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HALLIBURTON CO

Form 10-Q

October 26, 2018

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

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-03492

HALLIBURTON COMPANY

(a Delaware corporation)
75-2677995

**3000 North Sam Houston Parkway East
Houston, Texas 77032
(Address of Principal Executive Offices)**

Telephone Number – Area Code (281) 871-2699

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 ☐ Emerging Growth Company ☐

Smaller Reporting 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.

Yes ☐ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 19, 2018, there were 876,046,271 shares of Halliburton Company common stock, \$2.50 par value per share, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HALLIBURTON COMPANY****Condensed Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
<i>Millions of dollars and shares except per share data</i>				
Revenue:				
Services	\$4,800	\$4,118	\$13,996	\$10,971
Product sales	1,372	1,326	4,063	3,709
Total revenue	6,172	5,444	18,059	14,680
Operating costs and expenses:				
Cost of services	4,280	3,681	12,508	10,237
Cost of sales	1,104	1,066	3,232	3,005
General and administrative	72	55	195	185
Impairments and other charges	—	—	265	262
Total operating costs and expenses	5,456	4,802	16,200	13,689
Operating income	716	642	1,859	991
Interest expense, net of interest income of \$10, \$30, \$33, and \$81	(140)	)(115)	)(417	)(478)
Other, net	(42)	)(31)	)(86	)(75)
Income from continuing operations before income taxes	534	496	1,356	438
Income tax provision	(100)	)(135)	)(367	)(81)
Net income	\$434	\$361	\$989	\$357
Net loss attributable to noncontrolling interest	1	4	3	4
Net income attributable to company	\$435	\$365	\$992	\$361
Basic net income per share	\$0.50	\$0.42	\$1.13	\$0.42
Diluted net income per share	\$0.50	\$0.42	\$1.13	\$0.41
Basic weighted average common shares outstanding	877	872	876	869
Diluted weighted average common shares outstanding	878	873	879	872
Cash dividends per share	\$0.18	\$0.18	\$0.54	\$0.54

See notes to condensed consolidated financial statements.

Table of Contents**HALLIBURTON COMPANY****Condensed Consolidated Statements of Comprehensive Income
(Unaudited)**

	Three Months Ended September 30	Nine Months Ended September 30	2018	2017	2018	2017
<i>Millions of dollars</i>						
Net income	\$434	\$361	\$989	\$357		
Other comprehensive income, net of income taxes	7	2	6	6		
Comprehensive income	\$441	\$363	\$995	\$363		
Comprehensive loss attributable to noncontrolling interest	1	4	3	4		
Comprehensive income attributable to company shareholders	\$442	\$367	\$998	\$367		

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Balance Sheets
(Unaudited)

<i>Millions of dollars and shares except per share data</i>	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and equivalents	\$ 2,057	\$ 2,337
Receivables (net of allowances for bad debts of \$751 and \$725)	5,526	5,036
Inventories	2,887	2,396
Other current assets	966	1,008
Total current assets	11,436	10,777
Property, plant and equipment (net of accumulated depreciation of \$12,913 and \$12,249)	8,821	8,521
Goodwill	2,800	2,693
Deferred income taxes	1,128	1,230
Other assets	1,566	1,864
Total assets	\$ 25,751	\$ 25,085
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,142	\$ 2,554
Accrued employee compensation and benefits	722	746
Short-term borrowings and current maturities of long-term debt	35	512
Other current liabilities	1,054	1,050
Total current liabilities	4,953	4,862
Long-term debt	10,424	10,430
Employee compensation and benefits	594	609
Other liabilities	763	835
Total liabilities	16,734	16,736
Shareholders' equity:		
Common shares, par value \$2.50 per share (authorized 2,000 shares, issued 1,069 and 1,069 shares)	2,672	2,673
Paid-in capital in excess of par value	170	207
Accumulated other comprehensive loss	(463)	(469)
Retained earnings	13,216	12,668
Treasury stock, at cost (193 and 196 shares)	(6,597)	(6,757)
Company shareholders' equity	8,998	8,322
Noncontrolling interest in consolidated subsidiaries	19	27
Total shareholders' equity	9,017	8,349
Total liabilities and shareholders' equity	\$ 25,751	\$ 25,085

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30	
	2018	2017
<i>Millions of dollars</i>		
Cash flows from operating activities:		
Net income	\$989	\$357
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation, depletion and amortization	1,184	1,163
Impairments and other charges	312	262
Changes in assets and liabilities:		
Accounts payable	601	611
Inventories	(542)	(49)
Receivables	(431)	(1,064)
Other	192	177
Total cash flows provided by operating activities	2,305	1,457
Cash flows from investing activities:		
Capital expenditures	(1,475)	(934)
Sales of investment securities	522	67
Purchases of investment securities	(420)	(77)
Payments to acquire businesses, net of cash acquired	(166)	(628)
Proceeds from sales of property, plant and equipment	158	111
Other investing activities	(58)	(46)
Total cash flows used in investing activities	(1,439)	(1,507)
Cash flows from financing activities:		
Dividends to shareholders	(473)	(469)
Payments on long-term borrowings	(436)	(1,633)
Stock repurchase program	(200)	—
Other financing activities	28	92
Total cash flows used in financing activities	(1,081)	(2,010)
Effect of exchange rate changes on cash	(65)	(51)
Decrease in cash and equivalents	(280)	(2,111)
Cash and equivalents at beginning of period	2,337	4,009
Cash and equivalents at end of period	\$2,057	\$1,898
Supplemental disclosure of cash flow information:		
Cash payments (receipts) during the period for:		
Interest	\$415	\$455
Income taxes	\$191	\$(240)

See notes to condensed consolidated financial statements.

