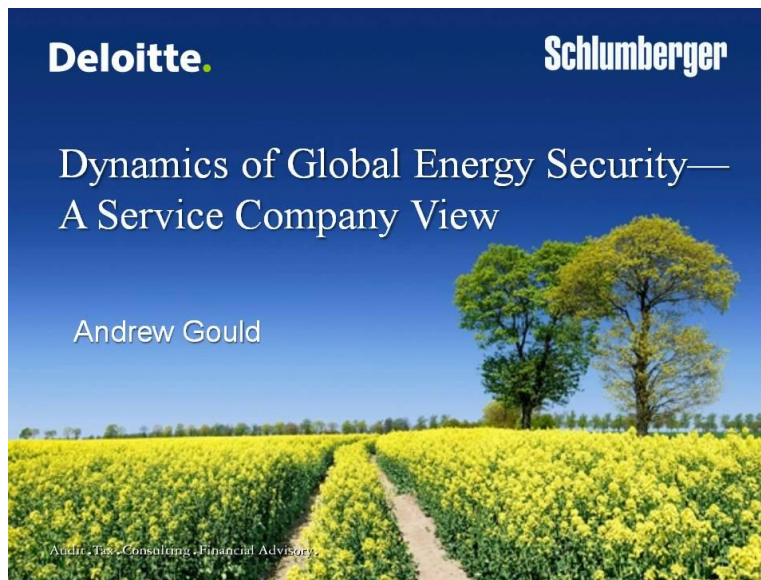




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Ladies and gentlemen, good morning, let me start by thanking the organizers and particularly Joe Stanislav, for their invitation to speak this morning. I have been asked to give a service company view on the dynamics of global energy security. I am not quite sure what a service company view is supposed to be but let me say that Schlumberger supplies technology services, project management and information solutions to the upstream oil and gas business. As a result my remarks will inevitably address some of the issues surrounding the supply of oil and gas and the difficulties that the industry is currently experiencing in increasing supply in sufficient quantities to provide a cushion that will moderate prices.

There are of course many issues surrounding energy security that I will not address, but as an introduction to the subject let me take you through the main conclusions of the National Petroleum Council study—“Facing the Hard Truths about Energy”. This study, which was published late in 2007, has already been downloaded nearly 1.5 million times and has attracted considerable policymaker and public interest both in the United States and abroad. I will not describe in detail the broad base of industry participants and interest groups who contributed—including Schlumberger—but it’s fair to say that no other NPC study has attracted such wide participation from all walks of life. After discussing the study conclusions I will briefly examine why we are in such a difficult situation with regard to supply, and why the supply response remains so slow.

Secretary Bodman's Questions to the National Petroleum Council

- What does the future hold for global oil and natural gas supply?
- Can incremental oil and gas supplies be brought on-line, on time, and at a reasonable price to meet demand without jeopardizing economic growth?
- What oil and gas supply and/or demand strategies does the Council recommend the U.S. pursue?

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Energy Secretary Bodman asked the NPC to examine these three underlying questions. First, what does the future hold for global oil and natural gas supply? Second, can incremental supplies be bought on-line, on time, and at a reasonable price to meet demand without jeopardizing economic growth, and third what oil and gas supply and/or demand side strategies does the council recommend the US pursue?

The conclusions contained in the 400-page-plus report were distilled into a short document called "The Hard Truths", and these are particularly relevant to today's discussion. They are not always politically palatable, and they are undoubtedly controversial for many, but there is little doubt that they remain very hard truths.

The Findings— Hard Truths about Supply and Demand...

- Coal, oil, and natural gas will remain indispensable to meeting total projected energy demand growth
- The world is not running out of energy resources, but there are accumulating risks to continuing expansion of oil and natural gas production from the conventional sources relied upon historically. These risks create significant challenges to meeting projected total energy demand

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The report found that coal, oil and natural gas will remain indispensable to meeting total projected energy demand growth and that while the world is not running out of energy resources, there are accumulating risks to continuing expansion of oil and natural gas resources from the conventional sources relied upon historically. These risks create significant challenges to meeting total projected energy demand.

...Hard Truths about Energy Sources...

