

SCHLUMBERGER LTD /NV/  
Form 10-Q  
October 21, 2015  
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, 2015

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, 17th FLOOR HOUSTON, TEXAS, U.S.A.	77056
62 BUCKINGHAM GATE LONDON, UNITED KINGDOM	SW1E 6AJ
PARKSTRAAT 83 THE HAGUE, THE NETHERLANDS	2514 JG

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(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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

Class	Outstanding at September 30, 2015
COMMON STOCK, \$0.01 PAR VALUE PER SHARE	1,261,103,708

SCHLUMBERGER LIMITED

Third Quarter 2015 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)

	Third Quarter		Nine Months	
	2015	2014	2015	2014
Revenue	\$8,472	\$12,646	\$27,731	\$35,939
Interest & other income	60	79	155	220
Expenses				
Cost of revenue	6,798	9,689	22,028	27,708
Research & engineering	273	301	819	893
General & administrative	122	125	362	353
Restructuring & other	-	-	439	-
Interest	86	90	254	282
Income before taxes	1,253	2,520	3,984	6,923
Taxes on income	250	556	859	1,530
Income from continuing operations	1,003	1,964	3,125	5,393
Loss from discontinued operations	-	-	-	(205 )
Net income	1,003	1,964	3,125	5,188
Net income attributable to noncontrolling interests	14	15	37	52
Net income attributable to Schlumberger	\$989	\$1,949	\$3,088	\$5,136
Schlumberger amounts attributable to:				
Income from continuing operations	989	1,949	3,088	5,341
Loss from discontinued operations	-	-	-	(205 )
Net income	\$989	\$1,949	\$3,088	\$5,136
Basic earnings per share of Schlumberger				
Income from continuing operations	\$0.78	\$1.51	\$2.43	\$4.11
Loss from discontinued operations	-	-	-	(0.16 )
Net income	\$0.78	\$1.51	\$2.43	\$3.95
Diluted earnings per share of Schlumberger				
Income from continuing operations	\$0.78	\$1.49	\$2.42	\$4.07
Loss from discontinued operations	-	-	-	(0.16 )
Net income	\$0.78	\$1.49	\$2.42	\$3.91
Average shares outstanding:				

Basic	1,265	1,294	1,270	1,300
Assuming dilution	1,272	1,310	1,278	1,314

See Notes to Consolidated Financial Statements

## SCHLUMBERGER LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(Stated in millions)

	Third Quarter		Nine Months	
	2015	2014	2015	2014
Net income	\$1,003	\$1,964	\$3,125	\$5,188
Currency translation adjustments				
Unrealized net change arising during the period	(166 )	(146 )	(260 )	(176 )
Marketable securities				
Unrealized loss arising during the period	(26 )	(162 )	(36 )	(132 )
Cash flow hedges				
Net loss on cash flow hedges	(13 )	(151 )	(123 )	(138 )
Reclassification to net income of net realized loss	21	53	161	59
Pension and other postretirement benefit plans				
Actuarial loss				
Amortization to net income of net actuarial loss	87	32	230	132
Prior service cost				
Amortization to net income of net prior service cost	25	40	76	96
Income taxes on pension and other postretirement benefit plans	(13 )	(8 )	(35 )	(28 )
Comprehensive income	918	1,622	3,138	5,001
Comprehensive income attributable to noncontrolling interests	14	15	37	52
Comprehensive income attributable to Schlumberger	\$904	\$1,607	\$3,101	\$4,949

See Notes to Consolidated Financial Statements

## SCHLUMBERGER LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

(Stated in millions)

