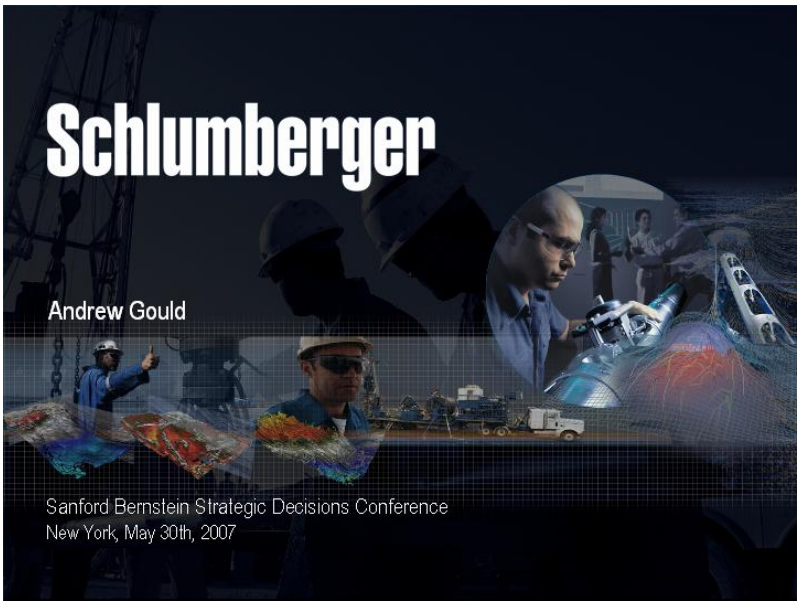
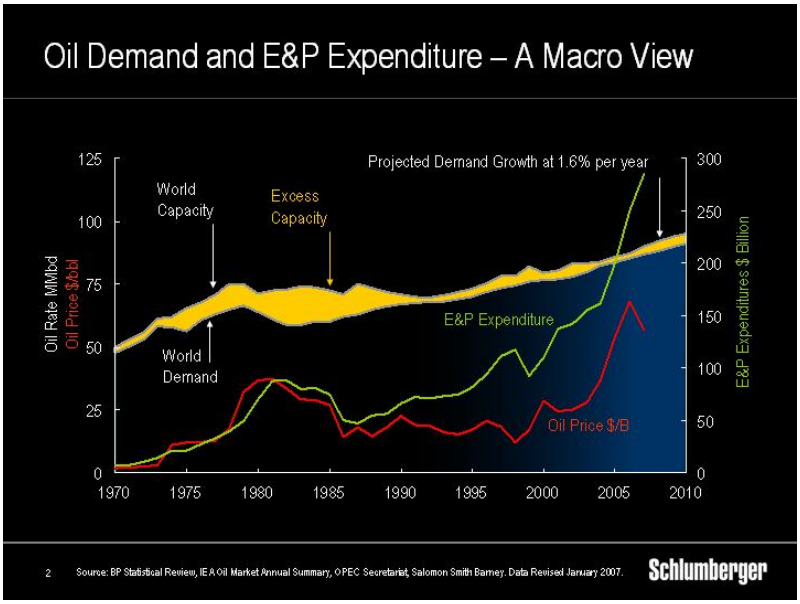
SANFORD BERNSTEIN 23rd ANNUAL STRATEGIC DECISIONS CONFERENCE




Ladies and Gentlemen, good morning, I'd like to thank Sanford Bernstein for inviting me here today and I'd like to thank you for attending this session. Given that I have been instructed to talk for no more than twenty minutes I thought I'd start by describing why my confidence in the length and the extent of the up cycle in oil and gas investment has been, and is, being constantly extended. I will then move on to a broad view of how we have responded through our investments and technology directions and finally how we see certain aspects of our business evolving.



At our Analysts show in June 2004, I was convinced that the thin cushion of spare production which existed at that time—due essentially to the lack of investment in new fields during the 1990s—was going to create the most favorable business climate we have seen in the upstream industry since the early 1970s. I forecast that the CAGR of Schlumberger would be in double digits throughout the remainder of this decade while I cautioned that growth might not be linear as the industry would remain cyclical to some extent. At the time the general assumption by the investment community was that this meant something above 10% and that the end of the decade was optimistic.

At our last Analysts show in September 2006, I stated that we felt we would grow the company on average in the high teens through the end of the decade. However, I also stated that we also felt substantial growth would be likely to continue beyond 2010.

