Schlumberger

2000 ANNUAL REPORT

Letter from the Chairman

The increase in oil demand during 2000, coupled with the low upstream E&P expenditures since mid-1998, resulted in the lowest level of excess oil production capacity in decades, and led to a significant increase in oil and gas prices. The corresponding increases in E&P spending came gradually due to the effects of industry consolidation over the last two years and concern that these pricing levels would not be sustained.

Thanks to our focus on the reservoir, the creation of the GeoMarket* organization, and a wide array of new technologies resulting from our R&D spending, Schlumberger flourished in this environment with Oilfield Services revenues increasing by 20% and pretax income improving by 73% compared with 1999. A number of new initiatives were started during the year to extend our lead in the Oilfield Services reservoir optimization market. These initiatives included creating the world's leading seismic company, WesternGeco, through a joint venture with Baker Hughes Incorporated, launching IndigoPool.com, our new e-commerce and solutions business and forming a joint venture with ABB which is focused on subsea business opportunities. In addition, we are winning a growing number of new joint value enhancement projects due to the ability of the GeoMarket organizations to offer tailored reservoir optimization solutions.

Unless an abrupt slowdown in world economies causes oil and gas demand to slacken, we expect the increasing E&P expenditure trend that characterized the second half of 2000 to continue in 2001 with more emphasis on markets outside North America.

As a result, total activity in 2001 is expected to be well above 2000 levels as oil companies move more aggressively to explore for and develop new fields and to optimize older fields to improve their productivity and lower their producing costs. This trend will require significantly higher levels of investment in drilling and workover activity, placing greater emphasis than ever on efficiency. Our emphasis on R&D to develop and improve technologies to capitalize on this trend will continue, leading to an expansion of the value pricing model for which Schlumberger is uniquely positioned.

In our Resource Management Services business segment, 2000 saw the beginning of a major transformation of our utility business from one of primarily meter manufacturing towards a value added, technologically differentiated solutions business model. The acquisition of a majority stake in Convergent and the rapid deployment of CellNet technologies now gives us unique momentum in the solutions business. At the same time we expect to accelerate our exit from manufacturing businesses.

In Test & Transactions, continued growth in revenue and operating income of our smart cards business reached record levels and was a clear highlight of the year. Weakness in our semiconductor test and eTransactions businesses offset some of the gains in smart cards, and we took several actions in the fourth quarter to restructure the semiconductor test group to account for the reduced levels of activity in the semiconductor test markets that began to appear in the second half of 2000.

Continuing our commitment to technical innovation and excellence, world-class customer service and value creation for customers, we launched the Performed by Schlumberger program in 2000 to recognize Schlumberger projects demonstrating these core values. A new environmentally friendly well test method that eliminates offshore oil flaring and treats and neutralizes well clean-up fluids was voted by employees to receive the first-ever Performed by Schlumberger Chairman's Award from 200 nominees. This award represents a significant achievement not only for the commercial value it brings to customers and to Schlumberger, but for the environmental value it brings to the industry in setting a benchmark for social responsibility wherever we live and operate.

During the year Schlumberger continued to make significant investments in Network Solutions and position it as a leading provider in information technology (IT) solutions. We focused on leveraging our substantial IT application knowledge to create new business opportunities, and on integrating our network expertise to enhance our oilfield services, utilities and wireless telecom businesses.

The announcement on February 12, 2001, of our offer to acquire IT and technical services company, Sema, is an acceleration and expansion of this strategy. Sema's charter is to accompany, support and encourage enterprise in the e-transformation business and fits with the Schlumberger growth strategy in its core businesses. Sema brings critical mass, expertise in consulting and systems integration, and web enabling technologies to our IT strategy, global customer base and knowledge of three core industries.

Sema will provide Schlumberger with a competitive advantage in the oil and gas industry that will enable us to offer our customers complete integrated knowledge systems from the reservoir to the desktop and to other wireless devices anywhere in the world. This will allow our customers to make better reservoir management decisions in real time. In addition we will be able to meet the increasing need for innovative web solutions to streamline traditional E&P processes.

In the Utilities marketplace, the exploitation of the complementary geographical reach and technological solutions offerings of Schlumberger and Sema will create significant growth opportunities facilitating access to larger more complex contracts requiring end-to-end solutions.

Sema's recognized systems integration expertise and broad telecom product offering, combined with the smartcard and systems activities of Schlumberger, will accelerate the positioning of Schlumberger as a leading global technology services provider for the telecommunications industry.

Following the closing of the transaction, anticipated in the second quarter, Sema will be organized into four businesses — Wireless Telecom, Utilities, Finance and Transport — that will combine components of Schlumberger Test & Transactions and Resource Management Services with those of Sema in these respective markets.

It is becoming increasingly clear that the winners in the Internet age will be companies with excellent products and market shares in specific industries that are able to speedily and effectively enhance their business model with these dynamic and empowering technologies. We believe that the marriage of Schlumberger and Sema will uniquely position Schlumberger to be such a company.

Euan Baird
Chairman and Chief Executive Officer

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Schlumberger operates three business segments: Oilfield Services, Resource Management Services and Test & Transactions. The following discussion and analysis of results of operations should be read in conjunction with the Consolidated Financial Statements.

(Stated in millions)

OILFIELD SERVICES	2000	1999[3]	% Change
Operating Revenue	**$7,033**	$5,869	20%
Pretax Segment Income[1]	**$ 997**	$ 576	73%

RESOURCE MANAGEMENT SERVICES	2000	1999	% Change
Operating Revenue	**$1,241**	$1,375	(10%)
Pretax Segment Income[1]	**$ 15**	$ 17	(14%)

TEST & TRANSACTIONS[2]	2000	1999	% Change
Operating Revenue	**$1,409**	$1,183	19%
Pretax Segment Income[1]	**$ 26**	$ 36	(29%)

[1] Pretax segment income represents income before taxes and minority interest, excluding interest income and interest expense, and the 2000 and 1999 charges.

[2] Test & Transactions results include Omnes, formerly a joint venture which was 100% acquired during the third quarter of 1999.

[3] Restated for comparative purposes.

Oilfield Services

On November 30, 2000, Schlumberger and Baker Hughes closed the transaction to create the seismic joint venture WesternGeco. WesternGeco comprises the seismic fleets, data processing assets, exclusive and nonexclusive multiclient surveys, and other assets of Schlumberger Geco-Prakla and Baker Hughes Western Geophysical. WesternGeco is owned 70% by Schlumberger and 30% by Baker Hughes. The creation of WesternGeco is a natural alignment of two leading seismic companies which have complementary markets, technologies and cultural values. WesternGeco will focus on delivering the best possible seismic services and technology in the industry to oil and gas customers in a safe and efficient manner.

2000 Results

Moderate growth was recorded during the first half of the year with sharp sequential growth in the second half of the year led by increased activity in North America and higher demand for Reservoir Development services. The seismic down cycle, which started at the beginning of 1999, continued through the first half of the year. The second half of 2000 saw significant improvement leading to higher Schlumberger activity due to the introduction of new generation seismic Q* Marine and Q Land technology and increased multiclient data sales.

Oilfield Services operating revenue increased 20% compared with 1999 as the worldwide M-I rig count grew 30%.

NORTH AMERICA

North America operating revenue increased 46% versus 1999, in line with the M-I rig count which grew 47%. Increased activity, which started in the third quarter of 1999, continued into the beginning of 2000 with a significant increase in drilling activity due to the continued shift to natural gas exploration and development. Reservoir Evaluation Wireline and Reservoir Development recorded the year's strongest growth. Pretax segment income increased 206%.

LATIN AMERICA

Latin America operating revenue increased 22% for the year, consistent with a 23% increase in the M-I rig count. There was strong growth in the second half of 2000 led by Reservoir Development activity. Pretax segment income increased 333% due to improved profitability in Resevoir Evaluation Wireline and Reservoir Development.

EUROPE/CIS/WEST AFRICA

Operating revenue increased 6% in the Europe/CIS/West Africa Area during 2000, consistent with a 10% increase in the M-I rig count. Results in the first quarter were lower year over year due to continued flat activity and a sharp decline in seismic activity in this region for the same period. The increase in activity in the second half of the year was moderate compared with the other Areas. Pretax segment income increased 66%.

OTHER EASTERN HEMISPHERE

Revenue in the Other Eastern Hemisphere Area increased 5%, in line with a 5% increase in the M-I rig count. Lower first quarter results resulted from the continued industry down cycle, and growth was moderate for the remainder of the year due to a slow increase in activity. Stronger sequential growth in the second half of the year resulted from increased activity in the Middle East and improved demand for Reservoir Development services. Pretax segment income increased 6%.

1999 Results

On December 30, Schlumberger completed the spin-off to its stockholders of its offshore contract drilling business, Sedco Forex. Following the spin-off, on December 31, Sedco Forex merged with Transocean Offshore Inc., which changed its name to Transocean Sedco Forex Inc. The transaction created the world's largest offshore drilling company and the third largest oilfield services company by market capitalization. Upon completion of the merger, Schlumberger stockholders owned approximately 52% of the shares of Transocean Sedco Forex, and Transocean Offshore shareholders owned the remaining 48%. Schlumberger retained no ownership in the combined company. Sedco Forex is treated as a discontinued operation for all periods.

After continued slow activity across all regions in the first half of the year, Oilfield Services activity in North America started to improve in the third quarter as oil and gas companies continued to gradually increase their spending. The seismic services industry experienced a severe downturn throughout 1999. This negative impact was felt across all regions within Schlumberger, most notably in North America, Europe and Asia, and resulted in a significant decrease in seismic revenue.

Oilfield Services revenue declined 25% compared with 1998, in line with the estimated 23% reduction in exploration and production (E&P) expenditures, and consistent with the 22% fall in the average rig count.

NORTH AMERICA

North American revenue fell 30%, with a 22% decline in the average rig count. The slowdown was particularly dramatic in the first half of the year, with the average rig count down 40%. All product groups ended the year with lower revenue than in 1998. Pretax segment income dropped 64%.

Increased activity during the fourth quarter was mainly focused on gas development projects, primarily in the lower 48 states and Canada.

LATIN AMERICA

Latin American revenue fell 26%, in line with the 23% decrease in the average rig count. The reduced activity resulted from a slowdown in all product groups with the exception of drilling services, which saw a 41% increase due to the commencement of MPSV* multipurpose service vessel operations on Lake Maracaibo in Venezuela. Pretax segment income was down 88%, mainly due to lower prices and reduced activity across the region.

EUROPE/CIS/WEST AFRICA

Revenue declined 28% in the Europe/CIS/West Africa region, in line with the decline in the average rig count. Revenue from all product groups and geographical areas fell, with the exception of the CIS, where growth in pressure pumping activity fueled a notable increase in revenue over 1998. Pretax segment income for the region decreased 60%.

OTHER EASTERN HEMISPHERE

Revenue in Other Eastern Hemisphere declined 22%, led by significantly lower activity in the Eastern Mediterranean and the Australia GeoMarket areas. Compared with 1998, the average rig count fell 16% in the Middle East and 20% in Asia. Revenue from all services fell, with the exception of Reservoir Management as the MPSV *Bima* continued to provide value-added services to customers in Indonesia. Pretax segment income fell 45%.

1998 Results

After continued strong growth in the first half of the year Oilfield Services activity slowed in the third quarter and reversed direction in the fourth quarter as oil companies reduced spending or cancelled projects.

Oilfield Services revenue grew 2%, despite a decline in the average rig count of 13%. The growth resulted from continued deployment of new technologies and the impact of the new geographic organization, which focused on providing customized solutions for customers. The acquisition of Camco, completed on August 31, strengthened our portfolio with leading technology and expertise in smart completions, production services and drilling products.

NORTH AMERICA

North American revenue was 5% below 1997, despite a 17% decline in average rig count. The slowdown was particularly significant in the second half of the year, with the average rig count down by 38% in the fourth quarter compared with the same period last year. Wireline, testing and directional drilling services ended the year with lower revenue than in 1997. Pretax segment income dropped 24%.

LATIN AMERICA

A revenue gain of 8% in Latin America resulted from strong data services, wireline services and testing services, despite the 12% fall in the average rig count. Revenue from Mexico increased by 25% compared with 1997, with a large contribution from the Burgos gas fields. Pretax segment income was 18% lower, mainly due to the reduction of activity in Venezuela.

EUROPE/CIS/WEST AFRICA

Revenue was up 2% in the Europe/CIS/West Africa region due to increased directional drilling and data management services, despite an 11% fall in the average rig count (excluding CIS rigs). Revenue from the CIS increased significantly due to the start-up of new projects in Kazakhstan and Azerbaijan, and revenue from West Africa showed firm growth, supported by strong land drilling activity. Pretax segment income fell 7%.

