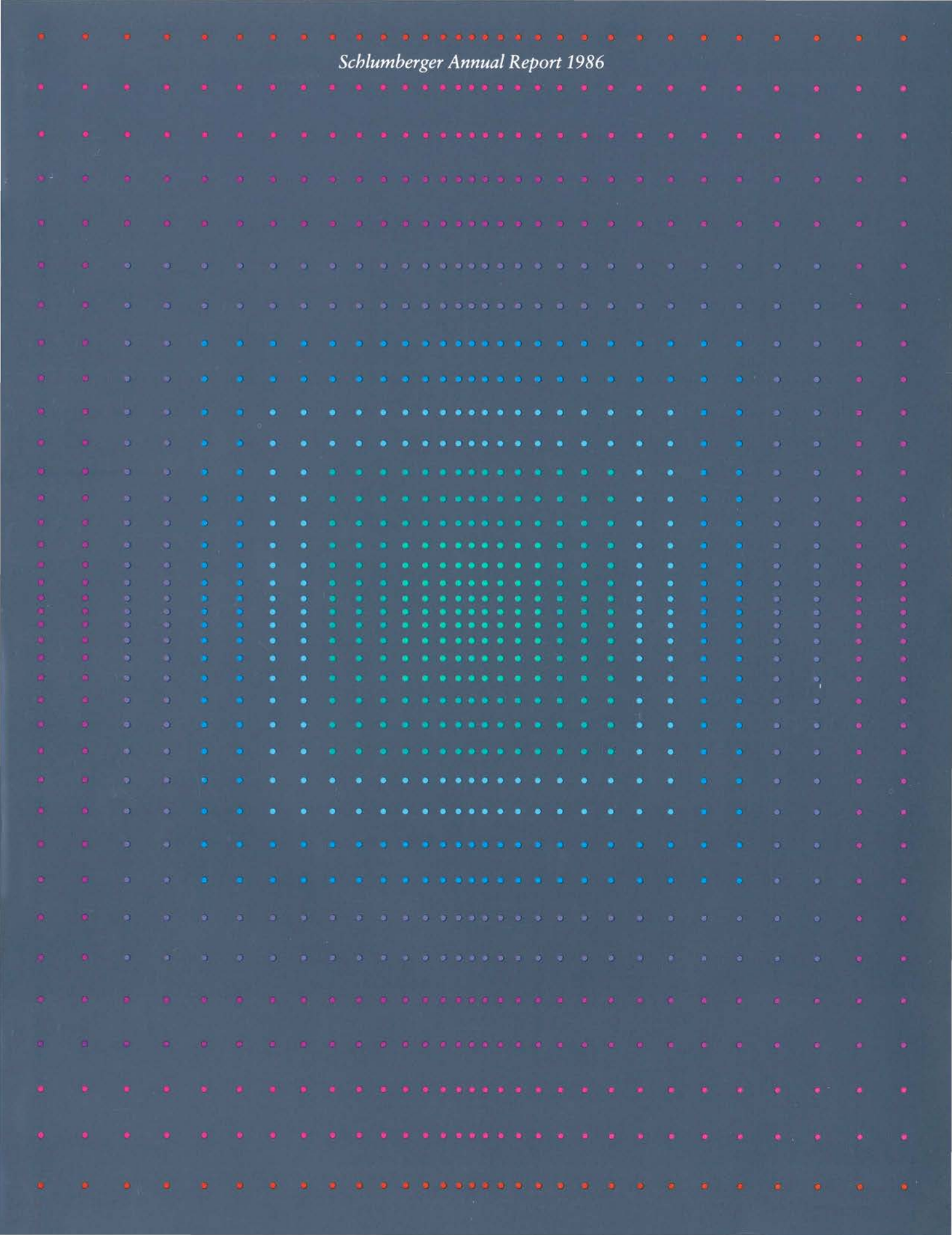
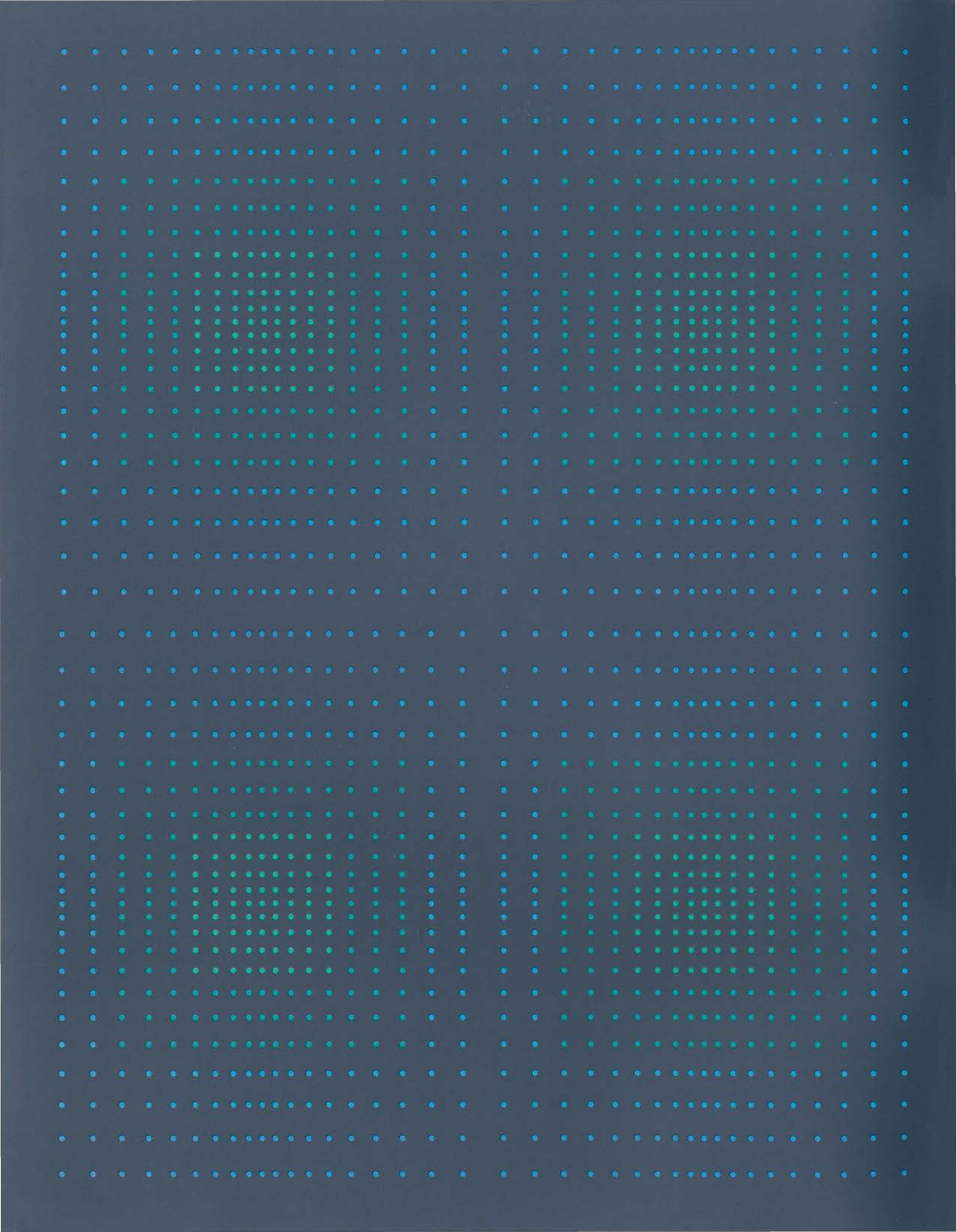
Schlumberger Annual Report 1986





	1986	1985	1984
Revenue	**$ 4,938,420,000**	$6,018,902,000	$5,635,910,000
(Loss) income:			
Continuing operations	**$(1,654,570,000)***	$ 977,650,000	$1,173,311,000
Discontinued operations**	**(363,021,000)**	(626,614,000)	8,762,000
Net (loss) income	**$(2,017,591,000)***	$ 351,036,000	$1,182,073,000
(Loss) income per share:			
Continuing operations	**$(5.76)***	$ 3.27	$4.07
Discontinued operations**	**(1.26)**	(2.10)	0.03
Net (loss) income	**$(7.02)***	$ 1.17	$4.10
Dividends declared per share	**$ 1.20**	$ 1.20	$1.12

**Includes nonrecurring charges of $1.74 billion ($6.05 per share).*

***Represents discontinued operations of Fairchild Semiconductor which had unusual charges of $486 million ($1.63 per share) in 1985.*

Letter from the Chairman

For the first time since it was listed as a public company in 1962, Schlumberger is reporting a loss for the year; and it is a huge loss, over $2 billion. However, if we exclude one time charges, and the discontinued Fairchild operations, the Company's income from continuing operations was $84 million.

Here are significant events that affected our results.

☐ First the oilfields... 1986 has been, by any measure, the worst year in the history of the oilfield services.

Oil prices, still at $24 per barrel in January 1986, plummeted in the first half of the year; prices fell as low as $7 in July, but firmed up by year end. Early in 1987, prices have stayed around $18 per barrel following an agreement among the Organization of Petroleum Exporting Countries (OPEC) to restrict production.

Oil industry reaction to these events and to the uncertainty about the stability of oil prices at any level, led to the collapse of drilling activity: first in North America with a drop of 50% in the number of active drilling rigs and then gradually spreading eastward all the way to the Far East with an overall decline outside North America of 18%. Especially difficult for Schlumberger was the virtual disappearance of exploration and deep drilling, both prime markets.

Substantial excess capacity drove down the prices of oilfield services. Discounting became an essential element in remaining competitive. This was true throughout the oil service industry but most dramatically in the contract drilling industry; for example, the average daily rate for a semisubmersible rig, which in the North Sea peaked at $90,000 in 1981, sank as low as $12,000 in 1986. In many cases, daily rates were lower than the costs associated with operating the rig.

How did Schlumberger react to this situation? We had to take drastic steps to reduce the costs of running the business: we consolidated the organization by eliminating management levels; we cut down the overall number of people in the oilfields by 35% to the size required to run the business safely and efficiently; we focused manufacturing almost entirely on providing the field with new technology; and we also trimmed research and engineering expenses by 25%. In addition, we took fourth quarter nonrecurring charges of $1.74 billion mainly to write off goodwill at Sedco Forex and Dowell Schlumberger and write down the value of certain assets, mainly drilling rigs and oilfield equipment, so that the size of our investment is consistent with the expected business levels. All these measures were needed if we are to meet our prime objective, to be both profitable and competitive in the oilfields at the present level of activity.

Included in the $1.74 billion charges are $130 million related to reorganization costs at Measurement & Control and Computer Aided Systems, and $150 million representing potential interest on U.S. tax litigation.

☐ Next, we announced in October that we had agreed in principle to create a joint venture to integrate Fairchild Semiconductor operations with the Fujitsu semiconductor businesses. The formation of the new company has come under mounting criticism from the U.S. Government. It is now clear that to obtain the necessary Government approvals would take many more months of negotiation. As a result, on March 16 we announced with Fujitsu the termination of our agreement.

Nevertheless, Fairchild Semiconductor will continue to be accounted for as a discontinued operation. We are now pursuing other possibilities for Fairchild including a buyout by the current management.

☐ The third significant element is the continued improved performance at Measurement & Control, partly as a result of the weakened dollar. We are continuing our strategy of reinforcing our position in the products and markets where we are strong and extending our presence in the U.S. and Asia.

☐ Finally, Computer Aided Systems had a poor year in the U.S. but made good advances in Europe and the Far East. We believe that we can be successful in this business and we are making major efforts to rationalize the organization among the various product lines and to present a coherent marketing image to our clients.

1986 is a year that the oilfield service business will be happy to forget. At the same time, we should recognize that the financial strength of Schlumberger remains intact. The net liquidity of the company did decrease by $248 million but during the same period we bought back $474 million worth of Schlumberger shares at an average price of $32. At year-end the net liquidity was still $2.26 billion. In addition, the elements of the next oilfield upcycle are already in place — small increases in oil demand worldwide, falling production in the United States and prospects of a decrease in North Sea production over the next few years — so that we should see during 1987 the bottom of the present cycle. What we need today, above all, is some stability in order to regain profitability, to restore the confidence and motivation of our people and to prepare for the future.