- To mitigate these risks, expansion of all economic energy sources will be required, including coal, nuclear, biomass, other renewables, and unconventional oil and natural gas
- Each of these sources faces significant challenges including safety, environmental, political, or economic hurdles, and imposes infrastructure requirements for development and delivery

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Mitigating these risks requires expansion of all economic energy resources, including coal, nuclear, biomass, other renewable sources as well as unconventional oil and gas. Each of these faces significant challenges that include safety, environmental, political or economic hurdles and each impose infrastructure requirements for development and delivery.

...And about Energy Security

- "Energy Independence" should not be confused with strengthening energy security. The concept of energy independence is not realistic in the foreseeable future, whereas U.S. energy security can be enhanced by moderating demand, expanding and diversifying domestic energy supplies, and strengthening global energy trade and investment. There can be no U.S. energy security without global energy security
- A majority of the U.S. energy sector workforce, including skilled scientists and engineers, is eligible to retire within the next decade. The workforce must be replenished and trained
- Policies aimed at curbing carbon dioxide emissions will alter the energy mix, increase energy-related costs, and require reductions in demand growth

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The NPC study also drew conclusions about energy security. These highlighted that there cannot be US energy security without global energy security, that a majority of US energy sector workers including skilled scientists and engineers will be eligible to retire within the next decade, and that policies aimed at curbing carbon dioxide emissions will alter the energy mix, increase energy-related costs and require reductions in demand.

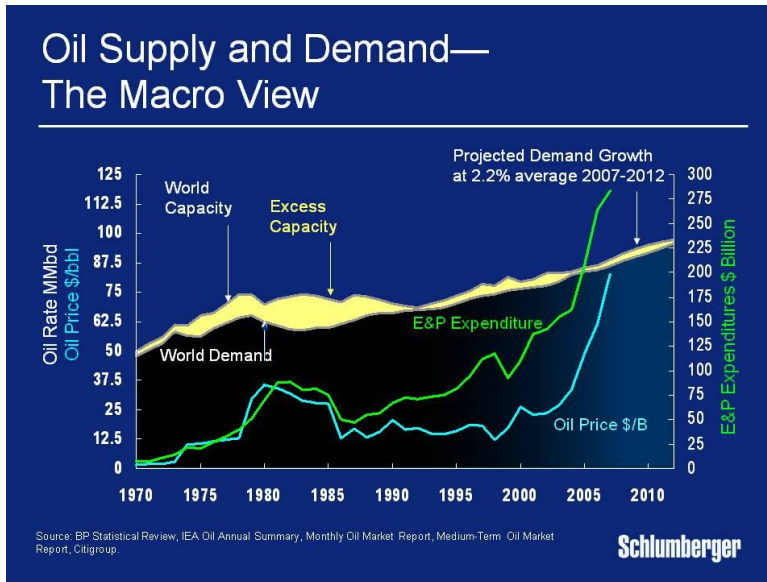
But before I talk specifically about oil and gas I would like to comment on three issues that I think are generally underestimated by all interest groups and which are critical to appreciating the issues we are facing.

The first of these is scale. The issue with alternative energy sources is either that they will not scale to a size with current technology that they will meaningfully displace fossil fuels—wind and solar are the obvious examples—or they require major technology breakthroughs to become contributors without upsetting other delicate supply balances. The case of corn ethanol is one example here. Further, other proven technologies such as nuclear and clean coal—which can provide some scale—face political and public acceptance challenges and require long lead times to make a meaningful impact on energy supply.

