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PRESENTATION

Operator

Ladies and gentlemen, thank you very much for standing by, and welcome to the SLB Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to the SVP of Investor Relations and Industry Affairs, James McDonald. Please go ahead.

James R. McDonald ***Schlumberger Limited - SVP of IR and Industry Affairs***

Thank you, Leah. Good morning, and welcome to the SLB Second Quarter 2023 Earnings Conference Call. Today's call is being hosted from Paris, France following our Board meeting held earlier this week. Joining us on the call are Olivier Le Peuch, Chief Executive Officer; and Stephane Biguet, Chief Financial Officer.

Before we begin, I would like to remind all participants that some of the statements we will be making today are forward-looking. These matters involve risks and uncertainties that could cause our results to differ materially from those projected in these statements. I, therefore, refer you to our latest 10-K filing and our other SEC filings. Our comments today may also include non-GAAP financial measures. Additional details and reconciliation to the most directly comparable GAAP financial measures can be found in our second quarter press release, which is on our website.

With that, I will turn the call over to Olivier.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Thank you, James. Ladies and gentlemen, thank you for joining us on the call today. In my prepared remarks, I will cover 3 topics. I will first review a few of our financial highlights from the quarter. Next, I will discuss the positive momentum we are seeing in the international and offshore markets. And third, I will share the exciting progress we are making in digital before concluding with our outlook for the third quarter and the full year. Stephane will then provide more details on our financial results, and we will open for your questions.

Our second quarter results continue to demonstrate the strength of our portfolio and our strategic positioning in the most attractive, accretive and resilient market globally. This is translating to financial performance and we closed the first half of the year with solid growth across revenue, earnings per share, free cash flow and expanded EBITDA and pretax segment operating margins.

International revenue continued its strong growth momentum, increasing 21% year-on-year as we captured broad growth across all divisions and geographic areas. Second quarter revenue increased by more than 20% year-on-year in 14 of our 25 international geounits. Most notably, Saudi Arabia, UAE, Mexico, Guyana, Brazil, Angola, Caspian and India all grew more than 30% over this period. This drove our highest year-on-year international incremental operating margin over the last 3 years, and it underscores the breadth of our portfolio that I continue to emphasize.

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SLB growth -- SLB global reach shields us from regional fluctuation, as we have recently seen in North America and give us the ability to seize opportunities wherever they arise. This is a true differentiator for our business and positions us for long-term outperformance.

Following the remarks I shared in our earnings release this morning, I would like to reflect on a few notable highlights from the quarter. The broad growth characterizing this upcycle continues. Internationally, this was pervasive, and we were very pleased to see all divisions and geographies grow revenue and expand margins sequentially.

In North America, we continued to increase our revenue, highlighting our agility across the land markets and the expanded activity in the U.S. Gulf of Mexico, solidly outperforming the rig count. Our focus on the quality of our revenue continues to support our margins. Sequentially, we expanded our pretax segment operating margins. This was fueled by our strong international operating leverage, increased technology adoption and positive pricing trends that stem from inflation-driven contract adjustments and tight service capacity.

And with higher earnings and improved working capital, our sequential cash flow from operations grew considerably, and we generated free cash flow of nearly $1 billion during the quarter. I want to thank the entire SLB team for their hard work and exceptional performance, delivering value for our customers and our shareholders throughout the quarter.

Now let me take a moment to touch on the macro environment. As we have projected for the past few quarters, the international and offshore markets continue to exhibit strong growth as North America has moderated. This is playing to the strength of our business as international revenue represents nearly 80% of our global portfolio and offshore comprises nearly half of that. As the growth rate shifts further towards international, these market conditions are driving the breadth, resilience and durability of this upcycle and creating new opportunities for our business.

Let me describe where this is taking place. In the international markets, the investment momentum of the past few years is accelerating. This is supported by resilient long-cycle developments in Guyana, Brazil, Norway and Turkey; production capacity expansion in the Middle East, notably in Saudi Arabia, UAE and Qatar; the return of exploration and appraisal across Africa and the Eastern Mediterranean; and the recognition of gas as a critical fuel source for energy security and the energy transition.

In the Middle East, this is resulting in record levels of upstream investment. From 2023 to 2025, Saudi Arabia is expected to allocate nearly $100 billion to upstream oil and gas capital expenditure, a 60% increase compared to the previous 3 years as they invest to attain a maximum sustained production capacity of 13 million barrels per day by 2027. Several other countries in the region have also announced material increases in capital expenditure that extend beyond 2025. Furthermore, we continue to witness a broad resurgence in offshore, driven by energy security and regionalization. Operators all over the world are making large-scale commitments to hasten discovery, accelerate development times and increase the productivity of their assets. This is resulting in increased infill and tieback activity in mature basins, new development projects both in oil and gas and support for new exploration.

