STATE STREET CORP
Form S-3/A
August 26, 2002
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As filed with the Securities and Exchange Commission on August 26, 2002

Registration No. 333-98267

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1 TO

FORM S-3
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

State Street Corporation	**Massachusetts**	**04-2456637**
State Street Capital Trust II	**Delaware**	**13-7147835**
State Street Capital Trust III	**Delaware**	**13-7147836**
State Street Capital Trust IV	**Delaware**	**06-6492651**
(Exact name of each registrant as specified in its charter or certificate of trust)	**(State or other jurisdiction of incorporation or organization)**	**(I.R.S. Employer Identification Number)**

225 Franklin Street
Boston, Massachusetts 02110
(617) 786-3000
(Address, including zip code, and telephone number,
including area code, of each registrant s principal executive offices)

MAUREEN SCANNELL BATEMAN, ESQ.
Executive Vice President and General Counsel
State Street Corporation
225 Franklin Street
Boston, Massachusetts 02110
(617) 786-3000
(Name and address, including zip code, and telephone number,
including area code, of agent for service of process for each registrant)

With copies to:
MARK V. NUCCIO, ESQ.
Ropes & Gray
One International Place
Boston, Massachusetts 02110
(617) 951-7000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨
If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: x

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price (1)(2)(3)	Amount of registration fee (3)
Debt Securities of State Street Corporation (1)(4)		
Preferred Stock of State Street Corporation, no par value (1)(5)(6)		
Depositary Shares (1)(6)		
Common Stock of State Street Corporation, par value 1.00 per share (1)(7)		
Stock Purchase Contracts (1)(8)		
Stock Purchase Units (1)(8)		
Warrants (1)(9)		
Capital Securities of State Street Capital Trust II (1)(10)		
Capital Securities of State Street Capital Trust III (1)(10)		
Capital Securities Of State Street Capital Trust IV (1)(10)		
Guarantees of Capital Securities of State Street Capital Trust II, State Street Capital Trust III and State Street Capital Trust IV by State Street Corporation and certain back-up undertakings (1)(11)		
Total	$1,500,000,000 (1)(12)	$138,000 (3)(12)

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(1) In no event will the aggregate initial offering price of all securities issued from time to time pursuant to this Registration Statement exceed $1,500,000,000 or the equivalent thereof in one or more foreign currencies, foreign currency units, or composite currencies. If Debt Securities are issued at original issue discount, State Street Corporation may issue a higher principal amount of Debt Securities so long as the initial offering price does not exceed $1,500,000,000 (less the dollar amount of any securities previously issued hereunder), or the equivalent thereof in one or more foreign currencies, foreign currency units, or composite currencies. The aggregate amount of the Common Stock registered hereunder is further limited to that which is permissible under Rule 415(a)(4) under the Securities Act of 1933. The securities registered hereunder may be sold separately, together, or as units with other securities registered hereunder.

(2) Exclusive of accrued interest and distributions, if any.

(3) The proposed maximum aggregate offering price has been estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933. Rule 457(o) permits the registration fee to be calculated on the basis of the maximum offering price of all of the securities listed and, therefore, the table does not specify by each class information as to the amount to be registered, the maximum offering price per unit or the proposed maximum aggregate offering price.

(4) Subject to note (1) above, there is being registered hereunder an indeterminate principal amount of Debt Securities as may be sold, from time to time at indeterminate prices, by the Registrant.

(5) Subject to note (1) above, there is being registered hereunder an indeterminate number of shares of Preferred Stock as may be sold, from time to time at indeterminate prices, by the Registrant. An indeterminate number of shares of Preferred Stock may also be issued upon settlement of the Stock Purchase Contracts or Stock Purchase Units.

(6) Subject to note (1) above, there is being registered hereunder an indeterminate number of Depositary Shares to be evidenced by Depositary Receipts. In the event the Registrant elects to offer to the public fractional interests in shares of Preferred Stock registered hereunder, Depositary Receipts will be distributed to those persons purchasing such fractional interests and the shares of Preferred Stock will be issued to the Depositary. An indeterminate number of Depositary Shares may also be issued upon settlement of the Stock Purchase Contracts or Stock Purchase Units.

(7) Subject to note (1) above, there is being registered hereunder an indeterminate number of shares of Common Stock as may be sold, from time to time at indeterminate prices, by the Registrant. An indeterminate number of shares of Common Stock may also be issued upon settlement of the Stock Purchase Contracts or Stock Purchase Units.

(8) Each Stock Purchase Unit consists of (a) a Stock Purchase Contract, under which the holder, upon settlement, will purchase an indeterminate number of shares of Common Stock, Preferred Stock or Depositary Shares and (b) a beneficial interest in either Debt Securities, Capital Securities or debt obligations of third parties, including U.S. Treasury securities. Each beneficial interest will be pledged to secure the obligation of such holder to purchase such shares of Common Stock, Preferred Stock or Depositary Shares. No separate consideration will be received for the Stock Purchase Contracts or the related beneficial interests.

(9) Subject to note (1) above, there is being registered hereunder an indeterminate amount and number of Warrants, representing rights to purchase Debt Securities, Preferred Stock, Depositary Shares or Common Stock registered hereunder.

(10) Subject to note (1) above, there is being registered hereunder an indeterminate number of Capital Securities of State Street Capital Trust II, State Street Capital Trust III and State Street Capital Trust IV and an indeterminate principal amount of Junior Subordinated Debentures. Junior Subordinated Debentures may be issued and sold to State Street Capital Trust II, State Street Capital Trust III or State Street Capital Trust IV. Such Junior Subordinated Debentures may later be distributed to the holders of Capital Securities upon termination of State Street Capital Trust II, State Street Capital Trust III or State Street Capital Trust IV and the distribution of the assets thereof.

(11) Includes the obligations of State Street Corporation under (i) the Amended and Restated Trust Agreement of each of State Street Capital Trust II, State Street Capital Trust III and State Street Capital Trust IV, (ii) the Guarantees issued with respect to the Capital Securities issued by such Trusts, (iii) the Junior Subordinated Debentures purchased by such Trusts and the related Indenture, including the agreement of State Street Corporation to pay all trust obligations other than the Capital Securities and the Common Securities, all as described in the Base Prospectus included in this Registration Statement. No separate consideration will be received for these obligations or for the Guarantees.

(12) Pursuant to Rule 429 and Rule 457(p) under the Securities Act of 1933, $700,000,000 of securities are being carried forward from the Registration Statement on Form S-3 (No. 333-34516) of State Street Corporation, State Street Capital Trust II, State Street Capital Trust III and State Street Capital Trust IV, filed with the Commission on April 11, 2000 for inclusion in the prospectus filed herewith. No registration fee is being paid in connection with this Registration Statement. The total fee for registering the aggregate offering price of the securities registered hereunder is $138,000. A fee of $147,840 has already been paid for unsold securities under the prior Registration Statement.

Pursuant to Rule 429 under the Securities Act of 1933, the prospectus filed as part of this Registration Statement relates to the $1,500,000,000 aggregate amount of securities registered hereby, including the $700,000,000 aggregate amount of securities remaining unsold from the Registration Statement on Form S-3 (No. 333-34516) previously filed by State Street Corporation, State Street Capital Trust II, State Street Capital Trust III and State Street Capital Trust IV.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated August 26, 2002

$1,500,000,000

State Street Corporation

Debt Securities
Preferred Stock
Depositary Shares
Common Stock
Warrants
Stock Purchase Contracts
Stock Purchase Units

State Street Capital Trust II
State Street Capital Trust III
State Street Capital Trust IV

Capital Securities Fully and Unconditionally Guaranteed by State Street Corporation

State Street Corporation may offer and sell Debt Securities, Preferred Stock, Depositary Shares, Common Stock, Warrants, Stock Purchase Contracts and Stock Purchase Units. The Debt Securities and shares of our Preferred Stock may be convertible into or exchangeable for shares of our Common Stock or other securities.

The trusts are Delaware business trusts. Each trust may from time to time:

- sell capital securities representing undivided beneficial interests in the trust to the public;
- sell common securities representing undivided beneficial interests in the trust to State Street Corporation;
- use the proceeds from these sales to buy an equal principal amount of junior subordinated debentures of State Street Corporation; and
- distribute the cash payments it receives on the junior subordinated debentures it owns to the holders of the capital and common securities.

State Street Corporation will fully and unconditionally guarantee the payment by the trusts of the capital securities based on obligations discussed in this prospectus. This is called the capital securities guarantee.

The common stock of State Street Corporation is traded on the New York Stock Exchange under the symbol STT.

We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplements carefully before you invest.

A security is not a deposit and the securities are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

This prospectus may be used to offer and sell securities only if accompanied by the prospectus supplement for those securities.

Our principal executive offices are located at 225 Franklin Street, Boston, Massachusetts 02110 and our telephone number is (617) 786-3000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002

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IMPORTANT NOTICE ABOUT INFORMATION PRESENTED IN THIS PROSPECTUS AND THE ACCOMPANYING PROSPECTUS SUPPLEMENT

We provide information to you about the securities in two separate documents that progressively provide more detail:

- this prospectus, which provides general information, some of which may not apply to your securities; and
- the accompanying prospectus supplement, which describes the terms of the securities.

If the terms of your securities vary between the prospectus supplement and the accompanying prospectus, you should rely on the information in the following order of priority:

- the prospectus supplement; and
- this prospectus.

We include cross-references in this prospectus and the accompanying prospectus supplement to captions in these materials where you can find further related discussions. The following Table of Contents and the Table of Contents included in the accompanying prospectus supplement provide the pages on which these captions are located.

Neither we nor the underwriters have taken any action that would permit us to publicly sell these securities in any jurisdiction outside the United States. If you are an investor outside the United States, you should inform yourself about and comply with any restrictions as to the offering of the securities and the distribution of this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing a shelf registration process. Under this shelf registration process, we may from time to time sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of $1,500,000,000. We may offer any of the following securities: debt securities, capital securities and related guarantees, preferred stock, depositary shares, common stock, stock purchase contracts and stock purchase units. We may also offer warrants to purchase debt securities, preferred stock, depositary shares or common stock. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading Where You Can Find More Information. The prospectus supplement may also contain information about certain United States federal income tax considerations relating to the securities covered by the prospectus supplement.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to State Street, we, us, our or similar references mean State Street Corporation.

RISK FACTORS

In deciding whether to purchase our securities, in addition to the other information contained in this prospectus, you should consider carefully any risk factors we may include, if appropriate, in the applicable prospectus supplement or term sheet. You should also consider the Financial Goals and Factors That May Affect Them section contained in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q which are incorporated by reference in this prospectus, as the same may be amended, supplemented or superseded from time to time by our future filings under the Securities Exchange Act of 1934.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement under the Securities Act of 1933 that registers, among other securities, the offer and sale of the securities offered by this prospectus. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit certain information included in the registration statement from this prospectus.

In addition, we file reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the following locations of the SEC:

Public Reference Room
450 Fifth Street, N.W.
Room 1024
Washington, D.C. 20549

Northeast Regional Office
The Woolworth Building
223 Broadway
New York, New York 10279

Midwest Regional Office
175 W. Jackson Boulevard
Suite 900
Chicago, Illinois 60604

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You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that site is:

http://www.sec.gov.

You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is superseded by information that is included directly in this document or in a more recent incorporated document.

This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC. They contain important information about us and our financial condition.

SEC Filings	Period
Annual Report on Form 10-K	Year Ended December 31, 2001
Quarterly Reports on Form 10-Q	Quarter ended March 31, 2002 Quarter ended June 30, 2002
Current Reports on Form 8-K	Filed March 12, 2002 Filed April 30, 2002 Filed August 2, 2002 Filed August 7, 2002 Filed August 15, 2002 Filed August 19, 2002
Registration Statement on Form 8-A (relating to Common Stock)	Filed on January 18, 1995 and March 7, 1995
Registration Statement on Form 8-A (relating to preferred stock purchase rights)	Filed on January 18, 1995 and March 7, 1995, and as amended on July 7, 1998

We incorporate by reference additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus and the date we sell all of the securities. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

You can obtain any of the documents incorporated by reference in this document through us, or from the SEC through the SEC s Internet world wide web site at the address described previously. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference as an exhibit to the registration statement. You can obtain documents incorporated by reference in this prospectus by requesting them in writing or by telephone from us at the following address:

Investor Relations
State Street Corporation
225 Franklin Street
Boston, Massachusetts 02110
(617) 664-3477

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We have not authorized anyone to give any information or make any representation about us that is different from, or in addition to, the information and representations contained in this prospectus or in any of the materials that we have incorporated into this prospectus. If anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

FORWARD-LOOKING STATEMENTS

This prospectus, including information incorporated by reference, contains some forward-looking statements with respect to our financial condition, results of operations, plans, objectives, future performance and business, including, without limitation, statements preceded by, followed by or that include the words believes, expects, anticipates, estimates or similar expressions.

These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to many factors, including:

- future revenue may increase or decrease depending upon the extent of increases or decreases in cross-border investments made by clients or future clients;
- changes in the savings rate of individuals that are invested in mutual funds and other collective funds or in defined contribution plans may affect our revenues;
- fluctuations in worldwide securities market valuations may affect our revenues;
- changes in markets served, including the growth rate of collective funds worldwide, the pace of debt issuance, outsourcing decisions, and mergers, acquisitions and consolidations among clients and competitors may affect our revenues;
- global and regional economic factors and changes or potential changes in laws and regulations affecting our business, including volatile currencies, pace of inflation and changes in monetary policy, and social and political instability, could affect results of operations;
- legislation may cause changes in the competitive environment in which we operate, which could include, among other things, broadening the scope of activities engaged in by significant competitors, facilitating consolidation of competitors into stronger entities or attracting large and well-capitalized new competitors into our traditional businesses, which may affect future results;
- changes in accounting principles generally accepted in the United States and applicable to us, while not having an economic impact on our business, could have a material impact on our reported results of operations and the attainment of the current measures of our financial goals;
- any occurrence which may limit our access to the funds markets, such as a decline in the confidence of debt purchasers, depositors or counterparties in the funds markets in general or with us in particular, or a downgrade of our debt rating, may affect our future results;
- failure to meet minimum capital requirements and the status of well capitalized under the regulatory framework applicable to us could adversely affect our business;
- market interest rate levels, the shape of the yield curve and the direction of interest rate changes affect net interest revenue and securities lending revenue;
- the degree of volatility in foreign exchange rates can affect the amount of foreign exchange trading revenue;

the pace of pension reform and resulting programs, including public and private pension schemes, may affect the pace of revenue growth;

future prices that we are able to obtain for our products may increase or decrease from current levels depending upon demand for our products, our competitors activities and the introduction of new products into the marketplace;

the pace at which we attract new clients and at which existing and new clients use additional services and assign additional assets to us for management or custody will affect future results;

changes in business mix, including the mix of U.S. and non-U.S. business, may affect future results;

unforeseen events, including terrorist or military actions and resulting political and social turmoil, could cause damage to our physical facilities or cause delays or disruptions to operational functions, including information processing and financial market settlement functions;

technological change and our ability to develop and market new and innovative services may be more difficult or expensive than anticipated;

our ability to effectively assimilate services, technologies, key personnel or businesses of acquired companies may affect future results; and

changes may occur in securities markets which may affect revenue.

STATE STREET CORPORATION

We are a bank holding company organized under the laws of the Commonwealth of Massachusetts and a leading provider of services to institutional investors and investment managers worldwide. We were organized in 1970 and conduct our business principally through our subsidiary, State Street Bank and Trust Company (State Street Bank) which traces its beginnings to the founding of Union Bank in 1792. The charter under which State Street Bank now operates was authorized by a special act of the Massachusetts Legislature in 1891, and its present name was adopted in 1960. We are also a financial holding company. Our executive offices are located at 225 Franklin Street, Boston, Massachusetts 02110 (telephone (617) 786-3000).

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

Our consolidated ratios of earnings to fixed charges and our consolidated ratios of earnings to fixed charges and preferred dividends were as follows for the five most recent fiscal years and for the six-month period ended June 30, 2002:

		Year Ended December 31,				
	Six Months Ended June 30, 2002	2001	2000	1999	1998	1997
Ratio of earnings to fixed charges	3.01x	1.96x	1.67x	2.02x	1.77x	1.93x
Ratio of earnings to fixed charges and preferred dividends	3.01x	1.96x	1.67x	2.02x	1.77x	1.93x

Under SEC regulations and for the purposes of calculating these ratios, earnings consist of income from continuing operations before income taxes and fixed charges. Under SEC regulations, fixed charges consist of interest on indebtedness, amortization of debt premium, the interest component of rentals and preferred stock dividend requirements.

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USE OF PROCEEDS

We intend to use the net proceeds from the sale of the securities for general corporate purposes unless otherwise indicated in the prospectus supplement or term sheet relating to a specific issue of securities. Our general corporate purposes may include extending credit to, or funding investments in, our subsidiaries. The precise amounts and the timing of our use of the net proceeds will depend upon our subsidiaries funding requirements and the availability of other funds. Until we use the net proceeds from the sale of any of our securities for general corporate purposes, we will use the net proceeds to reduce our short-term indebtedness or for temporary investments. We expect that we will, on a recurrent basis, engage in additional financings as the need arises to finance our growth, through acquisitions or otherwise, or to fund our subsidiaries. We and State Street Bank regularly investigate possible acquisitions.

DESCRIPTION OF DEBT SECURITIES

The senior debt securities will be issued under an indenture dated as of August 2, 1993 (the senior indenture) between us and U.S. Bank National Association, as successor senior trustee. The subordinated debt securities (other than the junior subordinated debentures) will be issued under an indenture dated as of June 15, 2000 (the subordinated indenture) between us and Bank One Trust Company, N.A., as subordinated trustee. A copy of each indenture is an exhibit to the registration statement that contains this prospectus.

The following summaries of all material terms of the indentures are not complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the respective indentures, including the definitions of terms. The following summaries describe the general terms and provisions of the debt securities to be offered by any prospectus supplement. The particular terms of the debt securities offered by any prospectus supplement and the extent, if any, to which these general provisions may apply to the debt securities so offered, will be described in the prospectus supplement relating to such offered securities.

The senior debt securities will be unsecured and will rank equally with all other unsecured and unsubordinated indebtedness of State Street. The subordinated debt securities will be unsecured and will be subordinated to all existing and future senior indebtedness and other financial obligations of State Street as described under Subordinated Debt Securities Subordination beginning on page 11. Because we are a holding company, our rights and the rights of our creditors, including the holders of the debt securities we are offering under this prospectus, to participate in the assets of any of our subsidiaries upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors except to the extent that we may ourselves be a creditor with recognized claims against the subsidiary. In addition, dividends, loans and advances from certain of our banking subsidiaries to us and our non-banking subsidiaries are restricted by federal and state statutes and regulations.

General

We may issue the debt securities from time to time, without limitation as to aggregate principal amount and in one or more series. We expect from time to time to incur additional indebtedness that may be senior to the debt securities. Neither the indentures nor the debt securities will limit or otherwise restrict the amount of other indebtedness which may be incurred or other securities which may be issued by us or our subsidiaries, including indebtedness which may rank senior to the debt securities. The debt securities will not be secured.

We may issue debt securities upon the satisfaction of conditions contained in the indentures. The applicable prospectus supplement will include the terms of that issue of debt securities, including:

- the title and series designation;
- the aggregate principal amount and the limit, if any, on the aggregate principal amount or initial public offering price of the debt securities which may be issued under the applicable indenture;
- any fixed or variable interest rate or rates per annum;
- the date from which any interest shall accrue;

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- any interest payment dates;
- whether the debt securities are senior or subordinated;
- the stated maturity date;
- whether the debt securities are to be issued in global form;
- any sinking fund requirements;
- any provisions for redemption, the redemption price and any remarketing arrangements;
- the minimum denominations;
- whether the debt securities are denominated or payable in United States dollars or a foreign currency or units of two or more foreign currencies;
- the place or places where payments or deliveries on the debt securities shall be made and the debt securities may be presented for registration of transfer or exchange;
- whether any of the debt securities will be subject to defeasance in advance of the date for redemption or the stated maturity date;
- if other than the principal amount, the portion of the principal amount of the debt securities payable upon acceleration of the maturity of the debt securities;
- any index used to determine the amount of payment of principal of, and any premium and interest on, the debt securities;
- the person to whom any interest on the debt securities of the series shall be payable if other than the registered holder thereof;
- the manner in which the amount that shall be deemed to be the principal amount of the debt securities on or prior to the maturity date shall be determined;
- any additional or different events of default that apply to any debt securities of the series and any change in the right of the trustee or the required holders of those debt securities to declare the principal thereof due and payable;
- the terms, if any, pursuant to which debt securities may be converted into or exchanged for shares of our capital stock or other of our securities;
- any additional or different covenants that apply to any debt securities of the series; and
- any other terms of the debt securities that are not inconsistent with the provisions of the applicable indenture.

Please see the accompanying prospectus supplement or the terms sheet you have received or will receive for the terms of the specific debt securities we are offering. We may deliver this prospectus before or concurrently with the delivery of a terms sheet. We may issue debt securities under the indentures upon the exercise of warrants to purchase debt securities. Please see Description of Warrants. Nothing in the indentures or in the terms of the debt securities will prohibit the issuance of securities representing subordinated indebtedness that is senior or junior to the subordinated debt securities.

Prospective purchasers of debt securities should be aware that special federal income tax, accounting and other considerations may be applicable to instruments such as the debt securities. The prospectus supplement relating to an issue of debt securities will describe these considerations, if they apply.

Debt securities may be issued as original issue discount securities which bear no interest or interest at a rate which at the time of issuance is below market rates and which will be sold at a substantial discount below their principal amount. In the event that the maturity of any original issue discount security is accelerated, the amount

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payable to the holder of the original issue discount security upon acceleration will be determined in accordance with the applicable prospectus supplement, the terms of such security and the relevant indenture, but will be an amount less than the amount payable at the maturity of the principal of such original issue discount security. Special federal income tax and other considerations relating to original issue discount securities will be described in the applicable prospectus supplement.

The indentures provide that without the consent of any holders, we and the trustee may enter into one or more supplemental indentures for certain purposes, including:

- to add to our covenants for the benefit of the holders of all or any series of debt securities or to surrender any right or power conferred upon us in the indentures; and

- to add any additional events of default, in the case of the senior indenture, and events of default or defaults, in the case of the subordinated indenture.

In the event any sinking fund is established for the retirement of debt securities of any series, we may satisfy all or any part of the sinking fund payments with debt securities of such series under certain circumstances and to the extent provided for by the terms of such debt securities.

Unless otherwise indicated in the applicable prospectus supplement, the covenants contained in the indentures and the debt securities will not protect holders in the event of a sudden decline in our creditworthiness that might result from a recapitalization, restructuring, or other highly leveraged transaction.

Registration and Transfer

Unless otherwise indicated in the applicable prospectus supplement, we will issue each series of debt securities in registered form only, without coupons and in denominations of $1,000 or integral multiples thereof. Holders may present debt securities in registered form for transfer or exchange for other debt securities of the same series at the office or agency of State Street maintained for such purpose.

No service charge will be made for any transfer or exchange of the debt securities but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any transfer or exchange.

Payment and Place of Payment

Unless otherwise indicated in the applicable prospectus supplement, we will pay principal of and any premium and interest on the debt securities at the office or agency of State Street maintained for such purpose. However, at our option, we may pay any interest by check mailed to the holders of registered debt securities at their registered addresses.

Events of Default

The following are events of default under the senior indenture and defaults under the subordinated indenture with respect to any series of debt securities:

- default in the payment of any principal or premium when due;

- default in the payment of any interest when due, which continues for 30 days;

- default in the deposit of any sinking fund payment when due;

- default in the performance of any other obligation contained in the senior indenture for the benefit of debt securities of that series, which continues for 60 days after written notice;

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- acceleration of other indebtedness of at least $20,000,000 of us or of State Street Bank, which is not annulled within 30 days after written notice;
- specified events in bankruptcy, insolvency or reorganization; and
- any other default or event of default provided with respect to debt securities of that series.

If an event of default under the senior indenture occurs and is continuing for any series of debt securities, the senior trustee or the holders of at least 25% in aggregate principal amount or issue price of the outstanding securities of that series may declare the principal amount of all the securities of that series, or any lesser amount provided for in the debt securities of that series, to be due and payable or deliverable immediately. At any time after the senior trustee or the holders have accelerated any series of debt securities, but before the senior trustee has obtained a judgment or decree for payment of money due or delivery of the maturity consideration, the holders of a majority in aggregate principal amount or issue price of outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration.

Under the subordinated indenture, an event of default is limited to certain events involving the bankruptcy, insolvency or reorganization of State Street. The subordinated debt securities will automatically be accelerated upon the occurrence of an event of default resulting from bankruptcy, insolvency or reorganization. In the case of a default in the payment of interest or principal, or premium, if any, State Street will be required, upon the demand of the trustee, to pay to it, for the benefit of the holders of the subordinated debt securities, the whole amount then due and payable on such subordinated debt securities for principal, including any sinking fund payment or analogous obligations, and premium, if any, and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal, and premium, if any, and on any overdue interest, at the rate or rates prescribed in such subordinated debt securities. In the case of any default with respect to the subordinated debt securities, the trustee may in its discretion proceed to protect and enforce its rights and the rights of the holders of the subordinated debt securities by such appropriate judicial proceedings as the trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any such covenant or in aid of the exercise of any power granted in the subordinated indenture, or to enforce any other proper remedy.

The holders of a majority in principal amount or aggregate issue price of the outstanding debt securities of any series may waive an event of default with respect to that series, except a default:

- in the payment of any amounts due and payable or deliverable under the debt securities of that series; or
- in an obligation contained in, or a provision of, an indenture which cannot be modified under the terms of that indenture without the consent of each holder of each series of debt securities affected.

The holders of a majority in principal amount or issue price of the outstanding debt securities of a series may direct the time, method and place of conducting any proceeding for any remedy available to the applicable trustee or exercising any trust or power conferred on the trustee with respect to debt securities of that series, provided that any direction is not in conflict with any rule of law or the indenture. Subject to the provisions of the indenture relating to the duties of the trustee, before proceeding to exercise any right or power under the indenture at the direction of the holders, the trustee is entitled to receive from those holders reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in complying with any direction.

A holder of any debt security of any series will have the right to institute a proceeding with respect to the indenture or for any remedy thereunder, if:

- that holder previously gives to the trustee written notice of a continuing event of default with respect to debt securities of that series;

the holders of not less than 25% in aggregate principal amount or issue price of the outstanding debt securities of that series also shall have offered the trustee reasonable indemnity and made written request to the trustee to institute such proceeding as trustee;

the trustee shall not have received from the holders of a majority in principal amount or issue price of the outstanding debt securities of that series a direction inconsistent with such request; and

the trustee shall have failed to institute such proceeding within 60 days.

However, any holder of a debt security has the absolute right to institute suit for any defaulted payment after the due dates for payment under that debt security.

We are required to furnish to the trustees annually a statement as to the performance of our obligations under the indentures and as to any default in such performance.

Modification and Waiver

Each indenture may be modified and amended by us and the applicable trustee with the consent of holders of at least 66 $^{2}/3$% in principal amount or issue price of each series of debt securities affected. However, without the consent of each holder of any debt security affected, we may not amend or modify any indenture to:

change the stated maturity date of the principal or any installment of principal or interest on, any debt security;

reduce the principal amount or the rate of interest on, or any premium payable upon the redemption of, any debt security;

reduce the amount of principal of an original issue discount security payable upon acceleration of its maturity;

change the place or currency of payment of principal of, or any premium or interest on, any debt security;

impair the right to institute suit for the enforcement of any payment or delivery on or with respect to any debt security;

in the case of the subordinated indenture, modify the subordination provisions in a manner adverse to the holders of the subordinated debt securities;

reduce the percentage in principal amount of debt securities of any series, the consent of whose holders is required to modify or amend the indenture or to waive compliance with certain provisions of the indenture; or

reduce the percentage in principal amount of debt securities of any series, the consent of whose holders is required to waive any past default.

From time to time we and the applicable trustee may, without the consent of the holders of the debt securities, waive or supplement each indenture for specified purposes, including, among other things:

evidencing the succession of another person to State Street;

adding to the covenants of State Street for the benefit of the holders of all or any series of debt securities;

adding any additional events of default for the benefit of the holders of all or any series of debt securities;

adding to, changing or eliminating any of the provisions of the indentures, provided that any such addition, change or elimination shall not apply to any outstanding debt securities nor modify the rights of any holder of any such outstanding debt securities, or shall become effective only when there is no debt security outstanding of any series created prior to the execution of the supplemental indenture that is entitled to the benefit of such provision;

curing ambiguities, defects or inconsistencies without materially and adversely affecting the holders of the debt securities; and

evidencing and providing for the acceptance of appointment under the indentures by a successor trustee with respect to the debt securities of one or more series and adding to or changing any of the provisions of the indentures as shall be necessary to provide for or facilitate the administration of the trusts under the indentures by more than one trustee.