Table of Contents**HALLIBURTON COMPANY****Notes to Condensed Consolidated Financial Statements
(Unaudited)****Note 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read together with our 2017 Annual Report on Form 10-K.

Our accounting policies are in accordance with United States generally accepted accounting principles. The preparation of financial statements in conformity with these accounting principles requires us to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and
- the reported amounts of revenue and expenses during the reporting period.

Ultimate results could differ from our estimates.

In our opinion, the condensed consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position as of September 30, 2018, the results of our operations for the three and nine months ended September 30, 2018 and 2017, and our cash flows for the nine months ended September 30, 2018 and 2017. Such adjustments are of a normal recurring nature. In addition, certain reclassifications of prior period balances have been made to conform to the current period presentation. The results of our operations for the three and nine months ended September 30, 2018 may not be indicative of results for the full year.

Note 2. Business Segment and Geographic Information

We operate under two divisions, which form the basis for the two operating segments we report: the Completion and Production segment and the Drilling and Evaluation segment. Intersegment revenue was immaterial. Our equity in earnings and losses of unconsolidated affiliates that are accounted for using the equity method of accounting are included within cost of services on our statements of operations, which is part of operating income of the applicable segment.

The following table presents information on our business segments.

	Three Months Ended September 30		Nine Months Ended September 30	
<i>Millions of dollars</i>	2018	2017	2018	2017
Revenue:				
Completion and Production	\$4,170	\$3,537	\$12,141	\$9,273
Drilling and Evaluation	2,002	1,907	5,918	5,407
Total revenue	\$6,172	\$5,444	\$18,059	\$14,680
Operating income:				
Completion and Production	\$613	\$527	\$1,782	\$1,071
Drilling and Evaluation	181	186	560	433
Total operations	794	713	2,342	1,504

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Corporate and other (a)	(78	)(71	)(218	)(251	)
Impairments and other charges (b)	—	—	(265	)(262	)
Total operating income	\$716	\$642	\$1,859	\$991	
Interest expense, net of interest income (c)	(140	)(115	)(417	)(478	)
Other, net	(42	)(31	)(86	)(75	)
Income from continuing operations before income taxes	\$534	\$496	\$1,356	\$438	

(a) Corporate and other includes certain expenses not attributable to a particular business segment, such as costs related to support functions and corporate executives, and amortization expense associated with intangible assets recorded as a result of acquisitions.

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(b) Represents a pre-tax charge of \$265 million related to a write-down of all of our remaining investment in Venezuela, consisting of receivables, fixed assets, inventory and other assets and liabilities during the nine months ended September 30, 2018 and \$262 million for a fair market value adjustment related to Venezuela during the nine months ended September 30, 2017.

(c) Includes \$104 million of costs related to the early extinguishment of \$1.4 billion of senior notes in the nine months ended September 30, 2017.

Receivables

As of September 30, 2018, 46% of our net trade receivables were from customers in the United States. As of December 31, 2017, 42% of our net trade receivables were from customers in the United States. Other than the United States, no other country or single customer accounted for more than 10% of our trade receivables at these dates.

We routinely monitor the financial stability of our customers and employ an extensive process to evaluate the collectability of outstanding receivables. This process, which involves a high degree of judgment utilizing significant assumptions, includes analysis of our customers' historical time to pay, financial condition and various financial metrics, debt structure, credit agency ratings, and production profile, as well as political and economic factors in countries of operations and other customer-specific factors.

Venezuela

During the first quarter of 2018, the Venezuelan government announced that it changed the existing dual-rate foreign currency exchange system by eliminating the DIPRO foreign exchange rate, which was 10 Bolívars per United States dollar, and that all future currency transactions would be carried out at the DICOM floating rate, which was approximately 50,000 Bolívars per United States dollar at March 31, 2018. Additionally, the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury issued guidance during the first quarter of 2018 which purports to prohibit the acceptance of payments on receivables issued on or after August 25, 2017 and outstanding longer than 90 days from customers subject to U.S. sanctions related to Venezuela in the absence of an OFAC license. These events, combined with continued deteriorating political and economic conditions in Venezuela and ongoing delayed payments on existing accounts receivable with customers in the country, created significant uncertainties regarding the recoverability of our investment. As such, we determined it was appropriate to write down all of our remaining investment in Venezuela during the first quarter of 2018, which resulted in a \$312 million charge, net of tax. This consisted of \$119 million of allowance for doubtful accounts related to remaining accounts receivable, a \$32 million write-off of our promissory note from our primary customer in Venezuela, and write-offs of \$48 million of inventory, \$53 million of fixed assets and \$13 million of other assets and liabilities, all of which were included within "Impairments and other charges" in our condensed consolidated statements of operations, in addition to \$47 million of accrued taxes recognized in our tax provision.

We are maintaining our presence in Venezuela and have changed our accounting for revenue with all customers in the country to a cash basis, effective April 1, 2018, while carefully managing our exposure. See Part II, Item 1(a), "Risk Factors" for additional information on risks associated with our operations in Venezuela.

