

SCHLUMBERGER LIMITED/NV
Form 10-Q
October 24, 2018

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: September 30, 2018

Commission file No.: 1-4601

SCHLUMBERGER N.V.

(SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

CURAÇAO (State or other jurisdiction of incorporation or organization)	52-0684746 (I.R.S. Employer Identification No.)
42 RUE SAINT-DOMINIQUE PARIS, FRANCE	75007
5599 SAN FELIPE HOUSTON, TEXAS, U.S.A.	77056
62 BUCKINGHAM GATE LONDON, UNITED KINGDOM	SW1E 6AJ

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PARKSTRAAT 83 THE HAGUE,
THE NETHERLANDS 2514 JG
(Addresses of principal executive offices) (Zip Codes)

Registrant's telephone number in the United States, including area code, is: (713) 513-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at September 30, 2018
COMMON STOCK, \$0.01 PAR VALUE PER SHARE	1,384,801,810

SCHLUMBERGER LIMITED

Third Quarter 2018 Form 10-Q

Table of Contents

	Page
PART I Financial Information	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
PART II Other Information	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Mine Safety Disclosures</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	26

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Stated in millions, except per share amounts)

	Third Quarter		Nine Months	
	2018	2017	2018	2017
Revenue				
Services	\$6,345	\$5,763	\$18,222	\$15,928
Product sales	2,159	2,142	6,414	6,333
Total Revenue	8,504	7,905	24,636	22,261
Interest & other income	36	64	118	172
Expenses				
Cost of services	5,336	4,816	15,414	13,507
Cost of sales	1,988	1,981	5,892	5,836
Research & engineering	177	189	524	595
General & administrative	105	115	330	323
Impairments & other	-	-	184	510
Merger & integration	-	49	-	213
Interest	147	142	434	422
Income before taxes	787	677	1,976	1,027
Tax expense	129	121	348	269
Net income	658	556	1,628	758
Net income attributable to noncontrolling interests	14	11	29	9
Net income attributable to Schlumberger	\$644	\$545	\$1,599	\$749
Basic earnings per share of Schlumberger	\$0.46	\$0.39	\$1.15	\$0.54
Diluted earnings per share of Schlumberger	\$0.46	\$0.39	\$1.15	\$0.54
Average shares outstanding:				
Basic	1,385	1,385	1,385	1,388
Assuming dilution	1,392	1,392	1,393	1,395

See Notes to Consolidated Financial Statements

3

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(Stated in millions)

	Third Quarter		Nine Months	
	2018	2017	2018	2017
Net income	\$658	\$556	\$1,628	\$758
Currency translation adjustments				
Unrealized net change arising during the period	(47)	75	(128)	49
Marketable securities				
Unrealized loss arising during the period	(12)	(41)	(33)	(66)
Cash flow hedges				
Net gain (loss) on cash flow hedges	4	8	(6)	19
Reclassification to net income of net realized (gain) loss	2	(4)	(2)	4
Pension and other postretirement benefit plans				
Amortization to net income of net actuarial loss	47	40	141	119
Amortization to net income of net prior service (credit) cost	(1)	20	(4)	60
Income taxes on pension and other postretirement benefit plans	(2)	-	(7)	(2)
Comprehensive income	649	654	1,589	941
Comprehensive income attributable to noncontrolling interests	14	11	29	9
Comprehensive income attributable to Schlumberger	\$635	\$643	\$1,560	\$932

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Stated in millions)

	Sept. 30, 2018 (Unaudited)	Dec. 31, 2017
ASSETS		
Current Assets		
Cash	\$ 1,493	\$1,799
Short-term investments	1,361	3,290
Receivables less allowance for doubtful accounts (2018 - \$245; 2017 - \$241)	8,409	8,084
Inventories	4,108	4,046
Other current assets	1,112	1,278
	16,483	18,497
Investments in Affiliated Companies	1,497	1,519
Fixed Assets less accumulated depreciation	11,739	11,576
Multiclient Seismic Data	639	727
Goodwill	25,134	25,118
Intangible Assets	8,930	9,354
Other Assets	5,624	5,196
	\$ 70,046	\$71,987
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,419	\$10,036
Estimated liability for taxes on income	1,265	1,223
Short-term borrowings and current portion of long-term debt	3,215	3,324
Dividends payable	701	699
	14,600	15,282
Long-term Debt	14,159	14,875
Postretirement Benefits	957	1,082
Deferred Taxes	1,529	1,650
Other Liabilities	1,853	1,837
	33,098	34,726
Equity		
Common stock	13,058	12,975
Treasury stock	(3,924)	(4,049)
Retained earnings	31,712	32,190
Accumulated other comprehensive loss	(4,313)	(4,274)
Schlumberger stockholders' equity	36,533	36,842
Noncontrolling interests	415	419
	36,948	37,261
	\$ 70,046	\$71,987

See Notes to Consolidated Financial Statements

5

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Stated in millions)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$1,628	\$758
Adjustments to reconcile net income to cash provided by operating activities:		
Impairments and other charges	184	723
Depreciation and amortization ⁽¹⁾	2,637	2,931
Stock-based compensation expense	259	261
Pension and other postretirement benefits funding	(69)	(107)
Earnings of equity method investments, less dividends received	(41)	(52)
Change in assets and liabilities: ⁽²⁾		
Increase in receivables	(114)	(1,049)
(Increase) decrease in inventories	(68)	14
Decrease (increase) in other current assets	78	(86)
(Increase) decrease in other assets	(167)	202
Decrease in accounts payable and accrued liabilities	(1,011)	(533)
(Decrease) increase in estimated liability for taxes on income	(32)	181
Decrease in other liabilities	(6)	(74)
Other	104	243
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,382	3,412
Cash flows from investing activities:		
Capital expenditures	(1,539)	(1,482)
SPM investments	(719)	(492)
Multiclient seismic data costs capitalized	(63)	(223)
Business acquisitions and investments, net of cash acquired	(290)	(382)
Sale of investments, net	1,922	3,310
Other	(36)	(92)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(725)	639
Cash flows from financing activities:		
Dividends paid	(2,077)	(2,086)
Proceeds from employee stock purchase plan	227	212
Proceeds from exercise of stock options	29	49
Stock repurchase program	(300)	(868)
Proceeds from issuance of long-term debt	220	681
Repayment of long-term debt	(900)	(2,206)
Net decrease in short-term borrowings	(103)	(1,110)
Other	(47)	17

NET CASH USED IN FINANCING ACTIVITIES	(2,951)	(5,311)
Net decrease in cash before translation effect	(294)	(1,260)
Translation effect on cash	(12)	21
Cash, beginning of period	1,799	2,929
Cash, end of period	\$1,493	\$1,690

(1) Includes depreciation of property, plant and equipment and amortization of intangible assets, multiclient seismic data costs and SPM investments.

