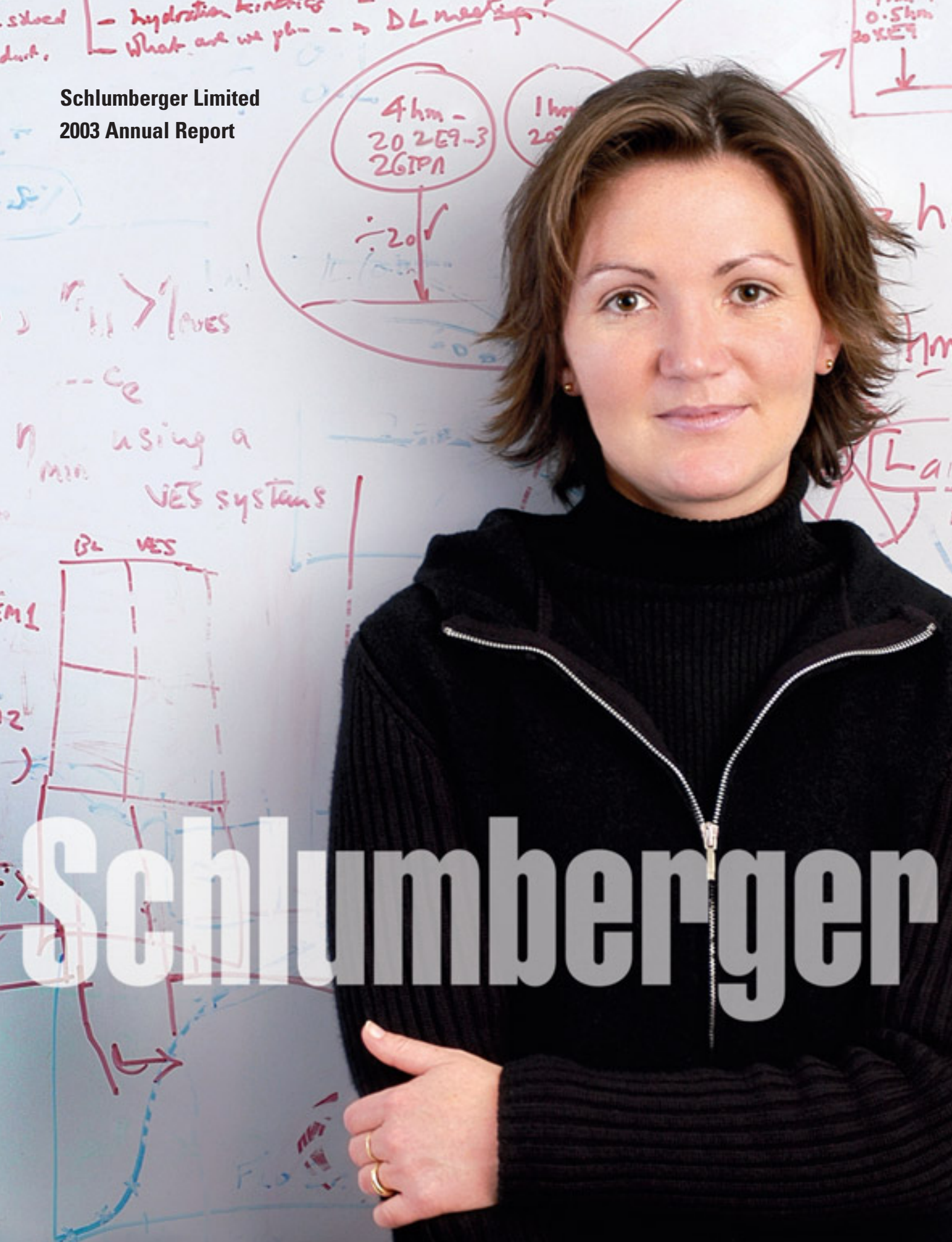


Schlumberger Limited  
2003 Annual Report



# Schlumberger



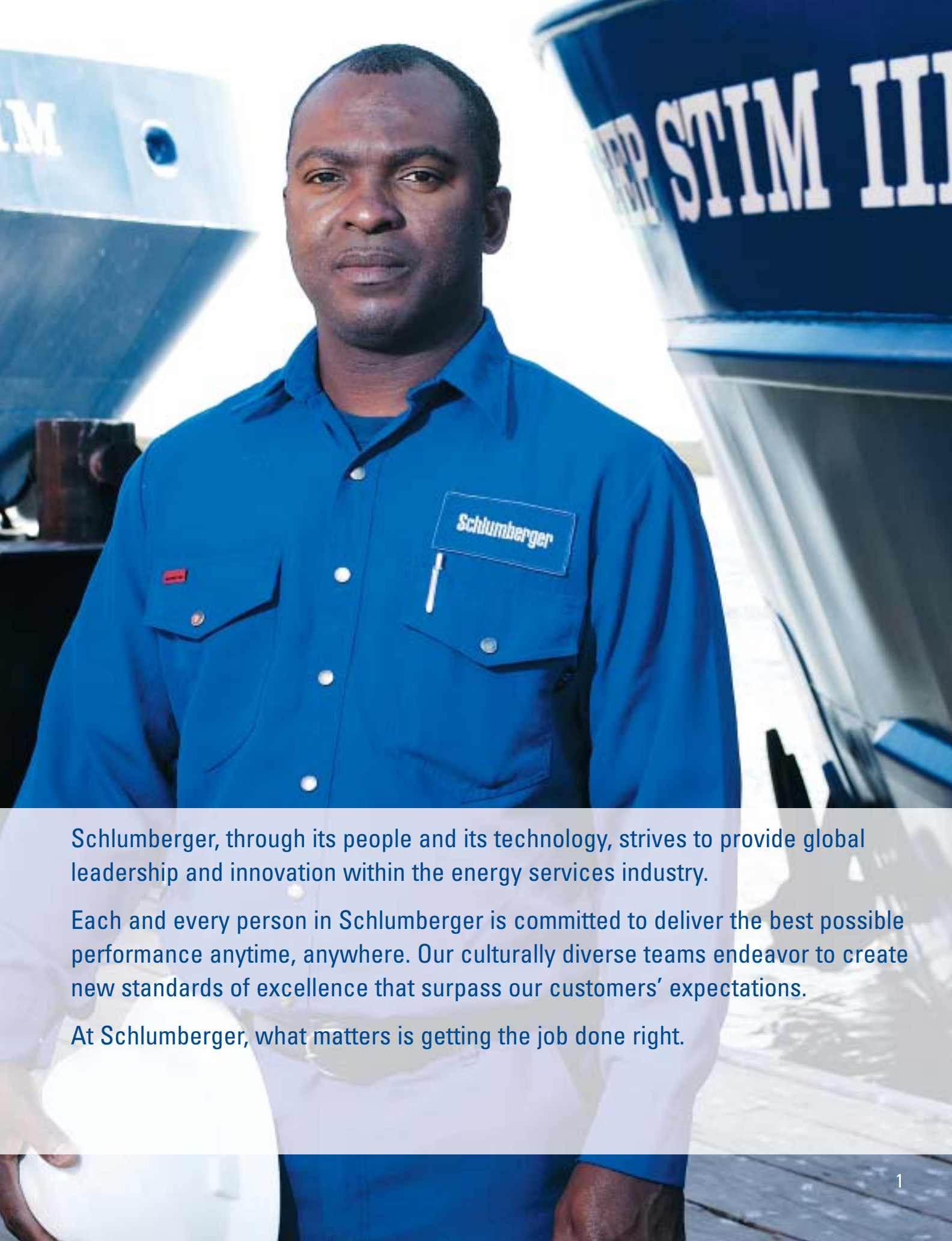
### **In This Report**

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**Schlumberger** today is the world's leading oilfield services company, supplying technology, project management, and information solutions that optimize performance in the oil and gas industry. The company employs more than 50,000 people of over 140 nationalities and works in approximately 100 countries.

