

Schlumberger

Ladies and Gentlemen

We have just concluded a meeting with the top 100 managers in Schlumberger at which we discussed the action plans and objectives associated with what I have to say to you today. I am reassured and excited about what our future holds.

On the other hand, I'm sure that many of you have questions and I'm here today to do my best to answer them.

- 1) I would like to clarify any confusion we may have created during the last two years about overall Schlumberger strategy;
- 2) I would like to share with you the key elements of our plans for Oilfield Services and how we see our business evolving over the next few years. I will touch particularly on our seismic joint venture WesternGeco.
- 3) I will outline the position of SchlumbergerSema today and its peoples' role in the overall development of the company.
- 4) I will describe our plan to restore our balance sheet to a condition I consider compatible with the industry we are in and with our long-term growth plans.
- 5) I will specify some intermediate as well as longer term financial goals and some metrics we are introducing to achieve them.

Introduction

- Global energy demand will increase 1.7% per year to 2030 reaching an annual level of 320 M boe/d
- Huge capital investment required in oil and gas production to combat decline and add capacity
- IT becoming all powerful enabler in the energy sector to transform process and systems — ultimately to increase efficiency and cut costs

Source: IEA World Energy Outlook 2002

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Let me begin by stating what is not our strategy. I have read speculation that we believe the age of fossil fuels is about to end and therefore Schlumberger has some long-term plan to morph into some kind of high-tech conglomerate. Please dismiss such fantasies from your mind.

The International Energy Agency (IEA) sees world energy demand increasing 1.7% annually until at least 2030, with no less than ninety percent of this increase coming from hydrocarbons. Ladies and gentlemen, the oil and gas business is here to stay, at least in our lifetimes, and probably those of our children. Indeed, I predict that Schlumberger in 2030 will still be the premier Oilfield Service company.

For the next ten years, this continued increase in demand will require huge capital investment from the industry, not only to combat the decline of today's fields but also to add new capacity. In the highly complex and data-intensive oil business, amongst the many new technologies that are and will be deployed, IT is becoming the all-powerful enabler. It is transforming both processes and technology in the exploration and production industry. Such transformation promises to dramatically improve finding and producing efficiency, not to mention improve reservoir recovery factors.

IT is fundamentally changing our industry, and those who master IT and its application in the energy sector will be the winners. We are committed to this revolution, and the domain expertise of SchlumbergerSema is key to ensuring we remain masters of our own destiny in Oilfield Services. But we are fully aware that IT is just an enabler, and therefore no substitute for the technical leadership and operational excellence that Schlumberger has always maintained in its Oilfield Services product lines.

Domination of Hydrocarbon Fuels

- 1.7% annual energy increase translates to 11 M b/d extra oil by 2010. Lost production through depletion adds another 33 M b/d
- Demand increasingly met by non-OECD countries — Russia, Caspian, Brazil, West Africa, China and Middle East OPEC
- Gas supply plentiful but environmental factors, technical issues and investment capacity are critical



Source: IEA World Energy Outlook 2002

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Predictions about energy supply may be a long way from next quarter's earnings, but they offer key strategic insight. Projected to 2010, the 1.7% annual production increase translates to 11 million barrels of oil per day more than is currently produced. Coupled with an average field decline rate of 5%, which is conservative, this means that the oil industry will have to find and produce some 44 million new barrels of oil a day by 2010. Where is this going to come from?

It is clear that almost all new energy production over the next 30 years will occur in non-OECD countries. In contrast, between 1971 and 2000, non-OECD countries provided just 60% of new energy production. The greatest increase in liquids will come from Russia, the Caspian, the deepwater provinces of the US, Brazil and West Africa, and China. Demand on Middle-East OPEC producers will intensify. Western production capacity will decline. An exception is deepwater and Canadian heavy oil, which will cause the US to become slightly less dependent on imports. Worldwide, efforts will continue to prolong the life of fields through remedial and production enhancement technologies.

If one looks at gas over the next ten years a different picture emerges, with plentiful supply in almost all parts of the world with the possible exception of the continental US. The IEA predicts that gas consumption will double in the next 30 years. The ultimate production scenario will depend on environmental and technical factors as well as the infrastructure investments necessary to bring the gas to market, but the same shift away from the OECD countries holds.

Top Upstream Companies 2001

Reserves			Production		
Rank	Company	Reserves, M boe	Rank	Company	Production, '000 boe/d
1	Saudi Aramco	300,453	1	Saudi Aramco	9,119
2	Gazprom (Russia)	239,040	2	Gazprom	8,732
3	NIOC (Iran)	229,752	3	NIOC	4,789
4	INOC (Iraq)	131,431	4	PEMEX	4,338
5	KPC (Kuwait)	105,584	5	ExxonMobil	4,314
6	PDVSA (Venezuela)	103,351	6	Shell	3,773
7	Qatar Petroleum	102,872	7	PDVSA	3,693
8	ADNOC (Abu Dhabi)	90,359	8	BP	3,401
9	PEMEX (Mexico)	51,946	9	ChevronTexaco	2,721
10	Libya NOC	31,600	10	Sonatrach (Algeria)	2,609
11	NNPC (Nigeria)	27,228	11	INOC	2,463
12	ExxonMobil	21,958	12	PetroChina	2,358
13	Shell	19,095	13	ADNOC	2,274
14	Lukoil	17,969	14	TFE	2,154
15	PetroChina	17,184	15	KPC	1,916
16	BP	16,337	16	Pertamina (Indonesia)	1,681
17	Petronas (Malaysia)	13,709	17	Petrobras	1,645
18	Yukos	13,335	18	ConocoPhillips	1,588
19	ChevronTexaco	12,057	19	NNPC	1,558
20	TFE	10,472	20	Lukoil	1,277