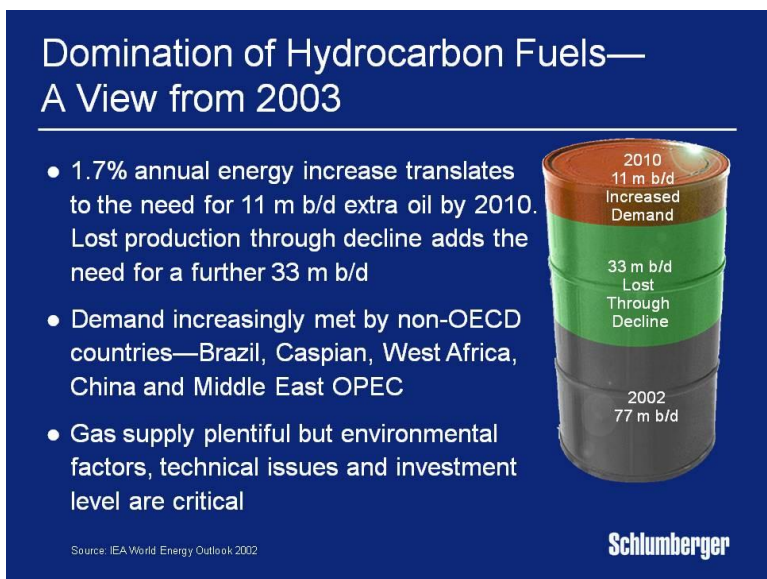
The second issue is that for alternative energy sources to make a difference to overall energy supply, each will require concurrent technology and infrastructure investment on a scale that our economies have not experienced since the end of the Second World War.

The third issue is the delicate environmental equation of how far the world is prepared to sacrifice its short-term economic growth to reduce the risk of global warming. This is a question that will dominate domestic and international politics over the next few decades as the cost and responsibility for emissions are debated between different interest groups and nations.

All of this means that a transition away from fossil fuel energy is going to be long and will likely occur in two stages. The first stage will be characterised by more efficient use of our fossil fuel resources in the context of technologies designed to minimize emissions while the second will be a transition to alternative sources of energy as technology makes them available. However, this process will take at least 50 years as the NPC, EIA and IEA all agree so let us now turn to the energy security risks associated with today's oil and gas supply.



In the long period after the collapse of the oil price in 1986, the world lived comfortably off the excess supply capacity developed by the industry following the oil price shocks of the 1970s. In the mid-80s this excess capacity had reached around 12 million b/d. As a result, oil prices remained low and there was little incentive for companies or governments to invest in new production, infrastructure or people. In the early 2000s this situation was made worse by the resurgence of production in the former Soviet Union which masked alarming declines in other non-OPEC producers and in certain of the OPEC producers. By 2004, some 70% of the world’s oil production was coming from fields that had been in production for more than 30 years.

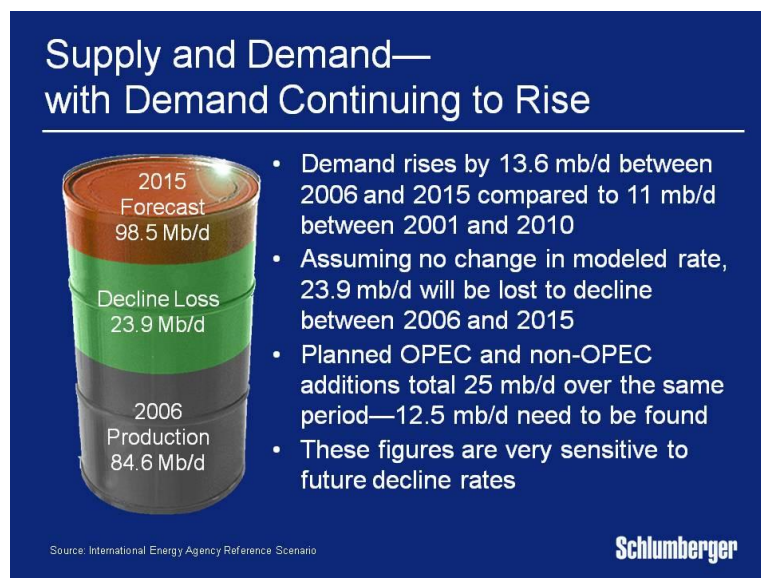


This is a slide I used in 2003 to summarise oil supply and demand. As you can see, demand was expected to grow by 11 mb/d to 88 mb/d by 2010 with three times as much production

