

HALLIBURTON CO
Form 10-Q
August 01, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

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.

YesNo

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YesNo

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 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[X]

As of July 25, 2016, there were 861,102,509 shares of Halliburton Company common stock, \$2.50 par value per share, outstanding.

HALLIBURTON COMPANY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HALLIBURTON COMPANY

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
Millions of dollars and shares except per share data	2016	2015	2016	2015
Revenue:				
Services	\$2,640	\$4,271	\$5,625	\$9,461
Product sales	1,195	1,648	2,408	3,508
Total revenue	3,835	5,919	8,033	12,969
Operating costs and expenses:				
Cost of services	2,777	3,971	5,733	8,794
Cost of sales	955	1,262	1,924	2,724
Baker Hughes related costs and termination fee	3,519	83	4,057	122
Impairments and other charges	423	306	3,189	1,514
General and administrative	41	43	89	109
Total operating costs and expenses	7,715	5,665	14,992	13,263
Operating income (loss)	(3,880)	)254	(6,959)	)(294)
Interest expense, net of interest income of \$10, \$4, \$20 and \$7	(196)	)(106	)(361	)(212)
Other, net	(31)	)(23	)(78	)(247)
Income (loss) from continuing operations before income taxes	(4,107)	)125	(7,398)	)(753)
Income tax benefit (provision)	902	(71	)1,777	170
Income (loss) from continuing operations	(3,205)	)54	(5,621)	)(583)
Loss from discontinued operations, net	—	(1	)(2	)(5)
Net income (loss)	\$(3,205)	)\$53	\$(5,623)	)(588)
Net (income) loss attributable to noncontrolling interest	(3)	)1	3	(1)
Net income (loss) attributable to company	\$(3,208)	)\$54	\$(5,620)	)(589)
Amounts attributable to company shareholders:				
Income (loss) from continuing operations	\$(3,208)	)\$55	\$(5,618)	)(584)
Loss from discontinued operations, net	—	(1	)(2	)(5)
Net income (loss) attributable to company	\$(3,208)	)\$54	\$(5,620)	)(589)
Basic income (loss) per share attributable to company shareholders:				
Income (loss) from continuing operations	\$(3.73)	)\$0.06	\$(6.54)	)(0.69)
Loss from discontinued operations, net	—	—	—	(0.01)
Net income (loss) per share	\$(3.73)	)\$0.06	\$(6.54)	)(0.70)
Diluted income (loss) per share attributable to company shareholders:				
Income (loss) from continuing operations	\$(3.73)	)\$0.06	\$(6.54)	)(0.69)
Loss from discontinued operations, net	—	—	—	(0.01)
Net income (loss) per share	\$(3.73)	)\$0.06	\$(6.54)	)(0.70)
Cash dividends per share	\$0.18	\$0.18	\$0.36	\$0.36
Basic weighted average common shares outstanding	860	852	859	851
Diluted weighted average common shares outstanding	860	854	859	851

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months		Six Months	
	Ended		Ended	
	June 30		June 30	
Millions of dollars	2016	2015	2016	2015
Net income (loss)	\$(3,205)	\$53	\$(5,623)	\$(588)
Other comprehensive income (loss), net of income taxes:				
Unrealized gain on cash flow hedges	\$—	\$106	\$—	\$106
Other	3	(2)	2	(5)
Other comprehensive income, net of income taxes	3	104	2	101
Comprehensive income (loss)	\$(3,202)	\$157	\$(5,621)	\$(487)
Comprehensive (income) loss attributable to noncontrolling interest	(3)	1	3	(1)
Comprehensive income (loss) attributable to company shareholders	\$(3,205)	\$158	\$(5,618)	\$(488)

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Balance Sheets
(Unaudited)

Millions of dollars and shares except per share data	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and equivalents	\$3,108	\$ 10,077
Receivables (net of allowances for bad debts of \$193 and \$145)	4,725	5,317
Inventories	2,650	2,993
Prepaid income taxes	1,099	527
Other current assets	998	1,156
Total current assets	12,580	20,070
Property, plant and equipment (net of accumulated depreciation of \$10,847 and \$11,576)	8,961	12,117
Goodwill	2,383	2,385
Deferred income taxes	1,856	552
Other assets	1,957	1,818
Total assets	\$27,737	\$ 36,942
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$1,490	\$ 2,019
Current maturities of long-term debt	763	659
Accrued employee compensation and benefits	549	862
Liabilities for Macondo well incident	367	400
Other current liabilities	1,309	1,397
Total current liabilities	4,478	5,337
Long-term debt	12,158	14,687
Employee compensation and benefits	449	479
Other liabilities	875	944
Total liabilities	17,960	21,447
Shareholders' equity:		
Common shares, par value \$2.50 per share (authorized 2,000 shares, issued 1,070 and 1,071 shares)	2,675	2,677
Paid-in capital in excess of par value	253	274
Accumulated other comprehensive loss	(361)	)(363)
Retained earnings	14,595	20,524
Treasury stock, at cost (210 and 215 shares)	(7,428)	)(7,650)
Company shareholders' equity	9,734	15,462
Noncontrolling interest in consolidated subsidiaries	43	33
Total shareholders' equity	9,777	15,495
Total liabilities and shareholders' equity	\$27,737	\$ 36,942

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30	
Millions of dollars	2016	2015
Cash flows from operating activities:		
Net loss	\$(5,623)	\$(588)
Adjustments to reconcile net loss to cash flows from operating activities:		
Impairments and other charges	3,189	1,514
Deferred income tax benefit, continuing operations	(1,516)	(523)
Depreciation, depletion and amortization	742	1,016
Other changes:		
Accounts payable	(510)	(557)
Receivables	369	1,540
Inventories	213	(117)
Other	(667)	(290)
Total cash flows provided by (used in) operating activities	(3,803)	1,995
Cash flows from investing activities:		
Capital expenditures	(447)	(1,223)
Proceeds from sales of property, plant and equipment	114	83
Other investing activities	(60)	(95)
Total cash flows used in investing activities	(393)	(1,235)
Cash flows from financing activities:		
Payments on long-term borrowings	(2,525)	(8)
Dividends to shareholders	(309)	(306)
Other financing activities	102	71
Total cash flows used in financing activities	(2,732)	(243)
Effect of exchange rate changes on cash	(41)	(48)
Increase (decrease) in cash and equivalents	(6,969)	469
Cash and equivalents at beginning of period	10,077	2,291
Cash and equivalents at end of period	\$3,108	\$2,760
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Interest	\$344	\$191
Income taxes	\$280	\$330

See notes to condensed consolidated financial statements.

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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 2015 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 June 30, 2016, the results of our operations for the three and six months ended June 30, 2016 and 2015, and our cash flows for the six months ended June 30, 2016 and 2015. 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 six months ended June 30, 2016 may not be indicative of results for the full year.

Note 2. Acquisitions and Dispositions

Termination of Baker Hughes acquisition

In November 2014, we entered into a merger agreement with Baker Hughes to acquire all outstanding shares of Baker Hughes in a stock and cash transaction. On April 30, 2016, we and Baker Hughes mutually terminated our merger agreement primarily because of the challenges in obtaining remaining regulatory approvals and general industry conditions that severely damaged deal economics.

In April 2015, we had announced our decision to market for sale our Fixed Cutter and Roller Cone Drill Bits, our Directional Drilling, and our Logging-While-Drilling/Measurement-While-Drilling businesses in connection with the anticipated Baker Hughes transaction. Accordingly, beginning in April 2015, the assets and liabilities for these businesses, which are included within our Drilling and Evaluation operating segment, were classified as held for sale and the corresponding depreciation and amortization expense ceased at that time. Since our proposed divestitures no longer met the assets held for sale accounting criteria at March 31, 2016, we reclassified these businesses to assets held and used in the accompanying condensed consolidated balance sheets for both periods presented. We recorded corresponding charges during the first quarter of 2016 totaling \$464 million within "Baker Hughes related costs and termination fee" in our condensed consolidated statements of operations, which included \$329 million of accumulated unrecognized depreciation and amortization expense for these businesses during the period the associated assets were classified as held for sale, including the first quarter of 2016, along with \$135 million of capitalized and other divestiture-related costs incurred during the first quarter. Beginning April 1, 2016, all depreciation and amortization expense associated with these businesses were included in operating costs and expenses on our condensed

consolidated statements of operations.

In conjunction with the termination of our merger agreement, we paid Baker Hughes a termination fee of \$3.5 billion in May 2016 and recognized this expense during the second quarter. The termination also triggered a mandatory redemption of \$2.5 billion of the senior notes we had issued in November 2015 in contemplation of the transaction. We redeemed those notes in May 2016 using cash on hand at a price of 101% of their principal amount, plus accrued and unpaid interest. The notes redeemed included the \$1.25 billion of 2.7% senior notes due in 2020 and \$1.25 billion of 3.375% senior notes due in 2022. The redemption resulted in \$41 million of fees and associated expenses included in interest expense on our condensed consolidated statements of operations for the second quarter of 2016.

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Note 3. Impairments and Other Charges

We carry a variety of long-lived assets on our balance sheet including property, plant and equipment, goodwill, and other intangibles. We conduct impairment tests on long-lived assets at least annually, and more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We review the recoverability of the carrying value of our assets based upon estimated future cash flows while taking into consideration assumptions and estimates including the future use of the asset, remaining useful life of the asset and service potential of the asset. Additionally, inventories are valued at the lower of cost or market.