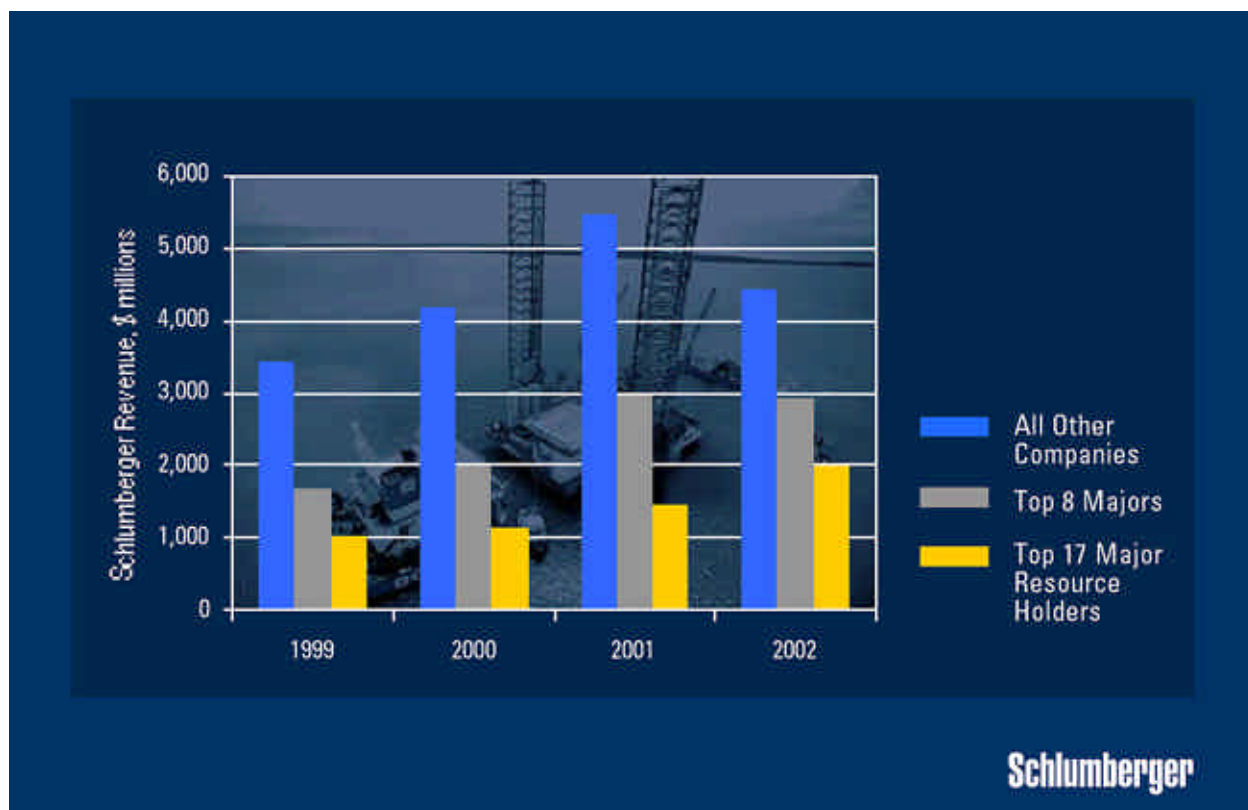
Denotes 100% State Ownership

Source: PIW top 50

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These shifts are of fundamental importance for Schlumberger. The markets for our services are changing and our customer base with it. Of the top 20 upstream companies ranked by reserve base, 13 are 100% owned by governments – indicated here in yellow. Of the remainder, two are Russian – Lukoil and Yukos. If you look at production capacity, the situation is similar but there is a greater presence of the private international oil companies.

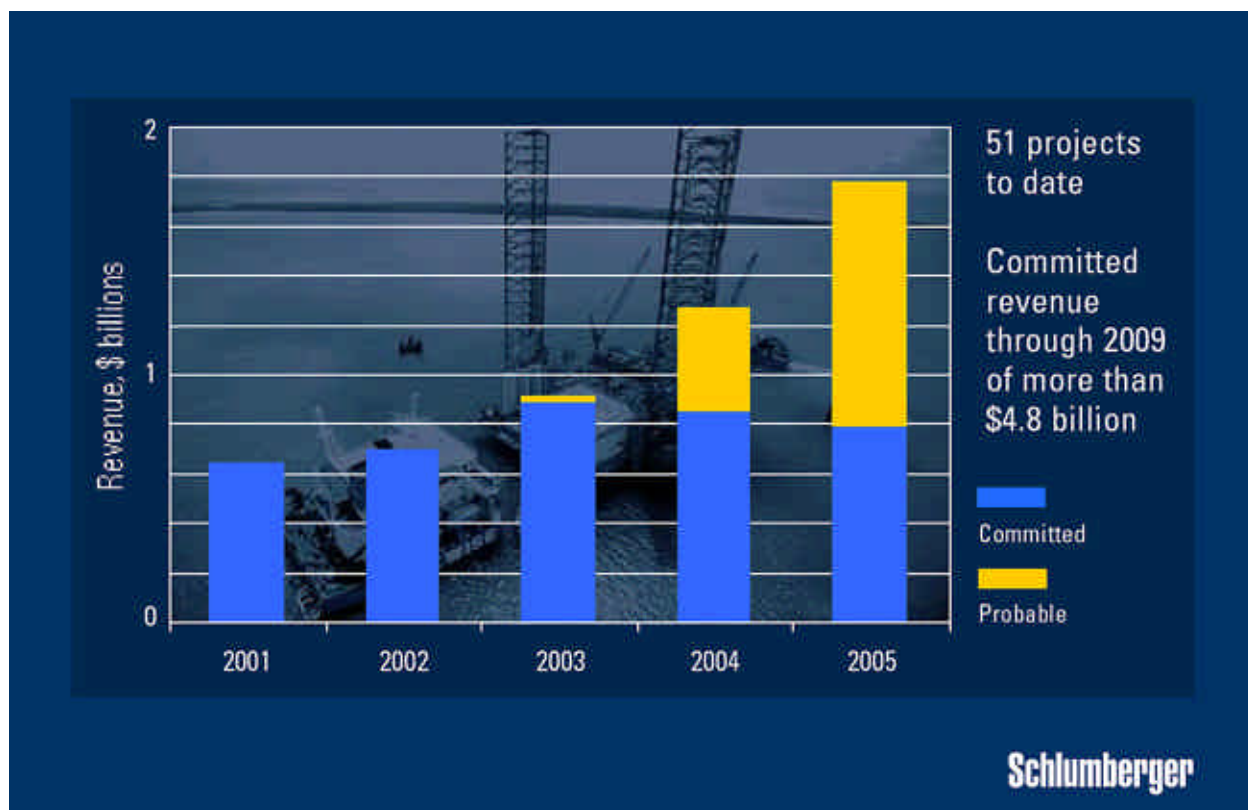
OFS Revenue Distribution 1999–2002



These changes are reflected in our revenue base, which over the last three years shows a steady increase in that of the major resource holders (MRH).

But the shift also provides new opportunities in the way we sell our services. The growing markets of Russia, some of the former Russian republics and more gradually but equally importantly China, require a new approach. Customers have to be convinced that the price they pay for our technical services produces better results than their domestic service industry which charges a fraction of what we do. In addition, a great deal of the improvement in efficiency comes from a better management of the logistics and technical preparation of work scopes. As a result, a lot of what we do in these areas is linked to integrated project management services. These include the provision of technology, technical personnel and management expertise to supplement our customers' own efforts.

Integrated Project Revenue



We have an increasing portfolio of production optimization, field development or field remediation projects from these customers. Today the pipeline of committed integrated project management work, including the services provided, is approximately \$4.8 billion spread over a six-year period. Revenue from this type of activity will continue to grow with all such projects having some element of variable remuneration based on efficiency, or on the performance of the technology, so the opportunity to improve our return exists.

However, our success in this and any market will continue only if we can provide our customers with leading-edge technologies that allow them to reduce finding and development costs and increase recovery factor. So I will now spend a few minutes reviewing the technology portfolio of our individual product segments.

