Schlumberger 1972 Annual Report

In Brief:	1972	1971	1970
Revenues	$812,062,000	$710,423,000	$591,770,000
Net Income	$70,233,000	$56,235,000*	$47,447,000
Net Income Per Share	$1.94	$1.58*	$1.41
Dividends paid Per Share	$0.49	$0.47	$0.47

*Before extraordinary items

Schlumberger Limited

In Brief:

	1972	1971	1970
Revenues	$812,062,000	$710,423,000	$591,770,000
Income:			
Income before extraordinary items	70,233,000	56,235,000	49,449,000
Extraordinary items—net, after income taxes	—	1,249,000	—
Net income	70,233,000	57,484,000	49,449,000
Per share*:			
Income before extraordinary items	$1.94	$1.58	$1.41
Extraordinary items—net, after income taxes	—	.04	—
Net income	$1.94	$1.62	$1.41
Dividends paid	$0.485	$0.467	$0.467

*ADJUSTED FOR THREE-FOR-ONE STOCK SPLIT IN SEPTEMBER 1972.

To the Shareholders

The 1972 results of Schlumberger were good. Measured in earnings per share compared to the previous year, the improvement was 18% in the first quarter, 23% in the second, 24% in the third and again 24% in the fourth quarter. For the year it adds up to overall progress of 23% in earnings per share, 25% in net income, 14% in revenues.

Schlumberger activities throughout the world are influenced by three different business and economic environments. The surging demand for hydrocarbons has an impact on our worldwide oilfield services. The U.S. economy, its health and progress directly affect our U.S. electronic operations. The European economy, the monetary problems and the growing pains of the European

Economic Community bear on our European manufacturing activities.

Three backgrounds, three environments which are certainly interrelated but yet have their own cycles, their own problems, their own opportunities.

For the first time last year, the public became aware of the energy crisis. Many experts, many economists, had predicted over the past years that this crisis was forthcoming, based on the simple forecast of supply and demand for hydrocarbons. We have ourselves written in previous reports, as far back as 1968, that the staggering increase in demand for oil products would lead to a sellers' market, to higher prices for crude oil and to a surge in exploration activity. It is our conviction that these basic economic facts will require not only a continuation of intensive search in unexplored territories, but a renewed effort in the U.S. and Canada.

Since 1945, U.S. crude oil production has not kept pace with demand but it did grow each year until 1971 when for the first time production actually declined; in 1972 crude oil production in the U.S. was about the same as the previous year, which meant greater imports to meet increased demand. However, 1972 was fortunately a turning point for exploration; after 15 years of steady decline, this was the first year that the number of exploration wells drilled in the U.S. showed an increase. It was mainly on land as offshore drilling leveled off and Alaska closed down for all practical purposes. The Alaskan pipeline issue will have to be settled if the U.S. is to solve the energy crisis. This will probably happen when the public realizes that the recent court decision on the pipeline will cost the U.S. trade balance an estimated two billion dollars per year.

Schlumberger oilfield revenues increased 11% in the U.S., 51% in Canada. Latin America was level. Eastern Hemisphere continued to progress at roughly the same pace as in previous years; revenues increased 19% in 1971 and another 20% in 1972. This trend will continue in 1973 and very likely beyond.

The U.S. economy was remarkably healthy in 1972 with a 6.5% advance in GNP (in constant dollars) and a rate of inflation well below other industrial nations. The recent realignment of the dollar, determination by the government to control inflation and ultimately a better public understanding of the effectiveness of Phase III controls lead us to believe that 1973 will show the same progress as 1972.

All Schlumberger U.S. electronic divisions had higher revenues and contributed substantially to increased earnings. Business was especially good at Heath as a result of several factors: increased consumer spending, expansion of marketing outlets and exceptional response to new products. The full story is told in the feature article on Heath starting on page 12 of this report.

The economy of Western European countries was subjected to more contradictory and complex forces than the U.S. economy. Although industrial production continued to rise, there was a noticeable shift from capital goods to consumer products. The rate of inflation in most countries was above 6%, reaching 8% or more in some cases. Higher food prices triggered this inflation and, as in the U.S., are the most difficult to control. Floating currencies, weakening of the dollar, social and political uncertainties, slowed down the capital investment programs of many industries.

The results of our major European subsidiary, Compagnie des Compteurs, were lower than in 1971. The main factors were increased wages, price controls, slowdown of orders in the capital equipment market, further reorganization expenses; the Industrial Control and the Valve Divisions were particularly affected. Real progress was achieved in the meter divisions and more so in the electronic division, primarily on instruments and systems. Our efforts to reorganize the management, to improve cost control, to regroup the major product lines, are starting to show results. More inflation and political instability could slow down the process, but will not change the end results; 1973 should show improvement.

In the last quarter of 1972, we sold the EMR-Computer operation to Sperry Univac. In December we also sold the Virtue Furniture Division at book value; we are out of the furniture business. Compteurs also sold several small operations which were neither profitable nor related to our business. These dispositions, particularly the EMR-Computer division, will improve our 1973 earnings.

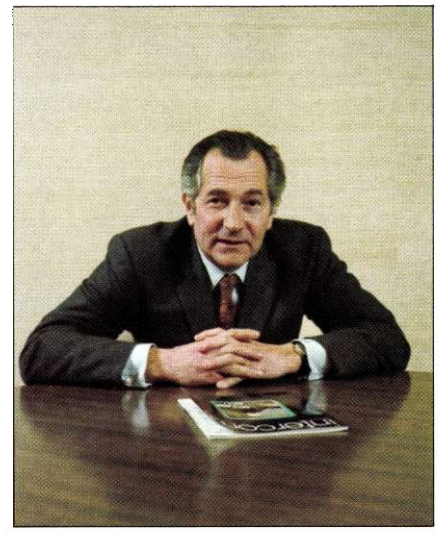
Our capital investment in 1972 reached a record $99 million and the budget for 1973 is $123 million. These large investments are required to support our expanding oilfield operations; we expect to spend over $35 million for equipment for the North Sea alone in 1973.

To date 1973 business is strong and the trend is favorable for all major Schlumberger activities. We expect another good year.

FEBRUARY 28, 1973

Jean Riboud

JEAN RIBOUD,
CHAIRMAN AND PRESIDENT



Business & Financial Review

Schlumberger revenues and net income for 1972 were again at record highs.

The rate of gain over the prior year was much greater than in recent years—net income of $70.2 million before extraordinary items was 25% above 1971 while revenues of $812 million increased 14%.

Earnings per share of $1.94 for 1972 improved 23% over $1.58 for 1971.

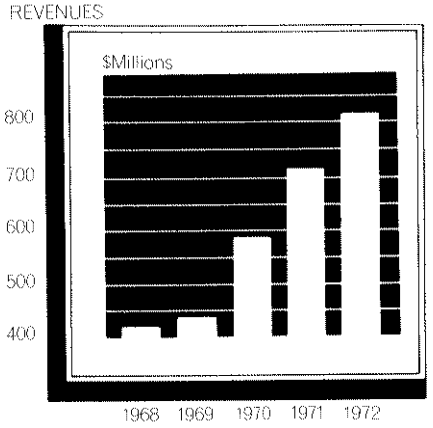
The latter figure is before the net extraordinary gain recorded in the final 1971 quarter and is after adjustment for the 3-for-1 stock split in September 1972. This split was authorized by the Board of Directors in July 1972, subject to shareholder approval of an increase in authorized capital from 20 million to 60 million shares. This approval was given at a special general meeting held in September 1972 after which the split became effective.

Per share earnings are based on average shares outstanding during the respective years, including shares issuable on conversion of debentures.

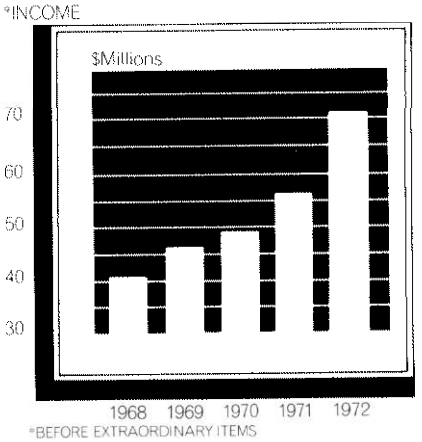
The debentures, $62 million of which were outstanding at December 31, 1971, were called for redemption in May 1972 at a price of 265 French francs each.

In lieu of surrendering debentures for cash redemption, holders had an option of receiving instead three shares of Schlumberger common stock for each two debentures held (after split basis). Practically all debenture holders chose the conversion option and, accordingly, 1,838,979 after split shares of common stock, previously held in the Treasury, were issued in exchange for the outstanding debentures.

REVENUES



*INCOME



*BEFORE EXTRAORDINARY ITEMS

Fourth quarter net income was $20.9 million ($0.57 per share) up 25% from $16.7 million ($0.46 per share) before extraordinary items for the last quarter of 1971. Revenues in the last quarter were $225 million compared to $203 million for the similar quarter of 1971.

Following is a summary of revenues by business category:

	$ Millions Revenues	
	1972	1971
Oilfield	$347	$289
Electronics—U.S.A.	115	107
Compagnie des Compteurs	318	278
	780	674
All other, including interest income	32	36
	$812	$710

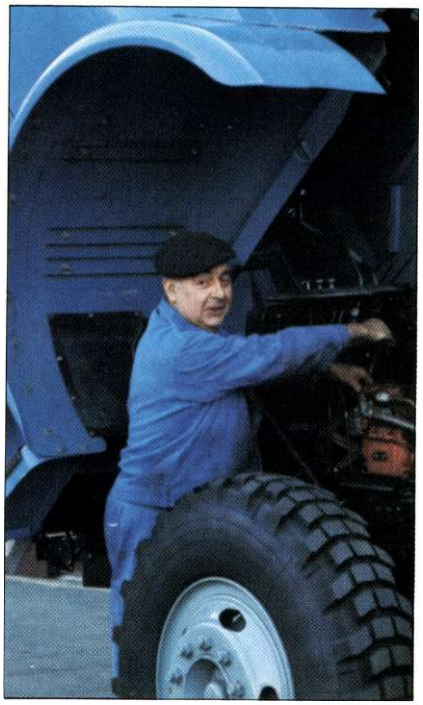
The EMR-Computer and Virtue Furniture operations were sold late in 1972.

The computer operation and certain of its assets were sold to the Sperry Univac Division of Sperry Rand Corporation. The agreement insures that customers of EMR-Computer will have continuity of service, maintenance and software support. Schlumberger's continuing manufacturing operations under the original agreement were terminated by a supplemental agreement signed in February 1973.

The Virtue Furniture business was sold to a private investment group at year end. Consummation of this agreement, which was reached in Paris, is subject to a final determination of selling price based on audit by independent accountants.

No significant charges against 1972 net income were made as a result of either of these dispositions as Virtue was sold for book value and the substantial loss sustained on the sale of the computer business was charged against the reserve created in 1971.

Oilfield Services



FRANCO VALERI has spent all his 18 years with Schlumberger, working on logging units. Nicknamed "Mr. Chassis" by his friends in the truck shop of Clamart, he specializes in tuning engines and checking the chassis of the trucks before they are shipped to Eastern Hemisphere oilfields.