(2) Net of the effect of business acquisitions.

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Stated in millions)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss		Noncontrolling Interests	Total
	Issued	In Treasury					
January 1, 2018 – September 30, 2018							
Balance, January 1, 2018	\$12,975	\$ (4,049)	\$32,190	\$ (4,274)	\$ 419		\$37,261
Net income			1,599		29		1,628
Currency translation adjustments				(128)	(4)		(132)
Changes in unrealized gain on marketable securities				(33)			(33)
Changes in fair value of cash flow hedges				(8)			(8)
Pension and other postretirement benefit plans				130			130
Shares sold to optionees, less shares exchanged	(37)	66					29
Vesting of restricted stock	(63)	63					-
Shares issued under employee stock purchase plan	(67)	294					227
Stock repurchase program		(300)					(300)
Stock-based compensation expense	259						259
Dividends declared (\$1.50 per share)			(2,077)				(2,077)
Other	(9)	2			(29)		(36)
Balance, September 30, 2018	\$13,058	\$ (3,924)	\$31,712	\$ (4,313)	\$ 415		\$36,948

(Stated in millions)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss		Noncontrolling Interests	Total
	Issued	In Treasury					
January 1, 2017 – September 30, 2017							
Balance, January 1, 2017	\$12,801	\$ (3,550)	\$36,470	\$ (4,643)	\$ 451		\$41,529
Net income			749		9		758
Currency translation adjustments				49			49
Changes in unrealized gain on marketable securities				(66)			(66)
Changes in fair value of cash flow hedges				23			23
				177			177

Pension and other postretirement benefit plans

Shares sold to optionees, less shares exchanged	(39)	88				49
Vesting of restricted stock	(98)	98				-
Shares issued under employee stock purchase plan	(52)	264				212
Stock repurchase program		(868)				(868)
Stock-based compensation expense	261					261
Dividends declared (\$1.50 per share)			(2,083)			(2,083)
Other	(10)	2			(23)	(31)
Balance, September 30, 2017	\$12,863	\$ (3,966)	\$35,136	\$ (4,460)	\$ 437	\$40,010

SHARES OF COMMON STOCK

(Unaudited)

(Stated in millions)

	Shares		
	Issued	Treasury	Outstanding
Balance, January 1, 2018	1,434	(50)	1,384
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	4	4
Stock repurchase program	-	(4)	(4)
Balance, September 30, 2018	1,434	(49)	1,385

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Schlumberger Limited and its subsidiaries (“Schlumberger”) have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Schlumberger management, all adjustments considered necessary for a fair statement have been included in the accompanying unaudited financial statements. All intercompany transactions and balances have been eliminated in consolidation. Operating results for the nine-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. The December 31, 2017 balance sheet information has been derived from the Schlumberger 2017 audited financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Schlumberger Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on January 24, 2018.

Recently Adopted Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. This ASU amended the existing accounting standards for revenue recognition and requires companies to recognize revenue when control of the promised goods or services is transferred to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Schlumberger adopted this ASU on January 1, 2018 using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Prior period amounts have not been adjusted and continue to be reflected in accordance with Schlumberger’s historical accounting. The adoption of this ASU did not have a material impact on Schlumberger’s Consolidated Financial Statements.

Schlumberger recognizes revenue upon the transfer of control of promised products or services to customers at an amount that reflects the consideration it expects to receive in exchange for these products or services. The vast majority of Schlumberger’s services and product offerings are short-term in nature. The time between invoicing and when payment is due under these arrangements is generally 30 to 60 days.

Revenue is occasionally generated from contractual arrangements that include multiple performance obligations. Revenue from these arrangements is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are generally determined based on the prices charged to customers or using expected costs plus margin.

Revenue is recognized for certain long-term construction-type contracts over time. These contracts involve significant design and engineering efforts in order to satisfy custom designs for customer-specific applications. Revenue is recognized as work progresses on each contract. Progress is measured by the ratio of actual costs incurred to date on the project in relation to total estimated project costs. The estimate of total project costs has a significant impact on both the amount of revenue recognized as well as the related profit on a project. Revenue and profits on contracts can

also be significantly affected by change orders and claims. Due to the nature of these projects, adjustments to estimates of contract revenue and total contract costs may be required as work progresses. Progress billings are generally issued upon completion of certain phases of work as stipulated in the contract. Any expected losses on a project are recorded in full in the period in which they become probable.

Revenue in excess of billings related to contracts where revenue is recognized over time was \$0.2 billion at September 30, 2018 and \$0.3 billion at December 31, 2017. Such amounts are included within Receivables less allowance for doubtful accounts in the Consolidated Balance Sheet.

Due to the nature of its business, Schlumberger does not have significant backlog. Total backlog was \$2.5 billion at September 30, 2018, of which approximately 59% is expected to be recognized as revenue over the next 12 months.

Billings and cash collections in excess of revenue was \$0.8 billion at both September 30, 2018 and December 31, 2017. Such amounts are included within Accounts payable and accrued liabilities in the Consolidated Balance Sheet.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. This ASU is effective for Schlumberger on

January 1, 2019, with early adoption permitted. Based on its current lease portfolio, Schlumberger estimates that the adoption of this ASU will result in approximately \$1.2 billion of additional assets and liabilities being reflected on its Consolidated Balance Sheet.

2. Charges and Credits

2018

There were no charges or credits recorded during the first and third quarters of 2018.

During the second quarter of 2018, Schlumberger recorded a \$184 million pretax charge (\$164 million after-tax) associated with headcount reductions, primarily to further streamline its support cost structure. This charge is classified in Impairments & other in the Consolidated Statement of Income.