With this backdrop, we anticipate more than $500 billion in global FID between 2022 and 2025, with more than $200 billion attributable to deepwater. This reflects an increase of nearly 90% when compared to 2016-2019. These FID investments are global, taking place in more than 30 countries, and we are seeing the results with new projects in offshore basins across the world. This is reflected in the many contract awards highlighted in the earnings press release, notably in Mexico, Brazil and Turkey. These contracts, in addition to many others, are building a strong foundation of activity outlook decoupled from short-term commodity price volatility.

Moving forward, we expect further growth to be led by accelerating activity in Well Construction, new opportunities for Reservoir Performance in exploration and appraisal, expansion for Production Systems in subsea, and digital will enhance it all. In our business and the industry as a whole, the increased adoption and integration of digital technologies remains one of the most significant opportunities for growth. Indeed, our industry generates massive amounts of data and by capturing that information and turning it into trusted and actionable insights, we can make energy production more accessible, more affordable and more sustainable. This is a critical moment for our industry, and there are 3 digital trends concurrently shaping its future, clearly setting the path for a higher value, lower carbon outlook.

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First, the adoption of cloud computing at scale. For geoscience workflows, this is supporting significant productivity gains for geoscientists and engineers across asset development teams. This is happening at a time when our industry is compelled to accelerate the development cycle and derisk both subsurface and surface uncertainties. We continue to benefit from this trend in the adoption of our Delfi cloud-based digital platform, delivered through a flexible and personalized software-as-a-service, SaaS, subscription model, with the cumulative number of users in global customer organizations growing 60% year-on-year to 5,400. As we shared in our earnings press release, Petrobras and ENAP are only just 2 examples of customers deploying Delfi enterprise-wide with the aim of fundamentally changing how they work across the E&P value chain.

Second, our industry is unlocking the power of data at scale. A single well can produce more than 10 terabytes of data per day and this doesn't even begin to touch on the total amount of upstream data across exploration, development and production workflows. The adoption of open data platforms across the industry is liberating data for artificial intelligence, AI applications at large -- at scale.

SLB is benefiting from and driving this trend through both data foundation and AI deployment. We are seeing early success with the commercialization of our enterprise data solution powered by Microsoft Energy Data Services. This offering delivers the most comprehensive capabilities for subsurface data in alignment with the emerging requirements of the OSDU technical standard. And we are witnessing tremendous success with our INNOVATION FACTORI, where we have developed more than 100 AI solutions with more than 80 customers since 2021. All of them with rich domain content in addition to generic AI capabilities.

Third, digital operations are gaining in maturity, transforming the way operators develop and utilize assets, from automation to autonomous operations across both well construction and production. We are clearly seeing an inflection in the deployment of digital operations with significant impact on efficiency, carbon footprint and performance. Today, customers are accelerating the adoption of our Neuro autonomous solutions, with Kuwait Oil Company and PETRONAS both using these technologies to reduce manual operations while increasing performance, enabling drilling consistency and rig time savings. Similarly, our partnership with Cognite, as a platform for unlocking access to production operations, is gaining momentum in the industry as exemplified with the Cairn contract highlighted in our earnings release.

Finally, we continue to deploy Delfi Edge Agora technology to deliver real-time insights directly within operations from connected hardware, where data is generated and processed with AI at the edge. We currently have more than 1,400 connected assets deployed, doubling year-on-year.

SLB is positioned to fully harness this positive market condition as well as our technology and digital leadership to drive financial outperformance and margin expansion. We are progressing on our journey to double the size of our digital business between 2021 and 2025, and the trends I've just discussed are reinforcing our confidence in the outcome of our strategic execution.

I will next describe how we see the rest of the year progressing. After a positive first half, we remain confident in our full year financial ambitions and our visibility into significant baseload of activity that reinforces our 2023 full year forecast and our growth ambition beyond. We continue to expect year-on-year revenue growth of more than 15% and adjusted EBITDA growth in the mid-20s.

Turning specifically to the third quarter, we expect revenue to grow by mid-single digits in the international markets with all international geographical areas growing sequentially, led by the Middle East and Asia. In contrast, North America revenue will be slightly down. With our focus on the quality of revenue, harnessing operating leverage and further technology adoption, we expect global operating margins to further expand by more than 50 basis points sequentially. This will result in the highest EBITDA margin we have seen in this cycle.