Oilfield services and products set new records in 1972. Revenues of $347,000,000 were up 20% from 1971. Wireline service revenues were substantially higher in North America and the Eastern Hemisphere; they were level in South America. Allied oilfield subsidiaries Flopetrol, Forex-Neptune, Johnston, and Dowell-Schlumberger (50% owned) established new highs.

WIRELINE SERVICES

North America—North American drilling recovered beyond expectations in 1972. Number of wells drilled were 7% higher—the first significant increase since 1957. Almost all of this increase came from gas well drilling. The dominant cause was a higher price for natural gas. As a result of increased drilling, Schlumberger wireline revenues in North America were 16% above 1971.

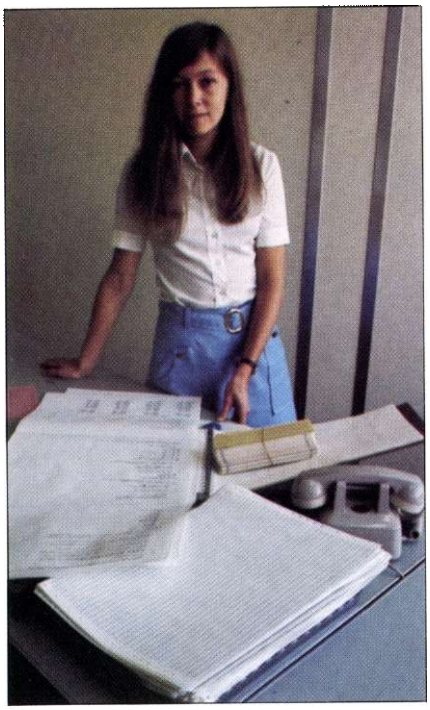
All land areas of North America benefited from the improved market except Alaska and California. Outstanding increases were achieved in the Rocky Mountains and Canada. Successful wildcat drilling in the McKenzie Delta and Artic Island regions of the Canadian far north was especially significant.

Open-hole radioactivity logging gained 30%, stimulated by a new tool, the Compensated Neutron-Formation Density Log. Since this tool is particularly effective for gas zone identification, its introduction was well timed for the strong activity in gas-well drilling.

Eastern Hemisphere—For the second year in a row, Eastern Hemisphere wireline revenues rose by more than 20%. Major increases were recorded in Saudi Arabia, Iran, the North Sea, Nigeria, and Indonesia. All other areas grew substantially, except Libya, Algeria, and parts of Central Africa.

Drilling activity in the Middle Eastern countries of Saudi Arabia and Iran gained sharply during the last two years. These leading petroleum export countries have stepped up drilling to double their daily production.

With a huge European market waiting nearby, lease holders are exploring and developing the North Sea as rapidly as available drilling rigs per-



A graduate of the French Ecole Polytechnique Feminine, ANNE-MARIE AKMANSOY has worked in the Clamart plant since 1971. She is an engineer specializing in computer programming for well log interpretation.

mit. Schlumberger revenues from this area increased 40% over 1971 and continued growth is expected.

Overall rig activity in the Eastern Hemisphere increased by 11%. Offshore drilling activity continues to increase—up 20% as compared to an 8% increase in land activity. All services showed substantial increases. Particularly outstanding was a 30% gain in Schlumberger cased-hole revenue resulting from the large 20% increase in development. Two new open hole tools were successfully introduced in the Eastern Hemisphere: the Compensated Neutron Log and the Simultaneous Dual Laterolog.

South America—Revenues in South America were level with the previous year, in spite of a 12% decline in drilling. Revenue decreases in Argentina and Venezuela offset increases in Brazil, Chile, and Peru.

Venezuelan oil production dropped 10% due to its high export price relative to Middle East crude. This, together with exploration disappointments in south Lake Maracaibo and the uncertain investment climate, caused a 30% decrease in wells drilled. Political and economic problems in Argentina caused a reduction in the wireline market.

ALLIED OILFIELD SERVICES AND PRODUCTS

Johnston—Revenues were 18% above 1971; significant gains were registered in all areas except Western United States; performance in Canada was outstanding—up 50%. A sizeable increase came in Formation Testing. Other noteworthy gains were made in two services recently introduced: Earthquaker drilling jars and Flopetrol offshore oil burners. Production testing services added to revenue in Canada and Louisiana.

Forex Neptune—Revenues were 6% higher; offshore revenues increased 10%. Land drilling registered gains in France, Nigeria, the Middle East and Indonesia. However, these increases were offset by an almost complete cessation of activity in Algeria, Libya and Iraq. Offshore drilling gains occurred because of one more platform rig in the North Sea, a full year's work for the drilling tender in the Persian Gulf, and the start-up of the new "Grand Large" drilling tender off Brunei.

Because of the outstanding success of our semisubmersible, Neptune 7, in the North Sea three additional units of our Pentagone design are under construction. Two of these are owned by us, the third will be operated by Forex Neptune under contract for other owners.

Vector—After two years of declining revenues sales almost doubled in 1972 and operations were again profitable. The largest pickup was in the sale of logging cables to wireline companies. Helped most by sales of

Like most Junior Field Engineers, RON ENGLISH has an electrical engineering degree. Since joining the company, Ron has been trained in well logging techniques, and he is now assigned to Lafayette, Louisiana.

electrical cables used for offshore drilling and completion, industrial and scientific cable sales were over 50% higher.

Dowell-Schlumberger (50% owned)—Revenues registered a gain of 20%. There were significant improvements in Brazil, the Middle East, Nigeria, and the Congo. Decreases occurred in Venezuela, Libya and Algeria.

Directional drilling sales doubled. Several new services—Johnston Pressure Controlled Testing and Earthquaker drilling jars—were successfully introduced.

Flopetrol—This year was successful with a 25% growth in revenue. Largest increases occurred in the Far East, Nigeria, Gabon, and the Congo. The new smokeless burner for testing offshore wells without pollution was very well received. A total of 120 burners are now on lease offshore.

A new $2,000,000 headquarters base is under construction near Paris. When it is completed this year, it will house all headquarters administration, engineering, and manufacturing departments.

Plastic Applicators—Overall revenues were up 9% but profits were unsatisfactory, in part due to startup costs associated with new operating centers in Canada and the United Kingdom, and lack of a price increase in the U.S. Inspection service revenues improved but oilfield tubular coating revenues only equalled the prior year.

FUTURE PROSPECTS

The North American market resurgence should continue. Natural gas shortages will result in further price increases. While U.S. imports are rising, imported oil is becoming more expensive. This, reinforced by obvious supply shortages and expected price increases, should act as a strong stimulant to U.S. drilling.

Wildcat activity in the Canadian Artic will grow substantially. The industry is intent on the early development of sufficient gas reserves there to justify construction of a large diameter gas pipeline to the U.S. market.

Objections by environmentalists to offshore lease sales in the U.S. seem to be declining. Two sales were held off Louisiana late in 1972; a record $1.6 billion was spent at the second Louisiana sale. A third sale is scheduled for the upper Texas coast in early 1973, and future sales should take place on a regular basis. As a result offshore drilling should increase.

In the Eastern Hemisphere the increasing demands for oil and gas can only result in increased drilling. In the several years ahead, free world requirements will focus on the large proven reserves of the Middle East. We therefore expect continued high drilling activity in Middle East countries, particularly Saudi Arabia, Iran, and the Trucial States. The North Sea is now a major oil province, recent discoveries over 200 miles to the north have vastly enlarged the potential producing area. It is forecast that 50 drilling rigs will be active there by 1975, compared to 19 in 1972. Activity in Indonesia and the Far East areas close to the important Japanese market will continue to grow.

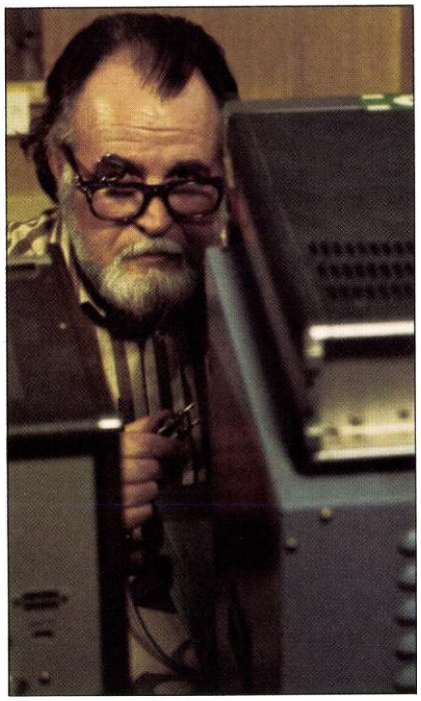
The outlook for South America remains clouded. Activity should continue strong in Peru, Trinidad, and Brazil, but further declines are expected in the larger producing countries—Venezuela and Argentina.

Several of Johnston's most important tools such as the retrievable bridge plug, and retrievable packer were designed by GENE CRAIG. Gene, who has been with Johnston for seven years, heads the design group for cased-hole tools.

Mobile drilling rigs operating in offshore waters of the free world total 173. A year ago 50 new mobile offshore rigs were under construction, today there are 70. Although some rigs are being retired, it is evident that we are still witnessing a sizeable expansion in total offshore drilling capability. This expansion should have a positive effect on Schlumberger revenues in 1973 and beyond.

WILLIAM J. GILLINGHAM,
EXECUTIVE VICE PRESIDENT

Electronics—U.S.A.



JIM RIDLEY calibrates high-accuracy digital multimeters, one of a new series of digital meters. In Jim's hands this service instrument will be made as accurate as many laboratory instruments.

In the United States, Schlumberger electronic operations include all divisions of Weston, EMR and Heath. Total sales of this group in 1972 were $115 million—an increase of 8% over the previous year. All divisions benefited from improvement in the U.S. economy. Also, operating efficiencies were higher, as reflected by increased sales per employee. As a result, profitability was significantly improved: however, the profit level of most operations is still below an acceptable return on investment.

The only unprofitable division was EMR-Computer in Minneapolis. This business would have required a substantial investment to make it competitive, therefore, in November it was sold to the Sperry Univac Division of Sperry Rand: the transaction was completed when Sperry Univac took over the factory operation in Minneapolis on February 15, 1973. This meets two major objectives: (1) to assure continued service and maintenance for our customers and (2) to complete manufacture and installation of the order backlog. As a result of reserves recorded in the 1971 accounts, there was no material gain or loss on this disposition in the current year. For the future, this eliminates a recurring operating loss.

Disposition of EMR-Computer was another step in the program started in 1968 to realign U.S. manufacturing operations by elimination of divisions which do not fit Schlumberger business objectives and do not generate satisfactory profit.

PRODUCT DEVELOPMENT

Weston Instruments (Newark) has introduced two new digital multimeters, basic test instruments used by the technician in measuring electronic circuits. Both of these instruments offer performance usually found in laboratory bench instruments but at prices compatible with instruments designed for the service technician.

Also, two new digital panel meters employ Weston's proprietary large scale integrated circuit. One of them is a miniature unit specially designed for use in portable equipment. Panel meters are used in industry to display measurements of flow, temperature

and other quantities. In a market dominated by analog meters, Weston was the first to move into digital meters, and has led the way in this rapidly expanding market. Because of the quality of their aircraft instruments, Weston was awarded the contract for temperature indicators on the DC-10 commercial jet aircraft.