2017

Schlumberger recorded the following charges and credits during the first nine months of 2017:

Third quarter of 2017:

In connection with Schlumberger's 2016 acquisition of Cameron International Corporation ("Cameron"), Schlumberger recorded \$49 million of charges consisting of employee benefits, facility consolidation and other merger and integration-related costs. These charges are classified in Merger & integration in the Consolidated Statement of Income.

Second quarter of 2017:

During the second quarter of 2017, Schlumberger entered into a financing agreement with its primary customer in Venezuela. This agreement resulted in the exchange of \$700 million of outstanding accounts receivable for a promissory note with a three-year term that bears interest at the rate of 6.50% per annum. Schlumberger recorded this note at its estimated fair value on the date of the exchange, which resulted in a charge of \$460 million. Schlumberger is accounting for the promissory note as an available-for-sale security reported at fair value in Other Assets, with unrealized gains and losses included as a component of Accumulated other comprehensive loss. The fair value of the promissory notes was based on management's estimate of pricing assumptions that market participants would use.

During the second quarter of 2017, Schlumberger also entered into discussions with another customer relating to certain of its outstanding accounts receivable. As a result of those discussions, Schlumberger recorded a charge of \$50 million to adjust these receivables to their estimated net realizable value.

These charges are classified in Impairments & other in the Consolidated Statement of Income.

In connection with Schlumberger's 2016 acquisition of Cameron, Schlumberger recorded \$81 million of charges consisting of employee benefits, facility consolidation and other merger and integration-related costs. These charges are classified in Merger & integration in the Consolidated Statement of Income.

First quarter of 2017:

In connection with Schlumberger’s acquisition of Cameron, Schlumberger recorded \$82 million of charges during the first quarter of 2017 relating to employee benefits, facility closures and other merger and integration-related costs. These charges are classified in Merger & integration in the Consolidated Statement of Income.

The following is a summary of the charges and credits recorded during the first nine months of 2017:

(Stated in millions)

	Pretax	Tax	Noncontrolling Interests	Net
Promissory note fair value adjustment and other	\$510	\$-	\$ 12	\$498
Merger & integration	213	44	-	169
	\$723	\$44	\$ 12	\$667

On December 22, 2017, the US enacted the Tax Cuts and Jobs Act (the “Act”). The Act, which is also commonly referred to as “US tax reform,” significantly changed US corporate income tax laws by, among other things, reducing the US corporate income tax rate to 21% starting in 2018 and creating a territorial tax system with a one-time mandatory tax on previously

9

deferred foreign earnings of US subsidiaries. As a result, Schlumberger recorded a net charge of \$76 million during the fourth quarter of 2017. This amount consisted of two components: (i) a \$410 million charge relating to the one-time mandatory tax on previously deferred earnings of certain non-US subsidiaries that are owned either wholly or partially by a US subsidiary of Schlumberger, and (ii) a \$334 million credit resulting from the remeasurement of Schlumberger's net deferred tax liabilities in the US based on the new lower corporate income tax rate.

Although the \$76 million net charge represents a reasonable estimate of the impact of the income tax effects of the Act on Schlumberger's Consolidated Financial Statements as of December 31, 2017, it should be considered provisional. Once Schlumberger finalizes certain tax positions, it will be able to conclude whether any further adjustments are required. Any adjustments to these provisional amounts will be reported as a component of Taxes on income in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018.

3. Earnings Per Share

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

(Stated in millions, except per share amounts)

	2018		2017			
	Net Income	Average Shares Outstanding	Earnings per Share	Net Income	Average Shares Outstanding	Earnings per Share
Third Quarter						
Basic	\$644	1,385	\$ 0.46	\$545	1,385	\$ 0.39
Assumed exercise of stock options	-	-		-	1	
Unvested restricted stock	-	7		-	6	
Diluted	\$644	1,392	\$ 0.46	\$545	1,392	\$ 0.39

	2018		2017			
	Net Income	Average Shares Outstanding	Earnings per Share	Net Income	Average Shares Outstanding	Earnings per Share
Nine Months						
Basic	\$1,599	\$ 1,385	\$ 1.15	\$749	\$ 1,388	\$ 0.54
Assumed exercise of stock options	-	1		-	2	
Unvested restricted stock	-	7		-	5	
Diluted	\$1,599	\$ 1,393	\$ 1.15	\$749	\$ 1,395	\$ 0.54

The number of outstanding options to purchase shares of Schlumberger common stock that were not included in the computation of diluted earnings per share, because to do so would have had an antidilutive effect, was as follows:

(Stated in millions)

	2018	2017
Third Quarter	40	43
Nine Months	40	30

10

4. Inventories

A summary of inventories, which are stated at the lower of average cost or net realizable value, follows:

(Stated in millions)

	Sept. 30, 2018	Dec. 31, 2017
Raw materials & field materials	\$1,885	\$1,846
Work in progress	541	503
Finished goods	1,682	1,697
	\$4,108	\$4,046

5. Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

	Sept. 30, 2018	Dec. 31, 2017
Property, plant & equipment	\$38,695	\$37,813
Less: Accumulated depreciation	26,956	26,237
	\$11,739	\$11,576

Depreciation expense relating to fixed assets was as follows:

(Stated in millions)

	2018	2017
Third Quarter	\$516	\$591
Nine Months	\$1,564	\$1,796

6. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the nine months ended September 30, 2018 was as follows:

(Stated in millions)

Balance at December 31, 2017	\$727
Capitalized in period	63
Charged to expense	(151)
Balance at September 30, 2018	\$639

7. Intangible Assets

The gross book value, accumulated amortization and net book value of intangible assets were as follows:

(Stated in millions)

	Sept. 30, 2018		Dec. 31, 2017		Net Book Value
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization	
Customer relationships	\$4,775	\$ 1,187	\$4,832	\$ 1,020	\$ 3,812
Technology/technical know-how	3,578	1,197	3,634	1,078	2,556
Tradenames	2,806	609	2,806	533	2,273
Other	1,362	598	1,295	582	713
	\$12,521	\$ 3,591	\$12,567	\$ 3,213	\$ 9,354

Amortization expense charged to income was as follows:

(Stated in millions)

	2018	2017
Third Quarter	\$167	\$165
Nine Months	\$506	\$501

Based on the net book value of intangible assets at September 30, 2018, amortization charged to income for the subsequent five years is estimated to be: fourth quarter of 2018—\$169 million; 2019—\$680 million; 2020—\$648 million; 2021—\$617 million; 2022—\$609 million; and 2023—\$594 million.