Note 3. Revenue

Changes in accounting policies

Effective January 1, 2018, we adopted a comprehensive new revenue recognition standard. The details of the significant changes to our accounting policies resulting from the adoption of the new standard are set out below. We adopted the standard using a modified retrospective method; accordingly, the comparative information for the three and nine months ended September 30, 2017 has not been adjusted and continues to be reported under the previous revenue standard. The adoption of this standard did not have a material impact to our condensed consolidated financial position, reported revenue, results of operations or cash flows as of and for the three and nine months ended September 30, 2018. See Note 9 for additional information about the new accounting standard.

Under the new standard, revenue recognition is based on the transfer of control, or our customer's ability to benefit from our services and products in an amount that reflects the consideration we expect to receive in exchange for those services and products. The vast majority of our service and product contracts are short-term in nature. In recognizing revenue for our services and products, we determine the transaction price of purchase orders or contracts with our customers, which may consist of fixed and variable consideration. Determining the transaction price may require significant judgment, which includes identifying performance obligations in the contract, determining whether promised services can be distinguished in the context of the contract, and estimating the amount of variable consideration to include in the transaction price. Variable consideration typically relates to bonuses, discounts, price concessions, refunds, penalties, job disputes, credits and incentives. We estimate variable consideration based on the amount of consideration we expect to receive. We record revenue accruals on an ongoing basis to reflect updated information for variable consideration as performance obligations are met.

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We also assess our customer's ability and intention to pay, which is based on a variety of factors including our customer's historical payment experience and financial condition. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 20 to 60 days. Other judgments involved in recognizing revenue include an assessment of progress towards completion of performance obligations for certain long-term contracts, which involve estimating total costs to determine our progress towards contract completion and calculating the corresponding amount of revenue to recognize.

Disaggregation of revenue

We disaggregate revenue from contracts with customers into types of services or products, consistent with our two reportable segments, in addition to geographical area. Based on the location of services provided and products sold, 59% and 53% of our consolidated revenue was from the United States for the nine months ended September 30, 2018 and 2017, respectively. No other country accounted for more than 10% of our revenue. The following table presents information on our disaggregated revenue.

REVENUE:	Three Months Nine Months			
	Ended		Ended	
	September 30		September 30	
<i>Millions of dollars</i>	2018	2017	2018	2017
Completion and Production	\$4,170	\$3,537	\$12,141	\$9,273
Drilling and Evaluation	2,002	1,907	5,918	5,407
Total revenue	\$6,172	\$5,444	\$18,059	\$14,680

By geographic region:

North America	\$3,739	\$3,163	\$11,090	\$8,164
Latin America	522	530	1,458	1,501
Europe/Africa/CIS	757	722	2,199	2,005
Middle East/Asia	1,154	1,029	3,312	3,010
Total revenue	\$6,172	\$5,444	\$18,059	\$14,680

Contract balances

We perform our obligations under contracts with our customers by transferring services and products in exchange for consideration. The timing of our performance often differs from the timing of our customer's payment, which results in the recognition of receivables and deferred revenue.

We have long-term receivables for work completed but not billed in which the rights to consideration are conditional. These are primarily related to pay-out-of-production projects and are not material to our condensed consolidated financial statements. Deferred revenue represents advance consideration received from customers for contracts where revenue is recognized on future performance of service. Deferred revenue, as well as revenue recognized during the period relating to amounts included as deferred revenue at the beginning of the period, was not material to our condensed consolidated financial statements.

Transaction price allocated to remaining performance obligations

Remaining performance obligations represent firm contracts for which work has not been performed and future revenue recognition is expected. We have elected the practical expedient permitting the exclusion of disclosing remaining performance obligations for contracts that have an original expected duration of one year or less. We have some long-term contracts related to software and integrated project management services such as lump sum turnkey contracts. For software contracts, revenue is generally recognized over time throughout the license period when the software is considered to be a right to access our intellectual property. For lump sum turnkey projects, we recognize

revenue over time using an input method, which requires us to exercise judgment. Revenue allocated to remaining performance obligations for these long-term contracts is not material.

Table of Contents**Note 4. Inventories**

Inventories are stated at the lower of cost and net realizable value. In the United States, we manufacture certain finished products and parts inventories for drill bits, completion products, bulk materials and other tools that are recorded using the last-in, first-out method, which totaled \$168 million as of September 30, 2018 and \$177 million as of December 31, 2017. If the average cost method had been used, total inventories would have been \$31 million higher than reported as of both September 30, 2018 and December 31, 2017. The cost of the remaining inventory was recorded using the average cost method. Inventories consisted of the following:

<i>Millions of dollars</i>	September 30, 2018	December 31, 2017
Finished products and parts	\$ 1,821	\$ 1,547
Raw materials and supplies	890	703
Work in process	176	146
Total	\$ 2,887	\$ 2,396

All amounts in the table above are reported net of obsolescence reserves of \$247 million as of September 30, 2018 and \$276 million as of December 31, 2017.

Note 5. Shareholders' Equity

The following tables summarize our shareholders' equity activity:

<i>Millions of dollars</i>	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
<i>Balance at December 31, 2017</i>	\$ 8,349	\$ 8,322	\$ 27
Retained earnings adjustment for new accounting standard (a)	30	30	—
Payments of dividends to shareholders	(473)	(473)	—
Stock plans	370	370	—
Stock repurchase program	(200)	(200)	—
Other	(54)	(49)	(5)
Comprehensive income (loss)	995	998	(3)
Balance at September 30, 2018	\$ 9,017	\$ 8,998	\$ 19

(a) Represents a cumulative-effect adjustment to retained earnings upon our adoption of new accounting standards effective January 1, 2018. See Note 9 for further information on the adoption of the new revenue recognition standard.