Oilfield Services Market Rankings

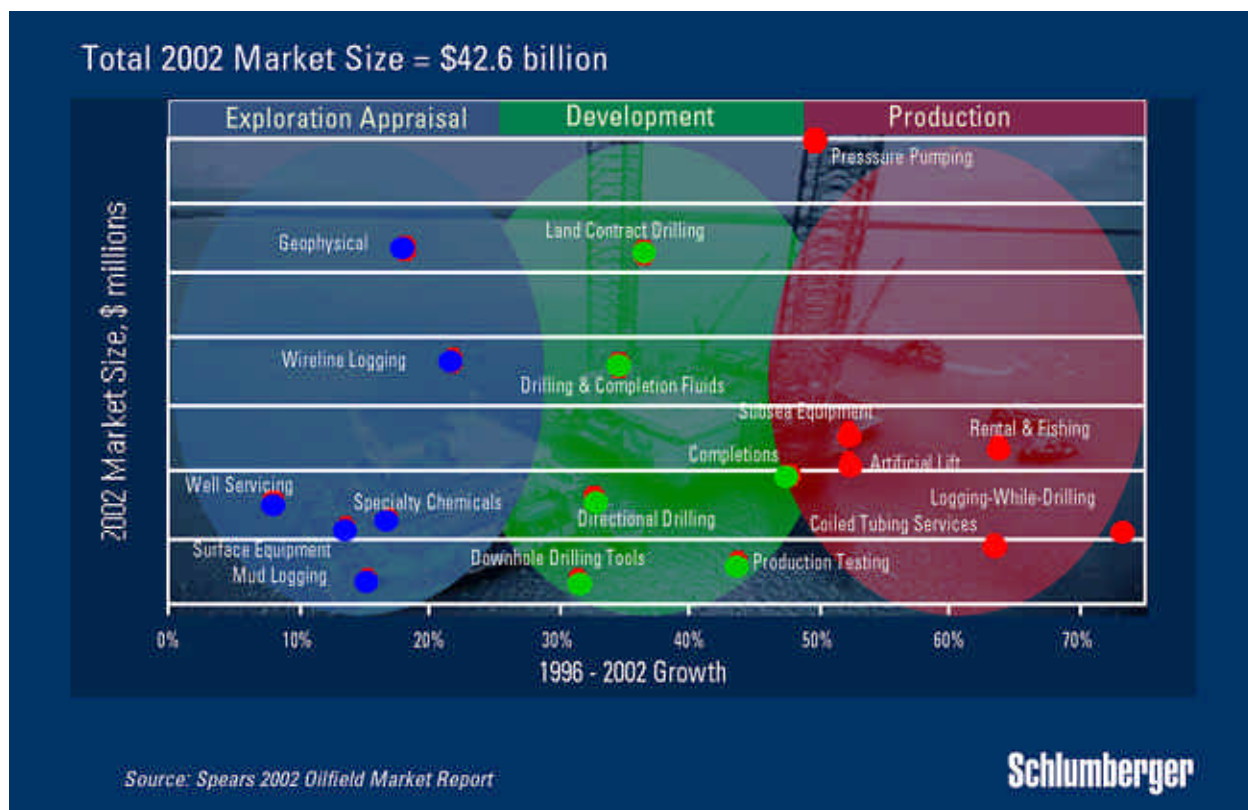
Schlumberger Rank	Market Size \$ million	Product Line
1	5 350	Geophysical Equipment & Services
1	3 643	Wireline Logging
1	1 110	Logging While Drilling (LWD)
1	903	Coiled Tubing Services
1	613	Production Testing
2	6 932	Pressure Pumping Services
2	1 426	Artificial Lift - Downhole Pumps & Mandrels
2	2 679	Directional Drilling, MWD, LWD Services
3	1 937	Completion Equipment & Services

Source: Spears Oilfield Market Report 2002

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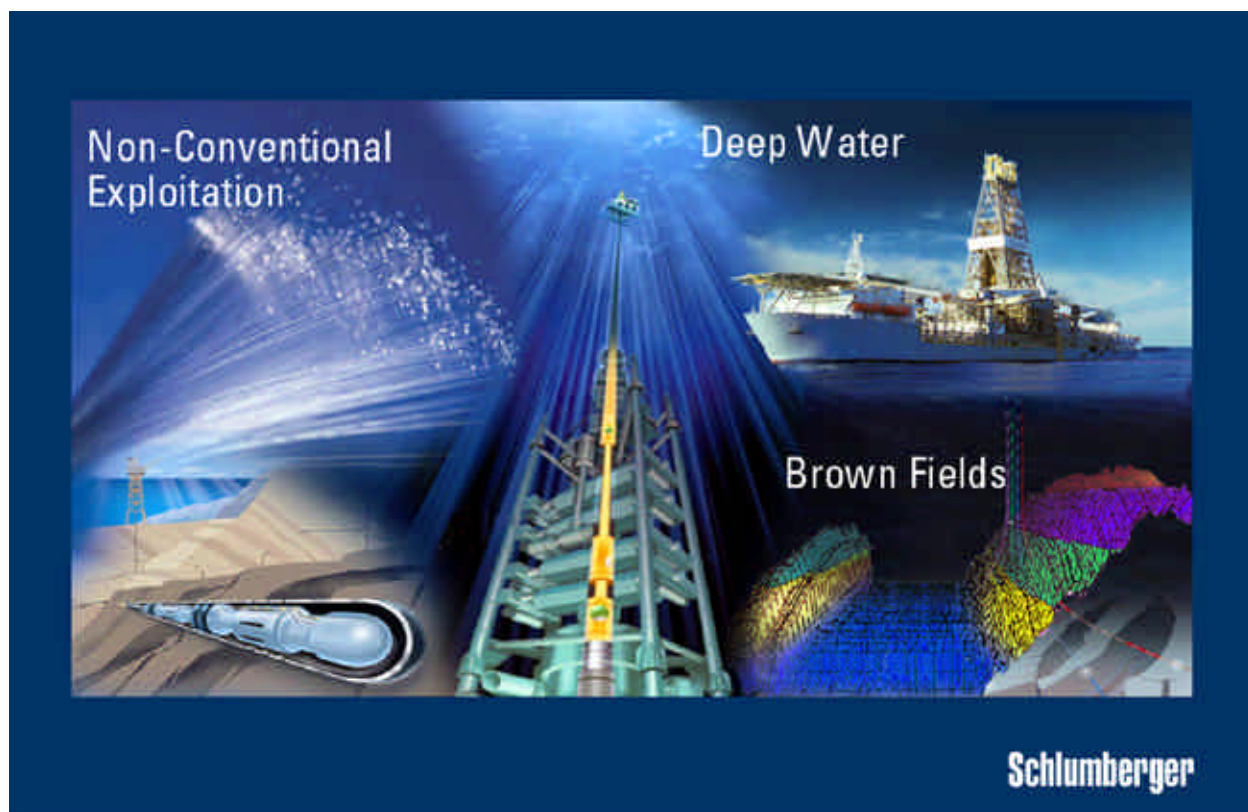
We have always believed that you need to be number 1 or 2 to maintain technical leadership, or you need a plan to get there. You also need to have a clear idea of which technologies are going to most affect your customer's business. What you see here is an estimate by Spears of the total market size for the services where we have a market position. It shows that we rank 1 or 2 everywhere except for Completion Equipment and Services and here we are making gains in several key domains including intelligent completions and remote monitoring.

Oilfield Services Growth: 1996—2002



It is important to look at where the technology markets are going. This chart plots total market size for individual services against revenue growth rate over the period 1996 to 2002. Each dot represents a service and they fall into three groups. The highest growth rates are for services to increase production, next come services for developing new fields, while the lowest growth is for services for exploration. The growth rates of pressure pumping, coiled tubing services, artificial lift, and production testing all witness the need to maintain production from existing fields. The move to subsea is evident as deepwater developments advance. Drilling technologies including drilling fluids, drilling tools, directional drilling services and logging-while-drilling all show healthy growth.

