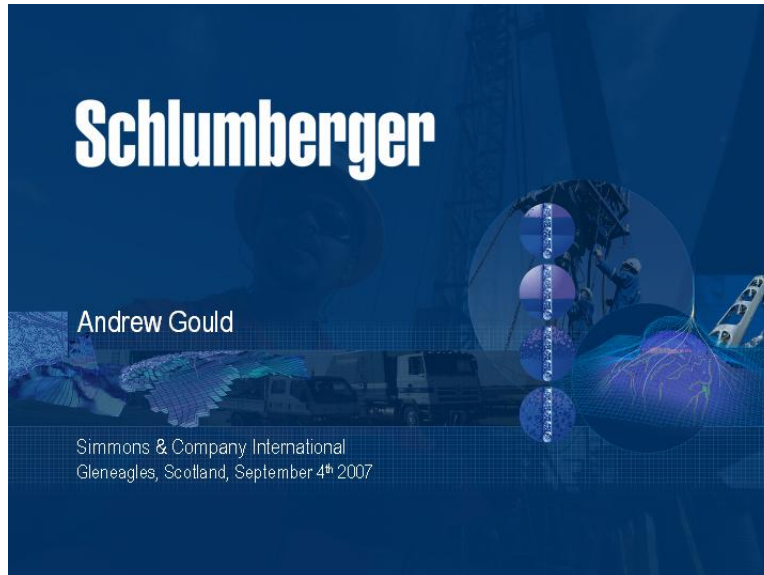
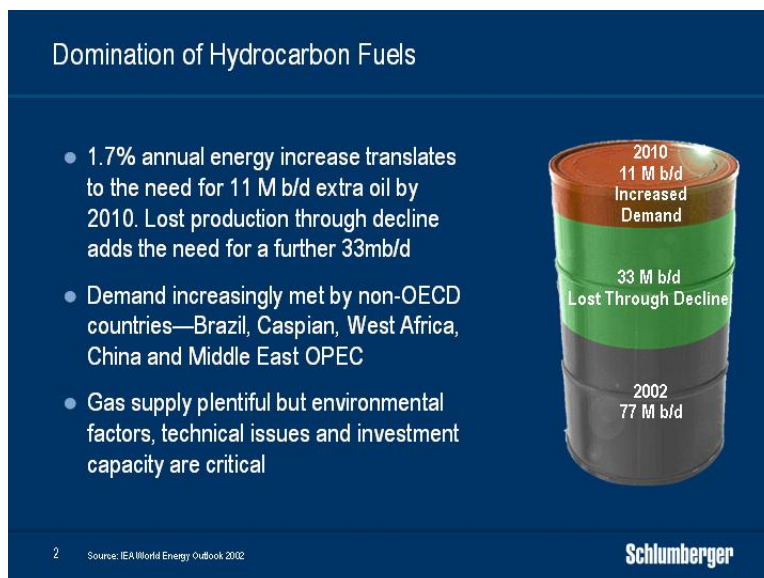


## SIMMONS &amp; COMPANY INTERNATIONAL



Ladies and gentlemen, good evening. It's good to be back in Scotland at such an exciting and challenging time for the exploration and production industry. I would like to thank Bill Herbert and Simmons and Company for their invitation.

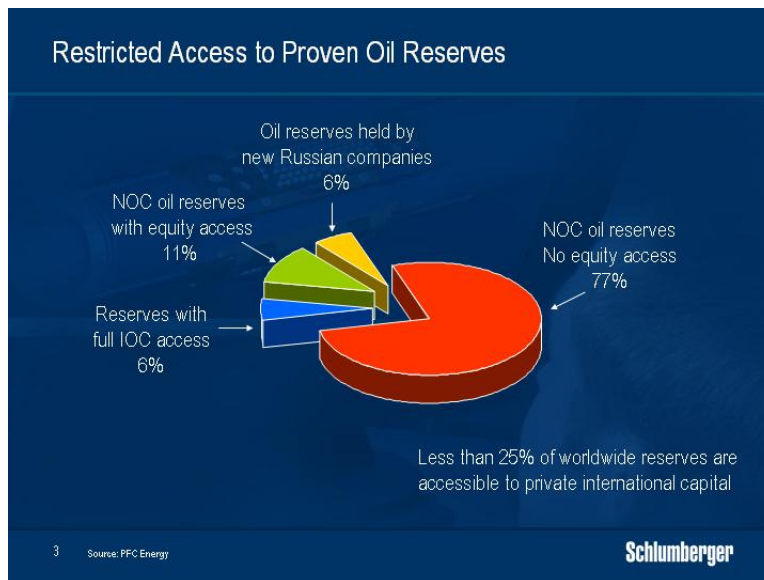
Given that I have been instructed to talk for no more than 30 minutes, I thought I would look briefly at the reasons for the length of the current cycle in oil and gas upstream investment. I will then discuss how we as a service company have responded to try to meet the changing requirements of the market and our customers.