The holders of at least a majority in principal amount of the outstanding debt securities of any series may, with respect to that series, waive past defaults under the applicable indenture, except as described under Events of Default beginning on page 7.

Consolidation, Merger and Sale of Assets

Unless otherwise indicated in the applicable prospectus supplement, we may consolidate or merge with or into any other corporation, and we may sell, lease or convey all or substantially all of our assets to any corporation, provided that:

the resulting corporation, if other than us, is a corporation organized and existing under the laws of the United States of America or any U.S. state and assumes all of our obligations on the debt securities under the indentures;

we are not, or any successor corporation, as the case may be, is not, immediately after any consolidation or merger, in default under the indentures; and

certain other conditions are met.

Regarding the Trustees

U.S. Bank National Association is the trustee under the senior indenture. Bank One Trust Company, N.A. is the trustee under the subordinated indenture. We and certain of our subsidiaries, including State Street Bank, maintain banking relations with the trustees in the ordinary course of business.

International Offering

If specified in the applicable prospectus supplement, we may issue debt securities outside the United States. Such debt securities may be issued in bearer form and will be described in the applicable prospectus supplement. In connection with any offering outside the United States, we will designate paying agents, registrars or other agents with respect to the debt securities, as specified in the applicable prospectus supplement.

Debt securities issued outside the United States may be subject to certain selling restrictions which will be described in the applicable prospectus supplement. These debt securities may be listed on one or more foreign stock exchanges as described in the applicable prospectus supplement. Special United States tax and other considerations, if any, applicable to an offering outside the United States will be described in the applicable prospectus supplement.

Limitation Upon Disposition of Voting Stock or Assets of State Street Bank

The senior indenture prohibits us and State Street Bank, so long as any of the senior debt securities are outstanding, from selling or otherwise disposing of, or granting a security interest in or permitting the issuance of, any voting stock or any security convertible or exercisable into voting stock of State Street Bank or any of our

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subsidiaries that owns voting stock or any security convertible or exercisable into voting stock of State Street Bank.

This restriction does not apply to dispositions made by us or any subsidiary:

- if such disposition or issuance is for fair market value as determined by our Board of Directors; and
- if after giving effect to such disposition or issuance and any potential dilution, we and our wholly-owned subsidiaries will own directly not less than 80% of the voting stock of such principal constituent bank or any subsidiary which owns a principal constituent bank.

The subordinated indenture does not contain a similar restriction on our ability to engage in or permit such transactions to occur.

Defeasance

We may terminate or defease our obligations under the indentures of any series of debt securities, provided that certain conditions are met, including:

- we shall have deposited irrevocably with the trustee as trust funds in trust, in each case, in an amount, in U.S. dollars or U.S. government obligations, which through the payment of interest, principal or premium, if any, in respect thereof in accordance with their terms, will provide an amount sufficient to pay the entire amount of the debt securities;
- an opinion of independent counsel shall have been delivered to the trustee to the effect that the holders of the debt securities of such series will have no federal income tax consequences as a result of such deposit and termination;
- no event of default under the senior indenture or default under the subordinated indenture may exist or be caused by the defeasance; and
- the defeasance shall not cause an event of default under any of our other agreements or instruments.

Subordinated Debt Securities

The subordinated debt securities will be our direct, unsecured obligations. Unless otherwise specified in the applicable prospectus supplement, the subordinated debt securities will rank equally with all of our outstanding subordinated indebtedness that is not specifically stated to be junior to the subordinated debt securities.

Subordination

The subordinated debt securities will be subordinated in right of payment to all senior indebtedness, as defined below. In certain events of insolvency, payments on the subordinated debt securities will also be effectively subordinated in right of payment to all other financial obligations, as defined below. In certain circumstances relating to our liquidation, dissolution, winding up, reorganization, insolvency or similar proceedings, the holders of all senior indebtedness will first be entitled to receive payment in full before the holders of the subordinated debt securities will be entitled to receive any payment on the subordinated debt securities. If, after all payments have been made to the holders of senior indebtedness, (A) there are amounts available for payment on the subordinated debt securities and (B) any person entitled to payment according to the terms of our other financial obligations has not received full payment, then amounts available for payments on the subordinated debt securities will first be used to pay in full such other financial obligations before any payment may be made on the subordinated debt securities.

In the event of the acceleration of the maturity of any debt securities, all senior indebtedness and other financial obligations will have to be repaid before any payment can be made on the subordinated debt securities.

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In addition, no payment may be made on the subordinated debt securities in the event:

- there is a default in any payment or delivery with respect to any senior indebtedness; or
- there is an event of default with respect to any senior indebtedness which permits the holders of such senior indebtedness to accelerate the maturity of the senior indebtedness.

By reason of this subordination in favor of the holders of senior indebtedness, in the event of an insolvency, our creditors who are not holders of senior indebtedness or the subordinated debt securities may recover less, proportionately, than holders of senior indebtedness and may recover more, proportionately, than holders of the subordinated debt securities. By reason of the obligation of the holders of subordinated debt securities to pay over any amount remaining after payment of senior indebtedness to persons in respect of our other financial obligations, in the event of insolvency, holders of our existing subordinated indebtedness may recover more, ratably, than the holders of subordinated debt securities.

Unless otherwise specified in the prospectus supplement relating to the particular series of subordinated debt securities, senior indebtedness is defined in the subordinated indenture as the principal of, premium, if any, and interest on:

- all of our indebtedness as defined below, except (A) subordinated debt securities issued under the subordinated indenture, (B) such indebtedness that is expressly stated to be junior in right of payment to the subordinated debt securities and (C) indebtedness that is expressly stated to rank equal with the subordinated debt securities; and
- any deferrals, renewals or extensions of any senior indebtedness.

The term indebtedness means indebtedness, whether secured or unsecured, for which we or any corporation that succeeds to our business as permitted under the subordinated indenture, is liable directly or indirectly by guarantee, letter of credit, obligation to purchase or otherwise:

- for borrowed money; or
- incurred in connection with the acquisition by us of assets other than in the ordinary course of business.

Unless otherwise specified in the prospectus supplement relating to the particular series of subordinated debt securities offered thereby, other financial obligations means:

- our obligations under direct credit substitutes;
- our obligations, or any obligation directly or indirectly guaranteed by us, for purchased money or funds;
- any of our deferred obligations, or any such obligations directly or indirectly guaranteed by us, incurred in connection with the acquisition by us of assets; and
- all of our obligations to make payment pursuant to the terms of financial instruments, such as: (A) securities contracts and foreign currency exchange contracts; (B) derivative instruments, such as swap agreements, including interest rate and foreign exchange rate swap agreements, cap agreements, floor agreements, collar agreements, interest rate agreements, foreign exchange rate agreements, options, commodity futures contracts, commodity option contracts; and (C) similar financial instruments, other than obligations on account of senior indebtedness and obligations on account of indebtedness for money borrowed ranking equal with or subordinate to the subordinated debt securities, including our existing subordinated indebtedness.

As of June 30, 2002, we had approximately $301,000,000 in subordinated debt outstanding and approximately $915,000,000 of senior indebtedness and other financial obligations outstanding.

The subordinated indenture does not limit or prohibit the incurrence by us or any of our subsidiaries, including State Street Bank, of additional senior indebtedness or other financial obligations, which may include

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indebtedness that is senior to the subordinated debt securities, but subordinate to our other obligations. Any prospectus supplement relating to a particular series of subordinated debt securities will set forth the aggregate amount of our indebtedness senior to the subordinated debt securities as of a recent date.

The subordinated debt securities shall rank equal in right of payment with each other and with our existing subordinated indebtedness, subject to the obligations of the holders of subordinated debt securities to pay over amounts remaining after payment of senior indebtedness to persons in respect of other financial obligations.

The prospectus supplement may further describe the provisions, if any, which may apply to the subordination of the subordinated debt securities of a particular series.

Restrictive Covenants

The subordinated indenture does not contain any significant restrictive covenants. The prospectus supplement relating to a series of subordinated debt securities may describe certain restrictive covenants, if any, to which we may be bound under the subordinated indenture.

Governing Law

Both indentures are, and the senior debt securities and subordinated debt securities will be, governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF THE TRUSTS

Each of the trusts is a statutory business trust formed under Delaware law pursuant to a trust agreement, signed by State Street, as depositor of each trust, and the property trustee, the Delaware trustee and the administrative trustees (each as defined below), and the filing of a certificate of trust with the Delaware Secretary of State. The trust agreement of each trust will be amended and restated in its entirety (each as so amended and restated, a trust agreement) prior to the issuance of capital securities by the trust, substantially in the form filed as an exhibit to the registration statement of which this prospectus forms a part. Each trust agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended.

Each trust exists for the exclusive purposes of:

- issuing the capital securities and common securities representing undivided beneficial interests in the assets of the trust;
- investing the gross proceeds of the capital securities and the common securities (together, the trust securities) in junior subordinated debentures; and
- engaging in only those activities necessary or incidental thereto.

All of the common securities will be directly or indirectly owned by us. The common securities of each trust will rank equally, and payments will be made pro rata with the capital securities of that trust, except that upon an event of default under the trust agreement, the rights of the holders of the common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the capital securities. We will acquire common securities of each trust in an aggregate liquidation amount equal to at least three percent of the total capital of each trust.

Each trust s business and affairs will be conducted by its trustees, each appointed by State Street as holder of the common securities. The trustees of each trust will be Bank One Trust Company, N.A. (as successor in interest to The First National Bank of Chicago), as the property trustee, Bank One Delaware, Inc., as the Delaware trustee and two individual trustees, the administrative trustees, who are employees or officers of or affiliated with State Street. Bank One Trust Company, N.A., as property trustee, will act as sole trustee under each trust agreement for purposes of compliance with the Trust Indenture Act. Bank One Trust Company, N.A. will also act as trustee under the guarantees and the junior subordinated indenture. See Description of the Capital Securities Guarantees and Description of the Junior Subordinated Debentures.

The holder of the common securities of each trust, or the holders of a majority in liquidation amount of the trust s capital securities if an event of default under the trust agreement has occurred and is continuing, will be entitled to appoint, remove or replace the property trustee and/or the Delaware trustee for such trust. The right to vote to appoint, remove or replace the administrative trustees is vested exclusively in the holders of the common securities, and in no event will the holders of capital securities have such right.

Unless otherwise specified in the applicable prospectus supplement, each trust has a term of approximately 55 years, but may be terminated earlier as provided in the applicable trust agreement.

State Street will pay all fees and expenses related to the trusts and the offering of trust securities.

The principal executive office of each trust is c/o State Street Bank and Trust Company, N.A., 61 Broadway, 15th Floor, New York, New York 10006, telephone number (212) 612-3000.

DESCRIPTION OF THE JUNIOR SUBORDINATED DEBENTURES

We may issue junior subordinated debentures from time to time in one or more series under a junior subordinated indenture, dated as of December 15, 1996, as supplemented from time to time between us and Bank One Trust Company, N.A. (as successor in interest to The First National Bank of Chicago), as trustee, who we refer to as the debenture trustee. The junior subordinated indenture is qualified under the Trust Indenture Act, and terms of the junior subordinated debentures will include those stated in the junior subordinated indenture and those made part of the junior subordinated indenture by reference to the Trust Indenture Act.

Set forth below is a description of the general terms of the junior subordinated debentures in which the trusts will invest the proceeds from the issuance and sale of the trust securities. The particular terms of the junior subordinated debentures will be described in the prospectus supplement relating to the particular capital securities being offered. The following description is not intended to be complete and is qualified by the junior subordinated indenture, which is filed as an exhibit to the registration statement which contains this prospectus, and the Trust Indenture Act.

General

We will issue the junior subordinated debentures as unsecured debt. The junior subordinated debentures will be fully subordinated as set forth in the junior subordinated indenture. See Subordination below. Each series of junior subordinated debentures will rank equally with all other series of junior subordinated indentures. The junior subordinated indenture does not limit the aggregate principal amount of junior subordinated debentures which may be issued and provides that the junior subordinated debentures may be issued from time to time in one or more series. Because we are a holding company, our rights and the rights of our creditors, including the holders of the junior subordinated debentures, to participate in the assets of any of our subsidiaries upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors except to the extent that we may ourselves be a creditor with recognized claims against the subsidiary. Except as otherwise provided in the applicable prospectus supplement, the junior subordinated indenture does not limit the incurrence or issuance by us of other secured or unsecured debt.

The prospectus supplement relating to the particular junior subordinated debentures being offered will describe the terms of those securities, which may include:

- the title of the junior subordinated debentures;

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- any limit upon the aggregate principal amount of junior subordinated debentures;
- the date or dates on which the principal of the junior subordinated debentures is payable or the method of determination thereof;
- any fixed or variable interest rate or rates per annum;
- any interest payment dates;
- any provisions relating to the deferral of payment of any interest;
- the place where the principal of and premium, if any, and interest on the junior subordinated debentures will be payable and where the junior subordinated debentures may be presented for registration of transfer or exchange;
- any provisions for redemption, the redemption price and any remarketing arrangements;
- the minimum denominations;
- whether the debt securities are denominated or payable in United States dollars or a foreign currency or units of two or more foreign currencies;
- if other than the principal amount, the portion of the principal amount of the debt securities payable upon acceleration of the maturity of the debt securities;
- any index used to determine the amount of payment of principal of, and any premium and interest on, the debt securities;
- any additional or different events of default that apply to any debt securities of the series and any change in the right of the trustee or the required holders of those debt securities to declare the principal thereof due and payable;
- any additional or different covenants that apply to any debt securities of the series;
- any additions or changes to the junior subordinated indenture with respect to such junior subordinated debentures necessary to permit the issuance of the junior subordinated debentures in bearer form, registrable or not registrable as to principal, and with or without interest coupons;
- the terms and conditions relating to the issuance of a temporary global security representing all of the junior subordinated debentures and the exchange of such temporary global security for definitive junior subordinated debentures;
- whether the junior subordinated debentures will be issued in whole or in part in the form of one or more global securities and the depositary for any such global securities;
- the appointment of any paying agent or agents;
- the terms and conditions of any obligation or right of State Street or a holder to convert or exchange the junior subordinated debentures into capital securities; and
- any other terms of the debt securities that are not inconsistent with the provisions of the applicable indenture.

Junior subordinated debentures may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. Material United States federal income tax consequences and special considerations applicable to any such junior subordinated debentures will be described in the applicable prospectus supplement.

If a prospectus supplement specifies that the junior subordinated debentures will be denominated in a currency or currency unit other than United States dollars, the prospectus supplement shall also specify the

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denomination in which the junior subordinated debentures will be issued and the coin or currency in which the principal, premium, if any, and interest, if any, on the junior subordinated debentures will be payable, which may be United States dollars based upon the exchange rate for such other currency or currency unit existing on or about the time a payment is due.

If any index is used to determine the amount of payments of principal of, premium, if any, or interest on any series of junior subordinated debentures, special United States federal income tax, accounting and other considerations will be described in the applicable prospectus supplement.

Additional Interest

If, at any time a trust is required to pay any taxes, duties, assessments or governmental charges of whatever nature, other than withholding taxes, imposed by the United States, or any other taxing authority, then we will be required to pay additional interest on the junior subordinated debentures. The amount of any additional interest will be an amount sufficient so that the net amounts received and retained by the trust after paying any such taxes, duties, assessments or other governmental charges will be not less than the amounts that the trust would have received had no such taxes, duties, assessments or other governmental charges been imposed. This means that the trust will be in the same position it would have been in if it did not have to pay such taxes, duties, assessments or other charges.

Denominations, Registration and Transfer

Unless otherwise indicated in the applicable prospectus supplement, we will issue the junior subordinated debentures in registered form only, without coupons. Junior subordinated debentures of any series will be exchangeable for other junior subordinated debentures of the same issue and series, of any authorized denominations, of a like principal amount, of the same original issue date and stated maturity and bearing the same interest rate.

Junior subordinated debentures may be presented for exchange as provided above, and may be presented for registration of transfer at the office of the appropriate securities registrar or at the office of any transfer agent designated by us for such purposes. No service charge will be made for any transfer or exchange of the junior subordinated debentures. However, we or the debenture trustee may require a holder to pay an amount sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange. We will appoint the debenture trustee as securities registrar under the junior subordinated indenture. If the applicable prospectus supplement refers to any transfer agents, in addition to the securities registrar, initially designated by us with respect to any series of junior subordinated debentures, we may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, provided that we maintain a transfer agent in each place of payment of such series. We may at any time designate additional transfer agents with respect to any series of junior subordinated debentures.

In the event of any redemption, neither we nor the debenture trustee will be required to:

- issue, register the transfer of, or exchange, junior subordinated debentures of any series during a period beginning at the opening of business 15 days before the day of selection for redemption and ending at the close of business on the day of mailing of notice of redemption; or

- transfer or exchange any junior subordinated debentures so selected for redemption, except, in the case of any junior subordinated debentures being redeemed in part, any portion thereof not to be redeemed.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, we will pay principal and any premium and interest on junior subordinated debentures (other than those in global form) at the office of the debenture trustee in the City of New York or at the office of any paying agent that we may designate from time to time.

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However, at our option, it may pay any interest by check mailed to the holders of registered junior subordinated debentures at their registered addresses or by transfer to an account maintained by a holder of registered junior subordinated debentures, as specified in the securities register. Unless otherwise indicated in the applicable prospectus supplement, payment of any interest on junior subordinated debentures will be made to the person in whose name the junior subordinated debentures are registered on the applicable record date, except in the case of defaulted interest. We may at any time designate additional paying agents or rescind the designation of any paying agent, provided that we at all times maintain a paying agent in each place of payment for each series of junior subordinated debentures.

Any amounts deposited with the debenture trustee or any paying agent, or then held by us in trust, for the payment of the principal of any premium, if any, or interest on any junior subordinated debentures and remaining unclaimed for two years after such amounts have become due and payable shall, at our request, be repaid to us, and the holder of the junior subordinated debenture will be able to look only to us for payment, as a general unsecured creditor.

Option to Defer Interest Payments

If provided in the applicable prospectus supplement, we will have the right from time to time during the term of any series of junior subordinated debentures to defer payment of interest for up to such number of consecutive interest payment periods as may be specified in the applicable prospectus supplement, subject to the terms, conditions and covenants, if any, specified in such prospectus supplement. Such deferral, however, may not extend beyond the stated maturity of such series of junior subordinated debentures. Certain United States federal income tax consequences and special considerations applicable to any such junior subordinated debentures will be described in the applicable prospectus supplement.

Redemption

Unless otherwise indicated in the applicable prospectus supplement, the junior subordinated debentures will not be subject to any sinking fund.

Unless otherwise indicated in the applicable prospectus supplement, we may, at our option and subject to receipt of prior approval by the Federal Reserve (if required), redeem the junior subordinated debentures of any series in whole at any time or in part from time to time. If the junior subordinated debentures of any series are so redeemable only on or after a specified date or upon the satisfaction of additional conditions, the applicable prospectus supplement will specify such date or describe such conditions. Except as otherwise specified in the applicable prospectus supplement, the redemption price for any junior subordinated debenture so redeemed will equal any accrued and unpaid interest thereon to the redemption date, plus 100% of the principal amount thereof.

Except as otherwise specified in the applicable prospectus supplement, if a tax event (as defined below) in respect of a series of junior subordinated debentures or an investment company event or capital treatment event (each as defined below) shall occur and be continuing, we may, at our option and subject to receipt of prior approval by the Federal Reserve (if required), redeem such series of junior subordinated debentures in whole, but not in part, at any time within 90 days following of the occurrence of such tax event, investment company event or capital treatment event, at a redemption price equal to 100% of the principal amount of such junior subordinated debentures then outstanding plus accrued and unpaid interest to the date fixed for redemption, except as otherwise specified in the applicable prospectus supplement.

Tax event means the receipt by the trust of an opinion of counsel experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced proposed change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein, or as a result of any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which proposed change, pronouncement or decision is

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announced on or after the date of issuance of such capital securities, there is more than an insubstantial risk that (i) the trust is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the corresponding series of corresponding junior subordinated debentures, (ii) interest payable by State Street on such series of corresponding junior subordinated debentures is not, or within 90 days of the date of such opinion, will not be, deductible by State Street, in whole or in part, for United States federal income tax purposes, or (iii) such trust is, or will be within 90 days of the date of such opinion, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

Investment company event means the receipt by the trust of an opinion of counsel experienced in such matters to the effect that, as a result of the occurrence of a change in law or regulation or a written change (including any announced prospective change) in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that the trust is or will be considered an investment company that is required to be registered under the Investment Company Act of 1940, as amended, which change or prospective change becomes effective or would become effective, as the case may be, on or after the date of the issuance of the capital securities.

Capital treatment event means our reasonable determination that, as a result of any amendment to, or change (including any proposed change) in, the laws (or any regulations thereunder) of the United States or any political subdivision thereof or therein, or as a result of any official or administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or which proposed change, pronouncement, action or decision is announced on or after the date of issuance of the applicable capital securities under the applicable trust agreement, there is more than an insubstantial risk that we will not be entitled to treat an amount equal to the liquidation amount of the applicable capital securities as Tier I Capital (or the then equivalent thereof) for purposes of the capital adequacy guidelines of the Federal Reserve, as then in effect and applicable to us.

Notice of any redemption will be mailed at least 30 days, but not more than 60 days, before the redemption date to each holder of junior subordinated debentures to be redeemed at its registered address. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on such junior subordinated debentures or portions thereof called for redemption.

Restrictions on Certain Payments

If junior subordinated debentures are issued to a trust or a trustee of a trust in connection with the issuance of trust securities by a trust and:

- there shall have occurred and be continuing an event of default with respect to the junior subordinated debentures of which we have actual knowledge and which we have not taken reasonable steps to cure;
- we shall be in default relating to our payment of any obligations under the guarantee; or
- we shall have given notice of our election to defer payments of interest on the junior subordinated debentures by extending the interest payment period and such period, or any extension of such period, shall be continuing;

then:

- we shall not declare or pay any dividends or distributions on, or redeem, purchase acquire or make a liquidation payment with respect to, any shares of our capital stock, other than:

(1) repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or stockholder stock purchase plan or in connection with the issuance of our capital stock, or securities convertible into or exercisable for such capital stock, as consideration in an acquisition transaction entered into prior to the applicable extension period;

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(2) as a result of an exchange or conversion of any class or series of our capital stock for any capital stock of our subsidiaries or for any class or series of our capital stock, or of any class or series of our indebtedness for any class or series of our capital stock;

(3) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged;

(4) any declaration of a dividend in connection with any rights plan, or the issuance of rights, stock or other property under any rights plan, or the redemption or repurchase of rights pursuant thereto; or

(5) any dividend in the form of stock, warrants, options or other rights where the dividend stock or stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks equally with or junior to such stock; and

we shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities issued by us that rank equally in all respects with or junior to the junior subordinated debentures of such series.

Limitation on Mergers and Sales of Assets

The junior subordinated indenture provides that we may not consolidate with, or merge into, any other corporation or convey or transfer our properties and assets substantially as an entirety unless:

the successor entity is a corporation, partnership or trust organized in the United States and expressly assumes our obligations under the junior subordinated indenture;

after giving effect thereto, no event of default and no event which, after notice or lapse of time, or both, would become an event of default, shall have occurred and be continuing under the junior subordinated indenture;

such transaction is permitted under the related trust agreement and guarantee; and

certain other conditions as prescribed by the junior subordinated indenture are met.

The covenants contained in the indenture would not necessarily protect holders of the junior subordinated debentures in the event of a decline in credit quality resulting from takeovers, recapitalizations or similar restructurings.

Events of Default, Waiver and Notice

The junior subordinated indenture provides that the following are events of default relating to the junior subordinated debentures:

default in the payment of the principal of, or premium, if any, on, any junior subordinated debentures at maturity;

default for 30 days in the payment of any installment of interest on any junior subordinated debentures;

default for 90 days after written notice in the performance of any other covenant in respect of the junior subordinated debentures; and

specified events of bankruptcy, insolvency or reorganization of State Street.

If an event of default (other than specified events of bankruptcy, insolvency or reorganization) under the junior subordinated indenture shall occur and be continuing, either the debenture trustee or the holders of not less than 25 percent in aggregate principal amount of the junior subordinated debentures of that series then outstanding may declare the principal of all junior subordinated debentures of that series to be due and payable immediately. If the holders of junior subordinated debentures fail to make such declaration, the holders of at least

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25 percent in aggregate liquidation amount of the related capital securities shall have such right. If an event of default arising from specified events of bankruptcy, insolvency or reorganization shall occur, the principal amount of the junior subordinated debentures of that series then outstanding shall automatically become immediately due and payable.

Under certain circumstances, the holders of a majority in aggregate outstanding principal amount of that series of junior subordinated debentures may annul the declaration and waive the default. If the holders of junior subordinated debentures fail to annul such declaration and waive such default, the holders of a majority in aggregate liquidation amount of the related capital securities shall have such right.

The holders of a majority in aggregate outstanding principal amount of that series of junior subordinated debentures may waive any default, except (i) a default in payment of principal or interest (unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal due other than by acceleration has been deposited with the debenture trustee) or (ii) a default in respect of a covenant or provision that under the junior subordinated indenture cannot be modified or amended without the consent of the holder of each outstanding junior subordinated debenture. If the holders of junior subordinated debentures fail to waive such default, the holders of a majority in aggregate liquidation amount of the related capital securities shall have such right.

The holders of a majority in principal amount of the junior subordinated debentures of any series affected shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee under the junior subordinated indenture.

We are required to furnish to the debenture trustee annually a statement as to the performance of our obligations under the junior subordinated indenture and as to any default in such performance.

If a debenture event of default shall have occurred and be continuing, the property trustee will have the right to declare the principal of and the interest on the corresponding junior subordinated debentures, and any other amounts payable under the junior subordinated indenture, to be due and payable and to enforce its other rights as a creditor with respect to the corresponding junior subordinated debentures.

Distribution of the Junior Subordinated Debentures

Under circumstances discussed more fully in the prospectus supplement involving the dissolution of a trust, provided that any required regulatory approval is obtained, junior subordinated debentures will be distributed to the holders of the trust securities in liquidation of that trust. See Description of the Capital Securities Liquidation Distribution upon Dissolution.

If the junior subordinated debentures are distributed to the holders of the capital securities, we will use our best efforts to have the junior subordinated debentures listed on the New York Stock Exchange or on such other national securities exchange or similar organization on which the capital securities are then listed or quoted.

Modification of Junior Subordinated Indenture

From time to time we and the debenture trustee may, without the consent of the holders of the junior subordinated debentures, waive or supplement the junior subordinated indenture for specified purposes, including, among other things:

- evidencing the succession of another person to State Street;
- conveying, transferring, assigning, mortgaging or pledging any property to or with the debenture trustee or surrendering any right or power conferred upon us in the junior subordinated indenture;
- adding to the covenants of State Street for the benefit of other holders of all or any series of securities;

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adding any additional events of default for the benefit of other holders of all or any series of securities;

changing or eliminating any of the provisions of the junior subordinated indenture, provided that any such change or elimination shall not apply to any outstanding securities, or shall become effective only when there is no security outstanding of any series created prior to the execution of the supplemental indenture that is entitled to the benefit of such provision;

curing ambiguities, defects or inconsistencies without materially and adversely affecting the holders of the junior subordinated debentures or the related capital securities;

evidencing and providing for the acceptance of appointment under the junior subordinated indenture by a successor trustee with respect to the securities of one or more series and adding to or changing any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts under the indenture by more than one trustee; and

qualifying the junior subordinated indenture under the Trust Indenture Act.

We and the debenture trustee may make modifications and amendments to the indenture with the consent of the holders of a majority in principal amount of the junior subordinated debentures at the time outstanding. However, no such modification or amendment may, without the consent of the holder of each junior subordinated debenture affected thereby:

modify the payment terms of the junior subordinated debentures; or

reduce the percentage of holders of junior subordinated debentures necessary to modify or amend the indenture or waive compliance by us with any covenant or past default.

If the junior subordinated debentures are held by a trust or a trustee of a trust, no modification may be made that adversely affects the holders of the related capital securities, and no termination of the junior subordinated indenture may occur, and no waiver of any event of default or compliance with any covenant will be effective without the prior consent of a majority in liquidation preference of trust securities of that trust. If the consent of the holder of each outstanding junior subordinated debenture is required, no modification shall be effective without the prior consent of each holder of related capital securities.

In addition, we and the debenture trustee may execute, without the consent of any holder of junior subordinated debentures, any supplemental junior subordinated indenture for the purpose of creating any new series of junior subordinated debentures.

