

EXECUTIVE  
REPORT

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& Productivity

Technology for finding, producing, and processing oil and gas continues to evolve as the industry seeks to increase production and reduce costs. Delivering a revolutionary step-change, Schlumberger now offers the industry's first comprehensive well completion solution—an integrated portfolio of equipment and engineering skills to optimize artificial lift, testing, perforating, completing, monitoring, and controlling a well.

Today, we can monitor and control production within the reservoir with instrumented wellbores that control oil flow in separate lateral branches of the well. The world's first intelligent completion—a Level 6 multilateral well in the South

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## Delivering in Deepwater West Africa

In the past decade, more oil has been discovered in deepwater West Africa than any other deepwater province in the world. With strong focus on reducing clients' development costs and mitigating their risk, Schlumberger is ideally positioned in this emerging market.

Most of the really significant discoveries, each yielding estimated reserves of up to 1 billion barrels, have been made by international oil companies in the territorial waters off Angola and Equatorial Guinea. But other important finds have been made in remote onshore areas too.

**Drilling in deepwater greatly exacerbates** operators' risk and costs, with well construction accounting for up to one-third of the asset development budget. Operational efficiency and equipment reliability are critical success factors in this environment, and Schlumberger has much to offer customers seeking those advantages.

**Our Q\* seismic system provides** unique high-definition imaging of the subsurface,

enabling a reduced appraisal phase and, subsequently, optimal placement of the development wells.

**For the well construction phase,** breakthrough Schlumberger technologies include the PowerDrive Xceed\* fully rotational rotary steerable system that, in combination with our logging-while-drilling imaging tools, enables the efficient, accurate placement of individual wells, significantly reducing the drilling time and cost. The improved drilling performance of the PowerDrive Xceed system also provides greatly enhanced hole quality and consequently greater efficiency in the subsequent running of wireline logs and completion.

**The logging environment in West Africa** often finds our clients facing the challenge of



Electronic engineer Augusta Katanga performs maintenance on the PowerDrive Xceed rotary steerable drilling system. Augusta joined Schlumberger after graduating from the Polytechnic Institute of Namibia. Through its long-term, structured recruitment and development program, the company is committed to developing and empowering West and South African national employees at all levels of responsibility.

### Each new well here requires special planning and design. The right technology can make a huge difference to rig time and well performance.



Pedro Morais works on the IRIS\* Intelligent Remote Implementation System—an advanced technology for downhole tool operation and control.

drilling with oil-based mud. In Angola and Congo, the enhanced coverage version of our OBMI\* Oil-Base MicroImager tool has increased stratigraphic knowledge and improved the accuracy of well placement in directional holes. Further experiments are under way with our ECS\* Elemental Capture Spectroscopy sonde and OBMI data, in a study that aims to deliver high-precision sand count and consequently reduce coring requirements.

**In the mature fields of Gabon and Congo,** our new FloScan Imager\* tool has helped identify and diagnose problems in multiphase-flow wells, which will lead to more effective intervention programs in the future.

**After drilling and evaluation,** an efficient and reliable completion is critical to a deepwater development. In particular, the failure of a subsea completion can lead to a potentially costly unscheduled intervention later in the life of the well. Schlumberger consolidated its position as a major player in the subsea completions business in West Africa with the award of the subsea completions and subsea intervention contracts for Total's Dalia deepwater development project in Angola.

**After well completion,** the unique combination of the accurate PhaseTester\* multiphase flowmeter and the EverGreen\* minimal

environmental impact well effluent burner has allowed many of our customers to test high-rate deepwater wells efficiently and safely, obtaining real-time hydrocarbon flow ratios and shortening the cleanup phase.

**Apart from technical considerations,** Schlumberger, with its long history of promoting diversity, is keen to support the socioeconomic development of the local community. Currently, we employ 1,500 people in 8 countries in the West and South Africa (WSA) GeoMarket region, with the largest centers of operation in Angola, Equatorial Guinea, and Chad.