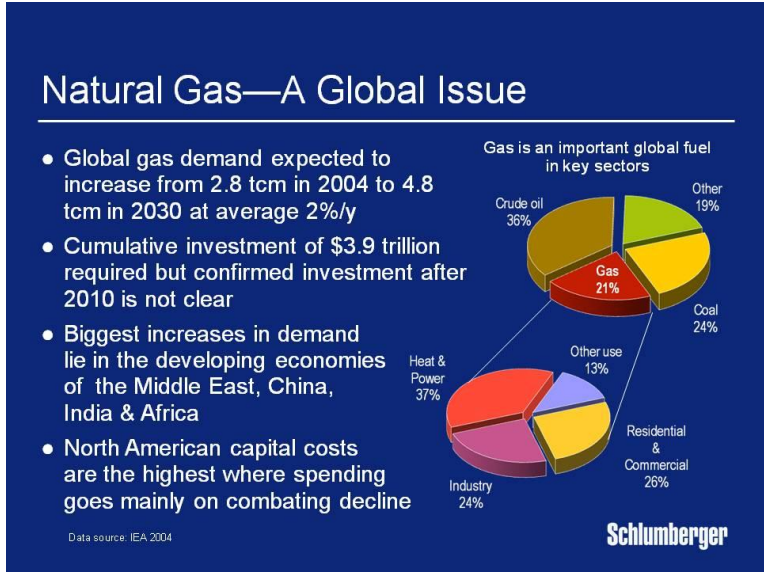
being needed to offset the decline in mature field output—assuming a moderate rate of decline.

Since then, non-OECD demand has grown much faster than OECD demand with the 88 mb/d forecast likely to be exceeded somewhat earlier than expected in spite of a quadrupling of the oil price. This unexpected strength in non-OECD demand is confirmed by the fact that the 2002 forecast for 2010 has already been exceeded by 800 kb/d.

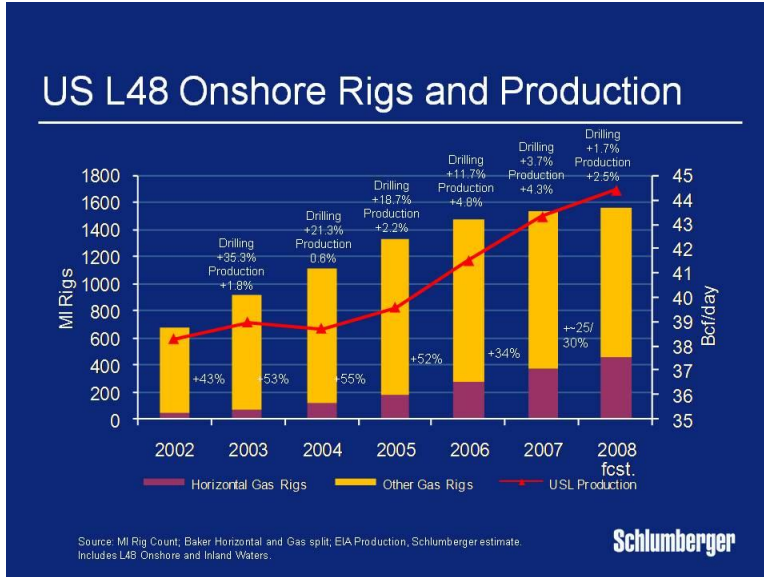
The slide also emphasizes the importance of decline rate assumptions when determining the necessary investment in exploration and production. One way to moderate this decline is by increasing drilling intensity which has the added benefit of improving recovery.



This is a similar slide produced in 2007 showing clearly the effect of the heightened demand projections coming essentially from the developing economies. New demand between 2006 and 2015 is now estimated at 13.6 mb/d and, assuming no change in the modeled decline rate, 23.9 million barrels a day will be lost to decline over the same period. This leads to a total requirement of 37.5 mb/d, and with known and planned additions over this period totaling only 25 mb/d, there could be a shortfall of as much as 12.5 m/d. It would take a huge recession to bring these numbers into balance let alone create excess supply.



As for natural gas, IEA data show demand rising at an average annual rate of 2.5% over the 10-year period from 2004 to 2015 and then slowing somewhat thereafter. Cumulative investment of \$3.9 trillion will be required to grow global supply to the levels needed to meet this demand through 2030, and demand growth will be fastest in the developing economies. But it is in North America that capital costs are highest and where spending goes mainly on combating rapid decline rates to maintain production.