8. Long-term Debt

A summary of Long-term Debt follows:

(Stated in millions)

	Sept. 30, 2018	Dec. 31, 2017
4.00% Senior Notes due 2025	\$1,742	\$1,741
3.30% Senior Notes due 2021	1,596	1,595

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3.00% Senior Notes due 2020	1,595	1,593
3.65% Senior Notes due 2023	1,493	1,492
4.20% Senior Notes due 2021	1,100	1,100
2.40% Senior Notes due 2022	997	996
3.63% Senior Notes due 2022	847	846
2.65% Senior Notes due 2022	598	598
2.20% Senior Notes due 2020	498	498
7.00% Notes due 2038	211	212
4.50% Notes due 2021	133	135
5.95% Notes due 2041	115	115
3.60% Notes due 2022	109	110
5.13% Notes due 2043	99	99
4.00% Notes due 2023	82	82
3.70% Notes due 2024	55	56
0.63% Guaranteed Notes due 2019	-	712
1.50% Guaranteed Notes due 2019	-	603
Commercial paper borrowings	2,600	1,694
Other	289	598
	\$ 14,159	\$ 14,875

The estimated fair value of Schlumberger's Long-term Debt, based on quoted market prices at September 30, 2018 and December 31, 2017, was \$14.1 billion and \$15.2 billion, respectively.

Borrowings under Schlumberger's commercial paper programs at September 30, 2018 were \$3.1 billion, of which \$0.5 billion was classified in Short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheet. At December 31, 2017, borrowings under the commercial paper programs were \$3.0 billion, of which \$1.3 billion was classified in Short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheet.

9. Derivative Instruments and Hedging Activities

Schlumberger is exposed to market risks related to fluctuations in foreign currency exchange rates and interest rates. To mitigate these risks, Schlumberger utilizes derivative instruments. Schlumberger does not enter into derivative transactions for speculative purposes.

Interest Rate Risk

Schlumberger is subject to interest rate risk on its debt and its investment portfolio. Schlumberger maintains an interest rate risk management strategy that uses a mix of variable and fixed rate debt combined with its investment portfolio, and occasionally interest rate swaps, to mitigate the exposure to changes in interest rates.

During 2013, Schlumberger entered into a cross-currency swap for a notional amount of €0.5 billion in order to hedge changes in the fair value of Schlumberger's €0.5 billion 1.50% Guaranteed Notes due 2019. Under the terms of this swap, Schlumberger will receive interest at a fixed rate of 1.50% on the euro notional amount and pay interest at a floating rate of three-month LIBOR plus approximately 64 basis points on the US dollar notional amount.

This cross-currency swap is designated as a fair value hedge of the underlying debt and is marked to market, with gains and losses recognized immediately in income to largely offset the effects on changes in the fair value of the hedged debt.

During 2017, a Canadian dollar functional currency subsidiary of Schlumberger issued \$1.1 billion of US dollar denominated debt. Schlumberger entered into cross-currency swaps for an aggregate notional amount of \$1.1 billion in order to hedge changes in the fair value of its \$0.5 billion 2.20% Senior Notes due 2020 and its \$0.6 billion 2.65% Senior Notes due 2022. These cross-currency swaps effectively convert the US dollar notes to Canadian dollar denominated debt with fixed annual interest rates of 1.97% and 2.52%, respectively.

These cross-currency swaps are designated as cash flow hedges. The changes in the fair values of the hedges are recorded on the Consolidated Balance Sheet and in Accumulated Other Comprehensive Loss. Amounts recorded in Accumulated Other Comprehensive Loss are reclassified to earnings in the same periods that the underlying hedged item is recognized in earnings.

At September 30, 2018, Schlumberger had fixed rate debt aggregating \$13.3 billion and variable rate debt aggregating \$4.1 billion, after taking into account the effect of interest rate swaps.

Short-term investments were \$1.4 billion at September 30, 2018. The carrying value of these investments approximated fair value.

Foreign Currency Exchange Rate Risk

As a multinational company, Schlumberger conducts its business in more than 85 countries. Schlumberger's functional currency is primarily the US dollar. However, outside the United States, a significant portion of Schlumberger's expenses is incurred in foreign currencies. Therefore, when the US dollar weakens (strengthens) in relation to the foreign currencies of the countries in which Schlumberger conducts business, the US dollar-reported expenses will increase (decrease).

Schlumberger is exposed to risks on future cash flows to the extent that the local currency is not the functional currency and expenses denominated in local currency are not equal to revenues denominated in local currency. Schlumberger is also exposed to risks on future cash flows relating to certain of its fixed rate debt denominated in currencies other than the functional currency. Schlumberger uses foreign currency forward contracts to provide a hedge against a portion of these cash flow risks. These contracts are accounted for as cash flow hedges, with the changes in the fair value of the hedge recorded on the Consolidated Balance Sheet and in Accumulated Other Comprehensive Loss. Amounts recorded in Accumulated Other Comprehensive Loss are reclassified into earnings in the same period or periods that the hedged item is recognized in earnings.

At September 30, 2018, Schlumberger recognized a cumulative net \$5 million loss in Accumulated Other Comprehensive Loss relating to revaluation of foreign currency forward contracts designated as cash flow hedges, the majority of which is expected to be reclassified into earnings within the next 12 months.

Schlumberger is exposed to changes in the fair value of assets and liabilities that are denominated in currencies other than the functional currency. While Schlumberger uses foreign currency forward contracts and foreign currency options to economically hedge this exposure as it relates to certain currencies, these contracts are not designated as hedges for accounting purposes. Instead, the fair value of the contracts is recorded on the Consolidated Balance Sheet, and changes in the fair value are recognized in the Consolidated Statement of Income as are changes in fair value of the hedged item.

At September 30, 2018, contracts were outstanding for the US dollar equivalent of \$5.0 billion in various foreign currencies, of which \$1.9 billion relates to hedges of debt denominated in currencies other than the functional currency.