How do we see the future for Schlumberger?

☐ First, in the oilfields, we think that, after the upheaval of the last 15 years, there are many forces at work towards moderation amongst the producers and consumers alike. The next few years should see a modest revival of oilfield activity but nothing like the 1970s boom. The oil companies are likely to place the emphasis on maximizing their return in known oil and gas basins while avoiding, for the most part, high risk exploration plays.

For Schlumberger to be successful in this highly competitive environment, our internal efficiency, in providing our clients with unique services and products that improve their performance, will be critical. We are committed to becoming the low-cost innovator.

Today, we are among the leaders in each of the main oilfield service sectors and we are able to integrate services that provide effective low-cost answers to oil company needs. We will consolidate our position through internal technical development.

As with any service company, people and their motivation are our main asset. In spite of the extremely difficult period we have been through, we have retained the essentials of the international team that we have built up patiently over the years. They will continue to be our overwhelming competitive advantage.

☐ Second, outside the oilfields, we see a similar picture of persistent overcapacity in many sectors due mainly to sluggish demand. Here again, superior products and competitive internal costs will be the key to our success. We will continue to focus our efforts on the product lines where we have the strengths and talents to be successful long term.

Euan Baird
Chairman & Chief Executive Officer

We chose people in five key jobs, a research scientist, a wireline field engineer, a controller, a manufacturing manager and a sales manager, to speak freely about their Schlumberger experience.

We believe that their thoughts will tell you much about the state of Schlumberger today. You will find the other profiles on pages 8, 12, 16 and 20.

Reid Smith

Research Scientist

What attracted you to Schlumberger?

While I was at Stanford, Schlumberger people gave a talk and it was clear that the problems they were worried about were similar to problems I thought about. One day, they called me and asked me to visit Ridgefield. You only have to walk into this lab to be totally taken...access to equipment, smart people, real problems...everything needed to do reasonable work in artificial intelligence (AI).

How do you feel about the company today?

I've had a ball. All my expectations turned out to be fact. Schlumberger was one of the first companies to take AI seriously. The organization was interested in applying the results directly. There was no argument of the form... "What's AI good for?" With Schlumberger, it was, "Fine! You say this is good stuff? Show us." That's invigorating. If you stand back and look at it, it's totally unrealistic that a small group of people, five or ten, could move a $5 billion corporation fairly dramatically in a very short time. Together with the people in our engineering centers, it's being done.

Tell us about your job

The work I do is all in artificial intelligence in an emerging kind of programming called object-oriented programming. The main work is in knowledge-based systems. Specifically, the problem is how to take real-world knowledge and get it into a computer system in such a way you can use it. I helped create Dipmeter Advisor, a program that helps field engineers make geological interpretations of dipmeter log data. When I came here, the biggest fear was that we would be the first to screw up AI in an industrial setting. It was very tense. Now, those who have experience with Dipmeter Advisor are the biggest supporters.

Much of what's in Dipmeter Advisor typically is written in a language called Strobe. I was driven to write the language because we needed a better way to encode knowledge than was used in earlier versions of Dipmeter Advisor. Strobe has become the mechanism used to structure all of our logging knowledge, geological knowledge, interactive graphics, the whole works...and the human interface.

A newer development is machine learning, what we call a *learning apprentice*. The computer draws some conclusions and you can ask, "How did you come to this conclusion?" or, "Look, something's wrong. Change this." We want the machine to help you understand the assumptions that led to its conclusions and to help it focus attention on things in the knowledge base that are wrong.

The tool we've been most interested in over the last year helps us construct interactive interfaces. It employs the same techniques we use to represent geological knowledge for representing interactive graphics.

What do you think about the future?

It's not a pleasant time just right now but I don't have any grave concerns about the company's future, nor my own. One of the things that I'm really taken with is the company itself. You get involved, especially in an international organization. Frankly, it's fun to go to cities around the world and see people you know...we're bound by common interests, the corporate bond and computer science problems and applications.

I feel like we're well on the road in Ridgefield to having an impact on computer science. The fact that the company deals with real problems helps in building stronger software tools. We're starting to see that these tools can be used in other parts of the company as well...I'm interested in making that happen.

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Reid Smith, 40, leads several ongoing artificial intelligence projects at the Schlumberger Doll Research (SDR) laboratory. A native of Toronto, Canada, he graduated from Carleton University (Ottawa) with BS and MS degrees in electrical engineering. Several years' work on sonar signal processing at a research laboratory of the Canadian Navy kindled his interest in artificial intelligence. He entered Stanford and got his PhD degree in computer science. He returned to research in Canada for three additional years before joining Schlumberger.

At SDR, he was a major contributor to Dipmeter Advisor, the software that aids Wireline field engineers in making expert interpretations of dipmeter logs. Since then, he has worked in artificial intelligence and object-oriented programming.

In February 1987, Reid Smith was transferred from SDR to the Schlumberger Palo Alto Research Center of CAS as Manager of the Knowledge-Based Computer-Aided Engineering program.

The Schlumberger Doll Research Laboratory is in Ridgefield, Connecticut, an hour's drive from New York City. The laboratory has a staff of 200 people, two thirds of whom are research scientists; 92 have PhD degrees. The various departments work on problems related to the measurement and evaluation of subsurface geology. Through wireline services, the concepts and tools created by this work help the oil companies in the search for oil.

Wireline, Seismic & Testing Services

Wireline, Seismic & Testing Services has two principal activities:
☐ *Wireline & Testing Services: Measurement of physical properties of underground formations to help locate and define oil and gas reservoirs and assist in the completion, development and production phases of oil wells. Measurements are made by lowering electronic instruments in the wells at the end of an electric cable called the "wireline."*

Well testing; pressure measurements; completion and workover services; production services.
☐ *Seismic Services: GECO (50% owned) —marine seismic data acquisition, processing and interpretation services.*

Schlumberger Doll Research is located in Ridgefield, Connecticut.

Overall revenue in 1986 was down 34% as the average number of active rigs drilling worldwide declined 40% compared to 1985. Excess capacity in the wireline and testing markets drove down the price of these services, most notably in North America.

In order to adapt to the lower level of activity, the size of the Wireline, Seismic & Testing organization was reduced. The most significant consolidations were the merging of Asia and Atlantic operations, the reduction in the number of operating locations in North America and the elimination of management levels in all areas. In June, the testing businesses of Flopetrol Johnston were combined with the Wireline. A large surplus of field equipment forced a substantial reduction in manufacturing. Nonrecurring charges of $280 million were taken in the fourth quarter, mainly for write-offs of inventory and equipment, both in manufacturing and in the field. Cutbacks resulted in a 31% reduction of personnel during the year.

In November, Schlumberger invested $77 million in GECO, a Norwegian geophysical company, mainly by acquiring newly issued shares; Schlumberger now owns 50% of GECO. The wireline, testing and seismic capabilities under one roof will enable Schlumberger to develop more complete subsurface evaluation services through the merging of data from these sources.

Wireline & Testing Services

North America

Revenue was 51% below the prior year as drilling activity dropped dramatically following the collapse in the price of oil. On the average, the rig count declined 50% to 1,154.

This decrease in activity created a large overcapacity in the Wireline & Testing markets; prices softened considerably, although a firming trend appeared in the fourth quarter.

Schlumberger regained market position in both logging and perforating services.

On land in the U.S., the average rig count dropped 51% to 867; offshore North America, the number of active rigs was 93, down 52%.

The number of active rigs in Canada was 194, down 42%. The large exploration projects on the East Coast and in other frontier areas came to a halt.

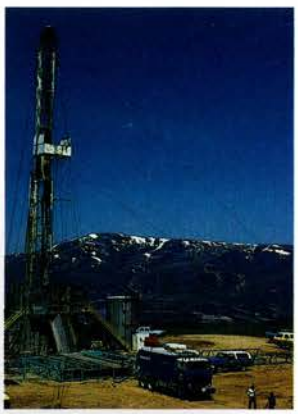
Extensive consolidations and reorganizations resulted in a 43% decrease in the number of employees.

Eastern Hemisphere & Latin America

(Australasia, Far East, Middle East, Africa, Europe, Latin America) This operating unit includes the reorganized Wireline & Testing activities outside North America. Revenue declined 25% as the average rig count dropped 18%; exploration and offshore drilling were more affected than development, production or land work.

The activity dropped almost everywhere but more significantly offshore West Africa, the North Sea and Asia, with the exception of India, where activity improved over the previous year.

Consolidations of management structures in the field and in manufacturing and engineering resulted in a 29% reduction in the number of employees.



A wireline logging job in Wyoming.

A large number of services are being introduced. In 1986, 26% of Wireline, Seismic & Testing revenue came from tools that were introduced in the last five years. These include:

☐ Satellite transmission of well data, using the LOGNET™ satellite communication network, was expanded to Canada and offshore the Gulf Coast. During the fourth quarter, data from about 80% of wells logged in Canada, and 25% of those logged offshore the Gulf Coast used the LOGNET transmission system.

Outside North America, well log data transmission is offered via satellites of the INMARSAT network from land sites in South America and Africa, and from offshore locations.

☐ The Formation MicroScanner tool (FMS) is gaining strong acceptance by the oil industry. The FMS makes high-resolution electrical resistivity measurements of the formation from an array of buttons on two pads that are pressed against the borehole wall. The FMS provides an image, much like a black and white photograph, showing extremely fine details of the rock formations around the borehole.

☐ A service combining Tubing Conveyed Perforating with Drill Stem Testing has been well accepted. It provides an integrated package that allows perforating and testing in a single trip in the well, along with interpretation of surface and downhole pressure and flow measurements.

☐ The Aluminum Activation Tool, a geochemical logging service, was introduced during the year. This tool analyzes the chemical elements of the rocks to aid mineral identification and opens new avenues to geological and reservoir interpretation.

☐ Acceptance of the Phasor™ Induction tool continues to grow. The number of jobs during the second half of the year increased by a factor of four over the first half. This tool offers greatly improved performance in pinpointing oil and gas reservoirs even when beds are thin and borehole diameters large and filled with conductive drilling mud.

☐ New services which monitor the condition and corrosion of downhole casings more than doubled over the previous year. A new version of a corrosion tool capable of analyzing multiple strings of casings was introduced.

Seismic Services

Merlin Geophysical, Ltd., a British seismic data processing company acquired in December 1985, was merged with GECO in November when Schlumberger acquired 50% of GECO.

During 1986, Merlin processed 48,000 kilometers of seismic data. In addition, the company also acquired 14,000 km of marine seismic data which is marketed to a number of clients on a nonexclusive basis. On April 22, the U.K. government announced a round of licensing covering 127 offshore North Sea blocks; Merlin had high-quality nonexclusive seismic data for half of these blocks, and sold a total of 123,000 km of such data to virtually all the oil companies that entered the licensing rounds.

Schlumberger Doll Research (SDR)

As a result of the business downturn, the number of research departments was trimmed; research programs were consolidated and focused on the most relevant client needs.

During the year, an artificial intelligence (AI) programming technique called Strobe began to be incorporated in many key Wireline & Testing software projects. Strobe is a powerful knowledge representation system that was developed at SDR. Strobe offers new methods for interpretation, friendlier system interfaces and the ability to use local geological knowledge to predict reservoir behavior.

Acoustics and log interpretation experts have developed a new method of detecting fractures that intersect the borehole. Often, fractures are necessary conduits which enable hydrocarbons to flow freely into a producing well. The technique analyzes the Stoneley wave, an acoustic wave that is measured by Schlumberger's Array Sonic™ tool. The way this wave is altered by a fracture can show the size of fractures and how easily they will conduct fluids.

Richard Broderick

Wireline Field Engineer

Where did Schlumberger find you?