OTHER EASTERN HEMISPHERE

Revenue grew by 4% compared with 1997, while the average rig count increased 1%. Pretax segment income increased 7%. Asia revenue was 7% above 1997, mainly due to East Asia and Indonesia and with strong increases in all service lines except seismic services, which was flat with 1997. Revenue in the Middle East was up 3%, with the overall growth slowing in the second half of the year, notably from seismic services.

Resource Management Services

2000 Results

In 2000, pressure on utility prices and the negative impact of currency movements in Europe resulted in a continued downturn for the utility industry. The effects of deregulation in Europe meant increased competitive pricing in the industry, opening the market to new players.

In this unstable environment, Schlumberger took strategic steps during the year to build its solutions offerings through the acquisition in May of the assets of CellNet Data Systems for $209 million, the leading provider of telemetry technology for the development and deployment of large-scale automatic meter reading (AMR) systems. The combination of our Resource Management Services (RMS) utility measurement systems, products and services with CellNet AMR technology and integrated networks significantly strengthened the RMS position in delivering advanced value-added services to utilities and energy resource providers. In November, Schlumberger acquired a majority stake in the Convergent Group, a leading builder of digital enterprises that will complement the Schlumberger value-added solution approach to business in the utility sector. As another significant strategic step, RMS divested its gas service businesses activities in Europe.

Excluding the divested activities and revenue of CellNet and of the Convergent Group, RMS revenue decreased 8% for the year compared with 1999, but was flat, excluding the negative impact of the appreciation of the dollar against the euro. Orders fell 18% year over year. Strong activity in the US electricity and water metering markets, in the UK gas market and throughout Asia compensated for decreases in electricity metering in Italy, France and Central Europe. The sharpest revenue decreases were recorded across Europe, due in part to the fourth quarter divestiture of the gas service businesses in Europe. Revenue contributions continued to come from North America and Asia, where market expansion, the receipt of several major orders and the CellNet asset acquisition led to higher growth. Excluding discontinued activities and acquisitions, pretax segment income improved 31%, reflecting better operating conditions in North America and the benefit of cost reduction efforts over the last four years. The appreciation of the US dollar against the Euro did not have a significant impact on pretax segment income.

In North America, revenue increased 18%, and orders decreased 18% compared with 1999. Revenue growth resulted mainly from stronger electricity and water meter sales and from the deployment of the fixed network at PECO Energy. Signed in October 1999, the PECO contract calls for the installation of 750,000 new CENTRON* static meters with built-in AMR capability and the provision of reading services over thirteen years. In 2000, Schlumberger acquired an exclusive utility industry license for Metricom Inc.'s UtiliNet™ RF (radio-frequency) technology to enhance the ability of RMS to provide a broader array of high-end data collection and control systems solutions to its electric, water and gas customers. Growth in the second half of the year was generated by CellNet-related orders and by strong communication module sales, AMR fees and the introduction of an improved time-of-use service. RMS also announced the signing of a 15-year contract to provide data services to 150,000 of its customers in the Kansas City metropolitan area.

In Europe, revenue and orders both declined 6%, excluding divested activities. Decreases in activity were recorded in most countries, except Spain, Portugal and the UK, and across all product lines. Growth in the UK was driven by strong residential meter demand including an agreement for the sale of more than 650,000 U6* gas meters. As part of the increased focus on the solutions business in Europe, RMS acquired Energy Auditing Agency Ltd. (TEAM), a UK-based energy analysis and management software and services provider which serves more than 600 companies. TEAM technology should accelerate the introduction of RMS advanced web-based data management services. TEAM technology will also be adapted for deployment in North America.

South American revenue was flat, and orders rose 7% compared with 1999, reflecting the recovery of demand in Brazil after a depressed year in 1999 due to the currency devaluation. However, a lack of activity in Colombia, Peru and Venezuela offset all gains in the second half of the year.

Revenue in Asia increased 17%, and orders rose 10% year over year, due mainly to improvements in manufacturing efficiency and to strong electricity metering activity. A significant contract for the sale of electricity meters to China, and a large order from the Republic of Kyrgyzstan for recently launched Gallus* 1000 gas meters, contributed to the revenue growth.

1999 Results

Throughout 1999, the uncertainty created by deregulation, privatization and globalization in the utility industry continued to delay investment by many utilities in new products and services. Still, in electricity and gas markets around the world there were encouraging signs of change. In the US and parts of Europe, where deregulation has advanced the furthest, major contract awards have demonstrated the increased interest in the Schlumberger solutions approach.

Resource Management Services revenue declined 6% and orders fell 3% compared with 1998. The downturn resulted from continuing pressure on prices and the negative impact of currency movements. Adverse economic conditions in Brazil, which underwent currency devaluation, and in the CIS, also contributed to the downturn. Pretax segment income dropped 71%, reflecting margin deterioration and charges during the year. Contributions came from North America and Asia, where market growth and higher shipments made a positive impact on business.

In North America, revenue increased 1%, while orders rose 7%, reflecting a strong new housing market in the US and Canada. Demand for electricity meters was high, including a contribution from the new CENTRON static meter with built-in AMR (automatic meter reading) capabilities. An agreement signed with PECO Energy of Philadelphia in October included the installation of 750,000 of these new meters. Schlumberger will also provide asset management and metering data services to PECO for over more than two million metering points over a 15-year period.

European revenue declined 7% and orders slipped 9% due to continued price pressure, lower demand for electricity products in the UK and ongoing unfavorable business conditions in the CIS. In Stockholm, a major thermal energy data management project, begun in the third quarter, progressed on schedule and highlighted the trend toward integrated metering data networks as well as our ability to provide large-scale, customized solutions. In France, Schlumberger won a contract to supply 20,000 Gallus* residential gas meters equipped with radio communication modules developed jointly by Schlumberger and Itron. In Belgium, a large utility confirmed an order for the first phase of a multiresource (electricity and gas) prepayment system using the TaleXus Vendor* system and PayGuard* smart card-based vending units for 24,000 residences.

In South America, revenue dropped 22% and orders decreased 19%. Business was affected by a significant fall-off in Brazil's domestic activity due to broad public spending cuts and the devaluation of the national currency.

Revenue in Asia increased 31% and orders jumped 66%, reflecting both a return of new investment in the region after the economic downturn last year and continued growth in exports. Shipments of water meters commenced from a new factory in South Australia, and there was a rise in shipments of residential electricity meters to Taiwan and commercial and industrial meters to Thailand.

1998 Results

RMS revenue fell 7% in 1998 compared with 1997. The decline resulted from lower demand for electricity and gas products as well as from difficult financial environments in developing countries. Product orders were flat for the year.

In Europe, revenue declines caused by industrial overcapacity and price competition were offset by higher electricity sales to EDP, the Portuguese national electric company. North American revenue was down 4%, reflecting market uncertainty caused by ongoing electricity deregulation in the US. However, revenue from Africa and the Middle East rose 29%, driven by stronger gas and water meter shipments to North Africa and Turkey.

Pretax segment income dropped 30%, reflecting margin deterioration due to lower sales in North and South America, France and Germany. Favorable contributions came from South and Central Europe and from savings as a result of the restructuring of RMS, which was initiated in 1996.

Test & Transactions

2000 Results

Test & Transactions revenue growth of 19% and orders growth of 26% versus 1999, resulted from significantly higher activity levels in the Smart Cards and Network Solutions businesses. Pretax segment income fell 29%, mostly due to deterioration in the Semiconductor Solutions business and to recruiting and training investments in our new consulting businesses.

During the year, Schlumberger realigned its Test & Transactions activities in order to better address customer needs and to expand the opportunities for integrating our consulting, integration and network services expertise into the markets Schlumberger serves, including the oil and gas, utility, wireless, finance, telecom and corporate IT security markets. Meanwhile, Schlumberger took aggressive steps to expand the Network Solutions business, the most significant being the acquisition of Data Marine Systems (DMS) in October.

Smart Cards revenue increased 25% versus 1999. Orders grew 32% year over year. The healthy rise in orders for smart card-based solutions was driven by continued outstanding growth of the mobile communications market and the beginning of the rollout of smart card applications in North America. In the US, Schlumberger won the largest-ever smart card IT security order. The Cyberflex* Java™-programmable cards will be used to provide secure access to customer's data networks and facilities. At Cartes 2000, the annual smart cards industry forum, Schlumberger received the prestigious Sesame Award for a secure electronic mobile banking system. On February 9, 2001, Schlumberger announced that it had signed a definitive agreement to acquire Bull CP8, a leading smart card technology provider, for approximately $325 million.

Semiconductor Solutions revenue increased 4% year over year. Ongoing industry cutbacks in capital expenditures, which stalled delivery of new mixed-signal testers in the second half of the year, and the lack of a market for Rambus™ dynamic random access memory (RDRAM™) testers adversely impacted profitability. Orders grew 11% compared with 1999.

Network Solutions revenue grew 64% versus 1999. Orders jumped 46% over the same period. Schlumberger continued to invest heavily to build its technology base and expand its offerings in consulting and network management. In October, Schlumberger completed the acquisition of Data Marine Systems Limited (DMS), a global provider of telecommunications technical consulting, system engineering, integration services and secure remote connectivity. This acquisition will diversify the global network services capabilities of Schlumberger and expand the Network Solutions customer base to over 100 companies in the oil and gas, health and mobile communications industries.

E-Transactions Solutions revenue declined 13% year over year. Orders rose 12% over the same period on higher terminals and systems bookings for the e-City and e-Payment businesses. Manufacturing delays resulted from semiconductor shortages in the first half of the year, as well as a slowdown in Pay & Display* parking meter shipments as European customers postponed deliveries to await new euro-compatible products.

1999 Results

Revenue at Test & Transactions declined 4% compared with 1998. Orders rose 16%. The year was characterized by volatility due to changing business environments in several Test & Transactions market segments. The smart cards business, which is derived in part from emerging economies, suffered from pricing pressures associated with highly competitive markets such as mobile communications. However, the introduction of new smart products contributed to Test & Transactions revenue. Market uncertainties associated with the Rambus memory device rollout and a softening in the high-end logic test business negatively impacted revenue.

Cards revenue improved 9% versus 1998, while orders increased 14%. During the year, Schlumberger successfully launched the Cyberflex Simera* Java-programmable subscriber identity module (SIM) card and Cryptoflex* e-gate* card into the booming GSM and PC markets. The rapid growth of the mobile communications market, which was accompanied by increasing demand for multiapplication and open-platform cards, provided a strong impetus for the accelerated adoption and continued use of the Simera cards. However, despite a strong increase in orders for SIM cards over 1998, global price pressure significantly reduced the revenue generated. Card sales grew in both Asia and Europe, the two most prominent consumer markets for smart cards.

Semiconductor Solutions revenue decreased 28%, while orders increased 9%. Fourteen new products were introduced during the year, and Schlumberger entered the front-end (process equipment) semiconductor equipment business with the first shipments of the Odyssey 300* wafer defect detection system. Although the initiative to focus on RDRAM technology resulted in an early leadership position for Schlumberger, the slow pace of the emerging RDRAM market delayed orders.

Network Solutions revenue increased 47% versus 1998, and orders grew 65%. In July 1999, Schlumberger purchased its 50% share of the Omnes joint venture.

E-Transactions revenue grew 3% versus 1998, while orders fell 8%. During 1999, Schlumberger introduced new MagIC* 6000 payment terminals into the strong retail market with great success. In addition, e-City solutions sales showed a significant increase over 1998, with key contributions from Parking and Mass Transit applications.

1998 Results

Compared with 1997, revenue for Test & Transactions rose 15%, while orders fell 16%. The Cards business grew 34%, while Semiconductor Solutions activity fell 2%. Both businesses experienced volatile business cycles but outpaced their respective markets. In 1998, smart card volume increased more than 40% compared with the industry's growth rate of 32%. Despite an industry downturn, Semiconductor Solutions increased market share for mixed-signal and logic test systems. In October, the Retail Petroleum Systems business was sold to Tokheim Corporation.

The strong revenue growth at Cards came from the mobile phone SIM card market and from financial and banking cards. Schlumberger concentrated on growing its share of key smart card markets—mobile phones, finance and banking, and emerging markets–which presented significant opportunities for the smart card-based solutions and systems integration businesses. One successful system integration business was exemplified by the launch of the Cyberflex Mobile Solution. This integrated product and service offering included a Cyberflex Simera smart card, a software developer's kit with an easy-to-use SIMnario* graphical interface for rapid prototyping, the Aremis* SIM-based service management system and the Aremis marketing platform. Schlumberger also offered a wide range of consulting, engineering and turnkey project management services to facilitate the design of these systems.