A promising development at Weston Components (Archbald) is their new line of x-ray gages for monitoring the thickness of metal in a rolling mill. Performance of the Weston x-ray gages is significantly better than competitive units, and, judging by

Delicate parts for analog meters are entirely formed by this multiple spindle machine operated by ISOBEL MARROW. A 17-year employee, she operates this machine, and others as well, in the Weston-Newark machine shop.

initial customer reaction, should command a larger market share. The associated gage electronics uses digital techniques and is modularized permitting adaption to a variety of applications.

EMR-Telemetry (Sarasota) has introduced an advanced Universal Tunable FM Discriminator. This unit can select any one of a large number of data signals at different frequencies which are sent on a single channel. For example, in a medical telemetering application the unit could select data such as pulse rate, blood pressure, temperature or EKG. Flexibility of the tunable discriminator makes it attractive in telemetry data systems where the experiment and number of data channels frequently change. This instrument capitalizes on know-how acquired through the years during which more than 20,000 discriminators have been sold by EMR-Telemetry, mainly for aerospace programs.

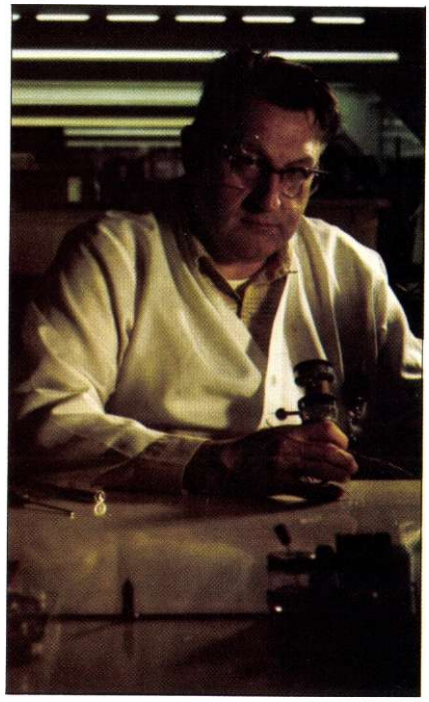
EMR-Photoelectric (Princeton) has marketed two new instruments for nuclear and space applications; each incorporates their small ceramic photomultiplier tube. One, in a miniature package includes electronics that enable it to make nuclear measurements. The other is an image dissector with fiber optics coupling that is useful in scanning the earth or stars from an earth-orbiting satellite. Both instruments can operate in extreme environments such as outer space.

Heath has again set new standards with two advanced high fidelity consumer products: a digitally controlled FM tuner and a four-channel quadraphonic amplifier. The digital FM tuner is unique and accurate. It does away with conventional tuning knobs; the station frequency is selected by push-button keyboard and is displayed digitally. In addition, Heath has produced two new moderately priced stereo receivers which are proving popular because of their excellent performance. Heath was able to achieve outstanding price/performance in these units by use of the latest solid state technology. Heath has also introduced a low-cost digital multimeter and, for the automotive market, a portable engine analyzer. Revolutionary developments in integrated circuit technology have allowed Heath to offer more extensive features and higher performance in new kits without complicating the kit builder's job. Products developed this year using the newest integrated circuits included an electronic calculator and digital clock for consumers and several new frequency counters in the instrumentation line.

BUSINESS OUTLOOK

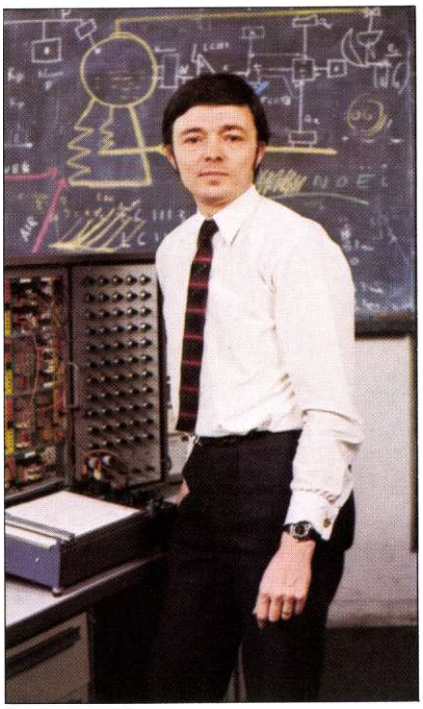
The upward swing of sales volume in 1972 was particularly strong in the fourth quarter. This trend ensures a good start for 1973. Market conditions look good both in the industrial field affecting Weston divisions and for consumer products of Heath. Despite the lull in aerospace activity, business at EMR-Telemetry and EMR-Photoelectric is holding up well. In 1973 we look for further gains in the profitability of U.S. electronics, particularly at Heath and at Weston Components on nuclear instrumentation contracts.

JOHN E. RHODES,
EXECUTIVE VICE PRESIDENT



CHARLES FROLICH, 32 years with Weston-Newark, calibrates a temperature indicator for a DC-10 jet transport. Weston has been a supplier of aircraft instruments for U.S. manned spacecraft, and in many commercial aircraft.

Meters & Electronics — Europe



JACQUES TESSIER, an engineer specializing in industrial automation, works at the Compteurs-Schlumberger Research Center. He is engaged in the development of computer-controlled steam generators.

Revenues of Compagnie des Compteurs, which in 1972 included those of Schlumberger Instruments & Systems (SIS) totalled $318,000,000. This figure is not comparable with that of the previous year in view of the consolidation of SIS and the change in the parity of the dollar in relation to major European currencies in December 1971. Compagnie des Compteurs' actual increase in revenues over 1971 amounted to 3%. This low rate of growth can be explained both by the slowdown of capital investments in Europe and by the disposal during the year of a number of product lines which do not fit our long-term objectives.

On the earnings side, the compound impact of a soft economic environment plus the continuation of the internal reorganization and integration program exerted pressure on profit margins, with the result that Compteurs' net earnings decreased.

The general economic picture particularly affected the business of Malbranque-Serseg Valve Division, and the Industrial Control Division, following a slowdown in orders which began after September 1971.

To streamline operations several measures were taken which affected earnings, in particular, write-offs for obsolete inventory. This was mainly at Malbranque-Serseg, SIS, and the Industrial Control Division.

The improvement in SIS net income continued in 1972 at all facilities, especially Villacoublay, Munich and Saint-Etienne.

Sales and revenues of SIS were $59,000,000, compared with $52,000,000 in 1971.

ORGANIZATION

The program undertaken in 1970, aimed at the decentralization of responsibilities, industrial realignment and structural simplification continues.

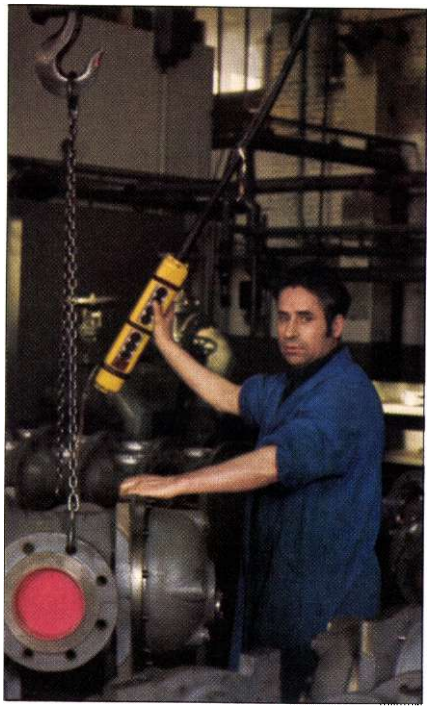
Some product lines which do not fit our development plans were disposed of during the year: SIS sold the Solartron fan business in the U.K., as well as the radiation protection and medical sample analysis activities of the Nuclear Instruments Center at Bagneux.

Compteurs-Schlumberger disposed of its prefabricated conduit operations.

Several plants and buildings which became available as a result of the reorganization were sold. Total proceeds from sales of real estate since 1970 amount to $7,000,000, including $3,500,000 in 1972.

Major reorganization decisions which were adopted in 1972 for implementation in 1973 and 1974 include the following:

...The French electric metering operations located at Montrouge will be regrouped in Poitiers. This move, which will make it possible to create a complete management unit, will require the construction of a new building, which is scheduled for completion in July 1974.



MANUEL MONTEIRO arrived in France six years ago from his native Portugal. He has been with Compteurs-Schlumberger for the last three years. His job is to pressure test the large sized Fluxi gas meter.

...The industrial gas meter and gas expansion unit operations will be reassembled in the existing Colombes facilities after renovation.

...During the same period, SIS will centralize its French general purpose measuring instrument activities in the Saint-Etienne Center and its Systems operations in the Villacoublay Center.

NEW PRODUCTS

Many new products will be strengthening Schlumberger's position on the European market:

...The Energy Division has extended its electrical measurement recorder series by introducing the EUROTRACE, a point plotting recorder on the market.

...For closed circuit TV applications, the Television Department has developed a complete color system comprising a camera, monitor, and receiver. This equipment can be operated by unskilled personnel.

...The Mechanical Division has expanded its range of parking meters by adding a time clock which issues parking stubs.

...The Liquids Division began marketing new water meters with direct magnetic drive, a principle which provides them with a high degree of reliability and ruggedness, as well as perfect sealing. Prototypes of a new fuel pump volume/price electronic calculator have been developed.

...The Industrial Control Division has completed differential pressure transducers, a new electronic control system, a pneumatic control system and a carbon monoxide analyzer for monitoring air in parking garages.

...SIS has completed the first units of a new generation of optical and magnetic recorders. Two new frequency meter lines ranging in frequency up to 1 GHz also were introduced.

...Additions to the "master series" digital voltmeters from Farnborough, increased potential markets for these instruments. A compact, portable digital multimeter featuring automatic ranging was completed and targeted for simultaneous release in Europe, and to U.S. markets via Weston, early in 1973.

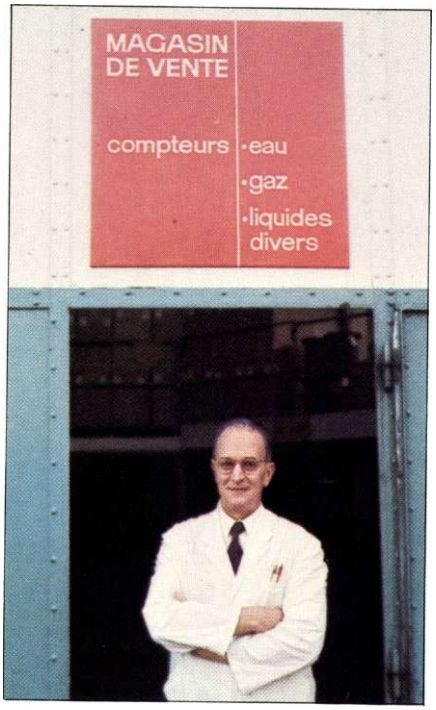
...The Munich Center began producing a new line of Synthesizers which are particularly suited to telecommunication equipment controls.

...The position of SIS in the growing market for telecommunications test equipment was strengthened by the acquisition of the microwave instrument line of MESL, a British manufacturer.