Schlumberger provides technologies from formation evaluation through directional drilling, well cementation and stimulation, and well completion and productivity to consulting, software, information management, and information technology (IT) infrastructure services that support core industry operational processes.

WesternGeco, jointly owned with Baker Hughes, is the world's largest seismic company, providing advanced acquisition and data processing services.



Schlumberger, through its people and its technology, strives to provide global leadership and innovation within the energy services industry.

Each and every person in Schlumberger is committed to deliver the best possible performance anytime, anywhere. Our culturally diverse teams endeavor to create new standards of excellence that surpass our customers' expectations.

At Schlumberger, what matters is getting the job done right.



## Letter from the Chairman

The year 2003 marked a watershed for Schlumberger as we took the decision to focus on our core businesses in oilfield services. Our reasoning was simple. World energy needs for much of the next half-century will be met mostly by carbon-based fuels produced from an aging reserves base. Substantial investment will be needed to sustain today's production as well as to meet tomorrow's demand, and technology will be the key to a cleaner, more cost-effective response to this challenge. I therefore believe the future for Schlumberger is exceptionally bright.

The year's results for Oilfield Services were robust, with growth in all regions. Among the GeoMarket\* regions, activity was strongest in Mexico, Indonesia, India, the Caspian, and on land in the United States. Most technology segments registered double-digit gains, with records achieved by Drilling & Measurements and Data & Consulting Services. Much of the technology that saw increasing market penetration was associated with boosting performance in mature fields, or "brownfields", to stem declining production. Rotary steerable systems to accurately place well trajectories to tap bypassed hydrocarbon pockets and a range of cased-hole wireline evaluation tools to analyze such zones were two particular successes.

A number of technical and business highlights marked the year. Integrated Project Management (IPM) continued to grow, particularly in Mexico, where our history of successful projects led to the award of the Chicontepec contract, the most significant oil development project in Mexico in the last 20 years. In Malaysia, we signed a contract with PETRONAS Carigali Sdn. Bhd. to jointly redevelop the Bokor field that began production in the 1980s. This field, comprising more than 165 stacked sands and over 100 producing strings, has been modeled using the latest techniques and the redevelopment plan involves multiple technology segments. Such projects underline the value of our unique GeoMarket organization.

In December we announced a phased agreement to acquire PetroAlliance, Russia's largest independent oilfield service company, beginning with a minority share in 2004. PetroAlliance was formed in 1995 to provide a broad range of exploration and development services to international standards. The size and scope of activity in Russia is huge, and this type of investment will benefit Schlumberger and the Russian oil industry as that industry seeks access to technology to be applied to its particular needs for continued growth.



Perhaps the most difficult challenge we set for ourselves early in 2003 was to return WesternGeco to sustainable profitability. Continued overcapacity in both the land and marine and multiclient data markets made this a daunting task. Our approach has been threefold: to bring capacity and cost down to appropriate levels, to reflect a proper carrying value for the data library, and to continue the aggressive introduction of proprietary Q\* technology, for which the market has continued to grow rapidly.

Last summer we acquired the first marine time-lapse Q survey for Statoil, 200 km from the western coast of Norway. Twenty-one months had elapsed between the two surveys. Initial results, produced only 11 days after acquisition, enabled Statoil to revise plans for a new well and drill a shallower trajectory to remain clear of the oil/water contact. The well was a success and is producing without making water. The reliability and extremely high repeatability of Q-Marine\* technology were considered critical to achieving this result. In other applications, a Q system was commissioned in the Middle East late in the year and Q-Seabed\* underwent highly successful trials in both the North Sea and Middle East.

In defining the business activities sold with SchlumbergerSema, we maintained our commitment to the growing activity in oil and gas IT solutions. The natural fusion of the Schlumberger software and information management activities with the SchlumbergerSema consulting and network infrastructure business began in October, and by year-end business managers were in place throughout the GeoMarket organization. We have chosen to retain the Schlumberger Information Solutions name for the enlarged business, and our objective is to help customers extract more value from their core operational processes through leveraging the combination of our domain knowledge in IT and in exploration and production (E&P).