E-Transactions revenue increased 48%, benefiting mostly from the e-City Solutions business, which comprises parking and mass transit systems. The Stelio* parking system was successfully introduced and made a significant contribution to revenue. Network Solutions revenue grew 8%.

At Semiconductor Solutions, strong orders in the first half of the year were offset by the decline during the second half. To reflect the downturn in the semiconductor business, Schlumberger implemented a cost reduction plan, but maintained investments for critical new product developments.

During 1998, Schlumberger introduced D-RDRAM™, SDRAM and RDRAM memory test systems. The new RDX2200* series of RDRAM test systems was anticipated to establish a new market standard for test accuracy, throughput and cost. The RDX2200 series of test systems owes its accuracy and performance advantage to Semiconductor Solutions test technology expertise in high-end logic design and test methodology. Also successfully introduced in 1998 was the IDS2000* probe system. This laser-based system, focused on the emerging flip chip market, provides the same diagnostic capabilities as high-end e-beam tools. Several IDS2000 systems were installed during the year.

In 1998, the SABER* (Schlumberger Advanced Business and Engineering Resources) services group was formed and achieved profitability. The SABER business model, which derives from the Schlumberger service culture, is an innovative concept that provides consulting, turnkey engineering and operational services for the semiconductor industry.

Income–Continuing Operations

(Stated in millions except per share amounts)

	Net Income from Continuing Operations	Earnings per share	
		Basic	Diluted
2000[1]	**$735**	**$1.29**	**$1.27**
1999[2]	$329	$0.60	$0.58
1998[3]	$618	$1.14	$1.10

[1] Includes a net, after-tax and minority interest charge of $3 million ($0.00 per share—diluted). For details, see *Charges—Continuing Operations* on page 12.
[2] Includes an after-tax charge of $129 million ($0.23 per share–diluted). For details, see *Charges—Continuing Operations* on page 12.
[3] Includes an after-tax charge of $368 million ($0.65 per share–diluted). For details, see *Charges—Continuing Operations* on page 12.

In 2000, Oilfield Services segment net income increased $302 million, or 75%, to $704 million. Increases in E&P expenditures and in oil and gas prices, resulting from increased oil demand and the lowest level of excess oil production capacity in decades, were the underlying factors of the strong increases in most areas, and notably in North America. Average worldwide rig count increased 30% compared to 1999. Resource Management Services segment net income of $14 million was up $9 million. Test & Transactions segment net income increased $4 million, or 13%, to $34 million as record achievements in the Cards business were partially offset by weaknesses in the eTransaction and Semiconductor activities and by investment in the Network Solutions business.

In 1999, Oilfield Services segment net income decreased $551 million, or 58%, to $402 million. All areas reported substantial declines as a result of the worldwide reduction in E&P expenditures due to reduced oil prices, which led to a 22% fall in average rig count. Resource Management Services operating net income of $6 million was down $26 million, or 82%. Test & Transactions segment net income decreased $25 million, or 46%, to $30 million, as stronger results from Cards activities were more than offset by declines at Semiconductor, which was negatively impacted by Rambus-related market uncertainties and by a softening of the high-end logic test business for which it is a leading supplier.

In 1998, Oilfield Services segment net income of $954 million was down 11%, reflecting the 13% decrease in average rig count. The main decrease was in North America, which was impacted by strong pricing pressure and a slowdown in activity in the second half of the year. Resource Management Services segment net income decreased $15 million, or 32%, largely due to market weakness as a result of industry consolidation and privatization, compounded by the financial crisis in emerging countries. Test & Transactions segment net income of $55 million was down 25% as growth in the Cards activities was offset by a severe market decline in Semiconductor operations, due to curtailment of capital expenditures by the industry in the latter half of the year.

Currency Risks

Refer to page 21, *Translation of Non-US Currencies* in the *Notes to Consolidated Financial Statements*, for a description of the Schlumberger policy on currency hedging. There are no material unhedged assets, liabilities or commitments which are denominated in other than a business's functional currency.

While changes in exchange rates do affect revenue, especially in the Resource Management Services and Test & Transactions segments, they also affect costs. Generally speaking, Schlumberger is currency neutral. For example, a 5% change in average exchange rates of OECD currencies would have had no material effect on consolidated revenue and net income.

Schlumberger businesses operate principally in US dollars, most European currencies and most South American currencies.

In general, when the US dollar weakens against other currencies, consolidated revenue increases, usually with no material effect on net income. This is principally because the fall-through incremental margin in the Resource Management Services and Test & Transactions segments offset the higher Oilfield Services non-US dollar denominated expenses.

Research & Engineering

Expenditures by business segment were as follows:

(Stated in millions)

	2000	1999	1998
Oilfield Services	**$364**	$354	$371
Resources Management Services	**53**	57	57
Test & Transactions	**124**	111	115
Other [1]	**—**	—	14
	$541	$522	$557

[1] Primarily comprises the Retail Petroleum Systems business sold on October 1, 1998.

Interest Expense

Interest expense increased $83 million, to $276 million, in 2000 principally due to higher average borrowing rates. The increase in interest expense in 1999 of $56 million, to $193 million, reflected the significantly higher debt balances incurred in 1998 by Schlumberger's principal US subsidiary relating to the acquisition of Camco.

Charges–Continuing Operations

Schlumberger recorded the following after-tax and minority interest charges for continuing operations in 2000, 1999 and 1998:

- In December 2000, $25 million primarily relating to the write down of certain inventory and severance costs in the Semiconductor Solutions business resulting from reduced activity levels in the semiconductor test market, $39 million related to the creation of the WesternGeco joint venture (including asset impairment and severance costs for Schlumberger's existing Geco-Prakla business), and a credit of $61 million from the gain on sale of two Gas Services businesses in Europe.
- In December 1999, $71 million primarily relating to the reduction of its marine seismic fleet due to depressed market conditions and the restructuring of its land drilling activity following the spin-off of its offshore drilling business to stockholders.
- In March 1999, $138 million primarily relating to the downsizing of its global Oilfield Services activities to meet prevailing market conditions, and a credit of $80 million from the gain on sale of financial instruments in connection with the 1998 sale of the Retail Petroleum Systems business.
- In September 1998, $368 million to reflect the estimated costs of consolidating resources and locations and making significant cuts in personnel necessitated by the E&P industry downturn.

The December 2000 charge included severance costs of $9 million (380 people) none of which had been paid by December 31, 2000. Severance costs included in the December 1999 charge (300 people), the March 1999 charge (4700 people) and the September 1998 charge (6200 people) have been paid.

Liquidity

A measure of financial position is liquidity, defined as cash plus short-term and long-term investments, less debt. The following table summarizes the change in Schlumberger consolidated liquidity for each of the past three years:

(Stated in millions)

	2000	1999[1]	1998[1]
Income from continuing operations	**$ 735**	$ 329	$ 618
Gain on sale of businesses	**(61)**	—	—
Charges	**64**	129	368
Depreciation & amortization[2]	**1,271**	1,150	1,012
Increase (decrease) in working capital requirements	**(104)**	165	(138)
Fixed asset additions[2]	**(1,546)**	(1,019)	(1,463)
Dividends paid	**(426)**	(410)	(388)
Proceeds from employee stock plans	**229**	174	139
Businesses (acquired) sold	**(921)**	(135)	61
Exercise of stock warrants[3]	**—**	450	—
Sale of financial instruments	**—**	204	—
Drilling fluids joint venture	**—**	(325)	—
Discontinued operations[4]	**—**	(52)	107
Other	**(50)**	(160)	(112)
Net (decrease) increase in liquidity	**$ (809)**	$ 500	$ 204
Liquidity—beginning of period	**1,231**	731	527
Liquidity—end of period	**$ 422**	$ 1,231	$ 731

[1] Reclassified, in part, for comparative purposes.
[2] Including multiclient seismic data costs.
[3] On December 16, 1999, Dow Chemical exercised a warrant to purchase 15,153,018 shares of Schlumberger common stock. The warrant was received by Dow Chemical as part of the 1993 Transaction under which Schlumberger acquired Dow Chemical's 50% share of the Dowell Schlumberger joint venture.
[4] 1999 includes $304 million received in settlement of intercompany balances between Schlumberger and Sedco Forex.

The current consolidated liquidity level, combined with liquidity expected from operations, should satisfy future business requirements.

Common Stock, Market Prices and Dividends Declared per Share

Quarterly high and low prices for Schlumberger common stock as reported by the New York Stock Exchange (composite transactions), together with dividends declared per share in each quarter of 2000 and 1999, were:

	Price Range		Dividends Declared
	High	Low	
2000			
QUARTERS			
First	$84.375	$53.500	$0.1875
Second	84.250	66.813	0.1875
Third	88.875	68.625	0.1875
Fourth	86.375	61.125	0.1875
1999[1]			
QUARTERS			
First	$55.268	$40.301	$0.1875
Second	58.428	49.226	0.1875
Third	62.696	51.166	0.1875
Fourth	61.144	45.955	0.1875

[1] Adjusted for the spin-off of the Schlumberger offshore contract drilling business on December 30, 1999 (see *Discontinued Operations* in the *Notes to Consolidated Financial Statements*).

The number of holders of record of Schlumberger common stock at December 31, 2000, was approximately 23,000. There are no legal restrictions on the payment of dividends or ownership or voting of such shares, except as to shares held in the Schlumberger Treasury. US stockholders are not subject to any Netherlands Antilles withholding or other Netherlands Antilles taxes attributable to ownership of such shares.

Environmental Matters

The Consolidated Balance Sheet includes accruals for the estimated future costs associated with certain environmental remediation activities related to the past use or disposal of hazardous materials. Substantially all such costs relate to divested operations and to facilities or locations that are no longer in operation. Due to a number of uncertainties, including timing, scope of remediation, future technology, regulatory changes and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations. Consistent with the Schlumberger commitment to protection of the environment, safety and employee health, additional costs, including capital expenditures, are incurred related to current operations.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires that Schlumberger recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The standard is effective in the year 2001 for Schlumberger. Occasionally, Schlumberger uses derivative instruments such as interest rate swaps, currency swaps, forward currency contracts and foreign currency options. Forward currency contracts provide a hedge against currency fluctuations on assets/liabilities denominated in other than a functional currency. Options are usually entered into as a hedge against currency variations on firm commitments generally involving the construction of long-lived assets.

Schlumberger maintains a foreign-currency risk management strategy that uses derivative instruments to protect its interests from unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. Movements in foreign currency exchange rates pose a risk to Schlumberger's operations as exchange rate changes may affect profitability and cash flow. Schlumberger uses foreign currency forward exchange contracts, swaps and options. Schlumberger also maintains an interest rate risk management strategy that uses derivatives to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility. Schlumberger's specific goals are (1) to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain of its debt and (2) to lower (where possible) the cost of borrowed funds.

By using derivative financial instruments to hedge exposure to changes in exchange rates and interest rates, Schlumberger exposes itself to credit risk and market risk. Schlumberger minimizes the credit risk by entering into transactions with high-quality counterparties, limiting the exposure to each counterparty and monitoring the financial condition of its counterparties. Market risk is managed through the setting and monitoring of parameters that limit the types and degree of market risk which are acceptable.

On January 1, 2001, the adjustments to Other Comprehensive Income and Net Income to recognize all derivative instruments as either an asset or liability and measure them at fair value were not material.

Euro Disclosures

On January 1, 1999, the euro became the official single currency of the European Economic and Monetary Union. As of this date, the conversion rates of the national currencies of the eleven member states adopting the euro were fixed irrevocably. The national currencies will initially remain in circulation as nondecimal subunits of the euro and will be replaced by euro bills and coins by March 2002. During the transition period between January 1999 and January 2002, public and private parties may pay for goods and services using either the euro or the national currency on a “no compulsion, no prohibition” basis.

Schlumberger believes that the implementation of the euro can be performed according to the schedule defined by the European Union. Schlumberger does not expect the total cost of addressing this issue to be material to financial condition, results of operations and liquidity.

Market Risk

Schlumberger does not believe it has a material exposure to financial market risk. Schlumberger manages the exposure to interest rate changes by using a mix of debt maturities and variable- and fixed-rate debt together with interest rate swaps, where appropriate, to fix or lower borrowing costs. With regard to foreign currency fluctuations, Schlumberger enters into various contracts, which change in value as foreign exchange rates change, to protect the value of external and intercompany transactions in foreign currencies. Schlumberger does not enter into foreign currency or interest rate transactions for speculative purposes.

