revenues from our artificial lift, well construction and drilling services product lines were the strongest contributors to the year-over-year increase.

North America revenues increased \$213 million, or 11%, during the first six months of 2008 as compared to the first six months of 2007. Revenues from our artificial lift, well construction and stimulation and chemicals product lines were the strongest contributors to the year-over-year increase.

Operating income increased \$32 million, or 17%, in the second quarter of 2008 as compared to the second quarter of 2007. Operating margins were 22% in both the second quarter of 2008 and 2007. During the first six months of 2008, operating income increased \$23 million, or 5% over the comparable period of 2007 with operating margins at 25% for the first six months of 2008 and 26% for the first six months of 2007. The decline in operating margin during the first half of 2008 was primarily due to changes in our product mix and lower pricing in Canada compared to the first half of 2007.

Middle East/North Africa/Asia

Middle East/North Africa/Asia revenues increased \$121 million, or 28%, in the second quarter of 2008 as compared to the second quarter of 2007. This increase outpaced the 7% increase in rig count over the comparable period. Middle East/North Africa/Asia was the strongest contributor to our year-to-date revenue growth. Revenues increased \$248 million, or 30%, during the first six months of 2008 as compared to the first half of 2007. Our drilling services, integrated drilling services and well construction product lines were the strongest contributors to both the quarterly and year-to-date increase in revenue over the same periods of the prior year.

Operating income increased \$34 million, or 35%, during the second quarter of 2008 compared to the same quarter of the prior year and \$71 million, or 39%, during the first six months of 2008 compared to the first half of 2007. Operating margins were 23% for both the second quarter and first half of 2008 as compared to 22% for both the second quarter and first half of 2007. The increase in operating income and margins was due to the incremental revenues generated during the current quarter to absorb our fixed costs.

Europe/West Africa/CIS

Revenues in our Europe/West Africa/CIS segment increased \$99 million, or 34%, in the second quarter of 2008 as compared to the same quarter of the prior year, which outpaced the 21% rig count increase over the comparable period. On a year-to-date basis, revenues grew \$202 million, or 38%, compared to the same period of 2007. Revenue grew across almost all product lines on both quarterly and year-to-date basis compared to the same periods of the prior year.

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Operating income increased \$29 million, or 42%, during the second quarter of 2008 compared to the same quarter of the prior year and \$67 million, or 54%, during the first six months of 2008 compared to the first half of 2007. Operating margins were 25% for the second quarter of 2008 compared to 24% during the second quarter of 2007. On a year-to-date basis, margins increased from 23% during the first six months of 2007 to 26% for the first six months of 2008. Both the quarterly and year-to-date improvement in operating income and margins was primarily the result of higher revenues absorbing the region's fixed cost base as well as the performance of equity investments.

Latin America

Revenues in our Latin America segment increased \$65 million, or 31%, in the second quarter of 2008 as compared to the same quarter of the prior year, which exceeded the average Latin American rig count increase of 8% over the comparable period. Revenues increased \$95 million, or 23%, during the first six months of 2008 compared to the same period of the prior year. Revenue growth was generated in all product lines during the three and six month periods ended June 30, 2008 as compared to the comparable periods of the prior year.

Operating income increased \$13 million, or 28%, and \$25 million, or 26%, for the three and six months ended June 30, 2008, respectively, over the comparable periods of the prior year. Operating margins were 22% for the three months ended June 30, 2008 and 23% for the six months ended June 30, 2008, which is comparable to the margins experienced in the same periods of the prior year.

Discontinued Operations

We finalized the divestiture of our discontinued operation consisting of our oil and gas development and production company during the current quarter. 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. On a year-to-date basis, 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 current quarter.

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, common shares, preferred shares and warrants.

Committed Borrowing Facilities

We maintain a revolving credit agreement with a syndicate of banks. This facility allows for a combination of borrowings, support for our commercial paper program and issuances of letters of credit.

On March 19, 2008, we entered into an additional \$250 million revolving credit facility with a syndicate of banks. This facility also allows for a combination of borrowings, support for our commercial paper program and issuances of letters of credit.

Both 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. We were in compliance with these covenants at June 30, 2008.

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The following is a recap of our availability under our committed borrowing facilities at June 30, 2008 (in millions):

| | |
|-------------------|----------|
| Facilities | \$ 1,750 |
| Less: | |
| Amount drawn | |
| Commercial paper | 13 |
| Letters of credit | 34 |
| Availability | \$ 1,703 |

Commercial Paper

We have a \$1.5 billion commercial paper program under which we may from time to time issue short-term, unsecured notes. The commercial paper program is supported by our revolving credit facilities. At June 30, 2008, there was \$13 million of borrowings outstanding under this program. The weighted average interest rate on the outstanding borrowings under the commercial paper program was 3.1% at June 30, 2008.