Technology Trends



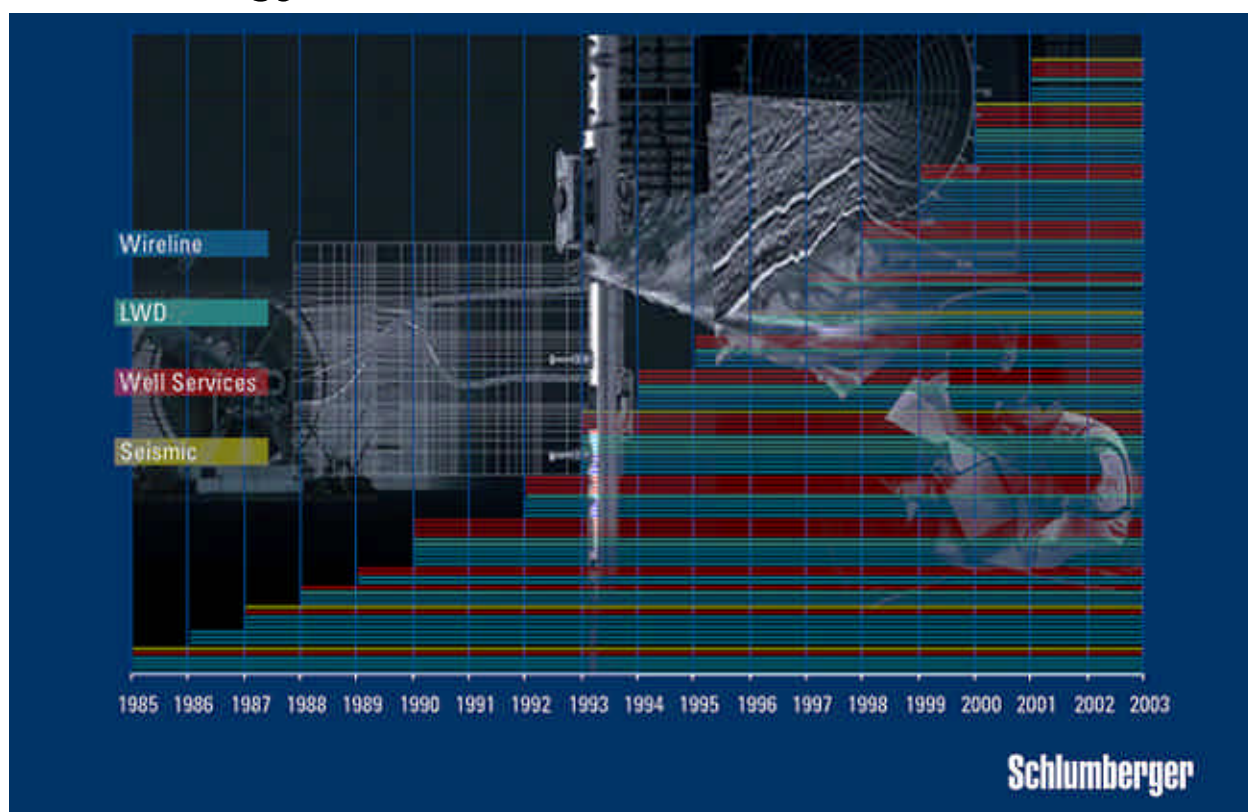
The question is where do we go from here? Which technologies will provide the competitive edge to both oil companies and service companies? We believe there are three major trends.

First, the economics of deep-water are so sensitive to error that improved reservoir definition with high-resolution seismics, advanced logging and sampling is mandatory. Deepwater also requires highly sophisticated control and monitoring requiring new sensors, intelligent completions and modeling.

The second technology trend has to do with improving production, in both new and old fields. Through-casing wireline evaluation has finally come of age. New methods of production testing have become more efficient. Downhole flow control has evolved dramatically and more sophisticated use of chemical treatments is growing fast. In addition, advanced completion techniques are key.

The third trend is toward technologies destined for non-conventional hydrocarbon exploitation. Examples are coal-bed methane and heavy oil, niche markets requiring quite specific and varied services and technologies – for example the use of fiber-optic temperature sensors for monitoring steam floods in heavy oil production.

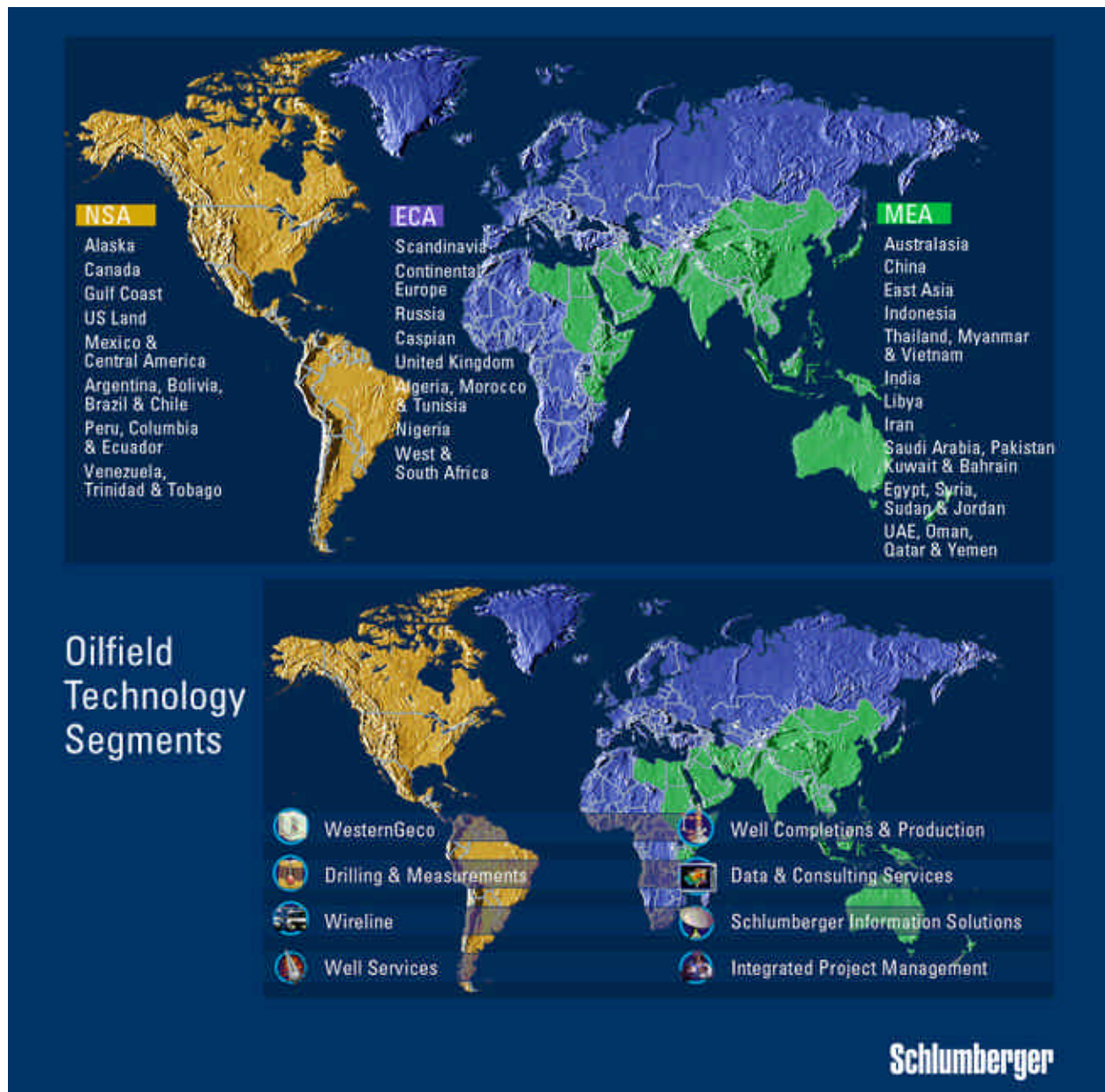
Technology Innovations



Technology spending by the oilfield service industry has been steadily increasing for years and now approaches 30% of the total industry spend, astonishing when you consider the size of our clients. The lion's share of that 30% is Schlumberger. Our technical innovations have always come at constant rate – during last 10 years we have introduced 45 major innovations for Wireline, 21 for LWD, 34 for pumping services and 6 major systems for seismic, to mention just four of our technology segments.