Forward-looking Statements

Schlumberger cautions that, except for historical information, statements in this annual report and elsewhere may constitute forward-looking statements. These include statements as to expectations, beliefs and future financial performance, such as statements regarding business prospects in the key industries in which Schlumberger operates or plans to operate and growth opportunities for Schlumberger in those industries. These statements involve a number of risks, uncertainties, assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements. Such factors include: continuing customer commitment to certain key oilfield projects; changes in E&P spending by major oil companies; the extent and timing of utilities' investment in integrated solutions to utility management; noncancellation of key long-term services and solutions contracts; growth in demand for smart cards in e-commerce and Network and Internet-enabled solutions; economic, competitive and technological factors affecting markets, services, and prices in newly acquired businesses and Schlumberger's ability to integrate these businesses and to realize synergies from these acquisitions; general economic and business conditions in key regions of the world; and changes in business strategy or development plans relating to targeted Schlumberger growth opportunities.

Subsequent Event–Business Acquisition

On February 12, 2001, Schlumberger announced that it had reached agreement with the board of directors of Sema plc on the terms of a recommended cash offer for the entire issued and to be issued share capital of Sema plc. The offer will be made on the basis of £5.60 (approximately $8.09) per share which represents a purchase price of about $5.2 billion plus expenses. Schlumberger expects to complete the transaction in the second quarter. The purchase price will be paid from existing available cash, investments and new borrowings. The transaction is subject to customary regulatory approvals and Sema plc shareholders acceptance.

Sema plc is an IT and technical services company with about 22,000 employees. Their business focuses on three activities–systems integration and consulting, software products for telecommunications, energy, transport and financial sectors, and outsourcing. Revenue in 2000 is estimated to be approximately $2.2 billion.

CONSOLIDATED STATEMENT OF INCOME

(Stated in thousands except per share amounts)

Year Ended December 31,	**2000**	1999[1]	1998[1]
Revenue			
Operating	**$ 9,611,462**	$8,394,947	$10,725,030
Interest and other income	**423,255**	356,758	173,006
	10,034,717	8,751,705	10,898,036
Expenses			
Cost of goods sold and services	**7,371,542**	6,737,635	8,405,936
Research & engineering	**540,698**	522,240	556,882
Marketing	**437,128**	433,871	467,592
General	**448,587**	383,695	427,775
Interest	**276,081**	192,954	137,211
	9,074,036	8,270,395	9,995,396
Income before taxes and minority interest	**960,681**	481,310	902,640
Taxes on income	**228,248**	140,772	276,231
Income from continuing operations before minority interest	**732,433**	340,538	626,409
Minority interest	**2,163**	(11,204)	(8,447)
Net Income from continuing operations	**734,596**	329,334	617,962
Discontinued operations, net of tax	**—**	37,360	396,237
Net Income	**$ 734,596**	$ 366,694	$ 1,014,199
Basic earnings per share:			
Continuing operations	**$ 1.29**	$ 0.60	$ 1.14
Discontinued operations	**—**	0.07	0.72
Net Income	**$ 1.29**	$ 0.67	$ 1.86
Diluted earnings per share:			
Continuing operations	**$ 1.27**	$ 0.58	$ 1.10
Discontinued operations	**—**	0.07	0.71
Net Income	**$ 1.27**	$ 0.65	$ 1.81
Average shares outstanding	**570,028**	548,680	544,338
Average shares outstanding assuming dilution	**580,076**	563,789	561,855

[1] Reclassified, in part, for comparative purposes.

See the *Notes to Consolidated Financial Statements*

CONSOLIDATED BALANCE SHEET

(Stated in thousands)

December 31,	**2000**	1999[1]
ASSETS		
Current Assets		
Cash and short-term investments	**$ 3,040,150**	$ 4,389,837
Receivables less allowance for doubtful accounts (2000—$106,503; 1999—$89,030)	**2,768,848**	2,429,842
Inventories	**1,111,585**	956,980
Deferred taxes on income	**259,184**	226,238
Other current assets	**313,444**	258,532
	7,493,211	8,261,429
Long-term Investments, held to maturity	**1,547,132**	726,496
Investments in Affiliated Companies	**654,516**	535,434
Fixed Assets less accumulated depreciation	**4,394,514**	3,560,740
Multiclient Seismic Data	**975,775**	311,520
Excess of Investment Over Net Assets of Companies Purchased less amortization	**1,575,710**	1,333,681
Deferred Taxes on Income	**271,059**	242,616
Other Assets	**260,814**	109,276
	$17,172,731	$15,081,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,910,725**	$ 2,282,884
Estimated liability for taxes on income	**379,916**	383,159
Bank loans	**556,020**	444,221
Dividend payable	**108,043**	106,653
Long-term debt due within one year	**36,201**	257,571
	3,990,905	3,474,488
Long-term Debt	**3,573,047**	3,183,174
Postretirement Benefits	**476,380**	451,466
Minority Interest	**605,313**	32,428
Other Liabilities	**231,870**	218,608
	8,877,515	7,360,164
Stockholders' Equity		
Common Stock	**1,963,905**	1,820,186
Income retained for use in the business	**8,223,476**	7,916,612
Treasury stock at cost	**(1,752,961)**	(1,878,612)
Translation adjustment	**(139,204)**	(137,158)
	8,295,216	7,721,028
	$17,172,731	$15,081,192

[1] Reclassified, in part, for comparative purposes.

See the *Notes to Consolidated Financial Statements*

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS ANTILLES) AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Stated in thousands)

Year Ended December 31,	2000	1999[1]	1998[1]
Cash flows from operating activities:			
Net income	**$ 734,596**	$ 366,694	$ 1,014,199
Adjustments to reconcile net income to net cash provided by operating activities:			
Discontinued operations	**—**	213,676	136,206
Gain on sale of businesses	**(61,000)**	—	—
Depreciation and amortization[2]	**1,270,754**	1,150,344	1,177,347
Earnings of companies carried at equity, less dividends received (2000—$ —; 1999—$3,401; 1998—$4,996)	**(39,805)**	(13,904)	(9,576)
Provision for losses on accounts receivable	**32,301**	37,943	36,861
Charges	**63,706**	128,508	368,441
Change in operating assets and liabilities:			
(Increase) decrease in receivables	**(364,130)**	265,588	(20,507)
(Increase) decrease in inventories	**(194,640)**	53,790	(100,633)
(Increase) decrease in deferred taxes	**(20,757)**	(27,220)	(80,959)
(Increase) decrease in current assets	**(38,656)**	5,022	(26,891)
Increase (decrease) in accounts payable and accrued liabilities	**493,104**	(181,731)	(72,940)
(Decrease) increase in estimated liability for taxes on income	**(12,069)**	(69,338)	79,677
Other—net	**(154,286)**	(181,900)	(84,893)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,709,118**	1,747,472	2,416,332
Cash flows from investing activities:			
Purchases of fixed assets	**(1,323,015)**	(792,001)	(1,462,620)
Multiclient seismic data capitalized	**(222,934)**	(226,907)	(187,754)
Sales of fixed assets & other	**149,494**	68,005	111,262
Drilling fluids joint venture	**—**	(325,000)	—
Businesses (acquired) sold	**(920,603)**	(135,338)	61,662
Increase (decrease) in investments	**551,619**	(295,075)	(2,292,163)
Sale of financial instruments	**—**	203,572	—
(Increase) decrease in other assets	**(63,793)**	(43,166)	4,660
Discontinued operations	**—**	(291,953)	(424,749)
NET CASH USED IN INVESTING ACTIVITIES	**(1,829,232)**	(1,837,863)	(4,189,702)
Cash flows from financing activities:			
Dividends paid	**(426,465)**	(410,494)	(388,379)
Proceeds from employee stock purchase plan	**69,089**	70,765	70,461
Proceeds from exercise of stock options	**160,281**	103,084	68,780
Proceeds from exercise of stock warrants	**—**	449,625	—
Proceeds from issuance of long-term debt	**956,641**	1,062,935	2,909,156
Payment of principal on long-term debt	**(724,911)**	(916,242)	(863,966)
Net increase (decrease) in short-term debt	**113,608**	(242,014)	(64,756)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**148,243**	117,659	1,731,296
Net increase (decrease) in cash	**28,129**	27,268	(42,074)
Cash, beginning of year	**132,589**	105,321	147,395
CASH, END OF YEAR	**$ 160,718**	$ 132,589	$ 105,321

[1] Reclassified, in part, for comparative purposes.
[2] Includes Multiclient seismic data costs.

See the *Notes to Consolidated Financial Statements*

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS ANTILLES) AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollar amounts stated in thousands)

	Common Stock						
	Issued		In Treasury				
	Shares	Amount	Shares	Amount	Translation Adjustment	Income Retained for Use in the Business	Comprehensive Income
Balance, January 1, 1998	663,638,026	$1,428,624	121,099,589	$2,249,765	$ (63,332)	$8,265,642	$1,346,843
Translation adjustment					(18,148)		(18,148)
Sales to optionees less shares exchanged	796,992	40,323	(1,531,607)	(28,457)			
Employee stock purchase plan	1,266,840	70,461					
Net income						1,014,199	1,014,199
Dividends declared ($0.75 per share)						(397,386)	
Balance, December 31, 1998	665,701,858	1,539,408	119,567,982	2,221,308	(81,480)	8,882,455	$ 996,051
Translation adjustment					(55,678)		(55,678)
Sales to optionees less shares exchanged	28,100	41,931	(3,291,288)	(61,153)			
Employee stock purchase plan	1,324,848	70,765					
Net income						366,694	366,694
Dividends declared ($0.75 per share)						(414,210)	
Sedco Forex spin-off						(918,327)	
Exercise of stock warrants		168,082	(15,153,018)	(281,543)			
Balance, December 31, 1999	667,054,806	1,820,186	101,123,676	1,878,612	(137,158)	7,916,612	$ 311,016
Translation adjustment					(28,487)		(28,487)
Sales of businesses					26,441		26,441
Sales to optionees less shares exchanged	30,987	61,224	(5,331,268)	(99,057)			
Employee stock purchase plan		42,495	(1,431,309)	(26,594)			
Net income						734,596	734,596
Dividends declared ($0.75 per share)						(427,732)	
Tax benefit on stock options		40,000					
Balance, December 31, 2000	667,085,793	$1,963,905	94,361,099	$1,752,961	$(139,204)	$8,223,476	$ 732,550

See the *Notes to Consolidated Financial Statements*

Notes To Consolidated Financial Statements

Summary of Accounting Policies

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

DISCONTINUED OPERATIONS

On December 31, 1999, Schlumberger completed the spin-off of its offshore contract drilling business, Sedco Forex, to its stockholders and the subsequent merger of Sedco Forex and Transocean Offshore Inc., which changed its name to Transocean Sedco Forex Inc. following the merger. The results for the Sedco Forex operations spun off by Schlumberger are reported as *Discontinued Operations* in the Consolidated Statement of Income.

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements include the accounts of majority-owned subsidiaries. Significant 20%–50% owned companies are carried on the equity method and classified in *Investments in Affiliated Companies*. The pro rata share of Schlumberger after-tax earnings is included in *Interest and other income*.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. While actual results could differ from these estimates, management believes that the estimates are reasonable.

REVENUE RECOGNITION

Generally, revenue is recognized after services are rendered or products are shipped. The impact of applying SEC Staff Accounting Bulletin No. 101, “Revenue Recognition”, was not material to Schlumberger.

TRANSLATION OF NON-US CURRENCIES

Oilfield Services’ functional currency is primarily the US dollar. Resource Management Services’ and Test & Transactions’ functional currencies are primarily local currencies. All assets and liabilities recorded in functional currencies other than US dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to the *Stockholders’ Equity* section of the Consolidated Balance Sheet. Revenue and expenses are translated at the weighted-average exchange rates for the period. All realized and unrealized transaction gains and losses are included in income in the period in which they occur. Schlumberger policy is to hedge against unrealized gains and losses on a monthly basis. Included in the 2000 results were transaction losses of $4 million, compared with losses of $12 million and $6 million in 1999 and 1998, respectively.

Currency exchange contracts are entered into as a hedge against the effect of future settlement of assets and liabilities denominated in other than the functional currency of the individual businesses. Gains or losses on the contracts are recognized when the currency exchange rates fluctuate, and the resulting charge or credit partially offsets the unrealized currency gains or losses on those assets and liabilities. On December 31, 2000, contracts were outstanding for the US dollar equivalent of $386 million in various foreign currencies. These contracts mature on various dates in 2001.