The extraordinary increase in gas drilling in North America over the past five years is testament to the fact that as more prolific gas wells went into decline they were replaced by poorer quality unconventional gas supplies on land. Many of these reservoirs display high initial decline rates and this has important consequences in drilling intensity and

technology needs. In particular, the shift to horizontal wells is increasing as a means to improve reservoir contact and therefore initial production rates.

Challenges for E&P Companies

- Delivering production targets—both IOCs and NOCs
- Delivering projects on time and budget—IOCs and NOCs
- Competitive, cost-effective development projects particularly for the mega-majors, but also for the NOCs
- Operational and technical integrity as projects grow more complex and technically challenging
- Reserves and reserves replacement for both NOCs outside Middle East and Russia, but particularly for IOCs
- Growing the overall NOC and IOC resource base

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So given these facts, why are we so slow in bringing on new supply? After all, the forward curve is now above \$100 all the way out to 2015 and investment capital should not be an issue. I would say that there are a number of factors that are conspiring to make rapid reinvestment in new supply a complex issue with both international and national oil companies facing multiple challenges. These include delivering production targets in the face of decline rates, cost inflation, project delays, complexity and technical integrity, reserves replacement and more generally growing the overall resource base.

Restricted Access to Proven Oil Reserves

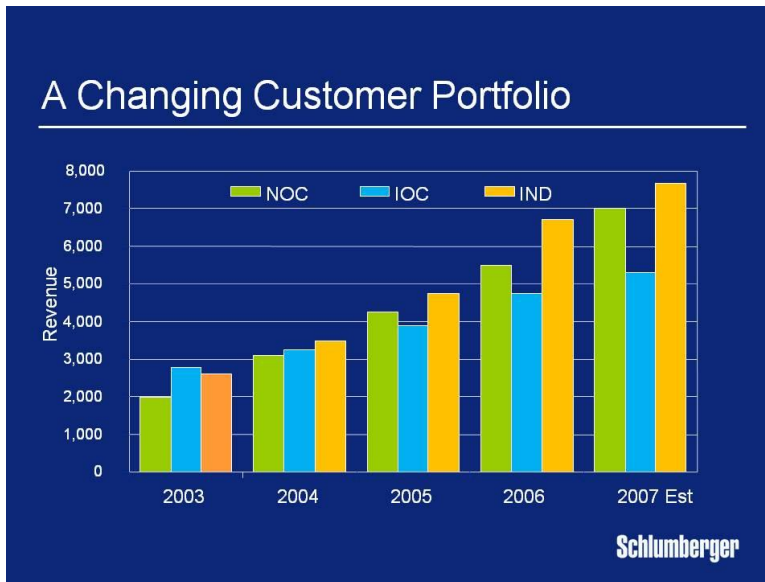
Reserve Category	Percentage
NOC oil reserves No equity access	77%
NOC oil reserves with equity access	11%
Oil reserves held by new Russian companies	6%
Reserves with full IOC access	6%

Less than 25% of worldwide reserves are accessible to private international capital

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Source: PFC Energy

One issue that attracts much attention is the heightened resource nationalism around the world that has limited investment opportunities for private international capital particularly in areas where quick incremental gains in production would be possible. This does not mean that gains will not occur, but it does mean that they will take longer than if access had been more open. In addition, geopolitical and security issues have either hampered efforts to maintain production in some areas, or have prevented development of new production in others. With less than 25% of worldwide reserves open to private capital an increased responsibility lies on the national oil companies to invest in new capacity to satisfy demand. This responsibility is being fulfilled to varying degrees.



This shift in resource control is having a fundamental effect on the oilfield service industry as more and more exploration and development work is being undertaken directly by the national oil companies. In addition, the majority of the identified hydrocarbon reserves lie in the Middle East, Central Asia and Russia, and the industry will need to work in new geological and geographical environments of increasing complexity. This chart shows how investment has changed over the last five years using Schlumberger revenue derived from each of our three major types of customer, NOCs, IOCs and Independent Operators as a proxy.

