SCHLUMBERGER ANNUAL REPORT 1975


GREAT
GREAT
BRAZIL
IRAN
B190
CAMEROUN
B102
ARGENTINA
SCHLUMBERGER
ABU DHABI ARABIAN
GULF . UNITED
ARAB EMIRATES
PESCARA
B1301
ITALY
NIGERIA

SCHLUMBERGER LIMITED

IN BRIEF

	1975	1974	1973
Revenue	$1,587,571,000	$1,218,735,000	$980,852,000
Net Income	$ 219,337,000	$ 147,630,000	$ 92,362,000
Net Income Per Share	$3.92	$2.68	$1.69
Dividends Paid Per Share	$0.60	$0.46	$0.35

TO THE SHAREHOLDERS

It is good to be able to report another year of record earnings. In 1975 we did not quite match the spectacular earnings growth achieved in 1974. Nevertheless the 1975 figures are impressive. Revenue increased 30% and net income increased 49%.

Yet the year did not start under entirely favorable conditions. In the Fall of 1974 an economic recession was already underway. No one knew how long it would last or how deep it would be, but most people thought it could be one of the most serious declines since World War II. It would certainly affect all the free world and particularly Europe. In the oil industry the pessimists outnumbered the optimists by a wide margin: oil exploration would be cut for lack of funds; demand for oil products would decrease because of higher prices and the economic slowdown; some went so far as to predict that the price of crude oil would tumble.

It is true that this past year has not been particularly smooth or easy for the oil business. But which year is? There were conflicts and disruptions, there was nationalization and punitive tax legislation. Yet to me, overshadowing these disturbing events, this was a year of stabilization. The quadrupling of the price of crude oil had left the world, and particularly the oil industry, in a state of shock. To some, the world was on the verge of collapse: gigantic trade deficits, impossible recycling of petro-dollars, chaos on costs and inflation. The world did not collapse but the recovery could not happen overnight. During 1975 a process of readaptation took place and signs indicate that a new economic equilibrium in world trade is shaping up.

I have never believed the pessimists. In last year's annual report I wrote, "In spite of many fluctuations, of many shifts from country to country, from continent to continent, oil exploration will go forward." It did just that. Oil prices remained relatively stable, drilling activity increased in most of the oil producing areas of the world, our oilfield service revenue increased 35%.

In the past year the free world did have a serious economic recession. The U.S. economy was hit in the latter part of 1974 and first half of 1975. The recession developed somewhat slower in Europe, but has probably been deeper and with longer lasting effects. Our Measurement & Control units in the U.S., including Heath, had lower revenue except Weston Components. In Europe despite a severe drop in orders for some product lines, profit from our Measurement & Control operations increased significantly. For years we have said of these operations that we were reorganizing, streamlining, changing, reducing cost. The test came this year, a difficult year, and it was a rewarding test.

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All our major decisions during the past year had one guiding thought: whatever the economic situation, whatever clouds the future, Schlumberger must be stronger at the year end than when the year began.

We have strengthened our oilfield service operations, investing $115 million in fixed assets for wireline equipment and facilities, $65 million for other oilfield services, a total of $180 million.

We have increased the oilfield R&D budget from $26 million in 1975 to $31 million this year. We are more strongly committed to measurement while drilling, acquiring a minority interest in a company specializing in analysis of drilling data.

We have strengthened our position in Measurement & Control in North America. After acquiring Sangamo Electric for $63 million, operations of Sangamo, Weston and EMR were regrouped into a single operating entity, Sangamo Weston, two names long respected in the field of measurement. If we are successful in developing new technology through R&D, in bringing new products from our larger European operations, then we are in the process of creating a leader.

We have strengthened our financial position by issuing two million new shares of Schlumberger stock, adding $154 million to corporate funds.

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Many people are uncertain about the future. Every year many people are uncertain about the future, and they are quite often the same people. For Schlumberger, I have a few simple convictions.

We will not duplicate in 1976 the earnings growth of 1974 and 1975. An increase of roughly 50%, twice repeated, was exceptional and due to exceptional circumstances in the oil industry. To keep it up would be impossible, and unsound. But Schlumberger will continue to grow.

The economy in both the U.S. and Europe is recovering. It is slow, it is not spectacular, it is not uniform across industry, but it is underway.

In the oil industry, the process of recovery and stabilization will continue. Activity will slow down in some areas such as Southeast Asia and West Africa but it will remain strong in the great oil producing territories, the North Sea, the Middle East and the U.S.A. There will be a temporary oversupply of some offshore drilling units, putting pressure on daily rates, but the impact on Schlumberger will be small. Overall on a worldwide basis I believe that in 1976 drilling for exploration and for production of oil and gas will continue to increase. As in the past, Schlumberger oilfield services will increase faster than drilling.

On February 26, 1976, following the resignation of Jerome Seydoux as President, The Board of Directors re-elected Jean Riboud as President and elected Roland Genin as Executive Vice President-Operations. At the September 1975 Board meeting Herbert G. Reid was elected Executive Vice President in charge of Finance, Legal and Administration.

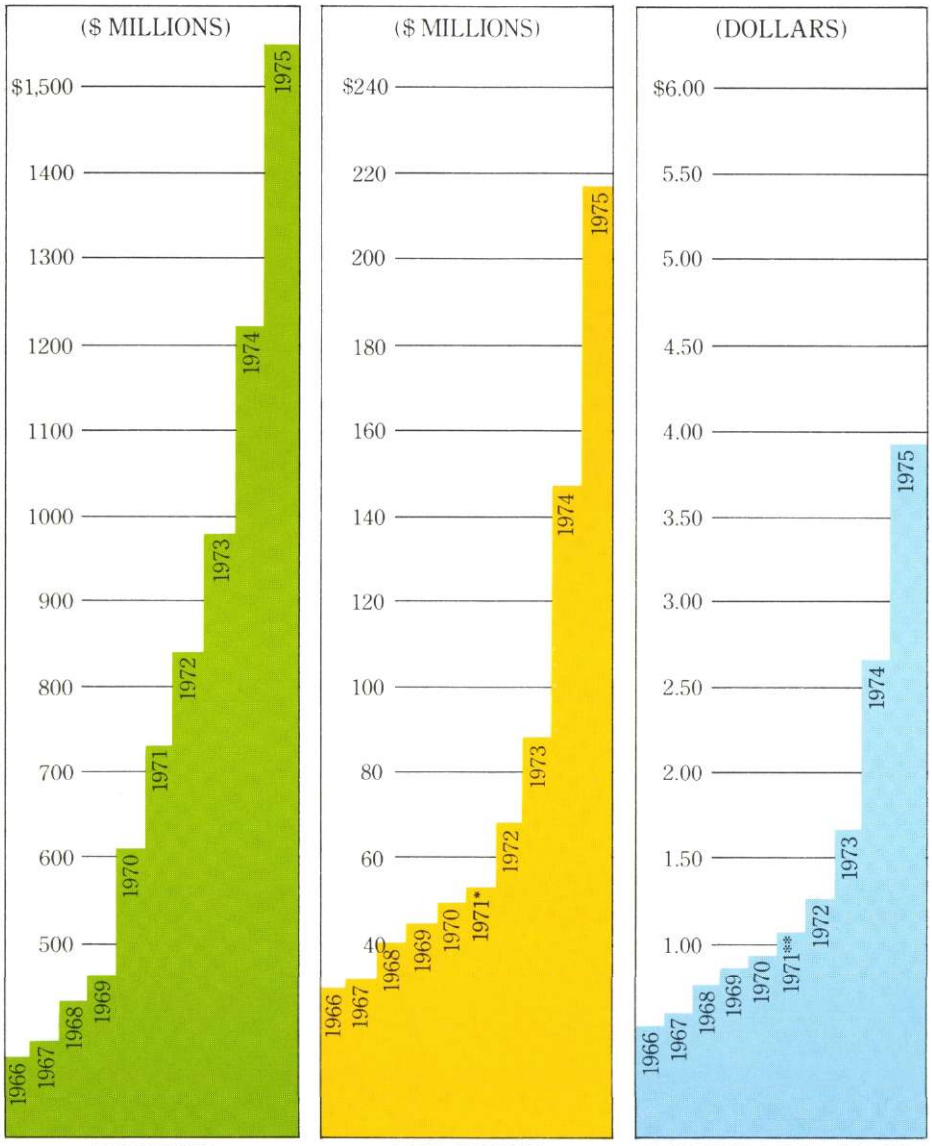
March 1, 1976

JEAN RIBOUD
CHAIRMAN AND PRESIDENT

TWO KEY EXECUTIVES RETIRE

Ame Vennema, (left) Chairman of the Executive Committee retires after 38 years; Ed West, (right) Vice President and General Counsel retires after 14 years, with Schlumberger; Jean Riboud, (center) Chairman and President.

BUSINESS AND FINANCIAL REVIEW



*Before extraordinary items

*Adjusted for the three-for-two stock split in May 1969, the three-for-one stock split in September 1972 and the three-for-two stock split in March 1975.

**Before extraordinary items

Revenue in 1975 was $1.6 billion, an increase of 30%, and net income of $219 million was 49% ahead of 1974. Earnings per share were $3.92 compared to $2.68 a year ago.

Operating revenue and operating income by business category are shown in the Consolidated Summary of Operations on page 33 of this report.

Operating costs increased 28% compared to the 30% improvement in revenue; the resulting higher profit margin reflects continued gains in utilization of wireline facilities and significantly better efficiency of measurement and control operations—principally in Europe. The forward progress of revenue and earnings was fairly steady throughout the year: revenue improvement by quarter on a year-to-year basis was 35%, 29%, 34% and 25%, respectively; net income increased 49%, 51%, 53% and 42% by quarters.

Oilfield service activity in 1975 continued strong in all major areas:

—Wireline revenue in North America was 36% ahead of 1974 as the total number of active drilling rigs increased to record levels despite ending of the oil depletion allowance in the U.S. in early 1975. Eastern Hemisphere wireline revenue improved 32% reflecting heavy demand in the North Sea, Continental Europe, Middle East and Indonesia. Revenue in South America increased a modest 6%—the unstable political and economic situation in Argentina and the nationalization of the oil industry in Venezuela were adverse factors. Wireline revenue in North America and the Eastern Hemisphere each contributed a little better than 45% of the total.

—Drilling and production service revenue increased significantly. Forex Neptune was up 42%; Pentagone 84, a semisubmersible platform launched in November 1974, was active for the full year 1975 and Trident I, a jack-up rig started operating in January 1975. Revenue of Flopetrol increased 41%, Johnston 38% and Dowell Schlumberger (50% owned) was up 32%. Also, results of Macco Oil Tool, acquired in late 1974, were included for the first time.

Revenue of Measurement & Control in North America included $59 million from Sangamo Electric in the last half of 1975. Excluding Sangamo, revenue was somewhat lower than 1974. Revenue of Measurement & Control in Europe increased 24% mainly due to strengthening of the French franc relative to the U.S. dollar in 1975. In real volume,

electronics, valves and industrial controls made significant gains, about offsetting the impact of the depressed building trades on utility business.

Order backlog at the end of 1975 was somewhat above the previous year end for measurement and control operations —higher in Europe and moderately lower in the U.S. The overall trend was positive going into 1976.

SANGAMO ELECTRIC COMPANY

In 1975 Schlumberger acquired Sangamo Electric Company, a supplier to the electric utility market in the U.S., Canada and the U.K., for $63 million, including $15.6 million of goodwill which is being amortized over a period of twenty-five years. This acquisition was accounted for under the purchase accounting method. Results of Sangamo operations are included in Schlumberger consolidation beginning July 1; revenue of continuing Sangamo operations for the last six months of 1975 was $59 million.

PETROSERVE, INC.

In September, a 27% minority interest in Petroserve, Inc. was acquired for $2 million. This is a Houston, Texas based company specializing in analysis of drilling data to increase oilfield drilling efficiency and safety.

RESEARCH & ENGINEERING

Research & engineering expense was $54 million in 1975 compared to $43.5 million in 1974. However, a large part of this expense is incurred in French francs, and the relative strength of the franc in 1975 compared to the dollar had the effect of increasing the dollar equivalent. On a constant dollar basis, research & engineering expense increased about 14% in 1975. Expenditures include $26 million for oilfield activities and $28 million for measurement and control operations.

