

SCHLUMBERGER LIMITED/NV
Form 10-Q
April 26, 2017

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: March 31, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a smaller reporting company) 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 March 31, 2017
COMMON STOCK, \$0.01 PAR VALUE PER SHARE	1,389,476,854

SCHLUMBERGER LIMITED

First Quarter 2017 Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	(Stated in millions, except per share amounts)	
	Three Months Ended March 31,	
	2017	2016
Revenue		
Services	\$4,937	\$5,763
Product sales	1,957	757
Total Revenue	6,894	6,520
Interest & other income	46	45
Expenses		
Cost of services	4,251	4,795
Cost of sales	1,825	665
Research & engineering	211	240
General & administrative	98	110
Merger & integration	82	-
Interest	139	133
Income before taxes	334	622
Taxes on income	50	99
Net income	284	523
Net income attributable to noncontrolling interests	5	22
Net income attributable to Schlumberger	\$279	\$501
Basic earnings per share of Schlumberger	\$0.20	\$0.40
Diluted earnings per share of Schlumberger	\$0.20	\$0.40
Average shares outstanding:		
Basic	1,393	1,254
Assuming dilution	1,402	1,259

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(Stated in millions)

	Three Months Ended March 31,	
	2017	2016
Net income	\$284	\$523
Currency translation adjustments		
Unrealized net change arising during the period	45	17
Marketable securities		
Unrealized gain (loss) arising during the period	(4)	3
Cash flow hedges		
Net loss on cash flow hedges	11	(85)
Reclassification to net income of net realized loss	-	94
Pension and other postretirement benefit plans		
Actuarial loss		
Amortization to net income of net actuarial loss	43	45
Prior service cost		
Amortization to net income of net prior service cost	20	25
Income taxes on pension and other postretirement benefit plans	(1)	(7)
Comprehensive income	398	615
Comprehensive income attributable to noncontrolling interests	5	22
Comprehensive income attributable to Schlumberger	\$393	\$593

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Stated in millions)

	Mar. 31, 2017 (Unaudited)	Dec. 31, 2016
ASSETS		
Current Assets		
Cash	\$ 1,902	\$2,929
Short-term investments	5,451	6,328
Receivables less allowance for doubtful accounts (2017 - \$356; 2016 - \$397)	8,636	9,387
Inventories	4,288	4,225
Other current assets	1,606	1,058
	21,883	23,927
Fixed Income Investments, held to maturity	238	238
Investments in Affiliated Companies	1,482	1,243
Fixed Assets less accumulated depreciation	12,507	12,821
Multiclient Seismic Data	1,089	1,073
Goodwill	25,045	24,990
Intangible Assets	9,743	9,855
Other Assets	4,188	3,809
	\$ 76,175	\$77,956
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,408	\$10,016
Estimated liability for taxes on income	1,215	1,188
Short-term borrowings and current portion of long-term debt	2,449	3,153
Dividends payable	704	702
	13,776	15,059
Long-term Debt	16,538	16,463
Postretirement Benefits	1,457	1,495
Deferred Taxes	1,908	1,880
Other Liabilities	1,442	1,530
	35,121	36,427
Equity		
Common stock	12,780	12,801
Treasury stock	(3,697)	(3,550)
Retained earnings	36,052	36,470
Accumulated other comprehensive loss	(4,529)	(4,643)
Schlumberger stockholders' equity	40,606	41,078
Noncontrolling interests	448	451
	41,054	41,529
	\$ 76,175	\$77,956

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Stated in millions)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$284	\$523
Adjustments to reconcile net income to cash provided by operating activities:		
Merger & integration charges	82	-
Depreciation and amortization ⁽¹⁾	989	967
Pension and other postretirement benefits expense	37	60
Stock-based compensation expense	88	61
Pension and other postretirement benefits funding	(29)	(45)
Earnings of equity method investments, less dividends received	(10)	(25)
Change in assets and liabilities: ⁽²⁾		
Decrease in receivables	58	414
(Increase) decrease in inventories	(33)	125
(Increase) decrease in other current assets	(115)	85
(Increase) decrease in other assets	(56)	5
Decrease in accounts payable and accrued liabilities	(670)	(983)
Decrease in estimated liability for taxes on income	(31)	(104)
(Decrease) increase in other liabilities	(28)	2
Other	90	125
NET CASH PROVIDED BY OPERATING ACTIVITIES	656	1,210
Cash flows from investing activities:		
Capital expenditures	(381)	(549)
SPM investments	(144)	(597)
Multiclient seismic data costs capitalized	(116)	(167)
Business acquisitions and investments, net of cash acquired	(273)	(81)
Sale (purchase) of investments, net	883	(2,093)
Other	(24)	(26)
NET CASH USED IN INVESTING ACTIVITIES	(55)	(3,513)
Cash flows from financing activities:		
Dividends paid	(696)	(629)
Proceeds from employee stock purchase plan	96	116
Proceeds from exercise of stock options	39	47
Stock repurchase program	(372)	(475)
Proceeds from issuance of long-term debt	334	3,542
Repayment of long-term debt	(1)	(500)
Net decrease in short-term borrowings	(1,015)	(561)
Other	(22)	47

NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,637)	1,587
Net decrease in cash before translation effect	(1,036)	(716)
Translation effect on cash	9	3
Cash, beginning of period	2,929	2,793
Cash, end of period	\$1,902	\$2,080

