

LEHMAN BROTHERS CEO ENERGY/POWER CONFERENCE 2006



Good afternoon Ladies and Gentlemen. This afternoon I'd like to describe the activity picture that has been emerging this year and how we view our position before I discuss some of our financial targets.

Challenges to Growth in Supply

- Investment levels remain insufficient for industry needs
- Decline rates gain in significance
- New exploration areas present issues of access and risk
- Investors view commodity prices levels in the short term
- Service sector constrained by capacity and people

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Earlier this year I presented a summary of some of the challenges to growth in energy supply. I discussed the beginnings of the supply-side response and outlined the view that I felt that there was, and is, no quick fix to the picture. Since then I have seen nothing that makes me change that opinion. But before commenting on future trends, I would just like to review some of relevant facts from the last 12 months.

A Year in Review

- Oil demand grew by 1.4% with supply growth limited to OPEC production—non-OPEC production was essentially flat
- Supply hit by disruptions in the Gulf of Mexico and Nigeria, slower growth in Russia, and production closures in Alaska as well as by shortages of rigs and people
- Saudi Arabia announced massive investment in development of new capacity requiring substantial rig count increases
- Seismic activity up dramatically with even higher growth to come
- Renewed exploration efforts underway in many areas

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Despite persistently high commodity prices, recent International Energy Agency (IEA) reports indicate that world demand growth for oil in 2006 remains broadly unchanged at 1.2 million barrels per day (mb/d) or 1.4%. In 2007, this is forecast to increase to 1.9% and both of these figures are coherent with the existing long-term average growth forecasts of 1.6% per year.

Economies in the OECD countries are proving resilient to high oil prices as evidenced perhaps by the American motorist accepting the reality of \$3 gasoline. Demand in countries that are rapidly industrializing has not been sufficiently elastic to price to be seriously reduced and indeed China's growth accelerated to approximately 8% in the first half of this year. Governments everywhere have recognized the need for energy conservation but in general do not yet seem ready to assume the political consequences of serious policy initiatives.

World supply of oil has grown to match demand although production has only increased modestly with recovery in the Gulf of Mexico offsetting supply disruptions in Nigeria and project delays elsewhere. The call on OPEC crude remains around 29 mb/d implying little change in effective physical spare capacity of approximately 2 mb/d. The IEA has lowered its expectations for non-OPEC production growth this year but continues to see growth in 2007. This can perhaps be seen as an endorsement of the trend towards larger increments of future production coming from the Eastern Hemisphere in general and in the Middle East, Russia and the Caspian in particular.

The past 18 months or so have been characterized by a series of events affecting supply. These include disruptions in the Gulf of Mexico and Nigeria, slowing production growth in Mexico, production closures in Alaska as well as increasing signs of physical constraints on growth in upstream activity resulting from the shortage of equipment—particularly offshore rigs—and the lack of skilled professionals.

For the future, Saudi Arabia has begun massive investment in new production capacity for both oil and gas as witnessed by the huge increase in active rigs. Seismic activity is continuing to increase across the world in dramatic proportions. New exploration efforts are underway in North Africa, the US and Russian Arctic, Eastern Siberia, deepwater India and Malaysia, the Norwegian Arctic Sea and West and Central Africa. Around the world governments have understood that re-investment in energy and energy infrastructure has become an urgent priority if we are to avoid the future energy shortages that may hamper economic growth.

If we look at natural gas, there are distinct differences between the short-term outlook in North America and the longer-term global backdrop. The IEA has recently published data that indicate demand rising at a compound annual rate of 2.71% through 2010. This same set of data indicates that only half the needed investment to grow supply to meet demand has been committed with both consumers and suppliers in Europe seeking better commitments for future investment.


The mild North American winter of 2005/2006, and the record levels of drilling activity, have led to gas in North American storage significantly above five-year levels. While this may lead to a short-term, slowing of growth as service capacity starts to catch up with demand the same record levels of drilling activity have not prevented North American gas production continuing to fall from one year to the next driven by decline rates that some observers have indicated exceed 30% per year—both on land and offshore.

Finally, it is worth noting that the total increase in E&P spending announced in the 2006 Lehman Brothers survey published just before the summer indicated a new record level of \$261 billion—representing a 21.3% increase over 2005.

I would now like to share some concrete examples of how this growth is manifesting itself before trying to draw some conclusions.