Five years ago, I used this slide to summarize the task that we saw facing the industry. The figures, coming from the 2002 IEA (International Energy Agency) World Energy Outlook, forecast that 2002 oil production of 77 mb/d would need to grow to 88 million by 2010. The same forecast also predicted that this increase would be dwarfed by the 33 mb/d required to replace production lost to decline. We now know that world oil production is likely to reach the 88 mb/d level perhaps as early as next year—almost two years ahead of time. So what happened to change this picture and why is the industry challenged in expanding capacity to meet the increased demand?

The first, and by far the most important factor, has been the failure of the system to predict the surge in demand from the non-OECD economies and particularly China between 2003 and 2006. In early 2004, the IEA forecast demand for the year to be 79.6 mb/d. Upwards revisions as data were reported together with demand increases in subsequent years led to demand last year reaching a colossal 5.8 mb/d above the original 2003 figure of 78.4. Our industry simply cannot cope with errors of this magnitude. Investment decisions, project durations, capital and resource allocations need to work on much longer timeframes. The lack of upstream investment in the period following the collapse of the oil price in the mid 1980s has meant that our industry has had, and will have, huge difficulty in responding to the challenge of ensuring the adequate cushions of spare production that are the guarantee of less price volatility.

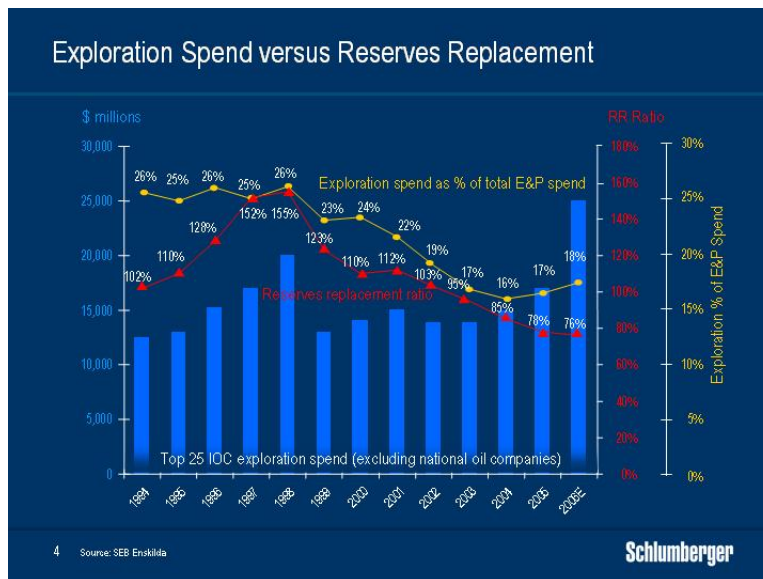
There is in fact a series of events that are affecting the industry's ability to respond.



First, the wave of 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 production gains will not occur, but it does mean that they will take longer than if access had been open to private international equity. In addition, geopolitical and security issues have

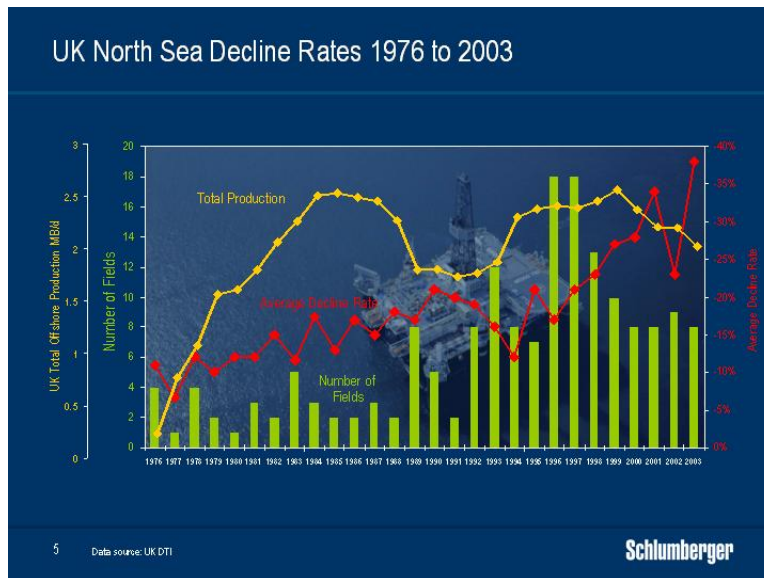
either hampered efforts to maintain production, such as in the Niger Delta, or have prevented development of new production with Iraq being the most obvious example.

This shift in control over resources is having a fundamental effect on the oilfield service industry client base as more and more exploration and development work is being undertaken directly by the national oil companies. With the majority of the remaining hydrocarbon reserves being in the Middle East, Central Asia and Russia, the industry will have to adapt to working and supporting new environments. This will require adoption of new and innovative business models.