<i>Millions of dollars</i>	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
<i>Balance at December 31, 2016</i>	\$ 9,448	\$ 9,409	\$ 39
Retained earnings adjustment for new accounting standard (b)	(384)	(384)	—
Payments of dividends to shareholders	(469)	(469)	—
Stock plans	340	340	—
Other	(52)	(46)	(6)
Comprehensive income (loss)	363	367	(4)
<i>Balance at September 30, 2017</i>	\$ 9,246	\$ 9,217	\$ 29

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(b) Represents a cumulative-effect adjustment to retained earnings upon our adoption of a new accounting standards update on the income tax consequences of intra-entity transfers of assets other than inventory, which was effective January 1, 2017.

Our Board of Directors has authorized a program to repurchase our common stock from time to time. During the quarter ended September 30, 2018, under that program we repurchased approximately 4.8 million shares of our common stock for a total cost of \$200 million. Approximately \$5.5 billion remained authorized for repurchases as of September 30, 2018.

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From the inception of this program in February 2006 through September 30, 2018, we repurchased approximately 206 million shares of our common stock for a total cost of approximately \$8.6 billion.

Accumulated other comprehensive loss consisted of the following:

<i>Millions of dollars</i>	September 30, December 31,	
	2018	2017
Defined benefit and other postretirement liability adjustments	\$ (325)	\$ (334)
Cumulative translation adjustments	(81)	(80)
Other	(57)	(55)
Total accumulated other comprehensive loss	\$ (463)	\$ (469)

Note 6. Commitments and Contingencies***Securities and related litigation***

Commencing in June 2002, a number of class action lawsuits were filed against us in federal court alleging violations of the federal securities laws arising out of our change in accounting for revenue on long-term construction projects, our 1998 acquisition of Dresser Industries, Inc. and our reserves for asbestos liability exposure. In December 2016, we reached an agreement to settle these lawsuits and in July 2017, the district court issued final approval of the settlement.

The settlement resolves all pending cases other than *Magruder v. Halliburton Co., et. al.* (the Magruder case). The allegations arise out of the same general events described above, but for a later class period, December 8, 2001 to May 28, 2002. There has been limited activity in the Magruder case. In March 2009, our motion to dismiss was granted, with leave to replead. In March 2012, plaintiffs filed an amended complaint and in May 2012, we filed a motion to dismiss. That motion was granted in May 2018, with leave to replead some of the claims. An amended complaint was filed in June 2018 and we filed another motion to dismiss which remains pending. We cannot predict the outcome or consequences of this case, which we intend to vigorously defend.

Environmental

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others:

- the Comprehensive Environmental Response, Compensation, and Liability Act;
- the Resource Conservation and Recovery Act;
- the Clean Air Act;
- the Federal Water Pollution Control Act;
- the Toxic Substances Control Act; and
- the Oil Pollution Act.

In addition to the federal laws and regulations, states and other countries where we do business often have numerous environmental, legal, and regulatory requirements by which we must abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to help prevent the occurrence of environmental contamination. On occasion, we are involved in environmental litigation and claims, including the remediation of properties we own or have operated, as well as efforts to meet or correct compliance-related matters. We do not expect costs related to those claims and remediation requirements to have a material adverse effect on our liquidity, consolidated results of operations, or consolidated financial position. Our accrued liabilities for

environmental matters were \$44 million as of September 30, 2018 and \$48 million as of December 31, 2017. Because our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. Our total liability related to environmental matters covers numerous properties.

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Additionally, we have subsidiaries that have been named as potentially responsible parties along with other third parties for seven federal and state Superfund sites for which we have established reserves. As of September 30, 2018, those seven sites accounted for approximately \$9 million of our \$44 million total environmental reserve. Despite attempts to resolve these Superfund matters, the relevant regulatory agency may at any time bring suit against us for amounts in excess of the amount accrued. With respect to some Superfund sites, we have been named a potentially responsible party by a regulatory agency; however, in each of those cases, we do not believe we have any material liability. We also could be subject to third-party claims with respect to environmental matters for which we have been named as a potentially responsible party.

Guarantee arrangements

In the normal course of business, we have agreements with financial institutions under which approximately \$1.9 billion of letters of credit, bank guarantees or surety bonds were outstanding as of September 30, 2018. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization. None of these off balance sheet arrangements either has, or is likely to have, a material effect on our condensed consolidated financial statements.

Note 7. Income per Share

Basic income per share is based on the weighted average number of common shares outstanding during the period. Diluted income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. Antidilutive shares represent potential common shares which are excluded from the computation of diluted income per share as their impact would be antidilutive.

A reconciliation of the number of shares used for the basic and diluted income per share computations is as follows:

	Three Months Ended September 30 2018		Nine Months Ended September 30 2017	
<i>Millions of shares</i>				
Basic weighted average common shares outstanding	877	872	876	869
Dilutive effect of awards granted under our stock incentive plans	1	1	3	3
Diluted weighted average common shares outstanding	878	873	879	872
Antidilutive shares:				
Options with exercise price greater than the average market price	15	14	7	6
Total antidilutive shares	15	14	7	6

Note 8. Fair Value of Financial Instruments

The carrying amount of cash and equivalents, receivables and accounts payable, as reflected in the condensed consolidated balance sheets, approximates fair value due to the short maturities of these instruments.