TAXES ON INCOME

Estimated liability for taxes on income at the end of 1975 was $169 million compared to $123 million a year ago. The increase of $46 million reflects provision for taxes on the substantially higher earnings. Also contributing to the increase were added provisions for taxes which may be payable in the future depending on the interpretation of income taxation laws and regulations of various countries as they relate to worldwide operations of Schlumberger.

Management believes adequate provision has been made at December 31, 1975 for overall tax requirements in the U.S.A. and other countries where Schlumberger operates.

CURRENCY

Compared to the U.S. dollar the French franc was stronger in 1975 than it was in 1974; this accounted for approximately $75 million of revenue increase when French franc sales were converted to U.S. dollars. However, the relatively higher conversion rate also increased operating expense amounts. As a result the impact on net income was a modest plus.

The precipitous decline in the value of the Argentine peso resulted in an exchange loss of about $6 million.

FIXED ASSETS

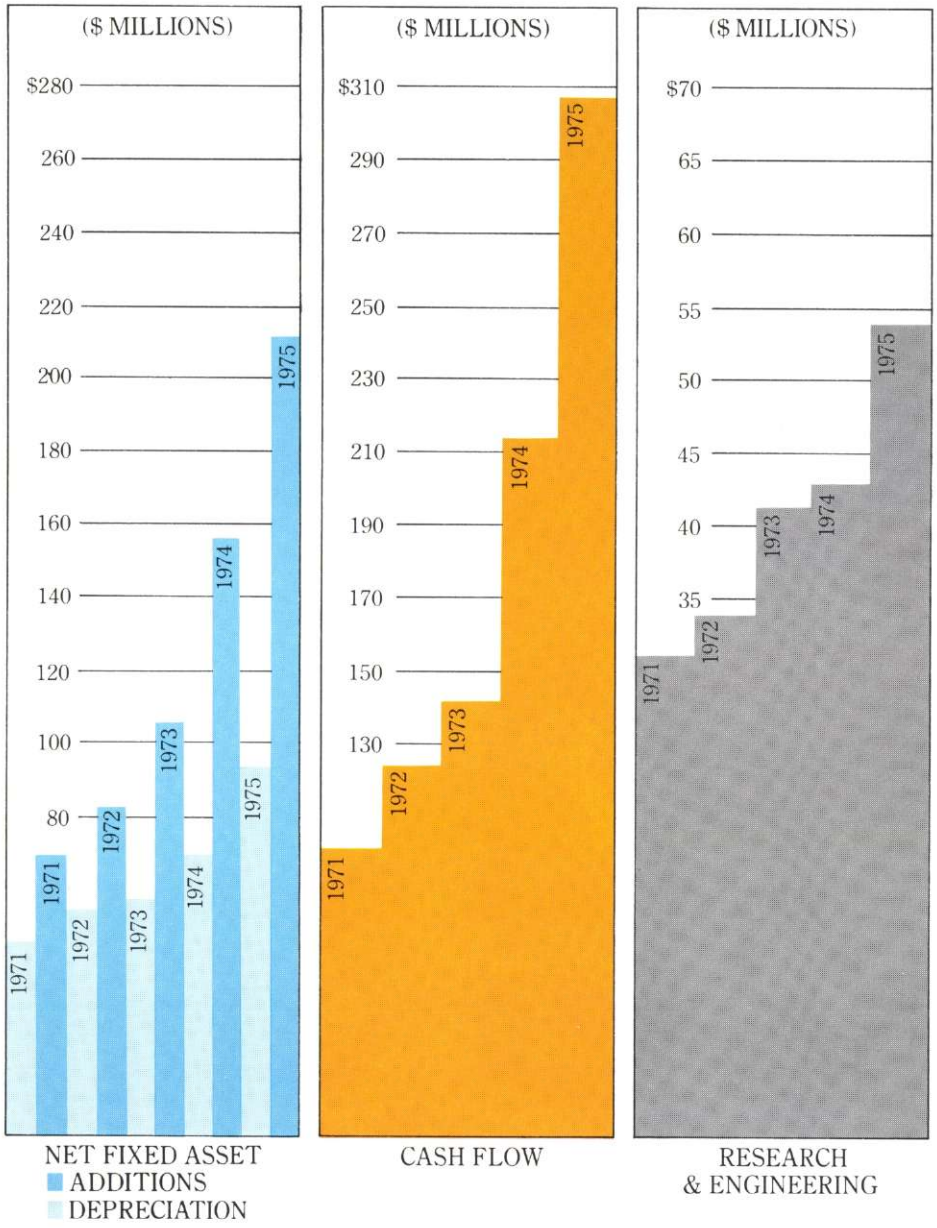
Expenditures for fixed assets were $222 million, an increase of 37% over 1974. Additions by business sector were as follows:

	1975	1974
	(Stated in millions)	
Oilfield:		
Wireline Services	$115.7	$ 76.1
Drilling & Production Services	64.2	55.5
	179.9	131.6
Measurement & Control:		
North America	4.3	3.9
Europe	33.5	27.0
Other	4.4	.1
	$222.1	$162.6

Depreciation expense in 1975 was $99 million, 45% of fixed asset additions compared to $74 million in 1974. Fixed asset budget for 1976 totals $227 million.

COMMON STOCK AND DIVIDENDS

In March 1975, the Common Stock of the Company was split 3 for 2. At the annual general meeting of the stockholders on May 6, 1975, the stockholders approved an increase of authorized Common Stock of the Company from 60 million to 120 million shares. In late July, the Company sold 2 million shares of previously unissued Schlumberger Common Stock to the public at a price of $80 per share. The net proceeds of $154 million were used to pay off short-term debt of $115

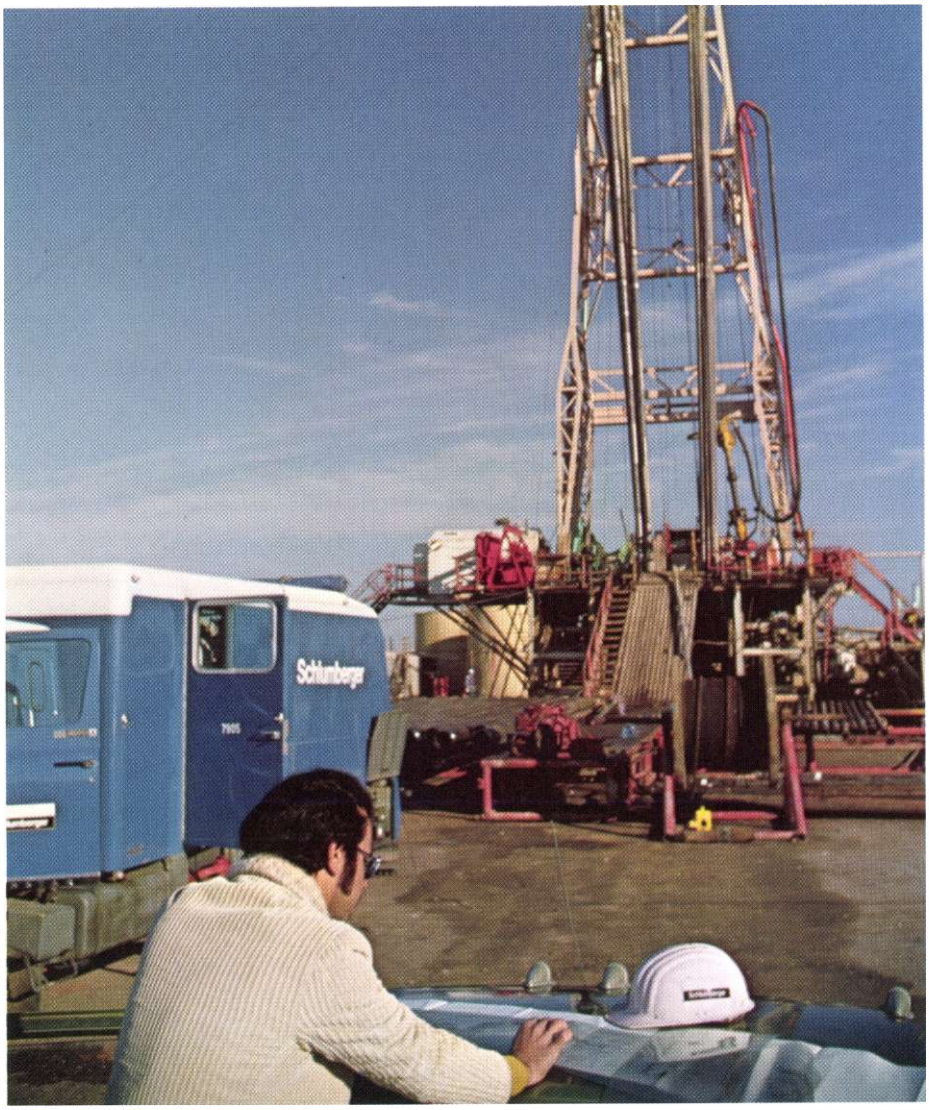


million and the balance for general corporate purposes.

During the year, 131,825 shares of newly issued stock were sold to employees under stock option plans. At year end, 57,235,019 shares were outstanding compared with 55,103,194 shares at the end of 1974; outstanding shares at both dates exclude 1,640,692 shares held in the Treasury. Purchases of treasury stock have been made in prior years and may continue to be made in the future for general corporate purposes, including sale under employees' stock option plans. No treasury shares were purchased or issued during 1975.

The cash dividend was raised by the Board of Directors at the December 1975 meeting to an annual rate of $0.80 per share over the previous rate of $0.60. As a result, taking stock splits into account, the annual rate has been increased 100% during the past two years.

OILFIELD SERVICES



Wireline logging truck at a Middle Eastern well.

Revenue from Schlumberger Oilfield Services was $844 million in 1975. This is 35% higher than the previous year—Wireline was up 31%, Drilling 42% and Production Services 40%. Business was particularly strong throughout the year in the United States, the North Sea and the Middle East. All other major areas improved significantly except for wireline in Canada and some countries in South America.

WIRELINE SERVICES

Wireline service revenue was over $500 million in 1975, increasing more than $100 million for the second consecutive year. In anticipation of this growth, engineering and manufacturing programs were accelerated to assure delivery of field equipment to handle the activity. Similar progress was made in recruiting and training field personnel. These expansion programs are continuing at levels which will satisfy increased customer demand.

Services introduced within the past three years accounted for much of the increased wireline volume:

—Dual Laterolog first offered in 1974 provides more accurate resistivity data under adverse conditions, e.g. where the drilling mud is saline and/or the formation resistivity is high. A combination service, Micro-Spherically Focused Log, has been added to the Dual Laterolog to make resistivity measurements of formation very near the borehole. This provides a quicker method of hydrocarbon detection.

—The Repeat Formation Tester is being used in other areas after successful introduction in the U.S. This new service can recover test samples of formation fluid from two zones and take an unlimited number of pressure measurements from other zones on one trip in the well.

—Compensated Neutron with Density, a combination tool, continued to grow in popularity and has become a significant part of most logging programs worldwide. This service delineates gas-bearing zones, provides improved porosity determination, and also helps identify rock type.

—Further improvement was made in the performance of perforating devices; these are explosive charges set off to penetrate the casing and the formation, allowing hydrocarbons to flow into the well. In turn, oil flows to the surface through tubing, which is a smaller pipe sealed inside the casing. Generally tubing is installed after perforating. However, in some circumstances it is safer, and results in a higher production rate, to install the tubing before perforating. To this end Schlumberger has designed two new guns small enough to fit through the tubing and yet powerful enough to do the job: HyperDome gained industry acceptance early in 1975; field tests are near completion on Enerjet another even more powerful gun.

—A unique development uses a minicomputer to substantially improve

efficiency and accuracy of well logging, measurements used to locate oil and gas reservoirs. A computer on a wireline truck or an offshore unit controls logging instruments, and also analyzes and combines data gathered from logging tools. This simplifies operations for the engineer, gives faster and more precise calibration, and more accurate measurements. Prototype units have been in operation for the past two years; production units will be ready for field service in 1976.

NORTH AMERICA

Wireline revenue increased 36% in North America with every division reporting an increase—largest gains were in Alaska, along the Gulf Coast, and in the Midwest. The total number of drilling rigs increased 11% in the U.S. Some areas were affected adversely by the price of interstate gas which is still regulated. In Canada, rig count decreased but, at year end the trend was up following favorable settlement of tax issues in some provinces.

—Both land and offshore shared in the increased activity in North America and at year end almost all available rigs were active.

—Several new wireline logging services were important factors in the growth: Dual Laterolog introduced during 1974; Repeat Formation Tester newly introduced—sales of this service were limited only by the number of tools available.