Enforcement of Certain Rights by Holders of Capital Securities

If a debenture event of default with respect to a series of corresponding junior subordinated debentures has occurred and is continuing and such event of default is the result of our failure to pay interest or principal on the corresponding junior subordinated debentures when due, a holder of related capital securities may institute a legal proceeding directly against us for enforcement of payment to such holder of the principal of or interest on such corresponding junior subordinated debentures having a principal amount equal to the aggregate liquidation amount of the related capital securities. We may not amend the junior subordinated indenture to remove this right without the prior written consent of the holders of all of the capital securities outstanding. If such right is removed, the applicable trust may become subject to reporting obligations under the Exchange Act. We will have the right under the junior subordinated indenture to set off any payment made by us to such holder of capital securities in connection with any such direct action.

The holders of the capital securities will not be able to exercise directly any remedies other than those set forth in the preceding paragraph unless there shall have been an event of default under the applicable trust agreement. Please see Description of the Capital Securities Events of Default; Notice.

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Defeasance and Discharge

The junior subordinated indenture provides that when:

(1) all junior subordinated debentures not previously delivered to the debenture trustee for cancellation have become due and payable, will become due and payable at their stated maturity within one year, or are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in our name and at our expense;

(2) we deposit with the debenture trustee, in trust, funds sufficient to pay all the principal of, and interest and premium, if any, on the junior subordinated debentures when such payments are due;

(3) we have paid all other sums payable under the indenture by us; and

(4) we have delivered to the debenture trustee an officers certificate and an opinion of counsel each stating that all conditions precedent in the indenture relating to the satisfaction and discharge of the indenture have been complied with,

then the junior subordinated indenture will cease to be of further effect (except as to our obligations to pay all other sums due under the junior subordinated indenture and to provide the officers certificates and opinions of counsel described therein), and we will be deemed to have satisfied and discharged the junior subordinated indenture.

Conversion or Exchange

The junior subordinated debentures may be convertible or exchangeable into junior subordinated debentures of another series or into capital securities of another series, on the terms provided in the applicable prospectus supplement. Such terms may include provisions for conversion or exchange, either mandatory, at the option of the holder, or at our option, in which case the number of shares of capital securities or other securities to be received by the holders of junior subordinated debentures would be calculated as of a time and in the manner stated in the applicable prospectus supplement.

Subordination

The junior subordinated indenture contains a covenant by us that any junior subordinated debentures issued thereunder will be subordinate and junior in right of payment to all senior debt (as defined below) to the extent provided therein. If we make any payment or distribution of our assets upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding, the holders of senior debt will first be entitled to receive payment in full of principal of and premium and interest, if any, on such senior debt before the holders of junior subordinated debentures will be entitled to receive or retain any payment in respect of the principal of and premium and interest, if any, on the junior subordinated debentures. However, holders of senior debt will not be entitled to receive payment of any such amounts if the subordination provisions of such senior debt would require holders to pay such amounts over to the obligees on trade accounts payable or other liabilities arising in the ordinary course of our business.

In the event of the acceleration of the maturity of any junior subordinated debentures, the holders of all senior debt outstanding at the time of such acceleration will first be entitled to receive payment in full of all amounts due thereon, including any amounts due upon acceleration, before the holders of the junior subordinated debentures will be entitled to receive or retain any payment in respect of the principal of or premium or interest, if any, on the junior subordinated debentures. However, the holders of senior debt will not be entitled to receive payment of any such amounts if the subordination provisions of such senior debt would require holders to pay such amounts over to the obligees on trade accounts payable or other liabilities arising in the ordinary course of State Street s business.

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No payments on account of principal or premium, if any, or interest in respect of the junior subordinated debentures may be made if there shall have occurred and be continuing a default in any payment with respect to senior debt or an event of default with respect to any senior debt resulting in the acceleration of the maturity thereof, or if any judicial proceedings are pending with respect to any such default.

Debt means, with respect to any person, whether recourse is to all or a portion of the assets of such person and whether or not contingent:

- every obligation of such person for money borrowed;
- every obligation of such person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses;
- every reimbursement obligation of such person with respect to letters of credit, bankers acceptances or similar facilities issued for the account of such person;
- every obligation of such person issued or assumed as the deferred purchase price of property or services other than trade accounts payable or accrued liabilities arising in the ordinary course of business;
- every capital lease obligation of such person;
- every obligation of such person for claims in respect of derivative products such as interest and foreign exchange rate contracts, commodity forward contracts and similar arrangements; and
- every obligation of the type referred to above of another person and all dividends of another person the payment of which, in either case, such person has guaranteed or is responsible or liable for, directly or indirectly, as obligor or otherwise.

Senior debt means the principal of and premium and interest, if any, including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to us whether or not such claim for post-petition interest is allowed in such proceeding, on debt, whether incurred on or prior to the date of the junior subordinated indenture or thereafter incurred, unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such obligations are not superior in right of payment to the junior subordinated debentures or to other debt that is equal or subordinated to the junior subordinated debentures, other than:

- any debt of State Street which when incurred and without respect to any election under Section 1111(b) of the United States Bankruptcy Code, as amended, was without recourse to State Street;
- any debt of State Street to any of its subsidiaries;
- any debt to any of our employees;
- any debt which by its terms is subordinated to trade accounts payable or accrued liabilities arising in the ordinary course of business to the extent that payments made to the holders of such debt by the holders of the junior subordinated debentures as a result of the subordination provisions of the junior subordinated indenture would be greater than such payments otherwise would have been as a result of any obligation of such holders of such debt to pay amounts over to the obligees on such trade accounts payable or accrued liabilities arising in the ordinary course of business as a result of subordination provisions to which such debt is subject; and
- any other debt securities issued pursuant to the junior subordinated indenture.

The junior subordinated indenture places no limitation on the amount of senior debt that we may incur. We expect from time to time to incur additional indebtedness and other obligations constituting senior debt.

The junior subordinated indenture provides that any of the subordination provisions described above that relate to any particular issue of junior subordinated debentures may be changed prior to such issuance. Any such change would be described in the applicable prospectus supplement.

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Governing Law

The junior subordinated indenture and the junior subordinated debentures will be governed by, and construed in accordance with, the internal laws of the State of New York.

The Debenture Trustee

The debenture trustee will have all of the duties and responsibilities specified under the Trust Indenture Act. Subject to those provisions, the debenture trustee is under no obligation to exercise any of the powers vested in it by the junior subordinated indenture at the request of any holder of junior subordinated debentures unless offered reasonable indemnity by such holder against the costs, expenses and liabilities that might be incurred thereby. The debenture trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the debenture trustee reasonably believes that repayment or adequate indemnity is not reasonably assured it.

Corresponding Junior Subordinated Debentures

State Street may issue one or more series of junior subordinated debentures under the junior subordinated indenture with terms corresponding to the terms of a series of related capital securities. In each such instance, concurrently with the issuance of each trust s capital securities, the trust will invest the proceeds thereof and the consideration paid by us for the common securities in the series of corresponding junior subordinated debentures issued by us to such trust. Each series of corresponding junior subordinated debentures will be in the principal amount equal to the aggregate stated liquidation amount of the related capital securities and the common securities of the trust and will rank equally with all other series of junior subordinated debentures. Holders of the related capital securities for a series of corresponding junior subordinated debentures will have the rights, in connection with modifications to the junior subordinated indenture or upon occurrence of debenture events of default as described under Modification of Junior Subordinated Indenture, Events of Default, Waiver and Notice and Enforcement of Certain Rights by Holders of Capital Securities.

Unless otherwise specified in the applicable prospectus supplement, if a tax event relating to a trust shall occur and be continuing, we may, at our option and subject to prior approval of the Federal Reserve (if required), redeem the corresponding junior subordinated debentures at any time within 90 days of the occurrence of such tax event, in whole but not in part, subject to the provisions of the junior subordinated indenture and whether or not such corresponding junior subordinated debentures are then redeemable at our option. The redemption price for any corresponding junior subordinated debentures shall be equal to 100% of the principal amount of such corresponding junior subordinated debentures then outstanding plus accrued and unpaid interest to the date fixed for redemption. For so long as the applicable trust is the holder of all the outstanding corresponding junior subordinated debentures of such series, the proceeds of any such redemption will be used by the trust to redeem the corresponding trust securities in accordance with their terms. We may not redeem a series of corresponding junior subordinated debentures in part unless all accrued and unpaid interest has been paid in full on all outstanding corresponding junior subordinated debentures of such series for all interest proceeds terminating on or prior to the date of redemption.

We will covenant, as to each series of corresponding junior subordinated debentures:

(1) to directly or indirectly maintain 100% ownership of the common securities of the trust unless a permitted successor succeeds to ownership of the common securities;

(2) not to voluntarily terminate, wind up or liquidate any trust, except, if so specified in the applicable prospectus supplement and upon prior approval of the Federal Reserve (if required):

- in connection with a distribution of corresponding junior subordinated debentures to the holders of the capital securities in exchange therefor upon liquidation of the trust, or in connection with certain mergers, consolidations or amalgamations permitted by the related trust agreement, in either such case, if so specified in the applicable prospectus supplement upon prior approval of the Federal Reserve if then so required under applicable capital guidelines or policies; and

(3) to use our reasonable efforts, consistent with the terms and provisions of the related trust agreement, to cause such trust to remain classified as a grantor trust and not as an association taxable as a corporation for United States federal income tax purposes.

DESCRIPTION OF THE CAPITAL SECURITIES

The capital securities will be issued pursuant to the terms of an amended and restated trust agreement. The trust agreement will be qualified as an indenture under the Trust Indenture Act. The property trustee, Bank One Trust Company, N.A., will act as trustee for the capital securities under the trust agreement for purposes of compliance with the provisions of the Trust Indenture Act. The terms of the capital securities will include those stated in the trust agreement and those made part of the trust agreement by the Trust Indenture Act.

Set forth below is a summary of the material terms and provisions of the capital securities. This summary, which describes the material provisions of the capital securities, is not intended to be complete and is qualified by the trust agreement, the form of which is filed as an exhibit to the registration statement which contains this prospectus supplement, the Delaware Business Trust Act and the Trust Indenture Act.

General

The declaration of trust authorizes the trustees to issue the trust securities on behalf of the trust. The trust securities represent undivided beneficial interests in the assets of the trust. We will own, directly or indirectly, all of the common securities. The common securities rank equally, and payments will be made on a pro rata basis, with the capital securities. However, if an event of default under a trust s trust agreement occurs and is continuing, the rights of the holders of the common securities to receive payments will be subordinated to the rights of the holders of the capital securities.

The trust agreement does not permit the trust to issue any securities other than the trust securities or to incur any indebtedness. Under the trust agreement, the property trustee will own the junior subordinated debentures purchased by the trust for the benefit of the holders of the trust securities. Each guarantee agreement executed by us for the benefit of the holders of a trust s trust securities, each a guarantee, will be a guarantee on a subordinated basis with respect to the related trust securities but will not guarantee payment of distributions or amounts payable on redemption or liquidation of such trust securities when the related trust does not have funds on hand available to make such payments. Please see Descriptions of the Capital Securities Guarantees.

Distributions

Distributions on the capital securities:

- will be cumulative;
- will accumulate from the date of original issuance; and
- will be payable on such dates as specified in the applicable prospectus supplement.

In the event that any date on which distributions are payable on the capital securities is not a business day, then payment of the distribution will be made on the next succeeding business day, and without any interest or other payment in respect to any such delay, except that, if such business day is in the next calendar year, payment of the distribution will be made on the immediately preceding business day. Each date on which distributions are

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payable in accordance with the foregoing is referred to as a distribution date. The term distribution includes any interest payable on unpaid distributions unless otherwise stated.

The amount of distributions payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. The amount of distributions payable for any period shorter than a full quarterly period will be computed on the basis of the actual number of days elapsed per 30-day month. Distributions to which holders of capital securities are entitled will accumulate additional distributions at the rate per annum if and as specified in the applicable prospectus supplement.

If provided in the applicable prospectus supplement, we have the right under the junior subordinated indenture, pursuant to which we will issue the corresponding junior subordinated debentures, to defer the payment of interest on any series of the corresponding junior subordinated debentures for up to a number of consecutive interest payment periods that will be specified in the prospectus supplement relating to such series (an extension period), provided that no extension period may extend beyond the stated maturity of the corresponding junior subordinated debentures.

As a consequence of any such deferral, distributions on the related capital securities would be deferred, but would continue to accumulate additional distributions at the rate per annum, if any, set forth in the prospectus supplement for such capital securities, by the trust during any extension period. If we exercise our deferral right, then during any extension period, we may not:

- make any payment of principal of or interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank equally in all respects with or junior in interest to the junior subordinated debentures of such series; or

- declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to, any shares of our capital stock, other than:

  - repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants, in connection with a dividend reinvestment or stockholder stock purchase plan or in connection with the issuance of our capital stock, or securities convertible into or exercisable for such capital stock, as consideration in an acquisition transaction entered into prior to the applicable extension period,

  - as a result of an exchange or conversion of any class or series of our capital stock or any capital stock of our subsidiaries, for any class or series of our capital stock, or of any class or series of our indebtedness for any class or series of our capital stock,

  - the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the securities being converted or exchanged,

  - any declaration of a dividend in connection with any rights plan, or the issuance of rights, stock or other property under any rights plan, or the redemption or repurchase of rights pursuant thereto, or

  - any dividend in the form of stock, warrants, options or other rights where the dividend stock or the stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks equally with or junior to such stock.

The revenue of each trust available for distribution to holders of its capital securities will be limited to payments under the corresponding junior subordinated debentures in which the trust will invest the proceeds from the issuance and sale of its trust securities. Please see Description of Junior Subordinated Debentures Corresponding Junior Subordinated Debentures. If we do not make interest payments on such corresponding junior subordinated debentures, the property trustee will not have funds available to pay distributions on the related capital securities. The payment of distributions, if and to the extent the trust has funds legally available

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for the payment of such distributions and cash sufficient to make such payments, is guaranteed by us on the basis set forth under Description of the Capital Securities Guarantees.

Distributions on the capital securities will be payable to the holders thereof as they appear on the register of such trust on the relevant record dates, which, as long as the capital securities remain in book-entry form, will be one business day prior to the relevant date of distribution. Subject to any applicable laws and regulations and the provisions of the applicable trust agreement, each such payment will be made as described under Global Securities Book-Entry Issuance. In the event any capital securities are not in book-entry form, the relevant record date for such capital securities shall be the date at least 15 days prior to the relevant date of distribution, as specified in the applicable prospectus supplement.

Redemption or Exchange

Mandatory Redemption

Upon the repayment or redemption, in whole or in part, of any corresponding junior subordinated debentures, whether at maturity or upon earlier redemption as provided in the junior subordinated indenture, the property trustee shall apply the proceeds from such repayment or redemption to redeem a like amount (as defined below) of the trust securities, upon not less than 30 nor more than 60 days notice, at a redemption price equal to the aggregate liquidation amount of such trust securities plus accumulated but unpaid distributions to the date of redemption and the related amount of the premium, if any, paid by us upon the concurrent redemption of such corresponding junior subordinated debentures. Please see Description of Junior Subordinated Debentures Redemption. If less than all of any series of corresponding junior subordinated debentures are to be repaid or redeemed on a redemption date, then the proceeds from such repayment or redemption will be allocated pro rata to the redemption of the related capital securities and the common securities. The amount of premium, if any, paid by us upon the redemption of all or any part of any series of any corresponding junior subordinated debentures to be repaid or redeemed on a redemption date shall be allocated pro rata to the redemption of the related capital securities and the common securities.

We will have the right to redeem any series of corresponding junior subordinated debentures:

- on or after such date as may be specified in the applicable prospectus supplement, in whole at any time or in part from time to time; or
- at any time, in whole, but not in part, upon the occurrence of a tax event, investment company event or capital treatment event, in any case subject to receipt of prior approval by the Federal Reserve (if required). Please see Description of Junior Subordinated Debentures Redemption.

If any tax event, investment company event or capital treatment event in respect of a series of capital securities and common securities shall occur and be continuing, then within 90 days of such occurrence we will have the right to redeem the corresponding junior subordinated debentures in whole, but not in part, and thereby cause a mandatory redemption of such capital securities and common securities in whole, but not in part, at the redemption price. In the event a tax event, investment company event or capital treatment event in respect of a series of capital securities and common securities has occurred and is continuing and we do not elect to redeem the corresponding junior subordinated debentures and thereby cause a mandatory redemption of such capital securities and common securities or to dissolve the related trust and cause the corresponding junior subordinated debentures to be distributed to holders of such capital securities and common securities in exchange therefor upon liquidation of the trust as described below, such capital securities will remain outstanding.

Like amount means:

- with respect to a redemption of any series of trust securities, trust securities of such series having a liquidation amount (as defined below) equal to that portion of the principal amount of corresponding junior subordinated debentures to be contemporaneously redeemed in accordance with the junior subordinated indenture, the proceeds of which will be used to pay the redemption price of such trust securities; and

with respect to a distribution of corresponding junior subordinated debentures to holders of any series of trust securities in exchange therefor in connection with a dissolution or liquidation of the related trust, corresponding junior subordinated debentures having a principal amount equal to the liquidation amount of the trust securities of the holder to whom such corresponding junior subordinated debentures would be distributed.

Liquidation amount means the stated amount per trust security as set forth in the applicable prospectus supplement.

Distribution of Corresponding Junior Subordinated Debentures

We have the right at any time to dissolve any trust and, after satisfaction of the liabilities of creditors of such trust as provided by applicable law, cause such corresponding junior subordinated debentures in respect of the related capital securities and common securities issued by such trust to be distributed to the holders of such related capital securities and common securities in exchange for such trust securities. This may require the prior approval of the Federal Reserve Board.

After the liquidation date fixed for any distribution of corresponding junior subordinated debentures for any series of capital securities:

such series of capital securities will no longer be deemed to be outstanding;

the depositary or its nominee, as the record holder of such series of capital securities, will receive a registered global certificate or certificates representing the corresponding junior subordinated debentures to be delivered upon such distribution; and

any certificates representing such series of capital securities not held by The Depository Trust Company (DTC) or its nominee will be deemed to represent the corresponding junior subordinated debentures having a principal amount equal to the stated liquidation amount of such series of capital securities, and bearing accrued and unpaid interest in an amount equal to the accrued and unpaid distributions on such series of capital securities until such certificates are presented to the administrative trustees or their agent for transfer or reissuance.

We cannot assure you as to the market prices for the capital securities or the corresponding junior subordinated debentures that may be distributed in exchange for capital securities if a dissolution and liquidation of a trust were to occur. Accordingly, the capital securities that an investor may purchase, or the corresponding junior subordinated debentures that the investor may receive on dissolution and liquidation of a trust, may trade at a discount to the price that the investor paid to purchase the capital securities.

Redemption Procedures

Capital securities redeemed on each redemption date will be redeemed at the redemption price with the applicable proceeds from the contemporaneous redemption of the corresponding junior subordinated debentures. Redemptions of the capital securities shall be made and the redemption price shall be payable on each redemption date only to the extent that the related trust has funds on hand available for the payment of such redemption price. See also Subordination of Common Securities.

If a trust gives a notice of redemption of its capital securities, then, by 12:00 noon, New York City time, on the redemption date, to the extent funds are available, the property trustee will deposit irrevocably with DTC funds sufficient to pay the applicable redemption price and will give DTC irrevocable instructions and authority to pay the redemption price to the holders of such capital securities. Please see Global Securities Book-Entry Issuance. If such capital securities are no longer in book-entry form, the property trustee, to the extent funds are

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available, will irrevocably deposit with the paying agent for such capital securities funds sufficient to pay the applicable redemption price and will give such paying agent irrevocable instructions and authority to pay the redemption price to the holders thereof upon surrender of their certificates evidencing such capital securities.

Notwithstanding the foregoing, distributions payable on or prior to the redemption date for any capital securities called for redemption will be payable to the holders of such capital securities on the relevant record dates for the related distribution dates. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit:

all rights of the holders of such capital securities will cease, except the right of the holders of such capital securities to receive the redemption price and any distribution payable in respect of such capital securities on or prior to the redemption date, but without interest; and

such capital securities will cease to be outstanding.

In the event that any date fixed for redemption of capital securities is not a business day, then payment of the redemption price will be made on the next succeeding business day, and without any interest or any other payment in respect of any such delay, except that, if such business day falls in the next calendar year, such payment will be made on the immediately preceding business day. In the event that payment of the redemption price in respect of capital securities called for redemption is improperly withheld or refused and not paid either by the trust or by us pursuant to the relevant guarantee as described under Description of the Capital Securities Guarantees, distributions on such capital securities will continue to accrue at the then applicable rate, from the redemption date originally established by the trust for such capital securities to the date such redemption price is actually paid, in which case the actual payment date will be the date fixed for redemption for purposes of calculating the redemption price.

Subject to applicable law (including, without limitation, United States federal securities law), we or our subsidiaries may at any time and from time to time purchase outstanding capital securities by tender, in the open market or by private agreement.

Payment of the redemption price on the capital securities and any distribution of corresponding junior subordinated debentures to holders of capital securities will be made to the applicable recordholders as they appear on the register for such capital securities on the relevant record date. However, if any capital securities are not in book-entry form, the relevant record date for such capital securities will be a date at least 15 days prior to the redemption date or liquidation date, as applicable, as specified in the applicable prospectus supplement.

If less than all of the capital securities and common securities issued by a trust are to be redeemed on a redemption date, then the aggregate liquidation amount of such capital securities and common securities to be redeemed shall be allocated pro rata to the capital securities and the common securities based upon the relative liquidation amounts of such classes. The property trustee will select the particular capital securities to be redeemed on a pro rata basis not more than 60 days prior to the redemption date from the outstanding capital securities not previously called for redemption, using any method that the property trustee deems fair and appropriate, including the selection for redemption of portions of the liquidation amount of capital securities in the minimum amounts that are specified in the applicable prospectus supplement. The property trustee shall promptly notify the trust registrar in writing of the capital securities selected for redemption and the liquidation amount to be redeemed. For all purposes of each trust agreement, unless the context otherwise requires, all provisions relating to the redemption of capital securities shall relate, in the case of any capital securities redeemed or to be redeemed only in part, to the portion of the aggregate liquidation amount of capital securities which has been or is to be redeemed.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to the registered address of each holder of trust securities to be redeemed.

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Subordination of Common Securities

Payment of distributions on, and the redemption price of, each trust s capital securities and common securities, as applicable, shall be made pro rata based on the liquidation amount of such capital securities and common securities. If, however, on any distribution date or redemption date a debenture event of default shall have occurred and be continuing, no payment of any distribution on, or redemption price of, any of the trust s common securities, and no other payment on account of the redemption, liquidation or other acquisition of such common securities, shall be made unless payment in full in cash of all accumulated and unpaid distributions on all of the trust s outstanding capital securities for all distribution periods terminating on or prior thereto, or in the case of payment of the redemption price the full amount of such redemption price on all of the trust s outstanding capital securities then called for redemption, shall have been made or provided for, and all funds available to the property trustee shall first be applied to the payment in full in cash of all distributions on, or redemption price of, the trust s capital securities then due and payable.

In the case of any event of default under the applicable trust agreement resulting from a debenture event of default, we as holder of such trust s common securities, will be deemed to have waived any right to act with respect to any such event of default under the applicable trust agreement until the effect of all such events of default with respect to such capital securities have been cured, waived or otherwise eliminated. Until all events of default under the applicable trust agreement with respect to the capital securities have been so cured, waived or otherwise eliminated, the property trustee shall act solely on behalf of the holders of such capital securities and not on our behalf, and only the holders of such capital securities will have the right to direct the property trustee to act on their behalf.

Liquidation Distribution Upon Dissolution

Pursuant to each trust agreement, each trust shall automatically dissolve upon expiration of its term and shall dissolve on the first to occur of:

- certain events of bankruptcy, dissolution or liquidation of State Street;
- the distribution of a like amount of the corresponding junior subordinated debentures to the holders of its trust securities, if we, as depositor, have given written direction to the property trustee to dissolve such trust, subject to our having received prior approval of the Federal Reserve, if required;
- redemption of all of the trust s capital securities as described under Redemption or Exchange Mandatory Redemption; and
- the entry of an order for the dissolution of the trust by a court of competent jurisdiction.

If an early dissolution occurs as described above, the trustees will liquidate the trust as expeditiously as possible by distributing, after satisfaction of liabilities to creditors of such trust as provided by applicable law, to the holders of such trust securities a like amount of the corresponding junior subordinated debentures. If the property trustee determines that such distribution is not practical, then the holders will be entitled to receive out of the assets of the trust available for distribution to holders, after satisfaction of liabilities to creditors of such trust as provided by applicable law, an amount equal to, in the case of holders of capital securities, the aggregate liquidation amount plus accrued and unpaid distributions to the date of payment (such amount being the liquidation distribution). If the trust has insufficient assets available to pay in full the aggregate liquidation distribution, then the amounts payable directly by such trust on its capital securities shall be paid on a pro rata basis. The holder(s) of such trust s common securities will be entitled to receive distributions upon any such liquidation pro rata with the holders of its capital securities, except that if a debenture event of default has occurred and is continuing, the capital securities shall have a priority over the common securities.

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Events of Default; Notice

Any one of the following events constitutes an event of default under the trust agreement of a trust (a trust event of default) regardless of the reason for such event of default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

the occurrence of a debenture event of default with respect to the corresponding junior subordinated debentures held by such trust (please see Description of the Junior Subordinated Debentures Events of Default, Waiver and Notice); or

the default by the property trustee in the payment of any distribution on any trust security of such trust when such becomes due and payable, and continuation of such default for a period of 30 days; or

the default by the property trustee in the payment of any redemption price of any trust security of such trust when such becomes due and payable; or

the default in the performance, or breach, in any material respect, of any covenant or warranty of the trustees in such trust agreement, other than a covenant or warranty of default in the performance of which or the breach of which is dealt with above, and continuation of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the defaulting trustee or trustees by the holders of at least 25% in aggregate liquidation amount of the outstanding capital securities of the applicable trust, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a Notice of Default under such trust agreement; or

the occurrence of certain events of bankruptcy or insolvency with respect to the property trustee and our failure to appoint a successor property trustee within 90 days.

Within the 90 days after the occurrence of any event of default actually known to the property trustee, the property trustee will transmit notice of such event of default to the holders of such trust s capital securities, the administrative trustees and to us, as depositor, unless such event of default shall have been cured or waived. We, as depositor, and the administrative trustees are required to file annually with the property trustee a certificate as to whether or not we or they are in compliance with all the conditions and covenants applicable to us and to them under each trust agreement.

If a debenture event of default with respect to the corresponding junior subordinated debentures held by a trust has occurred and is continuing, the capital securities of such trust shall have a preference over such trust s common securities as described above. See Subordination of Common Securities and Liquidation Distribution Upon Dissolution. The existence of an event of default does not entitle the holders of capital securities to accelerate the maturity of such securities.

Removal of Trustees

Unless a debenture event of default shall have occurred and be continuing, any trustee may be removed at any time by the holder of the common securities. If a debenture event of default has occurred and is continuing, the property trustee and the Delaware trustee may be removed by the holders of a majority in liquidation amount of the outstanding capital securities. In no event will the holders of the capital securities have the right to vote to appoint, remove or replace the administrative trustees, which voting rights are vested exclusively in us, as the holder of the common securities. No resignation or removal of a trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the applicable trust agreement.

Co-Trustees and Separate Property Trustee

Unless an event of default shall have occurred and be continuing, at any time or from time to time, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of

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the trust property may at the time be located, we, as the holder of the common securities, and the administrative trustees shall have the power to appoint one or more persons either to act as a co-trustee, jointly with the property trustee, of all or any part of such trust property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such person or persons in such capacity any property, title, right or power deemed necessary or desirable, subject to the provisions of the applicable trust agreement. If a debenture event of default has occurred and is continuing, the property trustee alone shall have power to make such appointment.

Merger or Consolidation of Trustees

Any person into which the property trustee, the Delaware trustee or any administrative trustee that is not a natural person may be merged or converted or with which it may be consolidated, or any person resulting from any merger, conversion or consolidation to which such trustee shall be a party, or any person succeeding to all or substantially all the corporate trust business of such trustee, shall be the successor of such trustee under each trust agreement, provided such person shall be otherwise qualified and eligible.