The effect of derivative instruments designated as fair value and cash flow hedges, and those not designated as hedges, on the Consolidated Statement of Income was as follows:

	(Stated in millions)				Consolidated Statement of Income Classification
	Gain (Loss) Recognized in Income		Gain (Loss) Recognized in Income		
	Third Quarter	2017	Nine Months	2017	
Derivatives designated as fair value hedges:					
Cross currency swap	\$6	\$19	\$(6)	\$66	Interest expense
Derivatives designated as cash flow hedges:					
Foreign exchange contracts	\$(2)	\$-	\$3	\$-	Cost of services/sales
Cross currency swap	(30)	-	25	-	Interest expense
	\$(32)	\$-	\$28	\$-	
Derivatives not designated as hedges:					
Foreign exchange contracts	\$(17)	\$(10)	\$15	\$(3)	Cost of services/sales

10. Contingencies

Schlumberger is party to various legal proceedings from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. Management believes that the probability of a material loss with respect to any currently pending legal proceeding is remote. However, litigation is inherently uncertain and it is not possible to predict the ultimate disposition of any of these proceedings.

11. Segment Information

(Stated in millions)

	Third Quarter 2018		Third Quarter 2017	
	Revenue	Income Before Taxes	Revenue	Income Before Taxes
Reservoir Characterization	\$ 1,673	\$ 373	\$ 1,771	\$ 311
Drilling	2,429	339	2,120	301
Production	3,252	320	2,876	283
Cameron	1,298	148	1,297	194
Eliminations & other	(148)	(28)	(159)	(30)
Pretax operating income		1,152		1,059
Corporate & other ⁽¹⁾		(234)		(234)
Interest income ⁽²⁾		8		30
Interest expense ⁽³⁾		(139)		(129)
Charges and credits ⁽⁴⁾		-		(49)
	\$ 8,504	\$ 787	\$ 7,905	\$ 677

⁽¹⁾ Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items.

⁽²⁾ Interest income excludes amounts which are included in the segments' income (\$2 million in 2018; \$4 million in 2017).

⁽³⁾ Interest expense excludes amounts which are included in the segments' income (\$8 million in 2018; \$13 million in 2017).

⁽⁴⁾ See Note 2 – Charges and Credits.

(Stated in millions)

	Nine Months 2018		Nine Months 2017	
	Revenue	Income Before Taxes	Revenue	Income Before Taxes
Reservoir Characterization	\$ 4,865	\$ 1,030	\$ 5,148	\$ 891
Drilling	6,789	921	6,212	832
Production	9,468	851	7,559	614
Cameron	3,902	481	3,791	530

Eliminations & other	(388)	(63)	(449)	(101)
Pretax operating income	3,220			2,766
Corporate & other ⁽¹⁾	(699)			(715)
Interest income ⁽²⁾	44			82
Interest expense ⁽³⁾	(405)			(383)
Charges and credits ⁽⁴⁾	(184)			(723)
	\$24,636	\$1,976	\$22,261	\$1,027

⁽¹⁾ Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items.

⁽²⁾ Interest income excludes amounts which are included in the segments' income (\$7 million in 2018; \$15 million in 2017).

⁽³⁾ Interest expense excludes amounts which are included in the segments' income (\$29 million in 2018; \$39 million in 2017).

⁽⁴⁾ See Note 2 – Charges and Credits.

12. Pension and Other Postretirement Benefit Plans

Net pension cost for the Schlumberger pension plans included the following components:

(Stated in millions)

	Third Quarter				Nine Months			
	2018		2017		2018		2017	
	US	Int'l	US	Int'l	US	Int'l	US	Int'l
Service cost	\$14	\$35	\$14	\$24	\$44	\$105	\$44	\$71
Interest cost	41	77	44	76	125	229	131	230
Expected return on plan assets	(61)	(149)	(60)	(135)	(186)	(442)	(181)	(406)
Amortization of prior service cost	3	3	3	24	9	8	9	73
Amortization of net loss	12	35	10	30	36	105	29	90
	\$9	\$1	\$11	\$19	\$28	\$5	\$32	\$58

16

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

(Stated in millions)

	Third Quarter		Nine Months	
	2018	2017	2018	2017
Service cost	\$8	\$7	\$24	\$22
Interest cost	11	12	33	35
Expected return on plan assets	(15)	(16)	(47)	(46)
Amortization of prior service credit	(7)	(7)	(21)	(22)
	\$(3)	\$(4)	\$(11)	\$(11)

13. Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss consists of the following:

(Stated in millions)

	Currency		Cash	Pension and Other	
	Translation Adjustments	Marketable Securities	Flow Hedges	Postretirement Benefit Plans	Total
Balance, January 1, 2018	\$(2,139)	\$ 13	\$ 3	\$(2,151)	\$(4,274)
Other comprehensive loss before reclassifications	(128)	(33)	(6)	-	(167)
Amounts reclassified from accumulated other comprehensive loss	-	-	(2)	130	128
Net other comprehensive income	(128)	(33)	(8)	130	(39)
Balance, September 30, 2018	\$(2,267)	\$ (20)	\$ (5)	\$(2,021)	\$(4,313)

	Currency		Cash	Pension and Other
	Translation	Marketable	Flow	Postretirement

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	Adjustments	Securities	Hedges	Benefit Plans	Total
Balance, January 1, 2017	\$ (2,136)	\$ 21	\$ (19)	\$ (2,509)	\$ (4,643)
Other comprehensive gain (loss) before reclassifications	49	(66)	19	-	2
Amounts reclassified from accumulated other comprehensive loss	-	-	4	179	183
Income taxes				(2)	(2)
Net other comprehensive income	49	(66)	23	177	183
Balance, September 30, 2017	\$ (2,087)	\$ (45)	\$ 4	\$ (2,332)	\$ (4,460)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Third Quarter 2018 Compared to Third Quarter 2017

(Stated in millions)

	Third Quarter 2018		Third Quarter 2017	
	Income Before Revenue Taxes		Income Before Revenue Taxes	
Reservoir Characterization	\$1,673	\$373	\$1,771	\$311
Drilling	2,429	339	2,120	301
Production	3,252	320	2,876	283
Cameron	1,298	148	1,297	194
Eliminations & other	(148)	(28)	(159)	(30)
Pretax operating income		1,152		1,059
Corporate & other ⁽¹⁾		(234)		(234)
Interest income ⁽²⁾		8		30
Interest expense ⁽³⁾		(139)		(129)
Charges and credits ⁽⁴⁾		-		(49)
	\$8,504	\$787	\$7,905	\$677

⁽¹⁾ Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items.