Market conditions continued to negatively impact our business in the second quarter of 2016. The average rig count continued to decline in the second quarter, in the face of continued depressed commodity prices, which created further widespread pricing pressure and activity reductions for our products and services on a global basis. As a result of these conditions and their corresponding impact on our business outlook, during the three and six months ended June 30, 2016, we determined the carrying amount of a number of our long-lived assets exceeded their respective fair values due to projected declines in asset utilization. We assessed the fair value of our long-lived assets based on a discounted cash flow analysis, which required the use of significant unobservable inputs such as management's short-term and long-term forecast of operating performance, including revenue growth rates and expected profitability margins, and a discount rate based on our weighted average cost of capital.

Over the last four years, we have been systematically converting our pressure pumping fleet in North America over to the Frac of the Future design. As such, we impaired or wrote off a large portion of our older equipment, primarily during the first quarter of 2016. Additionally, current market conditions required us to take other actions to reduce some of our infrastructure and further reduce our global workforce in an effort to mitigate the impact of the industry downturn and better align our workforce with anticipated activity levels in the near-term. This resulted in a headcount reduction of another 5,000 during the second quarter of 2016, bringing our total reduction for the first half of the year to almost 12,000. Severance costs relating to these terminations were recognized during the three and six months ended June 30, 2016. We also determined that the cost of some of our inventory exceeded its market value, resulting in associated write-downs of its carrying value during the three and six months ended June 30, 2016.

We executed a financing agreement with our primary customer in Venezuela during the second quarter of 2016 in an effort to actively manage outstanding receivables in the country, resulting in an exchange of \$200 million of outstanding trade receivables for an interest-bearing promissory note. We recorded the note at its fair market value at the date of exchange based on available pricing data points for similar assets in an illiquid market, which resulted in a \$148 million pre-tax loss on exchange during the second quarter. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Environment and Results of Operations."

As a result of the events described above, we recorded a total of \$423 million in impairments and other charges during the second quarter of 2016 and approximately \$3.2 billion in such charges during the first six months of 2016, compared to \$306 million during the second quarter of 2015 and approximately \$1.5 billion during the first six months of 2015. Total impairments and other charges consisted of fixed asset impairments and write-offs, severance costs, impairments of intangible assets, inventory write-downs, country and facility closures, a loss on exchange for the Venezuela promissory note, and other items.

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The following table presents various charges we recorded during the three and six months ended June 30, 2016 and 2015 as a result of the downturn in the energy industry and other matters, all of which were recorded within "Impairments and other charges" on our condensed consolidated statements of operations:

Millions of dollars	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Industry downturn:				
Severance costs	\$126	\$78	\$261	\$212
Fixed asset impairments	92	177	2,537	494
Inventory write-downs	64	39	130	346
Intangible asset impairments	—	8	87	172
Other	9	—	40	152
Other matters:				
Venezuela promissory note loss	148	—	148	—
Country closures	—	2	2	77
Other	(16))2	(16))61
Total impairments and other charges	\$423	\$306	\$3,189	\$1,514

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Note 4. 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 by 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.

Millions of dollars	Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
Revenue:				
Completion and Production	\$2,114	\$3,444	\$4,438	\$7,690
Drilling and Evaluation	1,721	2,475	3,595	5,279
Total revenue	\$3,835	\$5,919	\$8,033	\$12,969
Operating income (loss):				
Completion and Production	\$(32)	\$313	\$(2)	\$775
Drilling and Evaluation	154	400	395	706
Total operations	122	713	393	1,481
Corporate and other (a)	(3,579)	(153)	(4,163)	(261)
Impairments and other charges (b)	(423)	(306)	(3,189)	(1,514)
Total operating income (loss)	\$(3,880)	\$254	\$(6,959)	\$(294)
Interest expense, net of interest income (c)	(196)	(106)	(361)	(212)
Other, net	(31)	(23)	(78)	(247)
Income (loss) from continuing operations before income taxes	\$(4,107)	\$125	\$(7,398)	\$(753)

(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 Baker Hughes-related costs for all periods presented, including the \$3.5 billion termination fee recognized during the second quarter of 2016.

(b) Impairments and other charges are as follows:

-For the three months ended June 30, 2016, includes \$290 million attributable to Completion and Production, \$129 million attributable to Drilling and Evaluation, and \$4 million attributable to Corporate and other.

-For the six months ended June 30, 2016, includes \$2.0 billion attributable to Completion and Production, \$1.1 billion attributable to Drilling and Evaluation, and \$8 million attributable to Corporate and other.

-For the three months ended June 30, 2015, includes \$211 million attributable to Completion and Production, \$89 million attributable to Drilling and Evaluation, and \$6 million attributable to Corporate and other.

-For the six months ended June 30, 2015, includes \$720 million attributable to Completion and Production, \$727 million attributable to Drilling and Evaluation, and \$67 million attributable to Corporate and other.

(c) Includes \$41 million of debt redemption fees and associated expenses related to the \$2.5 billion of debt mandatorily redeemed during the second quarter of 2016, as well as additional interest resulting from the senior notes issued in late 2015, in the three and six months ended June 30, 2016.

Receivables

As of June 30, 2016, 21% of our gross trade receivables were from customers in the United States and 11% were from customers in Mexico. As of December 31, 2015, 26% of our gross trade receivables were from customers in the United States. Other than the United States, Mexico, and Venezuela, as further discussed below, no other country or single customer accounted for more than 10% of our gross trade receivables at these dates.

Venezuela. During the first quarter of 2015, we began utilizing the SIMADI exchange rate mechanism to remeasure our net monetary assets denominated in Bolívares, at a market rate of 192 Bolívares per United States dollar as compared to the official exchange rate of 6.3 Bolívares per United States dollar we had previously utilized, resulting in a foreign currency devaluation loss of \$199 million. During the first quarter of 2016, the Venezuelan government created a new exchange rate system, replacing the SIMADI with the DICOM, which is intended to be a free floating system. The DICOM had a market rate of 276 Bolívares per United States dollar at March 31, 2016 and 617 Bolívares per United States dollar at June 30, 2016. We are utilizing the DICOM to remeasure our net monetary assets denominated in Bolívares, and the revised system and continued devaluation did not materially affect our financial statements for the three and six months ended June 30, 2016.

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We have continued to experience delays in collecting payments on our receivables from our primary customer in Venezuela. These receivables are not disputed, and we have not historically had material write-offs relating to this customer. Additionally, we routinely monitor the financial stability of our customers. During the second quarter of 2016, we executed a financing agreement with our primary customer in Venezuela in an effort to actively manage these customer receivables, resulting in an exchange of \$200 million of outstanding trade receivables for an interest-bearing promissory note. For additional information about the promissory note exchange and Venezuela currency system, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Business Environment and Results of Operations.”

Subsequent to the promissory note exchange, our total outstanding net trade receivables in Venezuela were \$581 million as of June 30, 2016, compared to \$704 million as of December 31, 2015, which represents 13% and 14% of total company trade receivables for the respective periods. The majority of our Venezuela receivables are United States dollar-denominated receivables. Of the \$581 million of receivables in Venezuela as of June 30, 2016, \$134 million have been classified as long-term and included within “Other assets” on our condensed consolidated balance sheets. Of the \$704 million of receivables in Venezuela as of December 31, 2015, \$175 million have been classified as long-term and included within “Other assets” on our condensed consolidated balance sheets. As a result of current conditions in Venezuela and the continued delays in collecting payments on our receivables in the country, we began curtailing activity in Venezuela during the first quarter of 2016.

Note 5. Income Taxes

During the three months ended June 30, 2016, we recorded a total income tax benefit of \$902 million on pre-tax losses of \$4.1 billion, resulting in an effective tax rate of 22.0%. The primary items impacting our effective tax rate during this period were as follows:

- \$390 million of deferred tax expenses on approximately \$3.3 billion of cumulative undistributed foreign earnings. As a result of the payment of the Baker Hughes termination fee and the general market conditions, we reviewed the financial requirements of our U.S. companies and our foreign subsidiaries during the second quarter of 2016, together with the overall capital structure of the global organization. As a result of this review, we concluded that we no longer intend to permanently reinvest a portion of our cumulative undistributed foreign earnings outside of the United States and recorded corresponding U.S. federal income tax expenses during the second quarter;
- \$96 million of tax expenses associated with our inability to utilize certain domestic manufacturing deductions as a result of the carryback of net operating losses to prior tax periods;
- tax effects of the \$423 million of impairments and other charges recorded during the second quarter of 2016, some of which are taxed at lower income tax rates in certain foreign jurisdictions; and
- second quarter taxable losses recognized in our United States operations in which we recorded tax benefits at the U.S. statutory rate, offset by second quarter taxable income in our foreign operations in which the corresponding tax expenses are applied at lower income tax rates in certain foreign jurisdictions.

Note 6. Inventories

Inventories are stated at the lower of cost or market 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 \$110 million as of June 30, 2016 and \$138 million as of December 31, 2015. If the average cost method had been used, total inventories would have been \$18 million higher than reported as of both June 30, 2016 and December 31, 2015. The cost of the remaining inventory was recorded using the average cost method. Inventories consisted of the following:

Millions of dollars	June 30, December 31,	
	2016	2015
Finished products and parts	\$ 1,662	\$ 1,992

Raw materials and supplies	885	879
Work in process	103	122
Total	\$ 2,650	\$ 2,993

As a result of the continued downturn in the oil and gas industry and its corresponding impact on our business outlook, we recorded inventory write-downs as the cost of some of our inventory exceeded its market value. See Note 3 for further information about impairments and other charges.

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Finished products and parts are reported net of obsolescence reserves of \$247 million as of June 30, 2016 and \$251 million as of December 31, 2015.