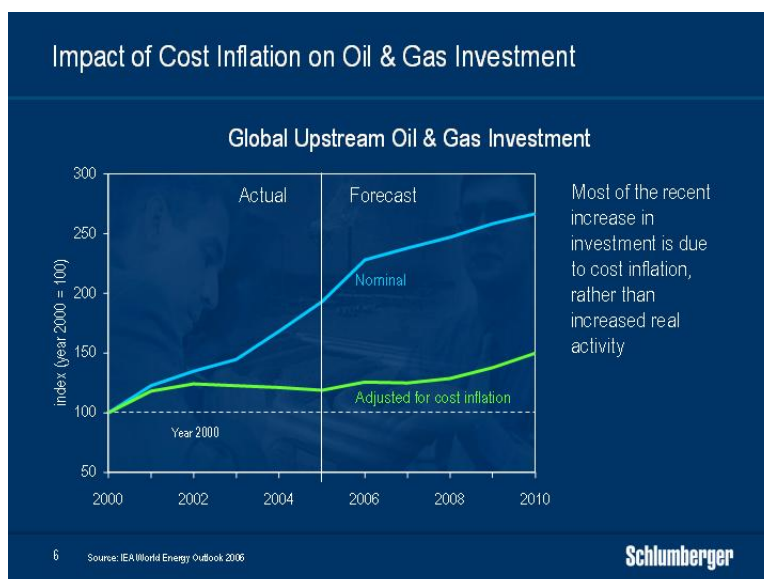
Second, a generally lower exploration spend, partly as a result of the restricted domain available, has not helped the overall reserve replacement ratio of our customers. The brokerage house estimate shown here—based on the twenty-five top private international oil companies—clearly shows the declining trend in exploration spending over the past 10 to 12 years although recent data show a reversal of this trend which is now reflected in growing activity within the service industry. While the national oil companies are excluded from this work, a recent study by Petroleum Intelligence Weekly shows an alarming stagnation in overall reserves levels within the principal producing countries although their national companies are becoming increasingly active within the exploration sphere.

Third, the difficulty in stemming decline rates and bringing new non-OPEC production on line and on time has increased. The IEA 2010 non-OPEC production forecast published in the medium-term oil market report in 2006 was just over 53.5 mb/d. This year, the corresponding report gave a new forecast for 2010 that had slipped to under 52 million led by declines in mature areas such as the North Sea and Mexico. These figures are corrected for the production of Angola which joined OPEC on January 1<sup>st</sup> 2007.

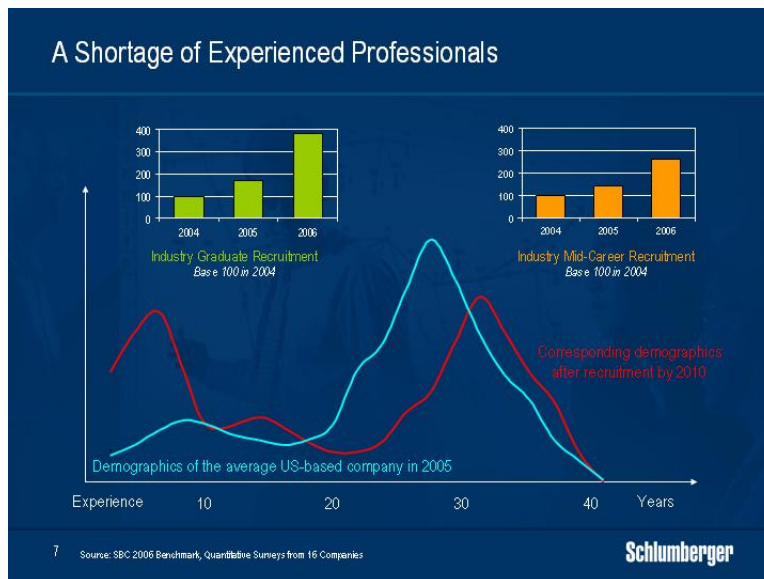


In fact, the North Sea is a good example of this difficulty. The chart here tracks decline rates over nearly 30 years of production. They show the maturity of the province and how the larger fields drilled in 1970s declined at average rates of about 12% while those drilled more recently decline at perhaps double that rate. The newer fields are certainly smaller and you can also see this evolution in production as the region transitions from fewer, larger fields to more, smaller accumulations.

Of course natural factors affect decline rates, but they can also be heavily affected by the resources and investment that are committed to stemming their effects. In a market where operating companies have been devoting scarce human and technical and equipment resources to new development projects, sufficient efforts have yet to be applied in response.