E&P Company Challenges— Delivering On Time and Budget

- Effect of rapid inflation post 2003 on budgets made in the late 1990s
- Effect of imported inflation from other industries particularly raw materials, in competition with other sectors
- Lack of skilled personnel in the engineering and construction sectors
- Cost of offshore rigs
- Underestimated project complexity

Examples include:

- Sakhalin 2—\$22 billion versus \$13 billion (+69%)
- Snohvit—\$9.3 billion versus \$6.5 billion (+43%)
- Kashagan—\$19 billion versus \$10 billion (+90%)
- Gorgon—\$18 billion versus \$11 billion (+64%)
- Skarv—\$5 billion versus \$2.8 billion (+60%)
- Gassi Touil—\$5 billion versus \$2.5 billion (+100%)

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The effects outlined here have also had a dramatic effect on certain high profile projects with highly publicized overruns causing complex reactions from host governments partners and shareholders. In fact, given the time scale on which the industry operates, many of these projects were planned, engineered and budgeted before inflation hit the industry. Much of this inflation has been imported from world demand for raw materials. For example, the price of high-carbon stainless steel has more than doubled over the past three years, while the cost of cementing and stimulation raw materials has grown by half. At the same time personnel costs have increased by as much as a third in some areas.

As a very rough measure of the effect of this inflation, upstream spending increased by 120% between 2004 and 2007, while the number of wells drilled increased by only 52%.

E&P Company Challenges— Cost-Effective Projects

- High oil prices are not a guarantee of profitability
 - Government take has increased in most places
 - NOCs are not immune from this
 - Risk factors associated with political uncertainty have increased
 - Cost inflation has eaten into margins—large contingencies are necessary
 - Not all companies have raised hurdle rates to reflect this environment
- There is a real danger of underinvestment where companies doubt a proper return is available

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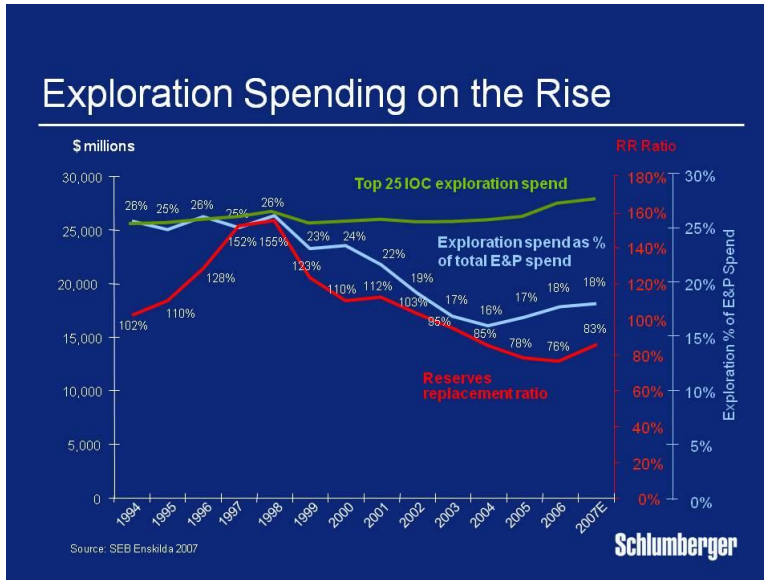
In addition we have seen governments in both the developing and developed world assume that high oil prices mean they can tax with impunity and change investment terms with no fear of losing partners. Increased tax take and changes in upstream fiscal regimes inevitably impact our customers' investment decisions. If you couple these uncertainties with cost inflation and the execution risk associated with talent shortages I have no doubt that companies are delaying decisions or raising hurdle rates. There is a real danger that this will cause underinvestment and simply exacerbate the problems.

E&P Company Challenges— Greater Technical Complexity

- Easy conventional oil projects are largely off-limits to IOCs
 - Oil projects open to IOC access are technically challenging and expensive. They are in deepwater, hostile environments or the hydrocarbons themselves are challenging—toxic associated gas, heavy oil, shale oil etc.
 - Gas projects are equally complex due to types of gas or costs associated with development or ultimate use—corrosive gases, by-product waste, LNG, GTL, remote locations
 - Risk factors associated with technology increasingly play a role in project decisions—HPHT, water depth, subsea processing, flow assurance, extreme weather
- Operational excellence will be a differentiator for IOCs with host governments, community groups and shareholders