Note 7. Shareholders' Equity

The following tables summarize our shareholders' equity activity:

Millions of dollars	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
Balance at December 31, 2015	\$ 15,495	\$ 15,462	\$ 33
Payments of dividends to shareholders	(309)	(309)	—
Stock plans	244	244	—
Other	(32)	(45)	13
Comprehensive loss	(5,621)	(5,618)	(3)
Balance at June 30, 2016	\$ 9,777	\$ 9,734	\$ 43

Millions of dollars	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
Balance at December 31, 2014	\$ 16,298	\$ 16,267	\$ 31
Payments of dividends to shareholders	(306)	(306)	—
Stock plans	254	254	—
Other	(44)	(42)	(2)
Comprehensive income (loss)	(487)	(488)	1
Balance at June 30, 2015	\$ 15,715	\$ 15,685	\$ 30

Our Board of Directors has authorized a program to repurchase our common stock from time to time. Approximately \$5.7 billion remains authorized for repurchases as of June 30, 2016. From the inception of this program in February 2006 through June 30, 2016, we repurchased approximately 201 million shares of our common stock for a total cost of approximately \$8.4 billion. There were no repurchases made under the program during the six months ended June 30, 2016.

Accumulated other comprehensive loss consisted of the following:

Millions of dollars	June 30, December 31,	
	2016	2015
Defined benefit and other postretirement liability adjustments	\$(220)	\$(221)
Cumulative translation adjustments	(79)	(78)
Other	(62)	(64)
Total accumulated other comprehensive loss	\$(361)	\$(363)

Note 8. Commitments and Contingencies

Macondo well incident

The semisubmersible drilling rig, Deepwater Horizon, sank on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. The Deepwater Horizon was owned by an affiliate of Transocean Ltd. and had been drilling the Macondo exploration well in the Gulf of Mexico for the lease operator, BP Exploration & Production, Inc. (BP). We performed a variety of services on that well for BP. There were eleven fatalities and a number of injuries as a result of the Macondo well incident.

Litigation and settlements. Numerous lawsuits relating to the Macondo well incident and alleging damages arising from the blowout were filed against various parties, including BP, Transocean and us, in federal and state courts throughout the

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United States, most of which were consolidated in a Multi District Litigation proceeding (MDL) in the United States Eastern District of Louisiana. The defendants in the MDL proceeding filed a variety of cross claims against each other.

In 2012, BP reached a settlement to resolve the substantial majority of eligible private economic loss and medical claims stemming from the Macondo well incident (BP MDL Settlements). The MDL court has since certified the classes and granted final approval for the BP MDL Settlements, which also provided for the release by participating plaintiffs of compensatory damage claims against us.

The trial for the first phase of the MDL proceeding occurred in February 2013 through April 2013 and covered issues arising out of the conduct and degree of culpability of various parties allegedly relevant to the loss of well control, the ensuing fire and explosion on and sinking of the Deepwater Horizon, and the initiation of the release of hydrocarbons from the Macondo well. In September 2014, the MDL court ruled (Phase One Ruling) that, among other things, (1) in relation to the Macondo well incident, BP's conduct was reckless, Transocean's conduct was negligent, and our conduct was negligent, (2) fault for the Macondo blowout, explosion and spill was apportioned 67% to BP, 30% to Transocean and 3% to us, and (3) the indemnity and release clauses in our contract with BP are valid and enforceable against BP. The MDL court did not find that our conduct was grossly negligent, thereby, subject to any appeals, eliminating our exposure in the MDL for punitive damages. The appeal process for the Phase One Ruling is underway, with various parties filing briefs according to a court-ordered schedule.

In September 2014, prior to the Phase One Ruling, we reached an agreement, subject to court approval, to settle a substantial portion of the plaintiffs' claims asserted against us relating to the Macondo well incident (our MDL Settlement). Pursuant to our MDL Settlement, we agreed to pay an aggregate of \$1.1 billion, which includes legal fees and costs, into a settlement fund in three installments over two years, except that one installment of legal fees will not be paid until all of the conditions to the settlement have been satisfied or waived. Certain conditions must be satisfied before our MDL Settlement becomes effective and the funds are released from the settlement fund. These conditions include, among others, the issuance of a final order of the MDL court, including the resolution of certain appeals. In addition, we have the right to terminate our MDL Settlement if more than an agreed number of plaintiffs elect to opt out of the settlement prior to the expiration of the opt out deadline to be established by the MDL court. Before approving our MDL Settlement, the MDL court must certify the settlement class, the numerous class members must be notified of the proposed settlement, and the court must hold a fairness hearing. The Court has issued a preliminary approval, with the hearing for the final approval set for November 2016. We are unable to predict when the MDL court will approve our MDL Settlement.

Our MDL Settlement does not cover claims against us by the state governments of Alabama, Florida, Mississippi, Louisiana, or Texas, claims by our own employees, compensatory damages claims by plaintiffs in the MDL that opted out of or were excluded from the settlement class in the BP MDL Settlements, or claims by other defendants in the MDL or their respective employees. However, these claims have either been dismissed, are subject to dismissal, are subject to indemnification by BP, or are not believed to be material.

On May 20, 2015, we and BP entered into an agreement to resolve all remaining claims against each other, and pursuant to which BP will defend and indemnify us in future trials for compensatory damages. On July 2, 2015, BP announced that it had reached agreements in principle to settle all remaining federal, state and local government claims arising from the Macondo well incident.

Regulatory action. In October 2011, the Bureau of Safety and Environmental Enforcement (BSEE) issued a notification of Incidents of Noncompliance (INCs) to us for allegedly violating federal regulations relating to the failure to take measures to prevent the unauthorized release of hydrocarbons, the failure to take precautions to keep the Macondo well under control, the failure to cement the well in a manner that would, among other things, prevent

the release of fluids into the Gulf of Mexico, and the failure to protect health, safety, property and the environment as a result of a failure to perform operations in a safe and workmanlike manner. We have appealed the INCs, but the appeal has been suspended pending certain proceedings in the MDL and potential appeals. The BSEE has announced that the INCs will be reviewed for possible imposition of civil penalties once the appeal has ended. We understand that the regulations in effect at the time of the alleged violations provide for fines of up to \$35,000 per day per violation.

Loss contingency. During the second quarter of 2016, we made a legal fees payment of \$33 million in accordance with our MDL Settlement. Accordingly, as of June 30, 2016, our remaining loss contingency liability related to the Macondo well incident was \$439 million, consisting of a current portion of \$367 million related to our MDL Settlement and a non-current portion of \$72 million unrelated to that settlement. Our loss contingency liability has not been reduced for potential recoveries from our insurers. See below for information regarding amounts that we could potentially recover from insurance.

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Subject to the satisfaction of the conditions of our MDL Settlement and to the resolution of the appeal of the Phase One Ruling, we believe that the BP MDL Settlement, our MDL Settlement, the Phase One Ruling and our settlement with BP have eliminated any additional material financial exposure to us in relation to the Macondo well incident.

Insurance coverage. We had a general liability insurance program of \$600 million at the time of the Macondo well incident. Our insurance was designed to cover claims by businesses and individuals made against us in the event of property damage, injury, or death and, among other things, claims relating to environmental damage, as well as legal fees incurred in defending against those claims. Through June 30, 2016, we have incurred approximately \$1.5 billion of expenses related to the MDL Settlement, legal fees, and other settlement-related costs, of which \$409 million has been reimbursed or is expected to be reimbursed under our insurance program. Some of the insurance carriers that issued policies covering the final layer of insurance coverage relating to the Macondo well incident notified us that they would not reimburse us with respect to our MDL Settlement; however, we have settled with several of them and those settlement recoveries are included in the \$409 million discussed above. We have initiated arbitration proceedings to pursue recovery of the remaining balance of approximately \$100 million. Due to the uncertainty surrounding such recovery, no related amounts have been recognized in the condensed consolidated financial statements as of June 30, 2016.

Securities and related litigation

In June 2002, a class action lawsuit was filed against us in federal court alleging violations of the federal securities laws after the Securities and Exchange Commission (SEC) initiated an investigation in connection with our change in accounting for revenue on long-term construction projects and related disclosures. In the weeks that followed, approximately twenty similar class actions were filed against us. Several of those lawsuits also named as defendants several of our present or former officers and directors. The class action cases were later consolidated, and the amended consolidated class action complaint, styled Richard Moore, et al. v. Halliburton Company, et al., was filed and served upon us in April 2003. As a result of a substitution of lead plaintiffs, the case was styled Archdiocese of Milwaukee Supporting Fund (AMSF) v. Halliburton Company, et al. AMSF has changed its name to Erica P. John Fund, Inc. (the Fund). We settled with the SEC in the second quarter of 2004.

In June 2003, the lead plaintiffs filed a motion for leave to file a second amended consolidated complaint, which was granted by the court. In addition to restating the original accounting and disclosure claims, the second amended consolidated complaint included claims arising out of our 1998 acquisition of Dresser Industries, Inc., including that we failed to timely disclose the resulting asbestos liability exposure.

In April 2005, the court appointed new co-lead counsel and named the Fund the new lead plaintiff, directing that it file a third consolidated amended complaint and that we file our motion to dismiss. The court held oral arguments on that motion in August 2005. In March 2006, the court entered an order in which it granted the motion to dismiss with respect to claims arising prior to June 1999 and granted the motion with respect to certain other claims while permitting the Fund to re-plead some of those claims to correct deficiencies in its earlier complaint. In April 2006, the Fund filed its fourth amended consolidated complaint. We filed a motion to dismiss those portions of the complaint that had been re-pled. A hearing was held on that motion in July 2006, and in March 2007 the court ordered dismissal of the claims against all individual defendants other than our Chief Executive Officer (CEO). The court ordered that the case proceed against our CEO and us.

In September 2007, the Fund filed a motion for class certification, and our response was filed in November 2007. The district court issued an order in November 2008 denying the motion for class certification. The Fifth Circuit Court of Appeals affirmed the district court's order denying class certification. In June 2011, the United States Supreme Court reversed the Fifth Circuit ruling that the Fund needed to prove loss causation in order to obtain class certification and the case was returned to the lower courts for further consideration.