INVESTMENTS

Both short-term and long-term investments held to maturity are stated at cost plus accrued interest, which approximates market, and comprise primarily eurodollar time deposits, certificates of deposit and commercial paper, euronotes and eurobonds, substantially all denominated in US dollars. Substantially all the investments designated as held to maturity that were purchased and matured during the year had original maturities of less than three months. Short-term investments that are designated as trading are stated at market. The unrealized gains/losses on such securities on December 31, 2000 were not significant.

For purposes of the Consolidated Statement of Cash Flows, Schlumberger does not consider short-term investments to be cash equivalents as they generally have original maturities in excess of three months. Short-term investments on December 31, 2000 and 1999, were $2.88 billion and $4.26 billion, respectively.

INVENTORIES

Inventories are stated principally at average cost or at market, if lower. Inventory consists of materials, supplies and finished goods.

EXCESS OF INVESTMENT OVER NET ASSETS OF COMPANIES PURCHASED

Cost in excess of net assets of purchased companies (goodwill) is amortized on a straight-line basis over 5 to 40 years. Accumulated amortization was $563 million and $516 million on December 31, 2000 and 1999, respectively. Of the goodwill on December 31, 2000, 37% is being amortized over 40 years, 10% is being amortized over 30 years, 14% is being amortized over 25 years and 39% is being amortized over periods of up to 25 years.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation, which is provided for by charges to income over the estimated useful lives of the assets using the straight-line method. Fixed assets include the manufacturing cost (average cost) of oilfield technical equipment manufactured by subsidiaries of Schlumberger. Expenditures for renewals, replacements and improvements are capitalized. Maintenance and repairs are charged to operating expenses as incurred. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

MULTICLIENT SEISMIC DATA

Schlumberger capitalizes the cost of obtaining multiclient surveys. Such costs are charged to *Cost of goods sold and services* based on a percentage of estimated total revenue that Schlumberger expects to receive from the sales of such data. The carrying value of individual surveys is periodically reviewed and adjustments to the value are made based upon the revised estimated revenues for the surveys.

CAPITALIZED INTEREST

Schlumberger capitalizes interest expense during the new construction or upgrade of qualifying assets. No interest expense was capitalized in 2000. Interest expense capitalized in 1999 and 1998 was $5 million and $7 million, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS

Schlumberger reviews the carrying value of its long-lived assets, including goodwill, whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. Schlumberger assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

TAXES ON INCOME

Schlumberger and its subsidiaries compute taxes on income in accordance with the tax rules and regulations of the many taxing authorities where the income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to revenue or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred income taxes is made.

Approximately $4 billion of consolidated income retained for use in the business on December 31, 2000 represented undistributed earnings of consolidated subsidiaries and the pro rata Schlumberger share of 20%–50% owned companies. No provision is made for deferred income taxes on those earnings considered to be indefinitely reinvested or earnings that would not be taxed when remitted.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income by the average number of common shares outstanding assuming dilution, the calculation of which assumes that all stock options and warrants which are in the money are exercised at the beginning of the period and the proceeds used, by Schlumberger, to purchase shares at the average market price for the period. The following is a reconciliation from basic earnings per share to diluted earnings per share from continuing operations for each of the last three years:

(Stated in thousands except per share amounts)

	Income from Continuing Operations	Average Shares Outstanding	Earnings Per Share
2000			
Basic	$734,596	570,028	$1.29
Effects of dilution:			
Options		10,048	
Diluted	$734,596	580,076	$1.27
1999			
Basic	$329,334	548,680	$0.60
Effects of dilution:			
Options		7,916	
Warrants		7,193	
Diluted	$329,334	563,789	$0.58
1998			
Basic	$617,962	544,338	$1.14
Effects of dilution:			
Options		9,723	
Warrants		7,794	
Diluted	$617,962	561,855	$1.10

RESEARCH & ENGINEERING

All research and engineering expenditures are expensed as incurred, including costs relating to patents or rights that may result from such expenditures.

CHARGES–CONTINUING OPERATIONS

Schlumberger recorded the following charges in continuing operations:

In December 2000, a pretax charge of $84 million offset by a pretax gain of $82 million (net—$3 million after tax and minority interest, $0.00 per share—diluted), consisting of the following:

- A charge of $29 million ($25 million after tax) related primarily to the write down of certain inventory and severance costs in the Semiconductor Solutions business due to weak market conditions.
- A charge of $55 million ($39 million after tax and minority interest) related to the creation of the WesternGeco seismic joint venture, including asset impairments and severance costs for Schlumberger's existing Geco-Prakla business.
- A credit of $82 million ($61 million after tax) resulting from the gain on the sale of two Gas Services businesses in Europe. Revenue and operating net results for these divested activities were $110 million and a $740,000 loss, respectively, in 2000 (10 months) and $163 million and $2.7 million profit, respectively in 1999.

The pretax gain on the sale of the Gas Services businesses is included in the *Interest & other income*. The pretax Semiconductor Solutions and WesternGeco charges are included in *Cost of goods sold and services*. A $9 million credit is included in *Minority Interest* relating to the WesternGeco charges.

In December 1999, a pretax charge of $77 million ($71 million after tax, $0.13 per share—diluted), classified in *Cost of goods sold and services*, consisting primarily of the following:

- A charge of $31 million ($26 million after tax) including $23 million of asset impairments and $8 million of severance costs related to reductions in the marine seismic fleet due to depressed market conditions.
- A charge of $38 million ($37 million after tax) including $33 million of asset impairments and $5 million of severance costs related to the restructuring of its land drilling activity following the spin-off of its offshore drilling business to stockholders.

In March 1999, a pretax charge of $147 million partially offset by a pretax gain of $103 million (net—$58 million after tax, $0.10 per share—diluted), consisting of the following:

- A charge of $118 million ($118 million after tax) related to the downsizing of its global Oilfield Services activities, including $108 million of severance costs and $10 million for asset impairments.
- A charge of $29 million ($20 million after tax) related to Resource Management Services and Test & Transactions, consisting principally of $16 million of severance costs at several Resource Management Services facilities resulting from a downturn in business and $5 million of asset write-downs.
- A credit of $103 million ($80 million after tax) from the gain on the sale of financial instruments received in connection with the 1998 sale of the Retail Petroleum Systems business.

The pretax gain on the sale of financial instruments is included in *Interest & other income.* The pretax charge of $147 million is classified in *Cost of goods sold and services*.

In September 1998, a pretax charge of $432 million ($368 million after tax, $0.65 per share—diluted), classified in *Cost of goods sold and services*, consisting primarily of the following:

- A charge of $314 million ($257 million after tax) related to Oilfield Services, including severance costs of $69 million; facility closure costs of $61 million; operating assets write-offs of $137 million; and $43 million of customer receivable reserves where collection was considered doubtful due to the customers' financial condition and/or country risk. This charge was due to the reduction in business activity.
- A charge of $48 million ($63 million after tax) for merger-related costs in connection with the acquisition of Camco.
- A charge of $61 million ($43 million after tax) related to Resource Management Services and Test & Transactions, consisting primarily of $21 million of severance and $40 million of environmental costs resulting from a reassessment of ongoing future monitoring and maintenance requirements at locations no longer in operation.

The December 2000 charge included severance costs of $9 million (380 people) none of which had been paid at December 31, 2000. The December 1999 charge included severance costs of $13 million (300 people) which have been paid. Severance costs included in the September 1998 charge (6200 people; $90 million) and the March 1999 charge (4700 people; $124 million) have been paid and the actual number of employees terminated was slightly higher than originally planned; however, this had no material impact on the actual severance costs paid as compared with the amount originally accrued.

The $61 million of facility closure costs accrued in 1998 were substantially paid in accordance with the original plan.

Discontinued Operations

On December 31, 1999, Schlumberger completed the spin-off of its offshore contract drilling business, Sedco Forex, to its stockholders and the subsequent merger of Sedco Forex and Transocean Offshore Inc., which changed its name to Transocean Sedco Forex Inc. following the merger. The spin-off was approved by stockholders on December 10, 1999.

Upon completion of the merger, Schlumberger stockholders held approximately 52% of the ordinary shares of Transocean Sedco Forex Inc., and Transocean Offshore Inc. shareholders held the remaining 48%. Schlumberger retained no ownership in the combined company.

In the spin-off, Schlumberger stockholders received one share of Sedco Forex for each share of Schlumberger owned on the record date of December 20, 1999. In the merger, each Sedco Forex share was exchanged for 0.1936 ordinary share of Transocean Sedco Forex Inc. Stockholders received cash in lieu of fractional shares.

Results for the Sedco Forex operations spun off by Schlumberger for this transaction are reported as discontinued operations in the Consolidated Statement of Income.

Discontinued Operations on the Consolidated Statement of Income includes the operating results of the spun-off Sedco Forex business and the following charges:

- In December 1999, an after-tax charge of $50 million ($0.09 per share—diluted) for costs directly associated with the spin-off.
- In March 1999, an after-tax charge of $33 million ($0.06 per share—diluted) for severance costs ($13 million) and legal claims.
- In September 1998, an after-tax charge of $12 million ($0.02 per share—diluted) for severance costs.

As a result of the spin-off, Schlumberger *Income Retained for Use in the Business* was reduced by $918 million representing the spun-off net assets of Sedco Forex ($1.23 billion) less payments received in settlement of intercompany balances between Schlumberger and Sedco Forex ($313 million). The net assets spun off included $1.3 billion of fixed assets.

Pursuant to Accounting Principles Board Opinion (APB) No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, the revenue and expenses of Sedco Forex have been excluded from the respective captions in the Consolidated Statement of Income. The net operating results of Sedco Forex have been reported, net of applicable income taxes, as *Discontinued Operations*.

Summarized 1999 and 1998 financial information for the discontinued operations, is as follows:

(Stated in millions)

	1999	1998
Operating Revenue	$648	$1,091
Income before taxes	$ 29	$ 428
Income after taxes	$ 37	$ 396

Acquisitions

During 2000, subsidiaries of Schlumberger acquired the following:

- In January, Telweb Inc., an Internet access company based in Quebec, Canada. The purchase price was $28 million and the cost in excess of net assets acquired was $28 million which is being amortized over 10 years.
- In April, Operational Services, Inc., which provides a systematic approach to production management though efficient systems and processes. The purchase price was $13 million and the cost in excess of net assets acquired was $13 million which is being amortized over 15 years.
- In May, substantially all of the assets of CellNet Data Systems, Inc., a provider of telemetry services for the development and deployment of large-scale automatic metering reading systems. The acquisition was handled through Chapter 11 procedure and was approved by the bankruptcy court. The purchase price was $209 million and the cost in excess of net assets acquired was zero.
- In October, Data Marine Systems Limited, a global provider of telecommunications services for transmitting data from remote locations. The purchase price was $83 million and the cost in excess of net assets acquired was $75 million which is being amortized over 15 years.
- In November, a 70% interest in the Convergent Group, a provider of business consulting, software engineering, system integration and project management services. The purchase price was $263 million and the cost in excess of net assets acquired was $214 million which is being amortized over 15 years.
- In November, a 70% interest in WesternGeco, a new venture which combined the Schlumberger surface seismic business, Geco-Prakla, and the Western Geophysical seismic unit of Baker Hughes Inc. The purchase price was $720 million which comprised $500 million in cash and a 30% interest, valued at $220 million, in Geco-Prakla. The cost in excess of net assets acquired was zero.

These acquisitions were accounted for using the purchase method of accounting and costs in excess of net assets acquired are being amortized on a straight-line basis.

Unaudited APB 16 proforma results pertaining to the above acquisitions are not presented as the impact was not significant.

During 1999, subsidiaries of Schlumberger acquired Merak, a market leader in petroleum software solutions; Secure Oil Tools, a leader in multilateral completions; and substantially all of the assets of Panther Software Corporation, a provider of hardware and software products and services for managing large volumes of seismic data. These acquisitions were accounted for using the purchase method of accounting. Costs in excess of net assets acquired were $106 million which are being amortized on a straight-line basis over 7 to 20 years.

In the third quarter of 1999, the Omnes joint venture, created in 1995 between Schlumberger and Cable & Wireless, was restructured into two separate business units. Under the agreement, equal ownership and access to products, technology and intellectual property was given to both parent companies. Schlumberger retained ownership of the Omnes name. Omnes is now a fully operational company within Test & Transactions.

On August 31, 1998, the merger of Schlumberger Technology Corporation, a wholly owned subsidiary of Schlumberger, and Camco International Inc. was completed. Under the terms of the merger agreement, approximately 38.2 million shares of Camco common stock were exchanged for 45.1 million shares of Schlumberger common stock at the exchange rate of 1.18 shares of Schlumberger stock for each share of Camco. Based on the Schlumberger average price of $47.875 on August 28, the transaction was valued at $2.2 billion. The business combination was accounted for using the pooling-of-interests method of accounting.