As a matter of fact I found Schlumberger. A friend of mine was interviewed by a Schlumberger competitor and came back with wild claims about the greatest job in the whole world. I knew an executive with Mobil Oil and I asked him, "What about this?" He told me that I ought to go with the best and give Schlumberger a call. I sent them a resume.

What struck me is that Schlumberger didn't say, "You're going to have to prove yourself by doing basically menial tasks." They said right off the bat, "If we hire you, in six months you'd better be ready to run the whole show by yourself." They sent me to Dayton, Texas, just outside of Houston, to see a well logging operation. This was 1981, at the peak of the boom. When I got there, I just could not believe how busy the place was. The district manager was very honest with me. He told me that I would have more responsibility than I'd ever had before in my life, and that I'd be expected to do things that I never thought I could do. He told me that I was going to go out with a crew that was tired, so I would probably see a logging job at its worst. So I went, and I found out that the crew wasn't just putting in an extra hour after work, they hadn't been home in a day and a half, but they weren't complaining. So we made the job and I stayed up all night talking with the crew. I saw the esprit de corps. Their team spirit attracted me. The engineer on that job had been working for Schlumberger only a year and a half but the clients were coming to him for advice. The responsibility, the willingness to let you do important things right off the bat, was impressive. After that, I said, "I want the job."

What's it like today?

We all knew that there had to be layoffs. When cutbacks come, everybody gets nervous, but, at the same time, we know that we have to run lean to keep the company strong. It's a very different company from when I was hired. Right now we have a very lean, extremely competent group in the field. We still get the long hours and tough jobs. We try to keep the loading up to a level where everyone stays busy. Service quality is much better than it ever was. We're able to do more engineer and operator training and overall service quality is improving. I interface with engineering and I see them being focused to turn out tools that the field organization can use to generate money for Schlumberger. I also see the direction changing in a subtle way. We are a technically oriented company but now management is putting the priorities of the clients ahead and using our technical expertise to achieve specific client needs. That's the number one change that I've seen.

Why do clients call Schlumberger these days?

It's obvious, we're the best. They're getting the bargain of a lifetime...they're getting Schlumberger at a price that nobody ever thought they would. They're also getting new technology even in these bad times. I have yet to hear a client say, "I'm not going to use Schlumberger because I just don't want to." The vast majority say, "We want to use Schlumberger as long as we can justify the price differential." And that's where it stands.

What do you think about the future for Schlumberger?

I'm bullish on it. I think the future, when the oil industry turns around, is quite good. We've got motivated people ready to roll and engineering is focused in the right direction. We're not letting our image slip just because profits are dropping...we're not rolling to location in a truck that's falling apart...and we're not telling the client we can't provide a service because we can't make enough money on it. Right now Schlumberger is in an excellent position. I look around and I see a great, highly competent group of people. Even if there's not an upturn soon, we'll continue to do what has to be done to keep the company moving ahead. It's just that simple.

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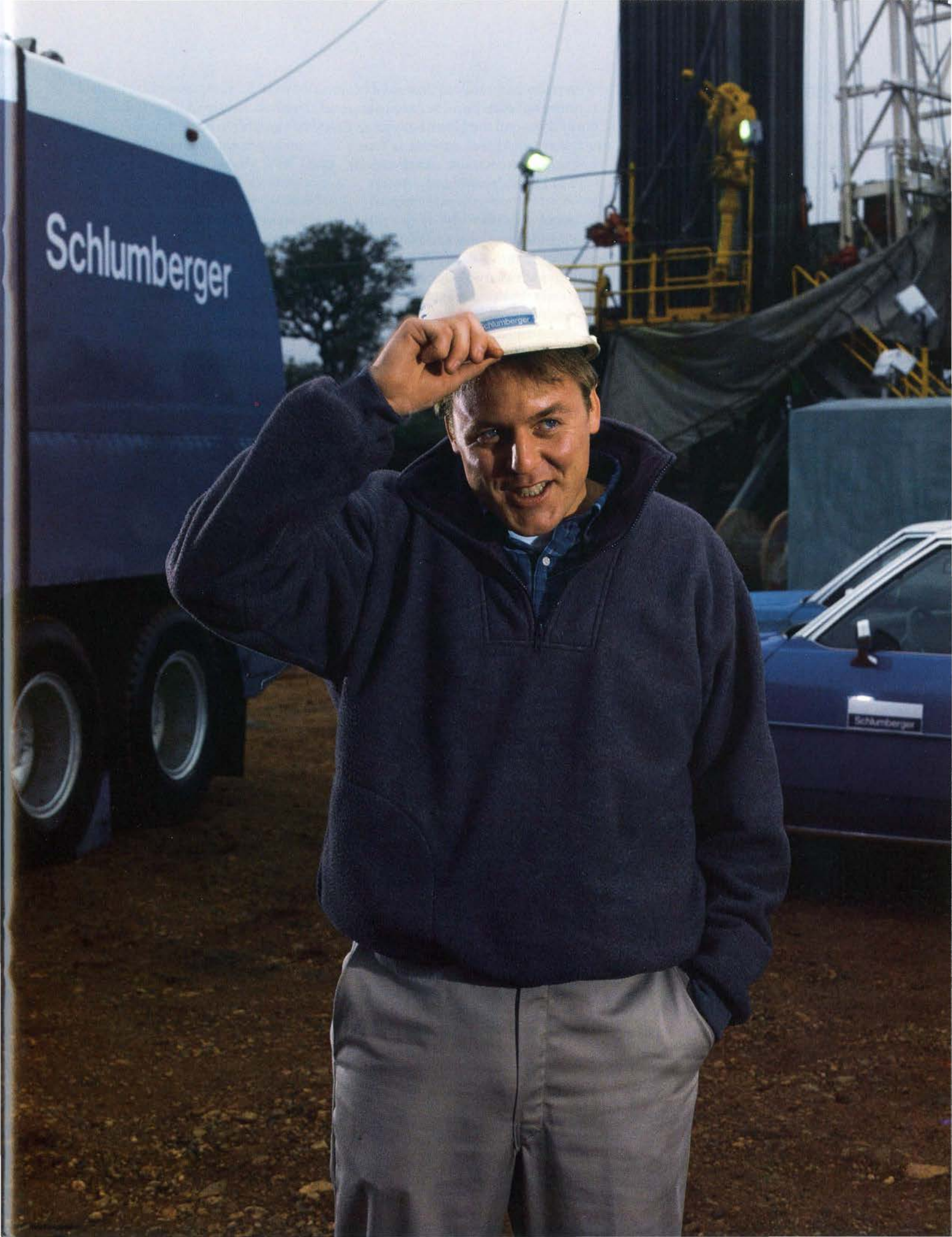
Richard Broderick, 27, is a General Field Engineer with the Coastal West Division of Schlumberger Well Services, the division responsible for oilfield wireline and testing services in North America. Rich was born in San Diego, California, and eventually settled in Westport, Connecticut. He graduated from the University of Connecticut with a degree in mechanical engineering.

He was hired by Schlumberger in 1981 as a Junior Field Engineer and was assigned to Dayton, Texas and later to Victoria, Texas, where he is today. He attended the Schlumberger Learning Center in Shreveport, Louisiana. He specialized in open-hole well logging and has been promoted successively to Field Engineer, Senior Field Engineer and General Field Engineer. His most recent responsibility is engineering field test and evaluation of a new generation of computer and surface instrumentation for well logging.

He lives in Victoria, Texas with his wife Kim and one child.

Schlumberger Well Services (SWS) is a part of the Wireline, Seismic & Testing Services group, responsible for operations in North America. Within SWS, the Coastal West Division provides wireline logging and other oilfield testing services over the entire eastern half of Texas. The Victoria District where Rich works is part of this division and is centered in Victoria, Texas, about 120 miles due south of Houston.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Drilling & Pumping Services

Drilling & Pumping Services has two main operating units:
☐ *Drilling Services: Sedco Forex — drilling offshore and on land.*
Anadrill — well-site computer analysis of surface and downhole drilling and geological data; directional drilling services; drilling tool rentals.
☐ *Pumping Services: Dowell Schlumberger (50% owned) — well cementing and stimulation.*

Schlumberger Cambridge Research is located in Cambridge, England.

Revenue of Drilling & Pumping Services was 32% lower than the prior year. In order to remain competitive at the substantially lower level of oilfield activity, personnel was reduced 33%; in addition, nonrecurring charges of $1.17 billion were taken in the fourth quarter of 1986 relating to the write-off of goodwill at Sedco Forex and Dowell Schlumberger, as well as reducing the carrying value of property, plant and field equipment, mainly drilling rigs.

Sedco Forex

Worldwide drilling industry activity deteriorated significantly with offshore utilization rates averaging 59% compared to 82% the previous year. The main declines in offshore activity occurred in the Gulf of Mexico, the North Sea and West Africa. Land activity decreased 47% in North America and 14% outside North America.

Overcapacity in the contract drilling market exerted severe pressures on day rates, forcing them down to approximately half the 1985 year-end levels.

Sedco Forex revenue declined 35%. During 1986, the average number of Sedco Forex active rigs was down 25%; rig utilization rates were 64% offshore and 47% on land, compared to 81% and 54%, respectively, the year before. At year end, the Sedco Forex fleet consisted of 90 drilling rigs (48 offshore and 42 on land) of which 46 were idle. During the year, 9 rigs were retired from service. As a result of depressed business activity, Sedco Forex reduced personnel by 37% and the North Sea, South European and African operations were merged into a single unit, located in Montrouge near Paris.

Anadrill

Anadrill revenue was down 24%. Measurements While Drilling (MWD) jobs increased 7%; however, as a result of severe price discounting, revenue dropped 13%. Drilling Services (directional drilling, tool rentals) activity fell 3%; traditional surface logging jobs were down 36% and revenue 40%. The number of surface logging jobs run with Advisor™, a data acquisition and computing system, were up 15% showing continued significant growth.

In order to adapt to lower activity, the number of people was reduced 25% on the average, during the year, with North America declining 42% and elsewhere 18%. In North America, 11 of 29 locations operating at the beginning of the year were closed.

Prototypes of second generation Measurements While Drilling tools (MWD II) have been field tested for 1,200 operating hours in 1986, while manufacturing of a pilot series of tools was largely complete by year end. The first commercial job was made in December. MWD II presently measures downhole location of the borehole and total gamma ray radiation from the formation; the modular design allows new measurements to be added as they are proven fieldworthy. The first Answer Products, which consist of logs based on the analysis of MWD and surface logging data, were successfully introduced; these included the Mechanical Efficiency Log which provides a measure of bit wear and drilling efficiency. Six Drilling Planning Centers were opened worldwide to assist clients in planning and optimizing drilling programs, and to provide technical assistance on interpretation of MWD and surface logging data.

Dowell Schlumberger (50% owned)
In North America, revenue declined 36%. The drastic fall in drilling activity along with continued price erosion affected many areas, mostly West Texas and the Gulf of Mexico; following a strong first quarter, revenue in Canada dropped significantly. While oilfield product sales declined, an equipment sale to the Chinese Ministry of Petroleum was completed; Industrial Cleaning Services revenue also grew. During May, operations in North America were consolidated into eight divisions, eliminating one management level. Also, the number of personnel was reduced 40%.

Outside North America, revenue fell 25%, with the most severe declines occurring in Argentina, Mexico, the North Sea and West Africa. Operations in Europe were combined with those of Africa under the same management; similarly, operations in the Middle East and the Far East were merged. Outside North America, the number of people was reduced 26%.

In Tulsa, Manufacturing and R&E were merged into a single management unit; a manufacturing facility, located at Wichita Falls, was closed. At Saint-Etienne, France, manufacturing operations were shut down leaving only engineering activities.

A family of Computer Aided Design and Evaluation (CADE) software packages was introduced to help Dowell Schlumberger field engineers better design and evaluate pumping jobs for oilfield clients. These packages, which cover cementing, fracturing, acidizing and gravel packing, are integrated with field data acquisition and monitoring equipment to assure that the job design, actual job execution and final result are consistent.