...Malbranque-Serseg has completed a series of new low and medium pressure, full flow petroleum valves. These new models, which are better adapted to the market, have a safety coefficient twice as high as that of the equipment currently in use.

OUTLOOKS

In the near future, our earnings will be unfavorably influenced by the current high rate of inflation, and by economic factors which will delay orders for capital equipment-related products, probably until the second half of the year.



LOUIS FOUINAUD supervises manufacturing of industrial gas meters in Montrouge. He has been with Compagnie des Compteurs for 43 years.

Yet the work accomplished in the last two years, which will continue throughout 1973—both in production organization, cost reduction, improvement in efficiency of sales networks and in general a more streamlined management—enables us to contemplate the intermediate future with confidence.

JEROME SEYDOUX,
EXECUTIVE VICE PRESIDENT

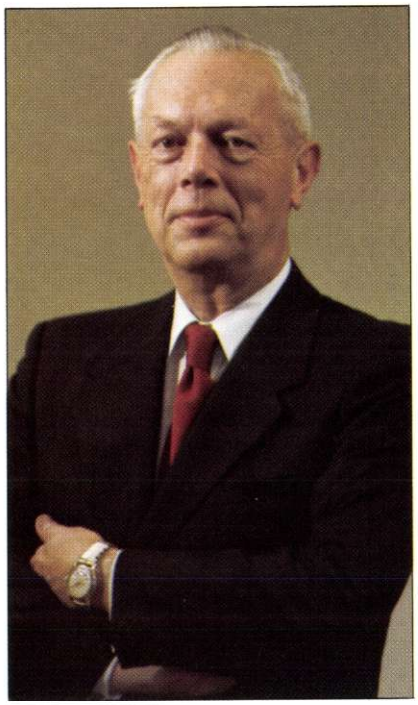
A REPORT ON A SCHLUMBERGER SUBSIDIARY

ABOUT THE BUSINESS

Heathkit® "do-it-yourself" products have been assembled by millions of people in their homes and hobby shops over the past forty years. Heath is the worldwide leader of the electronic kit market.

Heath was acquired by Schlumberger in 1962, when annual sales volume was $20 million—all by mail order. In 1972, ten years later, sales were $66 million. Operating facilities located in Benton Harbor, Michigan have grown to 400,000 square feet and there are over 1600 employees located in eight countries. Heath products are now sold in 60 countries. Although mail order remains the principal source of sales, a large part of the business today comes from retail stores.

Heath



DAVID W. NURSE, PRESIDENT

How did all this happen? In simple terms, both the success and the attraction have to do with the special relationship between the people at Heath and the people who build the kits—the customers. In effect, Heath enters a partnership with every person who builds a kit. Heath designs the product and writes assembly instructions; the customer, following instructions, assembles the kit and tests it. Usually this is enough; but if the customer has a problem, the Heath people then help him solve it. This protection from failure assures the customer the fun and satisfaction that comes from successfully building his own working electronic instrument. Often, he comes back for another one.

WHAT IS A HEATHKIT?

A Heathkit is a package which includes all the parts and instructions needed to assemble, test and service an electronic or electrically operated product which performs as well or better than comparable factory assembled products. With good design, high quality parts and clear-cut instructions, virtually anyone can assemble technical equipment with common tools.

Heath now offers over 350 different kits, including technical products such as a complete line of amateur radio equipment and measurement and test instruments; entertainment

® Registered Trade Mark

products like TV, audio components and guitar amplifiers; also many kits for special interest activities such as boating, fishing and automotive repair. Assembly time may take from one evening for most automotive test equipment, for example, to four evenings for an oscilloscope, or 100 hours for a large electronic organ. Instructions are simple and geared to the novice or nontechnical person. As a result, almost everyone succeeds the first time.

Some small kits, like the Heathkit electronic metronome, have only a handful of parts. Others, like color TV, have more than a thousand, yet judging by the number of people who have built Heathkit TV sets, Heath qualifies as a major TV supplier.

A major key to Heath's success is the instruction manual. When a customer opens his kit package, this is the first thing he sees. The manual is a bridge between an assortment of pieces and parts and the finished product. It is so explicit and complete that a novice can build an audio system or a color television set.

Twenty-five years ago, when the first Heathkit product was released, all assembly, application and service information for a complete oscilloscope was contained in just four sheets of information. Today a manual may have up to 350 pages and 700 illustrations.

As electronics grew more complex, both the kit and the instruction manual were divided into sub-packs. For example, each circuit board module for the color TV has its own sub-pack. If the kit builder is accurate in his assembly, when he comes to the last step of a specific sub-pack, he will be using the last part available. If the description of the part does not agree with the step, obviously he has made an error. This self-checking technique forces him to recheck that board before proceeding with the next sub-pack.

With each kit a basic Kit Builder's Guide is included which provides information helpful to the first-time kit builder. It suggests how to organize the kit building, shows how to identify parts, tells how to solder, and recommends tools for the job.

ABOUT THE PRODUCTS

The first kit was an airplane introduced back in 1932 called the Heath "Parasol." It was powered by a motorcycle engine and had a wingspan of 18 feet, a range of 400 miles and top speed of 85 mph. One of these planes is still flying. Today, the only airborne product is the radio-control for model planes—a fascinating device which takes more skill to operate than to build.

The first electronic product offered by Heath was a five-inch oscilloscope in kit form introduced in 1947. The success of this product was such that two additional instruments, a vacuum-tube voltmeter and a signal generator, were soon added. Later,

A Heathkit electronic clock is in the shipping container. Mail order accounts for two-thirds of Heathkit sales. Major steps in construction of the clock are shown on following pages.

as customer interest in electronic kits grew, audio and communications kits were introduced.

Today, the Heathkit product line is widely diversified and touches on almost every major electronic product category. This broad product offering is an element in the success. Heath is generally recognized as the exclusive "supermarket" for electronic kits, and is by far the largest manufacturer of electronic kits in the world. The product listing today consists of over 700 items. Of these, 350 are kit models and over 200 are accessory items, such as TV cabinets, audio cabinets, record changers, antennas and tools. There are also about 150 items in the instrumentation line of assembled products.

In order of popularity, measured by dollar sales, home entertainment products rank first, i.e., color TV, electronic organs and high-fidelity components and systems. Second is test equipment, followed by amateur radio equipment—the favorite of "ham" operators.

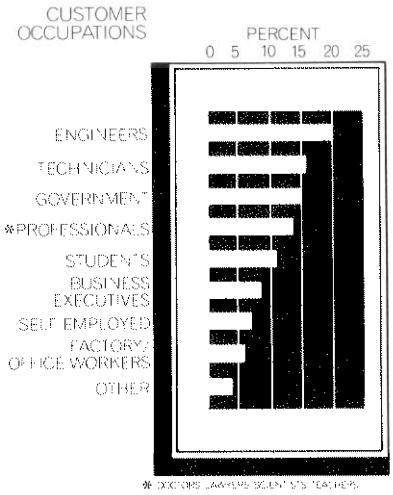
In terms of number of units sold, the leaders are among the lower priced kits. First in 1972 was the electronic calculator, next the auto tune-up meters and then the electronic clock even though it was introduced late in the year.

CUSTOMER RELATIONS

About a half a million customers ordered one or more Heathkits in 1972. Over a million are considered active customers, kit builders who have ordered more than once in the past four years.

To keep these customers satisfied and add new ones, Heath contacts them often, makes it easy for them to obtain products and help, and listens to their suggestions.

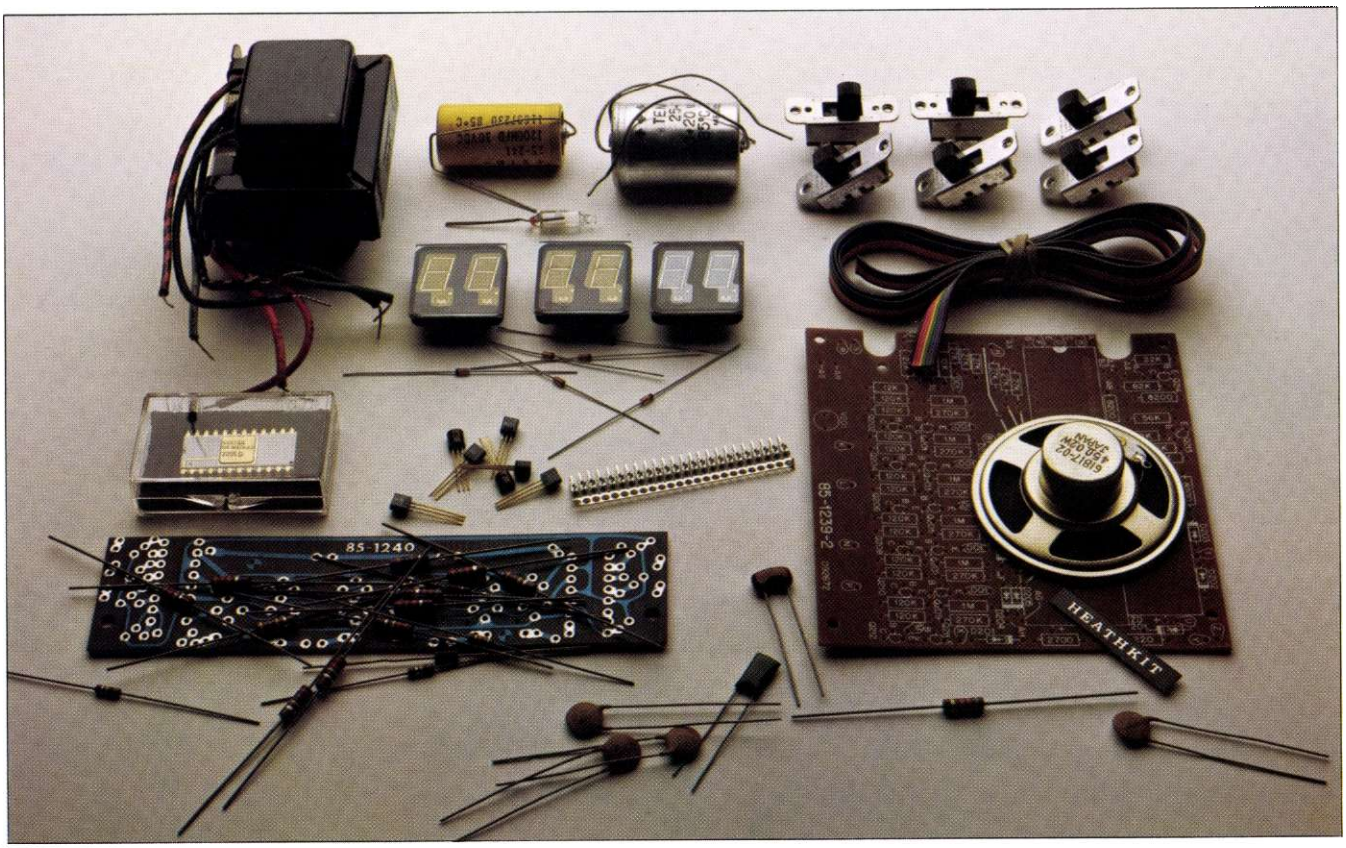
Kit builders come from a wide variety of occupations. The largest group, as might be expected, has some technical background.