Early in 2003 we stated clear financial goals. By year-end we had made solid progress. Return on capital employed had risen to 12.8% in the fourth quarter, double the corresponding figure in 2002 and well in line with our intention to reach the mid-teens longer term. After-tax return on sales for Oilfield Services reached 14.2% in the same quarter—a level much more consistent with our performance in previous cycles. Net debt fell to \$4.2 billion, just shy of our \$4 billion target as a result of adverse currency movements.



In January 2004, we concluded the sale of the major part of SchlumbergerSema to Atos Origin and reduced our holding in that company to 14.5%. Total proceeds from the cash and stock sale amounted to \$1.1 billion. With conclusion of the sale of the North American electricity meter business and the sales of the Business Continuity, Infodata, and Telecom software products businesses we expect to see net debt below the \$3 billion dollar level by the middle of 2004. Beyond that point, the only significant divestiture remaining will be the IPO of Axalto, the Schlumberger smart card business, as and when market conditions permit.

I would like to take this opportunity to emphasize the importance that we place on a proactive QHSE culture to ensure that service quality, health, safety, and environment are top priorities for both management and employees. Over the years, driving accidents have been the single largest cause of injury and even death, and we have spent much time and effort to remedy this. I am very pleased to report that we suffered no occupational auto fatalities in 2003, despite our employees driving more than 12 million miles every month.

I have remarked elsewhere that the return of economic growth and recognition of the tightness of supply and demand in the context of accelerating production decline will need to provoke a response in E&P investment. In the near term, there are positive signs that this situation is beginning to be recognized.

In conclusion, I would once again like to take this opportunity to thank our customers and employees for their continued support.

Andrew Gould  
Chairman and Chief Executive Officer



### Financial and Operating Highlights

Schlumberger Limited

(Dollar amounts in millions, except per share data)

Year ended December 31

	2003	2002
Operating revenue	<b>\$13,893</b>	\$13,118
Net income from continuing operations, excluding charges	<b>\$ 913</b>	\$ 693
Net income from continuing operations, including charges	<b>\$ 473</b>	\$(2,417)
Basic earnings per share from continuing operations	<b>\$ 0.81</b>	\$ (4.18)
Diluted earnings per share from continuing operations	<b>\$ 0.81</b>	\$ (4.18)
Cash dividends declared per share	<b>\$ 0.75</b>	\$ 0.75
Return on capital employed from continuing operations, excluding charges	<b>10%</b>	6%
Return on sales from continuing operations, excluding charges	<b>7%</b>	5%
Return on equity from continuing operations, excluding charges	<b>16%</b>	9%
Net debt	<b>\$ 4,176</b>	\$ 5,021

### Oilfield Services Safety Performance

Automotive accident rate – accidents/1,000 drivers	<b>5.0</b>	7.4
Loss time incident rate – incidents/1,000 employees	<b>4.6</b>	6.2

A man with dark hair, wearing a blue Schlumberger jacket and a lanyard, stands in front of a blue structure. The word "erger" is visible on the blue structure. The background is a bright, outdoor setting with some industrial equipment.

erger

## The GeoMarket Advantage

Schlumberger customer needs are met through a unique network of GeoMarket units that combine deep domain knowledge with a thorough understanding of the cultures, geologies, and geographies that mark different countries and regions. The advantages: deployment of innovative solutions in the local environment backed by central development through worldwide technology segments and a consistent global approach to service quality, health, safety, and respect for the environment.

### Technology Development and Deployment

To appreciate how the GeoMarket network achieves results, consider the success of the new Schlumberger VDA\* Viscoelastic Diverting Acid. This polymer-free, self-diverting acid system increases oil production in carbonate rock formations. Technologies such as the VDA system are of growing importance in managing declining production in aging fields, where increasing recovery can prolong cost-effective field life. VDA development, which required the

creation of an entirely new molecule, was the result of a collaborative effort spanning three years in the Houston Product Center supported by work on the fundamental chemistry at Schlumberger Cambridge Research.