In January 2012, the district court issued an order certifying the class. In April 2013, the Fifth Circuit issued an order affirming the district court's order.

Our writ of certiorari with the United States Supreme Court was granted and in June 2014 the Supreme Court issued its decision, maintaining the presumption of class member reliance through the “fraud on the market” theory, but holding that we are entitled to rebut that presumption by presenting evidence that there was no impact on our stock price from the alleged misrepresentation. Because the district court and the Fifth Circuit denied us that opportunity, the Supreme Court vacated the Fifth Circuit’s decision and remanded for further proceedings consistent with the Supreme Court decision.

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In December 2014, the district court held a hearing to consider whether there was an impact on our stock price from the alleged misrepresentations. On July 27, 2015, the district court denied certification for the plaintiff class with respect to five of the six dates upon which the plaintiffs claimed that disclosures correcting previously misleading statements had been made that resulted in an impact to the stock price. However, the district court certified the class with respect to a disclosure made on December 7, 2001 regarding an adverse jury verdict in an asbestos case that plaintiffs alleged was corrective. The ruling was based on the district court's conclusion that the court was required to assume at class certification that a disclosure was actually corrective. We do not agree with that conclusion and have filed a petition with the Fifth Circuit seeking to appeal the ruling. The Fifth Circuit accepted our petition. The matter has now been fully briefed and is before the Fifth Circuit for review. The Fifth Circuit has set the matter for oral argument on August 31, 2016. We cannot predict the outcome or consequences of this case, which we intend to vigorously defend.

Investigations

We are conducting internal investigations of certain areas of our operations in Angola and Iraq, focusing on compliance with certain company policies, including our Code of Business Conduct (COBC), and the Foreign Corrupt Practices Act (FCPA) and other applicable laws.

In December 2010, we received an anonymous e-mail alleging that certain current and former personnel violated our COBC and the FCPA, principally through the use of an Angolan vendor. The e-mail also alleges conflicts of interest, self-dealing, and the failure to act on alleged violations of our COBC and the FCPA. We contacted the DOJ to advise them that we were initiating an internal investigation.

During the second quarter of 2012, in connection with a meeting with the DOJ and the SEC regarding the above investigation, we advised the DOJ and the SEC that we were initiating unrelated, internal investigations into payments made to a third-party agent relating to certain customs matters in Angola and to third-party agents relating to certain customs and visa matters in Iraq.

Since the initiation of the investigations described above, we have participated in meetings with the DOJ and the SEC to brief them on the status of the investigations and produced documents to them both voluntarily and as a result of SEC subpoenas to us and certain of our current and former officers and employees.

We expect to continue to have discussions with the DOJ and the SEC regarding issues relevant to the Angola and Iraq matters described above. We have engaged outside counsel and independent forensic accountants to assist us with these investigations.

Because these investigations are ongoing, we cannot predict their outcome or the consequences thereof.

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, in addition to the matters relating to the Macondo well incident described above, we are involved in other 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 \$51 million as of June 30, 2016 and \$50 million as of December 31, 2015. 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

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eventually be well in excess of the amount accrued. Our total liability related to environmental matters covers numerous properties.

Additionally, we have subsidiaries that have been named as potentially responsible parties along with other third parties for eight federal and state Superfund sites for which we have established reserves. As of June 30, 2016, those eight sites accounted for approximately \$4 million of our \$51 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 June 30, 2016. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Note 9. Income per Share

Basic income or loss 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 securities represent potentially dilutive securities which are excluded from the computation of diluted income or loss 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 June 30 2016	Six Months Ended June 30 2015
Millions of shares	860 852	859 851
Basic weighted average common shares outstanding	860 852	859 851
Dilutive effect of awards granted under our stock incentive plans	— 2	— —
Diluted weighted average common shares outstanding	860 854	859 851
Antidilutive shares:		
Options with exercise price greater than the average market price	11 5	14 7
Options which ordinarily would be considered dilutive if not for being in net loss position	2 —	1 2
Total antidilutive shares	13 5	15 9

Note 10. Fair Value of Financial Instruments

At June 30, 2016, we held \$101 million of investments in fixed income securities with maturities ranging from less than one year to May 2019, of which \$63 million are classified as “Other current assets” and \$38 million are classified as “Other assets” on our condensed consolidated balance sheets. At December 31, 2015, we held \$96 million of investments in fixed income securities, of which \$63 million are classified as “Other current assets” and \$33 million are classified as “Other assets” on our condensed consolidated balance sheets. These securities consist primarily of corporate bonds and other debt instruments, are accounted for as available-for-sale and recorded at fair value, and are based on quoted prices for identical assets in less active markets (Level 2).

During the second quarter of 2016, we executed a financing agreement with our primary customer in Venezuela, resulting in an exchange of \$200 million of outstanding trade receivables for an interest-bearing promissory note. We recorded the note at its fair market value at the date of exchange, resulting in a \$148 million pre-tax loss on exchange. As of June 30, 2016, the fair value of this promissory note was \$52 million, which is based on pricing data points for similar assets in an illiquid market (Level 3) and is classified as “Other assets” on our condensed consolidated balance sheets. We intend on holding this note to maturity, in which case the value would be accreted back to its par value, into earnings, using an effective interest method as it matures.

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We maintain an interest rate management strategy that is intended to mitigate the exposure to changes in interest rates in the aggregate for our debt portfolio. We hold a series of interest rate swaps relating to three of our debt instruments with a total notional amount of \$1.5 billion in order to effectively convert a portion of our fixed rate debt to floating LIBOR-based rates. These interest rate swaps, which expire when the underlying debt matures, are designated as fair value hedges of the underlying debt and are determined to be highly effective. These derivative instruments are marked to market with gains and losses recognized currently in interest expense to offset the respective gains and losses recognized on changes in the fair value of the hedged debt. The fair value of our interest rate swaps is included in "Other assets" in our condensed consolidated balance sheets and was immaterial as of June 30, 2016 and December 31, 2015. The fair value of our interest rate swaps was determined using an income approach model with inputs, such as the notional amount, LIBOR rate spread, and settlement terms that are observable in the market or can be derived from or corroborated by observable data (Level 2).

We have no financial instruments measured at fair value based on quoted prices in active markets (Level 1). 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 long-term debt, including current maturities, is as follows:

Millions of dollars	June 30, 2016			December 31, 2015				
	Level 1	Level 2	Total fair value	Carrying value	Level 1	Level 2	Total fair value	Carrying value
Long-term debt	\$ 1,402	\$ 13,074	\$ 14,476	\$ 12,921	\$ 1,009	\$ 14,947	\$ 15,956	\$ 15,346

Our Level 1 debt fair values are calculated using quoted prices in active markets for identical liabilities with transactions occurring on the last two days of period-end. Our Level 2 debt fair values are 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 measured at fair value using unobservable inputs (Level 3).

Note 11. New Accounting Pronouncements

Standards adopted in 2016

Consolidation

On January 1, 2016, we adopted an accounting standards update issued by the Financial Accounting Standards Board (FASB) related to the consolidation analysis, which amended the guidelines for determining whether certain legal entities should be consolidated. This update eliminated the presumption that a general partner should consolidate a limited partnership and modified the evaluation of whether limited partnerships are variable interest entities or voting interest entities. The adoption of this update did not materially impact our condensed consolidated financial statements.

Business Combinations

On January 1, 2016, we adopted an accounting standards update issued by the FASB which simplifies the accounting for measurement-period adjustments for an acquirer in a business combination. The update requires an acquirer to recognize any adjustments to provisional amounts of the initial accounting for a business combination with a corresponding adjustment to goodwill in the reporting period in which the adjustments are determined in the measurement period, as opposed to revising prior periods presented in financial statements. Thus, an acquirer shall

adjust its financial statements as needed, including recognizing in its current-period earnings the full effect of changes in depreciation, amortization, or other income effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date. The adoption of this update did not impact our condensed consolidated financial statements.

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Standards not yet adopted

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance under United States Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). The issuance of this guidance completes the joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS.

The core principle of the new guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. 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. The standard allows for several transition methods: (a) a full retrospective adoption in which the standard is applied to all of the periods presented, or (b) a modified retrospective adoption in which the standard is applied only to the most current period presented in the financial statements, including additional disclosures of the standard's application impact to individual financial statement line items.

In August 2015, the FASB issued an accounting standards update for a one-year deferral of the revenue recognition standard's effective date for all entities, which changed the effectiveness to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are currently evaluating this standard and our existing revenue recognition policies to determine which contracts in the scope of the guidance will be affected by the new requirements and what impact they would have on our consolidated financial statements upon adoption. We have not yet determined which transition method we will utilize upon adoption on the effective date.

Inventory

In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory, which requires inventory measured using the first in, first out (FIFO) or average cost methods to be subsequently measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. Currently, these inventory methods are required to be subsequently measured at the lower of cost or market. "Market" could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. This update will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and will be applied prospectively. Early adoption is permitted. We are currently evaluating the impact that this update will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued an accounting standards update related to accounting for leases, which requires the assets and liabilities that arise from leases to be recognized on the balance sheet. Currently only capital leases are recorded on the balance sheet. This update will require the lessee to recognize a lease liability equal to the present value of the 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 recognize the lease expense for such leases generally on a straight-line basis over the lease term. This update will be effective for fiscal periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact that this update will have on our consolidated financial statements.