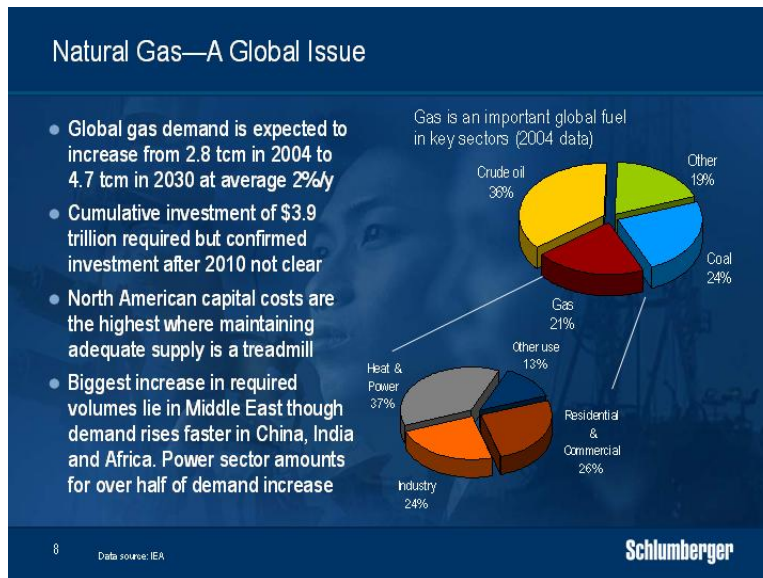


Fourth, the efforts of the industry to increase investment have not only led to shortages, but also to high cost inflation. IEA data show that although that oil and gas investment has dramatically increased, much of the increase is due to cost inflation and not to real activity. Similarly, CERA has indicated that worldwide costs for the upstream industry have risen by 53% since the end of 2004—a figure consistent with the IEA although they note that recent rates of increase have slowed. This has had two effects—the effectiveness of the additional investment has been eaten away by inflation while at the same time some costs have risen to levels where new investment has been delayed in the hope that these costs will fall.



Finally, it is important to mention that perhaps 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. Replacing these people 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.





Some comment on natural gas is also pertinent. Recent IEA data show demand rising at an average annual rate of 2.5% per annum 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. But it is in North America that capital costs are highest and where spending goes mainly on maintaining production in the light of accelerating decline rates.

In the short term, North American natural gas activity remains somewhat uncertain as record imports of LNG, a slower than forecast decline in Canadian gas production, and the backlog of wells stimulated and brought on line have all led to a rapid rise in gas storage levels. However, North American natural gas wells of today are very different from those of just 5 or 6 years ago and almost 40% of production today comes from unconventional resources such as tight gas, shale gas and coal-bed methane. Many of these reservoirs display high decline rates by the very nature of their permeability characteristics and this shift has important consequences in service intensity and technology needs. We therefore believe the high decline rates of existing fields and poorer quality reservoirs will continue to underpin this activity in the medium to longer term.

The inherent fragilities in the oil and gas supply chain that I have just described mean that the response to build adequate new supplies to levels where prices will stabilize or fall is going to take a long time. For perhaps the first time in more than 30 years the industry will need to pursue exploration for new reserves at the same time as it grows and sustains the existing production of both oil and natural gas. Within this context there are many challenges currently facing the service industry and these provide opportunities for Schlumberger to grow.



### Technology Challenges for the Service Industry

- Increasing exploration—both greenfield and brownfield—will need a changing technology mix. The priority will be on mitigating risk
- Enhancing production from existing fields will require improved workflows, faster well construction, improved completions and better efficiency. The focus will be on increasing performance
- Technologies for unconventional hydrocarbon production will become more important. Service intensity will increase
- The training and development of the next generation of skilled oilfield professionals will require a global approach

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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 plays—that would have seemed impossible only three years ago—very attractive and this will affect the types of technology required as well as overall technology uptake. Exploration services are more intense than services used for development activities. Among these, advanced seismic and new electromagnetic imaging technologies help reduce uncertainty and mitigate technical risk in complex areas where better imaging of the subsurface below salt and below basalt is essential. New methods for sampling and analyzing complex reservoir fluids in situ enable faster and better understanding. Better dynamic testing of the reservoir ensures economic viability. And new workflows that integrate surface and downhole measurements provide superior reservoir characterization.

Second, technology is required to improve the performance of the existing production base where 70% of the fields have been producing for more than 30 years. Combating decline is crucial to this and technology intensity will only accelerate. Here we see the need for faster drilling and well construction where the integration of completion and stimulation can bring significant operating efficiency. New ways of delivering services will also add value and I will return to this subject later on.

Third, the age of easy oil is clearly over and there will be a growing shift to more and more unconventional hydrocarbon resources. The greater service intensity required to produce unconventional natural gas in North America is growing although this is just one example of the challenge of unconventional hydrocarbons. The move to heavier oil production in Canada and Venezuela is another.