Growth in 2006 by Geography

- **Russia**
 - Growing demand for IPM-type work and Drilling & Measurements services
 - ESP manufacturing facility opened
 - Training center partly open end 2006
- **Middle East**
 - Strong growth driven by Saudi Arabia where rig count has been increasing by ~50% year-on-year—2004 to 2006)
- **North Africa**
 - NOC activity and IOC exploration work following license round driving growth in Algeria. Activity in Libya is similar both in scope and timing



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Russia remains the fastest growing area for Schlumberger boosted by our acquisition of the remaining 49% of PetroAlliance Services in May this year. Drilling & Measurements technologies have become the fastest growing services as the growing success of horizontal side tracking as an alternative reservoir drainage technique becomes more widely recognized. Integrated Project Management-type work is also growing as activity begins to spread eastwards. The severity of last winter however highlighted another seasonal factor in oilfield activity.

Our success in Russia is underpinned by significant progress in our plans for the engineering and development of technology. We have opened the electrical submersible pump manufacturing plant in Tyumen, West Siberia. This facility has the capacity to assemble 800 strings a year—representing 5% of the Russian market—and our first Russian-assembled pumps are already in the ground. While parts are currently imported from elsewhere, we have begun to qualify Russian suppliers and expect that our pumps will become increasingly manufactured from Russian components. Elsewhere, we produce perforating equipment, build parts of our fracturing fleets and have formed engineering teams to focus on the development of equipment fit for purpose for the Russian market.

Progress has been made also at the Schlumberger Siberia Training Center. By 2008, this location will be able to provide 2,800 man-years of training to personnel in Russia and in the Russian-speaking republics of the Caspian and Central Asia. The first stage of the center's facilities will open later this year.

Growth is strong in the Middle East, driven principally by the extraordinary ramp up of activity in Saudi Arabia where average rig count increased from 49 in 2004 to 70 in 2005 and to 100 earlier this year. The projected total this year is expected to approach 120. Of

these 29 belong to the Arabian Drilling Company, a 35-year-old joint venture of which Schlumberger owns 49%.

This dramatic increase in rig count focuses on the goal of increasing and maintaining Saudi Arabia oil production capacity as well as on the exploration activity associated with the gas joint venture projects. To support the business we are on track to invest \$100 million in Capex spend in 2006, almost four times the level in 2004 and we have authorized construction of two new operating bases. To meet this increased activity, our headcount in Saudi Arabia has been increasing at an annual rate of 20%.

In Algeria, the combination of the recent licensing rounds and a new exploration thrust by Sonatrach has already lead to a substantial increase in activity. Seismic activity is strong leading towards high levels of exploration drilling towards the end of this year and into next. Most contracts are already in place and the rigs are either in country or can be identified. In addition some major development projects will get under way and there will be sustained attempts to maintain and increase production from existing fields. Overall, growth is currently in excess of 20%. Elsewhere in North Africa a very similar activity pattern is developing in Libya.

If I have chosen these three examples it is not because there is no growth in the North Sea, or in markets in Asia or Latin America, or in other traditional areas. They are simply to show some of the areas that hold a long-term promise of sustained levels of new exploration and development activity. All three are very different, but they have several things in common. For example, they offer the reserves to sustain long-term activity, their activity levels are increasing and they are primarily land markets where the logistical difficulty of rapidly ramping up activity is much simpler, less costly and much faster than doing so offshore. This brings me to a few comments on the challenges currently facing the service industry.

Challenges for the Service Industry

- Offshore rig capacity constrained until 2007 or 2008 while lack of trained professionals may delay projects—neither will slow growth
- Increasing exploration and an increasing focus on reservoir characterization will need a changing technology mix
- Digital enablement of operations and IPM-type services will make more effective use of industry professionals
- Technologies for unconventional hydrocarbon recovery and production will become increasingly more important

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First, we do not see a shortage of land rigs although the number of new rigs being deployed will undoubtedly lead to a decline in drilling efficiency. On the other hand, offshore activity will be constrained by the lack of rig capacity which will delay projects into the 2007 to 2009 timeframe when the first of the nearly 90 new builds ordered over the past two years start to enter service. While some operators may have delayed projects rather than pay higher prices and, others may be reluctant to start new and complex projects given the lack of trained professionals, this does not seem to be greatly affecting service industry growth rates. What is essential to the service industry at the moment is the ability of an already-stretched supply chain to deliver the new equipment and products necessary to meet the increase in activity. There is much evidence, both anecdotal and real, of even large service companies not bidding on significant contracts.