So let me outline the reasons behind my growing optimism but let's start with what could go wrong. The only thing that would seriously change my thinking would be a sharp drop in demand that I believe could only occur in the event of a deep recession in the United States and China. I quite consciously link the two as the past three years have shown that OECD oil demand is fairly inelastic to price, and therefore the element affecting demand at the margin is the developing economies. Any drop in their demand could seriously affect commodity prices.

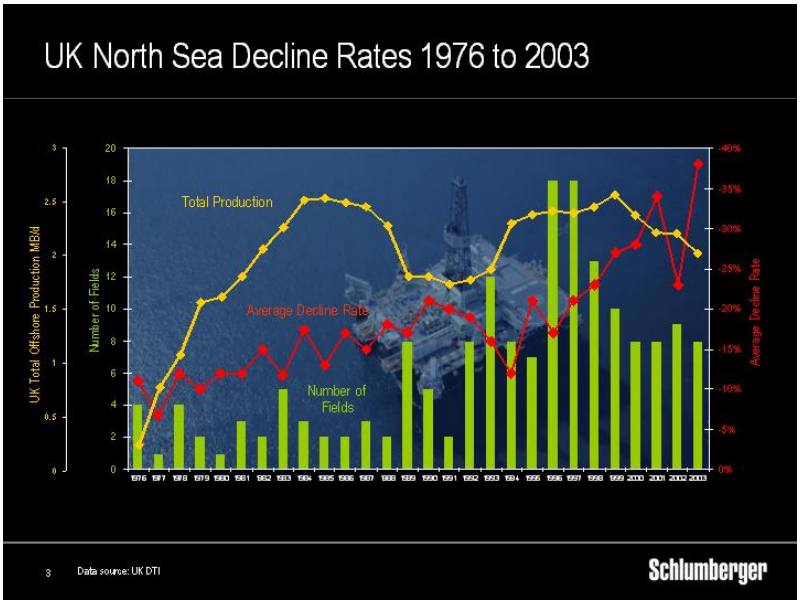
In 2004 our thinking was largely driven by the lack of investment in the oil production base with 70% of the world's oil coming from fields that had been producing for more than 30 years—which is still the case today by the way—and by the fact that production restoration in the former Soviet Union had disguised dramatic declines in some other non-OPEC areas. Increasing decline rates and decreasing resource qualities in North American natural gas reservoirs were also factors.

What has changed since then?

The first, and by far the most important factor, has been the dramatic increase in oil demand seen between 2003 and 2006. In early 2004, the International Energy Agency estimated demand in 2003 at 78.4 mb/d, and forecast 2004 demand to be an unremarkable 79.6 mb/d. But in the following 9 months that forecast was increased no fewer than seven times while the previous year's figure was revised upwards by non-OECD country data not previously included. Further demand increases in 2005 and 2006 led to demand last year reaching a colossal 5.8 mb/d above the original 2003 figure of 78.4. Ladies and Gentlemen, adding as much as the combined production of Mexico and Norway in just three years has been a Herculean task for an industry where new production developments consume billions of dollars in investment, and take years to achieve.

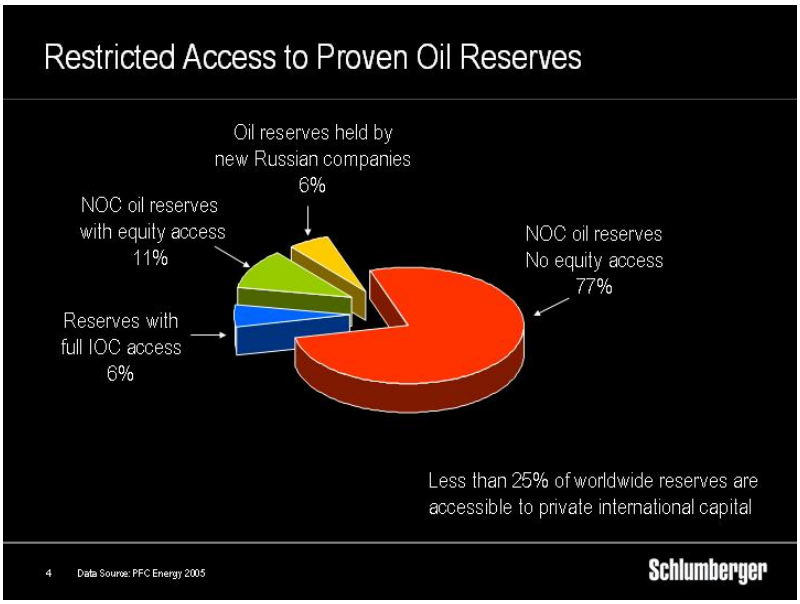
Second, the difficulty in stemming decline rates and bringing new non-OPEC production in significant volume on line, and on time, has increased. Knowing decline rates is critical to