Mergers, Consolidations, Amalgamations or Replacements of the Trusts

A trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to us or any other person, except as described below or as otherwise described in the trust agreement. A trust may, at our request, with the consent of the holders of at least a majority in liquidation amount of the capital securities and without the consent of the administrative trustees, the property trustee or the Delaware trustee, merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, a trust organized as such under the laws of any state if:

such successor entity either:

(1) expressly assumes all of the obligations of such trust with respect to the capital securities, or

(2) substitutes for the capital securities other securities having substantially the same terms as the capital securities, the successor securities, so long as the successor securities rank the same as the capital securities in priority with respect to distributions and payments upon liquidation, redemption and otherwise;

we expressly appoint a trustee of such successor entity possessing the same powers and duties as the property trustee as the holder of the corresponding junior subordinated debentures;

the successor securities are listed, or any successor securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the capital securities are then listed, if any;

such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the capital securities to be downgraded by any nationally recognized statistical rating organization;

such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the capital securities (including any successor securities) in any material respect;

such successor entity has a purpose substantially identical to that of the trust;

prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, we have received an opinion from independent counsel to the trust experienced in such matters to the effect that:

(1) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the holders of the capital securities (including any successor securities) in any material respect, and

(2) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the trust nor such successor entity will be required to register as an investment company under the Investment Company Act of 1940, as amended; and

we or any permitted successor or assignee owns all of the common securities of such successor entity and guarantees the obligations of such successor entity under the successor securities at least to the extent provided by the guarantee.

Notwithstanding the foregoing, a trust may not, except with the consent of holders of 100% in liquidation amount of the capital securities, consolidate, amalgamate, merge with or into, or be replaced by or convey, transfer or lease its properties and assets substantially as an entirety to any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the trust or the successor entity to be classified as other than a grantor trust for United States federal income tax purposes.

Voting Rights; Amendment of Each Trust Agreement

Except as provided below and under Description of the Capital Securities Guarantees Amendments and Assignment and as otherwise required by law and the applicable trust agreement, the holders of the capital securities will have no voting rights.

We and the administrative trustees may amend each trust agreement without the consent of the holders of the capital securities, unless such amendment will materially and adversely affect the interests of any holder of capital securities:

to cure any ambiguity, correct or supplement any provisions in such trust agreement that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under such trust agreement, which may not be inconsistent with the other provisions of such trust agreement; or

to modify, eliminate or add to any provisions of such trust agreement to such extent as shall be necessary to ensure that the trust will be classified for United States federal income tax purposes as a grantor trust at all times that any trust securities are outstanding or to ensure that the trust will not be required to register as an investment company under the Investment Company Act.

Any such amendments will become effective when notice thereof is given to the holders of trust securities.

We, the administrative trustees and the property trustee may amend each trust agreement with:

the consent of holders representing not less than a majority (based upon liquidation amounts) of the outstanding trust securities; and

receipt by the trustees of an opinion of counsel to the effect that such amendment or the exercise of any power granted to the trustees in accordance with such amendment will not affect the trust s status as a grantor trust for United States federal income tax purposes or the trust s exemption from status as an investment company under the Investment Company Act.

Without the consent of each holder of trust securities, the trust agreement may not be amended to:

change the amount or timing of any distribution required to be made in respect of the trust securities as of a specified dates; or

restrict the right of a holder of trust securities to institute suit for the enforcement of any such payment on or after such date.

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So long as the property trustee holds any corresponding junior subordinated debentures, the trustees may not, without obtaining the prior approval of the holders of a majority in aggregate liquidation amount of all outstanding capital securities:

- direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or executing any trust or power conferred on the property trustee with respect to such corresponding junior subordinated debentures;
- waive any past default that is waivable under the junior subordinated indenture;
- exercise any right to rescind or annul a declaration that the principal of all the corresponding junior subordinated debentures is due and payable; or
- consent to any amendment, modification or termination of the junior subordinated indenture or such corresponding junior subordinated debentures, where such consent shall be required.

If a consent under the junior subordinated indenture would require the consent of each holder of corresponding junior subordinated debentures affected thereby, no such consent may be given by the property trustee without the prior consent of each holder of the corresponding capital securities. The trustees may not revoke any action previously authorized or approved by a vote of the holders of the capital securities except by subsequent vote of the holders of the capital securities. The property trustee will notify each holder of the capital securities of any notice of default with respect to the corresponding junior subordinated debentures. In addition to obtaining the foregoing approvals of the holders of the capital securities, prior to taking any of the foregoing actions, the trustees will obtain an opinion of counsel experienced in such matters to the effect that such action would not cause the trust to be classified as other than a grantor trust for United States federal income tax purposes.

Any required approval of holders of capital securities may be given at a meeting of holders of capital securities convened for such purpose or pursuant to written consent. The property trustee will cause a notice of any meeting at which holders of capital securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be given to each holder of record of capital securities in the manner set forth in each trust agreement.

No vote or consent of the holders of capital securities will be required for a trust to redeem and cancel its capital securities in accordance with the applicable trust agreement.

Notwithstanding that holders of capital securities are entitled to vote or consent under any of the circumstances described above, any of the capital securities that are owned by us or our affiliates or the trustees or any of their affiliates, shall, for purposes of such vote or consent, be treated as if they were not outstanding.

Payment and Paying Agency

Payments on the capital securities shall be made to the depositary, which shall credit the relevant accounts at the depositary on the applicable distribution dates. If any trust s capital securities are not held by the depositary, such payments shall be made by check mailed to the address of the holder as such address shall appear on the register.

Unless otherwise specified in the applicable prospectus supplement, the paying agent shall initially be the property trustee and any co-paying agent chosen by the property trustee and acceptable to us and to the administrative trustees. The paying agent shall be permitted to resign as paying agent upon 30 days written notice to us and to the property trustee. In the event that the property trustee shall no longer be the paying agent, the administrative trustees will appoint a successor, which will be a bank or trust company acceptable to the administrative trustees and to us, to act as paying agent.

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Registrar and Transfer Agent

Unless otherwise specified in the applicable prospectus supplement, the property trustee will act as registrar and transfer agent for the capital securities.

Registration of transfers of capital securities will be effected without charge by or on behalf of each trust, but upon payment of any tax or other governmental charges that may be imposed in connection with any transfer or exchange. The trusts will not be required to register or cause to be registered the transfer of their capital securities after such capital securities have been called for redemption.

Information Concerning the Property Trustee

The property trustee, other than during the occurrence and continuance of an event of default, undertakes to perform only the duties that are specifically set forth in each trust agreement. After an event of default, the property trustee must exercise the same degree of care and skill as a prudent individual would exercise or use in the conduct of his or her own affairs. Subject to this provision, the property trustee is under no obligation to exercise any of the powers vested in it by the applicable trust agreement at the request of any holder of capital securities unless offered indemnity satisfactory to it by such holder against the costs, expenses and liabilities that might be incurred. If no event of default has occurred and is continuing and the property trustee is required to decide between alternative causes of action, construe ambiguous provisions in the applicable trust agreement or is unsure of the application of any provision of the applicable trust agreement, and the matter is not one on which holders of capital securities are entitled under such trust agreement to vote, then the property trustee will take any action that we direct. If we do not provide direction, the property trustee may take any action that it deems advisable and in the best interests of the holders of the trust securities and will have no liability except for its own bad faith, negligence or willful misconduct.

Trust Expenses

Pursuant to the trust agreement of each trust, we, as depositor, agree to pay:

- all debts and other obligations of each trust (other than with respect to the capital securities);
- all costs and expenses of each trust (including costs and expenses relating to the organization of each trust, the fees and expenses of the trustees and the cost and expenses relating to the operation of each trust); and
- any and all taxes and costs and expenses with respect thereto (other than United States withholding taxes) to which each trust might become subject.

Governing Law

Each trust agreement will be governed by and construed in accordance with the laws of Delaware.

Miscellaneous

The administrative trustees are authorized and directed to conduct the affairs of and to operate the trusts in such a way that no trust will be required to register as an investment company under the Investment Company Act or characterized as other than a grantor trust for United States federal income tax purposes. The administrative trustees are authorized and directed to conduct their affairs so that the corresponding junior subordinated debentures will be treated as indebtedness of State Street for United States federal income tax purposes. In this connection, we and the administrative trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust of each trust or each trust agreement, that we and the administrative trustees determine to be necessary or desirable to achieve such end, as long as such action does not materially and adversely affect the interests of the holders of the related capital securities.

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Holders of the capital securities have no preemptive or similar rights.

No trust may borrow money or issue debt or mortgage or pledge any of its assets.

COMMON SECURITIES

In connection with the issuance of capital securities, each trust will issue one series of common securities having the terms, including distributions, redemption, voting and liquidation rights, set forth in the applicable prospectus supplement. Except for voting rights, the terms of the common securities will be substantially identical to the terms of the capital securities. The common securities will rank equally, and payments will be made on the common securities pro rata, with the capital securities, except that, upon an event of default, the rights of the holders of the common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the capital securities. Except in limited circumstances, the common securities of a trust carry the right to vote to appoint, remove or replace any of the trustees of that trust. We will own, directly or indirectly, all of the common securities of each trust.

DESCRIPTION OF THE CAPITAL SECURITIES GUARANTEES

Set forth below is a summary of information concerning the capital securities guarantees that we will execute and deliver for the benefit of the holders of capital securities. Each capital securities guarantee will be qualified as an indenture under the Trust Indenture Act. Bank One Trust Company, N.A. will act as the guarantee trustee for purposes of the Trust Indenture Act. The terms of each capital securities guarantee will be those set forth in the capital securities guarantee and those made part of the capital securities guarantee by the Trust Indenture Act. The summary of the material terms of the capital securities guarantees is not intended to be complete and is qualified in all respects by the provisions of the form of capital securities guarantee which is filed as an exhibit to the registration statement which contains this prospectus, and the Trust Indenture Act. The guarantee trustee will hold each capital securities guarantee for the benefit of the holders of the capital securities of the applicable trust.

General

Pursuant to and to the extent set forth in the capital securities guarantee, we will irrevocably and unconditionally agree to pay in full to the holders of the trust securities, except to the extent paid by the trust, as and when due, regardless of any defense, right of set-off or counterclaim which the trust may have or assert, the following payments, which are referred to as guarantee payments, without duplication:

- any accrued and unpaid distributions that are required to be paid on the capital securities, to the extent the trust has funds available for distributions;

- the redemption price, plus all accrued and unpaid distributions, to the extent the trust has funds available for redemptions, relating to any capital securities called for redemption by the trust; and

- upon a voluntary or involuntary dissolution, winding-up or termination of the trust, other than in connection with the distribution of junior subordinated debentures to the holders of capital securities or the redemption of all of the capital securities, the lesser of:

(1) the aggregate of the liquidation amount and all accrued and unpaid distributions on the capital securities to the date of payment; and

(2) the amount of assets of the trust remaining for distribution to holders of the capital securities in liquidation of the trust.

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The redemption price and liquidation amount will be fixed at the time the capital securities are issued.

Our obligation to make a guarantee payment may be satisfied by direct payment of the required amounts to the holders of capital securities or by causing the trust to pay such amounts to such holders.

The capital securities guarantees will not apply to any payment of distributions except to the extent a trust shall have funds available for such payments. If we do not make interest payments on the junior subordinated debentures purchased by a trust, the trust will not pay distributions on the capital securities and will not have funds available for such payments. Please see Status of the Guarantees. Because we are a holding company, our rights to participate in the assets of any of our subsidiaries upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors except to the extent that we may ourselves be a creditor with recognized claims against the subsidiary. Except as otherwise provided in the applicable prospectus supplement, the capital securities guarantees do not limit the incurrence or issuance by us of other secured or unsecured debt.

The capital securities guarantees, when taken together with our obligations under the junior subordinated debentures, the indentures and the trust agreements, including our obligations to pay costs, expenses, debts and liabilities of the trusts, other than those relating to trust securities, will provide a full and unconditional guarantee on a subordinated basis of payments due on the capital securities.

We have also agreed separately to irrevocably and unconditionally guarantee the obligations of the trusts with respect to the common securities to the same extent as the capital securities guarantees, except that upon an event of default under the indenture, holders of capital securities shall have priority over holders of common securities with respect to distributions and payments on liquidation, redemption or otherwise.

Status of the Guarantees

Each capital security guarantee will be unsecured and will rank:

- subordinate and junior in right of payment to all our other liabilities in the same manner as the junior subordinated debentures; and
- equally with all other capital security guarantees that we issue.

Each capital securities guarantee will constitute a guarantee of payment and not of collection. This means that the guaranteed party may sue the guarantor to enforce its rights under -style:normal;text-transform:none;font-variant: normal;">

Total assets

$

77,956

$

68,005

$

66,904

$

67,100

$

61,547

Long-term debt

$

16,463

$

14,442

$

10,565

$

10,393

$

9,509

Total debt

$

19,616

$

18,999

$

13,330

$

13,176

$

11,630

Schlumberger stockholders' equity

$

41,078

$

35,633

$

37,850

$

39,469

$

34,751

Cash dividends declared per share

$

2.00

$

2.00

$

1.60

$

1.25

$

1.10

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis contains forward-looking statements, including, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions and resources. Such forward-looking statements should be read in conjunction with our disclosures under "Item 1A. Risk Factors" of this Form 10-K.

2016 Executive Overview

On April 1, 2016, Schlumberger completed its acquisition of Cameron, combining their complementary portfolios into a pore-to-pipeline products and services offering for the world's oil and gas industry. The transaction enables the creation of technology-driven growth by integrating Schlumberger reservoir and well technology with Cameron wellhead and surface equipment, flow control and processing technology.

Schlumberger revenue of $27.8 billion in 2016 represented a decrease of 22% from 2015, despite three quarters of activity from the acquired Cameron Group, which contributed $4.2 billion in revenue. Excluding the Cameron Group, revenue declined 34%. This revenue drop was due to continued weakness in exploration and production spending as a result of the deepest and longest industry crisis in more than 30 years.

The year began with Brent crude prices experiencing the sharpest fall in 30 years to $26 per barrel in January 2016, thus continuing the downturn that the oil and gas industry endured during the previous year.

Given two successive years of investment cuts, oil supply growth slowed significantly despite record OPEC production. Non-OPEC production fell sharply, largely due to a significant drop in US light tight oil production. However, robust global demand enabled the oil markets to tighten and draw down on the vast accumulation of crude and product stocks by mid-year.

The year's end was marked by OPEC and certain non-OPEC countries, including Russia, agreeing to cut production by a combined 1.7 million barrels per day. These agreements are expected to accelerate the drawdown of stocks in 2017 and have subsequently spurred a recovery in oil prices, which reached $55 per barrel at the end of 2016.

In the natural gas markets, US production declined during 2016 as a result of the drop in gas drilling activity, while demand growth was robust throughout the year. Low gas prices during most of 2016 encouraged the power sector to continue to favor gas over coal. The year was also marked by the start-up of the Sabine Pass liquefied natural gas (LNG) plant in Texas, which exported its first shipment in early 2016, thus starting a trend that should make the US the third largest exporter of LNG by the end of 2020.

Europe continued to see modest demand growth due in part to coal plant retirements. Gas prices, however, fell to a seven-year low as supplies from Russia, Norway and North Africa reached record highs. The Asian markets continued to be in slow growth mode, albeit with slight improvements in China. Nonetheless, oversupply persisted as Australian LNG exports ramped up, driving LNG prices down even further from the already low-levels of 2015. The global outlook for LNG is largely unchanged, with continued oversupply and low prices.

Schlumberger's financial performance in 2016 was severely impacted by the significant decrease in land-based activity, particularly in North America where the average land rig count dropped 46% as compared to the previous year. Supply overcapacity in the land market remained high for most of 2016, resulting in pricing pressure across a broad range of oilfield services. As a result, North America revenue, excluding the impact of the Cameron Group, declined 48% due to a decrease in US land revenue of 52%. Including the Cameron Group, North America revenue decreased 32%. Internationally, revenue declined 28%, excluding the impact of Cameron (17% including the Cameron Group) due to customer budget cuts, activity disruptions and a shift in revenue mix that impacted Schlumberger's results in most basins and market segments around the world. Revenue in the Europe, CIS & Africa Area decreased due to lower demand for exploration and development-related products and services as E&P budgets were reduced, particularly in Sub-Saharan Africa. In Latin America, revenue declined due to customer budget constraints across the Area and, more specifically, in Venezuela where operations were scaled back to align with collections. Middle East & Asia revenue decreased primarily due to reduced activity in Asia-Pacific countries, while robust activity in the Middle East was more than offset by pricing concessions.

Since the start of this downturn, and as it deepened during 2016, Schlumberger has navigated the commercial landscape by balancing pricing concessions and market share and also by proactively removing significant costs through workforce reductions, internal efficiency improvements and strong supply chain management. As a result, Schlumberger has delivered superior financial results by maintaining pretax operating margins well above 10% and delivering sufficient free cash flow to cover a range of strategic capital investments, as well as our ongoing dividend commitments.

After nine quarters of unprecedented activity decline, the business environment stabilized in the third quarter of 2016 and revenue increased slightly in the fourth quarter, suggesting that the bottom of this cycle has been reached.

Schlumberger expects the growth in E&P investments in 2017 to be led initially by land operators in North America. E&P spending surveys currently indicate that 2017 E&P investments in North America will increase by approximately 30%, which should lead to both higher activity and a recovery in service industry pricing.

Schlumberger expects the 2017 recovery in the international markets to proceed more slowly than in North America. This will likely lead to a third successive year of underinvestment, with a continued low rate of new project approvals and an accelerating production decline in the aging production base. These factors taken together are increasing the likelihood of a significant supply deficit in the medium term, which can only be avoided by a broad-based global increase in E&P spending, which is expected to start unfolding in the later parts of 2017 and leading into 2018.

Fourth Quarter 2016 Results

(Stated in millions)

	Fourth Quarter 2016		Third Quarter 2016	
	Revenue	Income Before Taxes	Revenue	Income Before Taxes
Reservoir Characterization	$1,699	$316	$1,689	$ 322
Drilling	2,013	234	2,021	218
Production	2,179	132	2,083	98
Cameron	1,346	188	1,341	215
Eliminations & other	(130)	(60)	(115)	(38)
Pretax operating income		810		815
Corporate & other [1]		(245)		(267)
Interest income [2]		23		24
Interest expense [3]		(126)		(135)
Charges & credits [4]		(675)		(237)
	$7,107	$(213)	$7,019	$ 200

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

(2) Excludes interest income included in the segments' income (fourth quarter 2016: $7 million; third quarter 2016: $7 million).

(3) Excludes interest expense included in the segments' income (fourth quarter 2016: $13 million; third quarter 2016: $14 million).

(4) Charges and credits are described in detail in Note 3 to the Consolidated Financial Statements.

Fourth-quarter revenue of $7.1 billion increased 1% sequentially. This increase was primarily driven by the Production Group, which grew 5% due to increased hydraulic fracturing activity in the Middle East and in North America land.

Fourth-quarter pretax operating margin was essentially flat sequentially at 11.4% as margin improvements in the Production and Drilling Groups were balanced by contractions in the Cameron and Reservoir Characterization Groups.

Reservoir Characterization Group

Fourth-quarter revenue of $1.7 billion increased 1% sequentially due to the ramp-up in Testing & Process activity in Kuwait and increased software license and maintenance sales. These effects were slightly offset by the seasonal decrease in Wireline activity in Norway and Russia.

Pretax operating margin of 19% decreased 49 basis points (bps) sequentially as the increased contribution from software and maintenance sales was more than offset by the decline in high-margin Wireline activities.

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Drilling Group

Fourth-quarter revenue of $2.0 billion was flat sequentially as the continued strong directional drilling activity in North America land was offset by lower drilling activity in the International Areas. The improvement in North America revenue primarily came from increased uptake of Drilling & Measurements, Bits & Drilling Tools technologies. The lower revenue in the International Areas was primarily due to completed Drilling & Measurement projects, while the winter slowdown in Russia and Norway affected Drilling & Measurements and M-I SWACO activity.

Pretax operating margin of 12% expanded 81 bps sequentially despite revenue being flat. This was largely due to pricing improvements from greater uptake of drilling technologies on increasing activity on land in the US, which mainly affected Drilling & Measurements and Bits & Drilling Tools.

Production Group

Fourth-quarter revenue of $2.2 billion increased 5% sequentially as a result of strong fracturing activity on unconventional resource developments on land in the Middle East, mainly in Saudi Arabia, and in North America where the land rig count and fracturing stage count increased. Revenue on land in the US increased both on volume and on a modest pricing recovery.

Pretax operating margin of 6% increased 134 bps sequentially on increased activity, which drove efficiency and better operational execution in the Middle East. The modest pricing recovery on land in the US also contributed to the margin expansion.

Cameron Group

Fourth-quarter revenue of $1.3 billion was flat sequentially. Among the Group's businesses, OneSubsea reported an 11% sequential increase from strong project activity and execution, while Surface Systems posted strong sales in the Middle East. These increases, however, were offset by a decline in revenue in Drilling Systems driven by a declining backlog and lower bookings. Valves & Measurement was also lower following the prior quarter's strong international shipments.

Pretax operating margin of 14% declined 207 bps sequentially due to the drop in high-margin Drilling Systems project volume.

Full-Year 2016 Results

(Stated in millions)

	2016		2015	
	Revenue	Income Before Taxes	Revenue	Income Before Taxes
Reservoir Characterization	$6,743	$1,228	$9,738	$2,465
Drilling	8,561	994	13,563	2,538
Production	8,709	528	12,311	1,570
Cameron	4,211	653	-	-

Eliminations & other	(414)	(130)	(137)	(63)
Pretax operating income		3,273		6,510
Corporate & other [1]		(925)		(768)
Interest income [2]		84		30
Interest expense [3]		(517)		(316)
Charges & credits [4]		(3,820)		(2,575)
	$27,810	$(1,905)	$35,475	$2,881

(1) Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items. Full-year 2016 includes $189 million of amortization expense associated with intangible assets recorded as a result of the acquisition of Cameron, which was completed on April 1, 2016.

(2) Excludes interest income included in the segments' income (2016: $26 million; 2015: $22 million).

(3) Excludes interest expense included in the segments' income (2016: $53 million; 2015: $30 million).

(4) Charges and credits are described in detail in Note 3 to the Consolidated Financial Statements.

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Full-year 2016 revenue of $27.8 billion decreased 22% year-on-year. This included nine months of activity from the acquired Cameron Group, which contributed $4.2 billion of revenue.

Full-year 2016 revenue from the Reservoir Characterization and Production Groups declined by 31% and 29%, respectively, as a result of lower demand for exploration- and development-related products and services as E&P budgets were further reduced. Drilling Group revenue fell 37% due to the rig count decline in both North America and internationally.

Full-year 2016 pretax operating income margin decreased 658 bps to 12% as a result of the overall decline in activity and pervasive pricing concessions. The margin decrease was highest in the Reservoir Characterization Group, which contracted by 710 bps to 18%. Drilling Group pretax operating margin fell 710 bps to 12%, while the Production Group decreased 669 bps to 6%. The Cameron Group posted a pretax margin of 16%.

Reservoir Characterization Group

Full-year 2016 revenue of $6.7 billion decreased 31% year-on-year primarily due to sustained cuts in exploration and discretionary spending.

Year-on-year, pretax operating margin decreased 710 bps to 18% due to reduced high-margin Wireline and Testing Services activities.

Drilling Group

Full-year 2016 revenue of $8.6 billion decreased 37% year-on-year primarily due to the severe drop in rig count in both North America and internationally combined with pricing pressure that mainly affected Drilling & Measurements and M-I SWACO activity.

Year-on-year, pretax operating margin decreased 710 bps to 12% primarily due to the significant decline in higher-margin activities of Drilling & Measurements combined with pricing weakness.

Production Group

Full-year 2016 revenue of $8.7 billion decreased 29% year-on-year with most of the decrease attributable to a decline in North America, particularly on Well Services pressure pumping technologies driven by activity declines and pricing pressure as the land rig count declined dramatically.

Year-on-year, pretax operating margin decreased 669 bps to 6% as a result of lower activity and increasing pricing pressure, which continued to impact North America land.

Cameron Group

Cameron Group contributed nine-month revenue of $4.2 billion and pretax operating margin of 16%. Revenue was impacted by a declining project backlog as well as a further slowdown in North America land activity, which also affected the short-cycle businesses of the Valves & Measurement and Surface product lines.

Pretax operating margin of 16% was driven by strong project execution and manufacturing efficiency in OneSubsea and overall cost control across the Group.

Full-Year 2015 Results

(Stated in millions)

	2015		2014	
	Revenue	Income Before Taxes	Revenue	Income Before Taxes
Reservoir Characterization	$9,738	$2,465	$13,339	$3,770
Drilling	13,563	2,538	18,128	3,805
Production	12,311	1,570	17,329	3,130
Eliminations & other	(137)	(63)	(216)	(129)
Pretax operating income		6,510		10,576
Corporate & other [1]		(768)		(848)
Interest income [2]		30		31
Interest expense [3]		(316)		(347)
Charges and credits [4]		(2,575)		(1,773)
	$35,475	$2,881	$48,580	$7,639

(1) Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets, certain centrally managed initiatives and other nonoperating items.
(2) Excludes interest income included in the segments' income (2015: $22 million; 2014: $20 million).
(3) Excludes interest expense included in the segments' income (2015: $30 million; 2014: $22 million).
(4) Charges and credits are described in detail in Note 3 to the Consolidated Financial Statements.

Full-year 2015 revenue of $35.5 billion decreased 27% year-on-year. This decrease was primarily due to customer budget cuts and pricing concessions as customers responded to lower commodity prices. Revenue was also impacted by the fall of certain currencies against the US dollar, which accounted for approximately 20% of the revenue decline.

Full-year 2015 revenue from the Reservoir Characterization and Drilling Groups declined by 27% and 25%, respectively, as a result of lower demand as E&P budgets were reduced due to lower commodity prices. Production Group revenue fell by 29% due to activity reductions and pricing pressure as the land rig count dropped drastically in North America.

Full-year 2015 pretax operating income margin decreased 342 bps to 18% as a result of the overall decline in activity combined with the pricing pressure which most notably impacted the businesses in North America.

Reservoir Characterization Group

Full-year 2015 revenue of $9.7 billion was 27% lower than the same period last year primarily due to sustained customer cuts in exploration and discretionary spending that impacted all Technologies.

Year-on-year, pretax operating margin decreased 295 bps to 25% as a result of an unfavorable overall revenue mix reflecting the decline in high-margin exploration activity as well as lower high-margin multiclient and software sales.

Drilling Group

Full-year 2015 revenue of $13.6 billion was 25% lower than the previous year primarily due to the severe drop in rig count in North America, reduced activity levels and service pricing concessions internationally. Unfavorable currency effects in Russia and Venezuela also contributed to the decline.

Year-on-year, pretax operating margin decreased 228 bps to 19%, primarily due to a decrease in higher-margin activities of Drilling & Measurements as well as pricing concessions. Despite the revenue decline, prompt action on cost management and the benefit of a local cost structure that minimized the impact of unfavorable currency effects on pretax operating income helped limit the operating margin decline.

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Production Group

Full-year 2015 revenue of $12.3 billion decreased 29% year-on-year, with approximately two-thirds of the decline attributable to Well Services pressure pumping technologies as a result of activity reductions and pricing pressure as the land rig count declined dramatically in North America.

Year-on-year, pretax operating margin declined 531 bps to 13% as lower activity and increasing pricing pressure continued in North America land.

Interest and Other Income

Interest & other income consisted of the following:

(Stated in millions)

	2016	2015	2014
Interest income	$110	$52	$51
Earnings of equity method investments	90	184	240
	$200	$236	$291

The increase in interest income in 2016 as compared to 2015 and 2014 is primarily attributable to the higher cash and short-term investment balances as a result of the issuance of $6.0 billion of Senior Notes during the fourth quarter of 2015.

The decrease in earnings of equity method investments primarily reflects the effects of the downturn in the oil and gas industry, which has negatively impacted the majority of Schlumberger’s investments in affiliates, particularly those in North America. The decrease in 2016 also reflects the fact that Schlumberger stopped recording equity income from the OneSubsea joint venture in April 2016 as a result of Schlumberger’s acquisition of Cameron.

Interest Expense

Interest expense of $570 million in 2016 increased by $224 million compared to 2015 primarily due to the issuance of $6.0 billion of Senior Notes during the fourth quarter of 2015 and the impact of the $3.0 billion of debt assumed in the acquisition of Cameron.

Interest expense of $346 million in 2015 decreased by $23 million compared to 2014, as the impact of a higher weighted average debt balance of approximately $0.5 billion was more than offset by a 30 bps decrease in the weighted average borrowing rates from 2.8% in 2014 to 2.5% in 2015.

Other

Research & engineering and General & administrative expenses, as a percentage of Revenue, were as follows:

	2016	2015	2014

Research & engineering	3.6 %	3.1 %	2.5 %
General & administrative	1.4 %	1.4 %	1.0 %

Although Research & engineering and General & administrative costs have either increased or remained flat as a percentage of Revenue in 2016 as compared to 2015, they have decreased in absolute dollar terms as a result of cost control measures that have been implemented, offset in part by the impact of the Cameron acquisition.

Income Taxes

The Schlumberger effective tax rate was 14.6% in 2016, 25.9% in 2015, and 25.2% in 2014.

The Schlumberger effective tax rate is sensitive to the geographic mix of earnings. When the percentage of pretax earnings generated outside of North America increases, the Schlumberger effective tax rate will generally decrease. Conversely, when the percentage of pretax earnings generated outside of North America decreases, the Schlumberger effective tax rate will generally increase.