The carrying amount and fair value of our total debt, including short-term borrowings and current maturities of long-term debt, is as follows:

	September 30, 2018			December 31, 2017			
<i>Millions of dollars</i>	Level 1	Level 2	Total fair value	Carrying value	Level 1	Level 2	Total fair value
							Carrying value

	value		value	
Total debt	\$8,119	\$3,284	\$11,403	\$10,459
			\$3,285	\$9,172
				\$12,457
				\$10,942

Our debt categorized within level 1 on the fair value hierarchy is calculated using quoted prices in active markets for identical liabilities with transactions occurring on the last two days of period-end. Our debt categorized within level 2 on the fair value hierarchy is calculated using significant observable inputs for similar liabilities where estimated values are determined from observable data points on our other bonds and on other similarly rated corporate debt or from observable data points of transactions occurring prior to two days from period-end and adjusting for changes in market conditions. Differences between the periods presented in our level 1 and level 2 classification of our long-term debt relate to the timing of when transactions are executed. We have no debt categorized within level 3 on the fair value hierarchy based on unobservable inputs.

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Note 9. New Accounting Pronouncements

Standards adopted in 2018

Revenue Recognition

On January 1, 2018, we adopted the comprehensive new revenue recognition standard issued by the Financial Accounting Standards Board (FASB). The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised services or products to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those services or products. The standard creates a five step model that requires companies to exercise judgment when considering the terms of a contract and all relevant facts and circumstances.

We adopted the new revenue recognition standard using a modified retrospective basis and applied the guidance to all contracts that were not completed as of January 1, 2018. This resulted in an immaterial cumulative-effect adjustment to retained earnings as of January 1, 2018. The comparative financial information has not been restated and continues to be reported under the revenue accounting standards in effect during those periods. The adoption of this standard did not have a material impact to our condensed consolidated financial position, reported revenue, results of operations or cash flows as of and for the three and nine months ended September 30, 2018. See Note 3 for our expanded revenue disclosures required by the new standard.

Standards not yet adopted

Leases

In February 2016, the FASB issued an accounting standards update related to accounting for leases, which requires assets and liabilities that arise from all leases to be recognized on the balance sheet for lessees and expanded financial statement disclosures for both lessees and lessors. Currently, only capital leases are recorded on the balance sheet. This update will require lessees to recognize a lease liability equal to the present value of its lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities and instead recognize lease expense for such leases generally on a straight-line basis over the lease term. We will adopt this standard on January 1, 2019 using the optional transition method of recognizing a cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2019. The comparative financial information will not be restated and will continue to be reported under the lease standard in effect during those periods. We are in the process of implementing a new lease system in connection with the adoption and are continuing to evaluate the impact this update will have on our condensed consolidated financial statements.

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

EXECUTIVE OVERVIEW

Organization

We are one of the world's largest providers of products and services to the energy industry. We help our customers maximize value throughout the lifecycle of the reservoir - from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production throughout the life of the asset. Activity levels within our operations are significantly impacted by spending on upstream exploration, development and production programs by major, national and independent oil and natural gas companies. We report our results under two segments, the Completion and Production segment and the Drilling and Evaluation segment: our Completion and Production segment delivers cementing, stimulation, intervention, pressure control, specialty chemicals, artificial lift, and completion products and services. The segment consists of Production Enhancement, Cementing, Completion Tools, Production Solutions, Pipeline and Process Services, Multi-Chem and Artificial Lift. our Drilling and Evaluation segment provides field and reservoir modeling, drilling, evaluation and precise wellbore placement solutions that enable customers to model, measure, drill and optimize their well construction activities. The segment consists of Baroid, Sperry Drilling, Wireline and Perforating, Drill Bits and Services, Landmark Software and Services, Testing and Subsea, and Consulting and Project Management.

The business operations of our segments are organized around four primary geographic regions: North America, Latin America, Europe/Africa/CIS and Middle East/Asia. We have manufacturing operations in various locations, the most significant of which are located in the United States, Canada, Malaysia, Singapore and the United Kingdom. With over 55,000 employees, we operate in more than 80 countries around the world, and our corporate headquarters are in Houston, Texas and Dubai, United Arab Emirates.

Financial results

We generated total company revenue of \$6.2 billion during the third quarter of 2018, a 13% increase from the \$5.4 billion of revenue generated during the third quarter of 2017. Total company operating income was \$716 million during the third quarter of 2018, a 12% improvement compared to operating income of \$642 million in the third quarter of 2017. Our Completion and Production segment revenue improved 18% and our Drilling and Evaluation segment revenue increased 5% from the third quarter of 2017. We also generated over \$2.3 billion of operating cash flow during the first nine months of 2018. While we experienced significant year over year revenue and profitability growth, our third quarter revenue was flat and operating income decreased 9%, as compared to the second quarter of 2018, largely due to a softening North America market which impacted activity and pricing in the oilfield services industry. Our international business is showing signs of a steady recovery with 5% revenue growth, as compared to the second quarter of 2018, and higher revenue in every international region.

Our North America revenue increased 18% in the third quarter of 2018, as compared to the third quarter of 2017, outperforming a 9% increase in the average North American rig count. However, the United States land rig count was essentially flat from the second quarter to the third quarter as the market softened. A combination of offtake capacity constraints and our customers exhausting their budgets led to less demand for completion services than expected in the third quarter of 2018. This resulted in a 2% reduction in our North America revenue compared to the second quarter of 2018, primarily driven by lower pricing for our stimulation services in the United States land sector. We also incurred higher maintenance expense in our U.S. pressure pumping business during the third quarter of 2018, as compared to the second quarter of 2018, as we performed incremental maintenance in anticipation of increased completions activity in 2019. We are actively managing these costs, and we believe the temporary challenges we are facing in our North America business will continue through the end of the year with a rebound in 2019.

