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Ladies and gentlemen good afternoon—it’s a pleasure to be in New York and I’d like to thank Jim Crandell for his invitation. I’m going to use my time to give you our view of the industry today and present some of the obstacles and opportunities that we believe are essential for future growth in oil and gas production. I will also describe why I remain confident that Schlumberger is ideally positioned to benefit from the urgent need to increase production and reserves.

Five years ago, I used this slide to summarize oil supply and demand. As you can see, that 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 of course a moderate rate of decline.
Over the seven years from 2002, OECD (Organization for Economic Co-operation and Development) demand growth is expected to be essentially zero, yet the 88 mb/d forecast will still be met in spite of a quadrupling of the oil price due to faster than projected non-OECD demand growth. This unexpected strength in non-OECD demand is well illustrated by the fact that 2007 non-OECD demand surpassed the 2002 forecast for 2010 by 1 mb/d.

Up until now it is a fact that moderation, and even some reduction, of demand in the OECD economies has largely been offset by growth in the developing world though the spike in oil prices earlier this year put even demand from the developing world under threat and we saw several countries reduce fuel subsidies to effectively curb demand.

We have therefore seen some limited demand curtailment as a result of both high prices and reduced economic activity in the OECD countries. At this stage it is difficult to understand if this is demand destruction—meaning a permanent change in energy usage habits that will permanently remove demand—or a temporary change in buying patterns that will revert once prices moderate. In the developing world some reduction in the rate of demand growth will occur but it is unlikely to reduce to zero.

We contend that even in a reduced demand growth scenario—let’s say 1% per annum—the supply problem remains essentially the same and a much deeper drop in demand would be necessary to materially impact exploration and production activity. To illustrate the difficulty we face, this chart tracks successive International Energy Agency (IEA) forecasts of non-OPEC production—production that makes up nearly 60% of today’s supply. While changes have occurred in OPEC membership, not one forecast has met expectations and there is no reason for this to change given the fully mature nature of this production. Further, we believe that non-OPEC supply has entered a plateau more likely to see stabilization rather than any increase in production.
If we look now at where supply will come from in the future, there are several factors that affect the industry’s speed and ability to respond.

First, heightened resource nationalism around the world 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.

This 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. With the majority of the identified hydrocarbon reserves lying in the Middle East, Central Asia and Russia, the industry will need to work in new geological and geographical environments. In addition, governments are increasing their tax take and changes in upstream fiscal regimes inevitably impact our customers’ investment decisions. We have seen governments in both the developing and developed world assume that high oil prices mean they can tax with impunity. The result is lower or slower investment.

Second, the difficulty of bringing new non-OPEC production on line and on time has increased. The 2010 non-OPEC production forecast published in the IEA medium-term oil market report in 2006 was 53 mb/d, excluding Angola and Ecuador. One year later, that forecast had slipped to under 51.5 million, and in the most recent report released last month it stood at 50.6 mb/d led by declines in mature areas such as the North Sea and Mexico.
One of the main reasons for this continuing disappointment is the difficulty in stemming decline in mature fields. While new wells on land have often alleviated the problem, the logistics of offshore operations make a rapid increase in drilling intensity more difficult yet increases become necessary as offshore fields such as the North Sea mature.

The Daqing Field in China for example is one of the world’s largest producing land fields with production around 1 million bpd. In spite of 10,000 new wells being drilled over the past few years, production has fallen by more than 10%.

Oman provides another example where a doubling of rig count has not yet been sufficient to do more than slow the decline. In response, new technologies are being enthusiastically embraced to assist with stemming the decline.
While natural factors affect decline rates, these are also heavily affected by the amount of resources and degree of investment applied. In a market where operators have been devoting scarce human, technical and equipment resources to new projects, I contend that sufficient efforts have yet to be applied to stemming decline.

Third, the efforts of the industry to increase investment have not only led to shortages but also to high cost inflation. IEA data show that although investment has dramatically increased, much of that increase is due to cost inflation and not to activity. 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. We are also experiencing physical shortages from time to time that are actually curtailing investment. At the same time personnel costs have increased by as much as a third in some areas.
Fourth, lower exploration spending, partly as a result of the restricted domain available, has not helped the reserve replacement ratio of our customers. The estimate shown here—based on the twenty-five top private international oil companies—clearly shows the 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 being increasingly active in exploration as the recent series of discoveries offshore Brazil attests.

Finally, the most significant shortage is the lack of experienced professionals in almost every part of the business. 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 that the shortage of engineering talent is the single largest factor that stops our customers from investing more.