—Computer-processed interpretations increased 65%. Because of higher volume, another large scale computer will be installed in the Houston computer center early in 1976.

—Cased hole revenue continued to increase. The Cement Bond Log, a service for evaluating the quality of the cement used to isolate producing zones from nonproducing zones, was up 69%. The Thermal Decay Time (TDT) service again showed steady growth; TDT provides an evaluation of the productive potential of older wells.

During the year the North American field division was reorganized into four regions to improve communications, logistics and control. Six new service centers were added, and a major installation was completed at Prudhoe Bay to serve the oil industry on the Alaskan North Slope.

SOUTH AMERICA

Revenue improved only 6% in South America after a much larger gain in 1974. The number of wells drilled decreased 14%. The major decline was in Venezuela where activity was temporarily slowed while the oil industry was in the process of being nationalized. Activity in Peru began to slow down due to the lack of new discoveries. However, revenue growth was good in Brazil, Trinidad, Peru and Bolivia. Brazil continued to add exploratory rigs and to initiate service contracts with exploration companies to further accelerate the search for oil and gas.

EASTERN HEMISPHERE

Revenue gained 32% in the Eastern Hemisphere. The average number of active offshore rigs increased 16%, land rigs were up 13%. At year end about 185 offshore mobile rigs and 23 fixed platform rigs were active compared to 174 and 12 at the end of the previous year.

—Biggest growth in the Eastern Hemisphere was in Europe—exploration and development expanded in the North Sea and on the Continent. North Sea activity is now shifting toward development drilling, releasing exploratory mobile rigs. Generally, the amount of wireline revenue from a development platform is as much as the revenue from a mobile exploration unit in a given period of time: because of the stability of platforms, development drilling is not interrupted by adverse weather conditions; every developed well is completed for production; also more wells are drilled from a development platform.

—Middle Eastern growth was paced by Saudi Arabia and Iran, with good increases in all countries. Gains in Africa were highest in Algeria, Libya and Gabon; activity in Angola and Nigeria declined in the last half.

—The Far East gained substantially in all areas but Australia; the pace was slower in Indonesia in the last quarter.

Computer processing of well-logging data grew 50%. A new computer service calculates reservoir parameters by reprocessing log data from all the wells of a single field. Application is limited to oilfields controlled by a single company, often the case in the Eastern Hemisphere.

VECTOR

Revenue increased over 40%, mostly from well logging cable business which accounts for half of Vector revenue. During 1975 a new series of subsea connectors was designed especially for use on offshore drilling vessels. The new design is more water tight and is easier to repair.

DRILLING & PRODUCTION SERVICES

OVERVIEW

Revenue of $172 million was $51 million ahead of the previous year; the increase was due partially to inflation (pricing and escalation agreements) but most of the improvement was due to new rigs and higher utilization of existing rigs.

Activity increased steadily both on land and offshore throughout the year. Heaviest gains on land were made in the Mediterranean and in the Middle East. The trend at year end showed relatively slower gains offshore but the same strong pace on land.

New drilling rigs operating in 1975 include:

—*Pentagone 84,* newest semisubmersible which began operations in November 1974, worked both in the North Sea and the Mer d'Iroise off France during 1975.

—*Trident I,* jack-up rig which began operations in Malaysia early 1975.

—A new super-heavy land rig for Iran which started operating in mid-1975.

Rigs under construction include:

—Three heavy land rigs being assembled for delivery in 1976.

—Two offshore rigs under construction in Singapore: a tender rig, *Searex,* should begin operations in the first quarter of 1976; another jack-up *Trident II* is scheduled for delivery early in 1977.

FLOPETROL

Revenue was up 41% over the previous year—largest expansion was in the Middle East, Far East and West Africa. Well testing service represents about half of the business and is expanding rapidly.

Three new services were introduced:

—Well Test Log, run simultaneously with production tests, continuously records production flow, temperature and surface pressure. This gives Flopetrol engineers a visual means of monitoring the test.

—Johnston designed E-Z Tree for running tests safely through subsea wellheads from floating drilling platforms; if tests must be stopped due to rough seas or other emergency, quick fail-safe disconnect is accomplished hydraulically from the surface.

—High Accuracy Pressure Measurements mainly for monitoring pressure changes at various production flow rates.

A program for training local personnel was substantially completed in 1975; training schools have been set up in Bahrain, Indonesia, Nigeria and Scotland.

JOHNSTON

In 1975 revenue increased 38% and profit margins improved at Johnston. Product sales nearly doubled, rentals were up significantly, service revenue gain was modest. Nearly 25% of Johnston revenue was from intercompany sales, about the same as in prior years; this is

Trident I jack-up rig operating in the Far East.

mainly equipment and parts for use by Dowell Schlumberger.

Rentals of drilling, fishing and testing equipment continued to grow, especially Johnston Earthquaker drilling jars and fishing jars, which are industry leaders. Also, the Johnston Shock Guard, a drilling shock absorber introduced in 1974, is now in full production after good field acceptance. This tool employs entirely new technology and is expected to establish Johnston in a new worldwide market for tools to protect drilling equipment and improve efficiency.

MACCO UDELL

This division, acquired late in 1974, provides equipment and services to artificially raise oil to the surface by the gas-lift technique, more fully described in the feature, later in this report. Also Macco has recently entered the subsurface safety valve business with a proprietary and unique wireline retrievable device. Safety valves are installed in wells to shut off the production automatically in the event of a potentially dangerous pressure surge.

Macco sales outside North America are handled mainly through Flopetrol.

DOWELL SCHLUMBERGER (50% owned)

Revenue and earnings increased more than 30% over the previous year—big gains were made in the Middle East, Africa and Europe. Improvement was modest in the Far East, and in South America where activity in Venezuela was lower.

Several new products and services will improve stimulation techniques in oil and gas wells. A new chemical additive permits continuous mixing of fracturing fluids, a major advantage on offshore platforms where bulk storage tanks otherwise would be needed. Dowell-Schlumberger also developed Stratafrac II,® a new fracturing fluid for use in deep, high-temperature reservoirs.

Another offshore service vessel *Bigorange VIII,* was added to the existing fleet. This ship is designed to transport bulk hydrochloric acid from supply points to four stimulation vessels now operating in the Middle East. Two other units, *Bigorange IV* and *Bigorange VII,* are scheduled for completion early in 1976 to expand the stimulation fleet in the Middle East.

FUTURE PROSPECTS

The gap between U.S. energy consumption and oil production is growing wider. The need to find new domestic reserves to reduce heavy balance-of-payment deficits to foreign producers, and existing economic incentives will provide the impetus to find more U.S. oil. On the Alaskan North Slope, field-development operations are in full swing to assure production to fill the pipeline. The Government has stepped up offshore lease sales, including first tests of Atlantic coastal waters; all available offshore rigs should be busy. In Canada, the recent action by some provinces to resolve tax matters has already stimulated new activity.

In South America, Venezuela has completed oil industry nationalization; soaring inflation has driven costs up; disappointing results in several areas have caused localized declines in exploration. However, Brazil and Trinidad are bright spots. Also the overriding importance of oil to the economies of the South American countries is enough to justify optimism for intensified oilfield development in the future.

Schlumberger oilfield services have sustained five years of exceptionally strong growth in the Eastern Hemisphere, about 30% a year compounded. It is not expected that this dramatic expansion rate will be sustained; nevertheless future growth should still be significant. The Middle East, North Africa and Europe, including the North Sea, remain strong and should be the focal points for growth both on land and offshore.

Schlumberger is committed to development programs that should provide significant future business growth:

—A new venture is aimed at making downhole measurements while drilling. The primary objective is to improve drilling efficiency and safety by giving rig operators immediate data on formation pressure, hole direction, weight on the bit, and temperature; also some logging data would be transmitted to indicate when the drill has struck oil. A prototype unit has passed initial field tests.

—Another development would increase the accuracy and rate of penetration of directional drilling. It is a new type of down-hole motor which has been successfully field tested and is now in production. The major application is for drilling deviated development wells from offshore platforms.

In 1976, Schlumberger will spend $31 million for research and development of oilfield services, an increase of about 20%.

MEASUREMENT & CONTROL

EUROPE

European measurement and control operations of Schlumberger made good progress in 1975. Operating results were much improved despite the slowdown of the economies in Europe:
—Net income improved substantially over previous years: there was a switch from large losses to profitable operations for electronics, industrial controls and gasoline pumps; also a decided improvement in valves and international operations. The only significant deterioration was in the Gas Division.
—Sales were 6% higher expressed in local currency—translated to U.S. dollars the increase was 24% because of the relative strength of the French franc in 1975 compared to the previous year.
—Inventories and receivables were significantly reduced.

Capital expenditures in 1975 were $33 million as the modernization programs started in 1971 were substantially completed.

Year-to-year comparisons of revenue for the following European measurement and control divisions refer to local currency before conversion to U.S. dollars.

ENERGY

Sales of domestic electricity meters were lower in France, Austria and Italy reflecting the recession in housing and major reduction of inventories by the utility companies. However, during the latter part of the year, orders began to improve and backlog at year end was higher than at the end of 1974.

Other products—measurement transformers, protection relays and panel meters—continued to grow steadily throughout the year.

New facilities are under construction at Poitiers (France) for load equipment and industrial meters; installation of modern equipment for the production of new high-voltage protection relays (200 and 400 kV) is near completion. In Italy good progress was made on renovation of the Barlassina plant.

LIQUIDS

Sales of water meters in Europe also were affected by the building slump. In addition, price controls kept water meter prices in France essentially at August 1974 levels. Sales of equipment for irrigation and water distribution networks were weak, but hot-water metering services continued to hold up well.

Modernization of plant and product lines was actively pursued: new equipment for injection molding of brass was put into service at the Abbeville plant for production of domestic meters; a complete line of volumetric meters was introduced in 1975; products put on the market in the last two years should represent one-third of 1976 sales.

GAS

Revenue from gas meters and industrial gas equipment was down 10% and operating results were the poorest in many years.

The trend of orders was better at the turn of the year and improved results are expected in 1976: operating expenses should be significantly lower as a result of the new and upgraded manufacturing facilities; several unprofitable product lines have been eliminated.

In Germany, modernization of the Frankfurt plant was completed late in 1975.

INTERNATIONAL

International Division manufactures and sells meters (electricity, gas and water); plants are located in Belgium, Holland, Spain, Switzerland, Argentina, Brazil and Chile; the division also sells products of other divisions in countries where it is established.

Revenue was moderately lower but net income improved because of better operating controls especially Brazil, more than offsetting the impact of slower business in Holland and Spain.

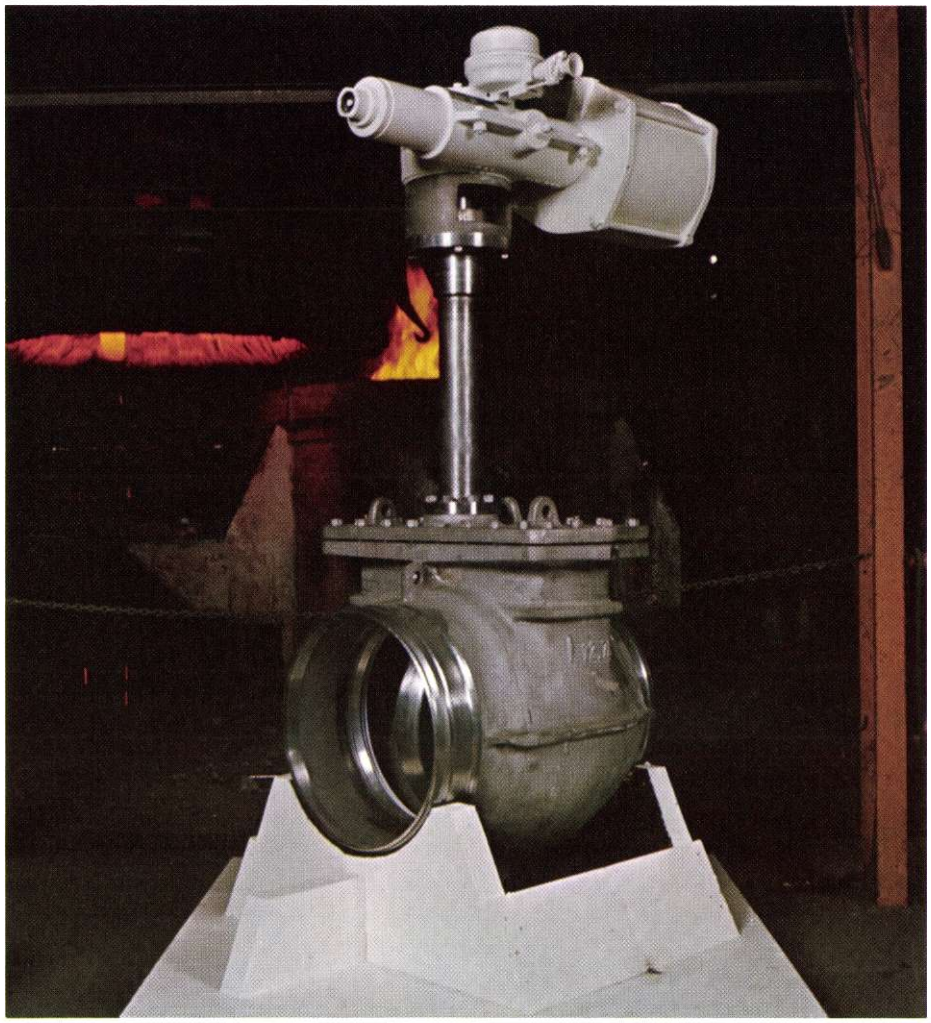
In 1975, two new models of three-phase meters were introduced in Belgium, Holland and in Brazil. Production of a new gas meter was started in Spain.