Our international revenue increased 7% in the third quarter of 2018, as compared to the third quarter of 2017, driven primarily by increased drilling and well intervention activity in the Middle East. While the international markets are continuing to improve, as further evidenced by a 5% growth in our international revenue compared to the second quarter of 2018, the markets are in the early stages of a recovery and pricing pressure remains a challenge in a competitive landscape. We have grown our market share in the international markets throughout the downturn because of our strong service quality and technology offerings and our willingness to collaborate with our customers. Our product service lines continue to focus on delivering technology-driven value propositions to help our customers increase production and lower costs.

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Business outlook

In North America, we expect the temporary challenges related to pipeline capacity constraints and customer budget limitations to persist through the end of the year. Based on current feedback from customers, we expect operators to take extended breaks around the holidays during the last six weeks of the year, which, when combined with exhausted customer budgets, will reduce activity levels in the fourth quarter of 2018. We will continue to adjust our cost structure to market conditions, but we do not believe it is necessary to significantly reduce costs or infrastructure for a temporary slowdown in activity levels. We are actively maintaining our equipment and using this time to improve the condition of our fleet to position our North America land business for future success as the market improves. In 2019, we expect a rebound in activity from second half of 2018 levels as customer budgets are refreshed and offtake capacity expands, and we believe activity momentum will continue throughout the year.

Overall, we believe the North America market has strong fundamentals and we expect supportive commodity prices to encourage continued long-term growth. One of our key strategies during the downturn was to build market share based on our strong belief in the long-term potential of the North America market and by demonstrating to our customers the benefits of our service quality and technology. We believe we have successfully executed on this strategy and intend to continue our focus to maintain our market position, optimize pricing and utilization, pursue continued technology implementation and control costs.

Internationally, we believe the markets are improving and a recovery is underway. We are experiencing enhanced tender activity and are holding constructive conversations with our customers. We expect the international recovery to be focused, at least initially, on mature fields as customers broadly favor shorter cycle returns and lower risk projects in today's environment. We believe we are well-positioned for continued growth as a result of the significant investments we made to grow our global footprint in the last cycle, which included increasing our product service line operations in various geographies, expanding our manufacturing capacity in Singapore and opening technology centers in Saudi Arabia, India and Brazil. We will continue to collaborate with our customers to improve their project economics and our profitability through advanced technology and increased operating efficiency.

During the first nine months of 2018, our capital expenditures were approximately \$1.5 billion, an increase of 58% from the first nine months of 2017. These capital expenditures were predominantly in our Production Enhancement, Sperry Drilling, Artificial Lift, Cementing, and Wireline and Perforating product service lines.

We intend to continue to strengthen our product service lines through a combination of organic growth, investment and selective acquisitions. We are continuing to execute the following strategies in 2018:

- directing capital and resources into strategic growth markets, including unconventional plays and mature fields;
- leveraging our broad technology offerings to provide value to our customers and enable them to more efficiently drill and complete their wells;
- exploring additional opportunities for acquisitions that will enhance or augment our current portfolio of services and products, including those with unique technologies or distribution networks in areas where we do not already have significant operations;
- investing in technology that will help our customers reduce reservoir uncertainty and increase operational efficiency;
- improving working capital and managing our balance sheet to maximize our financial flexibility;
- continuing to seek ways to be one of the most cost-efficient service providers in the industry by maintaining capital discipline and leveraging our scale and breadth of operations;
- collaborating and engineering solutions to maximize asset value for our customers;
- and
- striving to achieve superior growth and returns for our shareholders.

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

Financial markets, liquidity, and capital resources

We believe we have invested our cash balances conservatively and secured sufficient financing to help mitigate any near-term negative impact on our operations from adverse market conditions. As of September 30, 2018, we had \$2.1 billion of cash and equivalents and \$3.0 billion available under our revolving credit facility, which we believe provides us with sufficient liquidity to address the challenges and opportunities of the current market. For additional information on market conditions, see “Liquidity and Capital Resources” and “Business Environment and Results of Operations.”

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2018, we had \$2.1 billion of cash and equivalents, compared to \$2.3 billion of cash and equivalents at December 31, 2017.

Significant sources and uses of cash during the first nine months of 2018

Sources of cash:

- Cash flows from operating activities were \$2.3 billion.
- We sold \$102 million of investment securities, net of purchases.

Uses of cash:

- Capital expenditures were \$1.5 billion and were predominantly made in our Production Enhancement, Sperry Drilling, Artificial Lift, Cementing, and Wireline and Perforating product service lines.
- We paid \$473 million in dividends to our shareholders.
- We paid \$400 million to retire our senior notes which matured in August 2018.
- Working capital (receivables, inventories and accounts payable) increased by a net \$372 million, primarily due to increased business activity.
- We repurchased approximately 4.8 million shares of our common stock under our share repurchase program at a total cost of approximately \$200 million.
- We paid \$166 million for acquisitions of various businesses, net of cash acquired, to further enhance our existing product service lines.

Future sources and uses of cash

We manufacture most of our own equipment, which allows us flexibility to increase or decrease our capital expenditures based on market conditions. Capital spending for the full year 2018 is currently expected to be approximately \$2.0 billion. The capital expenditures plan for the remainder of 2018 is primarily directed towards our Production Enhancement and Sperry Drilling product service lines.