Debt Offering

In March 2008, we completed a \$1.5 billion long-term debt offering comprised of (i) \$500 million of 5.15% Senior Notes due in 2013 (5.15% Senior Notes), (ii) \$500 million of 6.00% Senior Notes due 2018 (6.00% Senior Notes) and (iii) \$500 million of 7.00% Senior Notes due 2038 (7.00% Senior Notes). Net proceeds of \$1.47 billion were used to repay short-term borrowings and for general corporate purposes, including capital expenditures and business acquisitions. Interest on these notes is due semi-annually on March 15 and September 15 of each year.

Cash Requirements

During 2008, we anticipate our cash requirements to include working capital needs, capital expenditures, the repurchase of our common shares, subject to market conditions, and business acquisitions. We anticipate funding these requirements from cash generated from operations and availability under our committed borrowing facilities.

Capital expenditures for 2008 are projected to be approximately \$2.2 billion. 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, 2008 were \$1.1 billion, net of proceeds from tools lost down hole of \$56 million.

In December 2005, our board authorized us to repurchase up to \$1 billion of our outstanding common shares. We may from time to time repurchase our common shares depending upon the price of our common shares, our liquidity and other considerations. There were no repurchases of our common shares during the six months ended June 30, 2008.

From time to time we acquire businesses or technologies that increase our range of products and services, expand our geographic scope or are otherwise strategic to our businesses. During the six months ended June 30, 2008, we used approximately \$160 million in cash, net of cash acquired, in business acquisitions.

*Derivative Instruments**Interest Rate Swaps*

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 outstanding as of June 30, 2008. The aggregate fair value of the interest rate swaps at June 30, 2008 resulted in a liability of \$24 million with the offset to Long-term Debt in our accompanying Condensed Consolidated Balance Sheet.

Table of Contents*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 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.

Other Derivative Instruments

As of June 30, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$561 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, 2008 resulted in a liability of \$7 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, 2008, we had notional amounts outstanding of \$364 million. The total estimated fair value of these contracts at June 30, 2008 resulted in a liability of \$63 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**Guarantees*

The following obligations of Weatherford International, Inc. were guaranteed by Weatherford International Ltd. as of June 30, 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 International Ltd. were guaranteed by Weatherford International, Inc. as of June 30, 2008: (i) both 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.

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, 2008, we had \$228 million of letters of credit and bid and performance bonds outstanding, consisting of \$194 million outstanding under various uncommitted credit facilities and \$34 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, 2007.

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Exposures

An investment in our common 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 Securities and Exchange Commission (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.

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:

A downturn in market conditions could affect projected results. Any material changes in oil and natural gas supply and demand, oil and natural gas prices, rig count or other market trends would affect our results and would likely affect the forward-looking information we provide. 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 has increased in each of the last four years; however, if an extended regional and/or worldwide recession were to occur, it would result in lower demand and lower prices for oil and natural gas, which would adversely affect drilling and production activity and therefore would affect our revenues and income. We have assumed increases in worldwide demand will continue throughout 2008 and 2009.

Availability of a skilled workforce could affect our projected results. Due to the high activity in the exploration and production and oilfield service industries there is an increasing shortage of available skilled labor, particularly in our high-growth regions. Our forward-looking statements assume we will be able to recruit and maintain a sufficient skilled workforce for activity levels.

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 materials costs through our supply chain initiatives or by passing through these increases to our customers, our margins and results of operations could be adversely affected.

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 innovate our products and services, 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 through leverage of 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.

Nonrealization of expected benefits from our 2002 corporate reincorporation could affect our projected results. We are incorporated in Bermuda and we operate through our various subsidiaries in numerous countries throughout the world including the United States. Consequently, we are subject to changes in tax laws, treaties or regulations or the interpretation or enforcement thereof in the U.S., Bermuda or

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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 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.

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 the acquisition would negatively affect the anticipated benefits of the acquisition.

The cyclical nature of or a prolonged downturn in our industry could affect the carrying value of our goodwill. As of June 30, 2008, we had approximately \$3.5 billion of goodwill. Our estimates of the value of our goodwill could be reduced in the future as a result of various factors, some of which are beyond our control. Any reduction in the value of our goodwill 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 summer of 2005, 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 quarter 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 multi-million dollar fines and other penalties and sanctions. Under trading sanctions laws, the Department of Justice (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. 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 the six months ended June 30, 2008, we incurred \$57 million for costs in connection with our exit from sanctioned countries and \$19 million in connection with complying with these on-going investigations. 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 could adversely affect our results of operations.

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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.

Available Information

We make available, free of charge, on our website (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 Exchange Act 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 \$37 million adjustment to increase our equity account for the six month period ended June 30, 2008, to reflect the net impact of the strengthening of various foreign currencies against the U.S. dollar.

As of June 30, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$561 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, 2008 resulted in a liability of \$7 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, 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, 2008, we had notional amounts outstanding of \$364 million. The estimated fair value of these contracts at June 30, 2008 resulted in a liability of \$63 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.