Litefil, a light-weight cement that avoids formation breakdown and loss of circulation by creating lower hydrostatic pressure in a well, had steadily growing sales. A field laboratory network was established in North America centered around two new technology centers, one in Houston for cementing and the other in Denver for stimulation.

Schlumberger Cambridge Research (SCR)
During 1986, SCR reduced its level of activity to adapt to the overall drop in the Drilling & Pumping operations. As a result, reductions were made in research programs (from 13 to 9), in computer development projects and in the overall administrative support.

The major achievement in 1986 was the commissioning of the Drilling Test Station which is now fully operational; this Drilling Test Station offers unique experimental facilities: using commercial bits of up to 12¼ inch diameter, it is possible to drill into a rock sample 600 millimeters in diameter by one meter high, subjected to temperatures and pressures equivalent to those found in wells as deep as 5,000 meters.

Various downhole environments can be simulated under computer control, while an instrumentation and data recording system collects data for subsequent analysis.

Test runs already have provided significant results that have contributed to a better understanding of drilling models, such as MEL (Mechanical Efficiency Log), now in use in the field. These studies will impact services offered by Anadrill and Sedco Forex through improved lithology identification, pore pressure estimation and evaluation of drill bit wear.

The development of a flowmeter has been transferred to engineering; this flowmeter can make one- and two-phase flow measurements which will improve drill-stem testing services.

A Sedco Forex jack-up rig offshore the Middle East.

Jurren Schoonbeek

Controller

What attracted you to Schlumberger?

I was hired by Dowell Schlumberger through an employment agency. I had found out that they were active in the oilfields and that attracted me. I joined as an assistant accountant at a very junior level. My previous job in a Dutch company wasn't going anywhere. When you join a company you have hopes and aspirations, and then you start work. What became obvious to me, even though I was in a junior position, was that Dowell Schlumberger had possibilities that would let me grow. It doesn't take long to know the values and objectives of a company. I wasn't just pushing numbers in boxes...I had a chance to take a broader view of the business, to take responsibility. For example, in my first year, I found myself in Libya helping to resolve a financial problem. It wasn't a big deal but it meant a lot to a young guy of 21 like me. So I said to myself, "This is a fantastic company." I haven't changed my mind in 21 years.

Tell us about your job

My job is controller of Sedco Forex, the drilling subsidiary of Schlumberger. The controller is essentially the financial manager of a company reporting to the president. I'd say that it is most important for the controller to be a member of the management team. Unless he takes the initiative, it's not going to happen. Nobody's going to ask. Here in Sedco Forex it works extremely well.

The usual concerns of the controller are financial reporting, internal controls, taxes, managing assets, data processing and developing budgets.

I try to get involved in all aspects of Sedco Forex operations; if you ask me what's important, it's not to be able to write a PhD dissertation on accounting theory or to know everything about business information systems or to be a wizard in financial mathematics. Sure, they're important, but it's more important for the controller to have good business sense. That should be a high priority. For example, when marketing develops a strategy to attract business for our rigs, they want to set competitive prices and have many rigs active. They may be satisfied that they have done a great job. The controller's job is to make sure that they reach an optimum balance between rig activity and profitability.

That brings me to a related area, investment analysis. The drilling business is extremely capital intensive and the controller is a key player in judging the financial viability of a proposed investment. To have a semisubmersible rig built can cost more than $100 million. A mistake with one of those babies can be painful. We're not building any rigs today, obviously, but there will be a day when we return to the shipyards.

To do his job properly, the controller must have intimate knowledge of the business. I sit down with the engineers and ask about technical matters just to understand the drilling business.

How do you see Schlumberger today?

Like all oilfield service businesses, Schlumberger today is going through a very severe downturn. We cannot hide it and we have no interest in hiding it. But we should not overdramatize. We must manage this recession intelligently, we must develop skills that perhaps none of us in the oilfield is very good at, because the slowdown hit suddenly and brutally after years of sustained growth. On the positive side, our people are much more sensitive to costs now...we're paying more attention to quality. We've had some painful cutbacks, but now we think we're close to the strength that we need to go through 1987. We're as lean as can be today without affecting service quality or safety. We will come out of this a better company.

On a larger scale, I think that hydrocarbons are going to remain a key energy source. In many areas of the world, reservoirs will be depleted. Drilling has to pick up sooner or later.

We want to remain the most technically advanced drilling company. We'll come through this recession well positioned and ready for an upturn as the number one drilling company. That's my faith and that's why I'm here, to help make that happen.

We must develop skills that perhaps none of us in the oilfield is very good at, because the slowdown hit suddenly and brutally after years of sustained growth. People are much more sensitive to costs now...we're paying more attention to quality. We will come out of this a better company.

Jurren Schoonbeek, 42, is Controller of Sedco Forex. He was born in Holland and started his career with a Dutch chemical company until 1965, when he joined Dowell Schlumberger in London in an accounting position. He received his accounting degree in England after several years of night school studies. After four years in London, he was appointed Controller of Dowell Schlumberger Middle East operations, located in Tehran, Iran. He spent four years in Iran, where he met and married his wife, Maria. Following this, he was appointed to positions of increasing responsibility in financial management within Dowell Schlumberger and, later, the Wireline. During this time, he lived in Paris, London, Caracas and Tokyo. Before his assignment to Sedco Forex, he was Controller of Schlumberger Well Services, the North American wireline operations, located in Houston.

He now lives in Dallas with his wife and daughter.

Sedco Forex is an oilfield contract drilling company which owns 90 drilling rigs (48 offshore and 42 land rigs). The company operates worldwide.

Measurement & Control

Measurement & Control consists of six operating units:

☐ *Electricity Management: Electricity meters and equipment for electric power distribution; load and rate management systems; network protection systems and measuring transformers for electric power transmission.*

☐ *Water and Gas: Water meters and distribution equipment; gas meters and distribution equipment.*

☐ *Instruments: Magnetic tape recorders; data acquisition systems; electronic instruments for industrial, laboratory and aerospace applications; industrial data logging and telemetry systems; transducers.*

☐ *Electronic Transactions: Electronic payment terminals, smart cards, card-operated public payphones; fuel dispensing systems; parking terminals.*

☐ *Fairchild Weston: Data acquisition and recording; signal processing and electronic countermeasures systems; control equipment for nuclear power systems; miniature CCD cameras and high performance reconnaissance cameras; radar simulation and training systems.*

☐ *Control, Valves and Technology: Process control equipment; petroleum, nuclear and industrial valves.*

Schlumberger Montrouge Research is located in Montrouge, near Paris.

Revenue of Measurement & Control was up 25% in U.S. dollars. In North America, revenue was up 16%. Outside North America, the increase was 29%, however, revenue was constant when expressed in national currencies.

Orders were up 20%; outside North America, orders decreased 3% when expressed in national currencies. There was a six months' backlog at year end.

Capital investment increased to $77 million, primarily for new product introductions and factory automation.

Unless otherwise specified, comparisons given below refer to U.S. dollars.

Electricity Management

In Europe and Latin America, revenue increased 6%, when expressed in local currencies, as demand increased for domestic electricity meters in Brazil and in most European countries. New electronic products, radioteleswitches and domestic meters, manufactured at the Felixstowe plant in England, received good customer acceptance.

Sales of high-voltage network protection and remote fault-location recorders were up 10% in national currencies; sales of measuring transformers declined 12% in national currencies as depressed conditions in Mexico were not completely offset by a 17% sales gain in France.

In North America, revenue was up 9% with a 7% increase in the U.S. and 15% in Canada. New products, including a solid-state industrial meter and a solid-state demand register, are being produced at the Oconee plant in South Carolina.

Water and Gas

Excluding Sprague, acquired in July 1985, revenue was up 32%; expressed in national currencies, revenue increased 5%.

Sales of the new Flostar™ household water meter improved. The new line of Woltex™ water meters was successfully introduced for utilities and industrial users.

The new Gallus™ domestic gas meter was introduced in France and an automated factory is being built in Rheims to produce it.

In the U.S., Sprague improved its market position as new investments were made to increase productivity.

A Sangamo electronic multi-function electricity meter.

Instruments

Instruments revenue grew 10% when expressed in national currencies and excluding Adret Electronique, a French company acquired in May.

Test and Measurement sales grew 30%; revenue in Europe was flat, when expressed in national currencies, and was up 11% in the U.S. Demand for telecommunications products was 2% higher in national currencies as new equipment to test both analog and digital transmission lines was introduced.

Sales of data recording and telemetry equipment for aerospace applications grew 57%, but only 17% in national currencies. Sales of airborne and shipborne recorders for defense applications were up in the U.S.

Transducer sales were ahead 13% with strong growth for aerospace applications both in Europe and the U.S.

A small French company, Adret Electronique, was acquired in May; it supplies test equipment, based on frequency synthesizers, for communications and aerospace applications.

Electronic Transactions

The former Paymatec unit is now called Electronic Transactions to reflect the scope of its activities. Paymatec remains the trademark for smart cards and parking products.

Revenue was up 51% and orders 63%.

Smart cards and Systems revenue doubled, and was 52% higher when expressed in national currencies. A third integrated-circuit smart card manufacturing line started up in December, raising annual production capacity to 15 million cards.

Revenue from automated gasoline station dispensing systems was up 41%, or 9% when expressed in national currencies; sales grew in the U.S., Germany and in the Netherlands where new in-station payment terminals are now being sold.

The parking division, with a revenue growth of 8% expressed in national currencies, introduced Digiparc™, an advanced parking terminal, and a computer-assisted parking system for both motorists and parking operators.

Fairchild Weston

Revenue was up 10% as sales of defense-related electro-optical systems and communications countermeasures gained. The market for industrial products softened.

Backlog at year end represented nearly one full year.

Control, Valves and Technology

Revenue was up 10%, but was down 9% when expressed in national currencies and excluding businesses sold during the year. This decline is due mainly to the slowdown of the nuclear and oil-related industries. Revenue of the Process Control division improved 8% in national currencies due to improved sales of digital systems and industrial sensors.

Restructuring of the unit included concentrating the manufacture of nuclear valves in the Lyons plant, as well as the disposition of facilities making industrial gauges, industrial fluid metering and plastic molding.

Schlumberger Montrouge Research

Schlumberger Montrouge Research has committed a substantial portion of its resources to sensor-related research. This includes:

☐ Optical sensors for measuring current and voltage in power transmission systems.

☐ Semiconductor sensors for hostile environment applications.

☐ Nondestructive nuclear imaging, comprising a simple system for the inspection of shipping containers, using low power nuclear sources.

Gilles Gibier
Manufacturing Manager

How did you join Schlumberger?
I was working in France on my own, helping companies with management problems. The job was fun but, at the time, I couldn't speak English which I thought was a serious deficiency. Also, I wanted U.S. experience. So, in 1983, I started seeking advice. One of the people I consulted was a Schlumberger executive, Roland Génin, who was a former student of the Ecole des Arts et Métiers, like myself. A few weeks later, Schlumberger hired me as an internal auditor for assignment in Houston.

Companies talk of investing in people for a long term but not many do it. Schlumberger was taking a risk with me and I really liked that very much.

I spent two years in Houston and then I was asked to make an audit at Sangamo Metering, a Measurement & Control division that makes electricity meters, in Felixstowe, England. They were having manufacturing problems. After some time, I was asked, "Why don't you try to clear up the situation?"

Now that you are in Felixstowe, what is your position?
I am the manufacturing manager. When I started, Sangamo was facing a challenge: it was the first company venturing to mass produce electronic, solid-state electricity meters. These new meters were expected to replace the traditional electromechanical ones. That meant going from a product that had been used with no problems for decades to another one incorporating custom-designed semiconductor chips. When I arrived, Sangamo had invested close to 5 million pounds for a new factory and sophisticated manufacturing equipment.

We hope that, by the end of 1987, we will be able to produce roughly half a million electronic products per year. Our investment in new technology has given us a notable advantage over our competitors, resulting in heavy demand for our products. We know that competition will come. Our competitors are not kids in the business and they are not going to sit back. Therefore, we must stick to our strategy, improve our manufacturing efficiency and continue to invest in new products to maintain our leadership.