I will now turn the call over to Stephane.

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

Thank you, Olivier, and good morning, ladies and gentlemen. Second quarter earnings per share, excluding charges and credits, was $0.72. This represents an increase of $0.09 sequentially and $0.22 or 44% when compared to the second quarter of last year. We did not record any charges or credits during the current quarter. Overall, our second quarter revenue of $8.1 billion increased 5% sequentially,

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mostly driven by the international markets, led by the Middle East and Asia. Sequentially, our pretax segment operating margins increased 154 basis points due to the high-quality international revenue, which resulted in strong incremental margins. This performance highlights the underlying earnings potential of our international business, with new technology and high service intensity, particularly offshore, accelerating margin expansion.

Company-wide adjusted EBITDA margin for the second quarter was 24.2%. In absolute dollars, adjusted EBITDA increased 28% year-on-year. As a reminder, our ambition is for adjusted EBITDA to grow in percentage terms in the mid-20s for the full year of 2023. On a year-to-date basis, adjusted EBITDA has grown 35% so we are on track to achieve this goal.

Second quarter revenue increased 20% year-on-year as international revenue was up 21%, significantly outpacing North America revenue growth of 14%. The strong international growth was led by the Middle East and Asia and robust offshore activity. Pretax segment operating margins expanded 240 basis points year-on-year with significant margin growth in our core divisions.

Let me now go through the second quarter results for each division. Second quarter Digital & Integration revenue of $947 million increased 6% sequentially with margins increasing 4 percentage points to 34%. The sequential revenue growth and margin expansion were primarily driven by higher digital sales following the seasonal low of the first quarter. Year-on-year, digital and integration revenue decreased 1%, and margins declined 6 percentage points due to the absence of exceptional exploration data transfer fees we recorded in the second quarter of last year.

Growth in other digital products and services was strong, however, including a more than 60% year-on-year revenue increase in our cloud and edge solutions. Reservoir Performance revenue of $1.6 billion increased 9% sequentially, while margins improved 248 basis points to 18.6%. These increases were primarily due to strong growth internationally led by the Middle East and Asia. Year-on-year, revenue grew 23% and margins increased 396 basis points driven by strong growth internationally, both on land and offshore.

Well Construction revenue of $3.4 billion increased 3% sequentially, while margins of 21.8% increased 115 basis points, driven by strong measurements, fluids and equipment sales activity as well as pricing improvements internationally. Year-on-year, revenue grew 25%, while margins expanded 424 basis points with very strong growth across all geographical areas on higher activity and improved pricing.

Finally, Production Systems revenue of $2.3 billion increased 5% sequentially and margins expanded 274 basis points to 12%, representing the highest margin since the formation of the division. The sequential revenue growth was led by the Middle East and Asia, partially offset by the absence of significant project milestones we reached last quarter in Europe and Africa. Year-on-year, revenue increased 22%, while margins expanded 300 basis points, driven by higher sales of completions and surface production systems and the easing of supply chain and logistics constraints.

Now turning to our liquidity. During the quarter, we generated $1.6 billion of cash flow from operations and free cash flow of $986 million. This represents a $1.25 billion increase in free cash flow over the same quarter of last year, which is largely due to improved working capital. We expect this performance to continue throughout the rest of the year. As a result, our free cash flow in the second half of the year will be materially higher than the first half.

Our net debt reduced approximately $200 million sequentially to $10.1 billion, which is $900 million lower than the same period last year. Capital investments, inclusive of CapEx and investments in APS projects and exploration data were $622 million in the second quarter. For the full year, we are still expecting capital investments to be approximately $2.5 billion to $2.6 billion. We continued our stock buyback program and repurchased 4.5 million shares during the quarter for a total purchase price of $213 million. We continue to target to return $2 billion to our shareholders this year between dividends and stock buybacks.

I will now turn the conference call back to Olivier.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Thank you, Stephane. Ladies and gentlemen, I believe we are ready to open the floor to your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of James West with Evercore ISI.

James Carlyle West ***Evercore ISI Institutional Equities, Research Division - Senior MD***

So Olivier, we've -- especially, you and I and Stephane have spent a lot of time together in the last 18 months. Let's -- if we go back to Luzern and then to the Analyst Day in New York City and recent events. We've become increasingly, I think all 3 of us, bullish on the cycle and the cycle's duration especially. I wonder if you could comment on the duration aspect you see now as you travel around the world, you meet with your customers, you're talking to your customers, what are they saying about their drilling programs over the next several years?