(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 EQUITY

(Unaudited)

(Stated in millions)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss		Noncontrolling Interests	Total
	Issued	In Treasury					
January 1, 2017 – March 31, 2017							
Balance, January 1, 2017	\$12,801	\$(3,550)	\$36,470	\$ (4,643)	\$ 451		\$41,529
Net income			279		5		284
Currency translation adjustments				45			45
Changes in unrealized gain on marketable securities				(4)			(4)
Changes in fair value of cash flow hedges				11			11
Pension and other postretirement benefit plans				62			62
Shares sold to optionees, less shares exchanged	(29)	68					39
Vesting of restricted stock	(49)	49					-
Shares issued under employee stock purchase plan	(12)	108					96
Stock repurchase program		(372)					(372)
Stock-based compensation expense	88						88
Dividends declared (\$0.50 per share)			(697)				(697)
Other	(19)				(8)		(27)
Balance, March 31, 2017	\$12,780	\$(3,697)	\$36,052	\$ (4,529)	\$ 448		\$41,054

(Stated in millions)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss		Noncontrolling Interests	Total
	Issued	In Treasury					
January 1, 2016 – March 31, 2016							
Balance, January 1, 2016	\$12,693	\$(13,372)	\$40,870	\$ (4,558)	\$ 272		\$35,905
Net income			501		22		523
Currency translation adjustments				17			17
Changes in unrealized gain on marketable securities				3			3
Changes in fair value of cash flow hedges				9			9
				63			63

Pension and other postretirement benefit plans

Shares sold to optionees, less shares exchanged	(17)	64				47
Vesting of restricted stock	(28)	28				-
Shares issued under employee stock purchase plan	(19)	135				116
Stock repurchase program		(475)				(475)
Stock-based compensation expense	61					61
Dividends declared (\$0.50 per share)			(626)			(626)
Other	10				9	19
Balance, March 31, 2016	\$12,700	\$(13,620)	\$40,745	\$ (4,466)	\$ 303	\$35,662

SHARES OF COMMON STOCK

(Unaudited)

(Stated in millions)

	Shares		
	Issued	Treasury	Outstanding
Balance, January 1, 2017	1,434	(43)	1,391
Shares sold to optionees, less shares exchanged	-	1	1
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	1	1
Stock repurchase program	-	(5)	(5)
Balance, March 31, 2017	1,434	(45)	1,389

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 three-month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2017. The December 31, 2016 balance sheet information has been derived from the Schlumberger 2016 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, 2016, filed with the Securities and Exchange Commission on January 25, 2017.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. This ASU amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Schlumberger will adopt this ASU on January 1, 2018. Schlumberger does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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. Schlumberger will adopt this ASU on January 1, 2019. Based on its current lease portfolio, Schlumberger estimates that the adoption of this ASU will result in approximately \$1.3 billion of additional assets and liabilities being reflected on its Consolidated Balance Sheet.

2. Charges and Credits

In connection with Schlumberger's acquisition of Cameron (See Note 4 – Acquisition of Cameron), Schlumberger recorded \$82 million of pretax charges (\$68 million after-tax) consisting of employee benefits, facility consolidation and other merger and integration-related costs during the first quarter of 2017. This charge is classified in Merger & integration in the Consolidated Statement of Income.

There were no charges or credits recorded during the first quarter of 2016.

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)

	2017			2016		
	Average		Earnings per Share	Average		Earnings per Share
	Schlumberger Net Income	Shares Outstanding		Schlumberger Net Income	Shares Outstanding	
First Quarter						
Basic	\$279	1,393	\$ 0.20	\$501	1,254	\$ 0.40
Assumed exercise of stock options	-	4		-	1	
Unvested restricted stock	-	5		-	4	
Diluted	\$279	1,402	\$ 0.20	\$501	1,259	\$ 0.40

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)

	2017	2016
First Quarter	23	32

4. Acquisition of Cameron

On April 1, 2016, Schlumberger acquired all of the outstanding shares of Cameron, a leading provider of flow equipment products, systems and services to the oil and gas industry worldwide. Schlumberger issued approximately 138 million shares of its common stock, which were valued at \$9.9 billion at the time of closing, and paid cash of \$2.8 billion. Prior to being acquired by Schlumberger, Cameron reported revenue of approximately \$1.6 billion during the first quarter of 2016.

5. Inventories

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

(Stated in millions)

	Mar. 31, 2017	Dec. 31, 2016
Raw materials & field materials	\$1,633	\$1,720
Work in progress	597	610
Finished goods	2,058	1,895
	\$4,288	\$4,225

6. Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

Mar. 31, Dec. 31,

	2017	2016
Property, plant & equipment	\$39,857	\$40,008
Less: Accumulated depreciation	27,350	27,187
	\$12,507	\$12,821

Depreciation expense relating to fixed assets was \$613 million and \$682 million in the first quarter of 2017 and 2016, respectively.

7. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the three months ended March 31, 2017 was as follows:

(Stated in millions)

Balance at December 31, 2016	\$1,073
Capitalized in period	116
Charged to expense	(100)
Balance at March 31, 2017	\$1,089

8. Intangible Assets

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

(Stated in millions)

	Mar. 31, 2017		Dec. 31, 2016			
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Customer relationships	\$4,960	\$ 927	\$4,033			