Stock-Based Compensation

In March 2016, the FASB issued an accounting standards update to simplify several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current U.S. GAAP practice, or account for forfeitures when they occur. This update will be effective for fiscal periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact that this update will have on our 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 a leading provider of services and products to the energy industry. We serve the upstream oil and natural gas industry 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 through the life of the field. 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 significant manufacturing operations in various locations, including the United States, Canada, China, Malaysia, Singapore and the United Kingdom. With over 50,000 employees, we operate in approximately 70 countries around the world, and our corporate headquarters are in Houston, Texas and Dubai, United Arab Emirates.

Termination of Baker Hughes acquisition

In November 2014, we entered into a merger agreement with Baker Hughes to acquire all outstanding shares of Baker Hughes in a stock and cash transaction. On April 30, 2016, primarily because of the challenges in obtaining remaining regulatory approvals and general industry conditions that severely damaged deal economics, we and Baker Hughes mutually terminated our merger agreement. As a result, we paid Baker Hughes a termination fee of \$3.5 billion in May 2016 and recognized the tax-deductible expense in the second quarter of 2016. In addition, we mandatorily redeemed \$2.5 billion of senior notes during the second quarter of 2016. See Note 2 to the condensed consolidated financial statements and further information.

Financial results

Market conditions continued to negatively impact our business during the second quarter of 2016 marked by lower activity levels and continued pricing pressure around the globe. The North America market continues to face activity and pricing challenges, with the United States land rig count at June 30, 2016 having declined almost 80% from the peak in November 2014, which resulted in our recognition of second quarter operating losses in the region. However, crude prices have increased significantly since the low point in February 2016 and the North American rig count has shown improvement since a low point in May 2016, signaling that we may have hit the bottom of the industry downturn and can begin to look ahead for a potential market recovery. The North American rig count is expected to improve modestly in the second half of the year.

We generated \$3.8 billion of revenue during the second quarter of 2016, a 35% decrease from the \$5.9 billion of revenue generated in the second quarter of 2015. This decrease resulted from activity and pricing reductions in all of our product services lines, most notably stimulation activity in the United States land market. We reported an operating loss of \$3.9 billion in the second quarter of 2016, driven by the \$3.5 billion Baker Hughes termination fee, \$423 million of company-wide impairments and other charges, and \$124 million of operating losses recognized in

North America as profitability deteriorated in the face of market challenges. This compares to operating income of \$254 million in the second quarter of 2015, which also included \$306 million of company-wide impairments and other charges. Additionally, we recorded \$7.0 billion of operating losses during the first half of 2016 as compared to \$294 million of operating losses during the first half of 2015. These results were negatively impacted by \$3.2 billion and \$1.5 billion of impairments and other charges recorded in the first half of 2016 and 2015, respectively. The first half of 2016 was also impacted by Baker Hughes-related costs, which were \$4.1 billion, including the merger termination fee and charges resulting from our reversal of assets held for sale accounting, compared to \$122 million of Baker Hughes-related costs during the first half of 2015.

During the second quarter, we continued to take actions to reduce our global workforce in an effort to address current market conditions and better align our workforce with anticipated activity levels in the near-term. Personnel expense is one of

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the largest cost categories for us and, therefore, we continued to execute cost containment measures as they related to employees and their work location. We reduced our global headcount by an additional 5,000 during the second quarter of 2016, bringing our total reduction for the first half of 2016 to almost 12,000. We have reduced our global workforce by approximately 40% since the beginning of 2015 to help mitigate the downturn in the industry. See Note 3 to the condensed consolidated financial statements for further information about our impairments and other charges.

Business outlook

The past several quarters have continued to be extremely challenging for us, as the impact of reduced commodity prices created widespread pricing pressure and activity reductions on a global basis. We have taken actions since late 2014 to help mitigate the effect on our business from the downturn in the energy market, and we will continue to evaluate our cost structure and make further adjustments as required. However, with commodity price improvements from first quarter lows and the recent uptick in North America rig count, there are signs of a potential market recovery which we are well positioned to benefit from given our delivery platform and cost containment strategies.

In North America, we continued to experience substantial pricing pressure, which has deteriorated our margins, across all of our product service lines. Revenue in North America declined 43% in the second quarter of 2016 as compared to the second quarter of 2015, outperforming a 53% decline in the average North America rig count year over year. While we anticipate the remainder of 2016 to continue to be challenging, the recent uptick in commodity pricing and North America rig count is producing signs of optimism in the industry for a potential market recovery. During this down cycle, we have made structural changes to our delivery platform, eliminating management layers and consolidating roles and locations. As a result of these savings, we believe North America margins can begin to recover in the third quarter and anticipate our North America revenue will continue to outperform the rig count for the remainder of the year.

The international markets have been more resilient than North America, with modest headwinds around pricing and activity in the Eastern Hemisphere. We have continued to work with customers during this downturn to improve project economics through technology and improved operating efficiency, but expect margins to continue to be negatively impacted by lower activity levels and pricing pressure for the remainder of 2016. In Latin America, rig activity in both Brazil and Mexico is at 20-year lows, while Venezuela continues to experience significant political and economic turmoil. Although we may see some end-of-year sales, Latin America is expected to remain our most challenged region throughout the international down cycle, and we do not expect to see a fundamental improvement for the remainder of 2016. We also anticipate Eastern Hemisphere activity to decline over the remainder of the year, but expect margins to remain relatively flat in the third quarter due to the structural cost controls we have been taking.

We have adjusted to market conditions and reduced our capital expenditures to \$447 million in first half of 2016, a reduction of over 60% from the first half of 2015. As a result of the actions we have taken over the past 18 months, we believe we are well positioned for the potential market recovery and will scale up our delivery platform by addressing our product service lines one step at a time through a combination of organic growth, investment, and selective acquisitions. We are continuing to execute the following strategies in 2016:

- directing capital and resources into strategic growth markets, including unconventional plays, mature fields, and deepwater;
- leveraging our broad technology offerings to provide value to our customers and enabling 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; and
- collaborating with our customers to maximize production at the lowest cost per barrel of oil equivalent (BOE).

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

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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. In conjunction with the termination of the Baker Hughes transaction, we paid a \$3.5 billion termination fee and mandatorily redeemed \$2.5 billion of debt that we issued in late 2015, closing the second quarter of 2016 at \$3.1 billion of cash and equivalents. We also have \$3.0 billion available under our revolving credit facility which, with our cash balance, we believe provides us with sufficient liquidity to address the challenges and opportunities of the current market. For additional information on market conditions and termination of the merger agreement with Baker Hughes, see “Liquidity and Capital Resources,” “Business Environment and Results of Operations,” and Note 2 to the condensed consolidated financial statements.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2016, we had \$3.1 billion of cash and equivalents, compared to \$10.1 billion at December 31, 2015. Additionally, at June 30, 2016, we held \$101 million of investments in fixed income securities held by our foreign subsidiaries compared to \$96 million at December 31, 2015. These securities are reflected in "Other current assets" and "Other assets" in our condensed consolidated balance sheets. Approximately \$1.8 billion of our total cash position as of June 30, 2016 was held by our foreign subsidiaries, a substantial portion of which is available to be repatriated into the United States to fund our U.S. operations or for general corporate purposes, with a portion subject to certain country-specific restrictions. See Note 5 for further discussion on U.S. federal income taxes we recorded during the second quarter of 2016 on approximately \$3.3 billion of cumulative undistributed foreign earnings where we have determined that such earnings are not indefinitely reinvested.

Significant sources and uses of cash

- Operating cash flows was a negative \$3.8 billion during the first six months of 2016, mainly driven by the \$3.5 billion termination fee paid to Baker Hughes during the period.
- We redeemed \$2.5 billion of the senior notes issued in late 2015 at a price of 101% plus accrued and unpaid interest. See Note 2 to the condensed consolidated financial statements for further information.
- Capital expenditures were \$447 million in the first six months of 2016, a reduction of over 60% from the first six months of 2015 as we continue to adapt to market conditions. These capital expenditures were predominantly made in our Production Enhancement, Sperry Drilling, Cementing, Baroid, and Wireline and Perforating product service lines.
- During the first six months of 2016, our primary components of working capital (receivables, inventories, and accounts payable) decreased by a net \$72 million, primarily due to decreased business activity driven by current market conditions.
- We paid \$309 million in dividends to our shareholders during the first six months of 2016.

Future sources and uses of cash

We manufacture our own equipment, which allows us flexibility to increase or decrease our capital expenditures based on market conditions. Capital spending for the full year 2016 is currently expected to be approximately \$850 million, a reduction of over 60% from the \$2.2 billion of capital expenditures in 2015, which demonstrates our commitment to live within our cash flows during this challenging period for the industry. The capital expenditures plan for the remainder of the year is primarily directed toward our Production Enhancement, Sperry Drilling, Production Solutions, Wireline and Perforating and Cementing product service lines.

During 2014, we reached an agreement, subject to court approval, to settle a substantial portion of the plaintiffs' claims asserted against us relating to the Macondo well incident. In the second quarter of 2016, we made a \$33 million payment in accordance with our MDL Settlement. Our total Macondo-related loss contingency liability as of June 30, 2016 was \$439 million, of which \$367 million is expected to be paid in 2016. See Note 8 to the condensed consolidated financial statements for further information.

Currently, our dividend rate is \$0.18 per common share, or approximately \$155 million per quarter. Subject to the approval of our Board of Directors, our intention is to continue paying dividends at our current rate. We also have \$600 million senior notes that mature in August 2016, which we intend to fully repay with cash on hand. Additionally, we expect a \$400 million United States tax refund in the second half of 2016.

Our Board of Directors has authorized a program to repurchase our common stock from time to time. Approximately \$5.7 billion remains authorized for repurchases as of June 30, 2016 and may be used for open market and other share purchases. There were no repurchases made under the program during the six months ended June 30, 2016.