Second, the trend that we have seen towards exploration will continue to accelerate. This will affect the types of technology that will be used from our portfolio as well as the overall uptake of technology. The economics of sustained higher oil prices are making exploration plays that would have seemed impossible only three years ago very attractive. After all, who would have thought we would see such a dramatic recovery in the seismic industry, or that we would see as many as 300 rigs drilling for oil on land in the US—a figure that has doubled in the past 12 months.

Third, the industry will continue to struggle with the lack of trained professionals. As a result, systems for more effective use of the core of specialists that exists will become more and more prevalent. One example of this is the deployment of digital systems to allow experienced staff based in remote operations support centers to interface with a number of simultaneous operations. In addition, the use of IPM-type services for well construction and production management are in demand and will become even more so.

Fourth, technology for non-conventional hydrocarbon recovery and production will become more and more important. The decline in US natural gas production that I mentioned earlier would be much more dramatic if substantial advances had not been made in the technology associated with such production. As the quality of the type of hydrocarbon declines, the importance of technology in their recovery increases.

As my time is limited I do not intend to discuss all of these points in detail. But I would like to spend some time on how the exploration and production market will develop and why I think it offers significant potential for growth for Schlumberger for many years to come.

Oilfield Technology Percentage Growth 2001-2005

	2001	2002	2003	2004	2005	Aggregate
Directional Drilling	30.4	1.1	9.2	16.0	25.8	142
Coiled Tubing Services	35.8	-19.5	16.7	26.2	26.5	140
Pressure Pumping	32.8	-16.5	19.2	21.8	26.5	138
Completion Equipment & Services	24.1	-3.8	8.5	17.3	22.4	114
Logging-While-Drilling	20.9	-2.5	9.5	16.5	20.8	105
Artificial Lift	23.3	-0.4	10.5	17.9	11.9	101
Geophysical Equipment & Services	20.6	0.9	-2.2	9.7	16.5	75
Wireline Logging	19.4	-9.4	13.7	14.7	13.5	76
Production Testing	21.9	-2.7	9.8	-0.3	6.7	50

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Many of you are familiar with this chart showing overall growth rates across the various oilfield service technologies. Growth rates over the past five years have favored the technologies used for field development and production maintenance. The technologies used in exploration activities, such as geophysical products and services, have lagged. With the shift towards more exploration, and an increased focus on reserves, reservoir characterization and ultimate reservoir recovery, this picture is beginning to change. But I would like to add one other element before I discuss this technology shift in detail, and that is the remarkable progress that has been made in drilling over the last ten years.

Today we can drill targets cost effectively that ten years ago would be unimaginable. Technology has extended the reach of horizontal wells to lengths of 10 miles—double what was possible 10 years ago. Rotary steerable systems, significantly improved MWD (measurements-while-drilling) data rates and slimmer-diameter logging-while-drilling tools have all contributed to this. The net result is that we can hit a target the size of tennis court from 10 miles away. In fact drilling technology has almost outstripped our ability to identify suitable tennis courts in the first place.

As we enter a new exploration phase we know that infield exploration or enhancement of recovery from existing reservoirs will remain a key contributor to increasing production. We also know that accumulations of new oil in most of the accessible exploration areas will be smaller or more complex to recover. As a result, improved characterization of the reservoir will become more critical than ever before and this will require much better evaluation of uncertainty with consequent mitigation of risk.

In this new exploration phase, I am very excited about several families of technology that Schlumberger has introduced, or is introducing because of the contribution they can make to improve reservoir characterization.

Q-Seismic New Technology

- Low noise, high-fidelity, repeatable seismic acquisition for exploration and reservoir applications
- Fast initial processing with quasi real-time capability on land
- Superior resolution and repeatability respond to difficult challenges
- Flexibility ensures optimum production monitoring, optimized development drilling and reduced exploration risk
- Unique to Schlumberger



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If we take them in order of their market introduction, Q* seismic is a huge improvement over all previous systems in the quality of seismic definition. Q-Technology* provides improved, low noise, repeatable seismic measurements that reveal subtle and complex reservoir details. Unlike standard techniques, it acquires data from every sensor digitally, avoiding conventional seismic signal averaging, and yielding information of much higher fidelity. In addition Q offers faster processing—enabling usable time-lapse surveys offshore and quasi real-time results on land.