The effective tax rate for each of 2016, 2015 and 2014 was significantly impacted by the charges and credits described in Note 3 to the Consolidated Financial Statements because they were only partially tax effective. Excluding the impact of these charges and credits, the effective tax rate was 15.9% in 2016, 20.2% in 2015 and 21.9% in 2014. The decrease in the effective tax rate, excluding the impact of charges and credits, was primarily attributable to a change in the geographic mix of earnings and the favorable resolution of tax examinations in certain jurisdictions.

It is expected that the effective tax rate will gradually increase over the course of 2017 as a result of the expected improvement in activity in North America.

Charges and Credits

Schlumberger recorded significant charges and credits in continuing operations during 2016, 2015 and 2014. These charges and credits, which are summarized below, are more fully described in Note 3 to the Consolidated Financial Statements.

The following is a summary of the 2016 charges and credits, of which $3.172 billion were classified as Impairments & other and $648 million were classified as Merger & integration in the Consolidated Statement of Income:

(Stated in millions)

	Pretax	Tax	Net
Workforce reductions	$880	$69	$811
Fixed asset impairments	684	52	632
Inventory write-downs	616	49	567
Amortization of inventory fair value adjustment	299	90	209
Facility closure costs	226	53	173
North America pressure pumping asset impairments	209	67	142
Multiclient seismic data impairment	198	62	136
Facility impairments	165	58	107
Other merger and integration-related	160	28	132
Costs associated with exiting certain activities	98	23	75
Merger-related employee benefits	83	13	70
Currency devaluation loss in Egypt	63	-	63
Other restructuring charges	55	-	55
Professional fees	45	10	35
Contract termination costs	39	9	30
	$3,820	$583	$3,237

The following is a summary of the 2015 charges and credits, all of which were classified as Impairments & other in the Consolidated Statement of Income:

(Stated in millions)

	Pretax	Tax	Net
Workforce reductions	$920	$107	$813
Fixed asset impairments	776	141	635
Inventory write-downs	269	27	242
Impairment of SPM project	182	36	146
Facility closures	177	37	140
Geopolitical events	77	-	77

Currency devaluation loss in Venezuela	49	-	49
Contract termination costs	41	2	39
Other	84	7	77
	$2,575	$357	$2,218

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The following is a summary of the 2014 charges and credits, all of which were classified as Impairments & other in the Consolidated Statement of Income:

	(Stated in millions)		
	Pretax	Tax	Net
WesternGeco restructuring	$806	$25	$781
Currency devaluation loss in Venezuela	472	-	472
Workforce reduction	296	37	259
Impairment of SPM project	199	72	127
	$1,773	$134	$1,639

Liquidity and Capital Resources

Schlumberger had total Cash, Short-term investments and Fixed income investments, held to maturity of $9.5 billion, $13.5 billion and $7.9 billion at December 31, 2016, 2015 and 2014, respectively. Total debt was $19.6 billion, $19.0 billion and $13.3 billion at December 31, 2016, 2015 and 2014, respectively.

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

	(Stated in millions)		
Components of Liquidity:	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Cash	$2,929	$2,793	$3,130
Short-term investments	6,328	10,241	4,371
Fixed income investments, held to maturity	238	418	442
Long-term debt – current portion	(1,975)	(3,011)	(1,244)
Short-term borrowings	(1,178)	(1,546)	(1,521)
Long-term debt	(16,463)	(14,442)	(10,565)
Net debt (1)	$(10,121)	$(5,547)	$(5,387)
Changes in Liquidity:	2016	2015	2014
Income (loss) from continuing operations before noncontrolling interests	$(1,627)	$2,135	$5,711
Impairments and other charges	3,820	2,575	1,773
Depreciation and amortization (2)	4,094	4,078	4,094
Earnings of equity method investments, less dividends received	(60)	(125)	(113)
Pension and other postretirement benefits expense	187	438	355
Stock-based compensation expense	267	326	329
Pension and other postretirement benefits funding	(174)	(346)	(390)
Decrease (increase) in working capital (3)	416	(478)	(36)
Other	(662)	202	(528)
Cash flow from operations	6,261	8,805	11,195
Capital expenditures	(2,055)	(2,410)	(3,976)
SPM investments	(1,031)	(953)	(740)
Multiclient seismic data capitalized	(630)	(486)	(321)
Free cash flow (4)	2,545	4,956	6,158
Dividends paid	(2,647)	(2,419)	(1,968)
Proceeds from employee stock plans	415	448	825
Stock repurchase program	(778)	(2,182)	(4,678)

	(465)	803	337
Business acquisitions and investments, net of cash acquired plus debt assumed	(4,022)	(478)	(1,501)
Discontinued operations - settlement with U.S. Department of Justice [5]	-	(233)	-
Other	(87)	(252)	220
Increase in Net Debt	(4,574)	(160)	(944)
Net Debt, Beginning of period	(5,547)	(5,387)	(4,443)
Net Debt, End of period	$(10,121)	$(5,547)	$(5,387)

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

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

(3) Includes severance payments of approximately $850 million during 2016 and $810 million during 2015.

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

(5) Refer to Note 20 to the Consolidated Financial Statements for details.

Key liquidity events during 2016, 2015 and 2014 included:

- Cash flow from operations was $6.3 billion in 2016, $8.8 billion in 2015 and $11.2 billion in 2014. The decrease in operating cash flows in each of the last two years is largely attributable to lower earnings before non-cash charges and credits and depreciation and amortization expense.
- Schlumberger paid $2.8 billion of cash in connection with the April 1, 2016 acquisition of Cameron. Additionally, as a result of the acquisition of Cameron, Schlumberger assumed $3.0 billion of debt (including a $244 million adjustment to increase Cameron's long-term fixed rate debt to its estimated fair value) and $2.2 billion of cash and short-term investments.
- During the second quarter of 2016, Schlumberger repurchased approximately $1.4 billion of Cameron's long-term fixed-rate debt.
- In connection with Schlumberger's acquisition of Cameron, Cameron merged with Schlumberger Holdings Corporation (SHC), an indirect wholly-owned United States subsidiary of Schlumberger. Under the terms of the agreement, Cameron shareholders received 0.716 shares of Schlumberger Limited common stock and a cash payment of $14.44 in exchange for each Cameron share of common stock outstanding. In connection with this transaction, SHC acquired approximately 138 million shares of common stock from Schlumberger Limited and transferred those shares to Cameron's shareholders.

In order to partially fund the purchase of the 138 million shares of common stock from Schlumberger Limited that were transferred to Cameron stockholders, SHC issued $6 billion of notes during the fourth quarter of 2015 consisting of the following:

- $500 million of 1.90% Senior Notes due 2017;
- $1.3 billion of 2.35% Senior Notes due 2018;
- $1.6 billion of 3.00% Senior Notes due 2020;
- $850 million of 3.63% Senior Notes due 2022; and
- $1.75 billion of 4.00% Senior Notes due 2025.

- On July 18, 2013, the Board approved a new $10 billion share repurchase program to be completed at the latest by June 30, 2018. Schlumberger had repurchased $9.4 billion of shares under this share repurchase program as of December 31, 2016.

The following table summarizes the activity under this share repurchase program during 2016, 2015 and 2014:

(Stated in thousands, except per share amounts)

	Total Cost of Shares Purchased	Total Number of Shares Purchased	Average Price Paid per Share
2016	$778,018	10,988.5	$ 70.80
2015	$2,182,180	26,751.0	$ 81.57
2014	$4,677,687	47,545.9	$ 98.38

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On January 21, 2016, the Board approved a new $10 billion share repurchase program for Schlumberger common stock. This new program will take effect once the remaining $0.6 billion authorized to be repurchased under the July 18, 2013 program is exhausted.

- Dividends paid during 2016, 2015 and 2014 were $2.6 billion, $2.4 billion and $2.0 billion, respectively.

On January 15, 2015, Schlumberger announced that the Board approved a 25% increase in the quarterly dividend, to $0.50 per share.

- Capital expenditures were $2.1 billion in 2016, $2.4 billion in 2015 and $4.0 billion in 2014. Capital expenditures are expected to be approximately $2.2 billion in 2017.

  During 2016, 2015 and 2014 Schlumberger made contributions of $174 million, $346 million and $390 million, respectively, to its postretirement benefit plans. The US pension plans were 85% funded at December 31, 2016 and 86% funded at December 31, 2015 based on the projected benefit obligation.

Schlumberger's international defined benefit pension plans were a combined 92% funded at December 31, 2016 based on the projected benefit obligation. This compares to 93% funded at December 31, 2015.

Schlumberger expects to contribute approximately $200 million to its postretirement benefit plans in 2017, subject to market and business conditions.

In April 2016, Schlumberger announced that it would reduce its activity in Venezuela to align operations with cash collections as a result of insufficient payments received in recent quarters and a lack of progress in establishing new mechanisms that address past and future accounts receivable. Schlumberger continues to experience delays in payment from its national oil company customer in Venezuela. Venezuela represented less than 5% of Schlumberger's consolidated revenue for each of the years ended December 31, 2016, 2015 and 2014. Schlumberger's net receivable balance in Venezuela as of December 31, 2016 was approximately $1.2 billion.

Although accounts receivable collections improved during the fourth quarter of 2016, Schlumberger continues to experience payment delays from many of its customers. This is attributable to the impact of lower oil and gas prices on the industry. In this regard, Ecuador now represents approximately 12% of Schlumberger's accounts receivable balance at December 31, 2016.

Schlumberger operates in more than 85 countries. At December 31, 2016, only five of those countries individually accounted for greater than 5% of Schlumberger's accounts receivable balances, of which only three (the United States, Ecuador and Venezuela) accounted for greater than 10%.

Schlumberger maintains a €5.0 billion Guaranteed Euro Medium Term Note program. This program provides for the issuance of various types of debt instruments such as fixed or floating rate notes in Euro, US dollar or other currencies. Schlumberger has issued €0.5 billion 1.50% Guaranteed Notes due 2019 under this program.

As of December 31, 2016, Schlumberger had $9.3 billion of cash and short-term investments on hand. Schlumberger also has separate committed debt facility agreements aggregating $6.6 billion with commercial banks, of which $4.0 billion was available and unused as of December 31, 2016. The $6.6 billion of committed debt facility agreements included $6.3 billion of committed facilities which support commercial paper programs. Schlumberger believes that these amounts are sufficient to meet future business requirements for at least the next 12 months.

The total outstanding commercial paper borrowings were $2.571 billion as of December 31, 2016 and $2.383 billion as of December 31, 2015.

Summary of Contractual Obligations

(Stated in millions)

		Payment Period			
	Total	2017	2018-2019	2020-2021	After 2021
Debt [1]	$19,616	$3,153	$ 3,345	$ 7,368	$ 5,750
Interest on fixed rate debt obligations [2]	2,691	445	783	609	854
Operating leases	1,477	292	415	299	471
Purchase obligations [3]	2,698	2,400	237	17	44
	$26,482	$6,290	$ 4,780	$ 8,293	$ 7,119

[1] Excludes future payments for interest.

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(2) Excludes interest on $4.9 billion of variable rate debt, which had a weighted average interest rate of 1.7% as of December 31, 2016.

(3) Represents an estimate of contractual obligations in the ordinary course of business. Although these contractual obligations are considered enforceable and legally binding, the terms generally allow Schlumberger the option to reschedule and adjust its requirements based on business needs prior to the delivery of goods.

Refer to Note 18, Pension and Other Benefit Plans, of the Consolidated Financial Statements for details regarding Schlumberger's pension and other postretirement benefit obligations.

As discussed in Note 14, Income Taxes, of the Consolidated Financial Statements, included in the Schlumberger Consolidated Balance Sheet at December 31, 2016 is approximately $1.4 billion of liabilities associated with uncertain tax positions in the over 100 jurisdictions in which Schlumberger conducts business. Due to the uncertain and complex application of tax regulations, combined with the difficulty in predicting when tax audits throughout the world may be concluded, Schlumberger cannot make reliable estimates of the timing of cash outflows relating to these liabilities.

Schlumberger has outstanding letters of credit/guarantees that relate to business performance bonds, custom/excise tax commitments, facility lease/rental obligations, etc. These were entered into in the ordinary course of business and are customary practices in the various countries where Schlumberger operates.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires Schlumberger to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. The following accounting policies involve "critical accounting estimates" because they are particularly dependent on estimates and assumptions made by Schlumberger about matters that are inherently uncertain.

Schlumberger bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Multiclient Seismic Data

Schlumberger capitalizes the costs associated with obtaining multiclient seismic data. The carrying value of the multiclient seismic data library at December 31, 2016 and 2015 was $1.07 billion and $1.03 billion, respectively. Such costs are charged to Cost of revenue based on the percentage of the total costs to the estimated total revenue that Schlumberger expects to receive from the sales of such data. However, under no circumstances will an individual survey carry a net book value greater than a 4-year, straight-line amortized value.

The carrying value of surveys is reviewed for impairment annually as well as when an event or change in circumstance indicates an impairment may have occurred. Adjustments to the carrying value are recorded when it is determined that estimated future revenues, which involve significant judgment on the part of Schlumberger, would not be sufficient to recover the carrying value of the surveys. Significant adverse changes in Schlumberger's estimated future cash flows could result in impairment charges in a future period. For purposes of performing the annual impairment test of the multiclient library, larger surveys (which are typically prefunded by customers) are analyzed for impairment on a survey-by-survey basis and smaller surveys are analyzed based on two pools of surveys: United States and non-United States. The United States and non-United States pools were determined to be the most appropriate level at which to perform the impairment review based upon a number of factors, including (i) various macroeconomic factors that influence the ability to successfully market surveys, and (ii) the focus of the sales force and related costs.

Allowance for Doubtful Accounts

Schlumberger maintains an allowance for doubtful accounts in order to record accounts receivable at their net realizable value. Judgment is involved in recording and making adjustments to this reserve. Allowances have been recorded for receivables believed to be uncollectible, including amounts for the resolution of potential credit and other collection issues such as disputed invoices. Depending on how such potential issues are resolved, or if the financial condition of Schlumberger customers were to deteriorate resulting in an impairment of their ability to make payments, adjustments to the allowance may be required.

Goodwill, Intangible Assets and Long-Lived Assets

Schlumberger records the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed as goodwill. The goodwill relating to each of Schlumberger's reporting units is tested for impairment annually as well as when an event, or change in circumstances, indicates an impairment may have occurred.

Under generally accepted accounting principles, Schlumberger has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of one of its reporting units is greater than its carrying amount. If, after assessing the totality of events or circumstances, Schlumberger determines it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, there is no need to perform any further testing. However, if Schlumberger concludes otherwise, then it is required to perform the first step of a two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value.

Schlumberger has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test.

For purposes of performing the impairment test for goodwill, Schlumberger's reporting units are its four Groups: Reservoir Characterization, Drilling, Production and Cameron. Schlumberger elected to perform the qualitative assessment described above for purposes of its annual goodwill impairment test in 2016. Based on this assessment, Schlumberger concluded that it was more likely than not that the fair value of each of its reporting units was greater than its carrying amount. Accordingly, no further testing was required.

Long-lived assets, including fixed assets, intangible assets and investments in SPM projects, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the long-lived asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived assets involves significant estimates on the part of management. If there is a material change in economic conditions or other circumstances influencing the estimate of future cash flows or fair value, Schlumberger could be required to recognize impairment charges in the future.

Income Taxes

Schlumberger conducts business in more than 100 tax jurisdictions, a number of which have tax laws that are not fully defined and are evolving. Schlumberger's tax filings are subject to regular audits by the tax authorities. These audits may result in assessments for additional taxes that are resolved with the authorities or, potentially, through the courts. Schlumberger recognizes the impact of a tax position in its financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Tax liabilities are recorded based on estimates of additional taxes which will be due upon the conclusion of these audits. Estimates of these tax liabilities are made based upon prior experience and are updated in light of changes in facts and circumstances. However, due to the uncertain and complex application of tax regulations, the ultimate resolution of audits may result in liabilities that could be materially different from these estimates. In such an event, Schlumberger will record additional tax expense or tax benefit in the period in which such resolution occurs.

Percentage-of-Completion Revenue Recognition

Schlumberger uses the percentage-of-completion method to account for certain long-term construction-type contracts, primarily in the Cameron Group. These contracts involve significant design and engineering efforts in order to satisfy custom designs for customer-specific applications. Under the percentage-of-completion method, revenue is recognized as work progresses on each contract. Progress is measured by the ratio of actual costs incurred to date on the project in relation to total estimated project costs.

The estimate of total project costs has a significant impact on both the amount of revenue recognized as well as the related profit on a project. Revenue and profits on contracts can also be significantly affected by change orders and claims. Profits are recognized based on the estimated project profit multiplied by the percentage complete. Due to the nature of these projects, adjustments to estimates of contract revenue and total contract costs are often required as work progresses. Any expected losses on a project are recorded in full in the period in which they become probable.

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Approximately 6% of Schlumberger's revenue in 2016 was recognized under the percentage-of-completion method.

Pension and Postretirement Benefits

Schlumberger's pension and postretirement benefit obligations are described in detail in Note 18 to the Consolidated Financial Statements. The obligations and related costs are calculated using actuarial concepts, which include critical assumptions related to the discount rate, expected rate of return on plan assets and medical cost trend rates. These assumptions are important elements of expense and/or liability measurement and are updated on an annual basis, or upon the occurrence of significant events.

The discount rate that Schlumberger uses reflects the prevailing market rate of a portfolio of high-quality debt instruments with maturities matching the expected timing of payment of the related benefit obligations. The following summarizes the discount rates utilized by Schlumberger for its various pension and postretirement benefit plans:

The discount rate utilized to determine the liability for Schlumberger's United States pension plans and postretirement medical plan was 4.20% at December 31, 2016 and 4.50% at December 31, 2015.

The weighted-average discount rate utilized to determine the liability for Schlumberger's international pension plans was 4.13% at December 31, 2016 and 4.36% at December 31, 2015.

The weighted-average discount rate utilized to determine expense for Schlumberger's United States pension plans and postretirement medical plan decreased from 4.85% in 2015 to 4.15% in 2016.

The weighted-average discount rate utilized to determine expense for Schlumberger's international pension plans increased from 4.07% in 2015 to 4.36% in 2016.

The expected rate of return for Schlumberger's retirement benefit plans represents the average rate of return expected to be earned on plan assets over the period that benefits included in the benefit obligation are expected to be paid. The expected rate of return for Schlumberger's United States pension plans has been determined based upon expected rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. The weighted average expected rate of return on plan assets for the United States pension plans was 7.25% in both 2016 and 2015. The weighted average expected rate of return on plan assets for the international pension plans was 7.40% in both 2016 and 2015. A lower expected rate of return would increase pension expense.

Schlumberger's medical cost trend rate assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. The overall medical cost trend rate assumption utilized to determine the 2016 postretirement medical expense was 7.50% graded to 5.0% over the next ten years. The overall medical trend rate assumption utilized to determine the postretirement medical liability at December 31, 2016 was 7.25% graded to 5.0% over the next ten years.

The following illustrates the sensitivity to changes in certain assumptions, holding all other assumptions constant, for Schlumberger's United States and international pension plan:

(Stated in millions)

Change in Assumption	Effect on 2016 Pretax Pension Expense	Effect on Dec. 31, 2016 Liability
25 basis point decrease in discount rate	+$49	+$485
25 basis point increase in discount rate	-$46	-$457

25 basis point decrease in expected return on plan assets	+$26	-
25 basis point increase in expected return on plan assets	-$25	-

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The following illustrates the sensitivity to changes in certain assumptions, holding all other assumptions constant, for Schlumberger's United States postretirement medical plans:

(Stated in millions)

Change in Assumption	Effect on 2016 Pretax Pension Expense	Effect on Dec. 31, 2016 Liability
25 basis point decrease in discount rate	+$1	+$39
25 basis point increase in discount rate	-$1	-$37
100 basis point decrease per annum in medical cost trend rate	-$3	-$30
100 basis point increase per annum in medical cost trend rate	+$3	+$34

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Schlumberger is subject to market risks primarily associated with changes in foreign currency exchange rates and interest rates.

As a multinational company, Schlumberger operates in more than 85 countries. Schlumberger's functional currency is primarily the US dollar. Approximately 77% of Schlumberger's revenue in 2016 was denominated in US dollars. However, outside the United States, a significant portion of Schlumberger's expenses is incurred in foreign currencies. Therefore, when the US dollar weakens in relation to the foreign currencies of the countries in which Schlumberger conducts business, the US dollar-reported expenses will increase.

Schlumberger maintains a foreign-currency risk management strategy that uses derivative instruments to manage the impact of changes in foreign exchange rates on its earnings. Schlumberger enters into foreign currency forward contracts to provide a hedge against currency fluctuations on certain monetary assets and liabilities, and certain expenses denominated in currencies other than the functional currency.

A 10% appreciation in the US dollar from the December 31, 2016 market rates would increase the unrealized value of Schlumberger's forward contracts by $47 million. Conversely, a 10% depreciation in the US dollar from the December 31, 2016 market rates would decrease the unrealized value of Schlumberger's forward contracts by $57 million. In either scenario, the gain or loss on the forward contract would be offset by the gain or loss on the underlying transaction, and therefore, would have no impact on future earnings.

At December 31, 2016, contracts were outstanding for the US dollar equivalent of $5.5 billion in various foreign currencies of which $1.1 billion related to hedges of debt balances denominated in currencies other than the functional currency.

Schlumberger is subject to interest rate risk on its debt and its investment portfolio. Schlumberger maintains an interest rate risk management strategy that uses a mix of variable and fixed rate debt combined with its investment portfolio and occasionally interest rate swaps to mitigate the exposure to changes in interest rates. At December 31, 2016, Schlumberger had fixed rate debt aggregating approximately $14.7 billion and variable rate debt aggregating approximately $4.9 billion, before considering the effects of cross currency swaps.

Schlumberger's exposure to interest rate risk associated with its debt is also partially mitigated by its investment portfolio. Both Short-term investments and Fixed income investments, held to maturity, which totaled approximately $6.6 billion at December 31, 2016, are comprised primarily of money market funds, time deposits, certificates of deposit, commercial paper, bonds and notes, substantially all of which are denominated in US dollars. The average return on investments was 0.9% in 2016.

The following table reflects the carrying amounts of Schlumberger's debt at December 31, 2016 by year of maturity:

(Stated in millions)

	Expected Maturity Dates										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	Thereafter	Total
Fixed rate debt											
1.25% Senior Notes	$1,000										$1,000
1.40% Notes	250										250
1.90% Senior Notes	499										499
2.35% Senior Notes		$1,297									1,297
6.38% Notes		297									297
0.63% Guaranteed Notes			$622								622
1.50% Guaranteed Notes			536								536
3.00% Senior Notes				$1,591							1,591
3.30% Senior Notes					$1,594						1,594
4.20% Senior Notes					1,100						1,100
4.50% Notes					137						137
2.40% Senior Notes						$996					996
3.63% Senior Notes						845					845
3.60% Notes						110					110
3.65% Senior Notes							$1,491				1,491
4.00% Notes							83				83
3.70% Notes								$ 56			56
4.00% Senior Notes									$1,740		1,740
7.00% Notes										$214	214
5.95% Notes										116	116
5.13% Notes										99	99
Total fixed rate debt	$1,749	$1,594	$1,158	$1,591	$2,831	$1,951	$1,574	$ 56	$1,740	$429	$14,673
Variable rate debt	1,404	447	146	1,015	1,931	-	-	-	-	-	4,943
Total	$3,153	$2,041	$1,304	$2,606	$4,762	$1,951	$1,574	$ 56	$1,740	$429	$19,616

The fair market value of the outstanding fixed rate debt was approximately $15.0 billion as of December 31, 2016. The weighted average interest rate on the variable rate debt as of December 31, 2016 was 1.7%.

Schlumberger does not enter into derivatives for speculative purposes.

Forward-looking Statements

This Form 10-K and other statements we make contain “forward-looking statements” within the meaning of the federal securities laws, which include any statements that are not historical facts, such as our forecasts or expectations regarding business outlook; growth for Schlumberger as a whole and for each of its segments (and for specified products or geographic areas within each segment); oil and natural gas demand and production growth; rig count; oil and natural gas prices; improvements in operating procedures and technology; capital expenditures by Schlumberger and the oil and gas industry; the business strategies of Schlumberger’s customers; the anticipated benefits of the Cameron transaction; targeted mergers and acquisitions; the success of Schlumberger’s joint ventures and alliances; future global economic conditions; and future results of operations. These statements are subject to risks and uncertainties, including, but not limited to, global economic conditions; changes in exploration and production spending by Schlumberger’s customers and changes in the level of oil and natural gas exploration and development; demand for our integrated services and new technologies; the inability to reduce the cost-per-barrel of hydrocarbon developments; Schlumberger’s future cash flows; general economic, political, security and business conditions in key regions of the world; country risk; pricing erosion; foreign exchange rates; weather and seasonal factors; operational modifications, delays or cancellations; production declines; changes in government regulations and regulatory requirements, including those related to offshore oil and gas exploration, radioactive sources, explosives, chemicals, hydraulic fracturing services and climate-related initiatives; the inability of technology to meet new challenges in exploration; the ability to realize expected synergies from the Cameron acquisition; the inability to retain key employees; and other risks and uncertainties detailed in the Risk Factors section of this Form 10-K and other filings that we make with the Securities and Exchange Commission. If one or more of these or other risks or uncertainties materialize (or the consequences of such a development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. Schlumberger disclaims any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

Item 8. Financial Statements and Supplementary Data.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	(Stated in millions, except per share amounts)		
Year Ended December 31,	2016	2015	2014
Revenue			
Services	$20,859	$31,765	$44,138
Product sales	6,951	3,710	4,442
Total Revenue	27,810	35,475	48,580
Interest & other income	200	236	291
Expenses			
Cost of services	17,876	25,259	33,792
Cost of sales	6,234	3,062	3,606
Research & engineering	1,012	1,094	1,217
General & administrative	403	494	475
Impairments & other	3,172	2,575	1,773
Merger & integration	648	-	-
Interest	570	346	369
Income (loss) from continuing operations before taxes	(1,905)	2,881	7,639
Taxes on income (loss)	(278)	746	1,928
Income (loss) from continuing operations	(1,627)	2,135	5,711
Loss from discontinued operations	-	-	(205)
Net income (loss)	(1,627)	2,135	5,506
Net income attributable to noncontrolling interests	60	63	68
Net income (loss) attributable to Schlumberger	$(1,687)	$2,072	$5,438
Schlumberger amounts attributable to:			
Income (loss) from continuing operations	(1,687)	2,072	5,643
Loss from discontinued operations	-	-	(205)
Net income (loss)	$(1,687)	$2,072	$5,438
Basic earnings per share of Schlumberger			
Income (loss) from continuing operations	$(1.24)	$1.63	$4.36
Loss from discontinued operations	-	-	(0.16)
Net income (loss)	$(1.24)	$1.63	$4.20
Diluted earnings per share of Schlumberger			
Income (loss) from continuing operations	$(1.24)	$1.63	$4.31
Loss from discontinued operations	-	-	(0.16)
Net income (loss) [1]	$(1.24)	$1.63	$4.16
Average shares outstanding:			
Basic	1,357	1,267	1,295
Assuming dilution	1,357	1,275	1,308

(1) Amounts may not add due to rounding.