⁽²⁾ Interest income excludes amounts which are included in the segments' income (\$2 million in 2018; \$4 million in 2017).

⁽³⁾ Interest expense excludes amounts which are included in the segments' income (\$8 million in 2018; \$13 million in 2017).

⁽⁴⁾ Charges and credits are described in detail in Note 2 to the Consolidated Financial Statements.

The oil market continued to tighten in the third quarter as seen by a further draw in global oil inventories and a significant increase in oil prices despite continued strong production from the US and increasing output from key OPEC countries. Global spare capacity is now less than 2%. The tightening supply and demand balance is driven by accelerating decline rates in the international production base and is further exacerbated by the ongoing reduction in Venezuelan and Iranian exports. Geopolitical events and their impact on supply are also becoming an increasing oil market consideration as the challenging security situation in several key countries could affect activity and production going forward. And while the current Permian takeaway constraints in North America should be addressed within the next 12 to 18 months, a series of reservoir- and production-related challenges is emerging in the US shale basins that could dampen the most optimistic production growth projections.

With the outlook for global economic growth and oil demand remaining solid, Schlumberger continues to see a need for a multiyear increase in international E&P investment. Through the work Schlumberger has done over the past four years to expand its external offering and modernize its internal execution platform, it is well-positioned to outgrow the market in the expected upcycle.

Third-quarter 2018 revenue of \$8.5 billion increased 8% year-on-year. The global rig count increased 4% as compared to the same period last year, North America land rig count increased by 10% and international rig count was essentially flat. North America revenue increased 23% largely driven by the deployment of additional hydraulic fracturing equipment and market share gains as compared to the prior year. International revenue improved by 1%.

Reservoir Characterization

Third-quarter 2018 revenue of \$1.7 billion decreased 6% year-on-year primarily due to reduced OneSurface revenue in the Middle East following the end of the first phase of an integrated production system project and reduced WesternGeco activity as marine seismic acquisition contracts continue to wind down.

Year-on-year, pretax operating margin increased 470 basis points (“bps”) to 22% primarily as a result of reduced depreciation and amortization following the WesternGeco impairment charges in the fourth quarter of 2017.

Drilling

Third-quarter 2018 revenue of \$2.4 billion increased 15% year-on-year primarily due to higher demand for directional drilling technologies on land in North America and the start of new integrated drilling projects internationally. This benefited all the product lines, led by M-I SWACO, Integrated Drilling Services, and Drilling & Measurements.

Year-on-year, pretax operating margin declined slightly by 22 bps to 14% due primarily to mobilization and project start-up costs associated with the new integrated drilling projects.

Production

Third-quarter 2018 revenue of \$3.3 billion increased 13% year-on-year with the majority of the revenue growth driven by accelerated land activity growth in North America that benefited the OneStim pressure pumping businesses. Growth was driven primarily by the deployment of hydraulic fracturing capacity and market share gains as compared to the prior year. However, service revenue from the OneStim hydraulic fracturing business was increasingly impacted by softening activity and pricing over the course of the third quarter of 2018. The dynamics of the pressure pumping market changed during the quarter and activity will likely continue to decline until the Permian takeaway capacity constraints are resolved.

Year-on-year, pretax operating margin remained flat at 10%.

Cameron

Third-quarter 2018 revenue of \$1.3 billion was flat year-on-year as higher revenue on land in North America benefiting the short-cycle businesses of Surface Systems and Valves & Measurement was offset by the decline of the long-cycle businesses of OneSubsea.

Year-on-year, pretax operating margin decreased 349 bps to 11%, driven primarily by the decline in high-margin OneSubsea project volumes.

Nine Months 2018 Compared to Nine Months 2017

(Stated in millions)

	Nine Months 2018		Nine Months 2017	
	Revenue	Income Before Taxes	Revenue	Income before Taxes
Reservoir Characterization	\$4,865	\$1,030	\$5,148	\$891
Drilling	6,789	921	6,212	832
Production	9,468	851	7,559	614
Cameron	3,902	481	3,791	530
Eliminations & other	(388)	(63)	(449)	(101)
Pretax operating income		3,220		2,766

Corporate & other ⁽¹⁾	(699)	(715)
Interest income ⁽²⁾	44	82
Interest expense ⁽³⁾	(405)	(383)
Charges and credits ⁽⁴⁾	(184)	(723)
	\$24,636	\$1,976
	\$22,261	\$1,027

⁽¹⁾ Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items.

⁽²⁾ Interest income excludes amounts which are included in the segments' income (\$7 million in 2018; \$15 million in 2017).

19

(3) Interest expense excludes amounts which are included in the segments' income (\$29 million in 2018; \$39 million in 2017).

(4) Charges and credits are described in detail in Note 2 to the Consolidated Financial Statements.

Nine-month 2018 revenue of \$24.6 billion increased 11% year-on-year. The global rig count increased 6% as the North American land rig count increased 11% and the international rig count was flat versus the same period last year. Revenue in North America grew 37% driven by the deployment of additional hydraulic fracturing capacity, market share gains, operational efficiency improvements and improved pricing. International revenue was essentially flat.

Reservoir Characterization

Nine-month 2018 revenue of \$4.9 billion decreased 5% year-on-year primarily due to reduced OneSurface revenue following the end of the first phase of an integrated production system project in the Middle East and reduced WesternGeco activity as marine seismic acquisition contracts continue to wind down.

Year-on-year, pretax operating margin increased 386 bps to 21% primarily as a result of reduced depreciation and amortization following the WesternGeco impairment charges recorded in the fourth quarter of 2017.

Drilling

Nine-month 2018 revenue of \$6.8 billion increased 9% year-on-year primarily due to higher demand for directional drilling technologies on land in North America and the start of new integrated drilling projects internationally. This benefited Drilling & Measurements, Bits & Drilling tools, M-I SWACO and Integrated Drilling Services.

Year-on-year, pretax operating margin was essentially flat at 14%.

Production

Nine-month 2018 revenue of \$9.5 billion increased 25% year-on-year with most of the revenue increase attributable to the accelerated land activity growth in North America that benefited the OneStim pressure pumping businesses in North America land. Growth was driven by the deployment of additional hydraulic fracturing capacity, market share gains, operational efficiency improvements, and improved pricing.

Year-on-year, pretax operating margin increased 87 bps to 9% as a result of improved profitability in North America due to accelerated land activity and improved pricing.