You obviously made some pretty bullish comments around Saudi, but more broadly with your major customers, what are their expectations? And how are they thinking about duration of their upstream spending cycle?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

No, very good question, James. I think you may have realized that recently, we characterized the cycle as breadth, resilience and durability, and let me comment a little bit further on durability and there are 2 or 3 elements to this. I think, obviously, we did comment on the return of offshore where we are the first to flag it and to call for the return of offshore. And I think we have seen this international offshore resurgence materializing in the last 12 months and accelerating. And in the second half, actually, the offshore rig count will be higher than the land rig count increase. So this momentum is driven by the economics of offshore assets where the FID now, the vast majority of the FID are below $50 and favorably positioned for FID.

Also the geologic and the low carbon nature of most of the assets. Accessibility to these resources and is both oil and gas. So offshore is having a resurgence that is translating into a very significant pipeline of FID, and we see it across not only the IOCs and independents that are capturing this opportunity, but also the NOCs that have placed a bet on offshore, as you can see from Brazil to Middle East or the North Sea.

So we see this happening at scale. We see also the emergence, sort of the second leg of FID and future offshore expansion driven by exploration appraisal. Exploration appraisal is happening in many countries. There are many rounds of -- licensing rounds happening, a lot of exploration and appraisal is happening to find this next reserve and develop. So offshore is there to stay and not only in '24 or '25, but beyond as we can see, and with the second leg materializing.

Beyond that, obviously, Middle East has made a significant commitment of capacity expansion, both in oil of 4 million barrels or so and in gas for regional consumption, displacing oil for energy or for generating some blue ammonia -- or blue hydrogen projects as well as further expanding their energy exports in Qatar, particularly. So the Middle East capacity expansion is leading to, as we have been quoting, record levels of investment from this year onward, and is not set to again stop in '24 as the vast majority of this capital expansion are towards the second half of the decade 2027 or 2030 for some of the target.

So what we have seen lately and the feedback to the visits we have had is that the duration of the cycle as we were characterizing a year ago is actually extending and is to be believed, prolonging to the right, and with a combination of offshore resurgence being very solid and Middle East being capacity expansion beyond the next 3 years.

James Carlyle West ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. Okay. That makes a lot of sense. And then the -- maybe a follow-up. As we think about -- or as you think about, I guess, revenue quality as we go through this, what looks to be and appears to be, and I think we agree on, a long duration cycle, you can upgrade your revenue quality either by choosing offshore over onshore or customers by customer. How are you thinking about that quality of the revenue base that you're putting in place now? And what are the main kind of drivers of that? I'm assuming it's -- you're looking for the highest return and highest margin, but what are the key metrics or key assumptions you have there?

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Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

No, absolutely. I think we have been initiating the returns-focused strategy a few years back. And I think we are getting the characteristics of cycle of this, favoring and accelerating our strategy as we get the opportunity to not only get a favorable mix that included a bit more offshore Middle East exploration appraisal but also higher technology adoption, including digital, including fit technology or including transition technology, all combining to give a premium to the -- and a higher revenue quality.

But I will not forget also the capital discipline that we have initiated as part of this strategy that is pushing us to high grade to the higher returns, higher margins contract as we move forward, and make sure that we get the best return for the capital we deployed and also to put a clear threshold on capital investment and capital stewardship going forward. So the combination, as I said, of the favorable mix, the technology adoption at scale with some secular trends in digital and the capital discipline that we have used to execute our strategy are allowing us to create the revenue quality improvement and the high grading on every portfolio and every business line we have to drive margin expansion. And we have seen margin expansion increasing, and we will continue to pursue this as we move forward.

Operator

Our next question is from David Anderson with Barclays.

J. David Anderson ***Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst***

So I was curious on the Middle East-Asia. It showed really impressive sequential growth during the quarter. I was wondering if you could talk a bit about what drove that. Was that just a reflection of the steady ramp-up of projects in Saudi and other Middle East markets? And also, you mentioned a directional drilling contract in the release. Was that a discrete contract? And are you starting to see higher pricing on those types of contracts now?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Well, I think to be -- to stay very -- it's a very broad term, I think, it's Middle East and Asia, and there are several geo units, as we call them, that have been benefiting from very significant growth sequential and year-on-year. As we commented, many of them are in the 30% basket -- more than 30% basket growth year-on-year in that region, that area. But indeed, in the GCC and the Middle East, particularly, we are benefiting again, we say, from 3 things. We are benefiting from the capacity expansion program that have been initiated, that have turned into an inflection into reactivity and spend activity that you benefit from, considering our market exposure.