Unlike all previous acidizing systems, the VDA system possesses properties that enable it to virtually seek out zones of a well that need treatment the most, while limiting unnecessary injection into clean, permeable zones that are wasteful sinkholes for ordinary stimulation acids. This simple but significant difference makes VDA technology an innovative discovery for stimulation markets worldwide.

To introduce the technology, we opted for a new staged deployment strategy that relied heavily on the characteristics of the GeoMarket network. A single GeoMarket region, covering Saudi Arabia, Kuwait, Bahrain, and Pakistan, was selected because it united the geological and client needs deemed most likely to favor acceptance of the new technology. The new system was first used in Kuwait by an operator





that had shown interest in testing new technologies in the past. After positive results in early 2002, reservoir experts from the client and Schlumberger identified other potential wells for VDA application in the same area.

Over the following months, the new system rendered outstanding performance in more than 30 wells of all types—newly drilled wells, under-performing older wells, horizontal wells, and high-temperature, high-pressure wells. In all the treated wells, production increased by a minimum of 30%, and most wells recorded increases of more than 300%.

Following this experience, it made sense to introduce the new system to other clients with similar reservoir characteristics in the same GeoMarket region. The system was tested in Saudi Arabia and results were immediate, with all VDA-treated wells increasing production far beyond expectations. Since the initial successes recorded in mid-2002, many operations in Saudi Arabia have shifted from

polymer-base stimulation fluids to the non-damaging VDA system.

VDA technology was then introduced to the neighboring GeoMarket region covering the United Arab Emirates, Yemen, Qatar, and Oman. Further successes in these countries led to VDA introduction in the East Africa & East Mediterranean GeoMarket unit, where VDA introduction in one area highlighted the need for global development and local deployment. A special formulation of the VDA fluid was developed by the regionally based Client Support Laboratory to address the challenges presented by the rock matrix. Once tested and approved by the Houston Product Center, the formulation was deployed in 3 wells in a field to raise the sustainable production of the field by more than 8,000 barrels of oil per day.

By this time a clear pattern had developed in which similarities between GeoMarket regions enabled the spread and use of VDA products much faster than if they had been implemented globally with no track record. Furthermore, experience gained in the





application of VDA technology between countries and formations enabled expansion of both technical range and market scope. For example, experience in Saudi Arabia had shown that VDA technology could be extended to use as a non-damaging leak-off control acid in fracturing operations and for control of fluid loss in well completion work at up to 350°F [177°C].

Through the GeoMarket network, many Schlumberger clients have shared in the growing benefits of VDA technology, supporting its introduction through endorsement in industry forums. By early 2003, the GeoMarket regions using the VDA system had grown to include operations in the United States and Canada, Indonesia, West Africa, Kazakhstan, Russia, and Venezuela. In addition, the range of treatable formations had grown and deployment through coiled tubing had become routine. The spread into new markets was followed by a corresponding rise in VDA-generated revenues, and by the end of 2003, VDA technology had been successfully used in every major carbonate basin in the world.

### **The Customer Interface**

The GeoMarket network combination of deep domain knowledge with local experience and expertise also creates opportunities that single product lines cannot achieve alone.

In the South Java Sea, an operator was faced with the decision of whether to extend an existing platform to make room for a costly new well or find another solution to access the additional reserves. Schlumberger had already been selected to provide the various services required for the planned well—drilling, cementing, logging, and completion—all supplied independently by GeoMarket personnel specialized in their respective technologies. But through the close working relationship the GeoMarket team had established with the customer, Schlumberger was able to offer an unconventional solution—the world's first intelligent completion in a Level 6 multilateral well. This involved drilling two independent lateral legs into the reservoir from a single wellbore on the existing platform, thus eliminating the need to construct an expensive platform



extension. Not only was this solution cost-effective, it improved field net present value (NPV) and offered the possibility of increased hydrocarbon recovery through the proactive management of reservoir performance.