What is your view of Schlumberger's future?
For the last 20 years, the company has been very successful and, as a result, has developed a unique management style. During rapid growth, there is room for error and this is not an ideal environment for training managers. I think the oilfield services will recover because the price of oil will go up and we will still be leaders. I have every confidence in Measurement & Control, because I believe we know our business. As we expand our product lines, we must not make the mistake of forgetting about our core business, metering. We must take every opportunity offered by new technologies to introduce new products. We face another challenge...when you are a powerful and successful company like Schlumberger, you open your arms and you get good people. When business is not so good, your best people are the first to become impatient with a slowdown and they leave. In addition, it is harder to hire first-class people. So the company must ensure that motivation is maintained at a high level.

How do you feel personally in the present context?
When the problems at Felixstowe were at their most difficult, I enjoyed the work tremendously. Now the crisis has passed, things are different. I always need challenges to meet and overcome. As long as the company gives me tough jobs, I will be happy and, I think, they will be happy.

Life in Felixstowe is a big change from Texas, from hot weather to a pretty cold and windy place by the seaside. But we really enjoy it and people here are very friendly. We just had our first baby, Carol. I manage to bicycle about 3,000 miles per year. In winter, I cycle only on Sundays, a 100 mile ride! It takes me six hours. Golf? I am not sure it's a sport. It's like running a smooth company. I am not ready yet.

When you are a powerful and successful company like Schlumberger, you open your arms and you get good people. When business is not so good, your best people are the first to become impatient with a slowdown and they leave.

Gilles Gibier, 33, is manufacturing manager at the Sangamo metering plant in Felixstowe, England. He was born in Burgundy, France, and graduated as an engineer from the Ecole des Arts et Métiers. He started his own company specializing in the heat treatment of steel parts. He sold it after it had become profitable, and then got involved in consulting: helping small companies with financial problems. While looking for broader experience in the United States, he was offered a job by Schlumberger in mid-1983 as an auditor in Houston. From there, he was assigned to the Sangamo plant in Felixstowe to reorganize production of electricity meters and, specifically, to set up production of the new electronic domestic electricity meter.

Gilles Gibier lives in Felixstowe with his wife Muriel and newly-born daughter.

The Sangamo plant in Felixstowe, a resort town on the North Sea, is a unit of the Electricity Management branch of Measurement & Control; this plant manufactures electromechanical and electronic domestic electricity meters as well as switches; it employs approximately 650 people.


LESWITCH
Schlumberger
GILLES OIBIER

Computer Aided Systems

Computer Aided Systems (CAS) consists of four operating units:

- *Sentry: Design verification and production testing of semiconductors.*
- *Factron: Automatic testing and fault diagnosis of printed-circuit board subassemblies.*
- *Applicon: Computer aided engineering, design and manufacturing systems for mechanical and electronic components and systems.*
- *Benson: Graphics products for use with computer systems.*

Schlumberger Palo Alto Research is located in Palo Alto, California.

Computer Aided Systems revenue was down 3% and orders were 4% lower, compared to 1985. Order backlog decreased 12%.

Demand for CAS products was lower in North America where revenue and orders declined 22% and 19%, respectively. Europe was stronger as revenue was up 22% and orders 13%; in national currencies, revenue gained 3% while orders were down 7%. In Asia, revenue was up 23% and orders 9% with Korea and Taiwan offsetting a decline in Japan.

Research & engineering expenses were $76 million, down 2% and capital expenditures were $50 million, up 44%.

During 1986, personnel was reduced 33% in Factron and 20% in Sentry and surplus facilities were closed to adapt to a lower activity level while maintaining extensive local support in the U.S., Europe and Japan.

Sentry

Revenue was 26% lower and orders were down 8%. The continued recession in the North American semiconductor industry severely reduced demand for semiconductor testers.

In Europe, the 20 MHz Sentry 15 tester for VLSI components was well received.

Factron

Revenue was 5% lower and orders were down 23%. Orders of production testers for printed-circuit boards continued strong in Europe, up 14%; in North America, however, orders were off 45%, following the pattern of the electronics industry.

Good orders were received for a new tester, the Factron 635, which was introduced during the second half of the year. The Factron 635 was designed for the service market and complements the larger production testers.

Applicon

Revenue was 10% higher, due primarily to improved sales of systems for mechanical CAD/CAM applications; orders were flat.

Bravo 3, a new generation of CAD/CAM software, was released during the year. It combines mechanical and printed-circuit board design capabilities in an integrated package.

A new high-performance color graphics workstation was introduced early in 1986; it provides optimum visualization of three-dimensional solids models.

Flow Systems in Kent, Washington uses Applicon workstations to design water jet cutting systems.

Benson

Revenue of Benson was up 23% and orders 12%. A 27% order growth in Europe offset a 25% decline in North America.

A new series of pen plotters were successfully released by midyear; they have substantially lower manufacturing costs and improved performance, compared to existing products.

Initial deliveries of the new, single pass, color electrostatic plotter were made to customers in North America and Europe.

Schlumberger Palo Alto Research

During 1986, significant progress was made on computer programs for simulating electrical systems and for automatically testing printed-circuit boards. Studies of computer architectures have shown promise for the development of high-speed graphics displays.

Additional advances have been made in developing software that will make possible a CAD/CAM system that can build and manipulate simulated physical models easily and realistically. Significant progress has been made on expert, self diagnosing test systems for semiconductor components.

Eikoh Harada
Sales Manager

Tell us about yourself
After ten years as a development engineer at a computer company, I joined Hewlett Packard as a systems engineer in the automatic test equipment (ATE) group. I was involved primarily in electronic board testers and learned about the ATE market in Japan. Schlumberger was one of the main competitors and I first heard about the company in 1981. The image I had was that of a huge company.

At that time, Schlumberger sold board testing equipment in Japan through a distributor, the Marubeni company, which approached me to join them. I refused. One day I heard that Schlumberger was establishing a direct sales force in Japan. The distributor introduced me to the general manager of the Schlumberger ATE division in Japan, Mr. Tanaka, who was the first general manager of NISSEC, the Japanese arm of the Computer Aided Systems group.

Mr. Tanaka explained Schlumberger to me; I got the impression that with Schlumberger my future depended exclusively on my own performance. I also felt that it was the only company which had the resources needed to win leadership in Japan in the Automatic Test Equipment business. I had two reasons for joining the company: 1) I believed Schlumberger had the power and resources to expand the ATE business in Japan. 2) I believed I could face up to any challenge to make that business grow. That's why I decided to join NISSEC.

What is your job now?
Today, I am the sales manager for all of Schlumberger ATE activities in Japan, both for Factron and Sentry products, with more than a 20% share of the market. Factron is in the top two in market share in Japan. We have an opportunity to take the leadership for the next generation of board testers. However, Sentry is in a position of having to rebuild market position after having faced severe competition from Japanese companies during the last 10 years. Therefore, my job is to build market share for Schlumberger ATE products in a very competitive market.

How do you see the company's future?
Before talking about the future, I want to talk about our current programs, what are today's problems. Every time we compete with the Japanese, we have a problem because the customer prefers to buy Japanese products rather than imported equipment, and also because Japanese manufacturers provide high quality products, good maintenance, timely delivery and good software support. What is the solution to fight Japanese competition? We have to do our own R&D and manufacturing in Japan to win the Japanese market. Otherwise, it will be very, very difficult to win against local competition.

We have to continue building a strong team. In order to maintain high credibility, we have to strengthen our sales force and offer excellent overall quality. We have to create a Japanese company image. Some aspects of Western ways of doing business cannot be accepted by the Japanese. As Schlumberger has done in other countries, our company must become part of Japanese business culture.

As for me, I want to get things done. My business challenge is to make Schlumberger the market leader for the next generation of Automatic Test Equipment in Japan. We have to become number one in this market.

What about your personal life?
My hobby is jazz. I am the drummer in a seventeen-piece band. I live 1½ hours drive from the office, just on the edge of Toyko. On Saturdays, I frequently work. On week days, I have no time to really think about my job because I have to spend all my time meeting customers and managing the business. The only time I can really plan and organize my job is on Saturdays. I have to leave my home at 7:15 in the morning and I often work at night. I play golf and tennis to clear the stress and forget business. But business is my passion.

What is the solution to fight Japanese competition?... We have to create a Japanese company image. Some aspects of Western ways of doing business cannot be accepted by the Japanese. As Schlumberger has done in other countries, our company must become part of Japanese business culture.

Eikoh Harada, 38, is the sales manager of the Automatic Test Equipment (ATE) branch of NISSEC, the Japanese division of the Computer Aided Systems group. Born on the island of Kyushu, in the southern part of Japan, he received his primary education in the Nagasaki Prefecture and graduated as an electronics engineer from Tokai University in Tokyo. After holding various positions with other electronic companies, he joined Schlumberger in 1981, in charge of sales of automatic board testers of Factron.

Eikoh Harada is married; his wife Hatsue graduated from the University of Music and teaches music at the Yamaha School; she is also an opera singer.

NISSEC is a division of the Computer Aided Systems group, responsible for its activities in Japan. The NISSEC charter includes the marketing, sales and servicing of the CAD/CAM systems of Applicon, the printer products of Benson, the automatic semiconductor testers of Sentry and the automatic printed-circuit board testers of Factron. NISSEC has a staff of approximately 70, located in the Schlumberger facility at Fuchinobe, near Tokyo.

Schlumberger and GECO

On November 6, Schlumberger and GECO, a Norwegian geophysical company, announced an agreement for Schlumberger to acquire fifty percent of the capital of GECO through the purchase of newly issued shares. As part of the terms, Merlin Geophysical Ltd., the seismic data processing unit of Schlumberger, becomes a wholly owned subsidiary of GECO.

GECO is an integrated geophysical company which principally operates offshore, mainly in the North Sea and the United States. In 1986, results were drastically impacted by depressed oilfield activity worldwide; revenue as reported at the average dollar versus kroner exchange rate was $146 million; net loss was $67 million which included $22 million of nonrecurring charges.

Draftslady Torill Rosland and geologist Terje Flaten integrate wireline logs and seismic data in the GECO data processing center in Stavanger, Norway.

GECO operates as an independent Norwegian company with its own management reporting to its own board of directors. GECO stock is traded on the Oslo Stock Exchange.

Geophysical Surveying

Surface geophysical techniques, mainly seismic surveying, provide information about underground geological structures that help geologists spot promising drilling locations.

The presence of oil cannot be ascertained from surface geophysical measurements alone; hydrocarbons can only be confirmed by drilling a well and making additional downhole measurements.

The most important surface geophysical exploration technique is seismic surveying.

What is Seismic Surveying?