Cameron

Nine-month 2018 revenue of \$3.9 billion increased 3% year-on-year due to higher revenue in North America land benefiting the short-cycle businesses of Surface Systems and Valves & Measurement. This was largely offset by the decline of the long-cycle businesses of Drilling Systems and OneSubsea.

Year-on-year, pretax operating margin of 12% declined 166 bps due primarily to the decline in high-margin OneSubsea project volumes.

Interest and Other Income

Interest & other income consisted of the following:

(Stated in millions)

	Third Quarter		Nine Months	
	2018	2017	2018	2017
Equity in net earnings of affiliated companies	\$26	\$30	\$67	\$75
Interest income	10	34	51	97
	\$36	\$64	\$118	\$172

20

Other

Research & engineering and General & administrative expenses, as a percentage of Revenue, for the third quarter and nine months ended September 30, 2018 and 2017 were as follows:

	Third Quarter		Nine Months	
	2018	2017	2018	2017
Research & engineering	2.1 %	2.4 %	2.1 %	2.7 %
General & administrative	1.2 %	1.5 %	1.3 %	1.5 %

Research & engineering and General & administrative costs for the third quarter of 2018 and the first nine months of 2018 have decreased as a percentage of revenue compared to the same periods in 2017 as a result of cost control measures.

The effective tax rate for the third quarter of 2018 declined year-on-year to 16.4% from 17.9%, driven primarily by the decrease in the US statutory tax rate as a result of tax reform.

The effective tax rate for the first nine months of 2018 was 17.6% and 26.2% for the same period in 2017. The charges described in Note 2 to the Consolidated Financial Statements increased the effective tax rate for the first nine months of 2018 by 60 bps and eight percentage points for the same period of 2017, as the majority of these charges were not tax-effective. Excluding these charges, the effective tax rate for the first nine months of 2018 was 17.0% as compared to 17.8% for the same period of 2017.

Charges and Credits

2018

There were no charges or credits recorded during the first and third quarters of 2018.

During the second quarter of 2018, Schlumberger recorded a \$184 million pretax charge (\$164 million after-tax) associated with headcount reductions, primarily to further streamline its support cost structure. This charge is classified in Impairments & other in the Consolidated Statement of Income.

2017

Schlumberger recorded charges during the first, second and third quarters of 2017, which are fully described in Note 2 to the Consolidated Financial Statements. The following is a summary of the charges recorded during the first nine months of 2017:

(Stated in millions)

	Pretax Tax	Noncontrolling Interests	Net
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Promissory note fair value adjustment and other	\$510	\$-	\$	12	\$498
Merger & integration	213	44	-		169
	\$723	\$44	\$	12	\$667

Liquidity and Capital Resources

Details of the components of liquidity as well as changes in liquidity follow:

(Stated in millions)

Components of Liquidity	Sept. 30, 2018	Sept. 30, 2017	Dec. 31, 2017
Cash	\$1,493	\$1,690	\$1,799
Short-term investments	1,361	3,262	3,290
Short-term borrowings and current portion of long-term debt	(3,215)	(1,289)	(3,324)
Long-term debt	(14,159)	(15,871)	(14,875)
Net debt ⁽¹⁾	\$(14,520)	\$(12,208)	\$(13,110)

Changes in Liquidity:	Nine Months Ended	
	Sept. 30,	
	2018	2017
Net income	\$1,628	\$758
Impairment and other charges	184	723
Depreciation and amortization ⁽²⁾	2,637	2,931
Earnings of equity method investments, less dividends received	(41)	(52)
Stock-based compensation expense	259	261
Pension and other postretirement benefits funding	(69)	(107)
Increase in working capital ⁽³⁾	(1,147)	(1,473)
US federal tax refund	-	685
Other	(69)	(314)
Cash flow from operations	3,382	3,412
Capital expenditures	(1,539)	(1,482)
SPM investments	(719)	(492)
Multiclient seismic data costs capitalized	(63)	(223)
Free cash flow ⁽⁴⁾	1,061	1,215
Dividends paid	(2,077)	(2,086)
Proceeds from employee stock plans	256	261
Stock repurchase program	(300)	(868)
	(1,060)	(1,478)
Business acquisitions and investments, net of cash acquired plus debt assumed	(290)	(382)
Other	(60)	(227)
Increase in net debt	(1,410)	(2,087)
Net debt, beginning of period	(13,110)	(10,121)
Net debt, end of period	\$(14,520)	\$(12,208)

(1) Net debt” represents gross debt less cash, short-term investments and fixed income investments, held to maturity. Management believes that Net debt provides useful information regarding the level of Schlumberger’s indebtedness by reflecting cash and investments that could be used to repay debt. Net debt is a non-GAAP financial measure that should be considered in addition to, not as a substitute for or superior to, total debt.

(2) Includes depreciation of property, plant and equipment and amortization of intangible assets, multiclient seismic data costs and SPM investments.

(3) Includes severance payments of approximately \$265 million and \$347 million during the nine months ended September 30, 2018 and 2017, respectively.

(4) “Free cash flow” represents cash flow from operations less capital expenditures, SPM investments and multiclient seismic data costs capitalized. Management believes that free cash flow is an important liquidity measure for the company and that it is useful to investors and management as a measure of our ability to generate cash. Once business needs and obligations are met, this cash can be used to reinvest in the company for future growth or to return to shareholders through dividend payments or share repurchases. Free cash flow does not represent the residual cash flow available for discretionary expenditures. Free cash flow is a non-GAAP financial measure that should be considered in addition to, not as substitute for or superior to, cash flow from operations.

Key liquidity events during the nine months of 2018 and 2017 included:

On July 18, 2013, the Schlumberger Board of Directors (the “Board”) approved a \$10 billion share repurchase program for Schlumberger common stock to be completed at the latest by June 30, 2018. This program was completed during May 2017. On January 21, 2016, the Board approved a new \$10 billion share repurchase program. Schlumberger had repurchased \$623 million of Schlumberger common stock under the 2016 repurchase program as of September

30, 2018.