Where are the customers, geographically? They are concentrated predominantly in North America. Sales in 1972 totalled $66 million of which $56 million were in the United States and the remainder was in Canada and Europe.

Communication with these cus-

Most of the parts of the Heathkit Electronic Clock mount directly on two printed circuit boards. Component placement and value are printed on the circuit boards to aid the builder. Small parts are bagged and identified separately.



tomers is obviously a major function. Each year, Heath handles ten million pieces of mail; a U.S. Post Office branch is located inside the Benton Harbor plant just for Heath.

Each mailing of the annual catalog and four seasonal announcements, some in four languages, goes to a million and a half potential customers. Added to this are something over two million pieces of mail, required for processing orders, deliveries, and service. Heath also uses the mail service extensively to get better acquainted with customers, for new product ideas and to attract new customers.

A telephone answering service, on duty twenty-four hours a day, accepts orders for both kits and parts. Another service advises the customer on the status of any unshipped orders, traces lost shipments, or replaces damaged kits even before initiating the lengthy procedure of processing a claim with the carrier. A ten-man technical consultation group provides assistance by phone or mail to any customer having difficulty. All told, Heath has 125 people at headquarters directly involved with customer relations.

MOTIVATION TO BUY

Originally, when Heathkit products cost far less than assembled products, the prime motivation to build a kit was financial savings. Today economies still exist within product lines, but customer demands for improved technology have changed the definition of economy; now frequently a better Heathkit product may cost as much as a competitor's ordinary assembled model. Thus, savings to Heathkit customers today can mean either lower cost or a better product for the same money.

Heath frequently asks customers why they buy kits and what they look for. In a recent survey customers first cited quality of components, design, performance. Second was price and third was the enjoyment of building a kit.

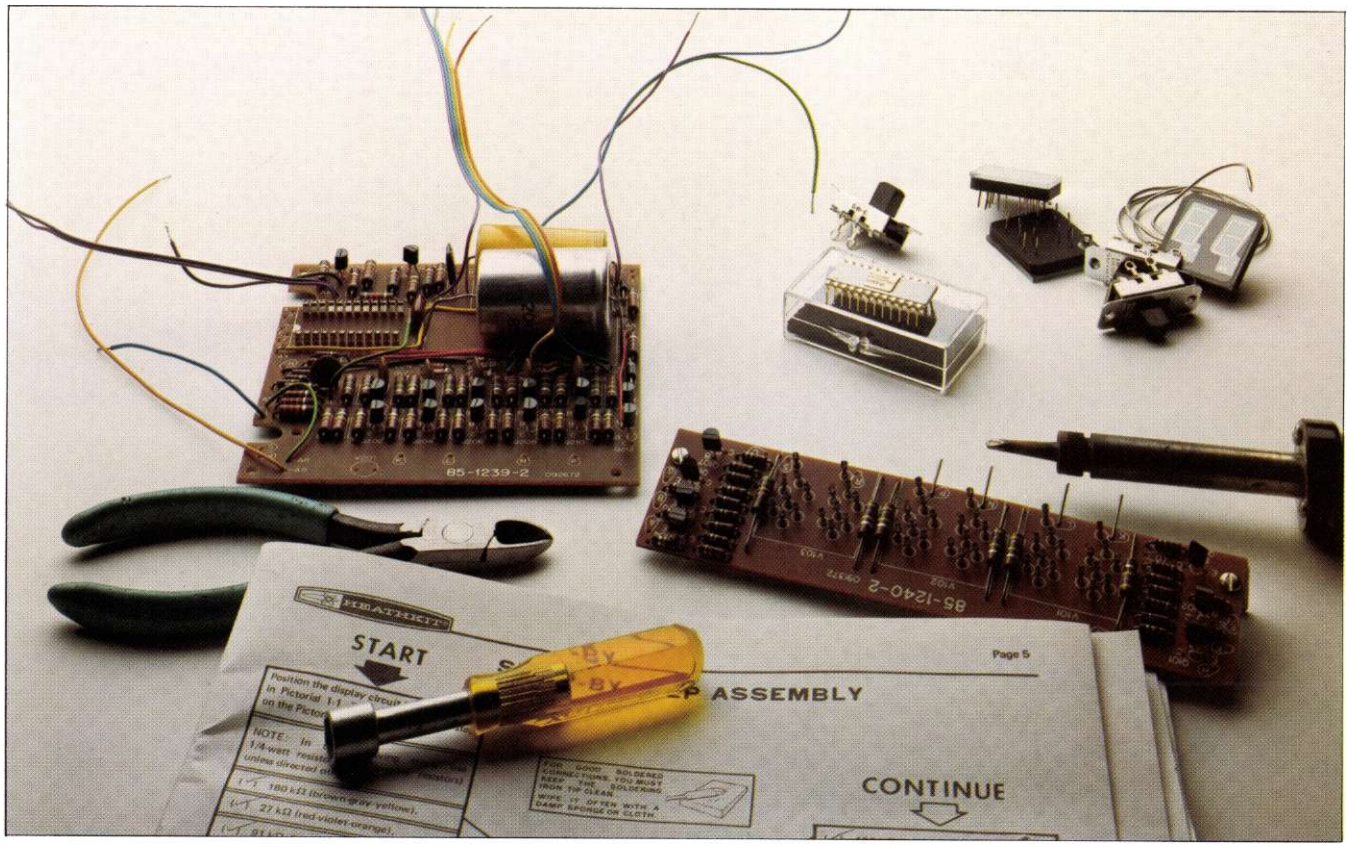
It is also clear that some equally important intangible benefits motivate customers to build kits. It can be the act of creation, the satisfaction and personal pride of building a highly complex electronic device with or without experience in technology. Kit building is also an interesting way to learn about electronics. It reduces dependency on outside repair services; the builder knows he can usually do his own service work.

Kit building is a quiet, relaxing activity. At one time a Chicago doctor had a standing order for every new model oscilloscope released. He enjoyed the challenge of kit building and welcomed the mental diversion. Interestingly, he never used his oscilloscopes.

NEW PRODUCT DEVELOPMENT

Two thirds of Heathkit products today have been in the line less than four

Both circuit boards of the Electronic Clock are nearly complete after a few hours work with ordinary tools. The 31-page instruction manual gives step-by-step instructions.



A Solid-state 18" color television set.

B Dual-range fish spotter with audible alarm.

C 10-meter transceiver for amateur radio operators.

D Powerful AM-FM stereo receiver.

E Digital scanner monitor for ham, emergency bands, mobile radio listening.

F Low-cost digital multimeter for service bench.

G Digital depth sounder for boatsmen.

H Eight-digit calculator.

I Ignition analyzer with built-in tachometer for automotive service.

J Metal locator for treasure hunter.

K High-performance frequency counter from Heath line of assembled instruments.

L FM stereo tuner, digitally tuned for accuracy.

M Solid-state dc-to-15 MHz dual-trace oscilloscope.


B
Dual Range
FISH SPOTTER
HEATHKIT
FISH SPOTTER
C
J
D
G
E
F

years—only a few for more than six years.

Product life is dictated to a large extent by the volatile nature of the consumer electronic market. New technology often obsoletes products, better materials become available, new methods are used. The attrition rate of Heath products creates a need for 50 major new products each year, 25 to stay even and another 25 to maintain a healthy growth rate. More than 150 engineers, technicians, and writers work on new product developments and assembly instructions to keep pace with these objectives.

Choosing the right product, however, is critical to a new product program. Heath consistently meets sales objectives on ninety percent of new products selected. How is it done? Mainly by relying on the best source of all—the customer. Most ideas for new Heathkit products come from unsolicited customer suggestions: nearly every product introduced as a result of a significant number of customer suggestions has met or exceeded sales goals.

A case in point is the Metal Locator which was developed because of repeated requests of a large number of Heath customers. Since introduction two years ago, 50,000 have been sold, some to the financial profit of Heath customers—coins lost in a city park on a good Sunday result in a quick profit for owners of Heath metal locators—it works the same under open-work sport stadiums. One man claimed that he paid for his kit in just five hours this way.

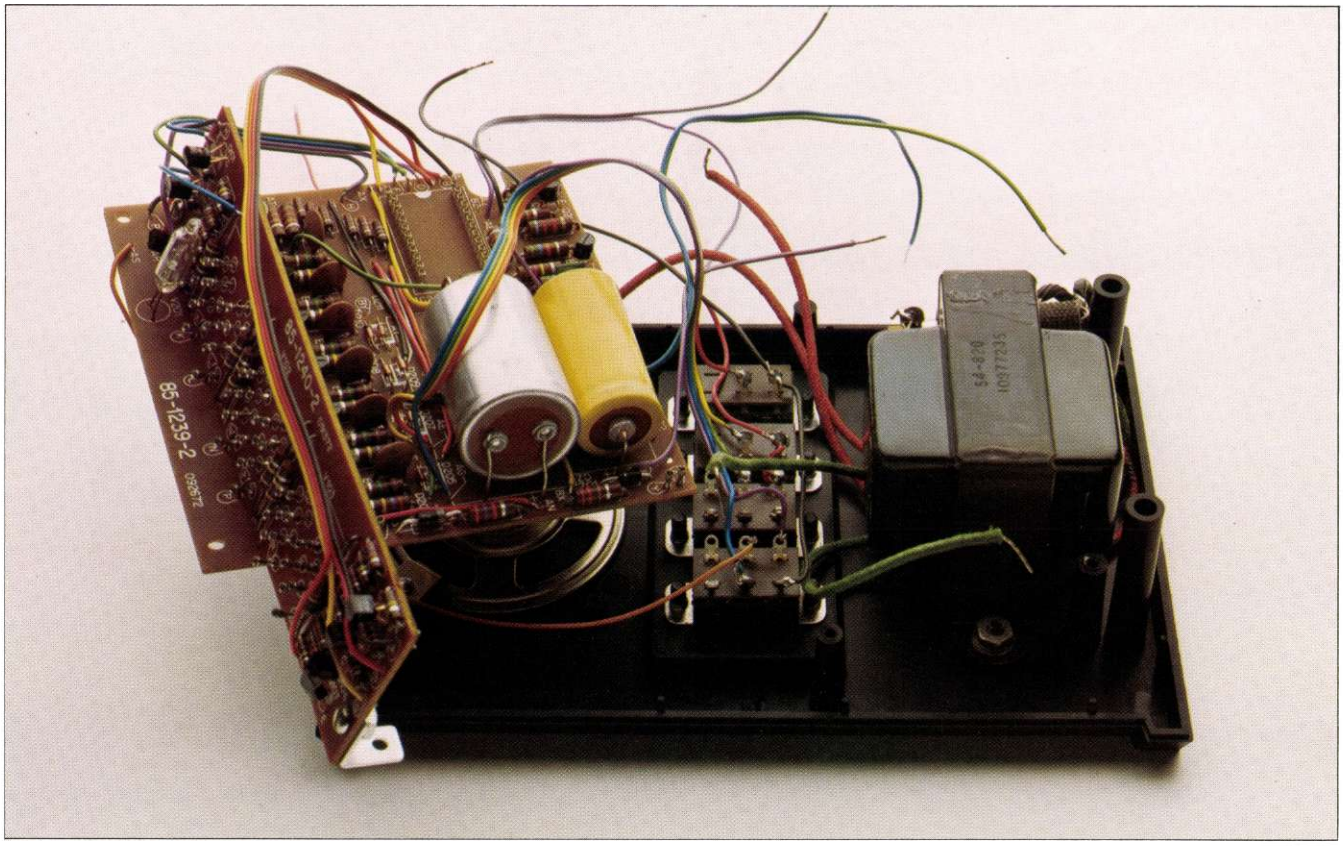
New product planning goes beyond updating, expanding and innovating established product lines. Attention also is concentrated on identifying new types of kit products that will appeal to special interest or hobby groups who have never come in contact with Heath before. In addition, finding products that may broaden the customer base in the general population is another goal. For example, customers inexperienced in kit building express a reluctance to invest in a do-it-yourself project—too many unknowns. For these people Heath has developed simple $10 to $20 products for beginners.