See the Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Stated in millions)

Year Ended December 31,	2016	2015	2014
Net income (loss)	$(1,627)	$2,135	$5,506
Currency translation adjustments			
Unrealized net change arising during the period	(83)	(522)	(463)
Marketable securities			
Unrealized gain (loss) arising during the period	21	(50)	(166)
Reclassification to net income - impairment charge	-	40	-
Cash flow hedges			
Net loss on cash flow hedges	(101)	(178)	(238)
Reclassification to net income (loss) of net realized loss	121	235	113
Pension and other postretirement benefit plans			
Actuarial gain (loss)			
Actuarial loss arising during the period	(289)	(210)	(1,285)
Amortization to net income of net actuarial loss	157	306	177
Prior service cost			
Amortization to net income (loss) of net prior service cost	102	101	128
Income taxes on pension and other postretirement benefit plans	(13)	(74)	82
Comprehensive income	(1,712)	1,783	3,854
Comprehensive income attributable to noncontrolling interests	60	63	68
Comprehensive income (loss) attributable to Schlumberger	$(1,772)	$1,720	$3,786

See the Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Stated in millions)

December 31,	2016	2015
ASSETS		
Current Assets		
Cash	$2,929	$2,793
Short-term investments	6,328	10,241
Receivables less allowance for doubtful accounts (2016 - $397; 2015 - $333)	9,387	8,780
Inventories	4,225	3,756
Deferred taxes	-	208
Other current assets	1,058	1,134
	23,927	26,912
Fixed Income Investments, held to maturity	238	418
Investments in Affiliated Companies	1,243	3,311
Fixed Assets less accumulated depreciation	12,821	13,415
Multiclient Seismic Data	1,073	1,026
Goodwill	24,990	15,605
Intangible Assets	9,855	4,569
Other Assets	3,809	2,749
	$77,956	$68,005
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	10,016	7,727
Estimated liability for taxes on income	1,188	1,203
Long-term debt - current portion	1,975	3,011
Short-term borrowings	1,178	1,546
Dividends payable	702	634
	15,059	14,121
Long-term Debt	16,463	14,442
Postretirement Benefits	1,495	1,434
Deferred Taxes	1,880	1,075
Other Liabilities	1,530	1,028
	36,427	32,100
Equity		
Common stock	12,801	12,693
Treasury stock	(3,550)	(13,372)
Retained earnings	36,470	40,870
Accumulated other comprehensive loss	(4,643)	(4,558)
Schlumberger stockholders' equity	41,078	35,633
Noncontrolling interests	451	272
	41,529	35,905
	$77,956	$68,005

See the Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Stated in millions)

Year Ended December 31,	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$(1,627)	$2,135	$5,506
Add: Loss from discontinued operations	-	-	205
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Impairments and other charges	3,820	2,575	1,773
Depreciation and amortization [(1)]	4,094	4,078	4,094
Pension and other postretirement benefits expense	187	438	355
Stock-based compensation expense	267	326	329
Pension and other postretirement benefits funding	(174)	(346)	(390)
Earnings of equity method investments, less dividends received	(60)	(125)	(113)
Change in assets and liabilities: [(2)]			
Decrease (increase) in receivables	1,098	2,176	(187)
Decrease (increase) in inventories	800	625	(36)
Decrease in other current assets	308	76	119
(Increase) decrease in other assets	(488)	16	(134)
Decrease in accounts payable and accrued liabilities	(1,680)	(2,656)	(36)
(Decrease) increase in estimated liability for taxes on income	(110)	(699)	104
Increase (decrease) in other liabilities	77	24	(79)
Other	(251)	162	(315)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,261	8,805	11,195
Cash flows from investing activities:			
Capital expenditures	(2,055)	(2,410)	(3,976)
SPM investments	(1,031)	(953)	(740)
Multiclient seismic data capitalized	(630)	(486)	(321)
Business acquisitions and investments, net of cash acquired	(2,398)	(443)	(1,008)
Sale (purchase) of investments, net	5,544	(5,848)	446
Other	(54)	(112)	19
NET CASH USED IN INVESTING ACTIVITIES	(624)	(10,252)	(5,580)
Cash flows from financing activities:			
Dividends paid	(2,647)	(2,419)	(1,968)
Proceeds from employee stock purchase plan	231	296	295
Proceeds from exercise of stock options	184	152	530
Stock repurchase program	(778)	(2,182)	(4,678)
Proceeds from issuance of long-term debt	3,640	9,565	2,289
Repayment of long-term debt	(5,630)	(3,771)	(2,878)
Net (decrease) increase in short-term borrowings	(387)	(3)	552
Other	(41)	(264)	(38)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(5,428)	1,374	(5,896)
Cash flow (used in) provided by discontinued operations - operating activities	-	(233)	24
Net increase (decrease) in cash before translation effect	209	(306)	(257)
Translation effect on cash	(73)	(31)	(85)
Cash, beginning of period	2,793	3,130	3,472

Cash, end of period	$2,929	$2,793	$3,130

(1) Includes depreciation of property, plant and equipment and amortization of intangible assets, multiclient seismic data costs and SPM investments.
(2) Net of the effect of business acquisitions and divestitures.
See the Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	(Stated in millions)					
	Common Stock		Retained	Accumulated Other Comprehensive	Noncontrolling	
	Issued	In Treasury	Earnings	Loss	Interests	Total
Balance, January 1, 2014	$12,192	$(8,135)	$37,966	$ (2,554)	$ 166	$39,635
Net income			5,438		68	5,506
Currency translation adjustments				(463)		(463)
Changes in unrealized gain on marketable securities				(166)		(166)
Changes in fair value of cash flow hedges				(125)		(125)
Pension and other postretirement benefit plans				(898)		(898)
Shares sold to optionees, less shares exchanged	(26)	556				530
Vesting of restricted stock	(79)	79				-
Shares issued under employee stock purchase plan	33	262				295
Stock repurchase program		(4,678)				(4,678)
Stock-based compensation expense	329					329
Dividends declared ($1.60 per share)			(2,071)			(2,071)
Shares issued for acquisition	72	141				213
Other	(26)	3			(35)	(58)
Balance, December 31, 2014	12,495	(11,772)	41,333	(4,206)	199	38,049
Net income			2,072		63	2,135
Currency translation adjustments				(522)		(522)
Changes in unrealized gain on marketable securities				(10)		(10)
Changes in fair value of cash flow hedges				57		57
Pension and other postretirement benefit plans				123		123
Shares sold to optionees, less shares exchanged	(38)	190				152
Vesting of restricted stock	(112)	112				-
Shares issued under employee stock purchase plan	17	279				296
Stock repurchase program		(2,182)				(2,182)
Stock-based compensation expense	326					326
Dividends declared ($2.00 per share)			(2,535)			(2,535)
Other	5	1			10	16
Balance, December 31, 2015	12,693	(13,372)	40,870	(4,558)	272	35,905
Net loss			(1,687)		60	(1,627)
Currency translation adjustments				(83)		(83)

Changes in unrealized gain on marketable securities				21		21
Changes in fair value of cash flow hedges				20		20
Pension and other postretirement benefit plans				(43)		(43)
Shares sold to optionees, less shares exchanged	(82)	266				184
Vesting of restricted stock	(122)	122				-
Shares issued under employee stock purchase plan	(55)	286				231
Stock repurchase program		(778)				(778)
Stock-based compensation expense	267					267
Dividends declared ($2.00 per share)			(2,713)			(2,713)
Acquisition of Cameron International Corporation	103	9,924				10,027
Acquisition of noncontrolling interest					106	106
Other	(3)	2			13	12
Balance, December 31, 2016	$12,801	$(3,550)	$36,470	$ (4,643)	$ 451	$41,529

See the Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

SHARES OF COMMON STOCK

(Stated in millions)

	Issued	In Treasury	Shares Outstanding
Balance, January 1, 2014	1,434	(127)	1,307
Shares sold to optionees, less shares exchanged	-	9	9
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	4	4
Shares issued for acquisition	-	2	2
Stock repurchase program	-	(48)	(48)
Balance, December 31, 2014	1,434	(159)	1,275
Shares sold to optionees, less shares exchanged	-	3	3
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	4	4
Stock repurchase program	-	(27)	(27)
Balance, December 31, 2015	1,434	(178)	1,256
Acquisition of Cameron International Corporation	-	138	138
Shares sold to optionees, less shares exchanged	-	3	3
Vesting of restricted stock	-	1	1
Shares issued under employee stock purchase plan	-	4	4
Stock repurchase program	-	(11)	(11)
Balance, December 31, 2016	1,434	(43)	1,391

See the Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

1. Business Description

Schlumberger Limited (Schlumberger N.V., incorporated in Curaçao) and its consolidated subsidiaries (collectively, “Schlumberger”) comprise the world’s leading supplier of technology for reservoir characterization, drilling, production and processing to the oil and gas industry.

2. Summary of Accounting Policies

The Consolidated Financial Statements of Schlumberger have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, Schlumberger evaluates its estimates, including those related to collectibility of accounts receivable; revenue recognized under the percentage-of-completion method; recoverability of fixed assets, goodwill, intangible assets, Schlumberger Production Management investments and investments in affiliates; income taxes; multiclient seismic data; contingencies and actuarial assumptions for employee benefit plans. Schlumberger bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Schlumberger recognizes revenue based upon purchase orders, contracts or other persuasive evidence of an arrangement with the customer that include fixed or determinable prices provided that collectibility is reasonably assured. Revenue is recognized for services when they are rendered. Revenue is recognized for products upon delivery and when the customer assumes the risks and rewards of ownership.

Revenue is recognized for certain long-term construction-type contracts, primarily in the Cameron Group, based on the percentage-of-completion method. These contracts involve significant design and engineering efforts in order to satisfy custom designs for customer-specific applications. Under the percentage-of-completion method, revenue is recognized as work progresses on each such contract. Progress is measured by the ratio of actual costs incurred to date on the project in relation to total estimated project costs. Any expected losses on a project are recorded in full in the period in which they become probable. Progress billings are generally issued upon completion of certain phases of work as stipulated in the contract. Revenue in excess of billings is included within Receivables less allowance for doubtful accounts in the Consolidated Balance Sheet. Billings and cash collections in excess of revenue recognized on contracts are included within Accounts payable and accrued liabilities in the Consolidated Balance Sheet.

Revenue from seismic contract services performed on a dayrate basis is recognized as the service is performed. Revenue from other services, including pre-funded multiclient surveys, is recognized as the seismic data is acquired and/or processed on a proportionate basis as work is performed. This method requires revenue to be recognized based upon quantifiable measures of progress, such as square kilometers acquired. Multiclient data surveys are licensed or sold to customers on a non-transferable basis. Revenue from sales of completed multiclient data surveys is recognized upon obtaining a signed licensing agreement and providing customers with access to such data.

Revenue is occasionally generated from contractual arrangements that include multiple deliverables. Revenue from these arrangements is recognized as each item is delivered based on its relative fair value, provided that the delivered items have stand-alone value to the customer.

Revenue derived from the sale of licenses of Schlumberger software may include installation, maintenance, consulting and training services. If services are not essential to the functionality of the software, the revenue for each element of the contract is recognized separately based on its respective vendor specific objective evidence of fair value when all of the following conditions are met: a signed contract is obtained, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

Short-term and Fixed Income Investments

The Consolidated Balance Sheet reflects the Schlumberger investment portfolio separated between current and long term, based on maturity. Both Short-term investments and Fixed Income Investments, held to maturity are comprised primarily of money market funds, time deposits, certificates of deposit, commercial paper, bonds and notes, substantially all of which are denominated in US dollars. Under normal circumstances Schlumberger intends to hold such investments until maturity, with the exception of $503 million of Short-term investments at December 31, 2016 that are considered available-for-sale and stated at fair value. All other investments are stated at cost plus accrued interest, which approximates market. The unrealized gains/losses in investments designated as available-for-sale were not significant at December 31, 2016.

For purposes of the Consolidated Statement of Cash Flows, Schlumberger does not consider Short-term investments to be cash equivalents.

Fixed Income Investments, held to maturity at December 31, 2016 of $238 million mature as follows: $225 million in 2018 and $13 million in 2019.

Investments in Affiliated Companies

Investments in companies in which Schlumberger does not have a controlling financial interest, but over which it has significant influence are accounted for using the equity method. Schlumberger's share of the after-tax earnings of equity method investees is included in Interest and other income. I nvestments in privately held companies in which Schlumberger does not have the ability to exercise significant influence are accounted for using the cost method. Investments in publicly traded companies in which Schlumberger does not have significant influence are accounted for as available-for-sale marketable securities. These marketable securities are reported at fair value, based on quoted market prices, with unrealized gains and losses reported as a component of Accumulated other comprehensive loss. The fair value of these marketable securities was $59 million at December 31, 2016 ($41 million at December 31, 2015). The cost basis of these marketable securities was $41 million at both December 31, 2016 and 2015.

Equity and cost method investments as well as investments in publicly traded companies are classified as Investments in Affiliated Companies in the Consolidated Balance Sheet.

Multiclient Seismic Data

Schlumberger's multiclient library consists of completed and in-process seismic surveys that are licensed on a nonexclusive basis. Schlumberger capitalizes costs directly incurred in acquiring and processing the multiclient seismic data. Such costs are charged to Cost of revenue based on the percentage of the total costs to the estimated total revenue that Schlumberger expects to receive from the sales of such data. However, under no circumstance will an individual survey carry a net book value greater than a 4-year, straight-line amortized value.

The carrying value of the multiclient library is reviewed for impairment annually as well as when an event or change in circumstance indicating impairment may have occurred. Adjustments to the carrying value are recorded when it is determined that estimated future cash flows, which involve significant judgment on the part of Schlumberger, would not be sufficient to recover the carrying value of the surveys . Significant adverse changes in Schlumberger's estimated future cash flows could result in impairment charges in a future period.

Schlumberger Production Management

Schlumberger Production Management (SPM) projects are focused on developing and managing production on behalf of Schlumberger's clients under long-term agreements. Schlumberger will invest its own services, products and in some cases cash, into the field development activities and operations. Although in certain arrangements Schlumberger is paid for a portion of the services or products it provides, generally Schlumberger will not be paid at the time of providing its services or upon delivery of its products. Instead, Schlumberger is compensated based upon cash flow generated or on a fee-per-barrel basis. This may include certain arrangements whereby Schlumberger is only compensated based upon incremental production it helps deliver above a mutually agreed baseline.

Schlumberger capitalizes its cash investments in a project as well as the direct costs associated with providing services or products for which Schlumberger will be compensated when the related production is achieved. Revenue is recognized as the related production is achieved. These capitalized investments are amortized to the Consolidated Statement of Income as the related oil production is achieved based on the units of production method, whereby each unit produced is assigned a pro-rata portion of the unamortized costs based on estimated total production, resulting in a matching of revenue with the applicable costs. Amortization expense relating to these capitalized investments was $449 million, $317 million and $315 million in 2016, 2015 and 2014, respectively.

The unamortized portion of Schlumberger's investments in SPM projects was $2.458 billion and $1.829 billion at December 31, 2016 and 2015, respectively. These amounts are included within Other Assets in Schlumberger's Consolidated Balance Sheet.

Concentration of Credit Risk

Schlumberger's assets that are exposed to concentrations of credit risk consist primarily of cash, short-term investments, fixed income investments held to maturity, receivables from clients and derivative financial instruments. Schlumberger places its cash, short-term investments and fixed income investments held to maturity with financial institutions and corporations and limits the amount of credit exposure with any one of them. Schlumberger regularly evaluates the creditworthiness of the issuers in which it invests. By using derivative financial instruments to hedge certain exposures, Schlumberger exposes itself to some credit risk. Schlumberger minimizes this credit risk by entering into transactions with high-quality counterparties, limiting the exposure to each counterparty and monitoring the financial condition of its counterparties.

Schlumberger operates in more than 85 countries and as such, its accounts receivable are spread over many countries and customers. The United States, Venezuela and Ecuador each represented approximately 11%, 12% and 12% of Schlumberger's accounts receivable balance at December 31, 2016. No other country accounted for greater than 10% of Schlumberger's accounts receivable balance. Schlumberger has continued to experience delays in payment from its national oil company customer in Venezuela. Schlumberger maintains an allowance for uncollectible accounts receivable based on expected collectibility and performs ongoing credit evaluations of its customers' financial condition. If the financial condition of its customers were to deteriorate resulting in an impairment of their ability to make payments, adjustments to the allowance may be required.

Earnings per Share

The following is a reconciliation from basic to diluted earnings per share from continuing operations of Schlumberger for each of the last three years:

(Stated in millions, except per share amounts)

	Schlumberger Income (Loss) from Continuing Operations	Average Shares Outstanding	Earnings (Loss) per Share from Continuing Operations
2016:			
Basic	$ (1,687)	1,357	$ (1.24)
Assumed exercise of stock options	-	-	
Unvested restricted stock	-	-	
Diluted	$ (1,687)	1,357	$ (1.24)
2015:			
Basic	$ 2,072	1,267	$ 1.63
Assumed exercise of stock options	-	4	
Unvested restricted stock	-	4	
Diluted	$ 2,072	1,275	$ 1.63
2014:			
Basic	$ 5,643	1,295	$ 4.36
Assumed exercise of stock options	-	9	

Unvested restricted stock	-	4	
Diluted	$ 5,643	1,308	$ 4.31

Employee stock options to purchase 47 million shares of common stock as well as 5 million unvested restricted stock units were outstanding at December 31, 2016, but were not included in the computation of diluted loss per share as their effect, if included, would have been anti-dilutive.

Employee stock options to purchase 20 million and 5 million shares of common stock at December 31, 2015 and 2014, respectively, were outstanding but not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common stock, and therefore the effect on diluted earnings per share would have been anti-dilutive.

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Recently Issued Accounting Pronouncements

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

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. Schlumberger will adopt this ASU on January 1, 2019. Based on its current lease portfolio, Schlumberger estimates that the adoption of this ASU will result in approximately $1.3 billion of additional assets and liabilities being reflected on its Consolidated Balance Sheet.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Schlumberger adopted this ASU in the fourth quarter of 2016 on a prospective basis.

Reclassifications

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

3. Charges and Credits

Schlumberger recorded the following charges and credits in continuing operations during 2016, 2015 and 2014:

2016

- Schlumberger reduced its headcount during the second quarter of 2016 as a result of persistent unfavorable oil and gas industry market conditions and the expected impact on customer activity levels. Schlumberger recorded a $646 million charge during the second quarter of 2016 associated with this headcount reduction. During the fourth quarter of 2016, Schlumberger decided to further reduce its headcount in order to streamline its support cost structure. Schlumberger recorded an additional $234 million charge during the fourth quarter associated with these actions. Approximately $400 million of the costs remain unpaid as of December 31, 2016.
- During the fourth quarter of 2016, Schlumberger recorded $302 million of restructuring charges consisting of the following: $165 million of facility closure costs due to the expected sale of certain owned properties and the termination of certain facility leases; $98 million of asset write-offs associated with exiting certain activities; and $39 million of contract termination costs.

- During the fourth quarter of 2016, the Central Bank of Egypt took the decision to float its currency and the Egyptian pound devalued relative to the US dollar. As a result, Schlumberger recorded a $63 million devaluation charge during the fourth quarter of 2016.
- As a result of the persistent unfavorable oil and gas industry market conditions that continued to deteriorate in the first half of 2016, and the related impact on first half operating results and expected customer activity levels, Schlumberger determined that the carrying values of certain assets were no longer recoverable and also took certain decisions that resulted in the following impairment and other charges during the second quarter of 2016:
  - $209 million impairment of pressure pumping equipment in North America.
  - $165 million impairment of facilities in North America.
  -

$684 million of other fixed asset impairments primarily relating to underutilized equipment.

- $616 million write-down of the carrying value of certain inventory to its net realizable value.
- $198 million impairment of certain multiclient seismic data, largely related to the US Gulf of Mexico.
- $55 million of other restructuring costs.

The fair value of the impaired fixed assets and multiclient seismic data was estimated based on the projected present value of future cash flows that these assets are expected to generate. Such estimates included unobservable inputs that required significant judgments. Additional charges may be required in future periods should industry conditions worsen. The above items are classified in Impairments & other in the Consolidated Statement of Income.

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- In connection with Schlumberger's April 2016 acquisition of Cameron International Corporation ("Cameron") (see Note 4 - Acquisitions), Schlumberger recorded $648 million of charges consisting of the following: $299 million relating to the amortization of purchase accounting adjustments associated with the write-up of acquired inventory to its estimated fair value; $83 million relating to employee benefits for change-in-control arrangements and retention bonuses; $45 million of transaction costs, including advisory and legal fees; $61 million of facility closure costs, and $160 million of other merger and integration-related costs. These amounts are classified in Merger & integration in the Consolidated Statement of Income.

The following is a summary of these charges and credits, of which $3.172 billion were classified as Impairments & other and $648 million were classified as Merger & integration in the Consolidated Statement of Income:

(Stated in millions)

	Pretax	Tax	Net
Workforce reductions	$880	$69	$811
Other fixed asset impairments	684	52	632
Inventory write-downs	616	49	567
Amortization of inventory fair value adjustment	299	90	209
Facility closure costs	226	53	173
North America pressure pumping asset impairments	209	67	142
Multiclient seismic data impairment	198	62	136
Facility impairments	165	58	107
Other merger and integration-related	160	28	132
Costs associated with exiting certain activities	98	23	75
Merger-related employee benefits	83	13	70
Currency devaluation loss in Egypt	63	-	63
Other restructuring charges	55	-	55
Professional fees	45	10	35
Contract termination costs	39	9	30
	$3,820	$583	$3,237

2015

- Schlumberger reduced its headcount during the first quarter of 2015 as a result of the severe fall in activity in North America, combined with the impact of lower international activity due to customer budget cuts driven by lower oil prices. Schlumberger recorded a $390 million charge during the first quarter associated with this headcount reduction as well as an incentivized leave of absence program. Based on the activity outlook for 2016, as well as to further streamline its support structure, Schlumberger decided to further reduce its headcount and expand its incentivized leave of absence program during the fourth quarter of 2015. Schlumberger recorded an additional $530 million charge during the fourth quarter associated with these actions.
- As a result of unfavorable oil and gas industry market conditions that continued to deteriorate and their impact on the activity outlook, Schlumberger determined that the carrying values of certain assets were no longer recoverable and also took certain decisions that resulted in the following impairment and restructuring charges during the fourth quarter of 2015:

- $776 million of fixed asset impairments primarily related to underutilized pressure pumping and other equipment in North America, as well as certain lower-tier drilling rigs.
- $269 million to write-down the carrying value of certain inventory, primarily in North America.
- $182 million to reduce the carrying value of an investment in an SPM project to its estimated fair value, as a result of the decline in commodity prices and considering this project is approaching the end of its contractual term.
- $177 million associated with certain of Schlumberger's owned and leased facilities, including the expected sale of certain properties and the termination of certain leases.
- $77 million relating to assets that are no longer recoverable as a result of geopolitical issues in certain countries in the Middle East.

- $41 million relating to contract termination costs.
- $84 million of other charges associated with current market conditions, including $40 million relating to an other-than-temporary impairment of marketable securities and $15 million relating to the impairment of an equity-method investment.

Certain of these impairment charges were estimated based on the projected present value of future cash flows, which included unobservable inputs that required significant judgments.

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

This change results in a reduction in the US dollar reported amount of local currency denominated revenues, expenses and, consequently, income before taxes and net income in Venezuela. If Schlumberger had applied an exchange rate of 192 Venezuelan Bolivares fuertes to the US dollar throughout 2014, it would have reduced Schlumberger earnings by approximately $0.09 per share.

The following is a summary of these charges and credits, all of which were classified as Impairments & other in the Consolidated Statement of Income:

	(Stated in millions)		
	Pretax	Tax	Net
Workforce reductions	$920	$107	$813
Fixed asset impairments	776	141	635
Inventory write-downs	269	27	242
Impairment of SPM project	182	36	146
Facility closures	177	37	140
Geopolitical events	77	-	77
Currency devaluation loss in Venezuela	49	-	49
Contract termination costs	41	2	39
Other	84	7	77
	$2,575	$357	$2,218

2014

- During the fourth quarter of 2014, Schlumberger restructured its WesternGeco marine seismic fleet in order to lower its operating costs. Three previous-generation acquisition vessels with lower towing capacity and higher operating costs will be converted to source vessels, allowing for the termination of two third-party source vessel leases and the retirement of two owned source vessels.

As a result of this restructuring, Schlumberger performed an impairment test and determined that the carrying values of certain of its vessels exceeded their respective fair values by $590 million. This impairment charge related to the six Explorer-class vessels that were acquired at a premium in Schlumberger's 2007 acquisition of Eastern Echo Holdings Plc. The fair value of these vessels was estimated primarily based on the replacement cost method, which was largely based on unobservable inputs that required significant judgments.

In addition to the $590 million impairment charge relating to these six vessels, Schlumberger also recorded an $85 million impairment charge relating to a seismic intangible asset and $131 million of other charges primarily related to lease termination costs and other seismic assets as a result of the restructuring. Schlumberger did not incur any significant cash expenditures as a result of these charges.

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

Schlumberger had historically applied the official exchange rate to remeasure local currency transactions and balances into US dollars. Effective December 31, 2014, Schlumberger concluded that it was appropriate to apply the SICAD II exchange rate as it believed that rate best represented the economics of Schlumberger's business activity in Venezuela. As a result, Schlumberger recorded a $472 million devaluation charge during the fourth quarter of 2014.

• In response to lower commodity pricing and anticipated lower exploration and production spending in 2015, Schlumberger decided during the fourth quarter of 2014 to reduce its overall headcount primarily to better align with anticipated activity levels for 2015. As a result of these reductions, Schlumberger recorded a charge of $296 million in the fourth quarter of 2014.

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- During the fourth quarter of 2014, Schlumberger determined that, primarily as a result of the recent decline in commodity prices, the carrying value of its investment in an SPM development project in the Eagle Ford Shale was in excess of its fair value. Accordingly, Schlumberger recorded a $199 million impairment charge. The fair value of this investment was estimated based on the projected present value of future cash flows.

The following is a summary of these charges, all of which were classified as Impairments & other in the Consolidated Statement of Income:

	(Stated in millions)		
	Pretax	Tax	Net
WesternGeco restructuring	$806	$25	$781
Currency devaluation loss in Venezuela	472	-	472
Workforce reduction	296	37	259
Impairment of SPM project	199	72	127
	$1,773	$134	$1,639

4. Acquisitions

Cameron

On April 1, 2016, Schlumberger acquired all of the outstanding shares of Cameron, a leading provider of flow equipment products, systems and services to the oil and gas industry worldwide. The acquisition is expected to create technology-driven growth by integrating Schlumberger reservoir and well technologies with Cameron wellhead and surface equipment, flow control and processing technology. The combination of the two complementary technology portfolios provides the industry's most comprehensive range of products and services, from exploration to production and integrated pore-to-pipeline solutions that optimize hydrocarbon recovery to deliver reservoir performance.

Under the terms of the merger agreement, Cameron became a wholly-owned subsidiary of Schlumberger. Each share of Cameron common stock issued and outstanding immediately prior to the effective time of the merger was converted into the right to receive 0.716 shares of Schlumberger stock and $14.44 in cash.

Calculation of Consideration Transferred

The following details the fair value of the consideration transferred to effect the acquisition of Cameron:

(stated in millions, except exchange ratio and per share amounts)

Equity consideration:	
Number of shares of Cameron stock outstanding	192
Exchange ratio	0.716

Schlumberger shares of common stock issued	138	
Schlumberger closing stock share price on April 1, 2016	$72.12	
Equity consideration		$9,924
Cash consideration:		
Number of shares of Cameron stock outstanding	192	
Cash consideration per Cameron share	$14.44	
Cash consideration		2,776
Other:		
Fair value of replacement equity awards		103
Total fair value of the consideration transferred		$12,803

Certain amounts reflect rounding adjustments

Preliminary Allocation of Consideration Transferred to Net Assets Acquired

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The following amounts represent the preliminary estimates of the fair value of assets acquired and liabilities assumed in the merger. The final determination of fair value for certain assets and liabilities will be completed as soon as the information necessary to complete the analysis is obtained. These amounts, which are not expected to differ materially from current estimates, will be finalized in the first quarter of 2017.

(Stated in millions)

Cash	$785
Short-term investments	1,448
Accounts receivable	1,669
Inventories [1]	2,350
Fixed assets	1,320
Intangible assets:	
Customer relationships (weighted-average life of 25 years)	2,371
Technology/Technical know-how (weighted-average life of 16 years)	1,736
Tradenames (weighted-average life of 25 years)	1,225
Other assets	511
Accounts payable and accrued liabilities	(2,604)
Long-term debt [2]	(3,018)
Deferred taxes [3]	(1,343)
Other liabilities	(538)
Sub-total	$5,912
Less:	
Investment in OneSubsea [4]	(2,065)
Noncontrolling interests	(57)
Total identifiable net assets	$3,790
Goodwill [5]	9,013
Total consideration transferred	$12,803

(1) Schlumberger recorded an adjustment of $299 million to write-up the acquired inventory to its estimated fair value. Schlumberger's 2016 cost of sales reflected this increased valuation.

(2) In connection with the merger, Schlumberger assumed all of the debt obligations of Cameron, including its $2.75 billion of fixed rate notes. Schlumberger recorded a $244 million adjustment to increase the carrying amount of these notes to their estimated fair value. This adjustment is being amortized as a reduction of interest expense over the remaining term of the respective obligations.

(3) In connection with the acquisition accounting, Schlumberger provided deferred taxes related to, among other items, the estimated fair value adjustments for acquired inventory, intangible assets and assumed debt obligations.

(4) Prior to the completion of the merger, Cameron and Schlumberger operated OneSubsea, a joint venture that manufactured and developed products, systems and services for the subsea oil and gas market, which was 40% owned by Schlumberger and 60% owned by Cameron. OneSubsea is now owned 100% by Schlumberger. As a result of obtaining control of this joint venture, Schlumberger was required to remeasure its previously held equity interest in the joint venture to its acquisition-date fair value. Schlumberger determined that the estimated fair value of its previously held equity interest approximated its carrying value. Accordingly, Schlumberger did not recognize any gain or loss on this transaction.