As for natural gas, IEA data show demand rising at an average annual rate of 2.6% over the period from 2005 to 2015 and then slowing somewhat thereafter. Cumulative investment of $4.2 trillion will be required to grow supply to the levels needed to meet this demand from 2006 through 2030, with demand growth being fastest in the developing economies. But it is in North America that capital costs are highest where spending fluctuates dramatically in response to domestic price pressures.
Technology and process has done much to unlock North American non-conventional gas resources and will continue to do so. We consider that high levels of drilling activity will remain necessary with increased technology content. In particular, the shift to horizontal wells is becoming more marked as a means to improve reservoir contact and therefore initial production rates.

Earlier this year, the outlook for North American natural gas activity improved as lower winter-exit storage levels, declining Canadian production and lower LNG imports helped firm prices. We are seeing more active drilling in Canada and increased activity in the lower 48 with recent price weakness unlikely to affect activity for the remainder of 2008.

Internationally, the gas picture has changed much more dramatically. There is a growing consciousness of the other OECD countries increasing dependence on imported natural gas, either by pipe, essentially from Russia or in the form of LNG. This has led to an increased desire to diversify the source of supply and there is considerable speculation that project delays and postponements could cause material shortages in the first half of the next decade.

These inherent fragilities in the oil and gas supply chain mean that the response to build adequate new supplies is going to take much longer than originally anticipated with a number of constraints 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 costs are high. While a new exploration cycle has begun, only the seismic phase is clearly underway as drilling is limited by delivery of the new rigs needed—particularly in deep-water areas.
Clearly, a major worldwide recession restricting demand could cause a short term contraction in the cycle, but the underlying condition of the production base means that such a contraction would be very short lived.

Within this context, the challenges currently facing the service industry provide opportunities for Schlumberger to grow.

The first of these is the trend towards exploration which we believe will continue to accelerate. The economics of sustained higher oil prices are making exploration projects that would have seemed impossible only three years ago very attractive. This will affect the types of technology required as well as the overall uptake of technology. Exploration activities are more service intense than those used for development and among these, advanced geophysical imaging technologies that help reduce uncertainty and mitigate technical risk in complex geologies—such as below salt—are becoming essential.

Second, technology is required to improve the performance of the existing production base where 70% of fields have been producing for more than 35 years. Combating decline is crucial to this and technology intensity will only accelerate. We see the need for accelerated drilling and well construction where increased reservoir contact through integration of completion and stimulation technologies brings significant advantages.

Third, there will be a growing shift to more unconventional hydrocarbon resources. The greater service intensity required to produce unconventional natural gas in North America is just one example of this challenge. The move to heavier oil production in Canada and Venezuela is another. In addition, extreme conditions of temperature and pressure as well as increasing toxicity of crudes and gases all make new developments more difficult.
Lastly 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. While this will begin with their recruiting and initial training, it will need to continue in such a way that the new workforce is brought rapidly to levels of competence that permit autonomous decision-making earlier than before.

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 is developing and why I think it offers significant potential for growth beyond the end of this decade.

![Oilfield Services Market Evolution 2001-2007](image)

The compound annual figures shown here are taken from the 2008 Spears Oilfield Market report and track growth in overlapping three-year periods from 2001 to 2007. They confirm that product line growth has been heavily biased towards products and services such as pressure pumping and artificial lift. But they also show that growth has recently accelerated in the 2004-2007 timeframe for products and services linked to new exploration and development. Geophysical services, directional drilling, logging-while-drilling, wireline logging together with production testing are all likely to experience above average growth rates as new exploration activities develop.

Schlumberger has an enviable position in these markets. In the last three years we have made and are continuing to make major technology introductions in geophysical services with Q* marine and land seismic systems, in directional drilling and logging-while-drilling with the PowerDrive* and Scope* families of services, and in Wireline with Scanner* technologies. We are also introducing significant new products and services in pressure pumping and completions with the Contact* family of stimulation technologies. Another technology that has seen significant new developments is that of petrotechnical software with the Petrel* integrated model-based seismic-to-simulation suite.
Indeed the growth of Schlumberger Q seismic is a good example of how a technology has been driven by the upsurge in exploration activity through the value it brings to the characterization of difficult exploration prospects. Q has penetrated most of the hydrocarbon basins in the world and new markets are opening in frontier environments in the Arctic, the Gulf of Suez and East Africa as well as in Alaska, Siberia, Venezuela, Argentina, India and China.