There is always a backlog of new product ideas waiting to be tested in the market. In response to customer demand and mounting competitive pressure, the Heathkit desk calculator for example, went from idea to finished product to instant success in a few months. However, a normal cycle takes a year and a half.

Traditionally popular kits of past years such as amateur radio and electronic test instruments continue to grow with changing technology. In recent years, however, the greatest overall increase in new products has come from the home entertainment area.

Now still another group is expanding: home utility Heathkit products such

The two circuit boards, mechanically and electrically joined, are being connected to parts mounted in the cabinet base.



as the microwave electronic oven and the electronic clock.

EXPANDING DISTRIBUTION CHANNELS

The distribution channel ten years ago was solely mail order. Today mail orders still account for two thirds of the sales and retail stores about one third.

Heath mail order sales have shown a moderate, steady growth to the current level of more than a million active customers, with annual sales of over $40 million. This is double the mail order volume of ten years ago.

The first Heathkit retail store was opened in Denver, Colorado in March of 1962. It was successful. Nearly a year later a second store was added in Chicago. A third retail location was added in June of 1963 in Los Angeles.

Experience with these stores made it apparent that there were many customers who wanted the convenience of purchase and service provided by the retail store. They like to see the Heathkit products and try them out. They are encouraged to buy, knowing that technical advice, parts and service are available nearby.

To underwrite this, retail prices had to be higher than mail order; would people pay for the added convenience? Time would tell, and did. It was a real breakthrough for Heath marketing: in the five-year period through 1967, Heath opened fourteen retail stores in the United States, Canada and Europe. With the experience gained from these operations, and with customer acceptance of the concept, 33 more retail stores have been opened since then. There are now 47 Heathkit retail outlets, 36 in the United States, four in Canada and seven in Europe. Heath plans to open at least 18 more stores in the next three years.

Heathkit retail stores now handle a large part of repair or correction service for mail-order customers. Further, retail sales are as profitable as mail order.

Several correspondence schools now buy a significant number of Heathkit color TV kits to include in their electronic courses. This increases the educational value of the courses and serves to introduce Heathkit products to many future electronic technicians.

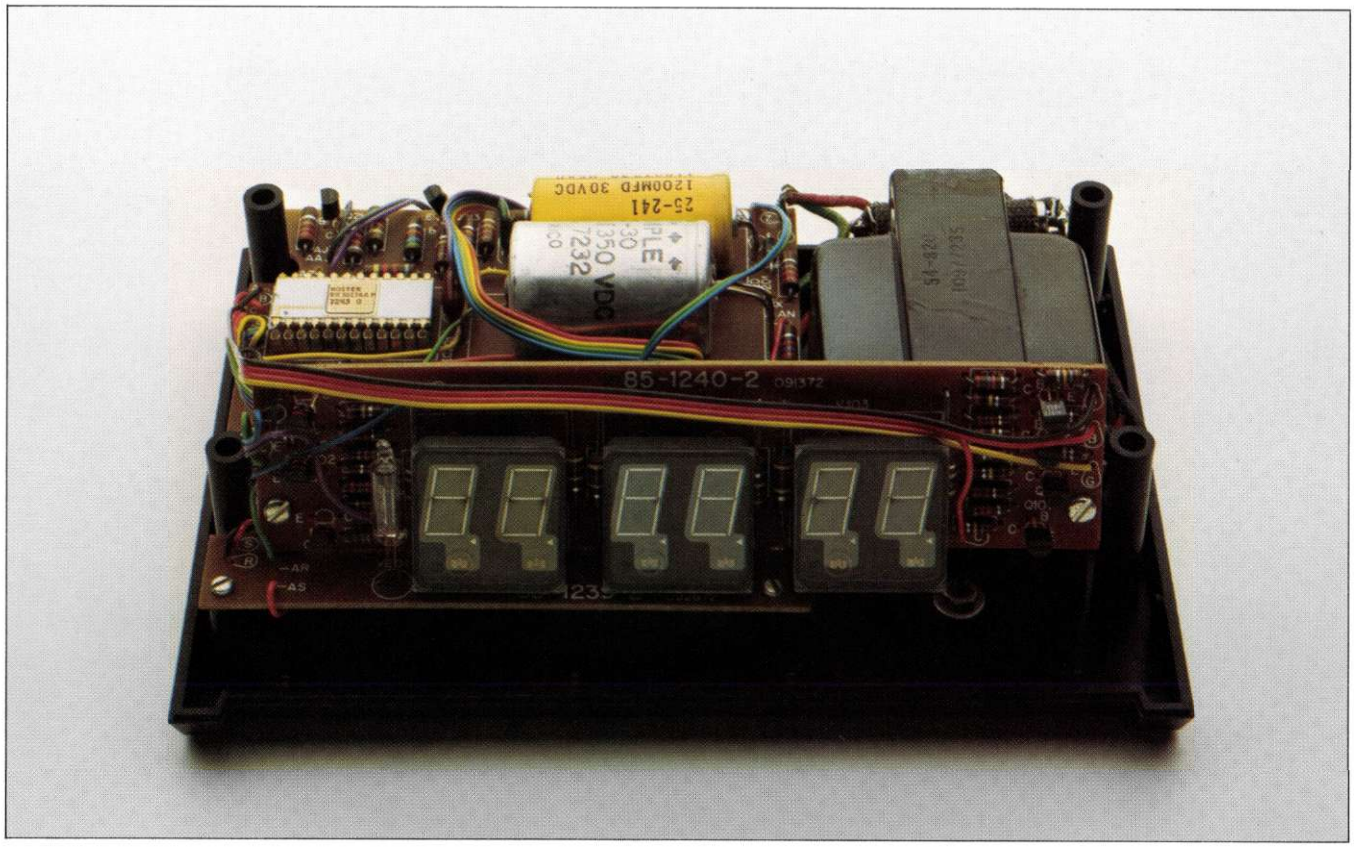
WORLDWIDE SALES

In addition to the main plant in Benton Harbor, Heath has facilities in Canada, England, Germany, France, Holland, Belgium and Sweden.

The Schlumberger Electronics European Sales Organization sells Heathkit products in Switzerland and Austria; independent distributors handle sales in Italy, Denmark, Finland, Spain, Norway and Portugal; the Heath export department sells products in South America, the Middle East and Far East.

The Heath plant located in Glou-

Close to the final step in the Electronic Clock assembly: wiring is almost complete; digital displays and integrated circuit are plugged in.



cester, England produces kits for sale in Europe. Their engineering facility designs products unique to the European customer preference or requirement. Assembly instructions are prepared in English, French and German.

Currently, about half of the products sold in Europe are imported from Benton Harbor. Future plans are to produce a greater number of kits in Gloucester; the plant was recently expanded and the capability of the design group was increased. Both steps are aimed at reducing the cost of the product in Europe and expanding the line. Tariffs will be reduced since England has joined the Common Market, and further improvement in European sales should result. Expansion of sales in Europe is one of the best marketing opportunities for Heath.

ASSEMBLED EDUCATION INSTRUMENTS

In 1962, Heath began the development of a line of assembled products to fill a need for low-cost specialized equipment to teach electronics to scientists. The first instrument, a strip chart recorder, was introduced in August 1963. From this beginning, the line has expanded to include systems, complete with software, for teaching digital and analog electronics, and computer logic. Many of these instruments also have practical industrial application.

Seventy percent of sales are to educational institutions, primarily at the university level, and 30% to industry.

ABOUT THE FUTURE

Integrated circuits and digital readout technology are having a significant impact on the consumer electronics industry. Integrated circuits are postage-stamp size components which perform the functions formerly required by hundreds of individual resistors, transistors and diodes. As a result, the finished product is smaller, performance more reliable and the cost is frequently lower. Digital readouts display actual numerals replacing dials and meters, which makes it more convenient for the customer to use the equipment.

It is significant to Heath that the use of integrated circuits permits design of products involving levels of complexity heretofore unattainable; this means more new product opportunities.

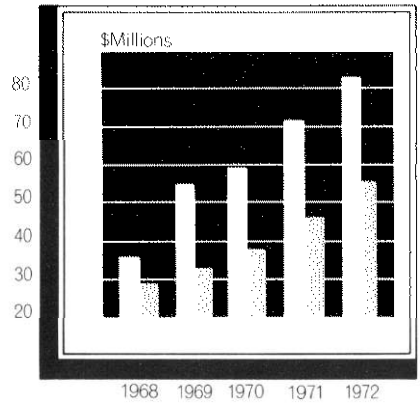
Heath has been one of the first to use these new components. Examples in 1972 include an electronic calculator and electronic clock, both of which have integrated circuits and digital readouts—both successful products.

Technology's rapid change promises continual upgrading of product utility and of electronic applications: more buttons to push in the home, car or boat. Whatever direction new developments take, Heath has the experience, talent and flexibility to design a kit for it.

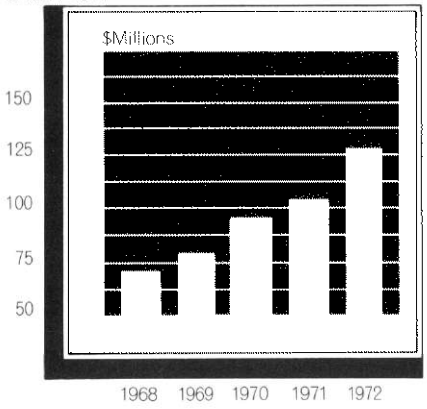
The Electronic Clock is built within two evenings. It displays hours, minutes, and seconds digitally. An electronic tone alarm can be set to go off in any minute of a 24-hour period.

Financial Information

NET FIXED ASSET ADDITIONS □
DEPRECIATION ▨



CASH FLOW



RESEARCH & ENGINEERING

Research & Engineering expense was $34.3 million for 1972 compared to $31.3 million for 1971—about 4½% of operating revenues in each year. The 1972 amount includes $16.1 million for Oilfield activities, $5.2 million for U.S. Electronics and $13.0 million for Compteurs.

TAXES ON INCOME

The strong growth of earnings in 1972 from U.S. and Canadian sources, where income is taxed at relatively high rates, was the main reason for the increase in the overall effective tax rate to 38.2%, from 34.4% in 1971.