estimating overall supply, yet accurate data are difficult to obtain for multiple technical reasons and a frequent absence of accurate records.




But good data do exist and one example is the North Sea—a mature region with much more complete data than many other areas. The larger fields drilled in the 1970s declined at average rates about 12% while those drilled more recently, which are certainly much smaller, declined at perhaps double that rate. And indeed the overall level of production shows the region transitioning from fewer, larger fields to more, smaller reservoirs.

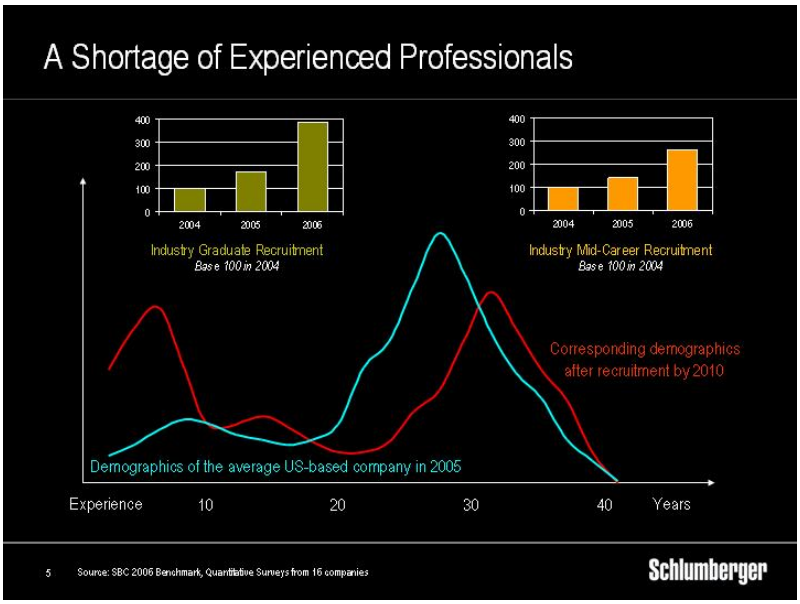
While natural factors affect decline rates, these can also be heavily affected by the resources and investment that are committed to stemming their effects. In a market where operating companies have been devoting scarce human and technical resources to new development projects, insufficient efforts have been applied to combating production decline in existing fields.



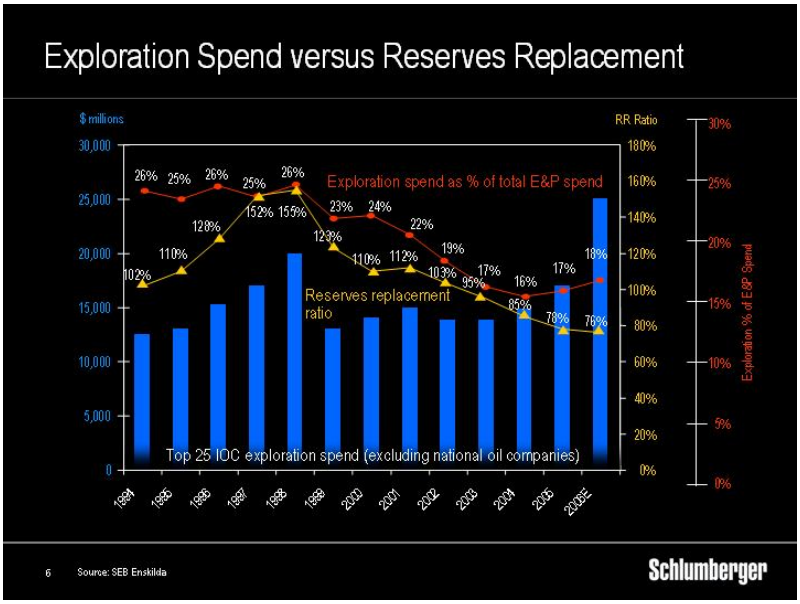

Third, the wave of resource nationalism around the world has limited investment opportunities for private international capital particularly in areas where quick incremental gains in production would be possible. This does not mean that production gains will not occur, but it does mean that they will 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 significant new production with Iraq being the most obvious example.