As we have gained more experience with Q, we have also been developing more advanced applications that benefit from the quality of the data. These include the rich and wide azimuth surveys that increase illumination of potential reservoirs below salt and basalt—two minerals systematically prevalent in many of the world’s exploration areas.

Such surveys are highly complex and expensive—requiring more boats and more time while generating as much as six times more data than standard work. Q technology is succeeding here not only because of its greater fidelity, but also because its steerable streamer capability permits greater efficiency. The introduction of dynamic control steering technology adds further accuracy by steering the vessel, the streamers and the source automatically and is unmatched in the industry for its capacity to acquire azimuthal data efficiently.

In response, we acquired Eastern Echo last November with two convictions in mind—first, that exploration will be a major driver of the cycle going forward, and second, that we will continue to significantly differentiate ourselves in all aspects of geophysics. The six new high-performance vessels will all be equipped with Q-generation technology and their increased efficiency will impact the speed and complexity of future operations. This will give WesternGeco considerable flexibility in matching capacity to demand as vessel-intensive operations grow.
At the same time we also expect integration of seismic with other data to accelerate. Our acquisitions of TerraTek, Ødegaard and Geosystem coupled with our own research and development efforts are adding capability in the complete seismic-to-simulation chain. Of particular interest is the emerging technology of deep electromagnetic imaging based on magneto-telluric and controlled source measurements.

To give you an example of what this can bring, consider this example from the deep-water Gulf of Mexico. The seismic image shown here depicts two key challenges in salt-prone environments that affect all aspects of finding and producing hydrocarbons within such areas—namely, where is the base of the salt, and where is the reservoir?
Look now at this integrated plot where seismic, electromagnetic and gravity data have been combined. The combination of these various measurements has reduced uncertainty and we can now see the reservoir beneath the salt—which is shown in orange. Drilling decisions based only on the seismic data would lack this knowledge with consequent technical risk. While it is still early days for this type of work, we are confident that integrated results will bring significant value to reservoir characterization.

These new technologies are also having an effect on multi-client survey acquisition and usage. The new azimuthal data sets are considerably more costly than traditional narrow azimuth multi-client data, and as a result customers are reluctant to commit to major purchases until they know what success they have had in any lease sales. This is resulting in a shift in multi-client revenues away from traditional patterns of increases before lease sales to increases in the quarters following the sales. This is an important fact to remember in 2008 when the major Gulf-of-Mexico lease sale only occurred at the end of the first quarter.
In support of our technology objectives to meet customer requirements, we are continuing to focus on research and engineering. We increased our R&E expenditure by 18% in 2007 and we will increase again in 2008. With the move of Schlumberger-Doll Research to Boston, Massachusetts, the opening of our Carbonate Research Center in Dhahran, Saudi Arabia and the expansion of Schlumberger Moscow Research to Novosibirsk, we have now located research facilities in key academic centers worldwide. We have also opened a network of Regional Technology Centers putting scientists and engineers in proximity to major customers and their operations with centers already open in Kuala Lumpur, Abu Dhabi, Stavanger, Dallas, Mexico City, Edmonton and Puerto La Cruz in Venezuela.

If I insist on the regional aspect of our technology infrastructure, it is because serving our customers today implies a worldwide footprint with the ability to grow infrastructure wherever it is needed. While Schlumberger has always had a strong technology presence in the Eastern Hemisphere, growth over the last three years has meant we have expanded our network at a much more rapid rate. And in addition to the locations I just mentioned, we have also built new or extended manufacturing facilities in Russia, in China, Singapore, the UK and the USA.

We have also been systematically extending our operating locations in the field. In the last three years we have renewed or added facilities in Libya, Algeria, Nigeria, Angola, Mexico, Ecuador, Malaysia, Qatar, Saudi Arabia and Russia. Many are catering to the growing activity in exploration as well as the ongoing development of deep-water reservoirs. However the greatest challenge has been in the hiring and training of new professionals.
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 and Abu Dhabi and in Tyumen in Western Siberia, which will meet all our needs in Russia and the Russian speaking republics. It has a total capacity of 160 students covering Artificial Lift, Drilling & Measurements, IPM, Schlumberger Information Solutions and Well Services activities.
The last area where we have made considerable investment over the last few years is in Integrated Project Management—an activity that we began more than 10 years ago. IPM is particularly relevant in today’s market as the industry responds to an increasing need to drill against a background of limited human resources. Today, IPM operates 55 well construction and field management projects, runs more than 100 rigs, employs over 6,000 people, and manages production similar to that of a moderately sized independent.