Other factors affecting liquidity

Financial position in current market. As of June 30, 2016, we had \$3.1 billion of cash and equivalents, \$101 million in fixed income investments, and a total of \$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 the challenges and opportunities of the current market and manage our global cash needs for the remainder of 2016, including capital expenditures, scheduled debt maturities, working capital investments, dividends, if any, and contingent liabilities.

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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 June 30, 2016. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Credit ratings. During the second quarter of 2016, in conjunction with the termination of our merger agreement with Baker Hughes and as a result of general market conditions, Standard & Poor's (S&P) changed our long-term credit rating from A to A-, while placing it on CreditWatch with negative implications, and changed our short-term credit rating from A-1 to A-2. On July 29, 2016, S&P resolved the CreditWatch status by changing our long-term credit rating to BBB+ with stable outlook. Additionally, during the second quarter of 2016, Moody's Investors Service (Moody's) changed our long-term credit rating from A2 to Baa1, while placing it on negative outlook, and changed our short-term credit rating from P-1 to P-2.

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 "Business Environment and Results of Operations – International operations – Venezuela" for further discussion related to receivables from our primary customer in Venezuela.

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BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We operate in approximately 70 countries throughout the world to provide a comprehensive range of discrete and integrated services and products to the energy industry related to the exploration, development, and production of oil and natural gas. 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 six months of 2016, based upon the location of the services provided and products sold, 39% of our consolidated revenue was from the United States, compared to 46% of consolidated revenue from the United States in the first six months of 2015. This decline reflects the impact our North America operations are experiencing from the downturn in the energy market. No other country accounted for more than 10% of our revenue during these periods.

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, the world economy, the availability of credit, government regulation, and global stability, which together drive worldwide drilling activity. Lower oil and natural gas prices usually translate into lower exploration and production budgets. Our financial performance is significantly affected by well count in North America, as well as 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
	June 30		December 31
	2016	2015	2015
Oil price - WTI (1)	\$45.41	\$57.85	\$ 48.69
Oil price - Brent (1)	45.52	61.69	52.36
Natural gas price - Henry Hub (2)	2.14	2.75	2.63

(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 June 30		Six Months Ended June 30	
Land vs. Offshore	2016	2015	2016	2015
United States:				
Land	398	876	458	1,115
Offshore (incl. Gulf of Mexico)	24	31	25	40
Total	422	907	483	1,155
Canada:				
Land	47	95	106	203
Offshore	1	3	2	3
Total	48	98	108	206
International (excluding Canada):				
Land	719	882	754	912
Offshore	224	287	225	303
Total	943	1,169	979	1,215
Worldwide total	1,413	2,174	1,570	2,576
Land total	1,164	1,853	1,318	2,230
Offshore total	249	321	252	346

	Three Months Ended June 30		Six Months Ended June 30	
Oil vs. Natural Gas	2016	2015	2016	2015
United States (incl. Gulf of Mexico):				
Oil	335	683	386	897
Natural gas	87	224	97	258
Total	422	907	483	1,155
Canada:				
Oil	17	37	48	92
Natural gas	31	61	60	114
Total	48	98	108	206
International (excluding Canada):				
Oil	720	918	745	960
Natural gas	223	251	234	255
Total	943	1,169	979	1,215
Worldwide total	1,413	2,174	1,570	2,576
Oil total	1,072	1,638	1,179	1,949
Natural gas total	341	536	391	627

	Three Months Ended June 30		Six Months Ended June 30	
Drilling Type	2016	2015	2016	2015
United States (incl. Gulf of Mexico):				

Horizontal	326 701 378878
Vertical	51 92 56 111
Directional	45 114 49 166
Total	422 907 4831,155

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WTI oil spot prices declined significantly towards the second half of 2014 from a high of \$108 per barrel in June 2014, and continued to decline throughout 2015, ranging from a high of \$61 per barrel in June 2015 to a low of \$35 per barrel in December 2015. WTI oil spot prices declined further into February 2016 to a low of \$26 per barrel, a level which has not been experienced since 2002. Brent crude oil spot prices declined from a high of \$115 per barrel in June 2014, and continued to decline throughout 2015, ranging from a high of \$66 per barrel in May 2015 to a low of \$35 per barrel in December 2015, and declined further to \$26 per barrel in January 2016. Commodity prices have increased from the low point experienced in early 2016 to highs of \$51 per barrel and \$50 per barrel for WTI and Brent crude oil spot prices, respectively, in June 2016, although prices have come down since then. We believe this price improvement could signal the beginning of a turning point in the market. Although crude oil prices continue to be lower than their 2014 and 2015 highs, growing domestic and global consumption has contributed to rising prices.

Brent and WTI crude oil spot prices each had a monthly average in June 2016 of \$48 per barrel. In June 2016, significant outages of global oil supply contributed to rising oil prices, which increased \$10 per barrel, or 26%, from the monthly average in March 2016. However, prices are expected to remain relatively unchanged for the remainder of 2016 as significant economic and geopolitical events are expected to affect market participants' expectations and demand growth. Crude oil production in the United States averaged an estimated 8.6 million barrels per day in June 2016 and is projected to remain at those levels for the remainder of 2016.

In the United States Energy Information Administration (EIA) July 2016 "Short Term Energy Outlook," the EIA projects that Brent and WTI prices will average \$44 per barrel in 2016. The EIA also notes that price projections are highly uncertain due to the current values of futures and options contracts. Although there are no signs that point to an immediate rebalance of the market, the International Energy Agency's (IEA) July 2016 "Oil Market Report" forecasts the 2016 global demand to average approximately 96.1 million barrels per day, which is up 1% from 2015, driven by an increase in the Asia Pacific region, while all other regions remain approximately the same.

For the second quarter of 2016, the average Henry Hub natural gas price in the United States decreased approximately 22% from the second quarter of 2015. The Henry Hub natural gas spot price averaged \$2.59 per MMBtu in June 2016, an increase of \$0.86 per MMBtu, or 50%, from March 2016. Production decline and increased demand for natural gas to fuel electricity generation contributed to higher natural gas prices. The EIA July 2016 "Short Term Energy Outlook" projects Henry Hub natural gas prices to average \$2.36 per MMBtu in 2016. Over the long term, the EIA expects natural gas consumption to increase primarily in the electric power sector and to a lesser extent in the industrial sector as new fertilizer and chemical projects become available.

North America operations

During the second quarter of 2016, North America oil directed rig count declined 368 rigs, or 51%, from the second quarter of 2015, while the natural gas-directed rig count in North America decreased 167 rigs, or 59%, during the same period. In the United States land market during the second quarter of 2016, there was a decline of 55% in the average rig count compared to the second quarter of 2015.

The United States land rig count has dropped 78% since its peak in November 2014. Price erosion for our services continued during the second quarter of 2016, specifically in North America, and we believe pricing pressure will continue until activity stabilizes. The rig count has shown improvement since its low point in May 2016 and is expected to improve modestly during the second half of the year. As a result of the structural changes to our delivery platform we made during this down cycle, we believe North America margins can begin to recover in the second half of the year and anticipate our North America revenue will continue to outperform the rig count for the remainder of the year. In the long run, we believe the shift to unconventional oil and liquids-rich basins in the United States land market will continue to drive increased service intensity and will create higher demand in fluid chemistry and other technologies required for these complex reservoirs, which will have positive implications for our operations when the energy market ultimately recovers.

In the Gulf of Mexico, the average offshore rig count for the second quarter of 2016 was down 23% compared to the second quarter of 2015. Activity in the Gulf of Mexico is dependent on, among the factors described above and other things, governmental approvals for permits, our customers' actions, and the entry and exit of deepwater rigs in the market.

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International operations

The average international rig count for the second quarter of 2016 decreased by 19% compared to the second quarter of 2015. Declining crude oil prices have caused many of our customers to reduce their budgets and defer several new projects; however, we have continued to work with our customers to improve project economics through technology and improved operating efficiency. Although the international markets have continued to be more resilient than North America, they are not immune to the impacts of the lower commodity price environment. In Latin America, rig activity in both Brazil and Mexico is at 20-year lows, while Venezuela continues to experience significant political and economic turmoil. Latin America is expected to remain our most challenged region throughout the international down cycle, and we do not expect to see a fundamental improvement for the remainder of 2016.

Venezuela. In February 2015, the Venezuelan government created a three-tier foreign exchange rate system, which included the National Center of Foreign Commerce official rate of 6.3 Bolívares per United States dollar, the SICAD, and the SIMADI. During the first quarter of 2015, we began utilizing the SIMADI floating rate mechanism to remeasure our net monetary assets denominated in Bolívares, with an initial market rate of 192 Bolívares per United States dollar, resulting in a foreign currency loss of \$199 million recorded during the first quarter of 2015.

In February 2016, the Venezuelan government revised the three-tier exchange rate system to a new dual-rate system designed to streamline access to dollars for production and essential imports as well as combat inflation. The dual-rate exchange mechanisms are as follows: (i) the DIPRO, which replaced and devalued the official rate from 6.3 to 10.0 Bolívares per United States dollar, and represents a protected rate made available for vital imports such as food, medicine, and raw materials for production; and (ii) the DICOM, which replaces the SIMADI and which is intended to be a free floating system that will fluctuate according to market supply and demand. The DICOM had a market rate of 276 Bolívares per United States dollar at March 31, 2016 and 617 Bolívares per United States dollar at June 30, 2016. We are utilizing the DICOM to remeasure our net monetary assets denominated in Bolívares, and the revised system and continued devaluation did not materially affect our financial statements for the three and six months ended June 30, 2016.

As of June 30, 2016, our total net investment in Venezuela was approximately \$755 million, with only \$25 million of net monetary assets denominated in Bolívares, and we had an additional \$27 million of surety bond guarantees outstanding relating to our Venezuelan operations at June 30, 2016.