As in prior years, the 1972 charge for taxes on income includes provision for actual known tax liabilities based on the current year's earnings as well as for taxes which may be payable in the future depending on the resolution of problems and controversies as to the interpretation of the income taxation laws and regulations of various countries as they relate, for example, to such matters as worldwide offshore operations. Management believes that adequate provision has been made at December 31, 1972 for all such contingencies.

CAPITAL EXPENDITURES

Additions to fixed assets in 1972 aggregated $99.1 million, including $6.3 million received in acquisitions. The breakdown by business category was as follows:

	$ Millions
Oilfield—Wireline Services	$38.5
—Forex Neptune	27.6
—Other	7.0
	73.1
Electronics—U.S.A.	5.2
Compagnie des Compteurs	20.8
	$99.1

Depreciation expense for 1972 was $55.1 million ($45.7 million in 1971)—about 55% of fixed asset additions.

COMMON STOCK AND DIVIDENDS

As explained in the Business and Financial Review, the Board of Directors voted in July 1972 to split the company's common stock, three shares for one.

The cash dividend was raised twice during 1972—to $0.487 annually on post split shares in April and to an annual rate of $0.50 on post split shares in October.

During the year, 295,300 shares of Treasury stock were purchased, 1,838,979 shares were issued on conversion of debentures and 86,527 shares were sold to employees under stock option plans. At year end, 796,668 shares remained in the Treasury.

Purchases of Treasury stock have been and may continue to be made for general corporate purposes including sale under employees' stock options.

1973 CURRENCY REALIGNMENTS

The currency realignments taking place in January and February 1973 are not expected to have a significant impact on Schlumberger's financial position or on 1973 earnings.

Schlumberger Limited

(Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Consolidated Balance Sheet
Assets

	December 31, 1972	1971
	(Stated in thousands)	
CURRENT ASSETS:		
Cash	$ 11,440	$ 18,334
Short-term investments, at cost (approximately market)	102,801	71,483
Receivables, less allowance for doubtful accounts (1972—$6,338; 1971—$5,656)	234,224	217,104
Inventories	167,085	177,379
Other current assets	17,070	17,662
	532,620	501,962
INVESTMENTS IN AFFILIATED COMPANIES	34,692	31,412
LONG-TERM INVESTMENTS AND RECEIVABLES	25,572	23,888
FIXED ASSETS less accumulated depreciation	287,543	267,028
INTANGIBLE ASSETS	30,053	25,999
OTHER ASSETS	4,483	10,910
	$914,963	$861,199

SEE NOTES TO FINANCIAL STATEMENTS

Consolidated Balance Sheet
Liabilities & Stockholders' Equity

	December 31, 1972	1971
	(Stated in thousands)	
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$134,440	$135,074
Estimated liability for taxes on income	65,966	45,720
Bank loans	78,096	88,188
Dividend payable	4,561	4,064
Long-term debt due within one year	7,025	11,941
	290,088	284,987
CONVERTIBLE DEBENTURES	—	62,037
OTHER LONG-TERM DEBT	82,646	49,102
OTHER LIABILITIES AND RESERVES	24,965	38,612
MINORITY INTEREST IN SUBSIDIARIES	16,020	15,213
	413,719	449,951
STOCKHOLDERS' EQUITY:		
Common stock	130,619	75,283
Income retained for use in the business	370,625	335,965
	501,244	411,248
	$914,963	$861,199

SEE NOTES TO FINANCIAL STATEMENTS

Schlumberger Limited

(Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Consolidated Statement of Income

	Year Ended December 31, 1972	1971
	(Stated in thousands)	
REVENUES:		
Sales and services	$792,583	$695,866
Interest and other income	19,479	14,557
	812,062	710,423
EXPENSES:		
Cost of goods sold and services	516,966	461,686
Research and engineering	34,347	31,313
Marketing	57,516	53,256
General	75,928	63,311
Interest	13,636	14,555
Taxes on income	43,436	30,067
	741,829	654,188
Income before extraordinary items	70,233	56,235
Extraordinary items—net, after income taxes	—	1,249
Net income	$ 70,233	$ 57,484
Per common share and common equivalent share:*		
Income before extraordinary items	$ 1.94	$ 1.58
Extraordinary items	—	.04
Net income	$ 1.94	$ 1.62

* ADJUSTED FOR 3-FOR-1 STOCK SPLIT IN SEPTEMBER 1972.

SEE NOTES TO FINANCIAL STATEMENTS

Consolidated Statement of Stockholders' Equity*

	Common Stock		Income retained for use in the business
	Shares Outstanding	Amount	
		(Stated in thousands)	
Balance, January 1, 1971	34,813,137	$ 71,619	$305,380
Purchase of treasury shares	(280,500)	(594)	(10,679)
Treasury shares exchanged for shares of Forex	63,978	1,904	—
Exercise of stock options	165,477	2,354	—
Net income	—	—	57,484
Dividends declared ($.467 per share)	—	—	(16,220)
Balance, December 31, 1971	34,762,092	75,283	335,965
Purchase of treasury shares	(295,300)	(794)	(17,816)
Exercise of stock options	105,703	2,404	—
Treasury shares issued in connection with debenture conversion	1,838,979	53,726	—
Net income	—	—	70,233
Dividends declared ($.493 per share)	—	—	(17,757)
Balance, December 31, 1972	36,411,474	$130,619	$370,625

*SHARE AND PER SHARE AMOUNTS ADJUSTED FOR 3-FOR-1 STOCK SPLIT IN SEPTEMBER 1972.

SEE NOTES TO FINANCIAL STATEMENTS

Schlumberger Limited

(Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

	Year Ended December 31, 1972	1971
	(Stated in thousands)	
SOURCE OF WORKING CAPITAL		
Income before extraordinary items	$ 70,233	$ 56,235
Add (deduct) amounts not affecting working capital:		
Depreciation	55,104	45,664
Amortization of intangibles	791	1,627
Other—net	766	(1,183)
Working capital provided from operations	126,894	102,343
Extraordinary items—net, after income taxes	—	1,249
Portion of extraordinary items not affecting working capital	—	13,885
Working capital from sale of certain operations	5,056	—
Stock issued for debenture conversion	53,726	—
Exchange of debentures and stock for Forex shares	—	2,609
Increase in other long-term debt	68,086	16,615
Retirement of fixed assets	9,892	6,988
Proceeds from exercise of stock options	2,404	2,354
Total working capital provided	266,058	146,043
APPLICATION OF WORKING CAPITAL		
Interests acquired in consolidated companies, less net working capital acquired	1,681	14,862
Additions to fixed assets	92,732	78,692
Dividends declared	17,757	16,220
Debentures converted or redeemed	62,037	—
Reduction of other long-term debt	34,373	15,696
Purchases of treasury stock	18,610	11,273
Increase in investments and long-term receivables	6,247	2,241
Other—net	7,064	(3,675)
Total working capital applied	240,501	135,309
NET INCREASE IN WORKING CAPITAL	$ 25,557	$ 10,734
INCREASE IN WORKING CAPITAL CONSISTS OF:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 24,424	$ 13,008
Receivables	17,120	28,775
Inventories	(10,294)	8,820
Other current assets	(592)	7,932
(Increase) decrease in current liabilities:		
Accounts and dividend payable	137	(17,462)
Estimated liability for taxes on income	(20,246)	(14,419)
Bank loans and debt due within one year	15,008	(15,920)
NET INCREASE IN WORKING CAPITAL	$ 25,557	$ 10,734

SEE NOTES TO FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements

SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Schlumberger Limited have been prepared in accordance with accounting principles generally accepted in the United States of America. Within those principles, the company's more important accounting policies are set forth below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all significant majority-owned subsidiaries. Significant 50% owned companies are accounted for under the equity method and are carried in Investments in Affiliated Companies at Schlumberger's share of net assets; a prorata share of after-tax earnings of these companies is included in "other income." Other investments in affiliated companies are carried at cost (1972—$10.4 million; 1971—$12.3 million) less allowances for possible losses which, based in part on unaudited figures, approximates Schlumberger's share of underlying equity.

TRANSLATION OF NON-U.S. CURRENCIES

Balance sheet items recorded in currencies other than U.S. dollars are translated at current exchange rates except for oilfield inventories, fixed and intangible assets, long-term investments and convertible debentures which are translated at historical rates. Revenues and expenses are translated at average current rates of exchange except that depreciation of fixed assets and amortization of intangible assets are translated at historical rates. Translation gains or losses are taken up in income currently.

INVENTORIES

Inventories are stated principally at the lower of average or standard cost or market.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less depreciation, which is provided for by charges to income over the estimated useful lives of the assets by the straight-line method. Fixed assets include the cost of company manufactured oilfield technical equipment for use in wireline operations. Expenditures for renewals, replacements and betterments are capitalized. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Maintenance and repairs are charged to operating expenses as incurred.

INTANGIBLE ASSETS

Intangible assets represent largely the excess of purchase price over fair value of net tangible assets of businesses acquired. Amounts ($18.4 million) relating to acquisitions which took place principally in 1970 will not be amortized unless a diminution of value occurs. The remainder is being amortized over periods of up to 40 years.

DEFERRED BENEFIT PLANS

The company and its subsidiaries have several voluntary pension and other deferred benefit plans covering substantially all officers and employees, including those in countries other than the U.S.A. These plans are fully funded with trustees in respect of past and current services. Charges to expense are based upon costs computed by independent actuaries, adjusted for partial recognition of unrealized appreciation of trust fund assets.

In France, the principal pensions are provided for by union agreements negotiated by all employers within an industry on a nationwide basis. Rights to future retirement benefits vest currently, but monetary amounts are not assigned to these rights until year of payment. Benefits when paid are not identified with particular employers, but are made from funds obtained through concurrent compulsory contributions from all employers within each industry, based on employee salaries. These plans are accounted for on the defined contribution basis, and each year's contributions are charged currently to expense.

TAXES ON INCOME

Schlumberger, its subsidiaries and its 50% owned companies, compute income taxes payable based on taxable income which may differ from pretax income in the financial statements due to differences in periods in which items are recognized for tax purposes and for financial accounting purposes. These differences are attributable principally to the use of accelerated methods of depreciation for income tax purposes and unrealized profits on intercompany sales of inventories and fixed assets. Appropriate provision is made for deferred income taxes.

Investment credits and other allowances provided by income tax laws of the U.S.A. and other countries are credited to current income tax expense on the flow-through method of accounting.

Approximately $333 million of consolidated income retained for use in the business at December 31, 1972 represent undistributed earnings of subsidiaries and 50% owned companies. Since it is the policy of the company to reinvest such earnings in the business, no provision has been made for income taxes which may be payable at rates of 3% to 10% on most of these earnings if they were to be remitted to the parent company.

COMMON STOCK

Common stock is carried at the stated value or proceeds of issued shares, increased by proceeds from sales of treasury shares and reduced prorata for shares reacquired. Any excess of cost of reacquired shares over the prorata amount is treated as a reduction of income retained for use in the business.

EARNINGS PER SHARE

Earnings per share are computed by dividing net income (plus interest on the convertible debentures during the period they were outstanding) by the average number of common shares and common equivalent shares outstanding during the year. In computing the average shares, the number of shares outstanding during the period April 1970 to May 1972 was increased by those issuable on conver-

sion of debentures and assumed exercise of stock options.