Our commitment to technology is as strong as ever, so let me now address how we provide our services in a world market where the customer profile and needs vary dramatically from region to region. As you are aware, in 1998 Schlumberger reorganized Oilfield Services into a matrix of 27 geographical markets, or GeoMarkets, balanced by strong technology segments. The GeoMarkets are managed through three Areas.

The Oilfield GeoMarkets



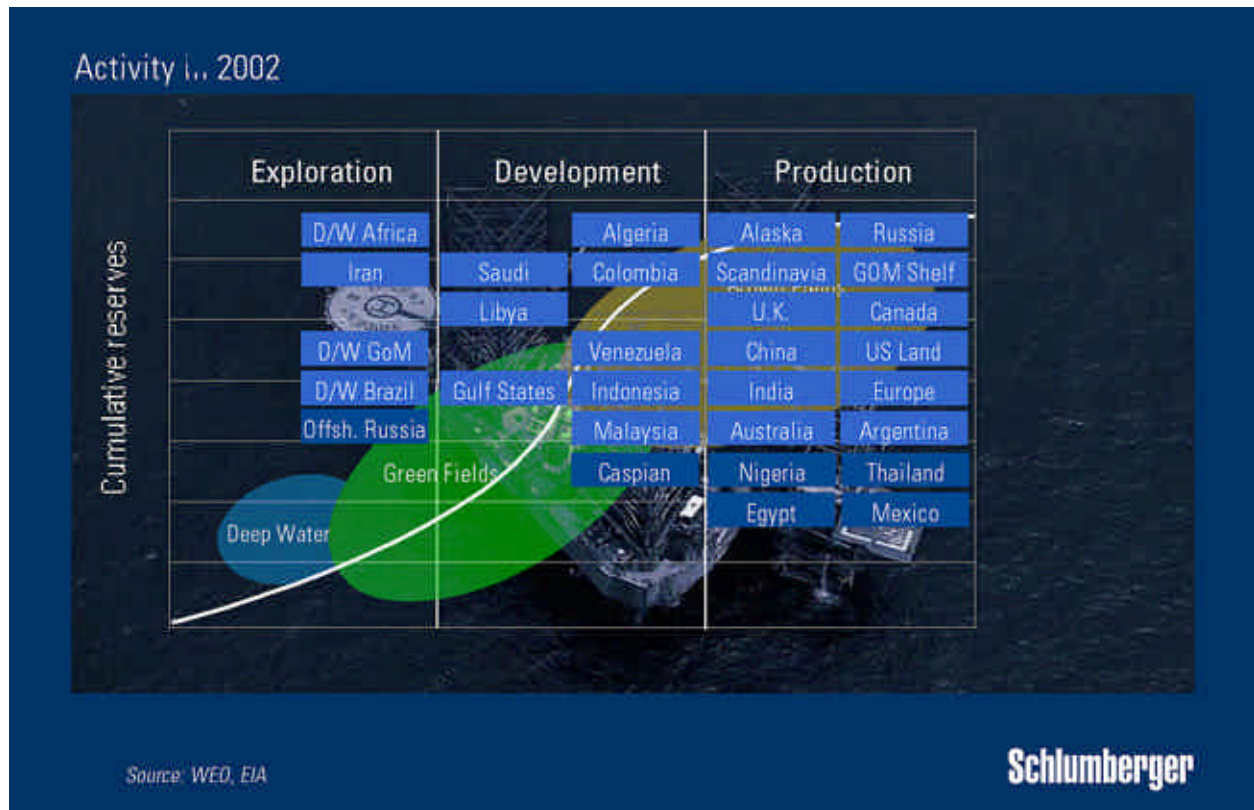
The GeoMarkets have responsibility for providing the local customer interface, defining the local business plan, providing the common infrastructure needed for the technology segments, and finally for profit and loss. GeoMarkets offer a rapidly evolving menu of integrated solutions when opportunities arise without dilution of individual segment technology offerings. In contrast, the technology segments provide leading technology, trained and qualified operating personnel, and are the guardians of service quality and the competitive position of their segment in the overall market place at a global level.

Shift in GeoMarket Activity



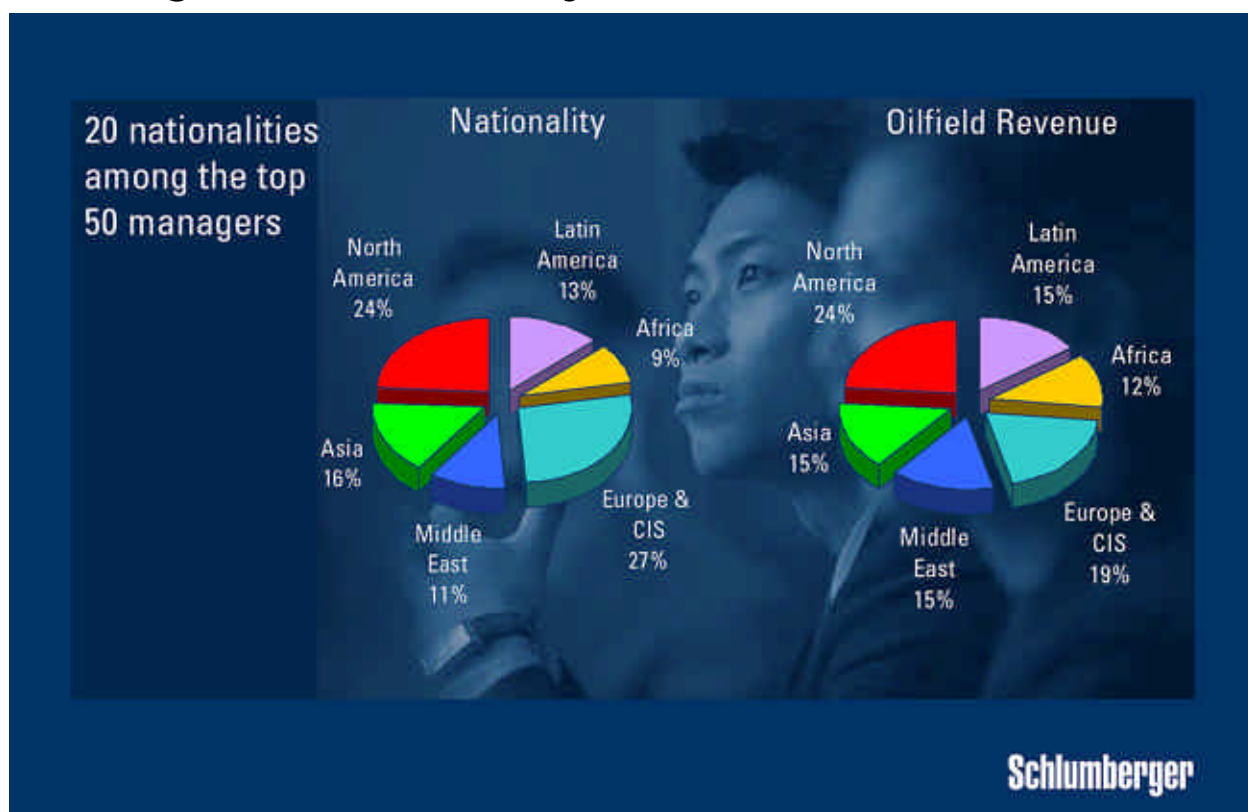
Management of our business through GeoMarkets clarifies our view of the global market for oilfield services. This market can be segmented into exploration, with much of today's deepwater activity, development, where the green, or new fields lie and production, with the mature or "brownfields". GeoMarkets can be segmented accordingly to their primary type of activity – so enabling us to focus clearly on the customer needs. Nearly 50% of the world's production comes from the brownfields. Our activity is high in such GeoMarkets and this is reflected in our revenue figures. Looking forward to 2010, we can safely predict that there will be fewer new fields, while today's new fields will have aged and a new wave of exploration will have begun. The workscope of many GeoMarkets will therefore progressively shift toward the brown field scenario with its corresponding high activity and revenue. Without this level of granularity, we would be hard pressed to plan technology development or adjust our resources. Further, we would not have been able to develop the portfolio of integrated project management projects that I mentioned earlier.