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. 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.

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

Product line	Market Size 2006 (\$M)	SLB Position	Market CAGR 2003-2006	Market CAGR 2002-2005	Market CAGR 2001-2004
Geophysical Equipment & Services	10,959	1	24.3%	9.9%	3.1%
Wireline Logging	7,209	1	17.1%	14.6%	5.7%
Logging While Drilling	1,744	1	26%	18.3%	8.6%
Coiled Tubing Services	2,497	1	28.3%	25.8%	6.5%
Production Testing	925	1	11.7%	6%	1.5%
Directional Drilling Services	6,130	1	27.9%	18.7%	9.6%
Pressure Pumping Services	17,973	2	31%	25.6%	7.1%
Artificial Lift	4,805	2	19.4%	15.4%	9.3%
Completion Equipment & Services	5,894	4	22.7%	14.4%	6.4%

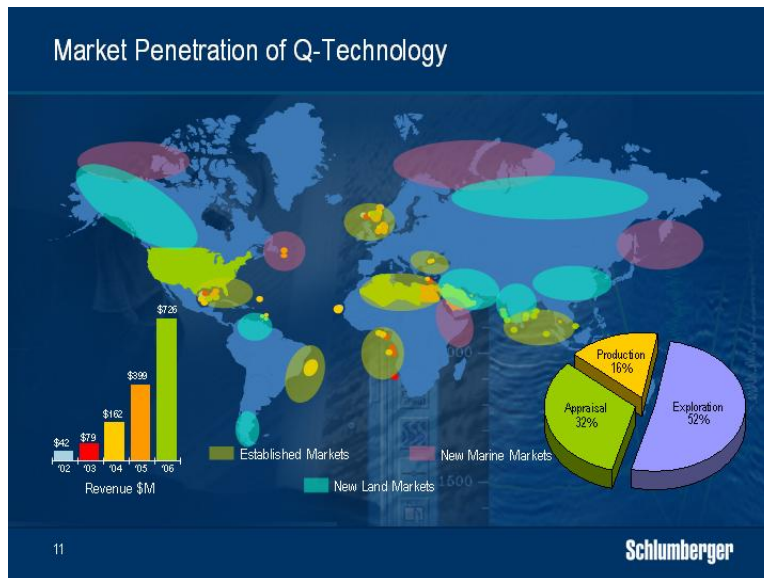
10 Source: Spears Oilfield Market Report 2007

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Schlumberger has an enviable position in the technologies in which we participate. In the last three years we have made 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, in Wireline with the Scanner\* technologies and in petrotechnical software with the Petrel\* integrated model-based seismic-to-simulation suite. And we are now beginning to roll out significant new products and services in pressure pumping and completions with the Contact\* family of stimulation technologies.

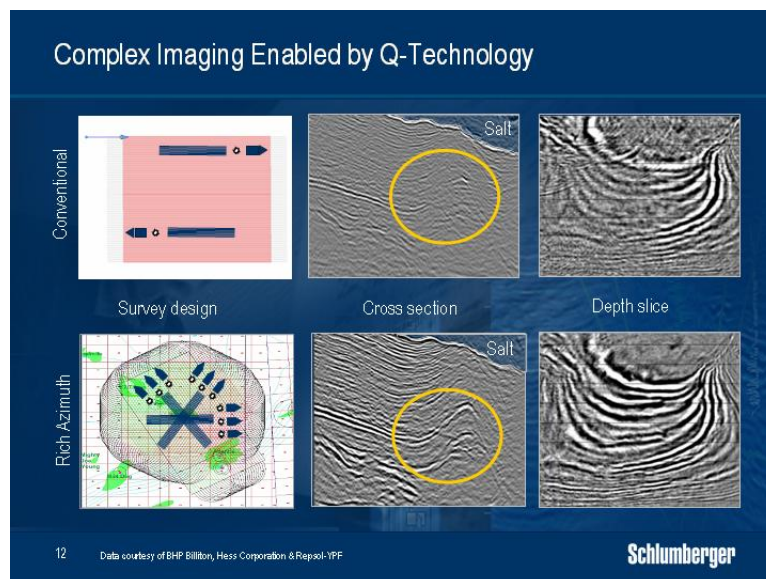
The compound annual figures shown here are taken from the annual Spears Oilfield Market report and track growth in overlapping three-year periods from 2001 to 2006. They confirm that product line growth has been heavily biased towards products and services for natural gas or increased oil recovery such as pressure pumping and artificial lift. But they also show that growth has recently accelerated in the 2004-2006 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 for the next few years as new exploration activities develop.