**We invest more than USD 2 million a year** in the recruiting, training, and development of West African nationals, including sponsorship of university students currently attending engineering schools abroad. Summing up the Schlumberger philosophy, GeoMarket Manager Jesus Grande comments: "The development of local talent (recruiting where we work) is certainly the right business decision as it will eventually allow us to run more efficient operations while aligning with the socioeconomic goals of the countries where we work. In Angola over 60% of our workforce is Angolan; over the next 2 years we aim to recruit a further 500 West African employees across the GeoMarket, to work both in the field and at all levels of management."



## Jesus Grande

Argentinian-born Jesus Grande joined Schlumberger in 1993 as a Wireline field engineer. He worked in the field in Kuwait for 3 years before returning to his native Argentina as a Wireline field services manager. He held various posts in operations and quality, health, safety, and environment management in Latin America and Europe before becoming West and South Africa GeoMarket manager in 2002. Jesus is married and has two young sons.

## PROJECT NEWS

- **OAo RITEK** selected Schlumberger as the main contractor for a drilling project of ten horizontal wells. This is the first time in Russia that a service company will act as project manager to execute a horizontal well field development.
- **WesternGeco** won a major contract with Saudi Aramco for acquisition of three-dimensional seismic data in the Qatif field over 1322 km<sup>2</sup> of complex land and marine acreage. The survey will last around 18 months, with a crew complement of 500–600 people, varying with phases of the operation.
- **Amerada Hess** awarded Schlumberger a global connectivity contract to provide a reliable and secure communications network between its offshore and land-based facilities in West Africa and its offices in Aberdeen and Houston.
- **BP renewed** our coiled tubing drilling (CTD) contract on its Sharjah project in Sajaa field, UAE. For this third phase of the project we will supply underbalanced CTD services for horizontal, openhole multilaterals on existing wells.
- **Statoil** awarded WesternGeco three Q-Marine\* four-dimensional projects offshore Norway, two of which are repeat Q surveys.

## Milestones and Innovations

**We launched the PowerDrive X5\* rotary steerable system (RSS)**—the first rugged RSS with integrated measurements to optimize drilling performance and wellbore placement. The system has been designed for hot, tough drilling environments typically found in offshore and high-tier markets.

**Schlumberger Information Solutions** formed Schlumberger Business Consulting (SBC) to focus on optimization of upstream operations. SBC will be responsible for addressing client needs in optimizing organization, operations and processes. Managed at a global level, its focus is strategy implementation, organizational efficiency, and technology strategies.

**We launched our multicomponent PowerCLEAN\* system**, providing a scientifically advanced approach to well cleanout. The PowerCLEAN system ensures cleanout at high temperatures and any deviation angle.

**Schlumberger Information Solutions** launched its Bandwidth-on-Demand connectivity service, offering clients optimal network performance and tighter control of network operating

costs. Bandwidth-on-Demand gives clients guaranteed access to network bandwidth, above and beyond their normal requirement on a pay-for-use basis.

**BG Group awarded Schlumberger** its Innovation Award for a well placement solution in Minerva-Hub development wells in the North Sea. A multilateral openhole sidetrack solution increased well exposure to reservoir sweet spots, almost doubling production and reducing total expenditures.

**Schlumberger was awarded the Alaska Governor's Award** for Health and Safety for the third consecutive year. To be eligible, companies must demonstrate significant year-on-year improvement against five key health, safety, and environmental metrics.

**His Royal Highness The Duke of York** visited our Global Drilling Technology Center in Stonehouse, Gloucestershire, in his capacity as the UK's Special Representative for International Trade and Investment. As our main production facility for downhole drilling systems and power sources, the center is undergoing major expansion.