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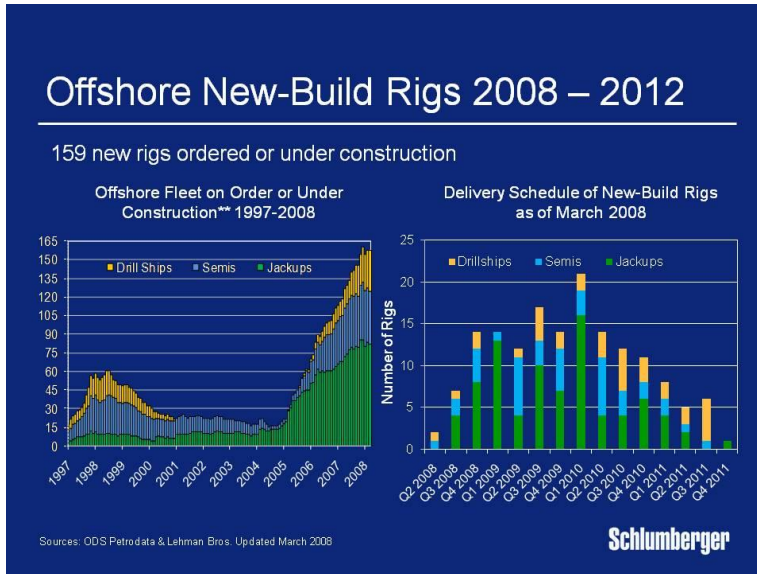
Many new projects also involve much greater technical complexity and this is the domain of the IOCs—and particularly the majors—where they can fully leverage their technology, project management and marketing skills. These projects are increasingly technically challenging and expensive. They are often in hostile environments and the hydrocarbons themselves are increasingly challenging to produce. Gas projects are also increasingly complex for similar reasons. In addition the risk factors associated with technology are playing a greater role in operating company decision making and our customers are therefore striving for levels of operational excellence that the oil and gas industry has never before attained.



In addition, the reserves replacement ratios of our customers have not been helped by lower exploration spending, which as we saw earlier, is partly a result of the restricted domain available. The estimate shown here—based on the twenty-five top private international oil companies—clearly shows a declining trend in exploration spending over the past 10 to 12 years although recent data show some reversal of this trend that is reflected in growing activity within the service industry.

While the national oil companies are excluded from this study, a recent report by Energy Intelligence shows stagnation in overall reserves within the principal producing countries although their national companies are increasingly active in exploration as the Tupi discovery offshore Brazil attests. In fact resource-rich national oil companies are increasing exploration as they need to reassure consumers they will be able to supply, while those who are reserve poor seek to reassure their governments that they will be able to help satisfy their nations’ energy needs.

In exploration, probably more than in any other part of the E&P business, the effects of the long periods of slow investment are felt through a lack of exploration geologists and geophysicists. This will not be easy to overcome in the short term.

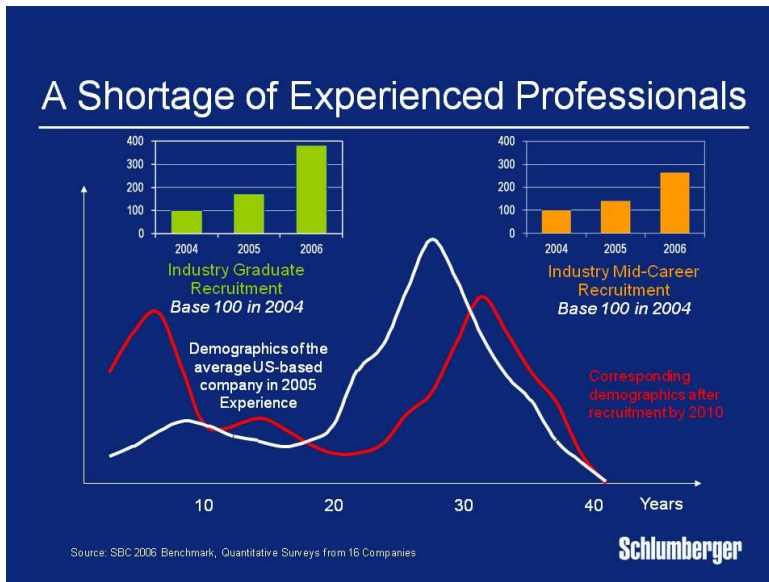


Much of the new exploration to come will be in deeper waters where seismic activity has been particularly strong over the past few years. To meet this need, almost 160 new rigs are under construction in shipyards around the world with these rigs beginning to enter service this year although their full effect will not be felt on activity until perhaps 2009 or 2010. At the same time, to crew and support the new rigs the industry will need to add more than 30,000 new people. Mobilization on this scale presents an immense challenge with smooth execution being essential to success.