MECHANICAL

Sales were 8% lower than the previous year. About half of the components and parts produced by this division are fabricated for other Schlumberger operations, mainly the meter divisions in Europe; also in 1975, spare parts and subassemblies were produced for Schlumberger wireline services.

Sales of parking meters increased more than 50% in France where Schlumberger is the largest supplier of this equipment. Demand for environmental test chambers and for plastic molded parts for automobiles continued to grow.

In 1975 $3 million was invested to improve production facilities, and to purchase numerically controlled machine shop equipment.



Cryogenic valve for methane tankers.

ELECTRONICS

Sales of instruments and systems manufactured in France increased 7% and Solartron sales were up 15% (in UK currency).

Following the reorganization of European electronics in late 1974 operating efficiency improved significantly; also sales held up well in most markets.

Sales of data handling, recording equipment and electronic measuring instruments were stable. A significant contract was received for a complete ground telemetry system for aircraft testing in France. In 1975 sales included $5 million for Solartron Simfire training systems—a laser device which simulates tank gun fire; backlog for this system at year end was about $20 million.

INDUSTRIAL CONTROL

Sales increased 14%; performance was strong in two areas:

—Manufacturing process control: a series of transducers and regulators introduced over the last three years was well accepted in the market; process control equipment for a petrochemical plant in China, and similar equipment for a chemical plant in Italy were substantially completed.

—Broadcasting equipment: a $9 million contract was received from Indonesia for professional audio equipment to be installed in a new TV and radio network.

VALVES

Sales increased 18% at Malbranque—Serseg, the Valves Division of Schlumberger. The main factor was strong shipments to the petroleum industry.

A large order was received to supply valves for the uranium enrichment plant to be built in France by Eurodif, a company created under the auspices of Belgium, France, Italy and Spain. These high performance valves are designed to control the highly unstable and corrosive gas used in enriched uranium production.

Also several contracts were received for cryogenic valves to equip liquid methane tankers. These valves must perform at temperatures as low as -160°C.

In 1975, $5 million was spent on capital equipment, to expand production facilities of the Illies factory, where petroleum valves are manufactured, and for the purchase of numerical-control machine tools for other plants.

OUTLOOK

European Measurement & Control backlog at year end was $213 million. Further, there was some improvement in the order rate early in 1976.

Sales of domestic meters are likely to return to a more normal level as the housing industry recovers in Europe. However, sales of process control equipment and industrial valves are not likely to improve much because the outlook for industrial investment is not yet too favorable in Europe.

Continued cost improvement due to modernized equipment and facilities together with somewhat higher revenue should result in improved net income in 1976.

SANGAMO WESTON

Measurement & Control operations in North America were expanded with the acquisition of Sangamo Electric in mid-1975. Sangamo manufactures and distributes electrical and electronic products in the United States and Canada. To improve the manufacturing and marketing efficiency, and to coordinate research and development functions, Sangamo, Weston and EMR have been combined into a single operating entity—Sangamo Weston.

The principal business of Sangamo is energy management products for public utilities and industry:

—Watthour meters to measure electric power consumption, single phase for residential application and polyphase for industry (factories, office buildings, shopping centers).

—Thermal and mechanical meters to establish electrical demand requirements.

—Digital pulse recorders to record energy consumed by large industries, survey recorders to measure residential energy consumption, and recorders to monitor power-transmission faults.

—Power capacitors to improve efficiency of electrical power distribution systems by regulating voltage levels.

Sangamo also manufactures laboratory and portable magnetic tape instrumentation recorders for applications such as gathering data from orbiting satellites, monitoring vital signs of critically ill hospital patients, and on-board monitoring of vehicle performance.

Modems manufactured by Sangamo are used in sending and receiving computer data over telephone lines. In addition, signaling products for transmitting dialing and ringing signals over telecommunication networks were developed in 1975.

Sangamo also makes recording instruments that gather operating information for fleet owners such as trucking firms and bus companies. A hubodometer installed on an axle records mileage; a tachograph in the cab of a truck continuously records engine data, driving speed and other information affecting maintenance and operating efficiency.

Schlumberger measurement and control techniques should strengthen Sangamo, and ultimately provide U.S., Canadian and U.K. consumers with sophisticated systems to measure and control energy distribution and to manage energy consumption.

Operating results of Sangamo, consolidated with Schlumberger accounts from July 1, 1975, were profitable; sales for the six month period were $59 million excluding unrelated product lines to be disposed of.

Weston sales in 1975 were $46 million, about the same as the previous year. Aircraft instruments and panel meter orders were lower at Weston Instruments (Newark). On the other hand Weston Components (Archbald) manufacturing activity was higher due mainly to increased demand for equipment used in Schlumberger wireline operations. Also nuclear instrument business remained firm: Weston Components supplies the instrumentation and control equipment for reactor propulsion systems on nuclear-powered aircraft carriers.

Both Weston divisions increased profit margins in 1975. At Weston Instruments sales per employee were 18% higher reflecting improved operating efficiency.

EMR-Telemetry (Sarasota) revenue and net income declined in 1975 but the trend was better at year end. Government contract orders for telemetry systems and instruments were slow in the first half of the year.

New products for the 1976 market include equipment for receiving pictures from weather satellites. Image data are processed to make the earth appear flat like a map, and to emphasize clouds, land and water. More than 600 ground stations worldwide can receive such weather pictures which are used by weather bureaus, news media, farmers, transportation lines and others interested in weather forecasting. Initial sales have been good, particularly export.

A new remote control and monitoring system, series 3200, was marketed. The 3200 collects data from many different parts of an industrial process and displays them in a central location; control over the process can be exercised from this point. Main applications of the new system are in electrical generating stations, pipelines, and water or waste-treatment systems.

EMR-Photoelectric (Princeton) sales and profit were well ahead of the previous year, largely because of tubes sold to Schlumberger for use in radioactive wireline logging operations. This division produces high-performance light detectors for space science and oilfield service applications. A stand-alone inspection system, coupling a computer with a high resolution image transducer has been developed for automatically measuring production parts in volume. In seconds the instrument can check as

Heathkit Modulus component audio system.

many as 16 separate measurements of a single part, calculate quality trends, and signal acceptance or rejection. Automotive and machine parts industries are potential users.

OUTLOOK

Sangamo Weston sales got a good start in early 1976 reflecting the economic pickup in the U.S. The trend is good for Sangamo magnetic tape recorders and domestic electricity metering; also the backlog of nuclear instrumentation contracts at Weston is substantial.

Gains for Weston and EMR will likely be modest in 1976 but Sangamo sales should be higher than 1975 when operations were hampered by a 20 week strike at the Springfield plant. Overall Sangamo Weston sales and net income are expected to be better in 1976.

HEATH

Heath sales of $83 million, were 8% lower than the previous year. Traditional amateur radio equipment and laboratory instrument volume increased but sales of entertainment products (TV and audio) were substantially lower. The correspondence school market was weak; mail orders were somewhat lower but retail sales by Schlumberger Products Corporation were slightly higher than the previous year.

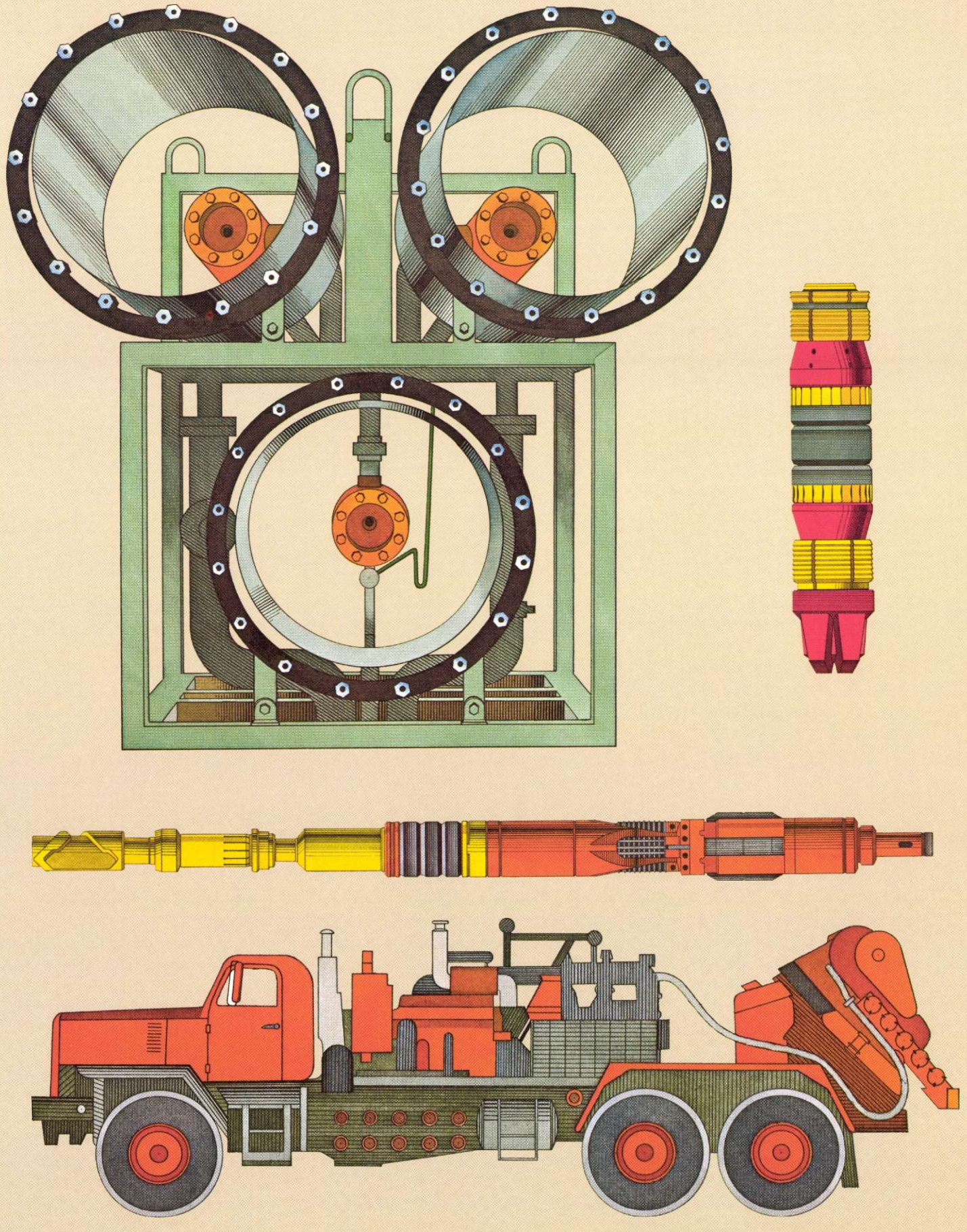
A large number of new kit products were announced:

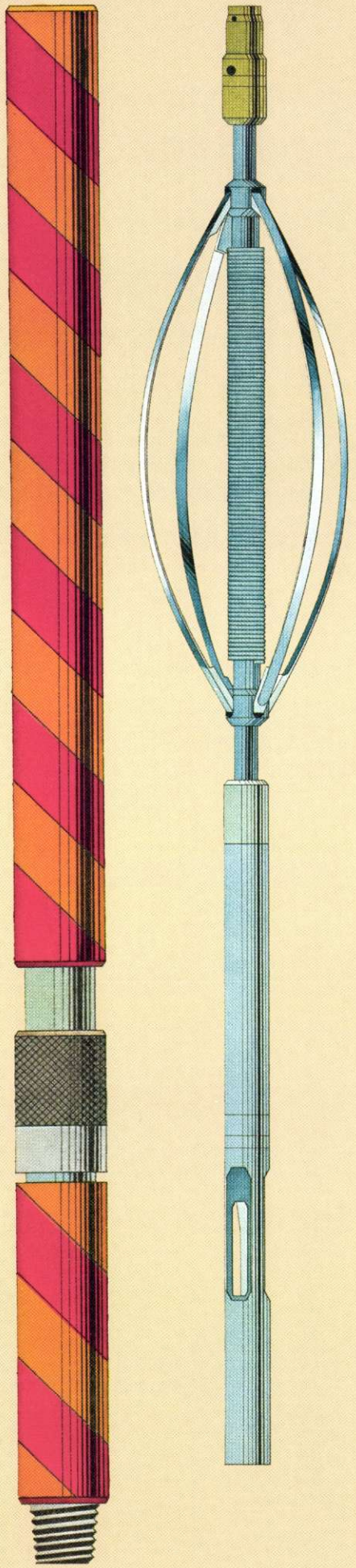
—For the home entertainment market, a modularized audio system which gives the kit builder a choice of many options in assembling an audio system to his own specifications. Components in this *Modulus* system include: digital readout AM/FM tuner and control center; stereo or quad power amplifiers at 35, 60, or 200 watts per channel; plug-in modules for four-channel signal decoding and also for FM noise reduction. Initial response to *Modulus* has been enthusiastic.

—For the automotive market, a professional quality, large-screen ignition analyzer for precise engine tune-ups and for trouble-shooting ignition systems. Other additions to the Heath line of automotive products include a digital tachometer, intrusion alarm, electronic ignition system, and windshield-wiper delay kits.

—For sports fans, a hand-held digital electronic stopwatch; for hobbyists, a model airplane radio-control system and a power supply/control for model railroads.

Heath is now selling home study courses for kit builders and hobbyists which provide individual comprehensive training in electronics; self-evaluation quizzes help the student check his own progress. This produces additional revenue and also enhances customer interest in more complex kits. Schlumberger Products Corporation which sells Heathkit products at retail now has 47 stores in the U.S. Business volume was somewhat better at the turn of the year; results for 1976 should continue to improve as the economy gains momentum.





SCHLUMBERGER OILFIELD PRODUCTION SERVICES

When an oil company is drilling a well, Schlumberger wireline logging services are used to locate oil and gas reservoirs. After drilling is completed, Schlumberger provides a wide variety of production services: for testing and evaluation of oil and gas potential; for completing new wells; for rejuvenating old wells; and for stimulating oil flow.

Production service subsidiaries include:

FLOPETROL

Production testing; completion services and secondary recovery tools; operating in the Eastern Hemisphere and South America.

JOHNSTON

Formation evaluation and production testing services; drilling and completion tools for sale and rental; operating in the U.S. and Canada.

MACCO UDELL

Gas lift systems design; gas lift and safety valves; operating in the U.S. and Canada.

DOWELL SCHLUMBERGER (50% OWNED)

Cementing, stimulation, directional drilling; operating in the Eastern Hemisphere and South America.

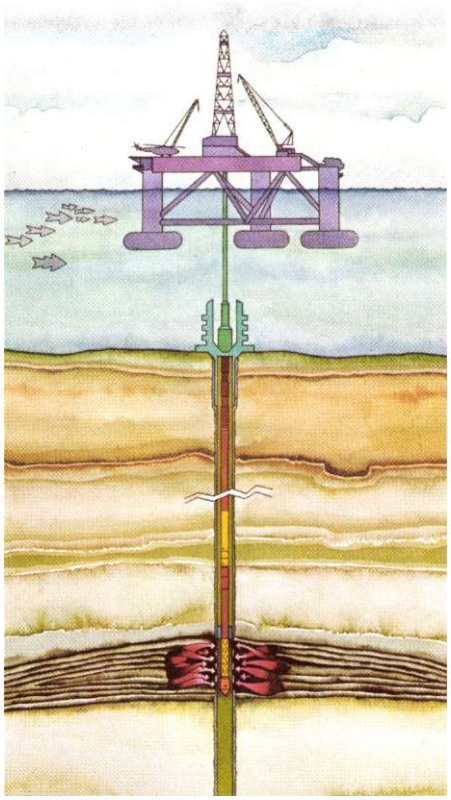
The following pages explain some of the important services and the part they play in developing a producing oil well.

SOME TOOLS USED IN PRODUCTION SERVICES

Clockwise from top left: *offshore burner* for disposing of hydrocarbons produced during tests, *bridge plug* for isolating producing formations, *drilling jar* for jarring loose stuck drill strings, *flowmeter* for measuring production flow rate, *cementing unit* for pumping cement into a well to set casing, *packer* to block off a producing zone during formation testing.

EVALUATING THE WELL

During the course of drilling a well, when a Schlumberger wireline log shows that the drill has entered a hydrocarbon bearing formation, the operator then assesses the commercial value of this discovery by determining how much gas and oil will flow and what kinds of fluids



Formation tests show how much oil and gas will flow.

are present. This assessment is made from a formation test: tools are lowered into the well to isolate the producing formation; by opening a downhole valve, reservoir fluids are allowed to flow up the drill pipe for a short period of time, simulating production conditions. From this the operator can tell if the well is worth completing. For more details see page 21.

Johnston designs and manufactures formation test tools and makes formation tests for the petroleum industry in the U.S. and Canada; Dowell Schlumberger does the same work in the Eastern Hemisphere and South America.

CASING THE WELL

The first step in preparing a well for production is to line the borehole with a heavy steel casing pipe. This keeps the hole from caving in and prevents contamination of the oil reservoirs by mineral-bearing water from other formations.

Cementing the casing into a well.

The casing is set with cement, which is pumped into the space between the casing and wall of the hole. Plugs and valves inserted into the casing near the bottom prevent cement from flowing back into the casing. If deeper drilling is required later, the plug can be drilled through easily after the cement has set.

Dowell Schlumberger does cementing in the Eastern Hemisphere.

COMPLETING THE WELL

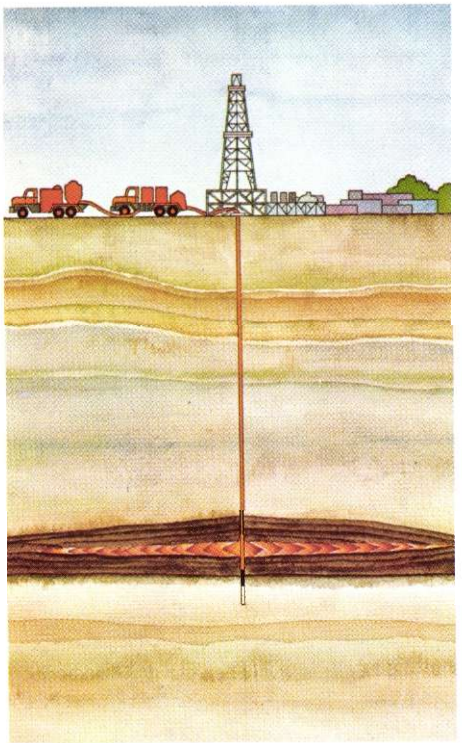
Before the well is ready to produce oil or gas, Schlumberger wireline service engineers perforate the casing and cement with many holes at the level of the producing zone to let oil and gas flow into the well.

To complete the preparation for production, a string of smaller diameter tubing is run inside the casing to the depth of the producing zone. Oil and gas will flow to the surface through this tubing.

STIMULATION

Tests may show that production volume is inadequate, even though commercial quantities of oil and gas are present. Often the cause is dense rock surrounding the oil. Production can usually be increased substantially by stimulation treatment. This involves pumping large quantities of acid into the reservoir to dissolve some of the rock chemically (called acidizing) or pumping fluid into the well under enormous pressure until oil-bearing rocks literally break under the strain (called fracturing). For more details see page 22.

Both of these stimulation services are provided by Dowell Schlumberger.



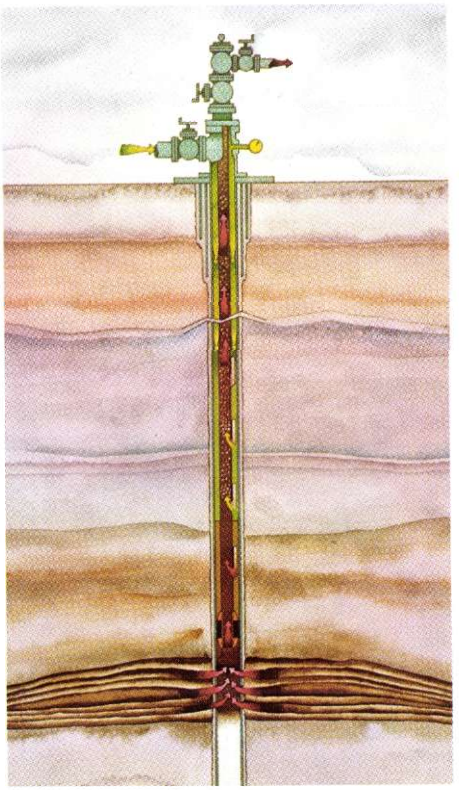
Fracturing the producing zone to stimulate oil production.

ARTIFICIAL LIFT

In a new oil well, natural reservoir pressure generally is great enough to drive the oil to the surface. However, this pressure declines over a period of time as a producing well matures; eventually artificial methods must be used to continue production. Also, in wells where initial pressure is too low for acceptable production, artificial lift must be used from the outset.

One form of artificial lift is the walking-beam pump, a common sight in oilfields, endlessly rocking up and down. But this type of pump involves a plunger at the end of thousands of feet of metal rod. So mechanical wear can be troublesome and power requirements are substantial. If an adequate supply of natural gas is available near the wellsite, the gas can be injected into the well to lift the oil out much more efficiently; this is called "gas lift." Gas lift is the only practical method of raising oil from deviated wells such as those drilled from offshore platforms. The gas lift principle is described on page 23.

The Macco division of Schlumberger designs gas lift systems, the heart of which is a Macco gas lift valve to regulate the amount of gas injected into the tubing.



Gas lift drives out oil when formation pressure is too low.

PRODUCTION TESTING

When a well is first completed, it is tested to determine how much oil and gas will flow and for how long. Data collected are of primary importance for field development programs, and for the design of surface equipment. Further tests are made at various stages of the producing life of the well to confirm and refine evaluations of productivity—to determine the most efficient production rate, the depletion rate, and remaining useful life of the well. Also, such tests give early warning of potential problems which remedial services can overcome.

Both Flopetrol and Johnston make these production tests. Flopetrol also sells instruments for continuous production monitoring.