We have continued to experience delays in collecting payments on our receivables from our primary customer in Venezuela. These receivables are not disputed, and we have not historically had material write-offs relating to this customer. Additionally, we routinely monitor the financial stability of our customers. During the second quarter of 2016, we executed a financing agreement with our primary customer in Venezuela in an effort to actively manage these customer receivables, resulting in an exchange of \$200 million of outstanding trade receivables for an interest-bearing promissory note. We recorded the note at its fair market value at the date of exchange, which resulted in a \$148 million pre-tax loss on exchange recorded within "Impairments and other charges" on our condensed consolidated statements for the three and six months ended June 30, 2016. This instrument provides a more defined schedule around the timing of payments, while generating a return while we await payment. Our current intent is to hold this note to maturity and we expect to collect 100% of the principal, in which case the value would be accreted back to its par value, into earnings, using an effective interest method as it matures.

Subsequent to the promissory note exchange, our total outstanding net trade receivables in Venezuela were \$581 million as of June 30, 2016, compared to \$704 million as of December 31, 2015, which represents 13% and 14% of total company trade receivables for the respective periods. The majority of our Venezuela receivables are United States dollar-denominated receivables. Of the \$581 million receivables in Venezuela as of June 30, 2016, \$134 million has been classified as long-term and included within "Other assets" on our condensed consolidated balance sheets. As a result of current conditions in Venezuela and the continued delays in collecting payments on our receivables in the

country, we began curtailing activity in Venezuela during the first quarter of 2016.

For additional information, see Part I, Item 1(a), “Risk Factors” in our 2015 Annual Report on Form 10-K.

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RESULTS OF OPERATIONS IN 2016 COMPARED TO 2015

Three Months Ended June 30, 2016 Compared with Three Months Ended June 30, 2015

REVENUE:	Three Months			Favorable	Percentage
	Ended	June 30	2015		
Millions of dollars	2016	2015	(Unfavorable)	Change	
Completion and Production	\$2,114	\$3,444	\$ (1,330	) (39)%
Drilling and Evaluation	1,721	2,475	(754	) (30)
Total revenue	\$3,835	\$5,919	\$ (2,084	) (35)%

By geographic region:

North America	\$1,516	\$2,671	\$ (1,155	) (43)%
Latin America	476	767	(291	) (38)
Europe/Africa/CIS	795	1,095	(300	) (27)
Middle East/Asia	1,048	1,386	(338	) (24)
Total revenue	\$3,835	\$5,919	\$ (2,084	) (35)%

OPERATING INCOME:	Three Months			Favorable	Percentage
	Ended	June 30	2015		
Millions of dollars	2016	2015	(Unfavorable)	Change	
Completion and Production	\$(32	)\$313	\$ (345	) (110)%
Drilling and Evaluation	154	400	(246	) (62)
Total	122	713	(591	) (83)
Corporate and other	(3,579	) (153	) (3,426	) (2,239)
Impairments and other charges	(423	) (306	) (117	) (38)
Total operating income (loss)	\$(3,880)	\$254	\$ (4,134	) (1,628)%

By geographic region:

North America	\$(124	)\$130	\$ (254	) (195)%
Latin America	22	112	(90	) (80)
Europe/Africa/CIS	64	164	(100	) (61)
Middle East/Asia	160	307	(147	) (48)
Total	\$122	\$713	\$ (591	) (83)%

Consolidated revenue was \$3.8 billion in the second quarter of 2016, a decrease of \$2.1 billion, or 35%, as compared to the second quarter of 2015, associated with widespread pricing pressure and activity reductions on a global basis, primarily attributable to pressure pumping in North America. Revenue outside of North America was 60% of consolidated revenue in the second quarter of 2016, compared to 55% of consolidated revenue in the second quarter of 2015, which reflects the greater impact our North America operations are experiencing as it relates to the downturn in the energy market.

Consolidated operating loss was \$3.9 billion during the second quarter of 2016 compared to operating income of \$254 million in the second quarter of 2015. In conjunction with the termination of Baker Hughes merger agreement, we paid a \$3.5 billion termination fee in the second quarter of 2016. Our operating results were also negatively impacted by \$423 million and \$306 million of impairments and other charges recorded in the three months ended June 30, 2016 and 2015, respectively. Also contributing to our operating results were significant declines in pressure pumping activity and pricing declines in North America as a result of the global downturn in the energy market. See Note 2 to

the condensed consolidated financial statements for further discussion of the Baker Hughes transaction and financial statement impact of terminating our merger agreement and Note 3 to the condensed consolidated financial statements for further information about impairments and other charges.

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OPERATING SEGMENTS

Completion and Production

Completion and Production (C&P) revenue in the second quarter of 2016 was \$2.1 billion, a decrease of \$1.3 billion, or 39%, from the second quarter of 2015, due to a decline in activity and pricing in all of our product services lines, particularly North America pressure pumping services which drove the majority of the C&P revenue decline. International revenue also declined as a result of reduced pressure pumping services.

C&P operating loss in the second quarter of 2016 was \$32 million, a decrease of \$345 million, or 110%, compared to the second quarter of 2015, with decreased profitability across all regions as a result of global activity and pricing reductions, primarily in North America stimulation activity.

Drilling and Evaluation

Drilling and Evaluation (D&E) revenue in the second quarter of 2016 was \$1.7 billion, a decrease of \$754 million, or 30%, from the second quarter of 2015. Reductions were seen across a majority of product service lines due to the historically low rig count, lower pricing and customer budget constraints worldwide. Logging, drilling and fluid activity drove the declines.

D&E operating income in the second quarter of 2016 was \$154 million, a decrease of \$246 million, or 62%, compared to the second quarter of 2015, driven by a decline in activity and pricing across all regions, particularly drilling activity in the United States and Brazil, which was partially offset by fluid services in the Middle East. Second quarter of 2016 results were also impacted by depreciation expense from assets previously classified as held for sale.

GEOGRAPHIC REGIONS

North America

North America revenue in the second quarter of 2016 was \$1.5 billion, a 43% decline compared to the second quarter of 2015, relative to a 53% decline in average North America rig count. We had an operating loss of \$124 million, a substantial reduction from the \$130 million of operating income reported in the second quarter of 2015. These declines were driven by reduced activity and pricing pressure throughout the United States land market.

Latin America

Latin America revenue in the second quarter of 2016 was \$476 million, a 38% reduction compared to the second quarter of 2015, with operating income of \$22 million, an 80% decline from the second quarter of 2015, primarily as a result of reduced activity in Mexico, Brazil and Colombia, as well as our decision to curtail activity in Venezuela. From a product service line perspective, Cementing, Sperry Drilling and Baroid experienced the largest declines in both revenue and operating income.

Europe/Africa/CIS

Europe/Africa/CIS revenue in the second quarter of 2016 was \$795 million, a decline of 27% compared to the second quarter of 2015, with operating income of \$64 million, a 61% decrease compared to the second quarter of 2015. The decreases during the quarter were driven by a sharp reduction of activity in the North Sea, Angola, Nigeria and Congo, along with lower drilling activity, pressure pumping services and completion tools sales throughout the region.

Middle East/Asia

Middle East/Asia revenue in the second quarter of 2016 was \$1.0 billion, a reduction of 24% compared to the second quarter of 2015, with operating income of \$160 million, a 48% decrease from the second quarter of 2015. This was the result of reduced activity for pressure pumping services in Saudi Arabia, a decline in consulting services in India, and a decline in drilling activity in Malaysia and Indonesia, along with pricing concessions across the region.

OTHER OPERATING ITEMS

Corporate and other expenses increased to \$3.6 billion in the second quarter of 2016, compared to \$153 million of expenses in the second quarter of 2015, primarily due to the \$3.5 billion termination fee paid to Baker Hughes. See Note 2 to the condensed consolidated financial statements for further discussion of the Baker Hughes transaction and the financial statement impact of terminating our merger agreement. Partially offsetting these costs were savings from the cost containment measures we undertook to align ourselves with the current market.

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Impairments and other charges. We recorded a total of approximately \$423 million in company-wide charges during the second quarter of 2016, primarily related to severance costs and asset impairments and write-offs, as we continue to right-size our cost structure. Also included in this amount is a \$148 million loss on exchange for a promissory note in Venezuela. This compares to \$306 million of charges recorded in the second quarter of 2015 related to severance costs, fixed asset impairments and inventory write-downs. See Note 3 to the condensed consolidated financial statements for further information.

NONOPERATING ITEMS

Interest expense, net increased \$90 million in the second quarter of 2016, compared to the second quarter of 2015, primarily due to additional interest resulting from the senior notes issued in November 2015 and \$41 million of redemption fees and associated costs related to the \$2.5 billion debt mandatorily redeemed during the second quarter of 2016, which was recorded through interest expense.

Effective tax rate. During the quarter ended June 30, 2016, we recorded a total income tax benefit of \$902 million on pre-tax losses of \$4.1 billion, resulting in an effective tax rate of 22.0%. See Note 5 to the condensed consolidated financial statements for significant drivers of this effective tax rate.