We have been renewing several contracts and either encroaching or gaining market and strengthening our market position. And you have seen several announcements made. And this includes service capacity, service expansion contracts more than, I would say, integrated contracts. And finally, we have been benefiting from -- based on our performance from, I would say, pricing increments based on performance that have all combined service contract expansion, reactivity increase and pricing, all combining to result into an incremental revenue year-on-year and sequentially that we believe will be on the continuum for the rest of the year.

J. David Anderson ***Barclays Bank PLC, Research Division - Director and Senior North America Oilfield Services & Equipment Analyst***

Okay. And if I could shift over to the D&I segment. Could you provide some color on the non-APS businesses and how they've been trending? I'm particularly interested in the digital solutions business and kind of really what you're seeing in terms of digital adoption of your customers. I'm really not sure if you can provide any metrics or any examples, but just kind of curious how -- kind of how some of your customers are using it kind of this year versus a year ago, like is there any way to kind of show us kind of -- or kind of explain to us kind of how that digital adoption is trending?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Yes. I think as we keep saying, I think some of the digital success and digital business growth we are having today is a bit masked in our financial reporting results by the flat or declining APS year-on-year that we have. So I think you have to look at it first on the financial overall result of this division. Secondly, I would say that as I described in my prepared remarks that there are 3 trends that we are capturing and that we are exposed to that are happening in the industry, all of them under the secular trend of digital transformation in this industry, one on cloud computing, making the best out of cloud computing, scalable computing and elastic computing access that cloud solutions such as Delfi gives, and hence, accelerating productivity of the asset team from exploration to asset development.

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We are seeing it. You have seen the announcement of the Petrobras award that is square into that category of using cloud capability to accelerate and enable productivity in the geoscience team and quality of results for the asset development team. So that's one sector that -- and again, we measure it by either number of customers' expansion or adoption of users, which we have seen are quoted in my prepared remarks at 60% growth year-on-year.

The second aspect is unlocking data, the vast amount of data that our industry manipulates, stores, manages and structured data, unstructured data to try to unlock this and democratize, if you like, AI. So we are fortunate to have a cloud-based solution, Delfi, that has AI domain capability embedded into it. We use it every day to help our customers unlock and get access to this AI capability. We have done it through INNOVATION FACTORI, 100 solutions deployed. So that's the second engine of digital growth, if you like, is the data structure, data transformation and AI capability. And that's again, we are speaking about growing at above 50% for that subsegment of our digital offering.

And last and maybe the one that has the most growth potential that is untapped across the industry, digital operations. That's everywhere from well construction to producing assets. And that's why we deploy either some element of our cloud offering in drilling automation or in surveillance of assets or we deploy at the edge, on the asset, at the pump, some device, and we call it the Agora edge solution, which have embedded AI at the edge that do not need to run trip to the cloud to optimize these assets and give -- and we use it and consume it in our APS assets to enhance the performance. So we are seeing the benefit of all these. At the same time, they're all growing at a different pace, different adoption across the NOCs, the independents -- all the IOCs. And it will be a long tail of growth that will clearly have long durability and we continue to be a factor of secular trend in our industry to extract efficiency, low carbon productivity using this trend.

So that's what we see, multiple engines of growth across multiple horizons, and with different technology where we have leadership in most and a footprint that allows us to tap into 1,500 customers for the long run.

Operator

We will go ahead and move on to the line of Arun Jayaram with JPMorgan Chase.

Arun Jayaram ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

My first question is on offshore. You've highlighted how 85% of global offshore FIDs are now underpinned by oil prices at $50 or below which is quite a bit below what we saw in the prior cycle where we thought that you needed, call it, mid-60s oil price to kind of justify offshore developments, particularly deepwater. I was wondering if you can give some thoughts on what is driving, call it, the lower breakevens than we saw prior cycle?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I would think -- there are several aspects to that. One obviously is the progress the industry at large has made in efficiency, integration, technology, performance at large that is getting the curve shifting to the left on drilling the cycle compressing on subsea and the overall development cycle to be more derisked to digital. So technology, integration, performance at large has helped the operator and the service industry to deliver faster and to deliver the lower total cost, the development of those assets.

The second element, I would think that exploration has been creating a portfolio of assets that can then been high-graded. And then the quality of the resource, the high quality of the geological play and lower carbon and better plays that have a better production and recovery potential, have also emerged and have been more favorably primed and/or, I would say, prioritized by our customers. So these customers have choice and they focus on the best and the most advantageous assets and the most advantaged geological basins that have -- we have seen it from Brazil to Guyana, and we are seeing it in the Middle East for some of the gas assets as well.