(5) The goodwill recognized is primarily attributable to expected synergies that will result from combining the operations of Schlumberger and Cameron, as well as intangible assets which do not qualify for separate recognition. The amount of goodwill that is deductible for income tax purposes is not significant.

Supplemental Pro Forma Financial Information

Cameron's results of operations have been included in Schlumberger's financial statements for periods subsequent to the closing of the acquisition on April 1, 2016. Businesses acquired from Cameron contributed revenues of approximately $4 billion and pretax operating income of approximately $0.7 billion for the period from April 1, 2016 through December 31, 2016.

The following supplemental pro forma results of operations assume that Cameron had been acquired on January 1, 2015. The supplemental pro forma financial information was prepared based on the historical financial information of Schlumberger and Cameron and has been adjusted to give effect to pro forma adjustments that are both directly attributable to the transaction and factually supportable. The pro forma amounts reflect certain adjustments to amortization expense, interest expense and income taxes resulting from purchase accounting. The pro forma results for the year ended December 31, 2016 reflect adjustments to exclude after-tax merger and integration costs of $285 million and after-tax charges relating to the amortization of the inventory fair value adjustment of $209 million. As required by generally accepted accounting principles, the pro forma results for the year ended December 31, 2015 have been adjusted to include after-tax adjustments for merger and integration costs of $285 million and the after-tax charges relating to the amortization of the inventory fair value adjustment of $209 million.

The supplemental pro forma financial information presented below is unaudited and does not include any anticipated cost savings or the expected realization of other synergies associated with this transaction. Accordingly, this supplemental pro forma financial information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been had the acquisition occurred on January 1, 2015, nor is it indicative of future results of operations.

	(Stated in millions, except per share amounts)	
	2016	2015
Revenue	$29,438	$44,306
Net income (loss) attributable to Schlumberger	$(1,419)	$2,000
Diluted earnings (loss) per share	$(1.02)	$1.42

Other

Schlumberger made other acquisitions and investments for cash payments, net of cash acquired, of $407 million during 2016, $443 million during 2015, and $1.008 billion during 2014. Additionally, during 2014 Schlumberger issued 2.1 million shares of its common stock, valued at $213 million, in connection with an acquisition. None of these transactions were significant to Schlumberger’s consolidated financial statements, either individually or in the aggregate.

5. Inventories

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

(Stated in millions)		
	2016	2015
Raw materials & field materials	$1,720	$2,300
Work in progress	610	178
Finished goods	1,895	1,278
	$4,225	$3,756

6. Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

	2016	2015
Land	$479	$425
Buildings & improvements	4,849	3,960
Machinery & equipment	33,834	31,885
Seismic vessels	846	850
	40,008	37,120
Less: Accumulated depreciation	27,187	23,705
	$12,821	$13,415

The estimated useful lives of Buildings & improvements are primarily 25 to 30 years. The estimated useful lives of Machinery & equipment are primarily 5 to 10 years. Seismic vessels are depreciated over periods ranging from 20 to 30 years.

Depreciation expense, which is recorded on a straight-line basis, was $2.7 billion, $3.2 billion and $3.2 billion in 2016, 2015 and 2014, respectively.

7. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data is as follows:

(Stated in millions)

	2016	2015
Balance at beginning of year	$1,026	$793
Capitalized in period	630	486
Charged to expense	(385)	(253)
Impairment charge (see Note 3)	(198)	-
	$1,073	$1,026

8. Goodwill

The changes in the carrying amount of goodwill by reporting unit were as follows:

(Stated in millions)

	Reservoir Characterization	Drilling	Production	Cameron	Total
Balance, January 1, 2015	$3,812	$8,488	$ 3,187	$ -	$15,487
Acquisitions	38	130	76	-	244
Impact of changes in exchange rates	(52)	(34)	(40)	-	(126)
Balance, December 31, 2015	3,798	8,584	3,223	-	15,605
Acquisition of Cameron	790	1,490	1,170	5,563	9,013
Other acquisitions	79	24	242	-	345
Reallocation	146	-	-	(146)	-
Impact of changes in exchange rates	7	16	4	-	27
Balance, December 31, 2016	$4,820	$10,114	$ 4,639	$ 5,417	$24,990

9. Intangible Assets

A summary of intangible assets follows:

(Stated in millions)

2016		2015		
Gross	Accumulated	Gross	Accumulated	Net Book

	Book Value	Amortization	Net Book Value	Book Value	Amortization	Value
Customer Relationships	$4,938	$ 865	$4,073	$2,489	$ 645	$ 1,844
Technology/Technical Know-How	3,655	835	2,820	1,864	653	1,211
Tradenames	2,847	458	2,389	1,625	367	1,258
Other	1,122	549	573	513	257	256
	$12,562	$ 2,707	$9,855	$6,491	$ 1,922	$ 4,569

Customer relationships are generally amortized over periods ranging from 18 to 28 years, technology/technical know-how are generally amortized over periods ranging from 10 to 18 years, and tradenames are generally amortized over periods ranging from 15 to 30 years.

Amortization expense was $567 million in 2016, $354 million in 2015 and $344 million in 2014.

Based on the carrying value of intangible assets at December 31, 2016, amortization expense for the subsequent five years is estimated to be as follows: 2017: $677 million, 2018: $669 million, 2019: $647 million, 2020: $606 million and 2021: $581 million.

10. Long-term Debt and Debt Facility Agreements

Long-term Debt consists of the following:

(Stated in millions)

	2016	2015
4.00% Senior Notes due 2025	$1,740	$1,741
3.30% Senior Notes due 2021	1,594	1,597
3.00% Senior Notes due 2020	1,591	1,591
3.65% Senior Notes due 2023	1,491	1,496
2.35% Senior Notes due 2018	1,297	1,297
4.20% Senior Notes due 2021	1,100	1,100
2.40% Senior Notes due 2022	996	999
3.63% Senior Notes due 2022	845	845
0.63% Guaranteed Notes due 2019	622	-
1.50% Guaranteed Notes due 2019 (1)	536	566
6.38% Notes due 2018 (2)	297	-
7.00% Notes due 2038 (2)	214	-
4.50% Notes due 2021 (2)	137	-
5.95% Notes due 2041 (2)	116	-
3.60% Notes due 2022 (2)	110	-
5.13% Notes due 2043 (2)	99	-
4.00% Notes due 2023 (2)	83	-
3.70% Notes due 2024 (2)	56	-
1.25% Senior Notes due 2017	-	1,000
1.90% Senior Notes due 2017	-	499
Commercial paper borrowings	2,421	1,000
Other	1,118	711
	$16,463	$14,442

(1) Schlumberger maintains a €5.0 billion Guaranteed Euro Medium Term Note program that provides for the issuance of various types of debt instruments such as fixed or floating rate notes in euro, US dollar or other currencies. Schlumberger issued €0.5 billion 1.50% Guaranteed Notes due 2019 under this program in 2013.

(2) Represents long-term fixed rate debt obligations assumed in connection with the acquisition of Cameron, net of amounts repurchased subsequent to the closing of the transaction.

Schlumberger Limited fully and unconditionally guarantees the securities issued by certain of its subsidiaries, including securities issued by Schlumberger Investment SA, a wholly-owned finance subsidiary of Schlumberger.

At December 31, 2016, Schlumberger had separate committed debt facility agreements aggregating $6.6 billion with commercial banks, of which $4.0 billion was available and unused. This included $6.3 billion of committed facilities which support commercial paper programs in the United States and Europe, of which $1.0 billion matures in February 2017, $1.8 billion matures in July 2018, $1.5 billion matures in November 2020, and $2.0 billion matures in February 2021. Interest rates and other terms of borrowing under these lines of credit vary from country to country.

Commercial paper borrowings are classified as long-term debt to the extent they are backed up by available and unused committed credit facilities maturing in more than one year and to the extent it is Schlumberger's intent to maintain these obligations for longer than one year. Borrowings under the commercial paper program at December 31, 2016 were $2.6 billion, of which $2.4 billion was classified within Long-term debt and $0.2 billion was classified in Long-term debt – current portion in the Consolidated Balance Sheet. At December 31, 2015, borrowings under the commercial paper program were $2.4 billion, of which $1.0 billion was classified within Long-term debt and $1.4 billion was classified in Long-term debt – current portion in the Consolidated Balance Sheet.

The weighted average interest rate on variable rate debt as of December 31, 2016 was 1.7%.

Long-term Debt as of December 31, 2016, is due as follows: $2.0 billion in 2018, $1.3 billion in 2019, $2.6 billion in 2020, $4.8 billion in 2021, $2.0 billion in 2022, $1.6 billion in 2023, $1.8 billion in 2025 and $0.4 billion thereafter.

The fair value of Schlumberger's Long-term Debt at December 31, 2016 and December 31, 2015 was $16.8 billion and $14.4 billion, respectively, and was estimated based on quoted market prices.

11. Derivative Instruments and Hedging Activities

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

Interest Rate Risk

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

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

This cross currency swap is designated as a fair value hedge of the underlying debt. This derivative instrument is marked to market with gains and losses recognized currently in income to largely offset the respective gains and losses recognized on changes in the fair value of the hedged debt.

At December 31, 2016, Schlumberger had fixed rate debt aggregating $14.1 billion and variable rate debt aggregating $5.5 billion, after taking into account the effect of the swap.

Short-term investments and Fixed income investments, held to maturity, totaled $6.6 billion at December 31, 2016. The carrying value of these investments approximated fair value, which was estimated using quoted market prices for those or similar investments.

Foreign Currency Exchange Rate Risk

As a multinational company, Schlumberger conducts its business in over 85 countries. Schlumberger's functional currency is primarily the US dollar. Approximately 77% of Schlumberger's revenues in 2016 was denominated in US dollars. However, outside the United States, a significant portion of Schlumberger's expenses is incurred in foreign currencies. Therefore, when the US dollar weakens (strengthens) in relation to the foreign currencies of the countries in which Schlumberger conducts business, the US dollar–reported expenses will increase (decrease).

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

At December 31, 2016, Schlumberger recognized a cumulative net $19 million loss in Accumulated other comprehensive loss relating to revaluation of foreign currency forward contracts designated as cash flow hedges, the majority of which is expected to be reclassified into earnings within the next 12 months.

Schlumberger is exposed to changes in the fair value of assets and liabilities that are denominated in currencies other than the functional currency. While Schlumberger uses foreign currency forward contracts to economically hedge this exposure as it relates to certain currencies, these contracts are not designated as hedges for accounting purposes. Instead the fair value of the contracts are recorded on the Consolidated Balance Sheet and changes in the fair value are recognized in the Consolidated Statement of Income as are changes in the fair value of the hedged item. Transaction losses of $93 million, $76 million and $539 million, net of related hedging activities, were recognized in the Consolidated Statement of Income in 2016, 2015 and 2014, respectively. Included in these amounts are $63 million relating to Egypt in 2016, $49 million relating to Venezuela in 2015 and $472 million relating to Venezuela in 2014. See Note 3 - Charges and Credits for further details.

At December 31, 2016, contracts were outstanding for the US dollar equivalent of $5.5 billion in various foreign currencies, of which $1.1 billion relates to hedges of debt denominated in currencies other than the functional currency.

The fair values of outstanding derivative instruments are summarized as follows:

	(Stated in millions) Fair Value of Derivatives		Consolidated Balance Sheet Classification
	2016	2015	
Derivative Assets			
Derivatives designated as hedges:			
Foreign exchange contracts	$ 1	$ 4	Other current assets
Foreign exchange contracts	-	6	Other Assets
	$ 1	$ 10	
Derivatives not designated as hedges:			
Foreign exchange contracts	$ 42	$ 15	Other current assets
	$ 43	$ 25	
Derivative Liabilities			
Derivatives designated as hedges:			
Foreign exchange contracts	$ 18	$ 37	Accounts payable and accrued liabilities
Foreign exchange contracts	-	3	Other Liabilities
Cross currency swap	49	22	Other Liabilities
	$ 67	$ 62	
Derivatives not designated as hedges:			
Foreign exchange contracts	$ 59	$ 25	Accounts payable and accrued liabilities
	$ 126	$ 87	

The fair value of all outstanding derivatives is determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable data.

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

	(Stated in millions) Gain (Loss) Recognized in Income			
	2016	2015	2014	Consolidated Statement

				of Income Classification
Derivatives designated as fair value hedges:				
Cross currency swap	$(31)	$(64)	$(82)	Interest expense
Derivatives not designated as hedges:				
Foreign exchange contracts	$(246)	$(154)	$(95)	Cost of services/sales

12. Stockholders' Equity

Schlumberger is authorized to issue 4,500,000,000 shares of common stock, par value $0.01 per share, of which 1,391,475,510 and 1,256,367,980 shares were outstanding on December 31, 2016 and 2015, respectively. Holders of common stock are entitled to one vote for each share of stock held. Schlumberger is also authorized to issue 200,000,000 shares of preferred stock, par value $0.01 per share, which may be issued in series with terms and conditions determined by the Schlumberger Board of Directors. No shares of preferred stock have been issued.

Accumulated Other Comprehensive Loss consists of the following:

(Stated in millions)

	Currency Translation Adjustments	Unrealized Gain/(Loss) on Marketable Securities	Cash Flow Hedges	Pension and Other Postretirement Benefit Plans	Total
Balance, January 1, 2014	$(1,068)	$ 176	$ 29	$ (1,691)	$(2,554)
Other comprehensive income (loss) before reclassifications	(463)	(166)	(238)	(1,285)	(2,152)
Amounts reclassified from accumulated other comprehensive loss	-	-	113	305	418
Income taxes	-	-		82	82
Balance, December 31, 2014	(1,531)	10	(96)	(2,589)	(4,206)
Other comprehensive income (loss) before reclassifications	(522)	(50)	(178)	(210)	(960)
Amounts reclassified from accumulated other comprehensive loss	-	40	235	407	682
Income taxes	-	-	-	(74)	(74)
Balance, December 31, 2015	(2,053)	-	(39)	(2,466)	(4,558)
Other comprehensive income (loss) before reclassifications	(83)	21	(101)	(289)	(452)
Amounts reclassified from accumulated other comprehensive loss	-	-	121	259	380
Income taxes	-	-	-	(13)	(13)
Balance, December 31, 2016	$(2,136)	$ 21	$ (19)	$ (2,509)	$(4,643)

Other comprehensive loss was $85 million in 2016, $352 million in 2015 and $1.652 billion in 2014.

13. Stock-based Compensation Plans

Schlumberger has three types of stock-based compensation programs: (i) stock options, (ii) a restricted stock, restricted stock unit and performance share unit program (collectively referred to as “restricted stock”) and (iii) a discounted stock purchase plan (DSPP).

Stock Options

Key employees are granted stock options under Schlumberger stock option plans. For all stock options granted, the exercise price equals the average of the high and low sales prices of Schlumberger stock on the date of grant; the maximum term is ten years, and the options generally vest in increments over five years.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions and resulting weighted-average fair value per share:

	2016	2015	2014
Dividend yield	2.7 %	2.3 %	1.6 %
Expected volatility	30 %	36 %	37 %
Risk-free interest rate	1.7 %	1.7 %	2.2 %
Expected option life in years	7.0	7.0	7.0
Weighted-average fair value per share	$17.45	$25.96	$34.20

The following table summarizes information related to options outstanding and options exercisable as of December 31, 2016:

(Shares stated in thousands)

	Options Outstanding			Options Exercisable	
Exercise prices range	Options Outstanding	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$37.85 - $67.87	6,526	5.2	$ 55.58	4,524	$ 52.78
$68.51 - $72.00	7,501	5.3	$ 70.08	5,761	$ 69.79
$72.11 - $79.85	8,767	6.3	$ 74.01	5,108	$ 72.82
$80.53 - $84.93	12,375	5.9	$ 82.72	7,093	$ 84.17
$88.61 - $114.83	11,333	6.9	$ 95.37	4,859	$ 95.89
	46,502	6.0	$ 78.31	27,345	$ 75.91

The weighted-average remaining contractual life of stock options exercisable as of December 31, 2016 was 4.5 years.

The following table summarizes stock option activity during the years ended December 31, 2016, 2015 and 2014:

(Shares stated in thousands)

	2016		2015		2014	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	41,087	$ 78.73	38,583	$ 76.10	41,939	$ 70.33
Granted	7,672	$ 76.14	7,118	$ 86.86	6,105	$ 99.04
Assumed in Cameron transaction	3,088	$ 63.24	-	$ -	-	$ -
Exercised	(3,357)	$ 60.70	(2,561)	$ 60.10	(8,269)	$ 64.19
Forfeited	(1,988)	$ 84.60	(2,053)	$ 80.34	(1,192)	$ 73.56
Outstanding at year-end	46,502	$ 78.31	41,087	$ 78.73	38,583	$ 76.10

The aggregate intrinsic value of stock options outstanding and stock options exercisable as of December 31, 2016 was $393 million and $280 million, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 was $45 million, $62 million and $314 million, respectively.

Restricted Stock

Schlumberger grants performance share units to certain executives. The number of shares earned is determined at the end of each performance period, which is generally three years, based on Schlumberger's achievement of certain predefined targets as defined in the underlying performance share unit agreement. In the event Schlumberger exceeds the predefined target, shares for up to the maximum of 250% of the target award may be granted. In the event Schlumberger falls below the predefined target, a reduced number of shares may be granted. If Schlumberger falls below the threshold award performance level, no shares will be granted. As of December 31, 2016, 1.0 million performance share units were outstanding based on the achievement of 100% of target.

All other restricted stock awards generally vest at the end of three years.

Restricted stock awards do not pay dividends or have voting rights prior to vesting. Accordingly, the fair value of a restricted stock award is the quoted market price of Schlumberger's stock on the date of grant less the present value of the expected dividends not received prior to vesting.

The following table summarizes information related to restricted stock transactions:

(Shares stated in thousands)						
	2016		2015		2014	
	Restricted Stock	Weighted-Average Grant Date Fair Value	Restricted Stock	Weighted-Average Grant Date Fair Value	Restricted Stock	Weighted-Average Grant Date Fair Value
Unvested at beginning of year	3,571	$ 85.04	4,138	$ 80.80	4,171	$ 76.01
Granted	1,678	$ 68.66	1,254	$ 82.37	1,341	$ 96.08
Assumed in Cameron transaction	1,824	$ 72.12	-	$ -	-	$ -
Vested	(1,720)	$ 72.64	(1,495)	$ 71.30	(1,186)	$ 81.59
Forfeited	(241)	$ 80.87	(326)	$ 83.86	(188)	$ 78.68
Unvested at year-end	5,112	$ 78.31	3,571	$ 85.04	4,138	$ 80.80

Discounted Stock Purchase Plan

Under the terms of the DSPP, employees can choose to have a portion of their earnings withheld, subject to certain restrictions, to purchase Schlumberger common stock. The purchase price of the stock is 92.5% of the lower of the stock price at the beginning or end of the plan period at six-month intervals.

The fair value of the employees' purchase rights under the DSPP was estimated using the Black-Scholes model with the following assumptions and resulting weighted-average fair value per share:

	2016	2015	2014
Dividend yield	2.7 %	2.3 %	1.6 %
Expected volatility	25 %	27 %	19 %
Risk-free interest rate	0.5 %	0.2 %	0.1 %
Weighted-average fair value per share	$10.37	$12.45	$12.67

Total Stock-based Compensation Expense

The following summarizes stock-based compensation expense recognized in income:

(Stated in millions)			
	2016	2015	2014
Stock options	$175	$176	$177
Restricted stock	47	107	114
DSPP	45	43	38
	$267	$326	$329

At December 31, 2016, there was $480 million of total unrecognized compensation cost related to nonvested stock-based compensation arrangements, of which $212 million is expected to be recognized in 2017, $157 million in 2018, $74 million in 2019, $31 million in 2020 and $6 million in 2021.

As of December 31, 2016, approximately 20 million shares of Schlumberger common stock were available for future grants under Schlumberger's stock-based compensation programs.

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14. Income Taxes

Schlumberger operates in more than 100 tax jurisdictions, where statutory tax rates generally vary from 0% to 40%.

Income (loss) from continuing operations before taxes subject to United States and non-United States income taxes were as follows:

(Stated in millions)

	2016	2015	2014
United States	$(3,103)	$(691)	$1,990
Outside United States	1,198	3,572	5,649
	$(1,905)	$2,881	$7,639

Schlumberger recorded pretax charges of $3.820 billion in 2016 ($1.848 billion in the US and $1.972 billion outside of the US); $2.575 billion in 2015 ($883 million in the US and $1.692 billion outside the US); and $1.773 billion in 2014 ($289 million in the US and $1.484 billion outside the US). These charges and credits are included in the table above and are more fully described in Note 3 – Charges and Credits.

The components of net deferred tax assets (liabilities) were as follows:

(Stated in millions)

	2016	2015
Postretirement benefits	$253	$266
Intangible assets	(2,869)	(1,418)
Investments in non-US subsidiaries	(271)	(152)
Fixed assets, net	(79)	(176)
Inventories	248	159
Other, net	838	454
	$(1,880)	$(867)

The above deferred tax balances at December 31, 2016 and 2015 were net of valuation allowances relating to net operating losses in certain countries of $186 million and $162 million, respectively.

Schlumberger generally does not provide for taxes relating to undistributed earnings because such earnings would not be taxable when remitted or they are considered to be indefinitely reinvested. In connection with Schlumberger's 2016 acquisition of Cameron, certain non-US subsidiaries of Cameron are now either wholly or partially owned by a US subsidiary of Schlumberger. Undistributed earnings of these non-US subsidiaries that are indefinitely invested outside the US are approximately $3 billion. Such earnings would be subject to US taxes if they were to be repatriated to the US. However, determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated to the US is not practicable. In addition, any taxes that would be incurred if the undistributed earnings of other Schlumberger subsidiaries were distributed to their ultimate parent company would not be material.

The components of Taxes on income (loss) were as follows:

(Stated in millions)

	2016	2015	2014
Current:			
United States-Federal	$(511)	$90	$718
United States-State	(36)	12	51
Outside United States	648	1,085	1,380
	101	1,187	2,149
Deferred:			
United States-Federal	$(352)	$(356)	$(194)
United States-State	(13)	(19)	(9)
Outside United States	(51)	(52)	(12)
Valuation allowance	37	(14)	(6)
	(379)	(441)	(221)
	$(278)	$746	$1,928

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A reconciliation of the United States statutory federal tax rate (35%) to the consolidated effective tax rate follows:

	2016	2015	2014
US federal statutory rate	35 %	35 %	35 %
State tax	2	-	-
Non-US income taxed at different rates	(21)	(13)	(11)
Charges and credits (See Note 3)	(1)	6	3
Other	-	(2)	(2)
	15 %	26 %	25 %

A number of the jurisdictions in which Schlumberger operates have tax laws that are not fully defined and are evolving. Schlumberger's tax filings are subject to regular audit by the tax authorities. These audits may result in assessments for additional taxes that are resolved with the tax authorities or, potentially, through the courts. Tax liabilities are recorded based on estimates of additional taxes that will be due upon the conclusion of these audits. Due to the uncertain and complex application of tax regulations, the ultimate resolution of audits may result in liabilities which could be materially different from these estimates.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions for the years ended December 31, 2016, 2015 and 2014 is as follows:

(Stated in millions)

	2016	2015	2014
Balance at beginning of year	$1,285	$1,402	$1,452
Additions based on tax positions related to the current year	70	140	154
Additions for tax positions of prior years	119	136	96
Additions related to acquisitions	127	5	43
Impact of changes in exchange rates	(25)	(78)	(62)
Settlements with tax authorities	(45)	(99)	(27)
Reductions for tax positions of prior years	(85)	(203)	(212)
Reductions due to the lapse of the applicable statute of limitations	(27)	(18)	(42)
Balance at end of year	$1,419	$1,285	$1,402

The amounts above exclude accrued interest and penalties of $178 million, $176 million and $243 million at December 31, 2016, 2015 and 2014, respectively. Schlumberger classifies interest and penalties relating to uncertain tax positions within Taxes on income (loss) in the Consolidated Statement of Income.

The following table summarizes the tax years that are either currently under audit or remain open and subject to examination by the tax authorities in the most significant jurisdictions in which Schlumberger operates:

Brazil	2011 - 2016
Canada	2009 - 2016
Ecuador	2013 - 2016
Mexico	2010 - 2016
Norway	2013 - 2016
Russia	2013 - 2016
Saudi Arabia	2004 - 2016
United Kingdom	2014 - 2016
United States	2014 - 2016

In certain of the jurisdictions noted above, Schlumberger operates through more than one legal entity, each of which may have different open years subject to examination. The table above presents the open years subject to examination for the most material of the legal entities in each jurisdiction. Additionally, it is important to note that tax years are technically not closed until the statute of limitations in each jurisdiction expires. In the jurisdictions noted above, the statute of limitations can extend beyond the open years subject to examination.

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15. Leases and Lease Commitments

Total rental expense was $1.2 billion in 2016, $1.6 billion in 2015, and $2.1 billion in 2014.

Future minimum rental commitments under noncancelable operating leases for each of the next five years are as follows:

(Stated in millions)

2017	$292
2018	220
2019	195
2020	167
2021	132
Thereafter	471
	$1,477

16. Contingencies

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

17. Segment Information

Schlumberger's segments are as follows:

Reservoir Characterization Group – Consists of the principal Technologies involved in finding and defining hydrocarbon resources. These include WesternGeco, Wireline, Testing & Process, Software Integrated Solutions and Integrated Services Management.

Drilling Group – Consists of the principal Technologies involved in the drilling and positioning of oil and gas wells. These include Bits & Drilling Tools, M-I SWACO, Drilling & Measurements, Land Rigs and Integrated Drilling Services.

Production Group – Consists of the principal Technologies involved in the lifetime production of oil and gas reservoirs. These include Well Services, Completions, Artificial Lift, Integrated Production Services and Schlumberger Production Management.

Cameron Group – Consists of the principal Technologies involved in pressure and flow control for drilling and intervention rigs, oil and gas wells and production facilities. These include OneSubsea, Surface Systems, Drilling Systems and Valves & Measurements.

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Financial information for the years ended December 31, 2016, 2015 and 2014, by segment, is as follows:

(Stated in millions)

2016	Revenue	Income Before Taxes	Assets	Depreciation and Amortization	Capital Expenditures
Reservoir Characterization	$6,743	$1,228	$6,913	$ 1,116	$ 531
Drilling	8,561	994	6,741	904	418
Production	8,709	528	10,453	1,222	647
Cameron	4,211	653	4,246	211	176
Eliminations & other	(414)	(130)	1,611	257	283
Pretax operating income		3,273			
Goodwill and intangible assets			34,845		
All other assets			2,408		
Corporate & other (1)		(925)	10,739	384	
Interest income (2)		84			
Interest expense (3)		(517)			
Charges & credits (4)		(3,820)			
	$27,810	$(1,905)	$77,956	$ 4,094	$ 2,055

(Stated in millions)

2015	Revenue	Income Before Taxes	Assets	Depreciation and Amortization	Capital Expenditures
Reservoir Characterization	$9,738	$2,465	$8,338	$ 1,294	$ 661
Drilling	13,563	2,538	8,549	1,177	672
Production	12,311	1,570	9,866	1,201	812
Eliminations & other	(137)	(63)	2,052	213	265
Pretax operating income		6,510			
Goodwill and intangible assets			20,174		
All other assets			2,262		
Corporate & other (1)		(768)	16,764	193	
Interest income (2)		30			
Interest expense (3)		(316)			
Charges & credits (4)		(2,575)			
	$35,475	$2,881	$68,005	$ 4,078	$ 2,410

(Stated in millions)

2014	Revenue	Income Before Taxes	Assets	Depreciation and Amortization	Capital Expenditures
Reservoir Characterization	$13,339	$3,770	$9,324	$ 1,482	$ 1,234
Drilling	18,128	3,805	11,155	1,173	1,328
Production	17,329	3,130	11,348	1,043	1,165
Eliminations & other	(216)	(129)	1,572	198	249
Pretax operating income		10,576			
Goodwill and intangible assets			20,141		
All other assets			2,186		
Corporate & other [1]		(848)	11,178	198	
Interest income [2]		31			
Interest expense [3]		(347)			
Charges & credits [4]		(1,773)			
	$48,580	$7,639	$66,904	$ 4,094	$ 3,976

(1) Comprised principally of certain corporate expenses not allocated to the segments, stock-based compensation costs, amortization expense associated with certain intangible assets (including intangible asset amortization expense resulting from the 2016 acquisition of Cameron), certain centrally managed initiatives and other nonoperating items.

(2) Interest income excludes amounts which are included in the segments' income (2016: $26 million; 2015: $22 million; 2014: $20 million).

(3) Interest expense excludes amounts which are included in the segments' income (2016: $53 million; 2015: $30 million; 2014: $22 million).

(4) See Note 3 – Charges and Credits.

Segment assets consist of receivables, inventories, fixed assets, multiclient seismic data and SPM investments.