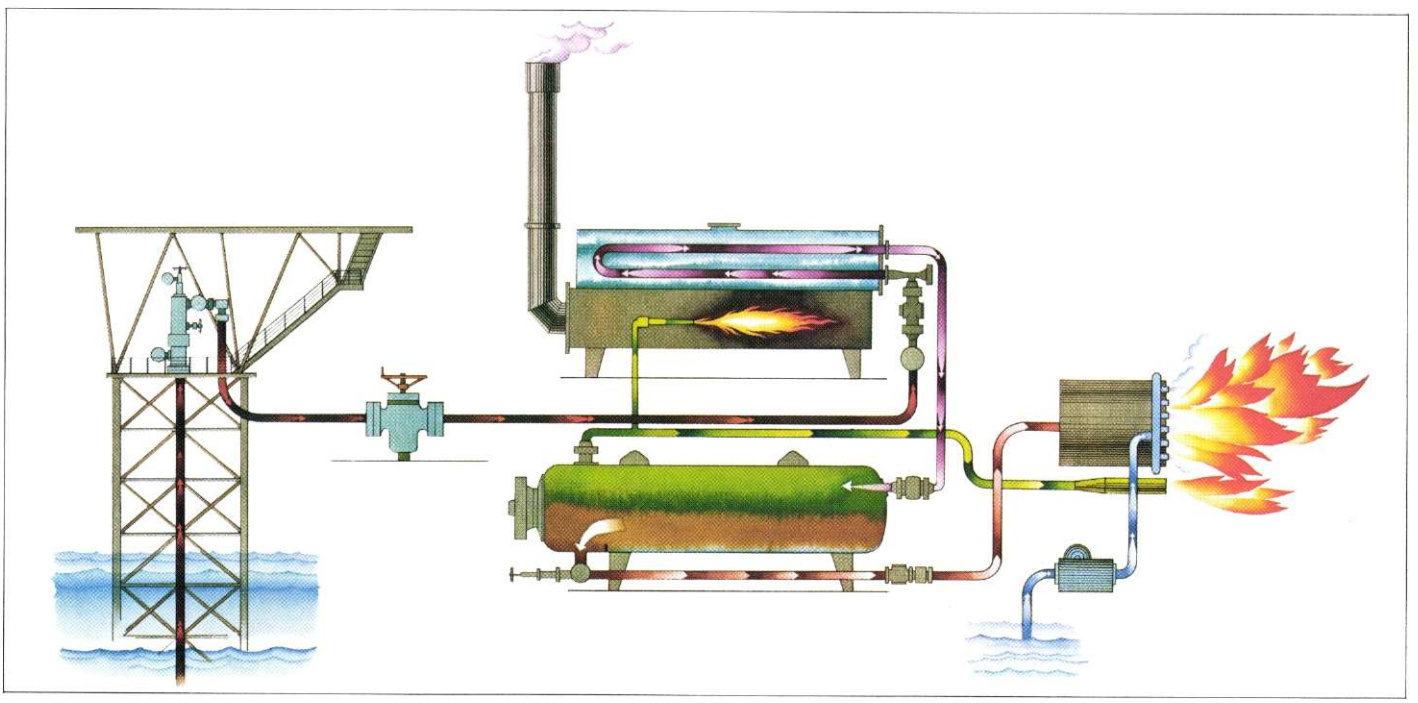
AN OFFSHORE PRODUCTION TESTING SYSTEM:

—The mixture of oil, water, and gas produced by a well are passed through a choke manifold to reduce pressure, then are heated and fed into a separator where each of the components is separated.

—Volumetric flow of each component is measured as it leaves the separator.

—Samples of oil and gas are collected for analysis.

—Offshore, hyrodcarbons produced during the test are disposed of by a Flopetrol burner, thus avoiding pollution of the sea.



EVALUATING THE WELL

Before deciding whether or not to complete a well, the oil company must find out as much as possible about the potential oil and gas flow. To get this information valves controlled from the surface let oil, gas and water flow up the drill pipe to the surface while pressure is measured by a recorder below the valve.

Johnston has designed a valve for offshore formation testing. This is operated by pressure transmitted through the drilling mud which fills the well. A unique feature that makes this valve so reliable is that no amount of pressure can open it while it is being lowered into the well. As shown in the illustration, the valve (A) is operated by a piston (B); ports (C) and (D) above and below the piston are open to mud pressure while the assembly is lowered to the test position (figure 1). Consequently, the piston can't move. In the test position (figure 2) the operator locks the lower end of the drill string to the borehole by means of a packer, and by adding weight, closes port (D). Now an increase of mud pressure, applied through port (C), drives the piston down, opening the valve, and letting reservoir fluids flow up the drillstem to complete the test.

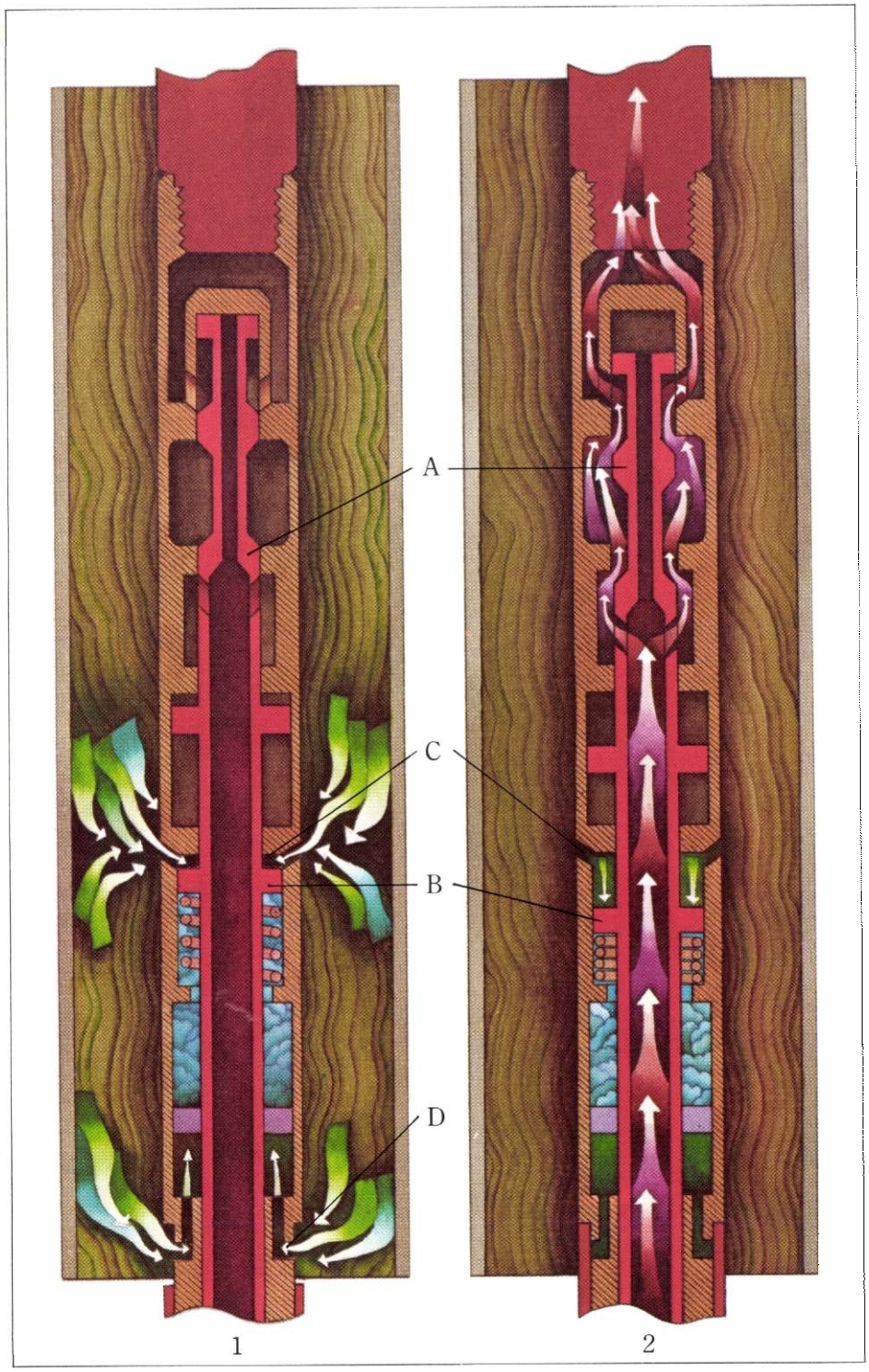
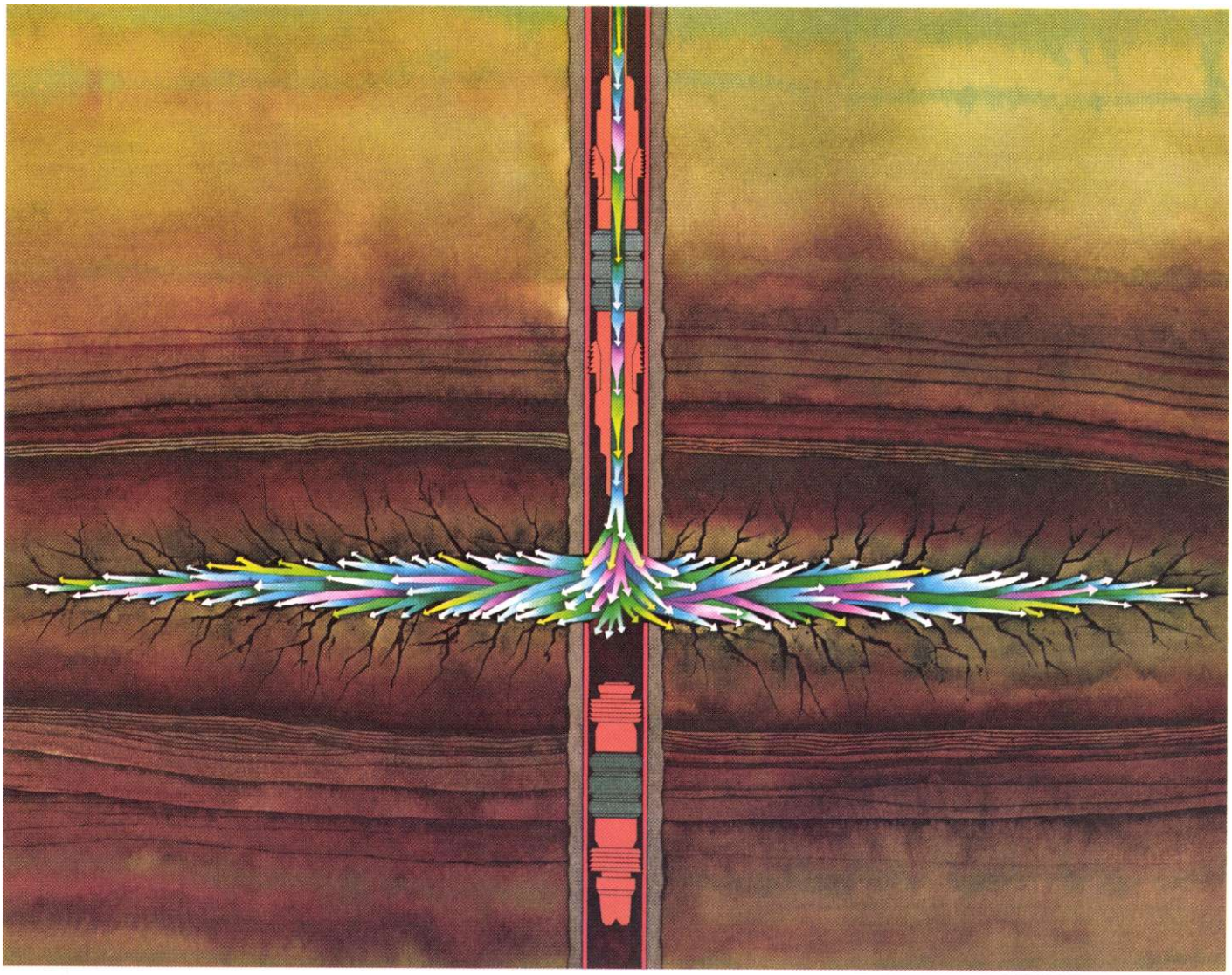


Figure 1 shows valve in closed position as it is lowered into well.

Figure 2 shows same valve in open position during testing.