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.

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Our long-term borrowings that were outstanding at June 30, 2008 subject to interest rate risk consisted of the following:

| | June 30, 2008 | | December 31, 2007 | |
|------------------------------|----------------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | <i>(In millions)</i> | | | |
| 6.625% Senior Notes due 2011 | \$355 | \$365 | \$356 | \$369 |
| 5.95% Senior Notes due 2012 | 599 | 611 | 599 | 618 |
| 5.15% Senior Notes due 2013 | 475 | 494 | | |
| 4.95% Senior Notes due 2013 | 254 | 246 | 255 | 245 |
| 5.50% Senior Notes due 2016 | 349 | 332 | 349 | 338 |
| 6.00% Senior Notes due 2018 | 497 | 500 | | |
| 6.35% Senior Notes due 2017 | 600 | 577 | 600 | 624 |
| 6.50% Senior Notes due 2036 | 596 | 598 | 596 | 598 |
| 6.80% Senior Notes due 2037 | 298 | 308 | 298 | 313 |
| 7.00% Senior Notes due 2038 | 498 | 516 | | |

We have various other long-term debt instruments of \$29 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 \$39 million at June 30, 2008 approximate fair value.

As it relates to our variable rate debt, if market interest rates average 1% more in 2008 than the rates as of June 30, 2008, interest expense for the remainder of 2008 would increase by approximately \$1 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 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.

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 outstanding as of June 30, 2008. The aggregate fair value of the interest rate swaps at June 30, 2008 resulted in a liability of \$24 million with the offset to Long-term Debt in our accompanying Consolidated Balance Sheet.

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.

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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 Securities and Exchange Commission 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, 2008, that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes during the six months ended June 30, 2008 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, 2007 filed with the SEC on February 21, 2008 (Annual Report), except for the supplementary information we reported in Item 8.01 of our Current Report on Form 8-K dated March 18, 2008, the text of which follows:

In September 2007, we announced that we had made a strategic decision to discontinue doing business through our foreign subsidiaries in countries that are subject to U.S. economic and trade sanctions, including Cuba, Iran, Sudan and Syria, and that we would begin an orderly discontinuation and winding down of our existing businesses in those sanctioned countries. We have accelerated our process of winding down those businesses and expect that we will completely withdraw from those countries by March 31, 2008.

We expect to incur additional costs in the future in connection with these withdrawals, which costs may include labor claims, contractual claims, penalties assessed by customers, and costs, fines, taxes and penalties assessed by the local governments. We cannot estimate the timing or amount, if any, of these potential costs.

ITEM 2. UNREGISTERED SALES OF EQUITY IN SECURITIES AND USE OF PROCEEDS

In December 2005, our Board of Directors approved a share repurchase program under which up to \$1 billion of our outstanding common 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 warrant. During the quarter ended June 30, 2008, we did not purchase any of our common shares.

On May 8, 2008, in connection with an acquisition, we sold 824,284 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 Regulations D and Regulation S promulgated under that act.

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In addition, under our restricted share plan, employees may elect to have us withhold common 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 common shares by us on the date of withholding. During the quarter ended June 30, 2008, we withheld common shares to satisfy these tax withholding obligations as follows:

| Period | No. of Shares | Average Price |
|------------------------|--------------------------|--------------------------|
| April 1 April 30, 2008 | 2,958 | \$ 39.29 |
| May 1 May 31, 2008 | 15,497 | 42.29 |
| June 1 June 30, 2008 | 4,290 | 45.58 |

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

We held our Annual General Meeting of Shareholders on June 2, 2008. 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.

| Election of Directors | For | Against | Withheld | Broker Non-Votes |
|------------------------------|-------------|----------------|-----------------|-----------------------------|
| Nicholas F. Brady | 276,197,174 | 22,971,310 | 2,464,072 | 612 |
| David J. Butters | 277,638,384 | 21,528,715 | 2,465,505 | 564 |
| Bernard J. Duroc-Danner | 273,030,293 | 26,134,590 | 2,467,800 | 485 |
| William E. Macaulay | 277,641,123 | 21,527,536 | 2,463,957 | 552 |
| Robert B. Millard | 277,639,123 | 21,480,663 | 2,512,831 | 551 |
| Robert K. Moses, Jr. | 277,699,446 | 21,468,164 | 2,465,028 | 530 |
| Robert A. Rayne | 250,708,556 | 48,047,290 | 2,876,979 | 373 |

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, 2008, 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 297,711,226 shares voted for, 1,445,993 shares voted against, 2,475,583 shares abstained, and 366 broker non-votes.

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ITEM 6. EXHIBITS

(a) Exhibits:

**Exhibit
Number**

Description

- | | |
|------|---|
| 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. |

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 7, 2008

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EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|---|
| 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. |

Filed herewith