RESEARCH AND ENGINEERING

All research and engineering expenditures are expensed as incurred, including costs relating to patents or rights which may result from such expenditures.

GEOGRAPHICAL DISTRIBUTION OF REVENUES AND NET ASSETS

The geographical distribution of revenues in 1972 and 1971 and net assets at December 31, 1972 was approximately as follows:

	Revenues		Net Assets Dec. 31,
	1972	1971	1972
United States and Canada	30%	31%	34%
France	31	32	20
Other	39	37	46
	100%	100%	100%

FIXED ASSETS

A summary of fixed assets follows:

	December 31,	
	1972	1971
	(Stated in millions)	
Land	$ 20.6	$ 19.8
Buildings and improvements	109.2	108.6
Machinery and equipment	426.5	383.1
Total cost	556.3	511.5
Less—accumulated depreciation	268.8	244.5
	$287.5	$267.0

LONG-TERM DEBT

The company called for redemption on May 1, 1972 all of its outstanding 4%-6% convertible debentures. Substantially all the debentures outstanding at December 31, 1971 have been redeemed or converted into 1,838,979 shares of common stock. The principal amount of debentures converted less the cost of debentures previously acquired and related expenses was credited to the capital account.

At December 31, 1972, consolidated long-term debt, excluding amounts maturing within one year, consisted of the following:

	(Stated in millions)
Payable in French francs:	
Compagnie des Compteurs and its subsidiaries:	
Debentures, 5%-6.5% due 1974-1984	$13.7
Loans from Crédit National, 6%-7.25% due 1974-1984	5.3
Loans from Banque Nationale de Paris 6.5% through June 1973, French interbank rate plus 1-7/8% thereafter, due 1975-1977	24.4
Loan from Société Générale, 6.54%-8% due 1975-1977	9.8
Other loans	3.2
	56.4
Other consolidated companies	12.3
	68.7
Payable in U.S. dollars	8.2
Payable in other currencies	5.7
	$82.6

Long-term debt will be due $7.7 million in 1974, $14.7 million in 1975, $14.1 million in 1976, $33.1 million in 1977 and $13.0 million thereafter.

COMMON STOCK

In July 1972 the Board of Directors authorized a 3-for-1 split of the company's common stock, subject to stockholders approval of an increase in authorized shares of U.S. $1 par value from 20 million to 60 million shares. Such approval was given at a special general meeting in September 1972 and the split was effective shortly thereafter.

Transactions under stock option plans during 1972 and 1971 after giving effect to the 1972 split were as follows:

	Number of Shares Under Option	
	1972	1971
At January 1,	635,478	734,772
Options granted:		
For five years	96,450	75,900
For ten years	—	6,000
Options exercised	(105,703)	(165,477)
Options lapsed or terminated	(5670)	(15,717)
At December 31,	620,555	635,478

The 620,555 shares under option at December 31, 1972 were held by 314 officers and key employees at option prices ranging from $21.27 to $84.31; options for 293,048 shares were exercisable at that date. A balance of 600,759 shares of common stock remained available for future option under the plans. During 1972 and 1971, 19,176 and 90,597 previously unissued shares, respectively, were sold on exercise of stock options.

Common stock outstanding at December 31, 1972 and 1971 excludes 293,784 and 1,548,990 reacquired shares held in treasury and 502,884 and 877,884 shares issued to a subsidiary in 1971.

EXTRAORDINARY ITEMS—1971

Income as reported for 1971 included a net gain after tax ($916,000) from disposition of certain operations and investments, and a net gain ($333,000) on translation of non-U.S. accounts after effect of a change in the accounting basis for translating certain non-U.S. dollar inventories.

SUPPLEMENTARY INFORMATION

Operating loss carryforwards available to certain non-U.S. subsidiaries as deductions from their future income, if earned, amounted to $30.5 million at December 31, 1972. Of this amount, $3.5 million expires in 1973, $4.6 million in 1974, $6.4 million in 1975, $2.8 million in 1976 and $2.3 million in 1977. Substantially all of the remainder can be carried forward indefinitely. Additionally, there are unrecorded contingent future income tax deductions originating in Compteurs as of time of acquisition.

Short-term investments are collectible mainly in U.S. dollars and included time deposits of $85.1 million and $57.6 million at December 31, 1972 and 1971, respectively.

Interest income was $7.2 million in 1972 and $6.9 million in 1971.

Inventories at December 31, 1972 comprised $31.1 million of operating materials and supplies for oilfield services and $136.0 million applicable to other operations—principally electronic equipment and gas, water and electricity meters.

In 1972, expense of the deferred benefit plans as well as the compulsory contributions for French retirement benefits amounted to $9.4 million and $5.3 million; 1971 amounts for such plans were $8.4 million and $4.7 million.

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.

60 Broad Street
New York 10004
February 20, 1973

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF SCHLUMBERGER LIMITED:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income, stockholders' equity and changes in financial position present fairly the financial position of Schlumberger Limited and its subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Schlumberger Limited

Oilfield Services

SCHLUMBERGER WIRELINE COMPANIES
SCHLUMBERGER WELL SERVICES
SCHLUMBERGER OF CANADA
SCHLUMBERGER SURENCO
SOCIETE DE PROSPECTION ELECTRIQUE SCHLUMBERGER
SCHLUMBERGER OVERSEAS
JOHNSTON
VECTOR
PLASTIC APPLICATORS
FOREX NEPTUNE
FLOPETROL

MAJOR PLANTS & HEADQUARTERS: HOUSTON, PARIS, CARACAS, CA, GARY

The oilfield companies offer technical services and products to the oil industry in more than 70 countries.
Wireline companies provide measurements of physical properties of underground formations which help locate and define reservoirs and assist in completion, development and production phases of oil wells.
Contract drilling, completion, workover, well testing, pipe inspection, are among other services provided to oil companies.
Schlumberger also supplies products for these services.

Electronics—U.S.A.

WESTON COMPONENTS
WESTON INSTRUMENTS
EMR
HEATH

MAJOR LOCATIONS: ARCHBALD, PA., NEWARK, N.J., PRINCETON, N.J., SARASOTA, FLA., BENTON HARBOR, MICHIGAN

The U.S. electronics companies produce: electronic measuring instruments, aircraft instruments, telemetry systems, photomultiplier tubes, x-ray thickness gages, electronic components, and electronic kits.

Meters & Electronics—Europe

COMPAGNIE DES COMPTEURS
COMPTEURS-SCHLUMBERGER
MALBRANQUE-SERSEG
SCHLUMBERGER INSTRUMENTS & SYSTEMS
SOLARTRON

MAJOR LOCATIONS: BESANCON, CHATEAUROUX, ILLIES, MASSY, MONTROUGE, PARIS, POITIERS, REIMS, RUEIL, SAINT-ETIENNE, VILLACOUBLAY, FARNBOROUGH, BARCELONA, FROSINONE, MILAN, BRUSSELS, DORDRECHT, MUNICH, VIENNA

Compagnie des Compteurs produces electricity, gas, and water, meters; equipment for electrical power systems; and industrial controls.
—steam valves and valves for the oil industry.
—electronic measuring instruments; electronic data systems; transducers; and professional broadcasting equipment.

Directors

ROBERT G. COWAN†
Director,
National Newark & Essex Bank

JACQUES DE FOUCHIER
President, Compagnie Financière
de Paris et des Pays-Bas

WILLIAM J. GILLINGHAM*

ELISHA GRAY II†
Chairman, Finance Committee,
Whirlpool Corp., Benton Harbor

JOSEPH C. HUTCHESON, III†
Partner, Baker & Botts, Houston

PAUL A. LEPERCQ*°
President, Lepercq, de Neuflize & Co.
New York

GEORGE DE MENIL
Assistant Professor of Economics,
Princeton University

CHARLES C. PARLIN
Partner, Shearman & Sterling
New York

JOHN E. RHODES°

JEAN RIBOUD*°
Chairman of the Board

FRANÇOISE SCHLUMBERGER PRIMAT
Director, Schlumberger Museum
Paris

JEROME SEYDOUX*°

AME VENNEMA*°

EDWIN N. WEST

JEROME B. WIESNER
President, Massachusetts Institute of
Technology, Cambridge

*Member Executive Committee
°Member Finance Committee
†Member Audit Committee

Officers

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President
and Chief Executive Officer

AME VENNEMA
Chairman, Executive Committee

WILLIAM J. GILLINGHAM
Executive Vice President

JOHN E. RHODES
Executive Vice President

JEROME SEYDOUX
Executive Vice President

EDWIN N. WEST
Secretary and General Counsel

HERBERT G. REID
Vice President-Finance

JEAN BABAUD
Vice President

CHARLES B. EVANS
Vice President

ROLAND GENIN
Vice President

HENRY LEHNE
Vice President

LOUIS E. MAGNE
Vice President

NICK A. SCHUSTER
Vice President

JAMES H. POYNER
Controller

JEROME J. HAYES
Treasurer

Five Year Financial Summary

	1972	1971	1970	1969	1968
	(Stated in millions)				
FOR THE YEAR—					
Revenues					
Sales and services	$792.6	$695.9	$578.5	$420.6	$409.1
Interest and other income	19.5	14.5	13.3	13.9	9.5
	812.1	710.4	591.8	434.5	418.6
Research and engineering	34.3	31.3	26.7	21.1	20.4
Taxes on income	43.4	30.1	27.8	28.5	27.3
Net income	70.2	56.2*	49.4	46.3	41.0
Depreciation of fixed assets	55.1	45.7	37.7	32.0	29.1
Amortization of intangible assets	.8	1.6	1.6	2.1	2.6
Net income plus depreciation and amortization	126.1	103.5*	88.7	80.4	72.7
Fixed asset additions, less retirements	82.8	71.7	59.3	53.6	35.6
AT DECEMBER 31—					
Cash and short-term investments	114.2	89.8	76.8	91.0	106.8
Inventories	167.1	177.4	168.6	102.2	84.1
Working capital	242.5	217.0	206.2	179.7	183.6
Current ratio	1.8	1.8	1.9	2.6	2.9
Fixed assets:					
Cost	556.3	511.5	458.4	333.0	298.8
Accumulated depreciation	268.8	244.5	221.2	185.0	172.4
Cost, less depreciation	287.5	267.0	237.2	148.0	126.4
Stockholders' equity	501.2	411.2	377.0	344.3	321.3
Total assets	915.0	861.2	763.8	473.7	436.5
SHARE DATA**—					
Average shares and equivalent shares outstanding (thousands)	36,599	37,043	36,384	34,719	34,737
Net income per share	$ 1.94	$ 1.58*	$ 1.41	$ 1.33	$ 1.18
Dividends paid per share	$0.485	$0.467	$0.467	$0.427	$0.317

*Before extraordinary items — see notes to financial statements.

**Adjusted for three-for-two stock split in May 1969 and three-for-one stock split in September 1972.

STOCK TRANSFER AGENTS

First National City Bank
New York City

Bank of the Southwest
Houston, Texas

REGISTRARS

Morgan Guaranty Trust Company
of New York

First City National Bank
Houston, Texas

SCHLUMBERGER LIMITED, 277 PARK AVENUE, NEW YORK, N.Y. 10017 42, RUE SAINT-DOMINIQUE, PARIS 7.