In defining technology directions such as this, Schlumberger has grouped GeoMarket units around common themes. For example, a community of deepwater GeoMarket units now exists, with each providing input to the development of services worldwide while sharing experience gained.

Deepwater projects are always tricky, but few are as challenging as one development that began production in the Gulf of Mexico in 2002. Virtually unprecedented in its technical and logistical complexity, the project involved the completion of 16 zones in 6 wells, 2 of which were in a world-record water depth of more than 7,000 ft. All 6 wells, distributed between 2 distinct fields, were connected to the same pipeline system for delivery back to a shelf platform facility nearly 60 miles away.

As project coordinator, Schlumberger provided a team of 35 people and employed a host of cutting-edge technologies that had never been integrated in a single operation. Our engineers took full responsibility for assembling all expertise necessary to provide the operator with seamless support and service throughout the project. The result of these efforts led to significant time-savings for the customer and greater revenue for Schlumberger. In addition, the project clocked 70,000 labor-hours without a single health-, safety-, or environment-related lost-time incident.

So did the GeoMarket organization have anything to do with this success? “No question about it,” says Graham Watson, who acted as the project coordinator. “It enabled us to provide a single point of contact in the customer’s offices to ensure a coordinated response—whatever the issue at hand. We used the GeoMarket structure to coordinate the Schlumberger segments and the result was a uniform response to client needs.”



### An Integrated Approach

The markets for oilfield services are changing, and the way in which oilfield services companies respond is also changing. The growing markets of Russia, some of the former Soviet republics, and more gradually China require a new approach, and nowhere is this more evident than in the operations of Integrated Project Management. IPM is a Schlumberger service focused on combining technology, people, and process to deliver efficiency and cost-effectiveness in projects as diverse as remote strategic exploration wells, field development and full-field rehabilitation. As well as providing technology and expertise, Schlumberger often works with local subcontractors to harness local knowledge and experience.

One example of a field development managed by IPM, the Burgos project in the Mexico GeoMarket, is now in its seventh year. Schlumberger has delivered 237 completed wells, which include the drilling of 2.3 million ft of hole. The scope of work has, at

various times, included three-dimensional (3D) seismic, reservoir characterization, well design, engineering and construction, stimulation, and design and installation of production facilities. The benefits to the customer have included accelerated production, reduced capital expenditures (capex), and increased efficiency, while the long-term nature of the relationship between the operator and Schlumberger has promoted deep understanding of local needs and led to similar work in other Mexican fields.

This type of integrated solution would have been almost impossible before implementation of the GeoMarket structure. Individual product lines worked independently, largely unaware of what each other was doing. Today, Schlumberger staff are sensitive to the integrated perspective without compromising service excellence in their own specific technologies.



### A Sustainable Advantage

The education of present and future generations of engineers and scientists of all nations is a priority in a world facing critical and exciting challenges to ensure that all our energy needs are met. There are proven advantages in having a workforce drawn from many different cultures, partly because of affinity with our diverse customer base, and partly because diversity is itself a rich source of innovation and creativity. To sustain this advantage, Schlumberger actively sponsors a number of distinct but complementary educational initiatives, all with a strong emphasis on advancing science and engineering in economically developing nations.

Schlumberger maintains close ties with universities around the world through the Schlumberger University Ambassador Program. GeoMarket staff form a vital part of this program and often provide the link that connects the university to Schlumberger. To increase technical collaboration, Schlumberger research centers and their

satellites are located close to academic centers in Boston, Cambridge, Beijing, Moscow, and Dhahran, and the company donates software to campuses as far apart as the Bandung Institute of Technology, Indonesia, and Imperial College, London. Exchanges with faculty are encouraged, and Schlumberger scientists serve sabbatical postings at universities such as the Universidade Agostinho Neto in Luanda and the Colorado School of Mines. By way of recognition, a combination of initiatives to build local university capability in Kazakhstan led to the GeoMarket region receiving a Presidential Award for services to education.