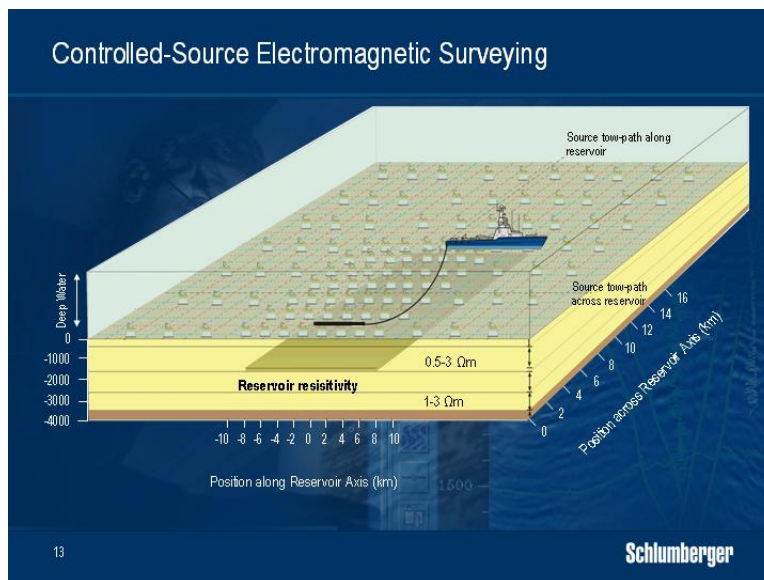
Indeed the growth of Schlumberger Q seismic technology has been driven by this upsurge in exploration activity through the value it brings to the characterization of the more difficult exploration prospects of today. Q has now penetrated most of the hydrocarbon basins in the world and the colors here link to areas of marine activity and land crew deployment. 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, and we are increasing our capacity accordingly.

But 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 prevalent in many exploration areas of today.

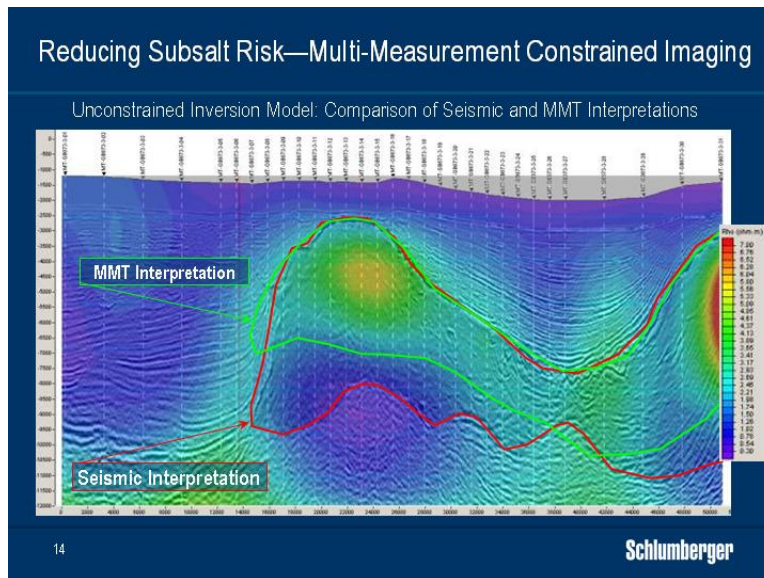


Such surveys are highly complex—requiring more boats and more time while generating as much as six times more data than standard work. Q technology is succeeding here not only because of its greater fidelity, but also because its steerable streamer capability permits greater efficiency. The latest dynamic control steering technology introduced adds a further level of accuracy by steering the vessel, the streamers and the source automatically.

The top three pictures here show results from a conventional survey with a structure of particular interest circled in yellow. To the right is a depth slice through the structure. The lower three pictures show the complexity of the survey design, but also the superior quality of the results. With wells in these areas costing around \$100 million to drill, the value inherent in mitigating risk is clear.



Integration of seismic with other data has always been an industry goal. Our recent acquisitions of TerraTek, Ødegaard and Geosystem are now firmly part of our technology portfolio and 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 electromagnetic measurements, this technology can add information to distinguish between potential hydrocarbon-bearing structures.



Here is an example of what such integration can bring. The plot displays the results of a magneto-telluric survey over the seismic data. The seismic data alone lead to the salt body shape shown in red while the electromagnetic data gives the much shallower yellow base. Drilling decisions based only on the seismic data would lack this detailed knowledge. While it is still early days for this type of work with much development remaining, we are confident that integrated results will bring significant value to complex reservoir characterization.

We are therefore continuing to focus on research and engineering in support of these and other technology objectives to meet customer requirements. We increased our R&E expenditure by 23% in 2006 and we will increase by a further substantial amount in 2007. We have located research in centers of academic excellence worldwide 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 opened a network of Regional Technology Centers putting scientists and engineers in proximity to major customers and their operations with such centers already open in Kuala Lumpur, Abu Dhabi, Stavanger, Dallas, Mexico City, Edmonton and Puerto La Cruz in Venezuela.