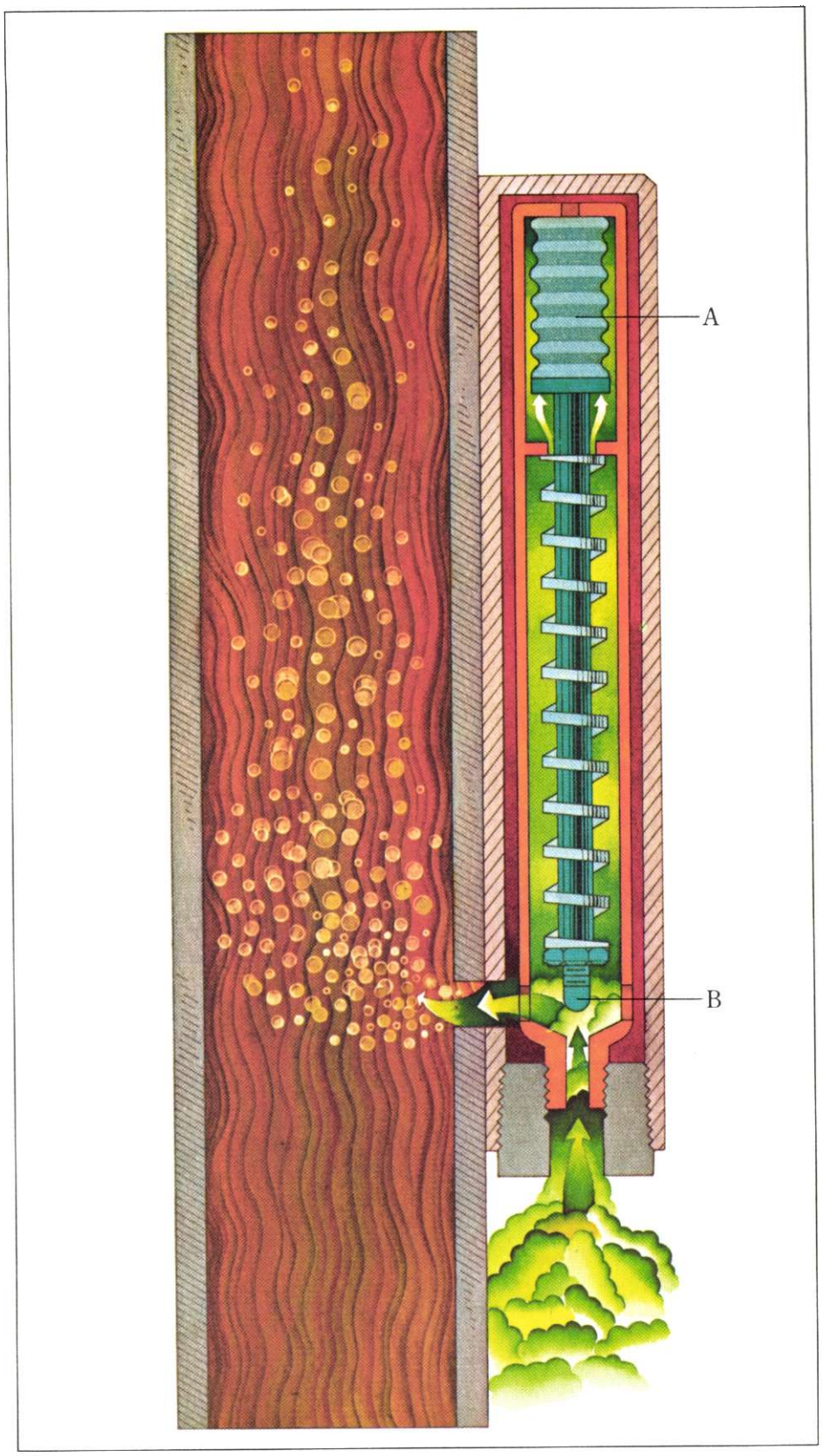
STIMULATION SERVICES



An oil reservoir consists of small drops of oil which occupy infinitesimal free spaces among the grains of a porous rock like sandstone or limestone. When a hole is drilled into this rock, natural formation pressure forces the oil through the rock pores into the borehole and out of the well as a producing flow.

For various reasons the rate of oil production from a reservior may be unsatisfactory: drilling and perforating could damage the formation, closing outlets to the borehole; also flow channels through the rock pores may be too few or restricted. Stimulation treatment is used to open and widen channels so that oil and gas can flow more freely. Fracturing, is one way to do it. As illustrated, liquid such as water or oil is pumped into the well at enormous pressure. Packers above and below the reservoir confine the treatment to the producing zone. Ultimately, increasing pressure virtually explodes the reservoir rock causing fractures that may extend hundreds of feet around the borehole. When pump pressure is released, the fracturing liquid flows out, leaving behind drainage channels in the reservoir rock. Sand grains or plastic beads are mixed into the fluid to hold the fractures open.

GAS LIFT



Reservoir pressure may not be strong enough to drive oil all the way to the surface. Gas lift is one efficient method of getting the oil out.

Anyone who has removed the top from a bottle of champagne only to have the liquid foam out, can readily understand the principle of gas lift. Natural gas is compressed at the surface and injected into the oil standing in the production tubing near the bottom. Gas bubbles in the oil increase the volume and reduce the density of the oil—as the weight of the fluid column is reduced, natural formation pressure can push the foamy oil to the surface. There the gas is separated from the oil, compressed and recycled.

A Macco gas-lift valve controls the amount of gas injected into the tubing. Fluid filling the tubing enters the valve housing and compresses a bellows (A) which is normally held extended by spring force. This opens the valve (B) at the lower end admitting gas from the casing into the tubing thus aerating the oil. As the bubbly oil begins to flow, pressure drops enough so that all valves close except the one nearest the bottom of the well—this one continues to inject gas to keep the oil flowing.

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

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1975	1974
	(Stated in thousands)	
CURRENT ASSETS:		
Cash	$ 17,774	$ 13,844
Short-term investments, at cost (approximately market)	256,195	170,730
Receivables less allowance for doubtful accounts (1975-$9,645; 1974-$7,686)	410,053	356,454
Inventories	271,896	237,214
Other current assets	24,480	23,866
	980,398	802,108
INVESTMENTS IN AFFILIATED COMPANIES	53,671	48,010
LONG-TERM INVESTMENTS AND RECEIVABLES	24,683	24,912
FIXED ASSETS less accumulated depreciation	580,254	423,099
INTANGIBLE ASSETS	38,212	23,634
RECOVERABLE U.S. INCOME TAX ASSESSMENT	24,745	—
OTHER ASSETS	13,706	5,825
	$1,715,669	$1,327,588

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET
LIABILITIES & STOCKHOLDERS' EQUITY

	December 31, 1975	1974
	(Stated in thousands)	
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 247,330	$ 219,542
Estimated liability for taxes on income	169,312	123,221
Bank loans	77,729	127,763
Dividend payable	11,459	8,275
Long-term debt due within one year	17,928	14,207
	523,758	493,008
LONG-TERM DEBT	99,974	98,933
OTHER LIABILITIES	33,822	23,237
MINORITY INTEREST IN SUBSIDIARIES	19,974	14,166
	677,528	629,344
STOCKHOLDERS' EQUITY:		
Common stock	299,086	141,951
Income retained for use in the business	739,055	556,293
	1,038,141	698,244
	$1,715,669	$1,327,588

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCHLUMBERGER LIMITED
(Schlumberger N.V., Incorporated in the Nethlerlands Antilles) and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31, 1975	1974
	(Stated in thousands)	
REVENUE:		
Sales and services	$1,565,574	$1,200,157
Interest and other income	21,997	18,578
	1,587,571	1,218,735
EXPENSES:		
Cost of goods sold and services	950,199	742,582
Research & engineering	54,003	43,495
Marketing	92,703	74,078
General	121,983	105,851
Interest	23,955	21,493
Taxes on income	125,391	83,606
	1,368,234	1,071,105
NET INCOME	$ 219,337	$ 147,630
Net income per share*	$ 3.92	$ 2.68
Average number of shares outstanding (thousands)*	55,924	55,038

*Adjusted for three-for-two stock split in March 1975

SEE NOTES TO CONSOLIDATED 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, 1974	54,961,055	$139,186	$436,741
Exercise of stock options	142,139	2,765	—
Net income	—	—	147,630
Dividends declared ($0.51 per share)	—	—	(28,078)
Balance, December 31, 1974	55,103,194	141,951	556,293
Sale of common stock	2,000,000	154,404	—
Exercise of stock options	131,825	2,731	—
Net income	—	—	219,337
Dividends declared ($0.65 per share)	—	—	(36,575)
Balance, December 31, 1975	57,235,019	$299,086	$739,055

*Share and per share amounts adjusted for three-for-two stock split in March 1975

SEE NOTES TO CONSOLIDATED 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, 1975	1974
	(Stated in thousands)	
SOURCE OF WORKING CAPITAL:		
Net income	$219,337	$147,630
Add (deduct) amounts not affecting working capital:		
Depreciation	99,088	74,100
Amortization of intangibles	1,383	1,278
Earnings of companies carried at equity, less dividends received (1975-$5,124; 1974-$4,320)	(9,433)	(8,162)
Other—net	(3,268)	70
Working capital provided from operations	307,107	214,916
Proceeds from sale of 2,000,000 shares of common stock	154,404	—
Increase in long-term debt	17,977	8,117
Retirement of fixed assets	10,758	8,962
Proceeds from exercise of stock options	2,731	2,765
Total working capital provided	492,977	234,760
APPLICATION OF WORKING CAPITAL:		
Net noncurrent assets of companies acquired and consolidated	40,341	—
Additions to fixed assets	222,105	162,565
Dividends declared	36,575	28,078
Increase in investments and long-term receivables	671	5,207
Reduction of long-term debt	18,363	13,924
Payment of recoverable U.S. income tax assessment	24,745	—
Other—net	2,637	6,247
Total working capital applied	345,437	216,021
NET INCREASE IN WORKING CAPITAL	$147,540	$ 18,739
INCREASE IN WORKING CAPITAL CONSISTS OF:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 89,395	$ 39,377
Receivables	53,599	84,557
Inventories	34,682	46,528
Other current assets	614	4,537
(Increase) decrease in current liabilities:		
Accounts and dividend payable	(30,972)	(65,195)
Estimated liability for taxes on income	(46,091)	(28,986)
Bank loans and debt due within one year	46,313	(62,079)
NET INCREASE IN WORKING CAPITAL	$147,540	$ 18,739

SEE NOTES TO CONSOLIDATED 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 20%-50% owned companies are carried in "Investments in Affiliated Companies" at Schlumberger's share of net assets. The pro rata share of revenue and expenses of Dowell Schlumberger, a 50% owned oilfield services company has been included in the individual captions in the Consolidated Statement of Income. For 1974 the amount of equity in earnings has been reclassified from "Interest and Other Income" for comparative purposes. This treatment had no effect on consolidated net income for either period. Schlumberger's pro rata share of after-tax earnings of other equity companies is included in "Interest and Other Income". Other investments in affiliated companies are carried at cost 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 and long-term investments which are translated at historical rates. Revenue 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 adjustments and gains or losses on forward exchange contracts are taken up in income currently.

In October 1975 the Financial Accounting Standards Board issued its Statement Number 8—Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements. This Standard is effective for fiscal years beginning on or after January 1, 1976. See note under "Supplementary Information".

INVENTORIES

Inventories are stated principally at average or standard cost, which approximates average cost, or at market, if lower.

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 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 United States. These plans are substantially fully funded with trustees in respect of past and current services. Charges to expense are based upon costs computed by independent actuaries.

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 and its affiliated companies compute income taxes payable in accordance with the tax rules and regulations of the many taxing authorities where the income is earned. The income tax rates imposed by these taxing authorities vary substantially.

Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to revenue and expense items reported in one period for tax purposes and in another period for financial accounting purposes, appropriate provision for deferred income taxes is made. The provisions were not significant in 1975 or 1974.

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

Approximately $668 million of consolidated income retained for use in the business at December 31, 1975 represents undistributed earnings of consolidated subsidiaries and Schlumberger's pro rata share of 20%-50% owned companies. Since it is the policy of the Company to reinvest substantially all such undistributed earnings in the business, no provision has been made for income taxes which would 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 pro rata for shares reacquired. Any excess of cost of reacquired shares over the pro rata 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 by the average number of common shares outstanding during the year.

RESEARCH & ENGINEERING

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

ACQUISITION OF SANGAMO ELECTRIC COMPANY

During 1975 the Company acquired all of the outstanding common stock of Sangamo Electric Company, a manufacturer and distributor of electric and electronic products in the United States, Canada and the United Kingdom, at a cost of $63 million (including expenses). The acquisition has been accounted for as a purchase and the accounts of Sangamo Electric Company have been consolidated with those of Schlumberger effective July 1, 1975 after assigning fair values to the individual assets acquired and liabilities assumed. Cost in excess of net assets acquired in the amount of $15.6 million is being amortized on a straight-line basis over 25 years.

The following pro forma consolidated amounts combine the historical accounts of Schlumberger and Sangamo and reflect all purchase accounting adjustments as though Sangamo had been acquired January 1, 1974:

	Year ended December 31,	
	1975	1974
	(Stated in millions)	
Revenue	$1,643.9	$1,343.2
Net income	$ 217.2	$ 149.5
Net income per share (dollars)	$ 3.88	$ 2.72

Sangamo's sales and earnings were adversely affected by a twenty-week strike at the Springfield, Illinois plant which ended on July 7, 1975.