Revenue has increased fivefold since 1999 and the rate of growth is currently accelerating. We generate revenue in four ways. The first is through project management where Schlumberger brings workflow processes, risk management and field operations capability. The second is rig management, where we operate either our own rigs, such as those in Russia or operated through our joint venture in the Middle East, or those owned or leased directly by our customers. The third revenue stream comes from deployment of Schlumberger technologies that offer the prospect of risk and reward pricing. The fourth category, which is often the most misunderstood, includes third-party revenues for the services that we do not provide directly. It is important to understand that the IPM revenues vary in their composition over the life of the project as new phases begin, and additional rigs and equipment are mobilized.
IPM is a GeoMarket-based service where customer needs and Schlumberger capabilities converge. IPM operations are increasing in GeoMarkets in both Latin America and Europe/CIS/Africa where Russia became the fastest growing region for IPM in 2007. In the last 18 months, IPM has mobilized 36 drilling rigs on new projects many of which are in areas where depths are greater, temperatures hotter, or operations more remote and consequently mobilisation costs are greater. We anticipate that at least about another dozen rigs will be mobilized on various projects between now and the end of 2008.

But as the IPM business grows, so does the capability of the organization. Success lies in capturing and leveraging best operational practices from project to project and region to region. In Mexico for example, operating time per well fell by 70% as experience increased and logistical capacity grew over the various phases of the Burgos project. We expect to see similar gains in our new operations in more difficult environments.

At the end of the second quarter of this year, IPM global backlog through 2010 had grown to $5.3 billion. The industry’s need to stem decline through increased drilling intensity plays to the strengths of IPM through managing efficient well construction campaigns while applying technology to enhance recovery from both new and existing wells. I am fully convinced that we now have a well-managed project management business that will be a major growth engine for Schlumberger.
Ladies and Gentlemen, rather than repeating the growth targets that we iterated over the last two years, I would now like to summarize what I have said today. It is our contention, in which we have already heavily invested, that the current cycle will be “Stronger for Longer”. I have of course to repeat the caveat that a severe global recession leading to a major drop in demand would materially affect this scenario.

Our conviction stems from the belief that current investment levels are insufficient to both stem decline and to explore and develop new reserves. Part of the investment delay is due to political and fiscal uncertainties, part to a continuing lack of resources both in terms of people and equipment. I have outlined in some detail the obstacles—now let me outline the positives for the cycle going forward.

First, there is an interest in new exploration in all parts of the industry on a scale not seen for 30 years. I illustrated this through the success of WesternGeco seismic technology and our commitment to its future through expansion of our marine fleet with the acquisition of Eastern Echo. I could have also discussed the impact of the unprecedented expansion of the offshore rig fleet where 102 of the 182 rigs currently under construction have deepwater capability. The importance is that increased exploration drilling places a premium on Schlumberger technologies that improve performance while reducing risk. Over the last two years, we have developed and deployed many new Drilling & Measurements, Wireline and Testing technologies that will significantly impact our customers’ ability to drill, evaluate and test deepwater reservoirs.

Second, the industry will have to drill more. The fragile balance of natural gas supply in the lower 48 is perhaps the best example of this. Following the dramatic decline in shelf-gas supply, the industry has had to increase drilling for lower-quality natural gas resources to levels never seen before to compensate for Gulf of Mexico production
losses. It has been a process and technology success that has encouraged the opening of further shale gas plays.

Increasingly we will need to compensate for production decline in mature areas worldwide through increased drilling activity. This is already the case in Mexico and Western Siberia, and while I showed examples from China and Oman, I could have presented many others. This need to drill confirms the size of the opportunity for IPM, and we have seen and are seeing, an unprecedented demand for this service as well as for other technologies that impact recovery rates.

Finally, all this will not be possible without efficient and cost effective global infrastructure, a highly trained and motivated workforce, and the technology to increase recovery factors and keep costs in check. All this plays to Schlumberger’s core strengths and explains my belief that the cycle will remain stronger for longer.

While this is fundamental to the future of the company, I am sure investors are equally interested by the outlook for the remainder of 2008. I started the year by calling 2008 a year of transition. I was afraid that project delays, the uncertain direction of US natural gas, and the change in pattern of multi-client sales together with the enormous ramp up in IPM projects would make our growth uneven. In fact, the strength in North American gas activity and the acceleration in production declines in several countries around the world on the back of very high commodity prices have led to a pattern of accelerating growth as the year progresses. This acceleration only reinforces the long-term opportunity.

It only remains for us to execute to be able to continue to produce exceptional financial results.

Thank you very much.