In line with these trends, technology needs have also ramped up considerably with the industry focusing on a host of new applications. For example, the economics of sustained higher oil prices have made exploration projects that would have seemed impossible only three years ago very much more attractive. Such projects however will be more

technology intense, and will require new techniques effective in mitigating risk in complex geological environments. Further technological advances have also become needed to improve the performance of the existing production base where combating decline through production enhancement has become a priority. As I said earlier we believe that increased drilling density will help considerably in this area but this will require accelerated drilling and well construction solutions that integrate individual technologies in operations such as completion and stimulation. Lastly, the shift to greater development of unconventional hydrocarbon resources—as identified by the NPC study—will need to accelerate, and this too will demand a range of new technologies to produce these more complex fluids.



I would now like to return to what I believe to be the greatest shortage that the industry is facing. Years of underinvestment in new talent have led to a limited and ageing pool of skilled workers. Their replacement cannot be done overnight, and while the industry has begun to hire again in considerable quantity, it takes time to train the large numbers of new recruits. There is little doubt in my view that the shortage of engineering talent is the single largest factor that stops our customers from investing more.

Hiring and Training of New Professionals

- Recruiting and training have rapidly accelerated since 2004
- More than 18,000 staff recruited with degrees or diplomas over the 2004-2007 period
- This includes more than 6,000 engineers from 200 universities in 80 countries
- Their training will be a major part of the 400,000 training days targeted in 2008

Abu Dhabi
March 2007

France
January 2004

Siberia
November 2007

Source: Company Data

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The response has been the vast hiring, and subsequent training, of many new professionals. Schlumberger has been fortunate in this regard as for almost 40 years we have had a policy of hiring professionals from the areas in which we work. This history has allowed us to respond vigorously to the need to expand the workforce. From 2004 to 2007 we recruited more than 13,000 technical staff with university and college degrees or diplomas out of an overall headcount increase of approximately 18,000. In the last two years, in answer to the extraordinary explosion of activity, we recruited more than 6,000 engineers from over 200 universities in 80 countries.

To cope with this load, engineer and specialist training days have more than doubled since 2004, and we have opened new training centers in France, Abu Dhabi and Russia.

Final Thoughts

- Lack of access, lack of resources, uncertain fiscal terms, and project equipment delays hamper the supply response
- Current levels of activity are failing to adequately stem decline particularly in offshore areas where costs are high
- While a new exploration cycle has clearly begun, only the seismic phase is clearly underway as drilling is limited by delivery of new rigs—particularly in deep-water areas
- These factors have combined to yield the strongest environment for oilfield services for more than thirty years
- “There is no easy solution to the energy challenges we all face—we will need all economic energy sources”

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Ladies and gentlemen, in conclusion the inherent fragilities in the oil and gas supply chain that I have described mean that the response to build adequate new supplies is going to take much longer than originally anticipated.

The cycle has reached a stage where a number of constraints are slowing expansion. Lack of access, lack of resources, uncertain fiscal terms, project delays and new equipment delays are all hampering the supply response.

Current levels of activity are failing to adequately stem decline rates, particularly offshore where intervention and new drilling is more difficult and costly. In mature land operations, drilling will need to increase to maintain production in areas such as Russia and Mexico. And while a new exploration cycle has begun, only the seismic phase is clearly under way as drilling is limited by the delivery of the new rigs needed—particularly in deepwater areas.

These factors have combined to yield the strongest activity that we have seen in the industry for more than 30 years. The challenges in meeting energy demand with sufficient fossil fuels until alternative energy sources are available will mean that this environment will continue for longer than we might have originally expected.

Finally, let me quote the NPC report one last time—“there is no easy solution to the energy changes we face; we will need all economic energy sources.”

Thank you very much.