Currently, our quarterly dividend rate is \$0.18 per common share, or approximately \$158 million. Subject to Board of Directors approval, our intention is to continue paying dividends at our current rate during 2018. Our Board of Directors has authorized a program to repurchase our common stock from time to time. Approximately \$5.5 billion remained authorized for repurchases as of September 30, 2018 and may be used for open market and other share purchases.

Other factors affecting liquidity

Financial position in current market. As of September 30, 2018, we had \$2.1 billion of cash and equivalents and \$3.0 billion of available committed bank credit under our revolving credit facility. Furthermore, we have no financial covenants or material adverse change provisions in our bank agreements, and our debt maturities extend over a long period of time. We believe our cash on hand, cash flows generated from operations and our available credit facility will provide sufficient liquidity to address our global cash needs for the remainder of 2018, including capital expenditures, working capital investments, dividends, if any, and contingent liabilities.

Guarantee agreements. In the normal course of business, we have agreements with financial institutions under which approximately \$1.9 billion of letters of credit, bank guarantees or surety bonds were outstanding as of September 30, 2018. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Credit ratings. Our credit ratings with Standard & Poor's (S&P) remain A- for our long-term debt and A-2 for our short-term debt, with a stable outlook. Our credit ratings with Moody's Investors Service (Moody's) remain Baa1 for our long-term debt and P-2 for our short-term debt, with a stable outlook.

Customer receivables. In line with industry practice, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures to pay our invoices due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets as well as unsettled political conditions. If our customers delay paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations and consolidated financial condition. See Note 2 to the condensed consolidated financial statements for further discussion related to receivables in Venezuela.

Table of Contents**BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS**

We operate in more than 80 countries throughout the world to provide a comprehensive range of services and products to the energy industry. A significant amount of our consolidated revenue is derived from the sale of services and products to major, national, and independent oil and natural gas companies worldwide. The industry we serve is highly competitive with many substantial competitors in each segment of our business. During the first nine months of 2018, based upon the location of the services provided and products sold, 59% of our consolidated revenue was from the United States, compared to 53% of consolidated revenue from the United States in the first nine months of 2017. No other country accounted for more than 10% of our revenue.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, sanctions, expropriation or other governmental actions, inflation, changes in foreign currency exchange rates, foreign currency exchange restrictions and highly inflationary currencies, as well as other geopolitical factors. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country, other than the United States, would be materially adverse to our consolidated results of operations.

Activity within our business segments is significantly impacted by spending on upstream exploration, development and production programs by our customers. Also impacting our activity is the status of the global economy, which impacts oil and natural gas consumption.

Some of the more significant determinants of current and future spending levels of our customers are oil and natural gas prices, global oil supply, completions intensity, the world economy, the availability of credit, government regulation and global stability, which together drive worldwide drilling and completions activity. Lower oil and natural gas prices usually translate into lower exploration and production budgets and lower rig count, while the opposite is true for higher oil and natural gas prices. Our financial performance is therefore significantly affected by oil and natural gas prices and worldwide rig activity, which are summarized in the tables below.

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

	Three Months Ended		Year Ended
	September 30		December 31
	2018	2017	2017
Oil price - WTI ⁽¹⁾	\$69.76	\$48.36	\$ 50.93
Oil price - Brent ⁽¹⁾	75.22	52.31	54.30
Natural gas price - Henry Hub ⁽²⁾	2.93	3.15	3.04

⁽¹⁾ Oil price measured in dollars per barrel

⁽²⁾ Natural gas price measured in dollars per million British thermal units (Btu), or MMBtu

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

	Three Months Ended September 30		Nine Months Ended September 30	
Land vs. Offshore	2018	2017	2018	2017
United States:				
Land	1,032	927	1,001	841
Offshore (incl. Gulf of Mexico)	19	19	18	20
Total	1,051	946	1,019	861
Canada:				
Land	207	207	193	206
Offshore	2	1	2	1
Total	209	208	195	207
International (excluding Canada):				
Land	792	749	781	748
Offshore	211	199	200	200
Total	1,003	948	981	948
Worldwide total	2,263	2,102	2,195	2,016
Land total	2,031	1,883	1,975	1,795
Offshore total	232	219	220	221

	Three Months Ended September 30		Nine Months Ended September 30	
Oil vs. Natural Gas	2018	2017	2018	2017
United States (incl. Gulf of Mexico):				
Oil	864	760	830	691
Natural gas	187	186	189	170
Total	1,051	946	1,019	861
Canada:				
Oil	141	115	125	110
Natural gas	68	93	70	97
Total	209	208	195	207
International (excluding Canada):				
Oil	800	731	777	729
Natural gas	203	217	204	219
Total	1,003	948	981	948
Worldwide total	2,263	2,102	2,195	2,016
Oil total	1,805	1,606	1,732	1,530
Natural gas total	458	496	463	486

Three
Months
Ended
September

Nine
Months
Ended
September

Drilling Type	30		30	
	2018	2017	2018	2017
United States (incl. Gulf of Mexico):				
Horizontal	921	799	890	720
Vertical	63	70	61	72
Directional	67	77	68	69
Total	1,051	946	1,019	861

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Crude oil prices have been extremely volatile during the past few years. WTI oil spot prices declined significantly beginning in 2014 from a peak price of \$108 per barrel in June 2014 to a low of \$26 per barrel in February 2016, a level which had not been experienced since 2003. Brent crude oil spot prices declined from a high of \$115 per barrel in June 2014 to \$26 per barrel in January 2016. Since the low point experienced in early 2016, oil prices have increased substantially. WTI oil spot prices reached a high of \$77 per barrel in June 2018 and Brent crude oil spot prices reached a high of \$86 per barrel in October 2018. The average WTI and Brent crude oil spot prices during the third quarter of 2018 were \$70 per barrel and \$75 per barrel, respectively.