Investment and Growth					
	2003	2004	2005	2006	2007 H1
<b>Revenue</b>					
Total Revenue (\$ millions)	10,017	11,480	14,309	19,230	11,103
New Technology Revenue (\$ millions)	1,838	2,187	2,878	3,477	2,269
<b>Investment</b>					
Schlumberger Employees (period end)	51,000	52,500	60,000	70,000	76,000
Technical Staff Recruited*	2,252	2,693	4,019	5,673	3,043
Training Days (Engineers & Specialists)	206,100	221,533	258,061	383,734	222,000
CAPEX (\$ millions)	872	1,216	1,593	2,457	1,295
R&E (\$ millions)	431	467	506	619	342
* Engineers, Specialists and Purchasing, Development & Manufacturing					
15					<b>Schlumberger</b>

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. In addition to the locations I just mentioned, we have also built new or extended manufacturing facilities in Tyumen in Russia, in China, Singapore, the UK and the USA. And we have entered long-term agreements with certain key suppliers while diversifying our supply chain away from traditional centers.

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 fields. However the greatest challenge has been in the hiring and training of new professionals.



### Hiring and Training of New Professionals

- Recruiting and training have rapidly accelerated since 2004
- More than 13,000 staff recruited with degrees or diplomas over the 2004-2006 period
- This includes more than 6,000 engineers from 200 universities in 80 countries
- Their training will be a major part of the 440,000 training days targeted in 2007



Abu Dhabi  
March 2007

France  
January 2004

Siberia  
November 2007

16 Source: Company Data

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For almost 40 years we have had a policy of hiring professionals from the areas in which we work. As a result, we are now deeply embedded in the principal universities within those areas with long-standing relationships with faculty. In many cases their alumni have had distinguished careers with Schlumberger.

This history has allowed us to respond vigorously to the need to expand the workforce. From 2004 to 2006 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 three new training centers in France, Abu Dhabi and Siberia.

### Integrated Project Management



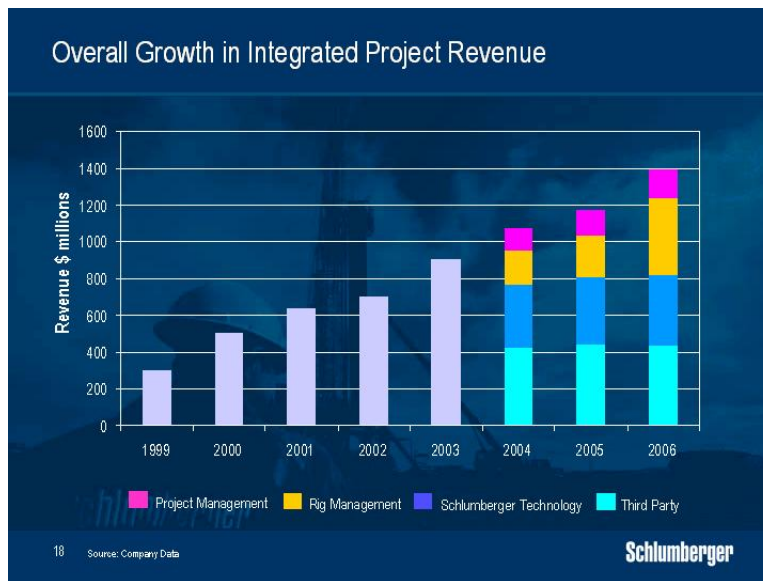
- Runs 55 projects in 40 countries, operates more than 75 rigs and employs over 6,000 people
- Handles production about that of a moderately sized independent
- Revenues generated through project management, rig management, technology deployment and third-party services
- IPM is a GeoMarket-based service offering opportunities to apply and prove technology at superior returns with greater efficiency over long-term contracts

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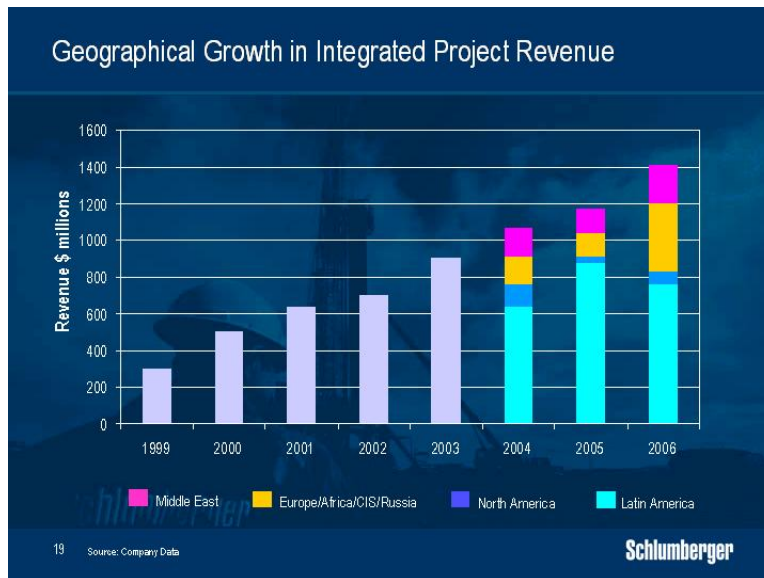
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The last area where we have made considerable investment over the last few years is in Integrated Project Management—an activity that we first began more than 10 years ago. IPM is particularly relevant in today's market for oilfield services as the industry responds to increasing exploration and enhancing production against a background of limited human resources. Today, IPM operates 55 projects executing well construction and field management projects and runs more than 110 rigs. It employs over 6,000 people and manages production similar to that of a moderately sized independent.