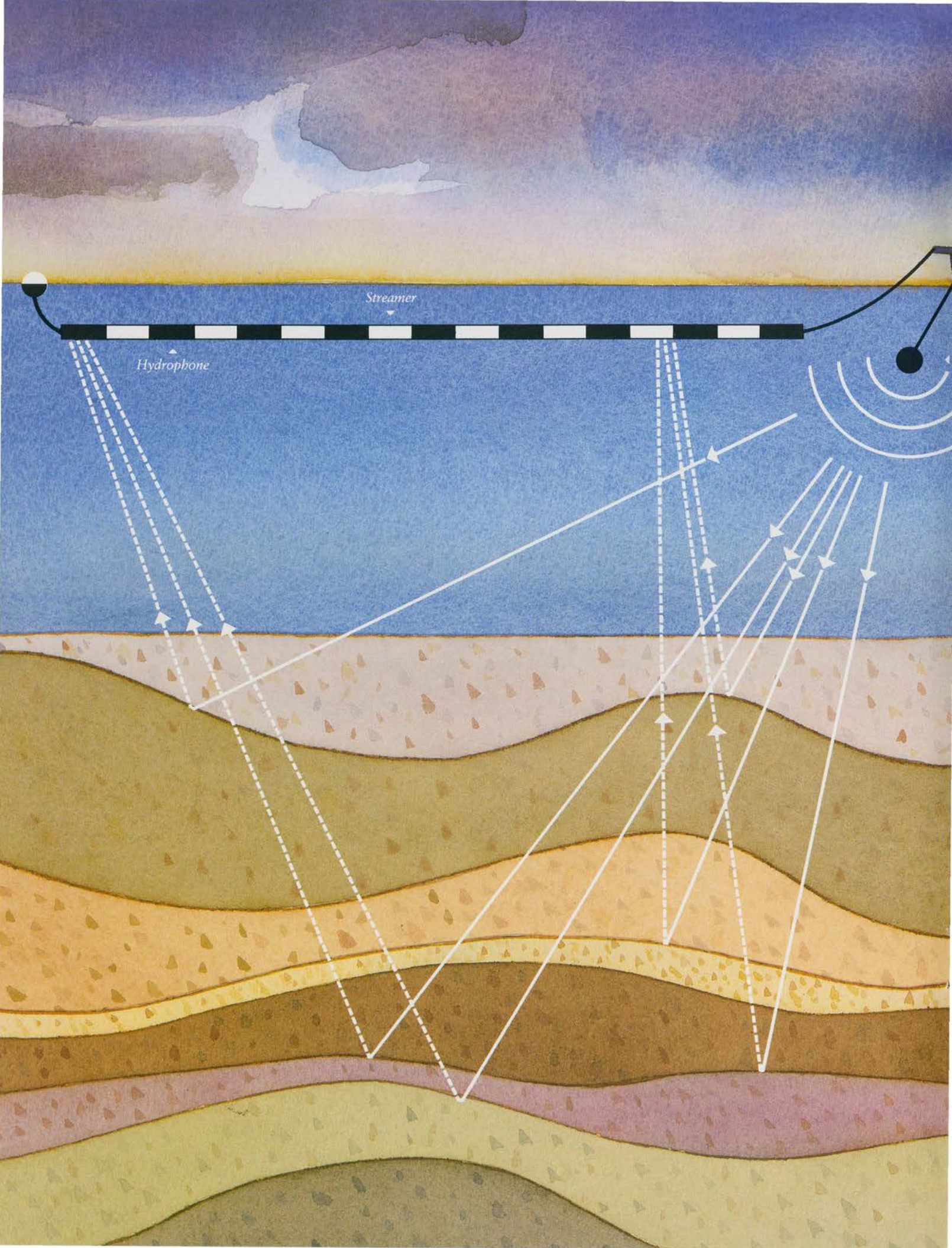
The word seismic comes from the Greek *seismos* which means earthquake. The techniques and instruments developed for studying earthquakes were borrowed by early petroleum geophysicists to prospect for oil. Seismic surveying consists of generating a powerful shock wave at the surface and "listening" for echoes as sound impulses are reflected back from rock layers deep within the earth. Special listening devices, called geophones (on land) or hydrophones (offshore), pick up these echoes which are recorded. After extensive, sophisticated computer processing, an accurate map of subsurface beddings can be plotted with the transit times of the sound waves converted to depth measurements.

Seismic methods came into widespread use in the 1920s at a time when the oil industry had slowed to a crawl because of poor success in locating new reservoirs. Seismic surveying changed this situation dramatically and to this day is, by far, the dominant technology for exploration surveys aimed at identifying, from the surface, possible oil and gas reserves. It is the only geophysical prospecting method that provides structural maps which are accurate enough to site exploration wells or describe existing reservoirs for more efficient production.

Once a well is drilled, the oil company can call on Schlumberger services to get detailed information on the properties of subsurface formations such as the types of rocks, the location and content of oil and gas reservoirs. As additional wells are drilled to delineate and develop an oil field, well logs and seismic data are merged to map the reservoirs in some detail, an indispensable aid to efficient production.

More and more, the merging of well logging data with seismic data, acquired both on the surface and downhole, is essential to refine the description of an entire reservoir.

A GECO seismic survey vessel offshore the Middle East towing an array of air guns.


Streamer
Hydrophone

Schlumberger and GECO

GECO at Work

Every item of a marine seismic operation is important to the quality of the final data:

☐ the type of ship, its handling and navigation;

☐ data collection including the control of the firing and power of the energy sources (air guns), positioning of the streamers (plastic tubes containing the hydrophones), and data recording;

☐ data processing and interpretation.

Seismic Survey Vessels

GECO's Norwegian-designed survey ships carry a crew of about 25, half of whom perform surveys and the rest, ship operations. GECO vessels are provisioned to stay at sea at least 40 days and fitted to operate anywhere in the world. They can work in force 6 winds and stay at sea in the roughest weather. Generally, sea noise halts operations before bad weather does; GECO ship design minimizes noise interference with data acquisition.

A survey is useless unless the ship's position is known precisely during data acquisition. Locating the ship within a few meters is made possible by an integrated navigation system that can accept input from navigational satellites or radio positioning systems and simultaneously from onboard instruments such as gyros, ship's log, doppler sonar and echo sounders.

Data Acquisition

The survey ship sails up and down planned lines, detonating the 15 to 50 air guns towed in a designed pattern in its wake, every 25 meters. Every time the guns are detonated, several thousand hydrophones in the streamer cable collect the echoes reflected back from boundaries of the rock strata beneath the sea floor. The electrical signals from the hydrophones are digitized and recorded on magnetic tape aboard the ship. At the same time, the navigation system logs the ship's exact position.

Marine seismic exploration:
The survey ship *equipped with precision navigation and data acquisition systems tows 15 to 50* air guns *just beneath the surface... every 10 seconds the guns are "fired" releasing a charge of compressed air... this sound energy travels through the water and deep into the underlying rocks... energy reflected from rock boundaries travels back and is picked up by the large number of* hydrophones *(up to 12,000) spaced along a cable* (streamer) *also towed by the ship ... the signals are recorded on board the ship.*

Data Processing & Interpretation

Recorded tapes are dispatched to centers ashore for processing. An ordinary survey on a North Sea block can easily yield several hundred tapes and several thousand may be needed for detailed investigations often amounting to several hundred billion data points.

Few scientific or industrial applications require more computing power than seismic data processing. GECO has main processing centers in Houston, London and Stavanger and operates smaller facilities in other parts of the world. Merlin Geophysical, based in London, also carries out advanced seismic processing.

Enormous volumes of interrelated data points must be combined mathematically and converted into a graphic form suitable for geological interpretation. Spurious signals like noise are filtered out in the data processing by sophisticated mathematical computer operations. The final result is a plot of seismic profiles which shows the echoes from geological boundaries beneath the subsurface. This is the end product delivered to the client, along with the processed data on magnetic tape.

Geological interpretation is done at this stage using either the profiles plotted on film or paper or a modern interactive work station. This work is generally done by the oil company; however, GECO can provide this service, if required by its clients, and does it systematically for nonexclusive surveys carried out on its own account.

Interpretation involves assigning a geological identification to each stratum that is shown by the echoes reflected back from the rock boundaries. From this, maps are drawn showing the topography of the different strata. Where possible, information from well logs in the same area is integrated with the seismic data to refine the interpretation.

GECO Profile

The Company

GECO is among the leaders in marine seismic services. During recent years, GECO has put great effort into developing comprehensive geological and geophysical services for the oil industry: acquisition, processing and interpretation of seismic data, as well as laboratory and mapping services.

Mark Doherty (right) and Niels Arveschoug discuss a fault pattern on a seismic section in the U.K. data processing center.

GECO operates 12 vessels for the acquisition of seismic marine data and two crews for data acquisition on land. Principal operating locations are in Norway, the United States and the United Kingdom. The company also operates in Brazil, China, Dubai, Indonesia, Morocco, New Zealand, Singapore and Sweden.

The severe cutbacks in oil exploration worldwide have necessitated some rescaling of GECO operations. During 1986, the number of employees has been reduced 30% to about 1,500.

Engineering Development

Recently, particular emphasis has been placed on improving three-dimensional (3-D) seismic. GECO introduced techniques that enable a single vessel to shoot four seismic profiles simultaneously. This technique has been used mainly in the Gulf of Mexico and in Sarawak, Malaysia with great success. A new data acquisition system accommodates 1,000 channels as compared to a maximum of 480 channels for most other systems, giving greater flexibility on two-dimensional as well as three-dimensional surveys.

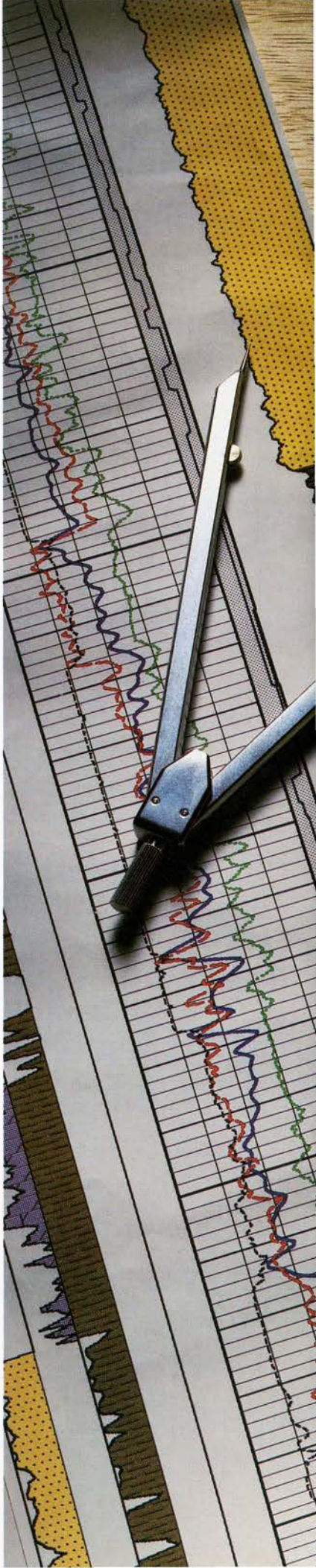
Markets

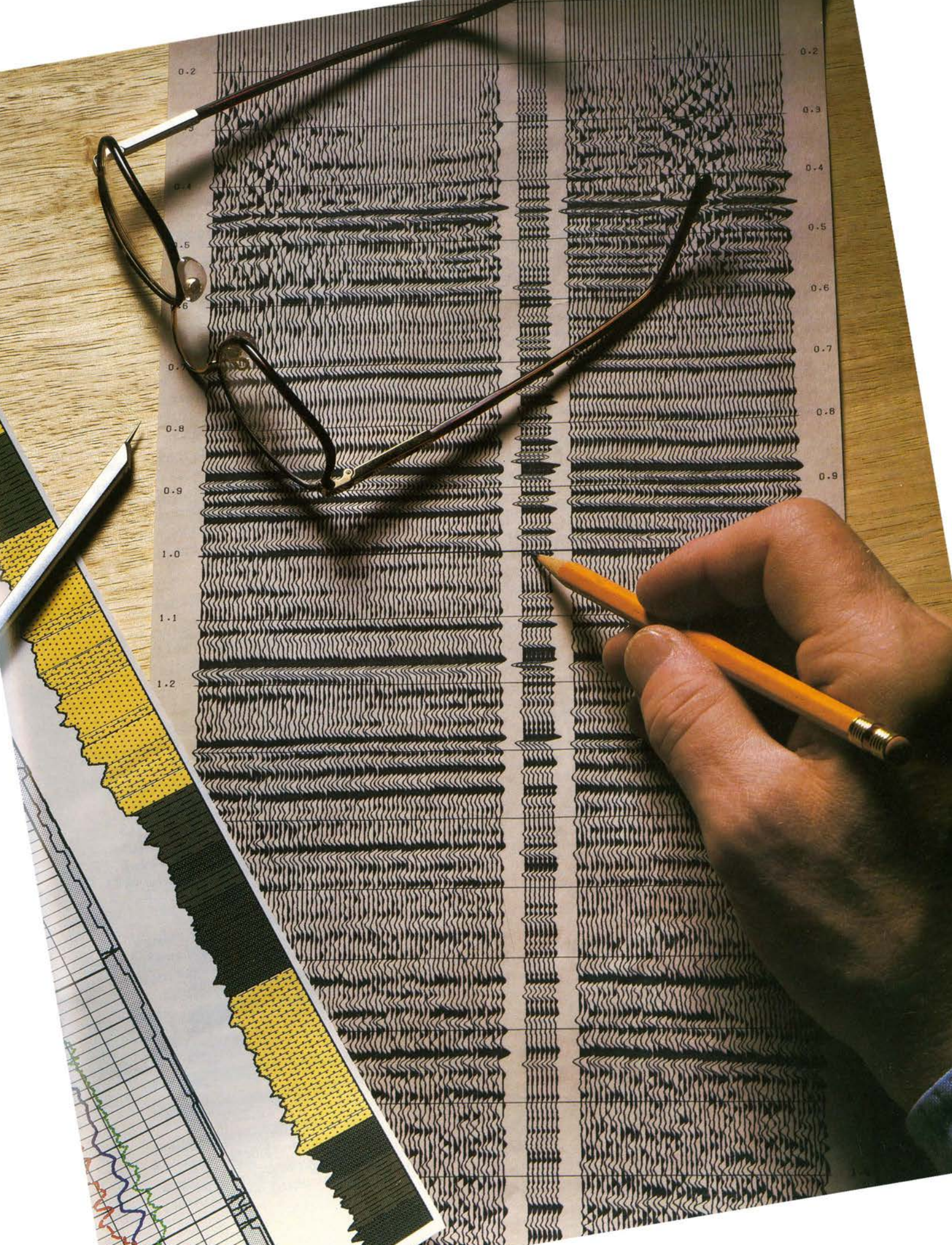
The demand for seismic services has a close relationship to the price of oil. Consequently, a dramatic fall in the marine seismic market has taken place in the United States during 1986. Africa, the North Sea and the Far East have also declined. Technical leadership has helped shield GECO from the full effects of the fall-off in activity. However, the company has significantly reduced its fleet, retaining the higher technology vessels capable of performing 3-D surveys.