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Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015

REVENUE:	Six Months			Favorable	Percentage
	Ended	June 30			
Millions of dollars	2016	2015	(Unfavorable)	Change	
Completion and Production	\$4,438	\$7,690	\$ (3,252	) (42)%
Drilling and Evaluation	3,595	5,279	(1,684	) (32)
Total revenue	\$8,033	\$12,969	\$ (4,936	) (38)%

By geographic region:

North America	\$3,310	\$6,213	\$ (2,903	) (47)%
Latin America	1,017	1,716	(699	) (41)
Europe/Africa/CIS	1,573	2,192	(619	) (28)
Middle East/Asia	2,133	2,848	(715	) (25)
Total revenue	\$8,033	\$12,969	\$ (4,936	) (38)%

OPERATING INCOME:	Six Months			Favorable	Percentage
	Ended	June 30			
Millions of dollars	2016	2015	(Unfavorable)	Change	
Completion and Production	\$(2	)\$775	\$ (777	) (100)%
Drilling and Evaluation	395	706	(311	) (44)
Total	393	1,481	(1,088	) (73)
Corporate and other	(4,163	) (261	) (3,902	) (1,495)
Impairments and other charges	(3,189	) (1,514	) (1,675	) (111)
Total operating loss	\$(6,959)	\$(294	)\$ (6,665	) (2,267)%

By geographic region:

North America	\$(163	)\$409	\$ (572	) (140)%
Latin America	70	234	(164	) (70)
Europe/Africa/CIS	121	250	(129	) (52)
Middle East/Asia	365	588	(223	) (38)
Total	\$393	\$1,481	\$ (1,088	) (73)%

Consolidated revenue was \$8.0 billion in the first six months of 2016, a decrease of \$4.9 billion, or 38%, as compared to the first six months of 2015, associated with pricing declines and activity reductions on a global basis, primarily attributable to pressure pumping in North America. Revenue outside of North America was 59% of consolidated revenue in the first six months of 2016, compared to 52% of consolidated revenue in the first six months of 2015, which reflects the greater impact our North America operations are experiencing as it relates to the downturn in the energy market.

Consolidated operating loss was \$7.0 billion in the first six months of 2016 compared to an operating loss of \$294 million during the first six months of 2015. The results were negatively impacted by \$3.2 billion and \$1.5 billion of impairments and other charges recorded in the six months ended June 30, 2016 and 2015, respectively. Additionally, we incurred \$4.1 billion of Baker Hughes-related costs during the first six months of 2016, primarily due to the \$3.5 billion termination fee and \$464 million of charges resulting from our reversal of assets held for sale accounting, compared to \$122 million of Baker Hughes-related costs during the first six months of 2015. Also contributing to these operating results were significant declines in pressure pumping activity and pricing declines in North America as a result of the global downturn in the energy market. See Note 2 to the condensed consolidated financial statements

for further discussion of the Baker Hughes transaction and financial statement impact of terminating our merger agreement and Note 3 to the condensed consolidated financial statements for further information about impairments and other charges.

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OPERATING SEGMENTS

Completion and Production

Completion and Production (C&P) revenue in the first six months of 2016 was \$4.4 billion, a decrease of \$3.3 billion, or 42%, from the first six months of 2015, due to a decline in activity and pricing in most of our product services lines, particularly North America pressure pumping services which drove the majority of the C&P revenue decline. International revenue declined as a result of reductions in pressure pumping activity and completion tools sales in all regions.

C&P operating loss in the first six months of 2016 was \$2 million, compared to \$775 million of operating income in the first six months of 2015, with decreased profitability across all regions as a result of global activity and pricing reductions, primarily in North America pressure pumping services.

Drilling and Evaluation

Drilling and Evaluation (D&E) revenue in the first six months of 2016 was \$3.6 billion, a decrease of \$1.7 billion, or 32%, from the first six months of 2015. Reductions were seen across all product service lines due to the low rig count, lower pricing and customer budget constraints worldwide.

D&E operating income in the first six months of 2016 was \$395 million, a decrease of \$311 million, or 44%, compared to the first six months of 2015, driven by a decline in activity and pricing across all regions, particularly drilling and offshore activity in North America, as well as reduced drilling services and consulting and project management activity in Latin America, decreased drilling activity in the Europe/Africa/CIS region, and lower drilling and logging activity in the Middle East/Asia region.

GEOGRAPHIC REGIONS

North America

North America revenue in the first six months of 2016 was \$3.3 billion, a 47% decline compared to the first six months of 2015, relative to a 57% decline in average North America rig count. We had an operating loss of \$163 million, a substantial reduction from the \$409 million of operating income reported in the first six months of 2015. These declines were driven by reduced activity and pricing pressure throughout the United States land market, specifically relating to pressure pumping services.

Latin America

Latin America revenue in the first six months of 2016 was \$1.0 billion, a 41% reduction compared to the first six months of 2015, with operating income of \$70 million, a 70% decline from the first six months of 2015. These reductions were primarily related to currency weakness and our decision to curtail activity in Venezuela, reduced activity across all product service lines in Mexico, and lower drilling activity in Brazil and Colombia.

Europe/Africa/CIS

Europe/Africa/CIS revenue in the first six months of 2016 was \$1.6 billion, which declined by 28% compared to the first six months of 2015, with operating income of \$121 million, a 52% decrease compared to the first six months of 2015. These decreases were driven by a sharp reduction of activity in the North Sea, Angola, Nigeria and Congo, along with lower drilling activity, pressure pumping services and completion tools sales throughout the region.

Middle East/Asia

Middle East/Asia revenue in the first six months of 2016 was \$2.1 billion, a reduction of 25% compared to the first six months of 2015, with operating income of \$365 million, a 38% decrease from the first six months of 2015. This was the result of reduced activity for pressure pumping services in Saudi Arabia and Australia, and a decline in drilling

and logging activity in India, Indonesia, and Malaysia, along with pricing concessions across the region.

OTHER OPERATING ITEMS

Corporate and other expenses were \$4.2 billion in the first six months of 2016 compared to \$261 million in the first six months of 2015, primarily due to Baker Hughes-related costs during the first six months of 2016, driven by the \$3.5 billion termination fee and \$464 million of charges resulting from our reversal of assets held for sale accounting. See Note 2 to the condensed consolidated financial statements for further discussion of the Baker Hughes transaction and the financial statement impact of terminating our merger agreement.

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Impairments and other charges. Primarily as a result of the downturn in the energy market and its corresponding impact on the company's business outlook, we recorded a total of approximately \$3.2 billion in company-wide charges during the first half of 2016, which consisted of fixed asset impairments and write-offs, inventory write-downs, impairments of intangible assets, severance costs, facility closures, a loss on exchange for a promissory note in Venezuela, and other charges. This compares to \$1.5 billion of impairments and other charges recorded in the first half of 2015 related to asset impairments and severance costs. See Note 3 to the condensed consolidated financial statements for further information.

NONOPERATING ITEMS

Interest expense, net increased \$149 million in the first six months of 2016, as compared to the first six months of 2015, primarily due to additional interest resulting from the senior notes issued in November 2015 and \$41 million of redemption fees and associated costs related to the \$2.5 billion debt mandatorily redeemed during the the second quarter of 2016, which was recorded through interest expense.

Other, net was a \$78 million loss in the first six months of 2016, as compared to a \$247 million loss in the first six months of 2015, primarily due to a \$199 million foreign exchange loss we incurred in Venezuela in the first quarter of 2015 as a result of utilizing the new currency exchange mechanism to remeasure net monetary assets in the country. See "Business Environment and Results of Operations" for further information.

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ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. For information related to environmental matters, see Note 8 to the condensed consolidated financial statements.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and use words like “may,” “may not,” “believe,” “do not believe,” “plan,” “estimate,” “intend,” “expect,” “do not expect,” “anticipate,” “do not anticipate,” “should,” “likely” and other expressions. We provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risk and uncertainties and reflects our best judgment based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of our operations may vary materially.

We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason. You should review any additional disclosures we make in our press releases and Forms 10-K, 10-Q and 8-K filed with or furnished to the SEC. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Part II, Item 7(a), “Quantitative and Qualitative Disclosures About Market Risk,” in our 2015 Annual Report on Form 10-K. Our exposure to market risk has not changed materially since December 31, 2015.

Item 4. Controls and Procedures

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2016 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information related to Item 1. Legal Proceedings is included in Note 8 to the condensed consolidated financial statements.

Item 1(a). Risk Factors

The statements in this section describe the known material risks to our business and should be considered carefully. As of June 30, 2016, there have been no material changes from the risk factors previously disclosed in Part I, Item 1(a), of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

Following is a summary of our repurchases of our common stock during the three months ended June 30, 2016.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Program (b)
April 1 - 30	45,780	\$35.74	—	\$5,700,004,373
May 1 - 31	558,050	\$39.57	—	\$5,700,004,373
June 1 - 30	265,009	\$41.95	—	\$5,700,004,373
Total	868,839	\$40.10	—	

(a) All of the 868,839 shares purchased during the three-month period ended June 30, 2016 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants. These shares were not part of a publicly announced program to purchase common stock.

(b) Our Board of Directors has authorized a program to repurchase our common stock from time to time. Approximately \$5.7 billion remains authorized for repurchases as of June 30, 2016. From the inception of this program in February 2006 through June 30, 2016, we repurchased approximately 201 million shares of our common stock for a total cost of approximately \$8.4 billion.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Our barite and bentonite mining operations, in support of our fluid services business, are subject to regulation by the federal Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977. Information concerning mine safety violations or other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this quarterly report.

Item 5. Other Information

None.

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Item 6. Exhibits

- *† 10.1 Executive Agreement (Eric Carre).
- * 12.1 Statement Regarding the Computation of Ratio of Earnings to Fixed Charges.
- * 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- ** 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- ** 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * 95 Mine Safety Disclosures

- * 101.INS XBRL Instance Document
- * 101.SCH XBRL Taxonomy Extension Schema Document
- * 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- * 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- * 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- * 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

- * Filed with this Form 10-Q.
- ** Furnished with this Form 10-Q.
- † Management contracts or compensatory plans or arrangements

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SIGNATURES

As required by the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on behalf of the registrant by the undersigned authorized individuals.

HALLIBURTON COMPANY

/s/ Mark A. McCollum	/s/ Charles E. Geer, Jr.
Mark A. McCollum	Charles E. Geer, Jr.
Executive Vice President and	Vice President and
Chief Financial Officer	Corporate Controller

Date: August 1, 2016