Depreciation and amortization includes depreciation of property, plant and equipment and amortization of intangible assets, multiclient seismic data costs and SPM investments.

Revenue by geographic area for the years ended December 31, 2016, 2015 and 2014 is as follows:

(Stated in millions)

	2016	2015	2014
North America	$6,665	$9,811	$16,151
Latin America	4,230	6,014	7,699
Europe/CIS/Africa	7,351	9,284	12,515
Middle East & Asia	9,286	9,898	11,875
Eliminations & other	278	468	340
	$27,810	$35,475	$48,580

Revenue is based on the location where services are provided and products are sold.

During each of the three years ended December 31, 2016, 2015 and 2014, no single customer exceeded 10% of consolidated revenue.

Schlumberger did not have revenue from third-party customers in its country of domicile during the last three years. Revenue in the United States in 2016, 2015 and 2014 was $5.4 billion, $8.5 billion and $14.0 billion, respectively.

Fixed Assets less accumulated depreciation by geographic area are as follows:

(Stated in millions)

	2016	2015	2014
North America	$4,428	$4,392	$4,885
Latin America	1,460	1,728	1,969
Europe/CIS/Africa	2,706	2,978	3,640
Middle East & Asia	3,149	3,078	3,446
Unallocated [1]	1,078	1,239	1,456
	$12,821	$13,415	$15,396

[1] Represents seismic vessels, including the related on-board equipment, which frequently transition between geographic areas.

18. Pension and Other Benefit Plans

Pension Plans

Schlumberger sponsors several defined benefit pension plans that cover substantially all US employees hired prior to October 1, 2004. The benefits are based on years of service and compensation, on a career-average pay basis.

In addition to the US defined benefit pension plans, Schlumberger sponsors several other international defined benefit pension plans. The most significant of these international plans are the International Staff Pension Plan and the UK pension plan (collectively, the "International plans"). The International Staff Pension Plan covers certain international employees hired prior to July 1, 2014 and is based on years of service and compensation on a career-average pay basis. The UK plan covers employees hired prior to April 1, 1999, and is based on years of service and compensation, on a final salary basis.

The weighted-average assumed discount rate, compensation increases and the expected long-term rate of return on plan assets used to determine the net pension cost for the US and International plans were as follows:

	US			International		
	2016	2015	2014	2016	2015	2014
Discount rate	4.50%	4.15%	4.85%	4.36%	4.07%	4.76%
Compensation increases	4.00%	4.00%	4.00%	4.80%	4.79%	4.80%
Return on plan assets	7.25%	7.25%	7.25%	7.40%	7.40%	7.50%

Net pension cost for 2016, 2015 and 2014 included the following components:

(Stated in millions)

	US			International		
	2016	2015	2014	2016	2015	2014

Service cost - benefits earned during the period	$62	$86	$72	$110	$167	$126
Interest cost on projected benefit obligation	177	170	164	311	297	288
Expected return on plan assets	(235)	(229)	(208)	(517)	(498)	(450)
Amortization of prior service cost	12	12	12	122	121	120
Amortization of net loss	79	123	82	78	170	94
	$95	$162	$122	$104	$257	$178

The weighted-average assumed discount rate and compensation increases used to determine the projected benefit obligations for the US and International plans were as follows:

	US		International	
	2016	2015	2016	2015
Discount rate	4.20%	4.50%	4.13%	4.36%
Compensation increases	4.00%	4.00%	4.81%	4.80%

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The changes in the projected benefit obligation, plan assets and funded status of the plans were as follows:

(Stated in millions)

	US		International	
	2016	2015	2016	2015
Change in Projected Benefit Obligations				
Projected benefit obligation at beginning of year	$4,025	$4,137	$7,340	$7,249
Service cost	62	86	110	167
Interest cost	177	170	311	297
Contribution by plan participants	-	-	117	143
Actuarial (gains) losses	137	(205)	477	(203)
Currency effect	-	-	(290)	(66)
Benefits paid	(183)	(163)	(272)	(247)
Other	22	-	-	-
Projected benefit obligation at end of year	$4,240	$4,025	$7,793	$7,340
Change in Plan Assets				
Plan assets at fair value at beginning of year	$3,467	$3,549	$6,832	$6,830
Actual return on plan assets	320	(1)	715	(5)
Currency effect	-	-	(318)	(69)
Company contributions	4	82	130	198
Contributions by plan participants	-	-	107	125
Benefits paid	(183)	(163)	(272)	(247)
Other	17	-	-	-
Plan assets at fair value at end of year	$3,625	$3,467	$7,194	$6,832
Unfunded Liability	$(615)	$(558)	$(599)	$(508)
Amounts Recognized in Balance Sheet				
Postretirement Benefits	$(615)	$(558)	$(724)	$(657)
Other Assets	-	-	125	149
	$(615)	$(558)	$(599)	$(508)
Amounts Recognized in Accumulated Other Comprehensive Loss				
Actuarial losses	$982	$1,008	$1,644	$1,474
Prior service cost	42	54	114	235
	$1,024	$1,062	$1,758	$1,709
Accumulated benefit obligation	$3,999	$3,763	$7,454	$6,913

The unfunded liability represents the difference between the plan assets and the projected benefit obligation (PBO). The PBO represents the actuarial present value of benefits based on employee service and compensation and includes an assumption about future compensation levels. The accumulated benefit obligation represents the actuarial present value of benefits based on employee service and compensation, but does not include an assumption about future compensation levels.

The weighted-average allocation of plan assets and the target allocations by asset category are as follows:

US			International		
Target	2016	2015	Target	2016	2015

Equity securities	37 - 56 %	52 %	52 %	45 - 71 %	64 %	64 %
Debt securities	35 - 62	37	36	20 - 35	25	27
Cash and cash equivalents	0 - 3	2	2	0 - 5	2	2
Alternative investments	0 - 10	9	10	0 - 25	9	7
	100 %	100 %	100 %	100 %	100 %	100 %

Asset performance is monitored frequently with an overall expectation that plan assets will meet or exceed the weighted index of its target asset allocation and component benchmark over rolling five-year periods.

The expected rate of return on assets assumptions reflect the long-term average rate of earnings expected on funds invested or to be invested. The assumptions have been determined based on expectations regarding future rates of return for the portfolio considering the asset allocation and related historical rates of return. The appropriateness of the assumptions is reviewed annually.

The fair value of Schlumberger’s pension plan assets at December 31, 2016 and 2015, by asset category, is presented below and was determined based on valuation techniques categorized as follows:

Level One: The use of quoted prices in active markets for identical instruments.
Level Two: The use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or other inputs that are observable in the market or can be corroborated by observable market data.
Level Three: The use of significant unobservable inputs that typically require the use of management’s estimates of assumptions that market participants would use in pricing.

(Stated in millions)

	US Plan Assets							
	2016				2015			
	Total	Level One	Level Two	Level Three	Total	Level One	Level Two	Level Three
Asset Category:								
Cash and Cash Equivalents	$60	$15	$45	$ -	$86	$40	$46	$ -
Equity Securities:								
US [a]	1,210	1,049	161		1,195	655	540	
International [b]	662	649	13		605	473	132	
Debt Securities								
Corporate bonds [c]	625		625		599		599	
Government and government-related debt securities [d]	643	164	479		589	159	430	
Collateralized mortgage obligations and mortgage backed securities [e]	92		92		65		65	
Alternative Investments:								
Private equity [f]	191			191	203			203
Real estate [g]	142			142	125			125
Total	$3,625	$1,877	$1,415	$333	$3,467	$1,327	$1,812	$328

(Stated in millions)

	International Plan Assets							
	2016				2015			
	Total	Level One	Level Two	Level Three	Total	Level One	Level Two	Level Three
Asset Category:								
Cash and Cash Equivalents	$184	$135	$49	$ -	$138	$115	$23	$ -
Equity Securities:								
US [a]	2,854	2,324	530		2,736	2,240	496	
International [b]	1,726	1,475	251		1,639	1,179	460	
Debt Securities								
Corporate bonds [c]	685		685		657		657	
Government and government-related debt securities [d]	1,001	10	991		1,036	8	1,028	
Collateralized mortgage obligations and mortgage backed securities [e]	130		130		143		143	

Alternative Investments:								
Private equity [f]	385			385	331			331
Real estate [g]	106			106	49			49
Other	123			123	103			103
Total	$7,194	$3,944	$2,636	$614	$6,832	$3,542	$2,807	$483

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(a) US equities include companies that are well-diversified by industry sector and equity style (i.e., growth and value strategies). Active and passive management strategies are employed. Investments are primarily in large capitalization stocks and, to a lesser extent, mid- and small-cap stocks.

(b) International equities are invested in companies that are traded on exchanges outside the US and are well-diversified by industry sector, country and equity style. Active and passive strategies are employed. The vast majority of the investments are made in companies in developed markets with a small percentage in emerging markets.

(c) Corporate bonds consist primarily of investment grade bonds from diversified industries.

(d) Government and government-related debt securities are comprised primarily of inflation-protected US treasuries and, to a lesser extent, other government-related securities.

(e) Collateralized mortgage obligations and mortgage backed-securities are debt obligations that represent claims to the cash flows from pools of mortgage loans, which are purchased from banks, mortgage companies, and other originators and then assembled into pools by governmental, quasi-governmental and private entities.

(f) Private equity includes investments in several fund of funds limited partnerships.

(g) Real estate primarily includes investments in real estate limited partnerships, concentrated in commercial real estate.

Schlumberger's funding policy is to annually contribute amounts that are based upon a number of factors including the actuarial accrued liability, amounts that are deductible for income tax purposes, legal funding requirements and available cash flow. Schlumberger expects to contribute approximately $200 million to its postretirement benefit plans in 2017, subject to market and business conditions.

Postretirement Benefits Other Than Pensions

Schlumberger provides certain healthcare benefits to certain former US employees who have retired. Effective April 1, 2015, Schlumberger changed the way it provides healthcare coverage to certain retirees who are age 65 and over. Under the amended plan, these retirees transferred to individual coverage under the Medicare Exchange. Schlumberger subsidizes the cost of the program by providing these retirees with a Health Reimbursement Account. The annual subsidy may be increased based on medical cost inflation, but it will not be increased by more than 5% in any given year.

The actuarial assumptions used to determine the accumulated postretirement benefit obligation and net periodic benefit cost for the US postretirement medical plan were as follows:

	Benefit Obligations At December 31,		Net Periodic Benefit Cost for the Year		
	2016	2015	2016	2015	2014
Discount rate	4.20%	4.50%	4.50%	4.15%	4.85%
Return on plan assets	-	-	7.00%	7.00%	7.00%
Current medical cost trend rate	7.25%	7.50%	7.50%	7.00%	7.25%
Ultimate medical cost trend rate	5.00%	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2026	2023	2026	2023	2023

The net periodic benefit cost (credit) for the US postretirement medical plan included the following components:

(Stated in millions)

	2016	2015	2014
Service cost	$30	$42	$43
Interest cost	47	48	60
Expected return on plan assets	(57)	(52)	(45)
Amortization of prior service credit	(32)	(32)	(4)
Amortization of net loss	-	13	1
	$(12)	$19	$55

The changes in the accumulated postretirement benefit obligation, plan assets and funded status were as follows:

(Stated in millions)

	2016	2015
Change in Projected Benefit Obligations		
Benefit obligation at beginning of year	$1,103	$1,221
Service cost	30	42
Interest cost	47	48
Contribution by plan participants	8	7
Actuarial gains	(32)	(168)
Benefits paid	(48)	(47)
Benefit obligation at end of year	$1,108	$1,103
Change in Plan Assets		
Plan assets at fair value at beginning of year	$884	$854
Actual return on plan assets	68	4
Company contributions	40	66
Contributions by plan participants	8	7
Benefits paid	(48)	(47)
Plan assets at fair value at end of year	$952	$884
Unfunded Liability	$(156)	$(219)
Amounts Recognized in Accumulated Other Comprehensive Loss		
Actuarial losses	$62	$106
Prior service credit	(243)	(275)
	$(181)	$(169)

The unfunded liability is included in Postretirement Benefits in the Consolidated Balance Sheet.

The assets of the US postretirement medical plan are invested 63% in equity securities and 37% in debt securities at December 31, 2016. The fair value of these assets was primarily determined based on Level Two valuation techniques.

Assumed health care cost trend rates have a significant effect on the amounts reported for the US postretirement medical plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

(Stated in millions)

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service and interest cost components	$ 3	$ (3)
Effect on accumulated postretirement benefit obligation	$ 34	$ (30)

Other Information

The expected benefits to be paid under the US and International pension plans as well as the postretirement medical plan are as follows:

(Stated in millions)

	Pension Benefits		Postretirement
	US	International	Medical Plan
2017	$189	$ 258	$ 52
2018	$195	$ 273	$ 54
2019	$201	$ 286	$ 55
2020	$208	$ 300	$ 59
2021	$215	$ 313	$ 60
2022-2026	$1,188	$ 1,784	$ 325

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Included in Accumulated other comprehensive loss at December 31, 2016 are non-cash pretax charges which have not yet been recognized in net periodic benefit cost. The estimated portion of each component of Accumulated other comprehensive loss which is expected to be recognized as a component of net periodic benefit cost during the year ending December 31, 2017 is as follows:

(Stated in millions)

	Pension Plans	Postretirement Medical Plan
Net actuarial losses	$ 157	$ -
Prior service cost (credit)	$ 109	$ (29)

In addition to providing defined pension benefits and a postretirement medical plan, Schlumberger and its subsidiaries have other deferred benefit programs, primarily profit sharing and defined contribution pension plans. Expenses for these programs were $445 million, $565 million and $749 million in 2016, 2015 and 2014, respectively.

19. Supplementary Information

Cash paid for interest and income taxes was as follows:

(Stated in millions)

	2016	2015	2014
Interest	$599	$346	$389
Income tax	$750	$1,567	$2,048

During the fourth quarter of 2015, Schlumberger entered into an agreement with one of its customers to receive certain fixed assets in lieu of payment of approximately $200 million of accounts receivable.

Interest and other income includes the following:

(Stated in millions)

	2016	2015	2014
Interest income	$110	$52	$51
Earnings of equity method investments	90	184	240
	$200	$236	$291

The change in Allowance for doubtful accounts is as follows:

(Stated in millions)

	2016	2015	2014
Balance at beginning of year	$333	$275	$384
Additions	123	75	39
Amounts written off	(59)	(17)	(148)
Balance at end of year	$397	$333	$275

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Revenue in excess of billings related to contracts accounted for under the percentage-of-completion method was $0.5 billion at December 31, 2016.

Accounts payable and accrued liabilities are summarized as follows:

(Stated in millions)

	2016	2015
Payroll, vacation and employee benefits	$1,349	$1,424
Trade	4,004	3,243
Deferred revenue	1,088	406
Other	3,575	2,654
	$10,016	$7,727

20. Discontinued Operations

During 2013, Schlumberger completed the wind down of its operations in Iran and, therefore, classified the historical results of this business as a discontinued operation.

In 2009, the US Department of Justice began an investigation into past violations of US sanctions regarding Schlumberger's historical operations in Iran and Sudan that occurred between 2004 and 2010. During the second quarter of 2014, Schlumberger increased its accrual for this contingency and recorded a $205 million charge, which was reflected within Loss from discontinued operations in the Consolidated Statement of Income.

During 2015, Schlumberger resolved this investigation and a non-US subsidiary of Schlumberger pleaded guilty to one criminal count of conspiracy to violate the International Emergency Economic Powers Act. Under the terms of the plea agreement, Schlumberger paid approximately $233 million in fines, penalties and assessments during the second quarter of 2015, which had been previously accrued. This payment is reflected within Cash flows used in discontinued operations – operating activities in Schlumberger's Consolidated Statement of Cash Flows.

Management’s Report on Internal Control Over Financial Reporting

Schlumberger management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a–15(f) of the Securities Exchange Act of 1934, as amended. Schlumberger’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Schlumberger management assessed the effectiveness of its internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based on this assessment Schlumberger’s management has concluded that, as of December 31, 2016, its internal control over financial reporting is effective based on those criteria.

The effectiveness of Schlumberger’s internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of Schlumberger Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Schlumberger Limited and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Houston, Texas
January 25, 2017

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Quarterly Results

(Unaudited)

The following table summarizes Schlumberger's results by quarter for the years ended December 31, 2016 and 2015.

(Stated in millions, except per share amounts)

	Revenue [2]	Gross Margin [1], [2]	Net Income (Loss) Attributable to Schlumberger [2]	Earnings per Share of Schlumberger [2] Basic	Diluted
Quarters 2016					
First	$6,520	$1,059	$ 500	$0.40	$0.40
Second [3]	7,164	850	(2,159)	(1.56)	(1.56)
Third [4]	7,019	876	176	0.13	0.13
Fourth [5]	7,107	914	(204)	(0.15)	(0.15)
	$27,810	$3,700	$ (1,687)	$(1.24)	$(1.24)
Quarters 2015					
First [6]	$10,248	$2,152	$ 975	$0.76	$0.76
Second	9,010	1,874	1,124	0.89	0.88
Third	8,472	1,674	989	0.78	0.78
Fourth [7]	7,744	1,451	(1,016)	(0.81)	(0.81)
	$35,475	$7,154	$ 2,072	$1.63	$1.63

(1) Gross margin equals Total Revenue less Cost of Services and Cost of Sales.
(2) Amounts may not add due to rounding.
(3) Net income in the second quarter of 2016 includes after-tax charges of $2.476 billion.
(4) Net income in the third quarter of 2016 includes after-tax charges of $176 million.
(5) Net income in the fourth quarter of 2016 includes after-tax charges of $583 million.
(6) Net income in the first quarter of 2015 includes after-tax charges of $383 million.
(7) Net income in the fourth quarter of 2015 includes after-tax charges of $1.835 billion.

* Mark of Schlumberger

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Schlumberger has carried out an evaluation under the supervision and with the participation of Schlumberger’s management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of Schlumberger’s “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based on this evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this report, Schlumberger’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that Schlumberger files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Schlumberger’s disclosure controls and procedures include controls and procedures designed so that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to its management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. There has been no change in Schlumberger’s internal control over financial reporting that occurred during the fourth quarter of 2016 that has materially affected, or is reasonably likely to materially affect, Schlumberger’s internal control over financial reporting.

Item 9B. Other Information.

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

Schlumberger’s residual transactions or dealings with the government of Iran during 2016 consisted of payments of taxes and other typical governmental charges. Certain non-U.S. subsidiaries maintained depository accounts at the Dubai branch of Bank Saderat Iran (“Saderat”), and at Bank Tejarat (“Tejarat”) in Tehran and in Kish for the deposit by NIOC of amounts owed to non-U.S. subsidiaries of Schlumberger for prior services rendered in Iran and for the maintenance of such amounts previously received. One non-U.S. subsidiary also maintains an account at Tejarat for payment of local expenses such as taxes and utilities. Schlumberger anticipates that it will discontinue its dealings with Saderat and Tejarat following the receipt of all amounts owed for prior services rendered in Iran.

During the fourth quarter of 2016, a non-US subsidiary entered into a memorandum of understanding (“MOU”) with NIOC relating to the non-disclosure of data required for the technical evaluation of an oilfield project. The MOU does not involve the provision of services.

PART III

Item 10. Directors, Executive Officers and Corporate Governance of Schlumberger.

See “Item 1. Business – Executive Officers of Schlumberger” of this Report for Item 10 information regarding executive officers of Schlumberger. The information under the captions “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance – Director Nominations” and “Corporate Governance – Board Committees – Audit Committee” in Schlumberger’s 2017 Proxy Statement is incorporated herein by reference.

Schlumberger has a Code of Conduct that applies to all of its directors, officers and employees, including its principal executive, financial and accounting officers, or persons performing similar functions. Schlumberger’s Code of Conduct is posted on its website at www.slb.com/about/codeofconduct.aspx. Schlumberger intends to disclose future amendments to the Code of Conduct and any grant of a waiver from a provision of the Code of Conduct requiring disclosure under applicable SEC rules at www.slb.com/about/codeofconduct.aspx.

Item 11. Executive Compensation.

The information set forth under the captions “Compensation Discussion and Analysis,” “Executive Compensation Tables and Accompanying Narrative,” “Compensation Committee Report” and “Director Compensation in Fiscal Year 2016” in Schlumberger’s 2017 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information under the captions “Stock Ownership Information—Security Ownership by Certain Beneficial Owners,” “Stock Ownership Information—Security Ownership by Management” and “Equity Compensation Plan Information” in Schlumberger’s 2017 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information under the captions “Corporate Governance—Board Independence” and “Corporate Governance—Policies and Procedures for Approval of Related Person Transactions” in Schlumberger’s 2017 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information under the caption “Appointment of Independent Registered Public Accounting Firm” in Schlumberger’s 2017 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Report:

Financial statements of companies accounted for under the equity method and unconsolidated subsidiaries have been omitted because they do not meet the materiality tests for assets or income.

(2) Financial Statement Schedules not required

(3) Exhibits: the exhibits listed in the accompanying "Index to Exhibits" are filed or incorporated by reference as part of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 25, 2017	SCHLUMBERGER LIMITED
	By: /S/ HOWARD GUILD Howard Guild Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title
* Paal Kibsgaard	Chairman and Chief Executive Officer (Principal Executive Officer)
/S/ SIMON AYAT Simon Ayat	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ HOWARD GUILD Howard Guild	Chief Accounting Officer (Principal Accounting Officer)
* Peter L.S. Currie	Director
* V. Maureen Kempston Darkes	Director
* Helge Lund	Director
* Nikolay Kudryavtsev	Director
* Michael E. Marks	Director
* Indra K. Nooyi	Director
*	Director

Lubna S. Olayan	
* Leo Rafael Reif	Director
* Tore Sandvold	Director
* Henri Seydoux	Director
/s/ ALEXANDER C. JUDEN *By Alexander C. Juden Attorney-in-Fact	January 25, 2017

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INDEX TO EXHIBITS

	Exhibit
Articles of Incorporation of Schlumberger Limited (Schlumberger N.V.), as last amended on April 6, 2016 (incorporated by reference to Exhibit 3.1 to Schlumberger's Current Report on Form 8-K filed on April 6, 2016)	3.1
Amended and Restated By-Laws of Schlumberger Limited (Schlumberger N.V.), as last amended on January 19, 2017 (incorporated by reference to Exhibit 3.1 to Schlumberger's Current Report on Form 8-K filed on January 19, 2017)	3.2
Indenture dated as of December 3, 2013, by and among Schlumberger Investment SA, as issuer, Schlumberger Limited, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to Schlumberger's Current Report on Form 8-K filed on December 3, 2013)	4.1
First Supplemental Indenture dated as of December 3, 2013, by and among Schlumberger Investment SA, as issuer, Schlumberger Limited, as guarantor, and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of global notes representing 3.650% Senior Notes due 2023) (incorporated by reference to Exhibit 4.2 to Schlumberger's Current Report on Form 8-K filed on December 3, 2013)	4.2
Schlumberger Limited Supplementary Benefit Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.2 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.1
Schlumberger Limited Restoration Savings Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.3 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.2
First Amendment to Schlumberger Limited Restoration Savings Plan (incorporated by reference to Exhibit 10.3 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013) (+)	10.3
Schlumberger 1998 Stock Option Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.4 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.4
Third Amendment to Schlumberger 1998 Stock Option Plan (incorporated by reference to Exhibit 10.4 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.5
Schlumberger 2001 Stock Option Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.5 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.6
Second Amendment to Schlumberger 2001 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.7
Schlumberger Limited 2004 Stock and Deferral Plan for Non-Employee Directors, amended and restated effective January 19, 2012 (incorporated by reference to Exhibit 10 to Schlumberger's Current Report on	10.8

Form 8-K filed on April 11, 2012.) (+)	
Schlumberger 2005 Stock Incentive Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.6 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.9
Third Amendment to Schlumberger 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.10
Schlumberger 2008 Stock Incentive Plan, as conformed to include amendments through January 1, 2009 (incorporated by reference to Exhibit 10.8 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2008) (+)	10.11
Second Amendment to Schlumberger 2008 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.12
Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Schlumberger's Current Report on Form 8-K filed on April 9, 2010) (+)	10.13
First Amendment to Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.8 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.14

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	Exhibit
Rules of the Schlumberger 2010 Omnibus Stock Incentive Plan, French Sub-Plan for Restricted Units (incorporated by reference to Exhibit 10.1 to Schlumberger's Current Report on Form 8-K filed on April 6, 2016) (+)	10.15
Cameron International Corporation Equity Incentive Plan, as amended and restated January 1, 2013 (+)(*)	10.16
Form of 2014 Three-Year Performance Share Unit Award Agreement under Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014) (+)	10.17
French Sub-Plan of Schlumberger 2010 Omnibus Stock Incentive Plan for Employees in France (incorporated by reference to Exhibit 10.7 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013) (+)	10.18
Form of Option Agreement (Employees in France), Incentive Stock Option, under Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.10 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.19
Form of Option Agreement (Employees in France), Non-Qualified Stock Option, under Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.11 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.20
Form of Restricted Stock Unit Award Agreement (Employees in France) under Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.12 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.21
Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Appendix A to Schlumberger's Definitive Proxy Statement on Schedule 14A filed on March 1, 2013) (+)	10.22
First Amendment to Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.9 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013) (+)	10.23
Form of Option Agreement, Incentive Stock Option, under Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Schlumberger's Quarterly Report on Form 10-Q for the quarter ended in June 30, 2015) (+)	10.24
Form of Option Agreement, Non-Qualified Stock Option, under Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) (+)	10.25
Form of Restricted Stock Unit Award Agreement under Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) (+)	10.26
Schlumberger Discounted Stock Purchase Plan, as amended and restated effective as of January 1, 2013 (incorporated by reference to Appendix B to Schlumberger's Definitive Proxy Statement on Schedule 14A filed on March 1, 2013) (+)	10.27
	10.28

Form of Option Agreement, Uncapped Incentive Stock Option (for 2001, 2005 and 2008 stock plans) (incorporated by reference to Exhibit 10.11 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2009) (+)	
Form of Option Agreement, Uncapped Non-Qualified Stock Option (for 2001, 2005 and 2008 stock plans) (incorporated by reference to Exhibit 10.12 to Schlumberger's Annual Report on Form 10-K for the year ended December 31, 2009) (+)	10.29
Form of Incentive Stock Option Agreement under the Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) (+)	10.30
Form of Restricted Stock Unit Award Agreement under the Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) (+)	10.31
Form of Non-Qualified Stock Option Agreement under the Schlumberger 2010 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.8 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015) (+)	10.32

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	Exhibit
Form of 2016 Three-Year Performance Share Unit Award Agreement under the Schlumberger 2013 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended April 27, 2016) (+)	10.33
Employment Agreement effective as of June 1, 2016 by and between Schlumberger Limited and Sherif Foda (incorporated by reference to Exhibit 10.1 to Schlumberger's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016) (+).	10.34
Form of Cameron International Corporation Performance-Based Restricted Stock Award Agreement (+)(*)	10.35
Form of Cameron International Corporation Restricted Stock Unit Award Agreement (+)(*)	10.36
Cameron International Corporation Restricted Stock Unit Award Agreement, applicable to Chief Executive Officer, dated October 14, 2015 (+)(*)	10.37
Form of 2015 Cameron International Corporation Stock Option Agreement applicable to Chief Executive Officer (+)(*)	10.38
Form of 2011 Cameron International Corporation Non-Qualified Stock Option Agreement (+)(*)	10.39
Form of 2013 Cameron International Corporation Non-Qualified Stock Option Agreement (+)(*)	10.40
Form of 2014 Cameron International Corporation Non-Qualified Stock Option Agreement (+)(*)	10.41
Form of 2010 Cameron International Corporation Incentive Stock Option Agreement (+)(*)	10.42
Form of 2011 Cameron International Corporation Incentive Stock Option Agreement (+)(*)	10.43
Form of 2013 Cameron International Corporation Incentive Stock Option Agreement (+)(*)	10.44
Form of 2014 Cameron International Corporation Incentive Stock Option Agreement (+)(*)	10.45
Form of Indemnification Agreement (incorporated by reference to Exhibit 10 to Schlumberger's Current Report on Form 8-K filed on October 21, 2013)	10.46
Subsidiaries (*)	21
Consent of Independent Registered Public Accounting Firm (*)	23
Powers of Attorney (*)	24
Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)	31.1
Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)	31.2
Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)	32.1

Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)	32.2
Mine Safety Disclosure (*)	95
The following materials from Schlumberger Limited's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statement of Income, (ii) Consolidated Statement of Comprehensive Income, (iii) Consolidated Balance Sheet, (iv) Consolidated Statement of Cash Flows, (v) Consolidated Statement of Equity and (vi) Notes to Consolidated Financial Statements. (*)	101

(*) Exhibits electronically filed with this Form 10-K. All other exhibits incorporated by reference.

(+) Management contracts or compensatory plans or arrangements.

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