The shift in control over resources is also 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.

Fourth, the efforts of the industry to increase investment have not only led to shortage, but also to high cost inflation. CERA has indicated that worldwide costs for the upstream oil and gas industry have risen by 53% since the end of 2004—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. This is particularly true in the offshore market where long lead times for new rigs have led to huge rate inflation for rigs in the existing fleet.



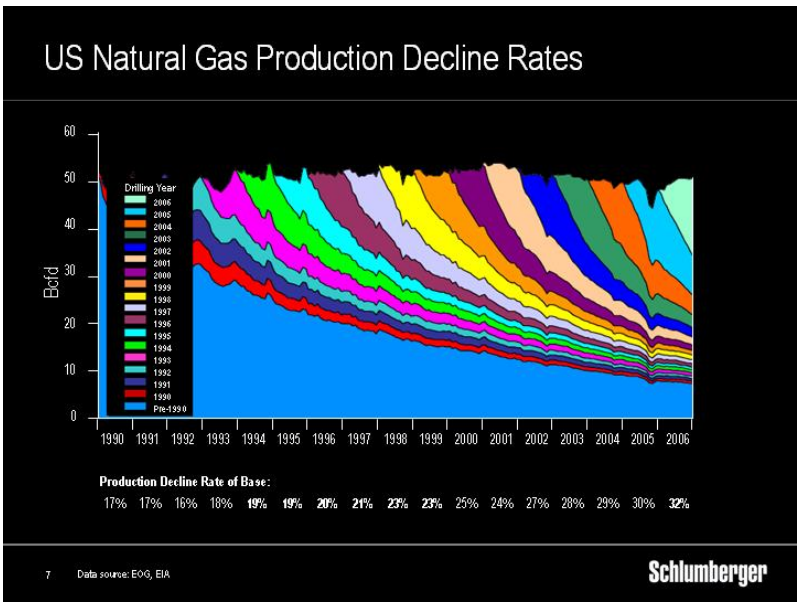

However the most significant shortage is the lack of experienced professionals in almost every part of the oil and gas business. Years of underinvestment in new talent have led to a limited and ageing pool of skilled workers. Replacing these people cannot be done overnight and while the industry has begun to hire again in considerable numbers, it takes time to train the large numbers of new recruits.




Finally, the industry has generally failed to replace the reserves that are being consumed. 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. 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. The lack of exploration spending and the lack of access to the most promising new provinces have meant that we are not currently replacing the reserves that we consume.

Exploration is a long-term prospect and new efforts have really only just begun with the result that we can expect several more years of disappointing reserves replacements results before numbers start to improve. Increased exploration seismic has already become evident—but the substantial increases in exploration drilling are still to come.