So the third, I think, dimension that is, I think, accelerating in our opinion is what is called infrastructure-led development or infrastructure-led exploration and development, which make the returns on incremental oil, incremental gas from existing hubs, from existing platforms, lower cost than in the past because the capability to infill tieback and expand from an existing platform, getting a better return on existing infrastructure. Hence, we have seen a significant improvement and have seen an increase in investment into this infill and tieback, and ILX as this is called, infrastructure-led development, infrastructure-led exploration, and that's -- this is another

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trend that is lowering the average cost of FID for increment of oil pool or additional gas. So you combine all of this and you are getting better economics, hence, better and sustained and higher durability for the long-term offshore plays.

Arun Jayaram ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

Great. And just a follow-up. Olivier, we've been getting a few buy-side questions on the update on your website regarding Russia. I was wondering if you could just expand on what this means on a go-forward basis for SLB?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Simply said, I think Russia revenue represented approximately 5% of our consolidated revenue in the second quarter and the decision that we have made last Friday to halt remaining shipments to Russia from all SLB facilities will not impact our financial guidance. So this decision will extend what you have seen as our previous ban on shipments from the locations that we had in the United States, the U.K., E.U., Canada, into Russia, and we will continue to ensure that our remaining presence in Russia meets and exceeds all international sanctions.

Operator

And I apologize, we will go back to the line of Scott Gruber with Citigroup.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

D&I margins snapped back nicely in 2Q. And in the past, you've talked about D&I as a mid-30s type margin business, at least near term. But in terms of thinking about the second half, can you build off that 34%? Should we expect those to grind higher in 3Q and 4Q? And then more importantly, as we think about 2024 and given all the digital growth, you think D&I margins could push into the high 30s, especially with hopefully some of the APS headwinds abating?

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

Scott, Stephane here. So yes, you've seen the D&I margins returning to levels we like, in the mid-30s after the Q1 seasonal low. And just for clarification, this is almost entirely coming from digital because APS ended up somehow unexpectedly flat in terms of revenue. So really the entire margin expansion from Q1 to Q2 is digital, which is good news. So can it go up higher than 34%? Yes, potentially. You always have -- you can have certain sales like exploration data, et cetera, that come, but the mid-30s is a good goal post for us with a few percentages up and down depending on exceptional sales.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

And we should still think about that in '24 as well?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Yes. Through '24 and the trajectory we see in digital is not set to slow down because I think as I explained, multiple dimensions and trends are concurrently shaping the future of our digital success, and I think we expect it to continue well into the -- beyond the cycle, as we call it, actually, and the accretive, I would say, contribution of digital will, over time, long term, be more and more accretive on the growth and more and more accretive on the margins.

Scott Andrew Gruber ***Citigroup Inc., Research Division - Director, Head of Americas Energy Sector & Senior Analyst***

Got it. And then just a quick one on North America. Pretty impressive performance in 2Q with revenues up in the rig count, in contrast to the rig count being down. Obviously, Gulf of Mexico is helping you guys. Are you also seeing continued growth in that fit-for-basin strategy? And then -- go ahead.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Absolutely. I think that's what we call our agility and fit strategy in the land part of the North America has been helping us to shield ourselves from some of the macro trends. I think we believe that the lack of exposure to pressure pumping at scale and the fit-for-basin technology strategy, partly in well construction has allowed us to continue to progress or to buffer some other activity decline and expose us to actually the mix of performance that has been resilient in North America land and then complemented -- augmented, if I may, by the North America offshore, where we have seen activity and revenue progression.

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Operator

Next, we go to the line of Kurt Hallead with Benchmark.

Kurt Kevin Hallead ***The Benchmark Company, LLC, Research Division - Research Analyst***

So you guys put up a really impressive free cash flow number in the quarter. You indicated that free cash flow dynamics would obviously improve in the second half of the year. So I'm just kind of curious, though, close to $1 billion of free cash flow in the quarter itself. Is this the dynamic now where you can continue to harvest that kind of cash? And is that level of free cash flow something that you think could be sustainable as you go into the third and fourth quarter of this year?

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

So look, yes, we are also quite pleased with the free cash flow performance in the second quarter. It's -- as I said, it's mostly improved working capital on top of the earnings, of course. And as you know, there is quite some seasonality in our cash flow and working capital. So we came out of a seasonally low Q1 with quite a strong Q2. We again beat a quarterly record on DSO for our second quarter, and our inventory efficiency improved quite a bit as well. So it sets us quite well for the rest of the year. As you said, we always generate quite more cash in the second half. So the $1 billion level is a good starting point for Q3, Q4, and we'll take it from there. But we are slightly ahead of where we wanted to be, and I think we can continue that way for the second half.