GEOGRAPHICAL DISTRIBUTION OF OPERATING REVENUE AND NET ASSETS

The geographical distribution of operating revenue in 1975 and 1974 and net assets at December 31, 1975 was approximately as follows:

	Revenue from sales and services		Net assets Dec. 31,
	1975	1974	1975
U.S.A. & Canada	25%	25%	39%
France	27	27	17
Other	48	48	44
	100%	100%	100%

FIXED ASSETS

A summary of fixed assets follows:

	December 31,	
	1975	1974
	(Stated in millions)	
Land	$ 25.5	$ 21.9
Buildings & improvements	153.2	124.5
Machinery and equipment	817.3	630.4
Total cost	996.0	776.8
Less—accumulated depreciation	415.7	353.7
	$580.3	$423.1

LONG-TERM DEBT

At December 31, 1975, consolidated long-term debt, excluding amounts maturing within one year, consisted of the following:

	(Stated in millions)
Payable in French francs:	
Debentures, 5%-8.5%, due 1977-1986	$ 9.7
Loans from Crédit National, 5.75%-10%, due 1977-1985	7.1
Loans from French banks (banking pool), 8.25% plus 0.5% commitment fee, due 1978-1981	44.4
7.9% plus 1.25% commitment fee, due 1977-1980	4.4
Loans from Société Générale, 8%, due 1977	11.1
Other loans	7.7
	84.4
Payable in U.S. dollars	8.7
Payable in other currencies	6.9
	$100.0

Long-term debt will be due $24.3 million in 1977, $18.5 million in 1978, $17.9 million in 1979, $16.9 million in 1980 and $22.4 million thereafter.

COMMON STOCK

On February 27, 1975 the Board of Directors approved a three-for-two stock split to stockholders of record on March 21, 1975. At the annual general meeting on May 6, 1975, the stockholders approved an increase in authorized Common Stock from 60 million to 120 million shares. In late July 1975, the Company sold two million shares of its Common Stock in a public offering at a price of $80 per share.

Options to officers and key employees to purchase shares of the Company's Common Stock are granted at prices equal to 100% of fair market value at date of grant.

Transactions under stock option plans during 1975 and 1974, after giving effect to the 1975 stock split, were as follows:

	Number of shares under option	
	1975	1974
January 1,	597,542	501,445
Options granted for five years	70,500	252,525
Options exercised	(131,825)	(142,139)
Options lapsed or terminated	(5,862)	(14,289)
December 31,	530,355	597,542

The 530,355 shares under option at December 31, 1975 were held by 305 officers and key employees at option prices ranging from $19.83 to $87.46; options for 208,999 shares were exercisable at that date. A balance of 581,320 shares of Common Stock remained available for future option under the plans.

During 1975 and 1974, 131,825 and 130,814 previously unissued shares, respectively, were sold on excercise of stock options.

Common Stock outstanding at December 31, 1975 and 1974 excluded 323,866 reacquired shares held in treasury and 1,316,826 shares issued to a subsidiary in 1971.

LEASES AND LEASE COMMITMENTS

Total rental expense was $26.5 million in 1975 and $18.7 million in 1974.

Future minimum rental commitments under noncancelable leases for years ending December 31 are: 1976-$8.1 million; 1977-$5.6 million; 1978-$3.7 million; 1979-$2.6 million and 1980-$2.1 million. For the ensuing three five-year periods, these commitments decrease from $6.5 million to $1.1 million. The minimum rentals over the remaining terms of the leases aggregate $14.0 million. Noncancelable rental commitments are principally for real estate and office space. Noncapitalized financing lease commitments are not material.

TAX ASSESSMENTS

The U.S. Internal Revenue Service has completed its examination of Schlumberger's U.S. income tax returns for 1967-1969 and has assessed additional tax. The principal parts of the assessment (excluding interest) arise from nonrecurring transfers of assets from a subsidiary to the parent company ($24 million) and from continuing wireline operations on the U.S. outer continental shelf ($6 million). The Company maintains that the tax effects of these transactions were properly determined and reported. It is expected that litigation will be required to resolve these issues. While the principal issues in the case involve novel questions as to which there is no direct authority, independent counsel is of the opinion that the Company's position will prevail. The Company is contesting this assessment and, in connection therewith, tax payments totaling $24.7 million were made in June 1975, recorded as recoverable and did not affect net income. Suit for recovery will be filed early in 1976.

The U.S. Internal Revenue Service is currently examining Schlumberger's U.S. income tax returns for 1970-1972 and is expected to propose additional assessments including, consistent with its earlier position, a deficiency of $8 million (excluding interest) based upon income from continuing wireline operations on the U.S. outer continental shelf. A determination for the earlier years does not necessarily resolve the taxability of this income subsequent to 1969.

Management is of the opinion that the reserve for estimated liability for taxes on income is adequate and that any adjustments which may ultimately be determined will not materially affect the financial position or results of operations.

SUPPLEMENTARY INFORMATION

Short-term investments are collectible mainly in U.S. dollars and included interest bearing time deposits of $254 million and $158 million at December 31, 1975 and 1974, respectively.

Interest income was $16.8 million in 1975 and $14.7 million in 1974.

Inventories at December 31, 1975 comprised $66.7 million of operating materials and supplies for oilfield services and $205.2 million applicable to other operations—principally electronic equipment and gas, water and electricity meters.

Investments in affiliated companies are summarized below, stated in thousands of dollars:

	December 31,	
	1975	1974
20%-50% owned companies	$47,525	$38,014
Other	6,146	9,996
	$53,671	$48,010

In 1975 expense of the deferred benefit plans was $20.3 million and of the compulsory contributions for French retirement benefits was $10.5 million; 1974 amounts for such plans were $17.8 million and $8.5 million.

The U.S. Pension Reform Act of 1974 will make necessary minor amendments to some U.S. plans, the effect of which will not be material in relationship to income or financial position.

Operating loss carryforwards available to certain non-U.S. subsidiaries as deductions from their future income, if earned, amounted to $22.3 million at December 31, 1975. Of this amount, $3.0 million expires in 1976, $2.3 million in 1977, $3.3 million in 1978, $2.1 million in 1979 and $1.4 million in 1980. Substantially all of the remainder can be carried forward indefinitely.

Foreign exchange losses in 1975 and 1974 were $10.3 million and $3.5 million, respectively.

Under provisions of the recently issued Financial Accounting Standards Board Statement No. 8, commencing January 1, 1976 the Company should change its method of translating non-oilfield inventories maintained in other than U.S. dollars to historical exchange rates rather than current exchange rates and, if practicable, restate prior period earnings. Substantially all of these inventories are owned by a French subsidiary engaged in the manufacture and sale of measurement and control equipment, primarily in France and other countries of Western Europe. While it is impracticable for the Company to restate periods prior to 1976, it is apparent that the cumulative effect of this change through December 31, 1975 would not be significant on consolidated earnings or financial position.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO. Sixty Broad Street, New York 10004
February 18, 1976

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, 1975 and 1974, 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.

CONSOLIDATED SUMMARY OF OPERATIONS

	Year ended December 31,				
	1975	1974	1973	1972	1971
Operating revenue from sales and services:	(Stated in millions)				
Oilfield Services	$ 844.2	$ 625.3	$452.9	$380.0	$316.6
Measurement & Control	720.7	574.4	510.3	433.0	384.8
Other	.7	.5	.4	12.2	21.7
	1,565.6	1,200.2	963.6	825.2	723.1
Cost of goods sold and services	950.2	742.6	612.4	541.3	483.1
Other operating expenses	254.2	202.0	187.4	161.3	147.1
	1,204.4	944.6	799.8	702.6	630.2
Operating income:					
Oilfield Services	299.3	218.0	134.9	107.5	84.1
Measurement & Control	63.7	38.0	29.7	15.4	7.4
Other	(1.8)	(.4)	(.8)	(.3)	1.4
	361.2	255.6	163.8	122.6	92.9
Other income (expense)					
Interest expense	(24.0)	(21.5)	(15.9)	(13.7)	(14.8)
Interest income and other—net	7.5	(2.9)	2.2	7.1	9.5
	(16.5)	(24.4)	(13.7)	(6.6)	(5.3)
Income before taxes on income	344.7	231.2	150.1	116.0	87.6
Provision for taxes on income	125.4	83.6	57.7	45.8	31.4
Net income	$ 219.3	$ 147.6	$ 92.4	$ 70.2	$ 56.2(b)
Per common share (c):					
Net income	$3.92	$2.68	$1.69	$1.29	$1.05(b)
Cash dividends declared	$0.65	$0.51	$0.37	$0.33	$0.31
Average number of common shares outstanding (thousands) (c)	55,924	55,038	54,705	54,899	55,565
Common stock price range (c):					
High	90-1/2	89-1/8	92-5/8	63	34-5/8
Low	60-5/8	48-5/8	55	32-1/4	19-3/8

(a) Commencing in 1975 a pro rata share of revenue and expenses of Dowell Schlumberger, a 50%-owned oilfield service company, has been included in the individual captions in the Summary of Operations. For prior periods the amount of equity in earnings has been reclassified from other income for comparative purposes. This treatment had no effect on consolidated net income for any period.

(b) Net income for 1971 is before an extraordinary net credit of $1.3 million, equivalent to $.03 per share.

(c) Net income per share for 1971 and 1972 was computed by dividing net income plus interest on convertible debentures (during the period they were outstanding—to May 1972) by the average number of shares outstanding plus the number of shares equivalent to debenture conversion and assumed exercise of stock options. Average number of shares and per share amounts have been retroactively adjusted for stock splits: three-for-one in September 1972 and three-for-two in March 1975.

(d) Results of Sangamo have been consolidated with Schlumberger beginning July 1, 1975.

OPERATING UNITS

OILFIELD SERVICES

Operating centers are located in the U.S., France, Singapore, Venezuela, Nigeria, and Canada.

WIRELINE SERVICES

Measurement of physical properties of underground formations which helps to locate and define oil and gas reservoirs and to assist in completion, development and production phases of oil wells. Operations are conducted in 76 countries.

Vector

Manufacture of cables for well logging, oceanography and geophysical exploration.

DRILLING AND PRODUCTION SERVICES

Forex Neptune

Offshore and land drilling-operates land and offshore rigs mainly in the Eastern Hemisphere.

Flopetrol

Services and tools for oil well completion, production and secondary recovery.

Johnston

Services and equipment for well completion, production and well testing.

Macco Udell

Gas lift and safety valves; gas lift systems.

Dowell Schlumberger (50% owned)

Cementing, acidizing, fracturing, formation testing and directional drilling services.

MEASUREMENT & CONTROL

EUROPE

Major plants: Austria, Belgium, England, France, Germany, Holland, Italy, Spain, Argentina, Brazil, Chile.

Energy Division

Electricity meters, equipment for electrical power systems.

Liquids Division

Water meters and industrial meters for other liquids.

Gas Division

Gas meters and gas control equipment.

Mechanical Division

Castings, sheet metal parts, timing mechanisms.

International Division

Manufacture of meters outside France.

Industrial Control Division

Regulating equipment, control systems.

Electronics

Electronic measuring and test instruments, data systems, transducers, audio equipment.

Valves (Malbranque-Serseg)

Industrial valves, specialized valves for the oil industry.

SANGAMO WESTON

Sangamo

Watthour meters, equipment for electric power systems, electronic components, data recorders, data communication products, vehicle performance recorders.

Weston

Nuclear instruments, x-ray gauges, potentiometers, subcontract manufacturing, panel and portable meters, aircraft instruments.

EMR

Telemetry data systems and instruments, photomultiplier tubes.

HEATH

Electronic equipment in kit form for home entertainment, electronic testing, amateur radio; assembled educational and laboratory instruments.

DIRECTORS & OFFICERS

DIRECTORS

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Compagnie Financière
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Schlumberger

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Director Schlumberger Museum,
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Chairman of the Finance
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John E. Rhodes □
Vice President,
Schlumberger

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Edwin N. West
Former Vice President and
General Counsel,
Schlumberger

Jerome B Wiesner
President
Massachusetts Institute
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Executive Vice President

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Executive Vice President

Jean Babaud
Vice President

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Vice President

Louis E. Magne
Vice President

James H. Poyner
Vice President and
Controller

John E. Rhodes
Vice President

Nick A. Schuster
Vice President

David S. Browning
Secretary and General
Counsel

Richard B. Stearns, Jr.
Treasurer

Julietta Jarvis
Assistant Secretary

* Member Executive Committee
□ Member Finance Committee
° Member Audit Committee

STOCK TRANSFER AGENTS
First National City Bank
New York City

Bank of the Southwest
Houston, Texas

REGISTRARS
First National City Bank
New York City

First City National Bank
Houston, Texas

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