In defining future technology directions we have grouped GeoMarkets around common themes. There is a community of deepwater GeoMarkets, for example, each providing input to the development of services worldwide. This improves the communication between our technology providers and our global operations, and is proving a growing competitive advantage. In addition, we now place technology and research centers in the new heartlands of our business – the most recent additions being technology centers in Moscow, Dhahran and Beijing.



After nearly five years we need to ask ourselves if this organization has been successful and what lessons we have learned. I think we can say that in terms of improving the quality of our customer interface and our ability to sell complex projects it has been a great success. However, all matrix organizations remain a challenge. The geographical organization has to be constantly reminded that they are not there to substitute themselves for the segments and the segments have to be reminded that they often will derive more business in co-operating with other segments than in going it alone. Cost and support ratios have to be strictly controlled and monitored.

Management Diversity



GeoMarkets are also the ultimate expression of the Schlumberger human resources policy of creating leaders from all the countries where we work. Today the spread of nationalities of our top managers matches the geographic distribution of our oilfield business. Without exception they all have extensive international experience and this, coupled with their cultural understanding is a key advantage in managing the GeoMarkets.

Ladies and Gentlemen, when I look at our future in terms of the three broad subjects I have addressed – the shift in the markets for our services, our position in the technology segments and our geographical and human reach – I am totally confident we can produce growth and superior returns across the natural industry cycles. But before I discuss targets, I would like to spend some time on the seismic industry and then on SchlumbergerSema.

Seismic Issues



- Technology not seen as a competitive advantage
- Value added by operators
- Multiclient model unsustainable

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You have all heard the story of 3D seismic, that from the mid 80's through the 90's it has been the star oilfield technology contributing to reducing oil and gas finding costs. You have all followed the gradual deterioration of the seismic contracting industry to a financial condition that can only be described as disastrous. I would like to offer a brief explanation why I think this occurred and what needs to be done to turn it around.

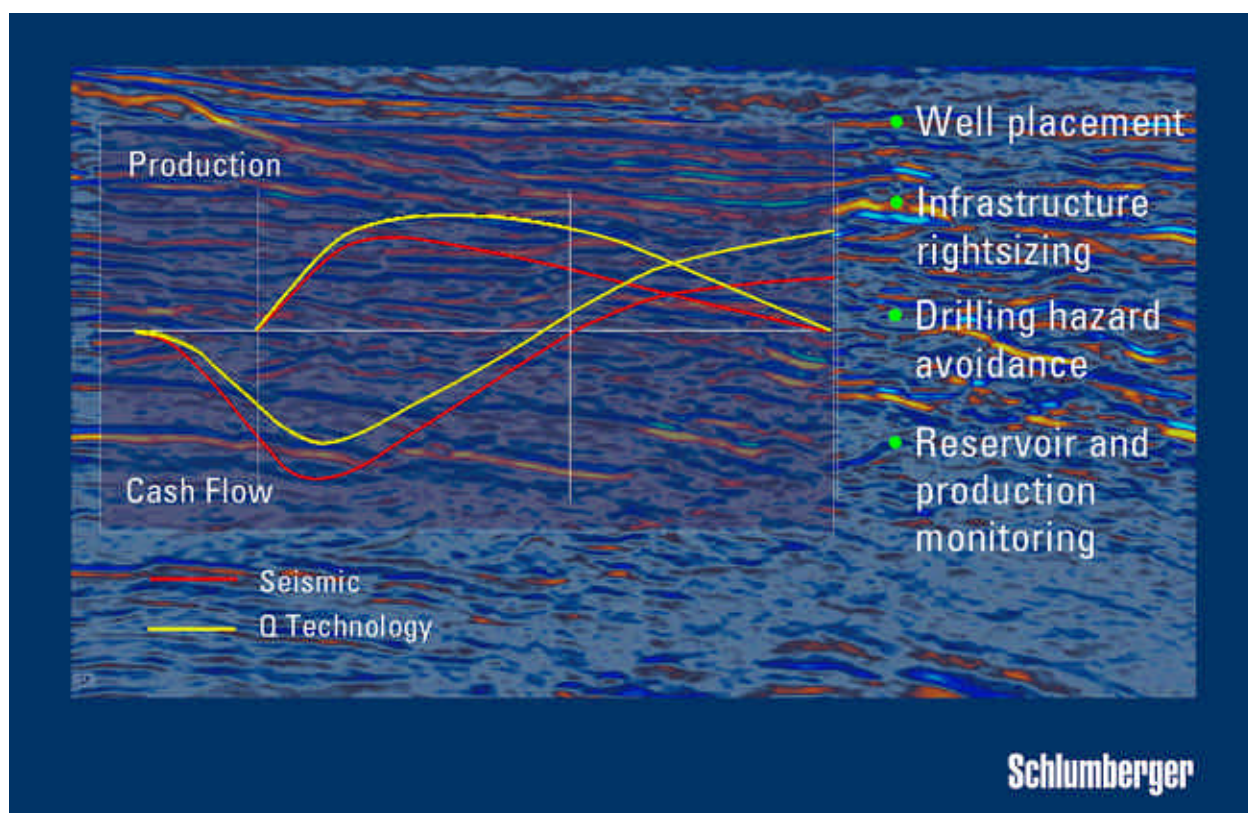
First, this is not an industry that has competed on the basis of technology. It is an industry that has assumed that all contractors' acquisition equipment was equal and that the real added value, which is the understanding and interpretation of the seismic data, remained the domain of the oil company as a key part of their competitive advantage.

Second, the business model of multi-client data has become mostly unsustainable. The amount of seismic data on the balance sheets of the four principal seismic companies has risen from \$1.1 billion to \$2.2 billion in 5 years. Multi-client data requires a vibrant market, and only in an area like the Gulf of Mexico (GOM), where block sizes are small and partnerships are many and change often, do you find active trading. In most places outside the GOM, this is not the case and while initial sales, particularly of 2D data, may be encouraging, subsequent trading and sales of data have been disappointing.