	Sept. 30, 2015 (Unaudited)	Dec. 31, 2014
<b>ASSETS</b>		
Current Assets		
Cash	\$ 3,172	\$3,130
Short-term investments	3,433	4,371
Receivables less allowance for doubtful accounts (2015 - \$308; 2014 - \$275)	9,372	11,171
Inventories	4,228	4,628
Deferred taxes	150	144
Other current assets	1,177	1,250
	21,532	24,694
Fixed Income Investments, held to maturity	439	442
Investments in Affiliated Companies	3,359	3,235
Fixed Assets less accumulated depreciation	14,554	15,396
Multiclient Seismic Data	966	793
Goodwill	15,610	15,487
Intangible Assets	4,524	4,654
Other Assets	2,358	2,203
	\$ 63,342	\$66,904
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	7,186	9,246
Estimated liability for taxes on income	1,425	1,647
Long-term debt - current portion	3,250	1,244
Short-term borrowings	1,511	1,521
Dividends payable	638	518
	14,010	14,176
Long-term Debt	7,487	10,565
Postretirement Benefits	1,282	1,501
Deferred Taxes	1,276	1,296
Other Liabilities	1,108	1,317
	25,163	28,855
Equity		
Common stock	12,642	12,495
Treasury stock	(13,023 )	(11,772 )
Retained earnings	42,515	41,333
Accumulated other comprehensive loss	(4,193 )	(4,206 )
Schlumberger stockholders' equity	37,941	37,850
Noncontrolling interests	238	199
	38,179	38,049
	\$ 63,342	\$66,904

See Notes to Consolidated Financial Statements

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## SCHLUMBERGER LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(Stated in millions)

	Nine Months Ended Sept. 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$3,125	\$5,188
Add: Loss from discontinued operations	-	205
Adjustments to reconcile net income to cash provided by operating activities:		
Restructuring and other charges	439	-
Depreciation and amortization <sup>(1)</sup>	3,115	3,029
Pension and other postretirement benefits expense	326	266
Stock-based compensation expense	250	246
Pension and other postretirement benefits funding	(292 )	(318 )
Earnings of equity method investments, less dividends received	(83 )	(68 )
Change in assets and liabilities: <sup>(2)</sup>		
Decrease (increase) in receivables	1,848	(779 )
Decrease (increase) in inventories	445	(61 )
Decrease in other current assets	93	112
Increase in other assets	(9 )	(89 )
Decrease in accounts payable and accrued liabilities	(2,426)	(256 )
Decrease in estimated liability for taxes on income	(469 )	(7 )
Decrease in other liabilities	(21 )	(78 )
Other	286	(108 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,627</b>	<b>7,282</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,783)	(2,766)
SPM investments	(350 )	(569 )
Multiclient seismic data capitalized	(336 )	(212 )
Business acquisitions and investments, net of cash acquired	(289 )	(556 )
Sale of investments, net	939	1,147
Other	(207 )	3
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,026)</b>	<b>(2,953)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	(1,786)	(1,451)
Proceeds from employee stock purchase plan	296	295
Proceeds from exercise of stock options	127	500
Stock repurchase program	(1,784)	(3,582)
Proceeds from issuance of long-term debt	1,714	2,005
Repayment of long-term debt	(2,815)	(2,857)
Net (decrease) increase in short-term borrowings	(41 )	455
Other	(14 )	(38 )
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(4,303)</b>	<b>(4,673)</b>

CASH FLOWS (USED IN) PROVIDED BY DISCONTINUED OPERATIONS - OPERATING ACTIVITIES		
	(233 )	24
Net increase (decrease) in cash before translation effect	65	(320 )
Translation effect on cash	(23 )	(34 )
Cash, beginning of period	3,130	3,472
Cash, end of period	\$3,172	\$3,118

(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)

January 1, 2015 – September 30, 2015	Common Stock		Retained Earnings	Accumulated Other Comprehensive Noncontrolling		Total
	Issued	In Treasury		Loss	Interest	
Balance, January 1, 2015	\$12,495	\$(11,772)	\$41,333	\$ (4,206 )	\$ 199	\$38,049
Net income			3,088		37	3,125
Currency translation adjustments				(260 )		(260 )
Changes in unrealized gain on marketable securities				(36 )		(36 )
Changes in fair value of cash flow hedges				38		38
Pension and other postretirement benefit plans				271		271
Shares sold to optionees, less shares exchanged	(30 )	157				127
Vesting of restricted stock	(95 )	95				-
Shares issued under employee stock purchase plan	17	279				296
Stock repurchase program		(1,784 )				(1,784 )
Stock-based compensation expense	250					250
Dividends declared (\$1.50 per share)			(1,906 )			(1,906 )
Other	5	2			2	9
Balance, September 30, 2015	\$12,642	\$(13,023)	\$42,515	\$ (4,193 )	\$ 238	\$38,179