The following table summarizes the activity under these share repurchase programs:

(Stated in millions, except per share amounts)

	Total cost of shares purchased	Total number of shares purchased	Average price paid per share
Nine months ended September 30, 2018	\$ 300	4.4	\$ 67.67
Nine months ended September 30, 2017	\$ 868	11.7	\$ 74.21

22

Capital expenditures were \$1.5 billion during the first nine months of 2018 compared to \$1.5 billion during the first nine months of 2017. Capital expenditures for full-year 2018 are expected to be approximately \$2.0 billion as compared to \$2.1 billion in 2017.

Schlumberger operates in more than 85 countries. As of September 30, 2018, only three of those countries individually accounted for greater than 5% of Schlumberger's net receivables balance, of which only the United States accounted for greater than 10% of such receivables.

As of September 30, 2018, Schlumberger had \$2.9 billion of cash and short-term investments on hand. Schlumberger had separate committed debt facility agreements aggregating \$6.5 billion that support commercial paper programs, of which \$3.4 billion was available and unused. Schlumberger believes these amounts are sufficient to meet future business requirements for at least the next 12 months.

Borrowings under the commercial paper programs at September 30, 2018 were \$3.1 billion.

FORWARD-LOOKING STATEMENTS

This third-quarter 2018 Form 10-Q, as well as other statements we make, contain "forward-looking statements" within the meaning of the federal securities laws, which include any statements that are not historical facts, such as our forecasts or expectations regarding business outlook; growth for Schlumberger as a whole and for each of its segments (and for specified products or geographic areas within each segment); oil and natural gas demand and production growth; oil and natural gas prices; improvements in operating procedures and technology, including our transformation program; capital expenditures by Schlumberger and the oil and gas industry; the business strategies of Schlumberger's customers; the effects of US tax reform; our effective tax rate; Schlumberger's SPM projects, joint ventures and alliances; future global economic conditions; and future results of operations. These statements are subject to risks and uncertainties, including, but not limited to, global economic conditions; changes in exploration and production spending by Schlumberger's customers and changes in the level of oil and natural gas exploration and development; general economic, political and business conditions in key regions of the world; foreign currency risk; pricing pressure; weather and seasonal factors; operational modifications, delays or cancellations; production declines; changes in government regulations and regulatory requirements, including those related to offshore oil and gas exploration, radioactive sources, explosives, chemicals, hydraulic fracturing services and climate-related initiatives; the inability of technology to meet new challenges in exploration; and other risks and uncertainties detailed in this third-quarter 2018 Form 10-Q and our most recent Forms 10-K, 10-Q, and 8-K filed with or furnished to the Securities and Exchange Commission. If one or more of these or other risks or uncertainties materialize (or the consequences of any such development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. Schlumberger disclaims any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For quantitative and qualitative disclosures about market risk affecting Schlumberger, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," of the Schlumberger Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Schlumberger's exposure to market risk has not changed materially since December 31, 2017.

Item 4. Controls and Procedures.

Schlumberger has carried out an evaluation under the supervision and with the participation of Schlumberger's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of Schlumberger's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under

the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this report, Schlumberger's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that Schlumberger files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Schlumberger's disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to its management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. There was no change in Schlumberger's internal control over financial reporting during the quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, Schlumberger's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information with respect to this Item 1 is set forth under Note 10—Contingencies, in the Consolidated Financial Statements.

Item 1A. Risk Factors.

As of the date of this filing, there have been no material changes from the risk factors disclosed in Part 1, Item 1A, of Schlumberger's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

As of September 30, 2018, Schlumberger had repurchased \$623 million of Schlumberger common stock under its \$10 billion share repurchase program.

Schlumberger's common stock repurchase activity for the three months ended September 30, 2018 was as follows:

(Stated in thousands, except per share amounts)

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum value of shares that may yet be purchased under the programs
July 2018	659.8	\$ 67.02	659.8	\$9,432,247
August 2018	474.5	\$ 65.17	474.5	\$9,401,324
September 2018	401.8	\$ 61.40	401.8	\$9,376,651
	1,536.1	\$ 64.98	1,536.1	

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Our mining operations are subject to regulation by the federal Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977. Information concerning mine safety violations or other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this report.

Item 5. Other Information.

In 2013, Schlumberger completed the wind-down of its service operations in Iran. Prior to this, certain non-US subsidiaries provided oilfield services to the National Iranian Oil Company and certain of its affiliates (“NIOC”).

Schlumberger’s residual transactions or dealings with the government of Iran during the third quarter of 2018 consisted of payments of taxes and other typical governmental charges. Certain non-US subsidiaries of Schlumberger maintain depository accounts at the Dubai branch of Bank Saderat Iran (“Saderat”), and at Bank Tejarat (“Tejarat”) in Tehran and in Kish for the deposit by NIOC of amounts owed to non-US subsidiaries of Schlumberger for prior services rendered in Iran and for the maintenance of such amounts

previously received. One non-US subsidiary also maintains an account at Tejarat for payment of local expenses such as taxes. Schlumberger anticipates that it will discontinue dealings with Saderat and Tejarat following the receipt of all amounts owed to Schlumberger for prior services rendered in Iran.

25

Item 6. Exhibits.

Exhibit 3.1—Articles of Incorporation of Schlumberger Limited (Schlumberger N.V.) (incorporated by reference to Exhibit 3.1 to Schlumberger’s Current Report on Form 8-K filed on April 6, 2016)

Exhibit 3.2—Amended and Restated By-laws of Schlumberger Limited (Schlumberger N.V.) (incorporated by reference to Exhibit 3.1 to Schlumberger’s Current Report on Form 8-K filed on January 19, 2017)

* Exhibit 10.1—Third Amendment to the Schlumberger Limited Restoration Savings Plan (+)

* Exhibit 31.1—Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

* Exhibit 31.2—Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

** Exhibit 32.1—Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

** Exhibit 32.2—Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Exhibit 95—Mine Safety Disclosures

* Exhibit 101—The following materials from Schlumberger Limited’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income (Loss); (ii) Consolidated Statement of Comprehensive Income (Loss); (iii) Consolidated Balance Sheet; (iv) Consolidated Statement of Cash Flows; (v) Consolidated Statement of Equity and (vi) Notes to Consolidated Financial Statements.

* Filed with this Form 10-Q.

** Furnished with this Form 10-Q.

+ Compensatory plans or arrangements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in his capacity as Chief Accounting Officer.

Schlumberger Limited

(Registrant)

Date: October 24, 2018 /s/ Howard Guild

Howard Guild

Chief Accounting Officer and Duly Authorized Signatory