Unfortunately industry hype over the value of multi-client data led many credible investors to finance ever-increasing data libraries. In our opinion, the party is over. Investors have realized that speculation on future sales of multi-client does not pay. The industry has seen some consolidation but insufficient to reduce capacity to a point where supply equals demand.

What can be done? Obviously, further consolidation might help. But mostly we feel that the industry needs to compete on the basis of technology rather than capacity. Improvements in seismic technology both at the level of acquisition and processing can still make enormous improvements in our customer's performance. That's why we developed the Q system, for both marine and land – Q marine is currently available on four WesternGeco boats.

The Value of Q Technology



Q technology provides single sensor recording, better frequency content, and provides data capable of being processed to unprecedented resolution and accuracy. Data acquired so far has provided extremely high quality seismic images that we have sold at premium pricing. The value in the data lies in more accurate well placement leading to better wells, rightsizing of surface facilities with consequent economy in capital expenditure, avoidance of hazards while drilling, and field-wide reservoir and production monitoring over the life of the field. These all have significant effect on cash flow and on hydrocarbon production and recovery. Our challenge over the next 18 months is to convince our customers that the value of Q is worth the pricing uplift. Similarly we have begun to acquire data with our Q land system with encouraging results on reservoirs with known seismic problems. Again our task is to demonstrate added value.

There are plenty of opportunities. In the Middle East, seismic technology cannot yet image the deep gas reservoirs, but Q-land technology holds promise. For deep gas plays on the shelf in the Gulf of Mexico, traditional seismic attributes cannot differentiate between gas pay and no pay. Subsurface velocity is so poorly understood in parts of Egypt that seismic is useless beyond a traditional structural geological interpretation.

We also believe that Q technology will provide critical 4D seismic monitoring of deep-water fields in the majority of cases without the need for expensive permanent seabed installations. In fact Statoil is already using Q as a repeat survey tool.

In summary, I believe we can build a successful seismic company. It will compete on the basis of superior technology and provide the added value for which the customer will pay. Moreover, a successful seismic company is key to our vision of reservoir management because seismic will play an increasing role in production monitoring. But success must include the ability to earn a proper return on the capital and technology investment. The challenge is to persuade the customer base that technology must be rewarded by a decent return.

SchlumbergerSema



- Infrastructure and security solutions – DeXa services
- Technical system and business application integration
- Program management of complex systems

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Now let me turn to SchlumbergerSema. As I said at the beginning, our acquisition of SchlumbergerSema does not signal a fundamental change of course for Schlumberger.

SchlumbergerSema provides three key IT enablers – network infrastructure and security expertise, the capability to integrate technical systems and business applications and the capacity to manage complex projects. Together, these are essential to the real-time enablement of reservoir management and its integration of all this with the workflow of our clients.

SchlumbergerSema

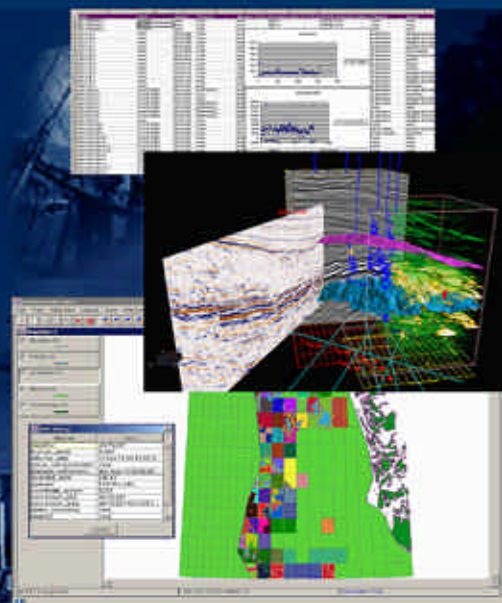
- 
- Critical mass of expertise in IT consulting, systems integration, and network and infrastructure services
 - Global focus on oil, gas and energy markets
 - Regional focus on telecommunications, finance and public sector markets

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Last December, we announced that SchlumbergerSema would focus on IT consulting, systems integration, and network and infrastructure solutions, primarily for the global oil, gas and energy markets. At the same time we will continue the other activities of SchlumbergerSema in its principal business domains of telecommunications, finance and public sector markets on a regional basis. This realignment supports our core activity in oilfield services and leverages our domain knowledge in energy. It addresses a number of the issues that the industry faces in lowering the cost of oil and gas exploration and production and prolonging the productive lives of hydrocarbon reservoirs. In particular it meets the growing need for the security of data and management of information at a time when new technologies are generating rapidly growing data volumes.

Information Management for PEMEX

- Change management consultancy
- 1900 geoscientists & engineers, 4 regions, 27 asset teams
- Systems integration for 25,000 wells and 4 terabytes of data
- Objective is cost reduction and improved efficiency



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As an example of this, we will shortly begin a \$60 million, two-year contract to put this into practice for PEMEX, the major resource holder in Mexico and fourth largest oil producer in the world. The scope includes SchlumbergerSema change management consulting to assist PEMEX migrate to portal technologies that provide access to petrotechnical data, as well as to information on financial and production operations.

Since the beginning of the oil and gas industry in Mexico, data from 25,000 wells have been acquired, amounting to more than 4 terabytes of information. The goal of the project is to provide 1900 PEMEX geoscientists and engineers, working in 4 regions, twenty-seven asset teams and nine physical locations, with the information they need to maximize returns and realize cost benefits. When you compare statistics like these to the data generated, and the infrastructure connectivity required to run the Olympic Games you get a feel for the similarity in the IT capability required.

Real-Time E&P Services



In oilfield services, our real-time offerings are taking shape. GeoVision* technology for example steers a well precisely within the most productive oil and gas rock formations. In real time, it requires seamless and continual two-way data delivery from the wellbore to and from the client's office. We provide this capability with the InterACT* service.

The InterACT service also enables the new ESP monitoring service, which allows oil and gas companies to monitor downhole electrical pumps in producing wells in real time. These pumps are costly to replace or maintain and require constant vigilance to avoid lost production. The service measures key pump parameters in every well, transmits essential data to a central location, and issues alarms and corrective actions.

SchlumbergerSema possesses the enablers and skills to implement real-time systems, manage technical data, link technical and business systems and integrate the various complex systems across the industry – both upstream and downstream. Access to data in a real-time enabled world harnesses information technology to extract business value from data, so improving decision-making and productivity.

Several factors differentiate us from our competitors in the energy IT services and software market. First, our deep industry knowledge that is essential to align information technology with core client operational processes. Second, our experience in developing and deploying an oilfield technology portfolio that includes full IT, application software and network infrastructure components. Third, our global footprint - providing proximity to the customer through the GeoMarket structure.

Our revenues in the energy IT services market, including oil and gas, already exceed \$1 billion in a market size that Gartner estimate to be about \$20 billion. Opportunities for growth are excellent and constitute the central goal of our strategy.

Because of its new focus, our strategy calls for all volume-products activities, including smart cards, point-of-sales terminals, payphones, e-city terminals, electricity meters, payment systems and telecom software products, to be managed separately. With the volume product activity treated separately, SchlumbergerSema revenues are now principally split between four markets: energy, finance, telecommunications, and public sector.

As I'm sure you know, these changes, coupled with deteriorating market conditions, resulted in charges of nearly \$2.9 billion related to goodwill impairment, impairment associated with intangibles and other costs, together with \$77 million in restructuring costs.