(Stated in millions)

January 1, 2014 – September 30, 2014	Common Stock		Retained Earnings	Accumulated Other Comprehensive Noncontrolling		Total
	Issued	In Treasury		Loss	Interest	
Balance, January 1, 2014	\$12,192	\$(8,135 )	\$37,966	\$ (2,554 )	\$ 166	\$39,635
Net income			5,136		52	5,188
Currency translation adjustments				(176 )		(176 )
Changes in unrealized gain on marketable securities				(132 )		(132 )
Changes in fair value of cash flow hedges				(79 )		(79 )
Pension and other postretirement benefit plans				200		200
	(18 )	518				500

Shares sold to optionees, less shares exchanged							
Vesting of restricted stock	(68 )	68					-
Shares issued under employee stock purchase plan	33	262					295
Stock repurchase program		(3,582 )					(3,582 )
Stock-based compensation expense	246						246
Dividends declared (\$1.20 per share)			(1,559 )				(1,559 )
Shares issued for acquisition	72	141					213
Other	(29 )	3				(36 )	(62 )
Balance, September 30, 2014	\$12,428	\$(10,725 )	\$41,543	\$ (2,741 )	\$ 182		\$40,687

## SHARES OF COMMON STOCK

(Unaudited)

(Stated in millions)

	Shares		
	Issued	Treasury	Outstanding
Balance, January 1, 2015	1,434	(159)	1,275
Shares sold to optionees, less shares exchanged	-	2	2
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	4	4
Stock repurchase program	-	(21 )	(21 )
Balance, September 30, 2015	1,434	(173)	1,261

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, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015. The December 31, 2014 balance sheet information has been derived from the Schlumberger 2014 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, 2014, filed with the Securities and Exchange Commission on January 29, 2015.

Certain prior period items have been reclassified to conform to the current period presentation.

Recently Announced Transaction

On August 26, 2015, Schlumberger and Cameron jointly announced that they had entered into a definitive merger agreement in which Cameron will merge with an indirect wholly-owned subsidiary of Schlumberger in a stock and cash transaction. Under the terms of the agreement, Cameron shareholders will receive 0.716 shares of Schlumberger common stock and a cash payment of \$14.44 in exchange for each Cameron share of common stock outstanding. Schlumberger estimates that it will issue approximately 137 million shares of its common stock and will pay cash of approximately \$2.8 billion in connection with this transaction. The transaction is subject to Cameron shareholders’ approval, regulatory approvals and other customary closing conditions. It is anticipated that the closing of the transaction will occur in the first quarter of 2016.

New 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 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 is required to adopt this ASU no later than January 1, 2018 with early adoption permitted on January 1, 2017. Schlumberger does not expect this ASU to have a material impact on its consolidated financial statements.

2. Charges and Credits

Schlumberger recorded the following charges and credits in continuing operations during the first quarter of 2015:

- As a result of the severe fall in activity in North America, combined with the impact of lower international activity due to customer budget cuts driven by lower oil prices, Schlumberger decided to reduce its headcount during the first quarter of 2015. Schlumberger recorded a \$390 million charge during the first quarter associated with this headcount reduction as well as an incentivized leave of absence program.

- During 2014, Venezuela enacted certain changes to its foreign exchange system such that, in addition to the official rate of 6.3 Venezuelan Bolivares per US dollar, there were two other legal exchange rates that could be obtained via different exchange rate mechanisms. These changes included the expansion of the SICAD I auction rate and the introduction of what was known as the SICAD II auction process. The SICAD I and SICAD II exchange rates were approximately 11 and 50 Venezuelan Bolivares to the US dollar, respectively, at December 31, 2014.