Investments in Affiliated Companies

In the third quarter of 1999, Schlumberger and Smith International Inc. entered into an agreement whereby their drilling fluids operations were combined to form a joint venture. Under the terms of the agreement, Schlumberger contributed its non-US drilling fluids business and a total of $325 million to the joint venture. Schlumberger owns a 40% interest in the joint venture and records income using the equity method of accounting. Schlumberger's investment on December 31, 2000 and 1999 was $461 million and $414 million, respectively. Schlumberger's equity income from this joint venture in 2000 was $33 million and was not material in 1999.

Investments

The Consolidated Balance Sheet reflects the Schlumberger investment portfolio separated between current and long term, based on maturity. Except for $139 million of investments which are considered trading on December 31, 2000 ($130 million in 1999), under normal circumstances it is the intent of Schlumberger to hold the investments until maturity.

Long-term investments mature as follows: $564 million in 2002, $228 million in 2003 and $755 million thereafter.

On December 31, 2000, there were no interest rate swap arrangements outstanding related to investments. Interest rate swap arrangements had no material effect on consolidated interest income.

Securitization

In September 2000, a wholly-owned subsidiary of Schlumberger entered into an agreement to sell, on an ongoing basis, up to $220 million of an undivided interest in its accounts receivable. The amount of receivables sold under this agreement totaled $183 million at December 31, 2000. Costs of the program, which primarily consist of the purchasers' financing and administrative costs, were not significant.

Schlumberger continues to service the receivables and maintains an allowance for doubtful accounts based upon the expected collectibility of all Schlumberger accounts receivable, including the portion of receivables sold. Unless extended by amendment, the agreement expires in September 2001.

Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

December 31,	**2000**	1999
Land	**$ 80**	$ 68
Building & Improvements	**1,081**	1,086
Machinery & Equipment	**9,661**	8,485
Total cost	**10,822**	9,639
Less accumulated depreciation	**6,427**	6,078
	$ 4,395	$3,561

The estimated useful lives of Buildings & Improvements are primarily 30 to 40 years. For Machinery & Equipment, 11% is being depreciated over 16 to 25 years, 14% over 10 to 15 years and 75% over 2 to 9 years.

Long-term Debt

A summary of long-term debt by currency follows:

December 31,	**2000**	1999
	(Stated in millions)	
US dollar	**$2,969**	$2,369
Euro	**214**	411
UK pound	**170**	20
Japanese yen	**132**	146
Canadian dollar	**73**	105
Other	**15**	132
	$3,573	$3,183

The majority of the long-term debt is at variable interest rates; the weighted-average interest rate of the debt outstanding on December 31, 2000 was 5.7%. Such rates are reset every six months or sooner. The carrying value of long-term debt on December 31, 2000 approximates the aggregate fair market value.

Long-term debt on December 31, 2000, is due as follows: $118 million in 2002, $2,469 million in 2003, $327 million in 2004, $234 million in 2005 and $425 million thereafter.

On December 31, 2000, interest rate swap arrangements outstanding were: pay fixed/receive floating on US dollar debt of $800 million; pay fixed/receive floating on Japanese yen debt of $97 million. These arrangements mature at various dates to December 2009. Interest rate swap arrangements had no material effect on consolidated interest expense in 2000 and 1999, respectively. The likelihood of nonperformance by the other parties to the arrangements is considered to be remote.

Lines of Credit

On December 31, 2000, the principal US subsidiary of Schlumberger had available a Revolving Credit Agreement with a syndicate of banks. The Agreement provided that the subsidiary may borrow up to $1 billion until August 2003 at money market-based rates (6.6% on December 31, 2000 and 6.1% on December 31, 1999) of which $630 million was outstanding on December 31, 2000. In addition, on December 31, 2000 and 1999, Schlumberger and its subsidiaries also had available unused lines of credit of approximately $825 million and $793 million, respectively. Commitment and facility fees are not material.

Capital Stock

Schlumberger is authorized to issue 1,000,000,000 shares of common stock, par value $0.01 per share, of which 572,724,694 and 565,931,130 shares were outstanding on December 31, 2000 and 1999, respectively. Schlumberger is also authorized to issue 200,000,000 shares of cumulative preferred stock, par value $0.01 per share, which may be issued in series with terms and conditions determined by the Board of Directors. No shares of preferred stock have been issued. Holders of common stock and preferred stock are entitled to one vote for each share of stock held.

In January 1993, Schlumberger acquired the remaining 50% interest in the Dowell Schlumberger group of companies. The purchase price included a warrant, expiring in 7.5 years and valued at $100 million, to purchase 15,153,018 shares of Schlumberger common stock at an exercise price of $29.672 per share. The warrant was exercised by Dow Chemical on December 16, 1999.

Stock Compensation Plans

As of December 31, 2000, Schlumberger had two types of stock-based compensation plans, which are described below. Schlumberger applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans and its stock purchase plan. Had compensation cost for the stock-based Schlumberger plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS 123, Schlumberger net income and earnings per share would have been the pro forma amounts indicated below:

(Stated in millions except per share amounts)

	2000	1999	1998
Net income			
As reported	**$ 735**	$ 367	$1,014
Pro forma	**$ 633**	$ 268	$ 893
Basic earnings per share			
As reported	**$1.29**	$0.67	$ 1.86
Pro forma	**$1.11**	$0.49	$ 1.64
Diluted earnings per share			
As reported	**$1.27**	$0.65	$ 1.81
Pro forma	**$1.09**	$0.48	$ 1.59

STOCK OPTION PLANS

During 2000, 1999, 1998 and in prior years, officers and key employees were granted stock options under Schlumberger stock option plans. For all of the stock options granted, the exercise price of each option equals the market price of Schlumberger stock on the date of grant; an option's maximum term is ten years, and options generally vest in 20% increments over five years.

As required by SFAS 123, the fair value of each grant is estimated on the date of grant using the multiple option Black-Scholes option-pricing model with the following weighted-average assumptions used for 2000, 1999 and 1998: Dividend of $0.75; expected volatility of 27%-33% for 2000 grants, 25%-29% for 1999 grants and 21%-25% for 1998 grants; risk-free interest rates for the 2000 grants of 5.75%-6.84% for officers and 5.69%-6.72% for the 2000 grants to all other employees; risk-free interest rates for the 1999 grant of 4.92%-5.29% for officers and 4.80%-6.25% for the 1999 grants to all other employees; risk-free interest rates for 1998 grants of 5.59%-5.68% for officers and 4.35%-5.62% for all other employees; and expected option lives of 7.16 years for officers and 5.49 years for other employees for 2000 grants, 7.14 years for officers and 5.28 years for other employees for 1999 grants and 6.98 years for officers and 5.02 years for other employees for 1998.

A summary of the status of the Schlumberger stock option plans as of December 31, 2000, 1999 and 1998, and changes during the years ended on those dates is presented below:

	2000		1999[1]		1998[1]	
Fixed Options	**Shares**	**Weighted-average exercise price**	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	**31,613,924**	**$46.25**	30,310,579	$42.50	31,542,758	$39.81
Granted	**5,643,500**	**$79.64**	6,012,168	$54.04	2,027,812	$62.57
Exercised	**(5,447,870)**	**$30.76**	(3,634,790)	$28.68	(2,527,380)	$24.15
Forfeited	**(601,233)**	**$62.03**	(1,074,033)	$52.50	(732,611)	$47.61
Outstanding at year-end	**31,208,321**	**$54.54**	31,613,924	$46.25	30,310,579	$42.50
Options exercisable at year-end	**16,277,868**		16,396,821		15,914,440	
Weighted-average fair value of options granted during the year	**$30.03**		$17.72		$22.24	

[1] Shares and exercise price have been restated to reflect adjustments made as a result of the spin-off of Sedco Forex, in accordance with EITF Issue 90-9, *Changes to Fixed Employee Stock Option Plans as Result of Equity Restructuring*.

The following table summarizes information concerning currently outstanding and exercisable options by three ranges of exercise prices on December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding as of 12/31/00	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable as of 12/31/00	Weighted-average exercise price
$ 3.831–$38.473	12,248,665	4.14	$30.855	10,822,533	$30.281
$42.170–$71.315	8,581,520	7.86	$55.292	2,376,169	$54.053
$73.032–$82.348	10,378,136	8.28	$81.515	3,079,166	$82.323
	31,208,321	6.54	$54.421	16,277,868	$43.595

EMPLOYEE STOCK PURCHASE PLAN

Under the Schlumberger Discounted Stock Purchase Plan, Schlumberger is authorized to issue up to 22,012,245 shares of common stock to its employees. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual earnings withheld to purchase Schlumberger common stock. The purchase price of the stock is 85% of the lower of its beginning or end of the Plan year market price. Under the Plan, Schlumberger sold 1,431,309, 1,324,848 and 1,266,840 shares to employees in 2000, 1999 and 1998, respectively. Compensation cost has been computed for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 2000, 1999 and 1998: Dividend of $0.75; expected life of one year; expected volatility of 38% for 2000, 40% for 1999 and 34% for 1998; and risk-free interest rates of 5.71% for 2000, 5.33% for 1999 and 4.44% for 1998. The weighted-average fair value of those purchase rights granted in 2000, 1999 and 1998, was $23.141, $19.829 and $19.817, respectively.

Income Tax Expense

Schlumberger and its subsidiaries operate in more than 100 taxing jurisdictions where statutory tax rates generally vary from 0% to 50%.

Pretax book income from continuing operations subject to US and non-US income taxes for each of the three years ended December 31, was as follows:

(Stated in millions)

	2000	1999	1998
United States	**$ 51**	$(172)	$ 24
Outside United States	**910**	653	879
Pretax income	**$961**	$ 481	$903

Schlumberger had net deductible temporary differences of $1.0 billion on December 31, 2000, $1.1 billion on December 31, 1999 and $1.2 billion on December 31, 1998. Temporary differences at December 31, 2000 pertain to postretirement medical benefits ($0.5 billion), employee benefits ($0.2 billion), multiclient seismic data ($0.2 billion), and fixed assets, inventory and other ($0.1 billion).

The components of consolidated income tax expense from continuing operations were as follows:

(Stated in millions)

	2000	1999	1998
Current:			
United States—Federal	**$ 21**	$ (74)	$124
United States—State	**4**	(7)	15
Outside United States	**194**	206	225
	$219	$125	$364
Deferred:			
United States—Federal	**$ (3)**	$ 14	$ (68)
United States—State	**(2)**	1	(7)
Outside United States	**14**	1	(13)
	$ 9	$ 16	$ (88)
Consolidated taxes on income	**$228**	$141	$276
Effective tax rate	**24%**	30%	31%

For the three years, the variations from the US statutory federal tax rate (35%) and Schlumberger effective tax rates were due to several factors, including a substantial proportion of operations in countries where taxation on income is lower than in the US partially offset by the effect of permanent book/tax differences in the US, such as goodwill amortization.

Leases and Lease Commitments

Total rental expense was $287 million in 2000, $303 million in 1999 and $304 million in 1998. Future minimum rental commitments under noncancelable leases for years ending December 31 are: $175 million in 2001; $147 million in 2002; $113 million in 2003; $88 million in 2004; and $79 million in 2005. For the ensuing three five-year periods, these commitments decrease from $624 million to $3 million. The minimum rentals over the remaining terms of the leases aggregate to $34 million.

Contingencies

The Consolidated Balance Sheet includes accruals for the estimated future costs associated with certain environmental remediation activities related to the past use or disposal of hazardous materials. Substantially all such costs relate to divested operations and to facilities or locations that are no longer in operation. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations.

In addition, Schlumberger and its subsidiaries are party to various other legal proceedings. Although the ultimate disposition of these proceedings is not presently determinable, in the opinion of Schlumberger any liability that might ensue would not be material in relation to the consolidated liquidity, financial position or future results of operations.

Segment Information

Schlumberger operates three reportable segments: Oilfield Services (OFS), Resource Management Services (RMS) and Test & Transactions (T&T).

The Schlumberger OFS segment falls into four clearly defined economic and geographical areas and is evaluated on the following basis: First, North America (NAM) is a major self-contained market. Second, Latin America (LAM) comprises regional markets that share a common dependence on the United States. Third, Europe (ECA) is another major self-contained market that includes the CIS and West Africa, whose economy is increasingly linked to that of Europe. Fourth, Other Eastern includes the remainder of the Eastern Hemisphere, which consists of many countries at different stages of economic development that share a common dependence on the oil and gas industry.