Kurt Kevin Hallead ***The Benchmark Company, LLC, Research Division - Research Analyst***

Got it. That's great. That's fantastic. And my follow-up. So Olivier, a lot of contract awards during the quarter. You discussed the emphasis on long-term visibility on a number of these projects. It's easy for us on the outside to kind of look at what goes on with an offshore driller and look at their contract start date sometime in the future. Maybe a little bit more challenging to kind of connect those dots to how a service company and at what point in time does a service company get slotted in for those projects.

So I was just wondering, for the benefit of everybody on the call and understanding where your visibility is coming from, at what point in time do you guys think that Schlumberger get called into an offshore drilling project, for example? And what gives you the conviction and how can you convey that conviction to the investor base and understanding that this cycle really does -- is different and has longer legs than what we may have seen in the past?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

No, I think it's a mix. It's a mix of -- I think we -- and you have seen many contracts, some of them have very long duration, more than 5 years or 7 years in recent awards that we highlighted in April and this July. And I think 3 to 5 years is typical contract terms that we have. Every contract you see, framework contracts that are being used to mobilize resources and to commit capacity across multiple years, and these contracts either start this year or start next year. And they go well beyond 2025 and support the thesis of durability duration beyond mid this decade.

And secondly, I would say that you see also that we were announcing a few of the subsea awards, and we'll continue to see that in the second half. We quoted our total booking for Production Systems, which is the long cycle side of our business. So you have the contracts I was referring to, service contracts, 3, 5, 7 years, and many of them in Middle East and/or offshore, as you have seen. And then you have the bookings that then -- bookings that are then supporting 2 or 3 years of delivery, be it in subsea or be it in some of the large surface contracts that you have seen in Qatar, subsea, as you have seen in different parts of the Americas and -- or Turkey.

And this is typically 2 or 3 years out of booking, and we have been quoting $10 billion to $12 billion for the full year on Production Systems, and we are confident this represents 1.1 to 1.3 book-to-bill ratio. And this -- as we will exit 2023, we'll have this booking to fuel at least 2 years of growth going forward in our long-cycle business. So you combine these and you get many of the elements of duration on international, Middle East and offshore markets.

Operator

Our next question will come from Neil Mehta with Goldman Sachs.

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Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

The first question is just around more around Production Systems. Margins were really good there. So can you talk about how we should think about the margin trajectory? And also tie that into any commentary you have around the subsea, which has been a source of momentum.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Yes. I think Production Systems is, as I said, is an equipment, mostly product equipment and long cycle and -- on which we had suffered from some supply logistics constraints last year that we flagged, and we said at the [onset] as soon as this constraint will be behind us, we'll feel comfortable that the momentum on margin expansion will be matching what we have seen in the other core divisions that we have and this is starting to materialize. Our ambition is not stopping at this margin. Our long-term ambition is to continue to grow and expand in line with the overall core divisions as we believe that operating efficiency, including into this long cycle manufacturing efficiency, and the pricing environment for this unique technology we have from subsea to surface, from completion to artificial lift, or some process equipment that we are deploying across some offshore FPSO.

All of this combines to give us the, I would say, the confidence that this trajectory of margin expansion will not stop here and will continue to grow. You have heard about the booking, I was commenting on this. It's a booking and margin expansion journey for PS going forward.

Neil Singhvi Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And Olivier, when we saw each other a couple of weeks ago, you had just spent a lot of time on the road visiting a lot of customers in different regions. Wonder if you can just kind of go around the world and talk about customer conversations, obviously, name agnostic, and what are you seeing in terms of different basins in terms of activity?

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

I don't want to be too specific, obviously. I think I will reflect more on the general sentiment. I think the general sentiment is that first and foremost, energy security and capacity expansion still dominate the decision and the economics are seen as very favorable and the outlook of the industry at large is seen as resilient and you have seen it for many majors, reaffirming their 2030 production volume and adjusting their strategy to make sure they maximize the opportunity to either accelerate their gas transition or sustain their oil production. And this will mean investment, and we see that in all the engagements we have.