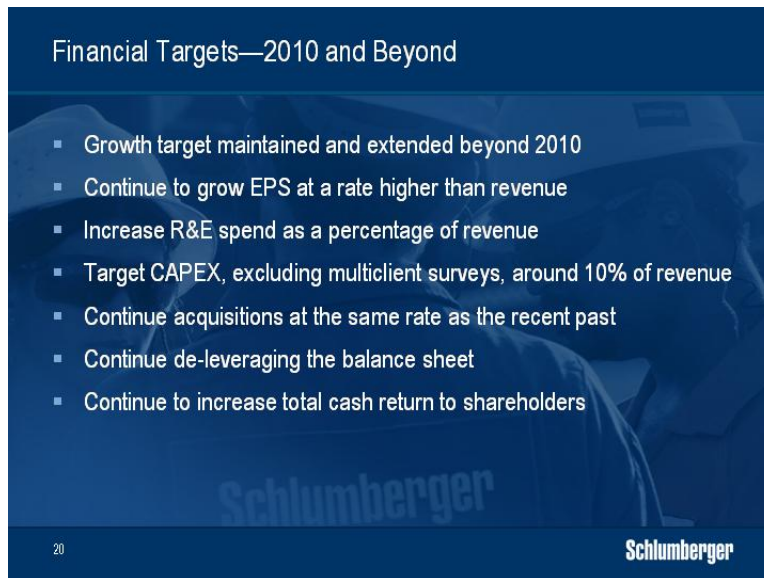
Revenues, which have increased fivefold since 1999, are generated in four ways. The first is through project management where Schlumberger brings workflow processes, risk management experience and field operations capability. The second is rig management, where we operate either our own rigs, such as those in Russia or those 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 the often-customized Schlumberger technologies that offer the prospect of risk and reward pricing. The fourth category includes third-party revenues for the services that we contract, such as civil engineering.



IPM is a GeoMarket-based service where customer needs and Schlumberger capabilities converge. Among the active projects, IPM operations are increasing in GeoMarkets in Europe/CIS and Africa without decreasing the contribution of the well construction businesses in Latin America. Our recent announcement of \$3.8 billion in new and extended contracts bring the contracted amount to \$4.8 billion through the end of the decade—a figure well in line with our goal of growing IPM at a much higher rate than the rest of the business.

For Schlumberger, IPM projects provide the opportunity to apply and prove our own technology. They provide a portfolio of longer-term contracts, where we can reduce our costs through improved efficiencies. But above all, IPM-type work allows us to earn a superior return because we risk our service revenue against achieved performance above an agreed base level. Customers are able to benefit from our technology and worldwide experience without having to make their own investment in such expertise. The outcome is a measurable increase in production and reserves, and as Schlumberger does not take equity, those reserves remain with the client.

We are now confident that we have a well-managed project management business that is limited in its growth only by the availability of sufficient people with the right skills—but I think I've addressed that subject somewhere else this evening!



Financial Targets—2010 and Beyond

- Growth target maintained and extended beyond 2010
- Continue to grow EPS at a rate higher than revenue
- Increase R&E spend as a percentage of revenue
- Target CAPEX, excluding multiclient surveys, around 10% of revenue
- Continue acquisitions at the same rate as the recent past
- Continue de-leveraging the balance sheet
- Continue to increase total cash return to shareholders

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Ladies and Gentlemen, I see the current cycle extending because I remain convinced that renewing the world's production base to meet the increasing demand of the developing world is going to take many more years than originally thought.

The focus of activity will shift from a phase of emphasis on North American natural gas and larger land developments, to one of more exploration, increasing offshore activity, greater attention on stemming decline rates and a heavy emphasis on the under-explored parts of the Eastern Hemisphere as well as the complex challenges of deeper water and more complex discoveries.

We have the right technology portfolio for this market. We have adjusted our infrastructure to meet the increased activity. We have hired the people we need and we have a well-managed and well-prepared project management business to leverage future opportunities.

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

I would leave for your consideration the financial objectives we have set ourselves.

Thank you very much.