Although the functional currency of Schlumberger's operations in Venezuela is the US dollar, a portion of the transactions in Venezuela are denominated in local currency. Prior to December 31, 2014, Schlumberger had applied the official exchange rate to remeasure local currency transactions and balances into US dollars.

Effective December 31, 2014, Schlumberger concluded that it was appropriate to apply the SICAD II exchange rate, as it believed this rate best represented the economics of Schlumberger's business activity in Venezuela. As a result, Schlumberger recorded a \$472 million devaluation charge during the fourth quarter of 2014.

In February 2015, the Venezuelan government replaced SICAD II with a new foreign exchange market system known as SIMADI. The SIMADI exchange rate was approximately 192 Venezuela Bolivares to the US dollar as of March 31, 2015. As a result, Schlumberger recorded a \$49 million devaluation charge during the first quarter of 2015, reflecting the adoption of the SIMADI exchange rate.

These changes result in a reduction in the US dollar reported amount of local currency denominated revenues, expenses and, consequently, income before taxes and net income in Venezuela. For example, if Schlumberger had applied an exchange rate of 192 Venezuelan Bolivares to the US dollar throughout 2014, it would have reduced Schlumberger earnings by approximately \$0.09 per share.

The following is a summary of these charges:

	(Stated in millions)			
	Pretax	Tax	Net	Classification
Workforce reduction	\$390	\$56	\$334	Restructuring & other
Currency devaluation loss in Venezuela	49	-	49	Restructuring & other
	\$439	\$56	\$383	

There were no charges or credits recorded during the second and third quarters of 2015 or the first nine months of 2014.

### 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)

	2015		2014		
	Schlumberger	Average	Earnings	Schlumberger	Average
	Income	Shares	per Share	Income	Shares
	from	Outstanding	from	from	Outstanding
	Continuing	Operations	Continuing	Continuing	Operations
	Operations	Operations	Operations	Operations	Operations
<b>Third Quarter</b>					
Basic	\$989	\$ 1,265	\$ 0.78	\$1,949	\$ 1,294
Assumed exercise of stock options	-	3		-	12
Unvested restricted stock	-	4		-	4
Diluted	\$989	\$ 1,272	\$ 0.78	\$1,949	\$ 1,310

	2015 Schlumberger Income from Continuing Operations		Earnings per Share from Continuing Operations	2014 Schlumberger Income from Continuing Operations		Earnings per Share from Continuing Operations
	Average	Shares Outstanding		Average	Shares Outstanding	
<b>Nine Months</b>						
Basic	\$3,088	\$ 1,270	\$ 2.43	\$5,341	\$ 1,300	\$ 4.11
Assumed exercise of stock options	-	4		-	10	
Unvested restricted stock	-	4		-	4	
Diluted	\$3,088	\$ 1,278	\$ 2.42	\$5,341	\$ 1,314	\$ 4.07



The number of outstanding options to purchase shares of Schlumberger common stock which 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)

	2015	2014
Third Quarter	20	1
Nine Months	15	1

#### 4. Inventories

A summary of inventories follows:

(Stated in millions)

	Sept. 30, 2015	Dec. 31, 2014
Raw, materials & field materials	\$2,642	\$2,666
Work in progress	201	273
Finished goods	1,385	1,689
	\$4,228	\$4,628

#### 5. Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

	Sept. 30, 2015	Dec. 31, 2014
Property, plant & equipment	\$37,373	\$36,964
Less: Accumulated depreciation	22,819	21,568
	\$14,554	\$15,396

Depreciation expense relating to fixed assets was as follows:

(Stated in millions)

	2015	2014
Third Quarter	\$798	\$821
Nine Months	2,444	2,414

#### 6. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the nine months ended September 30, 2015 was as follows:

(Stated in millions)

Balance at December 31, 2014	\$793
Capitalized in period	336
Charged to expense	(163)
Balance at September 30, 2015	\$966

## 7. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the nine months ended September 30, 2015 were as follows:

(stated in millions)