The Schlumberger Foundation focuses its activities on promoting and enhancing science and technology education and careers, particularly for young people in high schools and for academics, in economically developing countries. Contributions by the Foundation build on opportunities identified and promoted by the GeoMarket units.



The third initiative, Schlumberger Excellence in Educational Development (SEED), is focused on 10- to 18-year olds. Established as a non-profit organization in 1998, SEED programs provide grants and technical assistance to connect disadvantaged schools in economically developing countries to the Internet as well as to provide access to Schlumberger scientists and engineers through an online Science Center. This has led to collaborative projects such as the SEED Water Project and on-the-ground support to educators and students to enhance the learning of science and use of information technologies. Volunteers among GeoMarket staff and their families, together with members of the Schlumberger scientific community, are paramount in making this program a success.

The SEED Science Center, a public Web site offering seven language options provides the channel for children around the world to seek answers to scientific questions from the Schlumberger technical community. Every month, more than 120,000 visitors use the site and students submit about 500 questions.

The SEED connectivity program has connected 112 schools in 31 countries to the Internet. In Ecuador for example, where only 8% of the population have access to a telephone line and less than 2% own computers, Schlumberger volunteers have connected more than 4,000 children to the Internet. The result: schools in some of the most remote areas of the equatorial Amazon region now have Internet access with both teachers and students reporting a remarkable impact on their lives.

The GeoMarket advantage is the ultimate expression of the Schlumberger policy of developing leaders from all the countries in which the company works. Their network furthers the pursuit of two key Schlumberger objectives: to become part of the environment with every country becoming a home country, and to harness the competitive advantage that cultural affinity provides with customers in the sale of complex services and technology.

## Board of Directors

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Assistant Secretary

## Corporate Information

### Stockholder Information

Schlumberger common stock is listed on the New York Stock Exchange, ticker symbol SLB, and on the Euronext Paris, Euronext Amsterdam, London and the SWX Swiss Stock Exchanges.

For quarterly earnings, dividend announcements and other information call 1-800-99-SLB-99 from the US and Canada and 1-703-797-1862 for callers outside North America or visit [investorcenter.slb.com](http://investorcenter.slb.com) and sign up to receive email alerts.

### Stock Transfer Agent and Registrar

EquiServeTrust Company, N.A.  
P.O. Box 43010  
Providence, Rhode Island  
02940-3010  
1-800-733-5001 or 1-781-575-3400

General stockholder information is available on the EquiServe web site at [www.equiserve.com](http://www.equiserve.com)

### Form 10-K

The Schlumberger 2003 annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge. Call 1-800-99-SLB-99 from North America and 1-703-797-1862 outside North America. Alternatively, you can view all of our SEC filings online at [investorcenter.slb.com](http://investorcenter.slb.com) or write to the Secretary, Schlumberger Limited, 153 East 53rd Street, 57th Floor, New York, NY 10022.

### Duplicate Mailings

When a stockholder owns shares in more than one account, or when stockholders live at the same address, duplicate mailings may result. If you receive duplicate reports, you can help eliminate the added expense by requesting that only one copy be sent. To eliminate duplicate mailings, contact EquiServe Trust Company, N.A., Stock Transfer Agent and Registrar, listed above.

### World Wide Web

For information on Schlumberger technology, services & solutions and the latest industry news visit [www.slb.com](http://www.slb.com)

### Email Alerts

To receive Schlumberger press releases, headlines and daily industry news headlines register at [investorcenter.slb.com](http://investorcenter.slb.com)

### Recruitment

For more information on careers and job opportunities at Schlumberger visit [www.careers.slb.com](http://www.careers.slb.com)

### Schlumberger Excellence in Educational Development (SEED)

To learn more about this non-profit community development program visit [www.seed.slb.com](http://www.seed.slb.com)

\* Mark of Schlumberger

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