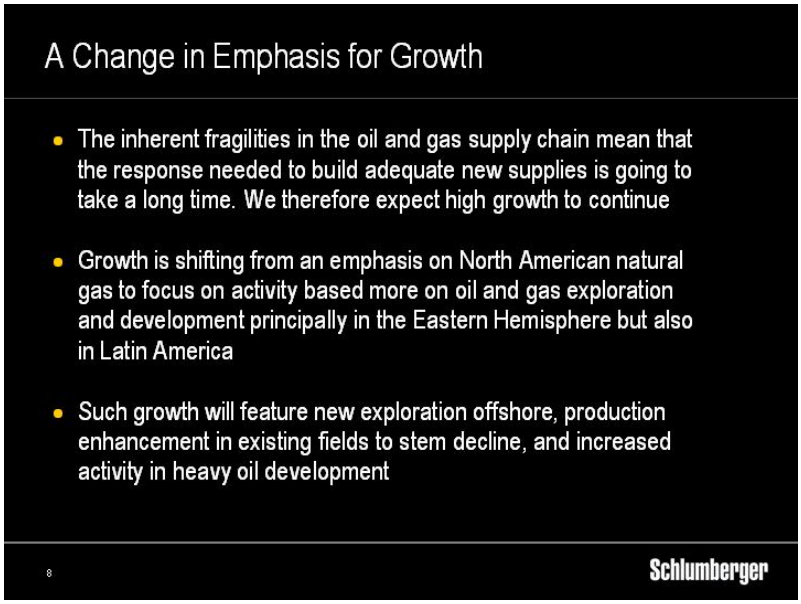

In natural gas, there are distinct differences between the short-term outlook in North America and the longer-term global backdrop. Recent IEA data show demand rising at an average rate of 2% per annum over next 25 years requiring cumulative investment of $3.9 trillion to grow global supply to the levels needed to meet expected demand. But it is here in North America that capital costs are highest and where the spending goes simply to maintaining current capacity. Accelerating production decline rates are once again the reason.

From levels in the high teens in the early 1990s, natural gas decline rates reached some 25% 10 years later, and are now in the low 30s. The net result has been a fall in total production from the 21 Tcf produced in 2001, to the 19.4 Tcf produced last year. Furthermore, today's production comes from an aggregate of 410,000 wells, compared to the 350,000 wells of 2001. In other words, 17% more wells are producing 8% less.

Declining reserves and slipping production have driven the industry more and more towards the exploitation of poorer quality reservoirs. Almost 40% of today's North American natural gas production comes from unconventional resources such as tight gas,

shale gas and coal-bed methane and this shift has important consequences in development costs and technology needs.

While the ability of the North American industry to react means that new equipment capacity will moderate cost, the fact remains that adequate domestic supplies will remain dependent on the drill bit for some time to come. We are already beginning to see the effects on the forward strip of the drop in Canadian drilling and the stabilization of US activity against a background of more normal weather patterns.



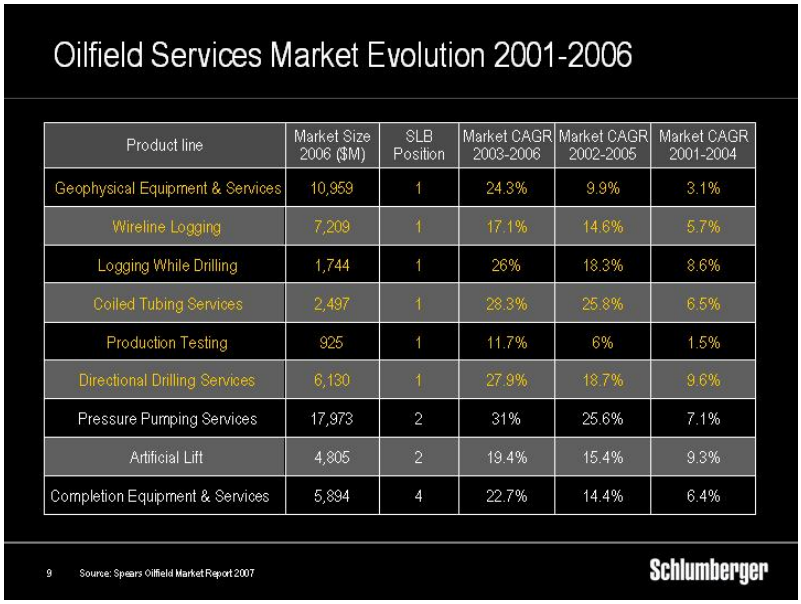

It is the combination of these factors that has led me to believe that the inherent fragilities in the oil and gas supply chain mean that the response needed to build adequate new supplies to levels where prices will stabilize or fall is going to take a long time. After 3 years of compound annual growth of 24%, Schlumberger is therefore likely to see continued high growth well beyond the end of this decade.

Such growth will shift from the high activity linked to North American natural gas production over the last 3 years, to activity based more on oil and gas exploration and development principally in the Eastern Hemisphere but also in Latin America. New exploration offshore, production enhancement in existing fields through stemming decline and improving recovery, together with increased activity in heavy oil will feature as part of this growth.

Given this continuing high-growth scenario, it is important for us to have clear priorities.