The OFS segment provides virtually all exploration and production services required during the life of an oil and gas reservoir. Schlumberger believes that all the products/services are interrelated and expects similar performance from each. The RMS segment is essentially a global provider of measurement solutions, products and systems for electricity, gas and water utilities. The T&T segment supplies technology products, services and system solutions to the semiconductor, banking, telecommunications, transportation and health care industries. The segment consists of Cards, Semiconductor, Network Solutions and e-Transactions. Services and products are described in more detail on page 44 of this report.

Financial information for the years ended December 31, 2000, 1999 and 1998, by segment, is as follows:

(Stated in millions)

2000	NAM	LAM	ECA	Other Eastern	Elims/ Other	Total OFS	RMS	T&T	Elims/ Other	Consolidated
Revenue	$2,413	$1,151	$1,603	$1,646	$ 220	$7,033	$1,241	$1,409	$(72)	$ 9,611
Segment Income	$ 235	$ 64	$ 151	$ 281	$ (27)	$ 704	$ 15	$ 35	$(39)	$ 715
Minority Interest	—	—	—	—	(1)	(1)	1	6	—	6
Income Tax Expense (1)	145	22	56	29	42	294	(1)	(15)	(60)	218
Segment Income before tax and MI	$ 380	$ 86	$ 207	$ 310	$ 14	$ 997	$ 15	$ 26	$(99)	$ 939
Interest Income		$ 5								297
Interest Expense		$ (3)								(273)
Charges										(2)
Pretax Income										$ 961
Segment Assets	$2,984	$1,305	$1,689	$1,475	$1,759	$9,212	$1,417	$1,217	$ —	$11,846
Corporate Assets										5,327
Total Assets										$17,173
Depreciation/Amortization (2)	$ 418	$ 187	$ 226	$ 229	$ 53	$1,113	$ 84	$ 56	$ 18	$ 1,271
Capital Expenditures (3)	$ 608	$ 212	$ 259	$ 261	$ 15	$1,355	$ 92	$ 91	$ 8	$ 1,546

(1) 2000 income tax expense excludes a charge of $10 million related to the Charges.
(2) Includes multiclient seismic data costs.
(3) Includes multiclient seismic data capitalized.

(Stated in millions)

1999	NAM	LAM	ECA	Other Eastern	Elims/ Other	Total OFS	RMS	T&T	Elims/ Other	Consolidated
Revenue	$1,649	$947	$1,514	$1,561	$ 198	$5,869	$1,375	$1,183	$(32)	$ 8,395
Segment Income	$ 84	$ —	$ 83	$ 237	$ (1)	$ 403	$ 6	$ 30	$(25)	$ 414
Minority Interest	—	—	—	—	—	—	2	9	—	11
Income Tax Expense (1)	40	20	42	56	15	173	9	(3)	(47)	132
Segment Income before tax and MI	$ 124	$ 20	$ 125	$ 293	$ 14	$ 576	$ 17	$ 36	$(72)	$ 557
Interest Income		$ 7								228
Interest Expense		$ (6)	$ (1)				$ (1)	$ (1)		(184)
Charges										(120)
Pretax Income										$ 481
Segment Assets	$1,787	$992	$1,414	$1,299	$1,912	$7,404	$1,006	$ 989	$ —	$ 9,399
Corporate Assets										5,682
Total Assets										$15,081
Depreciation/Amortization (2)	$ 325	$156	$ 228	$ 237	$ 55	$1,001	$ 88	$ 48	$ 13	$ 1,150
Capital Expenditures (3)	$ 322	$189	$ 161	$ 183	$ 61	$ 916	$ 49	$ 44	$ 10	$ 1,019

(1) 1999 income tax expense excludes a charge of $8 million related to the Charges.
(2) Includes multiclient seismic data costs.
(3) Includes multiclient seismic data capitalized.

(Stated in millions)

1998	NAM	LAM	ECA	Other Eastern	Elims/ Other	Total OFS	RMS	T&T	Elims/ Other	Consolidated
Revenue	$2,364	$1,283	$2,112	$2,008	$ 29	$7,796	$1,465	$1,226	$ 238	$10,725
Segment Income	$ 220	$ 122	$ 241	$ 428	$ (57)	$ 954	$ 32	$ 55	$ (91)	$ 950
Minority Interest	—	—	—	—	—	—	2	7	—	9
Income Tax Expense (2)	120	49	73	103	7	352	17	18	(48)	339
Segment Income before tax and MI	$ 340	$ 171	$ 314	$ 531	$ (50)	$1,306	$ 51	$ 80	$(139)	$ 1,298
Interest Income		$ 3								164
Interest Expense		$ (9)						$ (1)		(127)
Charges										(432)
Pretax Income										$ 903
Segment Assets	$1,509	$1,031	$1,583	$1,559	$1,407	$7,089	$1,184	$1,069	$ —	$ 9,342
Corporate Assets										5,316
Discontinued Operations Assets										1,420
Total Assets										$16,078
Depreciation/Amortization (2)	$ 386	$ 121	$ 225	$ 215	$ 83	$1,030	$ 87	$ 48	$ 12	$ 1,177
Capital Expenditures (3)	$ 328	$ 310	$ 369	$ 309	$ 191	$1,507	$ 61	$ 53	$ 29	$ 1,650

(1) 1998 income tax expense excludes a credit of $63 million related to the Charges.
(2) Includes multiclient seismic data cost.
(3) Includes multiclient seismic data capitalized.

Corporate assets largely comprise short-term and long-term investments.

During the three years ended December 31, 2000, no single customer exceeded 10% of consolidated revenue.

The accounting policies of the segments are the same as those described in *Summary of Accounting Policies*.

Oilfield Services' net income eliminations include: certain headquarters administrative costs which are not allocated geographically, goodwill amortization, manufacturing and certain other operations, and costs maintained at the Oilfield Services level.

Nonoperating expenses, such as certain intersegment charges and interest expense (except as shown above), are not included in segment operating income.

Schlumberger did not have revenue from third-party customers in its country of domicile during the last three years. In each of the three years, only revenue in the US exceeded 10% of consolidated revenue. Revenue in the US in 2000, 1999 and 1998 was $3.5 billion, $2.5 billion and $3.4 billion, respectively.

Pension and Other Benefit Plans

US PENSION PLANS

Schlumberger and its US subsidiary sponsor several defined benefit pension plans that cover substantially all employees. The benefits are based on years of service and compensation on a career-average pay basis. These plans are fully funded with a trustee in respect to past and current service. Charges to expense are based upon costs computed by independent actuaries. The funding policy is to annually contribute amounts that are allowable for federal income tax purposes. These contributions are intended to provide for benefits earned to date and those expected to be earned in the future.

The assumed discount rate, compensation increases and return on plan assets used to determine pension expense in 2000 were 7.75%, 4.5% and 9%, respectively. In 1999, the assumptions were 7%, 4.5% and 9%, respectively. In 1998, the assumptions were 7.5%, 4.5% and 9%, respectively.

Net pension cost in the US for 2000, 1999 and 1998, included the following components:

(Stated in millions)

	2000	1999	1998
Service cost-benefits earned during the period	**$ 36**	$ 45	$ 39
Interest cost on projected benefit obligation	**76**	73	68
Expected return on plan assets (actual return: 2000—$(2); 1999—$211; 1998—$167)	**(97)**	(86)	(77)
Amortization of transition assets	**(1)**	(2)	(2)
Amortization of prior service cost/other	**5**	6	6
Amortization of unrecognized net gain	**(11)**	—	(3)
Net pension cost	**$ 8**	$ 36	$ 31

Effective January 1, 2000, Schlumberger and its subsidiaries amended their pension plans to improve retirement benefits for active employees.

The change in the projected benefit obligation, plan assets and funded status of the plans on December 31, 2000 and 1999, was as follows:

(Stated in millions)

	2000	1999
Projected benefit obligation at beginning of the year	**$1,052**	$1,060
Service cost	**36**	45
Interest cost	**76**	73
Actuarial losses (gains)	**17**	(70)
Benefits paid	**(62)**	(56)
Amendments	**(6)**	—
Projected benefit obligation at end of the year	**$1,113**	$1,052
Plan assets at market value at beginning of the year	**$1,276**	$1,119
Actual return on plan assets	**(2)**	211
Employer contribution	**—**	2
Benefits paid	**(62)**	(56)
Plan assets at market value at end of the year	**$1,212**	$1,276
Excess of assets over projected benefit obligation	**$ 99**	$ 224
Unrecognized net gain	**(266)**	(395)
Unrecognized prior service cost	**30**	44
Unrecognized net asset at transition date	**(1)**	(2)
Pension liability	**$ (138)**	$ (129)

The assumed discount rate, the rate of compensation increases and the expected long-term rate of return on plan assets used to determine the projected benefit obligations were 7.5%, 4.5% and 9%, respectively, in 2000, and 7.75%, 4.5% and 9%, respectively, in 1999. Plan assets on December 31, 2000, consisted of common stocks ($708 million), cash or cash equivalents ($114 million), fixed income investments ($279 million) and other investments ($95 million). Less than 1% of the plan assets on December 31, 2000, were represented by Schlumberger common stock.

NON-US PENSION PLANS

Outside the US, subsidiaries of Schlumberger sponsor several defined benefit and defined contribution plans that cover substantially all employees who are not covered by statutory plans. For defined benefit plans, charges to expense are based upon costs computed by independent actuaries. These plans are substantially fully funded with trustees in respect to past and current service. For all defined benefit plans, pension expense was $23 million, $19 million and $17 million in 2000, 1999 and 1998, respectively. Based on plan assets and the projected benefit obligation, the only significant defined benefit plan is in the UK.

The assumed discount rate, compensation increases and return on plan assets used to determine pension expense in 2000 were 6%, 4% and 9%, respectively. In 1999, the assumptions were 7%, 4% and 9%, respectively. In 1998, the assumptions were 7.5%, 5% and 9%, respectively.

Net pension cost in the UK plan for 2000, 1999 and 1998 (translated into US dollars at the average exchange rate for the periods), included the following components:

(Stated in millions)

	2000	1999	1998
Service cost-benefits earned during the period	**$ 22**	$ 22	$ 18
Interest cost on projected benefit obligation	**17**	15	18
Expected return on plan assets (actual return: 2000—($28); 1999—$106; 1998—$23)	**(34)**	(33)	(30)
Amortization of transition asset and other	**(5)**	(6)	(6)
Net pension cost	**$ —**	$ (2)	$ —

The change in the projected benefit obligation, plan assets and funded status of the plan (translated into US dollars at year-end exchange rates) was as follows:

(Stated in millions)

	2000	1999
Projected benefit obligation at beginning of the year	**$290**	$ 229
Service cost	**22**	22
Interest cost	**17**	15
Actuarial losses	**19**	44
Gain in exchange	**(26)**	(8)
Benefits paid	**(11)**	(12)
Projected benefit obligation at end of the year	**$311**	$ 290
Plan assets at market value at beginning of the year	**$454**	$ 366
Actual return on plan assets	**(28)**	106
Loss in exchange	**(38)**	(10)
Employer contribution	**7**	4
Employee contributions	**1**	1
Benefits paid	**(11)**	(13)
Plan assets at market value at end of the year	**$385**	$ 454
Excess of assets over projected benefit obligation	**$ 74**	$ 164
Unrecognized net gain	**(39)**	(135)
Unrecognized prior service cost	**1**	2
Unrecognized net asset at transition date	**(2)**	(3)
Pension asset	**$ 34**	$ 28

The assumed discount rate and rate of compensation increases used to determine the projected benefit obligation were 6% and 4%, respectively, in 2000, and 6.5% and 4%, respectively, in 1999; the expected long-term rate of return on plan assets was 9% in 2000 and 1999. Plan assets consisted of common stocks ($319 million), cash or cash equivalents ($21 million) and fixed income investments ($45 million). None of the plan assets represented Schlumberger common stock.

For defined contribution plans, funding and cost are generally based upon a predetermined percentage of employee compensation. Charges to expense in 2000, 1999 and 1998, were $22 million, $24 million and $25 million, respectively.

OTHER DEFERRED BENEFITS

In addition to providing pension benefits, Schlumberger and its subsidiaries have other deferred benefit programs, primarily profit sharing. Expenses for these programs were $114 million, $73 million and $128 million in 2000, 1999 and 1998, respectively.

HEALTH CARE BENEFITS

Schlumberger and its US subsidiary provide health care benefits for certain active employees. The cost of providing these benefits is recognized as expense when incurred and aggregated $60 million, $53 million and $54 million in 2000, 1999 and 1998, respectively. Outside the US, such benefits are mostly provided through government-sponsored programs.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Schlumberger and its US subsidiary provide certain health care benefits to former employees who have retired under the US pension plans.