But there is even more significance in Q technology. Among the benefits lies the value of reduced risk. Integration of seismic with other data has always been an industry process and the extraction of reservoir parameters from seismic attributes has long been possible. But now, integration of advanced wireline and logging-while-drilling data, together with newer techniques such as controlled source electromagnetics offers even greater perspectives in better reservoir understanding. The synergy that we can build through the acquisition of the minority interest in WesternGeco, and in the inversion technology of Ødegaard—a leader in its field that we acquired earlier this year—will be critical to the development of such understanding.

While the recent purchase of the minority increase in WesternGeco was accretive on the basis of seismic activity alone, future results will be further impacted by our ability to integrate seismic with other Schlumberger measurements

Scanner New Wireline Technology

- New-generation wireline services make deep 3D measurements of the formation rock and fluid
- A family of services—the first three of which provide resistivity, sonic and magnetic resonance data
- Reduces risks associated with more complex reservoirs and smaller hydrocarbon accumulations
- Increases reservoir understanding



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In wireline logging technology we have just introduced a new family of open-hole measurements that represents the biggest change in measurement quality since we introduced the first imaging tools in the mid 1980s. The new services, known as the Scanner Family, are not yet complete, and you will see further introductions in the near future.

Scanner services take evaluation to the next step—a three-dimensional scan of the formation—so giving customers a deeper understanding of reservoir rocks and fluids. The first three services to be introduced are the Rt Scanner* multi-array tri-axial induction tool; the Sonic Scanner* advanced acoustic platform; and the MR Scanner* nuclear magnetic resonance tool. Scanner technologies see deep into the formation at simultaneous, multiple depths of investigation to reduce a number of the uncertainties associated with reservoir characterization.

Scanner technology deployment has been rapid. The first member of the family, the Sonic Scanner, has already been introduced in 19 of our 29 GeoMarkets with well over 500 jobs having already been run.

One critical area of reservoir characterization that will benefit from such technology is that of geomechanics—which can be broadly defined as the need to better understand rock stresses and long-term formation integrity. This enables quantification of the impact of the drilling process for example. Integration of measurements is an essential part of this field and to develop this market we purchased TerraTek, the global leader in geomechanical measurement and analysis earlier this year. Specific benefits here include the value we can now add to advanced measurements such as the Sonic Scanner in order to mitigate the risk associated with complex reservoirs and lower-quality hydrocarbons.

New Well Testing Technology

- New-generation testing services needed for better evaluation
- New measurements at lower cost with reduced environmental footprint
- Unique Schlumberger range of surface measurement equipment, downhole shut-in valves and pressure measurement gauges
- Increasing exploration activity
- Development of more complex hydrocarbon accumulations

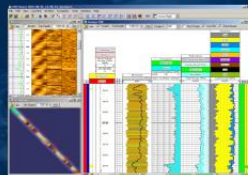


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Well testing is another technology that is growing in importance with increased interest in exploration and the development of smaller or more complex accumulations. Due to cost and environmental pressures, customers in recent years have greatly reduced the number and duration of the flow tests they perform on exploration and delineation wells. While wireline formation testing tools have rendered the need for many tests obsolete, there is growing recognition that there is no substitute for flowing the reservoir to make a good estimation of long-term reservoir performance. Schlumberger testing revenues grew by more than 30% last year, and we are seeing a similar rate of growth in 2006.

Scope MWD/LWD New Technology

- State-of-the-art formation evaluation with integrated MWD/LWD tools that combine measurement sensors
- Higher efficiency and greater reliability with fast rigup and performance monitoring
- New measurements include formation pressure and deep electromagnetic imaging
- Improves well placement
- Enables faster, more efficient drilling