And then the NOC is [beating] in the Americas, in Africa, Middle East or Asia, pursuing the 2 things, either their production enhancement to make sure they continue to lift their production performance, and then addressing security -- energy security through their gas development, typically. We see this everywhere, partly in Asia. So the customers are fairly focused on developing their gas assets, expanding and/or reverting some of the trends of declining oil production and to make sure they maximize the cycle, their participation to the cycle and their participation to the international pool -- supply pool that is happening. So it's broad.

And as I commented during our time together, I think I commented that we are seeing also many newcomers that are expanding into deepwater, into exploration rounds that are across the globe in new territories or in new countries, and this will attract more investment. This will attract, if the geology are right, future FID. So it's, in general, driven by energy security, pool of international supply and IOCs' commitment to sustain their production towards the end of the decade.

Operator

And next, we go to a question from Luke Lemoine.

Luke Michael Lemoine ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Olivier, your impressive award with a 5-year contract with Petrobras for Delfi deployment across the organization, seeing if you can maybe talk about the opportunity for additional contracts with other NOCs or majors for enterprise-wide Delfi and kind of the level of interest there.

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Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Yes. We typically do not speak ahead of any public announcements, the work we are doing on the ground to continue to prepare for further penetration of our existing customers. But yes, there are fairly advanced discussions with several customers to prepare for a transition and adoption of Delfi cloud solution, either for their geoscience workflow or for some of the drilling operations as I was referring to or for some of the adoption of AI and unlocking that data. So we are seeing this. And yes, you will see -- you continue to see every quarter a new announcement that will come in the different, the 3 different dimensions and trends that I was highlighting.

And you will see large contracts in the future, hopefully, materializing as well that will replicate the success we had with Chevron, who was the first very large enterprise deployment that many company are looking to towards and using to reflect some of their future opportunity they have with us. So that's happening at scale and we are pleased with progress. But again, it's a long journey and it's 1 customer at a time, and it will take years and the cycle will be long and will be accretive for the long run.

Operator

And our next question is from Keith MacKey with RBC Capital Markets.

Keith MacKey ***RBC Capital Markets, Research Division - Analyst***

Just wanted to first ask on the subsea JV with Subsea 7 and Aker originally expected to close at the end of next month. Can you just remind us of the key benefits of that transaction? Maybe give us an update on where you are in relation to closing. And if you expect any impact to the numbers or the way you might report the numbers in the Production Systems segment going forward, would be helpful.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Yes. First, I think we -- what we quoted at the time we announced the JV is that we expected this to close by Q3 this year, which is in 2 months from now. The progress we have made is that we have progressed towards obtaining the majority of the antitrust regulatory approval to move forward. We have progress in our planning in conjunction with our future partners and we'll be communicating on this as soon as we can to give you the materiality and the timing and the materiality of this as we will consolidate. Now it will be consolidated into the PS and into the revenue going forward at the time we will announce the closing, and we will give you the detailed information about that when it will be announced, and we'll give clarity on the way we will report it.

So good progress across the different jurisdictions and good progress, very good progress on the planning to prepare for the closing as well. So we're optimistic towards the near future.

Keith MacKey ***RBC Capital Markets, Research Division - Analyst***

And one final question for Stephane, just on the buyback. As free cash flow is set to increase in the second half of the year, should we expect any significant deviation from the $200 million-or-so run rate you've set for the first half of the year? Or is that still a good number to put in our models?

Stephane Biguet ***Schlumberger Limited - Executive VP & CFO***

Look, the way you have to look at it, Keith, is really on our commitment to return a total of $2 billion to shareholders and it's between dividends and buybacks. So, yes, if you do the math, you will get the average level of buyback in the second quarter -- or in the second half, sorry. But yes, it will continue, of course.

Operator

And ladies and gentlemen, that is all the time we have for questions. I will now turn the conference back to the SLB leadership for closing comments.

Olivier Le Peuch ***Schlumberger Limited - CEO & Director***

Thank you, Leah. Ladies and gentlemen, as we conclude today's call, I would like to leave you with the following takeaways. First, as our second quarter results clearly demonstrate our market position, performance differentiation and technology leadership are fit for the cycle, and we continue to drive our financial performance. Second, as upstream investments accelerate in the international and offshore markets, these regions will lead our growth and lay a strong foundation for ongoing outperformance in the years ahead. Third, following

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a solid first half and with significant visibility into the second half of the year, we have affirmed our confidence in our full year financial targets.

This is a compelling environment for our company. And today, we are more returns focused, disciplined and efficient than ever before. We could not ask for a better backdrop to execute our commitment to shareholder returns. I remain very confident in our strategy and fully trust the SLB team to continue delivering strong performance for our business. With this, I will conclude today's call. Thank you all for joining.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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