The market for seismic data processing follows closely that of data acquisition; however, the reprocessing of old data, using newer techniques to improve interpretations, has held up. With three new large Vector Processors, GECO's processing centers are well equipped to apply advanced techniques to new data as well as reprocessing old data efficiently.

GECO also undertakes seismic surveys on its own account in potentially interesting areas without having a contract. These surveys are later sold on a nonexclusive basis to interested oil industry clients.

The pencil points to a Vertical Seismic Profile (VSP) superimposed on a surface seismic section. VSP is a wireline service in which seismic data are recorded versus both time and depth in the well. The VSP permits a correlation between surface seismic data, recorded against time, and wireline logs (at left) recorded versus depth. Merging of seismic and wireline data plays a key role in describing the structure of hydrocarbon reservoirs.

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Financial Review

Results of Operations

On October 23, 1986 the Company announced an agreement in principle to sell the Fairchild Semiconductor operations to Fujitsu Limited. Accordingly, comments in this Financial Review exclude amounts relating to Fairchild Semiconductor which has been presented as a discontinued operation.

The loss from continuing operations for 1986 was $1.65 billion ($5.76 per share) as compared to income of $978 million ($3.27 per share) in 1985 and $1.17 billion ($4.07 per share) in 1984. The 1986 loss from continuing operations includes nonrecurring charges of $1.74 billion, or $6.05 per share. Oilfield Services charges amounted to $1.46 billion and included $555 million for the write-off of goodwill at Dowell Schlumberger ($182 million) and Sedco Forex ($373 million). Measurement, Control & Components charges were $130 million.

Including the results of discontinued operations and the nonrecurring charges described above, the net loss for 1986 was $2.02 billion, or $7.02 per share. Net income for 1985 and 1984 was $351 million ($1.17 per share) and $1.18 billion ($4.10 per share), respectively. The 1986 loss from discontinued operations was $363 million, or $1.26 per share (including provisions of $200 million for the expected loss on disposal and $70 million for operating losses during the phase-out period), compared to a loss of $627 million ($2.10 per share) in 1985 and income of $9 million ($0.03 per share) in 1984. The 1985 loss from discontinued operations includes unusual charges at Fairchild Semiconductor of $486 million ($1.63 per share) for the write-off of goodwill ($250 million) and the consolidation of production facilities.

Oilfield Services

Oilfield Services operating revenue decreased 33% in 1986. Excluding the acquisitions of SEDCO and 50% of the Dowell business and assets in North America, Oilfield Services revenue decreased 2% in 1985 and was flat in 1984.

Wireline, Seismic & Testing Services revenue was down 34% after decreasing 3% in 1985 and increasing 3% in 1984. In North America, Wireline & Testing revenue was down 51% as average active rigs were 50% below last year. Outside North America, revenue declined 25% as the average active rig count dropped 18%.

Drilling & Pumping Services revenue, after adjusting for the 1984 acquisitions of SEDCO and 50% of the Dowell business and assets in North America, decreased 32%, 3% and 15% in 1986, 1985 and 1984, respectively. Pumping Services (Dowell Schlumberger—50% owned) revenue declined 36% in North America and 25% outside North America reflecting the combination of severe price competition and sharp declines in drilling activity. Revenue at Sedco Forex decreased 35% due to declining average rig utilization and day rates in the contract drilling industry. Anadrill revenue was 24% lower than 1985 due to declining drilling activity, particularly in North America.

Measurement, Control & Components

Measurement, Control & Components operating revenue increased 18% after decreasing 1% in 1985 and increasing 3% in 1984.

Measurement & Control revenue was up 25%, aided by the strengthening of European currencies and the inclusion of businesses acquired in late 1985 and early 1986. Expressed in national currencies revenue was up 5%. Higher worldwide sales of electricity meters, strong demand for imaging and electronic systems and higher sales of gas products in Europe were partially offset by lower sales of petroleum and nuclear valves.

Revenue at Computer Aided Systems decreased 3% in 1986 compared to a 9% decrease in 1985 and an 18% increase in 1984. At Sentry (component test systems) and Factron (subassembly test systems), revenue decreased 26% and 5%, respectively, due to weak demand for automatic test equipment in North America. Applicon (computer aided design and manufacturing) revenue increased 10% and Benson (computer aided graphics) revenue was up 23% due to improved demand in Europe and the strengthening of European currencies.

Interest Income

Interest income was $356 million in 1986 as compared to $443 million and $389 million in 1985 and 1984, respectively. The 19% decrease in 1986 compared to 1985 was primarily due to lower interest rates.

Interest Expense

Interest expense was $410 million in 1986 as compared to $209 million in 1985 and $146 million in 1984. The substantial increase in 1986 compared to 1985 was primarily due to the provision of $228 million for potential interest related to the Company's pending litigation with the U.S. Internal Revenue Service with respect to income from continuing Wireline operations on the outer continental shelf of the United States for the period 1970 through 1986.

Research & Engineering

Research & engineering expenditures were $387 million, $47 million above 1985 and $78 million higher than 1984. Oilfield Services expenditures for research & engineering totaled $225 million, $197 million and $176 million in 1986, 1985 and 1984, respectively. Measurement, Control & Components spent $162 million, $143 million and $133 million for the same years.

Acquisitions

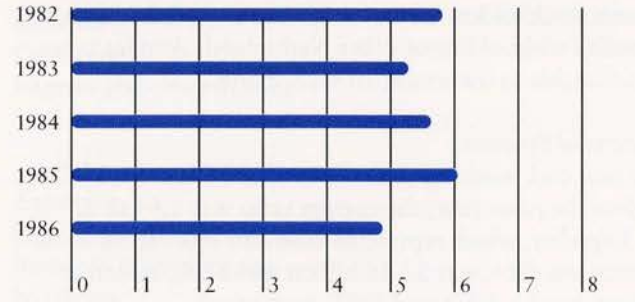
In November 1986, the Company completed the acquisition of 50% of GECO A.S. at a cost of $77 million. The acquisition was accounted for as a purchase and the related investment is included in investments in affiliated companies.

On December 24, 1984, the merger of SEDCO, Inc. into a subsidiary of the Company was completed. The cost of the

All Charts Refer to Continuing Operations

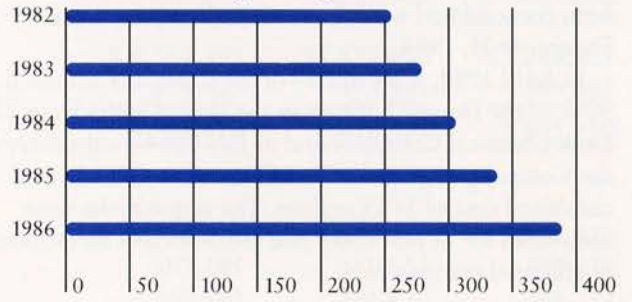
Revenue

($ Billions)



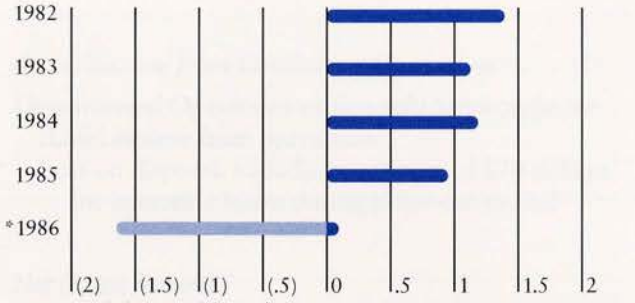
Research & Engineering

($ Millions)



Income

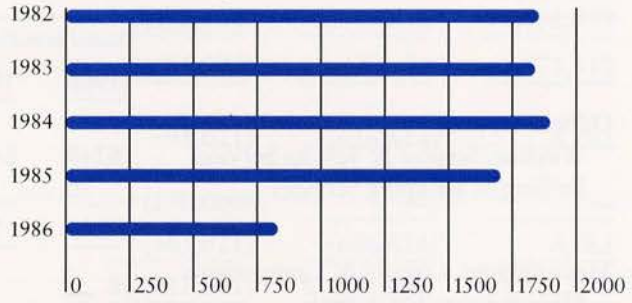
($ Billions)



*Includes $1.74 billion of nonrecurring charges.

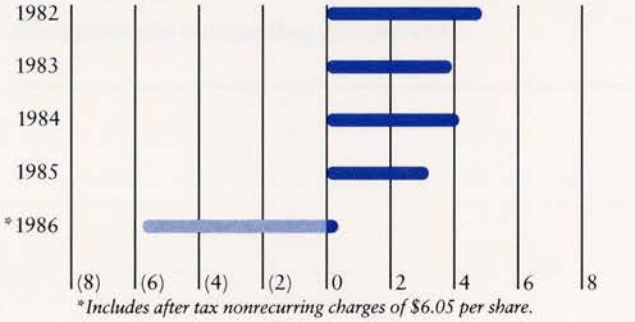
Funds from Operations

($ Millions)



Earnings per Share

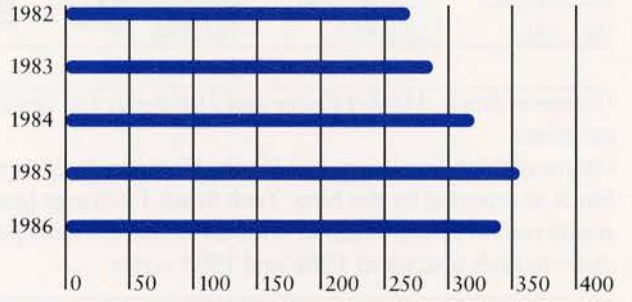
($ Dollars)



*Includes after tax nonrecurring charges of $6.05 per share.