Balance Sheet

- Return to a strong balance sheet
- Consolidate and maintain a strong credit rating
- Net debt to fall below \$ 4 billion by end 2003 assuming sufficient disposals
- Strengthen capital discipline

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Ladies and gentlemen, one of the sell-side analyst's reports I once read, begins with the phrase "Oilfield Service investments are not for the faint hearted". I would argue that the only way of managing them is with a robust balance sheet, conservative financial policies, strong business ethics and effective corporate governance. Up until the time of the Sema acquisition our balance sheet was exemplary, in fact investors often complained we retained too much cash. To my mind one of the most worrying consequences of the Sema acquisition is the loss of financial flexibility.

We have therefore implemented a program to restore our balance sheet to a condition that will give us renewed flexibility in the financial markets through the maintenance of a strong credit rating. Our short-term objective will be to move the net debt below \$4 billion. How are we going to achieve this?

First, all the activities that are currently reported in the "Other" category which contains smart cards, point-of-sales terminals, payphones, e-city terminals, electricity meters, and payment systems as well as NPTest, together with telecom software products currently reported under SchlumbergerSema, are candidates for divestiture or IPO. On the basis of the 2002 figures this represents \$1.4 billion in revenue. The timing of sales or divestiture of these activities and certain other assets is highly dependent on market conditions, but we feel we can realize sufficient disposals in 2003 that if coupled with a reduction in operating liquidity will allow us to reach the \$4 billion target. We also feel that there will be sufficient remaining disposals in the timeframe beyond 2003 to allow us to take the debt below \$3 billion.

We are also going to be a lot more disciplined in the deployment of capital within Oilfield Services. Starting at the beginning of this year, all managers will be measured on their net income, after a capital charge. This is to encourage the more efficient deployment of capital as well as to influence profitability decisions in areas where return on capital has been slipping or has previously been poor. A consequence of the geographical organization has been an erosion of managers' motivation to share and transfer equipment. I am confident that a capital charge will encourage this practice to resume and have a correspondingly positive effect on liquidity as well as return on assets.

This measure forms part of managers' performance incentive calculation.

Financial Goals

- Accelerate Energy IT services growth to double digits by 2004
- Establish a consistent 12% pre-tax return on seismic activities
- Grow Oilfield Services return on sales from 10.6% in 2002 to cyclical peaks above 15%
- Grow earnings per share at rate higher than growth in revenue
- Improve return on capital employed to double digits within two years

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I would like now to reduce all that has been said into some financial targets:

First, SchlumbergerSema. We need to grow the energy Oil and Gas segment at a rate that exceeds the overall growth rate of IT spending in the energy sector. Our objective is to reach double-digit growth rates, excluding the Schlumberger account, by 2004. Our starting point in 2002 is the \$1 billion dollar revenue figure that I mentioned earlier and this includes Schlumberger Information Services (SIS), the oil & gas portion of Networking and Infrastructure Services (NIS) and some of the energy-related business in SchlumbergerSema. The other activities in SchlumbergerSema, principally telecommunications, finance and the public sector must generate positive net liquidity at a rate commensurate with the interests of the Schlumberger shareholders. I make no overall growth predictions since success depends on a constant effort to reduce overhead cost in Europe coupled with careful selection of the most profitable contracts.

Second, WesternGeco. We need to be able to earn a consistent return on our investment in seismic. In the best years, seismic earned 12% before tax. We think that a reasonable objective is to consistently earn at this rate over the next business cycle, far from being the case today. As of the first quarter of this year we will disclose WesternGeco results separately from the rest of Oilfield Services to allow you to track our progress. This will also reduce the distortion in the geographical results of Oilfield Services that the seismic business introduces because of its migratory nature.

Third, Oilfield Services. I would like to start by allaying your fears about our margin in the second half of 2002. The Europe-Africa-CIS organization had built up a support organization that supposed a continuing growth rate beyond what was reasonable in the light of the negative

signs coming out of UK and Nigeria. This was partly hidden in Q3 by exceptional sales of artificial lift equipment in Russia, so the full effect only became evident in Q4. The bad news was compounded by the situation in Tengiz where negotiations between the government and the TengizChevroil partners temporarily halted activity. Suffice it to say, we have taken aggressive remedial actions on the cost base. I have no doubt that the Europe-Africa-CIS margins will return to their historical levels.

As a consequence of this experience, we are reviewing the support organization of Schlumberger worldwide. During 2003 we will be downsizing and consolidating support at all levels of the company. This exercise will realize significant economies and will above all remind everyone that in a matrix organization control over support cost has to be a permanent feature of management discipline. It is also necessary at the corporate level to compensate for the overall downsizing that will result from the asset sales.

In the context of the market for our oilfield services that we outlined above, we are confident of growing Oilfield Services after-tax return on sales from 10.6% in 2002 to 13% through the business cycles with peaks at 15%. In addition, stronger capital discipline and lower capital expenditure will gradually allow us to improve our asset turns.

Finally, our overall objective has to be growth in earnings per share (EPS). We are confident that through the aggressive cost reduction program I outlined earlier, the improvement of our operating margins and our deleveraging of our balance sheet, we will be able to grow EPS through the (next) business cycle at a rate substantially higher than growth in revenue. Our return on capital employed, which has fallen into high single digits, should recover to double digits within two years and our long-term target is in the mid-teens – well in excess of our cost of capital.

I would like to caution you that this recovery is not likely to be smooth. In addition to the cyclical risks inherent in the oil and gas business, we must consider the ongoing restructuring of SchlumbergerSema, the cost reduction program across all our businesses, not to mention the difficulties of completing our disposals program in the current financial environment. It is a challenge, and the timing will be uncertain. The outcome, however, is not to be doubted.

Corporate Objectives

- Maintain technical strength in oilfield services with strong delivery through the GeoMarket organization
- Execute the IT strategy for oil and gas
- Achieve consistent profitability in seismic services – differentiated by technology
- Divest those businesses that have been identified – optimizing timing with value
- Return balance sheet to its traditional strength
- Demonstrate superior returns consistent with being the technical leader and premier Oilfield Services company

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Ladies and gentlemen, we have much to do:

- **We must maintain technical strength in our oilfield services segments with strong delivery through GeoMarkets;**
- **We must execute our IT strategy for oil & gas services**
- **We must achieve consistent profitability in seismic differentiated on technology;**
- **We must execute our divesture strategy, optimizing timing with value;**
- **We must restore our balance sheet to its traditional strength.**
- **We must show superior returns consistent with our position as the technical leader and premier Oilfield Services company.**

The image shows the Schlumberger logo, which consists of the word "Schlumberger" in a bold, white, sans-serif font, centered on a dark blue rectangular background.

Finally, I would like to say a word about the last two years. I know that many of you have been concerned with our future and we have certainly not helped with generally poor communication and limited access to management. Obviously, neither I, nor my managers can promise unfettered access, but we do pledge to communicate better and be available for discussions at more regular intervals.

I have one more thing to add. If you have been concerned by our strategy, so have our employees and our customers. Therefore, I would like to end with a message to all our employees and all our customers, as well as to all of you. I am thinking particularly of our thousands of engineers, scientists, technical specialists and staff carrying our technology and reputation to wellsites and customer offices in the four corners of the earth.

Ladies and Gentlemen, Schlumberger is back!