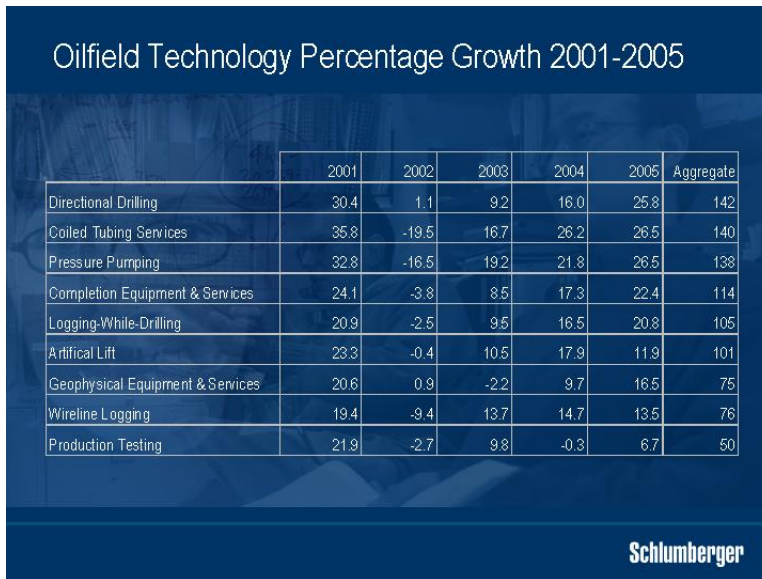


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Last year we also introduced the Scope* series of measurement-while-drilling and logging-while-drilling services that dramatically improve drilling performance and well placement. They represent one more step in improving recovery from smaller and more

complex reservoirs. Scope services set new standards for reliability and data quality, while quadrupling data transmission rates over the industry standard.

As part of the family we introduced the PeriScope* directional, deep electromagnetic imaging-while-drilling service that is revolutionizing well placement with its unsurpassed ability to see the reservoir as the well is being drilled. This technology enables formation and fluid boundaries up to 15 ft away from the tool to be continuously monitored so that horizontal and extended-reach wells can be drilled entirely within the reservoir sweet spot. From the very first field test, PeriScope customers have typically been able to eliminate sidetracks and enhance production and increase recoverable reserves.



We are very pleased with the acceptance of the many technology introductions we have made in the areas that I described. Their timing is fortuitous in that they coincide with a new exploration cycle, and with a growing need for better reservoir characterization. You will recall that I started this discussion on technology with this chart showing the relative growth rates by type of service over the last five years. These were heavily biased towards production but we feel that in the next five years this bias will shift towards exploration and reservoir recovery related services. And as some of you will have already noted, these services are in markets where Schlumberger is clearly established as the leader with sustainable differentiated technologies.

Before leaving the subject of technology, I would just like to comment on the digital world of real-time operations.

Digital Enablement for Real-Time Operations

- Integrates communications technology to enable connection of field operations to remote support centers where specialist staff are available
- Includes workflow processes to identify, diagnose and suggest remedies to operational issues
- Provides remote technical expertise and supports less-experienced field crews
- Eases workforce constraints



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We have all heard a lot over the past few years about the digital oilfield. We have heard ambitious claims for real-time reservoir management, not least from my own company and these ambitions will undoubtedly happen at some point in the future. In the meantime we have seen, and will continue to see what I call the digital enablement of the various data streams used in E& P operations, be they data for drilling, fracturing or production.

One example is the growing use of drilling centers. Our own operations center in Aberdeen can monitor up to 28 concurrent drilling operations in the North Sea and a similar center exists in the Gulf of Mexico. While some customers with large operations may prefer to bring their own center in-house, others will prefer to rent a desk in a service company center. This approach is not limited to drilling operations of course—wireline logging and well stimulation services can be handled in a similar manner.

The benefits of such technology are many but above all it is the enablement they bring to complex projects where centers of expertise can be directly linked to the well site in real time to allow the interaction between geoscientists and drillers that is essential to success. In addition, the same technology can be used to coach younger engineers who are currently being recruited in greater and greater numbers.

I'd now like to update you on our business segment financial performance and I will begin with WesternGeco.

WesternGeco Growth

- Sustained differentiation with Q and SLB integration. Q revenue grew from \$79M in 2003 to \$162M in 2004 and to \$399M in 2005
- Land business set to grow—Q-Land becoming significant differentiator
- Marine driven by Q-Marine and Q-Seabed
- Data processing growth through:
 - Joint research initiatives
 - Increased number of in-house centers
 - Increase in Q activity
- Multiclient used in better business model
- Current backlog \$1.2B—up from \$656M at the beginning of 2006



Source: Company Data

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Results have been strong across all business lines as exploration activity grows and Q-technology uptake increases. There have been further strong signals in multiclient sales, in land crew activity and in repeat business and long-term contracts for surveys that use clearly differentiated Q technology. Backlog at \$1.2 billion, is at a new record level.

In 2005 we more than doubled Q revenue from \$162 million to \$399 million—a performance that puts this technology firmly in line with our target for any new technology. First half of 2006 Q revenues confirm continuing strength with these results being generated at significantly differentiated pricing premiums over conventional 3D surveys. In order to meet demand we converted a fifth vessel to Q technology last year, and a sixth in May of this year.