In the United States Energy Information Administration (EIA) October 2018 "Short Term Energy Outlook," the EIA projects Brent prices to average \$74 per barrel and \$75 per barrel in 2018 and in 2019, respectively, while WTI prices are projected to average about \$6 less per barrel for the same periods. Crude oil production in the United States is now projected to average 10.7 million barrels per day in 2018, a 14% increase from 2017. Additionally, the EIA projects that U.S. production will increase 10% in 2019, to average 11.8 million barrels per day. The International Energy Agency's (IEA) October 2018 "Oil Market Report" forecasts the 2018 global demand to average approximately 99.2 million barrels per day, which is up 1.3% from 2017, driven by an increase in the Asia Pacific region, while all other regions remain approximately the same.

The Henry Hub natural gas spot price in the United States averaged \$2.99 per MMBtu in September 2018, essentially flat year over year. The EIA October 2018 "Short Term Energy Outlook" projects Henry Hub natural gas prices to average \$2.99 per MMBtu in 2018 and \$3.12 per MMBtu in 2019.

North America operations

The average North America oil-directed rig count increased 130 rigs, or 15%, for the third quarter of 2018 as compared to the third quarter of 2017, while the average North America natural gas-directed rig count decreased 24 rigs, or 9% during the same period. During the third quarter of 2018, the average United States land rig count increased 11%, as compared to the third quarter of 2017, and completions activity continued to strengthen. However, the average United States land rig count was essentially flat from the second quarter to the third quarter of 2018 as the market softened. We are facing temporary challenges caused by offtake capacity constraints and customer budget exhaustion which have led to less demand for completion services, and, in turn, to negative pressure on our pricing. We believe these temporary challenges in our North America business will continue through the end of the year with a rebound in 2019.

International operations

The average international rig count for the third quarter of 2018 was up 6% compared to the third quarter of 2017. While the international markets are continuing to improve, the markets are in the early stages of a recovery and pricing pressure remains a challenge in a competitive landscape. We expect the international recovery to be focused, at least initially, on mature fields as customers broadly favor shorter cycle returns and lower risk projects in today's environment. We believe we are well-positioned for continued growth as a result of the significant investments we made to grow our global footprint in the last cycle.

Venezuela. Venezuela continues to experience significant political and economic turmoil. During the first quarter of 2018, the Venezuelan government announced that it changed the existing dual-rate foreign currency exchange system by eliminating the DIPRO foreign exchange rate, which had a protected rate of 10 Bolívars per United States dollar, and that all future currency transactions would be carried out at the DICOM floating rate, which was approximately 50,000 Bolívars per United States dollar at March 31, 2018. Additionally, the Office of Foreign Assets Control of the U.S. Department of the Treasury issued guidance which purports to prohibit the acceptance of payments on receivables issued on or after August 25, 2017 and outstanding longer than 90 days from customers subject to U.S. sanctions related to Venezuela in the absence of an OFAC license. See Note 2 to the condensed consolidated financial

statements for further discussion on the write-down of our investment in Venezuela that we recognized in the first quarter of 2018 as a result of these events. Also, see Part II, Item 1(a), “Risk Factors” for additional information on risks associated with our operations in Venezuela.

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	Three Months				
REVENUE:	Ended	Favorable	Percentage		
	September 30				
<i>Millions of dollars</i>	2018	2017	(Unfavorable)	Change	
Completion and Production	\$4,170	\$3,537	\$ 633	18	%
Drilling and Evaluation	2,002	1,907	95	5	
Total revenue	\$6,172	\$5,444	\$ 728	13	%

By geographic region:

North America	\$3,739	\$3,163	\$ 576	18	%
Latin America	522	530	(8	) (2	)
Europe/Africa/CIS	757	722	35	5	
Middle East/Asia	1,154	1,029	125	12	
Total revenue	\$6,172	\$5,444	\$ 728	13	%

	Three Months				
OPERATING INCOME:	Ended	Favorable	Percentage		
	September 30				
<i>Millions of dollars</i>	2018	2017	(Unfavorable)	Change	
Completion and Production	\$613	\$527	\$ 86	16	%
Drilling and Evaluation	181	186	(5	) (3	)
Total	794	713	81	11	
Corporate and other	(78	)(71	)(7	) (10	)
Total operating income	\$716	\$642	\$ 74	12	%

Consolidated revenue was \$6.2 billion in the third quarter of 2018, an increase of \$728 million, or 13%, as compared to the third quarter of 2017. Consolidated operating income was \$716 million during the third quarter of 2018, a 12% increase from operating income of \$642 million in the third quarter of 2017. These improvements were experienced across the majority of our product service lines, primarily associated with activity improvements in the United States land sector related to pressure pumping and artificial lift services, as well as drilling activity in the Middle East. Revenue from North America was 61% of consolidated revenue in the third quarter of 2018, compared to 58% of consolidated revenue in the third quarter of 2017.

OPERATING SEGMENTS*Completion and Production*

Completion and Production revenue in the third quarter of 2018 was \$4.2 billion, an increase of \$633 million, or 18%, from the third quarter of 2017. Operating income in the third quarter of 2018 was \$613 million, an increase of \$86 million, or 16%, from the