	Reservoir			Total
	Characterized	Drilling	Production	
Balance at December 31, 2014	\$3,812	\$8,488	\$ 3,187	\$15,487
Acquisitions	23	126	30	179
Impact of changes in exchange rates	(23 )	(15 )	(18 )	(56 )
Balance at September 30, 2015	\$3,812	\$8,599	\$ 3,199	\$15,610

## 8. Intangible Assets

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

(Stated in millions)

	Sept. 30, 2015			Dec. 31, 2014		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Technology/Technical Know-How	\$1,776	\$ 623	\$1,153	\$1,747	\$ 535	\$ 1,212
Tradenames	1,640	368	1,272	1,641	319	1,322
Customer Relationships	2,534	623	1,911	2,531	523	2,008
Other	464	276	188	380	268	112
	\$6,414	\$ 1,890	\$4,524	\$6,299	\$ 1,645	\$ 4,654

Amortization expense charged to income was as follows:

(Stated in millions)

	2015	2014
Third Quarter	\$88	\$88
Nine Months	\$267	\$257

Based on the net book value of intangible assets at September 30, 2015, amortization charged to income for the subsequent five years is estimated to be: remainder of 2015—\$90 million; 2016—\$361 million; 2017—\$352 million; 2018—\$343 million; 2019—\$333 million; and 2020—\$313 million.

## 9. Long-term Debt

A summary of Long-term Debt follows:

(Stated in millions)

	Sept. 30, 2015	Dec. 31, 2014
3.30% Senior Notes due 2021	\$ 1,597	\$ 1,597
3.65% Senior Notes due 2023	1,496	1,495
4.20% Senior Notes due 2021	1,100	1,100
1.25% Senior Notes due 2017	1,000	1,000
2.40% Senior Notes due 2022	999	999
1.50% Guaranteed Notes due 2019	578	628
1.95% Senior Notes due 2016	-	1,100
2.65% Senior Notes due 2016	-	500
Commercial paper borrowings	-	1,538
Other	717	608
	\$7,487	\$10,565

The estimated fair value of Schlumberger's Long-term Debt at September 30, 2015 and December 31, 2014, based on quoted market prices, was \$7.6 billion and \$10.7 billion, respectively.

Borrowings under the commercial paper program at September 30, 2015 were \$0.5 billion, all of which is classified within Long-term debt – current portion in the Consolidated Balance Sheet. At December 31, 2014, borrowings under the commercial paper program were \$1.5 billion, all of which were classified within Long-term Debt in the Consolidated Balance Sheet.

## 10. 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 the fourth quarter of 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. This derivative instrument is marked to market with gains and losses recognized in income to largely offset the respective gains and losses recognized on changes in the fair value of the hedged debt.

At September 30, 2015, Schlumberger had fixed rate debt of \$8.9 billion and variable rate debt of \$3.3 billion, after taking into account the effect of the swap.

Short-term investments and Fixed income investments, held to maturity, totaled \$3.9 billion at September 30, 2015. The carrying value of these investments approximated fair value, which was estimated using quoted market prices for those or similar investments.

## 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 which is denominated in currencies other than the functional currency. Schlumberger uses foreign currency forward contracts and foreign currency options to provide a hedge against a portion of these cash flow risks. These contracts are accounted for as cash flow hedges, with the effective portion of 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. The ineffective portion of changes in the fair value of hedging instruments, if any, is recorded directly to earnings.

At September 30, 2015, Schlumberger recognized a cumulative net \$58 million loss in Accumulated other comprehensive loss relating to revaluation of foreign currency forward contracts and foreign currency options 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 which 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, 2015, contracts were outstanding for the US dollar equivalent of \$5.6 billion in various foreign currencies, of which \$2.5 billion relate to hedges of debt denominated in currencies other than the functional currency.

The fair values of outstanding derivative instruments were as follows:

		(Stated in millions)		
		Fair Value of Derivatives		Consolidated Balance Sheet Classification
		Sept. 30, 2015	Dec. 31, 2014	
Derivative Assets				