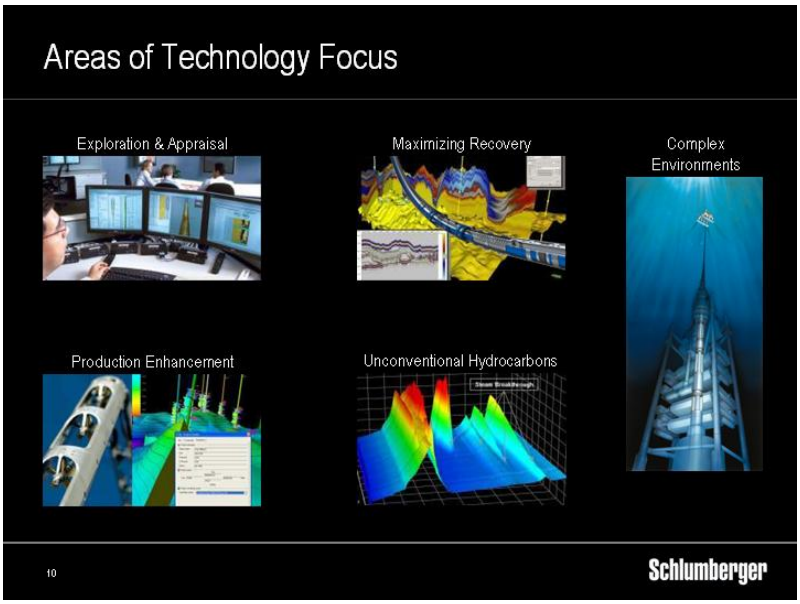
The first is to continue to produce leading-edge technology. As new accumulations are likely to be smaller, more remote, more complex and found in harsher environments,

development decisions will prove more difficult and this will place a premium on new technologies that allow customers to improve their performance and lower their risk.




We have an enviable position in the technologies in which we participate. In the last 3 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 Scope* family of services, in Wireline with the Scanner* family of 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 further development and new exploration activities develop.




We are therefore continuing to focus on research and engineering in support of our technology objectives to meet customer requirements. We increased our R&E spend by 23% in 2006 and will increase by a further substantial amount in 2007. We have continued to put 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. And such centers are already open in Kuala Lumpur, Abu Dhabi, Stavanger, Dallas, Mexico City, Edmonton and Puerto La Cruz, Venezuela.

## Investment and Growth

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Total Revenue ($ millions) | 10,017 | 11,480 | 14,309 | 19,230 |
| New Technology Revenue ($ millions) | 1,838 | 2,187 | 2,878 | 3,477 |
| **Investment** | | | | |
| Schlumberger Employees (year end) | 51,000 | 52,500 | 60,000 | 70,000 |
| Technical Staff Recruited* | 2,256 | 2,730 | 4,196 | 6,162 |
| Training Days (Engineers & Specialists) | 206,100 | 221,533 | 258,061 | 383,734 |
| CAPEX ($ millions) | 872 | 1,216 | 1,593 | 2,457 |
| R&D ($ millions) | 431 | 467 | 506 | 619 |

* Engineers, Specialists and Research, Development & Manufacturing

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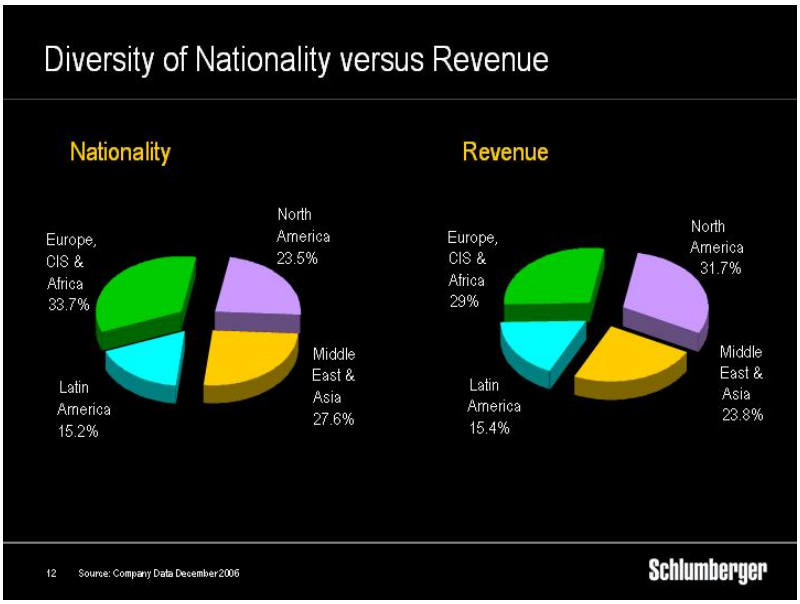
If I insist on the regional aspect of our technology infrastructure it is because serving our customers today implies a worldwide footprint and the ability to grow infrastructure wherever it is needed. While Schlumberger has always had a strong technology presence in the Eastern Hemisphere, growth over 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 of oilfield manufacturing activity.