I'd now like to turn to our overall financial goals.

Financial Review

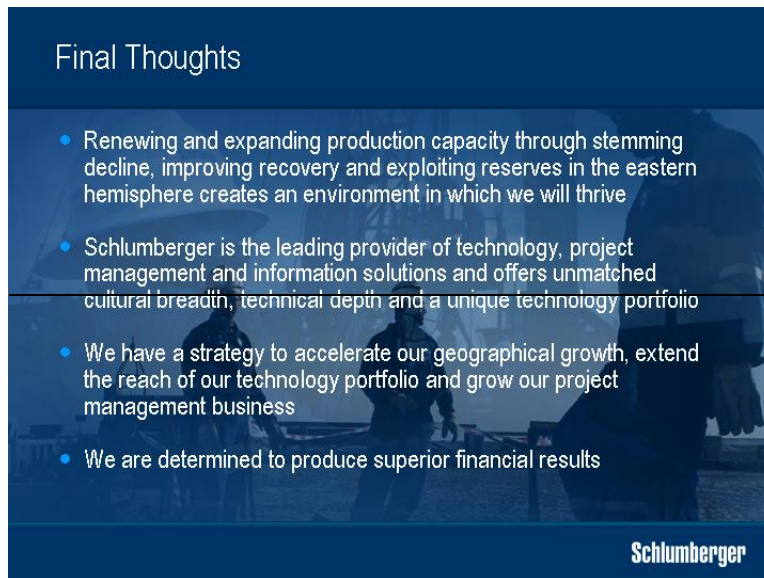
	2002	2003	2004	2005	1Q06	2Q06
Return on Capital Employed (ROCE)	6%	9%	16%	26%	34%	34%
Oilfield Services After-Tax Return on Sales (ROS)	12.2%	13.5%	13.8%	17.1%	19.5%	21.1%
WesternGeco After-Tax Before Minority Interest Return on Sales (ROS)	0.3%	N/A	6.1%	12.0%	21.6%	22.9%
Net Debt	\$5.0B	\$4.2B	\$1.5B	\$0.5B	\$0.8B	\$3.17B

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In June 2004 we said that we expected our compound annual growth rate to be in double digits through 2010. For the last two years we have averaged 19.5%, and we have already said that growth in 2006 will be very similar to that of 2005. Looking further ahead we see no slackening in activity much before 2010 given the industry context—with the usual proviso that any economic recession does not provoke a severe drop in demand. We therefore maintain our high top-line growth targets for the rest of the decade.

Given the activity shift to both the Eastern Hemisphere and towards services that mitigate risk through improved reservoir definition and characterization, we are currently reviewing our long-term profitability goals. Overall, we expect any weakening in North American gas activity to be more than offset by the strengthening activity in the East and the shift to higher-value services. We fully expect this combination to lead to further overall margin improvement.

In line with our strategy of not retaining more cash than we need, we completed our first share buyback program in January this year while announcing a second plan to repurchase a further 40 million shares by April 2010, subject to market conditions. We have already purchased 3.59 million shares under this new plan. Also in January, the Board of Directors approved a 19% increase in the company dividend—just 12 months after the previous 15% increase.



Final Thoughts

- Renewing and expanding production capacity through stemming decline, improving recovery and exploiting reserves in the eastern hemisphere creates an environment in which we will thrive
- Schlumberger is the leading provider of technology, project management and information solutions and offers unmatched cultural breadth, technical depth and a unique technology portfolio
- We have a strategy to accelerate our geographical growth, extend the reach of our technology portfolio and grow our project management business
- We are determined to produce superior financial results

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Ladies and Gentlemen, I have explained why we consider this highly favorable business climate is likely to continue for a number of years with a renewed emphasis on exploration, reserves and reservoir recovery.

The world's requirements to renew and expand production capacity through stemming production decline, improving recovery factors and exploiting the extensive hydrocarbon reserves in the eastern hemisphere through increased exploration creates an environment in which Schlumberger will thrive. The growing worldwide concern over the adequacy of natural gas supplies can only make this situation even more favorable for us. Schlumberger is the leading provider of technology, project management and information solutions to the international E&P industry and has a clear record for growth, innovation and development. Our cultural breadth and technical depth is enormous. We have a strategy to accelerate our geographical growth, extend the reach of our technology portfolio and grow our project management business.

And we are determined to produce even more satisfactory financial results.

Thank you.

*Mark of Schlumberger