The principal actuarial assumptions used to measure costs were a discount rate of 7.75% in 2000, 7% in 1999 and 7.5% in 1998. The overall medical cost trend rate assumption is 9% graded to 5% over the next six years and 5% thereafter.

Net periodic postretirement benefit cost in the US for 2000, 1999 and 1998, included the following components:

(Stated in millions)

	2000	1999	1998
Service cost-benefits earned during the period	**$10**	$11	$11
Interest cost on accumulated postretirement benefit obligation	**28**	23	22
Amortization of unrecognized net gain and other	**(3)**	(3)	(6)
	$35	$31	$27

The change in accumulated postretirement benefit obligation and funded status on December 31, 2000 and 1999, was as follows:

	(Stated in millions)	
	2000	1999
Accumulated postretirement benefit obligation at beginning of the year	**$320**	$354
Service cost	**10**	11
Interest cost	**28**	23
Actuarial losses (gains)	**57**	(52)
Benefits paid	**(17)**	(16)
Accumulated postretirement benefit obligation at the end of the year	**398**	320
Unrecognized net gain	**67**	124
Unrecognized prior service cost	**4**	4
Postretirement benefit liability on December 31	**$469**	$448

The components of the accumulated postretirement benefit obligation on December 31, 2000 and 1999, were as follows:

	(Stated in millions)	
	2000	1999
Retirees	**$216**	$161
Fully eligible	**47**	45
Actives	**135**	114
	$398	$320

The assumed discount rate used to determine the accumulated postretirement benefit obligation was 7.50% for 2000 and 7.75% for 1999.

If the assumed medical cost trend rate was increased by one percentage point, health care cost in 2000 would have been $45 million, and the accumulated postretirement benefit obligation would have been $465 million on December 31, 2000.

If the assumed medical cost trend rate was decreased by one percentage point, health care cost in 2000 would have been $32 million, and the accumulated postretirement benefit obligation would have been $360 million on December 31, 2000.

Supplementary Information

Operating revenue and related cost of goods sold and services for continuing operations comprised the following:

		(Stated in millions)	
Year ended December 31,	**2000**	1999	1998
Operating revenue			
Sales	**$4,225**	$3,822	$ 4,623
Services	**5,386**	4,573	6,102
	$9,611	$8,395	$10,725
Direct operating costs			
Goods sold	**$2,582**	$2,461	$ 2,916
Services	**4,790**	4,288	5,498
	$7,372	$6,749	$ 8,414

Cash paid for interest and income taxes for continuing operations was as follows:

Year ended December 31,	2000	1999	1998
			(Stated in millions)
Interest	**$268**	$200	$128
Income taxes	**$231**	$182	$299

Accounts payable and accrued liabilities are summarized as follows:

Year ended December 31,	2000	1999
		(Stated in millions)
Payroll, vacation and employee benefits	**$ 672**	$ 564
Trade	**946**	663
Taxes, other than income	**204**	169
Other	**1,089**	887
	$2,911	$2,283

Interest and other income includes the following:

	2000	1999	1998
			(Stated in millions)
Interest income	**$302**	$235	$167
Equity in net earnings of affiliated companies	**39**	19	6
Gain on sale of business	**82**	—	—
Gain on sale of financial instruments	**—**	103	—
	$423	$357	$173

Subsequent Event–Business Acquisition

On February 12, 2001, Schlumberger announced that it had reached agreement with the board of directors of Sema plc on the terms of a recommended cash offer for the entire issued and to be issued share capital of Sema plc. The offer will be made on the basis of £5.60 (approximately $8.09) per share which represents a purchase price of about $5.2 billion plus expenses. Schlumberger expects to complete the transaction in the second quarter. The purchase price will be paid from existing available cash, investments and new borrowings. The transaction is subject to customary regulatory approvals and Sema plc shareholders acceptance.

Report Of Independent Accountants

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 stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Schlumberger Limited and its subsidiaries at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
January 24, 2001, except as to "Subsequent Event—Business Acquisition" Note
which is as of February 16, 2001

Quarterly Results

(UNAUDITED)

The following table summarizes results for each of the four quarters for the years ended December 31, 2000 and 1999. Gross margin equals operating revenue less cost of goods sold and services.

(Stated in millions except per share amounts)

	Continuing Operations					Total		
				Earnings per share [4]			Earnings per share [4]	
	Revenue	Gross Margin	Net Income	Basic	Diluted	Net Income	Basic	Diluted
Quarters-2000								
First	$2,138	$ 504	$136	$0.24	$0.24	$136	$0.24	$0.24
Second	2,338	544	156	0.27	0.27	156	0.27	0.27
Third	2,447	593	205	0.36	0.35	204	0.36	0.35
Fourth[1]	2,688	599	238	0.42	0.41	239	0.42	0.41
	$9,611	$2,240	$735	$1.29	$1.27	$735	$1.29	$1.27
Quarters-1999								
First[2]	$2,117	$ 344	$ 69	$0.13	$0.12	$ 89	$0.16	$0.16
Second	2,012	432	91	0.17	0.16	128	0.23	0.23
Third	2,087	472	111	0.20	0.20	139	0.25	0.25
Fourth[3]	2,179	409	58	0.11	0.10	11	0.02	0.02
	$8,395	$1,657	$329	$0.60	$0.58	$367	$0.67	$0.65

[1] Includes a net, after-tax and minority interest charge of $3 million ($0.00 per share—diluted).
[2] Includes an after-tax charge of $58 million ($0.10 per share—diluted).
[3] Includes an after-tax charge of $71 million ($0.13 per share—diluted).
[4] Due to rounding, the addition of earnings per share by quarter may not equal total earnings per share for the year.

Five-Year Summary

(Stated in millions except per share amounts)

	Year Ended December 31,				
	2000	1999	1998	1997	1996
SUMMARY OF OPERATIONS					
Operating revenue:					
Oilfield Services	**$ 7,033**	$ 5,869	$ 7,796	$ 7,654	$ 6,196
Resource Management Services	**1,241**	1,375	1,465	1,569	1,765
Test & Transactions	**1,409**	1,183	1,226	1,066	741
Eliminations and other[1]	**(72)**	(32)	238	363	336
Total operating revenue	**$ 9,611**	$ 8,395	$10,725	$10,652	$ 9,038
% increase (decrease) over prior year	**15%**	(22)%	1%	18%	15%
Pretax Segment income:					
Oilfield Services	**$ 997**	$ 576	$ 1,306	$ 1,419	$ 939
Resource Management Services[2]	**15**	17	51	74	115
Test & Transactions[2]	**26**	36	80	104	35
Eliminations	**(99)**	(72)	(139)	(141)	(122)
Pretax Segment income before Minority interest	**939**	557	1,298	1,456	967
Minority interest	**6**	11	9	4	4
Total Pretax Segment income, before charges	**$ 933**	$ 546	$ 1,289	$ 1,452	$ 963
% increase (decrease) over prior year	**71%**	(58)%	(11)%	51%	29%
Interest income	**297**	228	164	93	71
Interest expense	**273**	184	127	70	66
Charges (net of minority interest)	**(6)**	120	432	—	380
Taxes on income[3]	**228**	141	276	388	(156)
Income, continuing operations	**$ 735**	$ 329	$ 618	$ 1,087	$ 744
% increase (decrease) over prior year	**123%**	(47)%	(43)%	46%	21%
Income, discontinued operations	**$ —**	$ 37	$ 396	$ 297	$ 175
Net income	**$ 735**	$ 367	$ 1,014	$ 1,385	$ 919
% increase (decrease) over prior year	**100%**	(64)%	(27)%	51%	33%
Basic earning per share					
Continuing operations	**$ 1.29**	$ 0.60	$ 1.14	$ 2.02	$ 1.39
Discontinued operations	**—**	0.07	0.72	0.55	0.33
Net income	**$ 1.29**	$ 0.67	$ 1.86	$ 2.57	$ 1.72
Diluted earnings per share					
Continuing operations	**$ 1.27**	$ 0.58	$ 1.10	$ 1.94	$ 1.37
Discontinued operations	**—**	0.07	0.71	0.53	0.32
Net income	**$ 1.27**	$ 0.65	$ 1.81	$ 2.47	$ 1.69
Cash dividends declared per share	**$ 0.75**	$ 0.75	$ 0.75	$ 0.75	$ 0.75
SUMMARY OF FINANCIAL DATA					
Income as % of operating revenue, continuing operations[4]	**8%**	5%	9%	10%	8%
Return on average stockholders' equity, continuing operations[4]	**9%**	6%	13%	16%	13%
Fixed asset additions	**$ 1,323**	$ 792	$ 1,463	$ 1,404	$ 1,069
Depreciation expense	**$ 943**	$ 929	$ 935	$ 848	$ 764
Avg. number of shares outstanding:					
Basic	**570**	549	544	539	534
Assuming dilution	**580**	564	562	560	546
ON DECEMBER 31					
Liquidity	**$ 422**	$ 1,231	$ 731	$ 527	$ 171
Working capital[2]	**$ 3,502**	$ 4,787	$ 4,681	$ 2,506	$ 1,660
Total assets	**$17,173**	$15,081	$16,078	$13,186	$11,272
Long-term debt	**$ 3,573**	$ 3,183	$ 3,285	$ 1,179	$ 731
Stockholders' equity	**$ 8,295**	$ 7,721	$ 8,119	$ 7,381	$ 6,221
Number of employees continuing operations	**60,000**	55,000	59,000	64,000	57,000

[1] Includes the Retail Petroleum Systems (RPS) business sold on October 1, 1998.
[2] Restated for comparative purposes.
[3] In 1999, the provision for income taxes, before the tax benefit on the charge and the tax expense on the gain on the sale of RPS financial instruments, was $133 million. In 1998, the provision for income taxes, before the tax benefit on the third quarter charge, was $340 million. In 1996, the provision for income taxes, before recognition of the US tax loss carryforward benefit and the tax effect of the unusual items, was $226 million.
[4] In 2000, 1999 and 1998, excluding the charges.

Schlumberger Organization

Oilfield Services is the leading supplier of services and technology to the international petroleum industry. It provides virtually every type of service to the upstream exploration and production industry. The business segment is managed geographically. Within the four geographic areas are 28 GeoMarket regions, which bring together geographically focused teams to meet local needs and to provide customized solutions. New technology development is performed by 13 Service Groups to exploit synergies and to introduce innovative solutions into the delivery of products and services within the GeoMarket regions. The Service Groups reflect key areas of Schlumberger expertise. They are organized into three Product Groups that represent the key processes that dominate oil company requirements throughout the life cycle of the reservoir. Reservoir Evaluation combines wireline and seismic services. Reservoir Development combines all services relevant to well construction and well productivity: directional drilling, pressure pumping, drilling fluids, testing, drilling bits, electrical submersible pumps and completion products. Reservoir Management combines integrated services, the software products, data management services and consulting services of GeoQuest, gas compression services and the production systems business.

Resource Management Services (RMS) provides professional business services for utilities, energy service providers and industry worldwide. Through consulting, meter deployment and management, data collection and processing, and information analysis, RMS helps clients achieve network optimization, greater operating efficiency and increased customer loyalty in all utility sectors – water, gas, electricity and heat.

Test & Transactions provides consulting, integration and products for testing and measurement of semiconductor devices, smart card-based transactions, IP (Internet protocol) network security and wireless services.

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Bonita Springs, Florida

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Assistant Secretary

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1 Member, Audit Committee
2 Member, Compensation Committee
3 Member, Finance Committee
4 Member, Nominating Committee
5 Member, Technology Committee

STOCKHOLDER INFORMATION

Schlumberger common stock is listed on the New York Stock Exchange, trading symbol SLB, and on the Euronext Paris, London, Amsterdam and the BES (Bourse Electronique Suisse) Stock Exchanges.

For quarterly earnings, dividend announcements and other information requests, call Schlumberger Shareholder Direct at 1-800-99-SLB-99 from the US and Canada. International callers dial 1-402-573-9796.

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Fleet National Bank
c/o EquiServe
P.O. Box 43010
Providence, Rhode Island 02940-3010
1-800-733-5001 or 1-781-575-3400
General stockholder information is available on the EquiServe web site at *http://www.equiserve.com/*

FORM 10-K

The Schlumberger 2000 annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge. From the US and Canada, call 1-800-99-SLB-99. International callers dial 1-402-573-9796. Alternatively, write to the Secretary, Schlumberger Limited, 277 Park Avenue, New York, NY 10172.

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Schlumberger

277 PARK AVENUE, NEW YORK, NEW YORK 10172
42, RUE SAINT-DOMINIQUE, 75007 PARIS
PARKSTRAAT 83, 2514 JG THE HAGUE
http://www.slb.com