The PowerDrive vorteX\* rotary steerable system (RSS) is the latest addition to the Schlumberger PowerDrive\* family of rotary steerable tools. The PowerDrive vorteX system enables a tangent or horizontal section to be drilled automatically, without intervention from the directional driller. In addition to performance drilling in hard-rock formations, the system is suitable for rigs that lack the power to rotate the drillstring during conventional directional drilling.

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Java Sea—involved drilling two independent lateral legs into the reservoir from a single wellbore on the existing platform, thus eliminating the need to construct an expensive platform extension. This cost-effective solution improved field net present value and offered the possibility of increased hydrocarbon recovery through proactive management of reservoir performance.

As we advance completion architecture, we continue to develop new sensing technologies. Sensa\* fiber optic technology for distributed temperature systems (DTS) provides continuous temperature measurement along the completion and producing wellbore. DTS can identify water or gas breakthrough into the wellbore or the formation of hydrates along a subsea pipeline to provide flow assurance. Used in combination with gas lift for production optimization or in steamflood applications, DTS provides real-time data for making immediate, valuable decisions.

This combination and integration of testing, completions, monitoring, and artificial lift products and services provides opportunities for improving reservoir performance for our customers and premium returns to our shareholders.

## QUARTERLY OVERVIEW

# First Quarter 2004 Results

**First quarter 2004 operating revenue was \$3.02 billion** versus \$2.65 billion in 2003. Income from continuing operations, before charges, of \$279 million, or \$0.47 per share, was 87% higher than last year. Including after-tax charges of \$152 million, income from continuing operations was \$127 million, or \$0.22 per share. Discontinued operations recorded a gain of \$93 million (\$0.15 per share) in the quarter, resulting in net income of \$220 million, or \$0.37 per share.

**“First quarter activity was particularly strong in Canada, India, Indonesia, West Africa, and on land in the United States,”** stated Chairman and CEO Andrew Gould. “These gains offset slow activity in Venezuela, the Gulf Coast, and the Caspian. WesternGeco continued to progress due largely to recovery in Multiclient sales in the Gulf of Mexico.

**“The quarter marked the completion** of the sale of SchlumbergerSema as well as the divestiture of a number of other nonoilfield businesses. As a result, net debt dropped below \$3 billion at the end of the quarter. Programs for the remaining divestitures are in place, and significant steps have been made to restructure our debt for a more efficient capital structure.

## BUSINESS REVIEW

Quarter ended March 31	(Stated in millions)	
	2004	2003
<b>Oilfield Services</b>		
Operating Revenue	\$ 2,359	\$ 2,051
Pretax Operating Income	\$ 423	\$ 322
<b>WesternGeco</b>		
Operating Revenue	\$ 313	\$ 307
Pretax Operating Income	\$ 34	\$ -
<b>Other</b>		
Operating Revenue	\$ 349	\$ 297
Pretax Operating Income	\$ 26	\$ 7

*Note: See First Quarter 2004 press release at <http://www.slb.com/ir1/Q104.pdf> for detailed notes and additional financial tables.*

**“The activity confirmed our belief** that E&P spending will remain robust in the face of increased demand from China and the United States. While fundamentals for the remainder of the year remain strong, geopolitical and local industry conditions continue to restrict investment and activity in some parts of the world, moderating short-term growth.”

## STOCKHOLDER INFORMATION

Schlumberger common stock is listed on the New York Stock Exchange, ticker symbol **SLB**, and on the Euronext Paris, Euronext Amsterdam, London, and SWX Swiss Stock Exchanges.

Registered owners of Schlumberger stock can obtain account information through our transfer agent and registrar:

EquiServe Trust Company, N.A.  
P.O. Box 43010, Providence, Rhode Island 02940-3010  
Phone: 1-800-733-5001 (in the US only)  
or 1-781-575-3400  
Web site: <http://www.equiserve.com>

Please visit the Schlumberger Investor Center  
Web site at: [www.slb.com/ir](http://www.slb.com/ir) for additional information.

\*Mark of Schlumberger