We have also been systematically extending our operating locations in the field. In the last 3 years we have renewed or added facilities in Libya, Algeria, Nigeria, Angola, Mexico, Ecuador, Malaysia, Qatar, Saudi Arabia and Russia. Many of these bases are catering to the growing activity in new exploration as well as the ongoing development of deep-water fields. However without a doubt the challenge has been greatest 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. 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. Our management reflects this maturity demonstrating that nationality is no barrier to advancement. The 14 people within the top management group represent 8 different nationalities and this pattern cascades throughout the organization.


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 20,000. 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.


The last area where we have made considerable investment over the last three years is at Integrated Project Management. I am convinced that IPM is, and will be, a significant

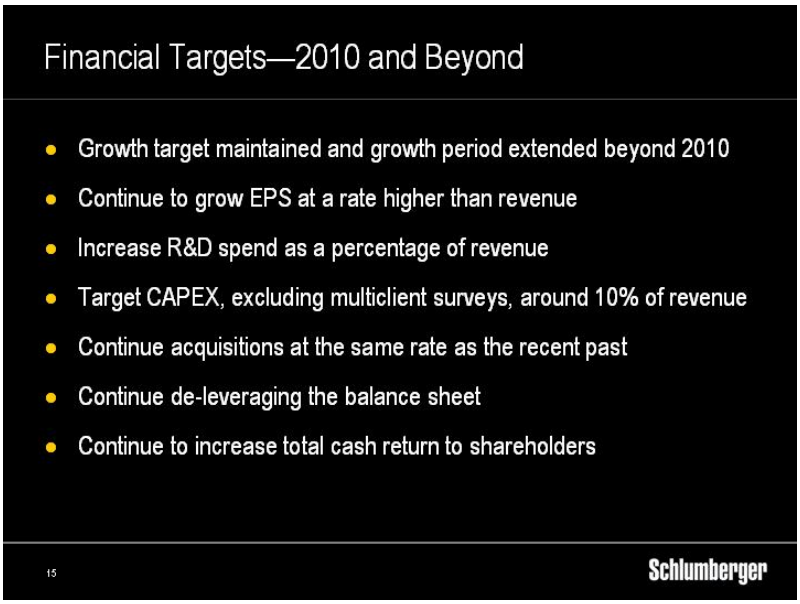
growth engine for Schlumberger as current market dynamics have meant that our customers' appetites for such services have grown significantly in the last two years.
Today, IPM is 55 projects in 40 countries, executing well construction and field management projects and running more than 75 rigs. It employs more than 6,000 people and manages production similar to that of a moderately sized independent. Total IPM revenue from all sources, including the revenue of associated Schlumberger services, represented 8.5% of Oilfield Services revenue in 2006.

Over the last two years, IPM has adopted clear objectives, particularly in the well construction business. Progress has been made on pricing and on risk reduction. We have improved terms and conditions and have exited some of the poorer performing contracts. We have also moved IPM more towards field and production management for both greenfield and brownfield projects. Return-on-sales dilution, caused by the rebilling of third-party services, has been reduced through increasing handling fees, or by direct customer payment and these actions have had a positive effect on returns.

Through IPM, Schlumberger is uniquely positioned to integrate and apply its own services, technologies and geo-scientific knowledge. Customers are able to benefit from our technology and worldwide experience without having to make their own investment in such expertise. The outcome has often been a measurable increase in production and reserves, and as Schlumberger does not take equity, the reserves remain with the client.
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.

Today, our goal is to grow IPM at a much higher rate than the rest of the business and we expect field and production management projects to form an increasingly large proportion of our portfolio. We anticipate significant growth in Latin America, the Middle East and Russia where there will be strong markets for IPM-type projects. The national oil companies will remain the major customer group, but new oil and gas companies, as well as the smaller independents, will also become significant.

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.




Ladies and Gentlemen, I see the length of the 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. We therefore maintain our objective to grow in the high teens through the end of the decade and our expectation that substantial growth will occur beyond.

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.

*Mark of Schlumberger