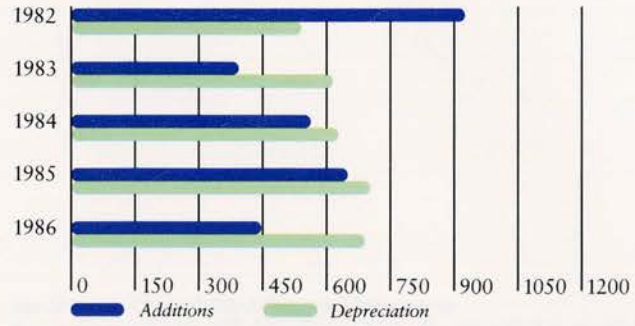
Dividends Declared

($ Millions)



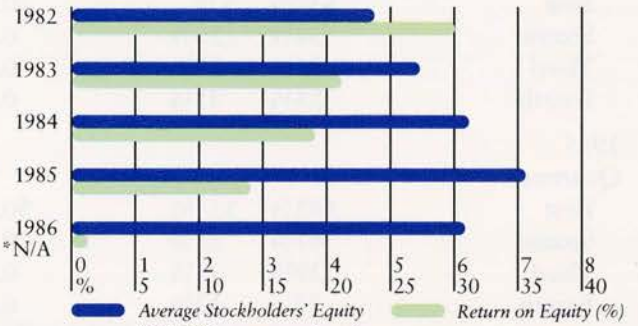
Gross Fixed Assets

($ Millions)



Average Stockholders' Equity

($ Billions)



*1% Before nonrecurring charges.

acquisition was $968 million ($482 million in cash and approximately 13 million shares of Schlumberger Common Stock valued at $486 million). The acquisition was accounted for as a purchase and the accounts of SEDCO have been consolidated with those of the Company since December 31, 1984.

In April 1984, a subsidiary of the Company acquired 50% of the Dowell business in the United States from The Dow Chemical Company and in July 1984 a subsidiary of the Company acquired 50% of Dowell in Canada at a combined cost of $439 million. The acquisitions were accounted for as purchases and are carried in investments in affiliated companies.

Fixed Assets

Expenditures for fixed assets in 1986 were $447 million compared to $650 million in 1985.

Additions by business sector were as follows:

	(Stated in millions)	
	1986	1985
Oilfield Services		
Wireline, Seismic & Testing Services	**$249**	$464
Drilling & Pumping Services	**70**	84
	319	548
Measurement, Control & Components		
Measurement & Control	**77**	64
Computer Aided Systems	**50**	35
	127	99
Other	**1**	3
	$447	$650

Common Stock, Market Prices and Dividends Declared per Share

Quarterly high and low prices for the Company's Common Stock as reported by the New York Stock Exchange (composite transactions), together with dividends declared per share in each quarter of 1986 and 1985 were:

	Price Range		*Dividends*
	High	*Low*	*Declared*
1986			
Quarters			
First	$37¾	$29	$0.30
Second	34⅞	29⅝	0.30
Third	35½	27¼	0.30
Fourth	35⅝	31⅛	0.30
1985			
Quarters			
First	$43⅞	$34½	$0.30
Second	41¾	35⅝	0.30
Third	39⅝	33⅛	0.30
Fourth	37	32⅜	0.30

The number of holders of record of the Common Stock of the Company at December 22, 1986 was approximately 48,000. There are no legal restrictions on the payment of dividends or ownership or voting of such shares. United States stockholders are not subject to any Netherlands Antilles withholding or other Netherlands Antilles taxes attributable to ownership of such shares.

Financial Position

At year end, working capital was $2.1 billion, $1.2 billion below the prior year; the current ratio was 1.64 to 1.

Liquidity, which represents cash and short-term investments less debt, was $2.26 billion and $2.51 billion at December 31, 1986 and 1985, respectively.

Consolidated Statement of Operations

(Stated in thousands)

Year Ended December 31,	1986	1985	1984
Revenue			
Operating	$ 4,568,395	$5,585,060	$5,246,429
Interest and other income	370,025	433,842	389,481
	4,938,420	6,018,902	5,635,910
Expenses			
Cost of goods sold and services	3,510,320	3,649,567	3,142,823
Research & engineering	387,485	340,553	309,238
Marketing	260,582	226,672	225,337
General	317,433	290,805	237,969
Interest	410,001	209,238	146,347
Nonrecurring charges	1,601,314	—	—
Taxes on income	105,855	324,417	400,885
	6,592,990	5,041,252	4,462,599
(Loss) Income from Continuing Operations	(1,654,570)	977,650	1,173,311
Discontinued Operations of Fairchild Semiconductor			
(Loss) income from operations	(93,021)	(626,614)	8,762
Loss on disposal, including provision of $70 million for operating losses during phase-out period	(270,000)	—	—
	(363,021)	(626,614)	8,762
Net (Loss) Income	$(2,017,591)	$ 351,036	$1,182,073
(Loss) income per share			
Continuing operations	$ (5.76)	$ 3.27	$ 4.07
Discontinued operations	(1.26)	(2.10)	0.03
Net (loss) income	$ (7.02)	$ 1.17	$ 4.10
Average shares outstanding (thousands)	287,387	298,872	288,580

See Notes to Consolidated Financial Statements
Schlumberger Limited (Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Consolidated Balance Sheet — Assets

(Stated in thousands)

December 31,	1986	1985
Current Assets		
Cash	$ 45,247	$ 41,339
Short-term investments	3,765,128	4,548,785
Receivables less allowance for doubtful accounts (1986 — $55,663; 1985 — $29,597)	974,681	1,272,968
Inventories	560,032	699,961
Other current assets	66,909	77,144
	5,411,997	6,640,197
Investments in Affiliated Companies	310,639	720,479
Long-Term Investments and Receivables	124,965	230,372
Net Assets of Fairchild Semiconductor at Realizable Value	150,000	—
Fixed Assets less accumulated depreciation	1,832,460	3,125,216
Excess of Investment Over Net Assets of Companies Purchased less amortization	118,000	534,319
Other Assets	63,718	31,649
	$8,011,779	$11,282,232

See Notes to Consolidated Financial Statements

Consolidated Balance Sheet — Liabilities and Stockholders' Equity

(Stated in thousands)

December 31,	1986	1985
Current Liabilities		
Accounts payable and accrued liabilities	$1,338,758	$ 1,188,271
Estimated liability for taxes on income	826,894	948,409
Bank loans	1,034,615	1,046,780
Dividend payable	84,787	89,357
Long-term debt due within one year	8,155	18,516
	3,293,209	3,291,333
Long-Term Debt	504,334	1,013,746
Other Liabilities	90,965	99,944
	3,888,508	4,405,023
Stockholders' Equity		
Common stock	421,113	421,186
Income retained for use in the business	4,539,421	6,900,894
Treasury stock at cost	(784,768)	(310,528)
Translation adjustment	(52,495)	(134,343)
	4,123,271	6,877,209
	$8,011,779	$11,282,232

See Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Financial Position

(Stated in thousands)

Year Ended December 31,	1986	1985	1984
Funds provided by continuing operations:			
(Loss) income from continuing operations	$(1,654,570)	$ 977,650	$1,173,311
Depreciation and amortization	719,033	729,457	639,034
Excess of dividends over earnings of companies carried at equity (Dividends: 1986 – $38,916; 1985 – $88,715; 1984 – $99,000)	108,708	30,719	77,764
Net change in other working capital accounts	486,527	102,994	80,920
Gain on sale of Compagnie Generale des Eaux shares	(60,245)	—	—
Nonrecurring charges — write-down of goodwill/fixed assets	1,298,322	—	—
Other – net	(61,337)	(141,373)	(64,590)
Funds provided by continuing operations	836,438	1,699,447	1,906,439
Funds (required) provided by discontinued operations:			
(Loss) income excluding 1986 loss on disposal and losses during phase-out period — $270 million	(93,021)	(626,614)	8,762
Depreciation and amortization	98,369	111,873	96,242
Unusual charges – write-down of Fairchild goodwill/fixed assets	—	320,667	—
Net change in other working capital accounts and other	(8,735)	132,002	32,900
Funds (required) provided by discontinued operations	(3,387)	(62,072)	137,904
Funds provided by continuing and discontinued operations	833,051	1,637,375	2,044,343
Retirement and sales of fixed assets	167,010	38,321	31,279
Proceeds from sale of shares to optionees	126	287	9,663
Proceeds from sale of Compagnie Generale des Eaux shares less related income taxes	98,940	—	—
Total funds provided	1,099,127	1,675,983	2,085,285
Funds required for:			
Additions to fixed assets	447,248	650,367	558,778
Dividends declared	343,882	358,388	323,050
Purchase of shares for Treasury	474,439	183,740	110,867
Increase (decrease) in other long-term investments and receivables	(12,290)	(6,451)	14,029
Increase in excess of investment over net assets of companies purchased	—	38,562	9,711
Discontinued operations — primarily additions to fixed assets	138,331	136,922	193,506
Other – net	2,080	(14,178)	4,656
Total funds required	1,393,690	1,347,350	1,214,597
Resulting in a (decrease) increase in cash and short-term investments before acquisition and financing activities	(294,563)	328,633	870,688
Acquisition and financing activities:			
Purchase of 50% of GECO A.S.	(76,950)	—	—
Purchase of 50% of Dowell business and assets in North America	—	—	(438,661)
Net assets of SEDCO, excluding cash and indebtedness	—	—	(1,014,478)
Value of shares exchanged for SEDCO	—	—	485,745
Debt transactions (including bank loans):			
Debt incurred to acquire —			
Dowell business and assets in North America	—	—	438,661
Net assets of SEDCO	—	—	482,236
Other increase (decrease) in indebtedness	(391,906)*	256,023	(7,364)
Net acquisition and financing activities	(468,856)	256,023	(53,861)
Resulting in a (decrease) increase in cash and short-term investments	(763,419)	584,656	816,827
Cash and short-term investments — beginning of period	4,573,794*	4,005,468	3,188,641
Cash and short-term investments — end of period	3,810,375	4,590,124	4,005,468
Less: All indebtedness	1,547,104	2,079,042	1,823,019
Liquidity	$ 2,263,271	$2,511,082	$2,182,449

**Excludes amounts relating to discontinued operations.*

See Notes to Consolidated Financial Statements
Schlumberger Limited (Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Consolidated Statement of Stockholders' Equity

(Dollar amounts in thousands)

	Common Stock					
	Issued		*In Treasury*			
	Shares	*Amount*	*Shares*	*Amount*	*Translation Adjustment*	*Income Retained for Use in the Business*
Balance, January 1, 1984	302,979,781	$359,537	13,354,991	$ 449,967	$(139,943)	$6,049,223
Translation adjustment, 1984					(70,212)	
Purchases for Treasury			2,328,000	110,867		
Issued for SEDCO		52,564	(12,996,526)	(433,181)		
Sales to optionees less shares exchanged	391,000	9,482	(17,449)	(181)		
Net income						1,182,073
Dividends declared ($1.12 per share)						(323,050)
Balance, December 31, 1984	303,370,781	421,583	2,669,016	127,472	(210,155)	6,908,246
Translation adjustment, 1985					75,812	
Purchases for Treasury			4,747,300	183,740		
Sales to optionees less shares exchanged	6,076	(397)	(13,591)	(684)		
Net income						351,036
Dividends declared ($1.20 per share)						(358,388)
Balance, December 31, 1985	303,376,857	421,186	7,402,725	310,528	(134,343)	6,900,894
Translation adjustment, 1986					81,848	
Purchases for Treasury			14,821,980	474,439		
Sales to optionees less shares exchanged	2,705	(73)	(3,972)	(199)		
Net loss						(2,017,591)
Dividends declared ($1.20 per share)						(343,882)
Balance, December 31, 1986	303,379,562	$421,113	22,220,733	$ 784,768	$ (52,495)	$4,539,421

See Notes to Consolidated Financial Statements
Schlumberger Limited (Schlumberger N.V., Incorporated in the Netherlands Antilles) and Subsidiary Companies

Notes to Consolidated Financial Statements

Summary of Accounting Policies

The Consolidated Financial Statements of Schlumberger Limited and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of majority-owned subsidiaries. Significant 20%–50% owned companies are carried in investments in affiliated companies on the equity method. The pro rata share of revenue and expenses of 50% owned companies is included in the individual captions in the Consolidated Statement of Operations. The Company's pro rata share of after tax earnings of other equity companies is included in interest and other income.

Translation of Non-U.S. Currencies

All assets and liabilities recorded in functional currencies other than U.S. dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to the Stockholders' Equity section of the balance sheet. Stockholders' Equity was increased $82 million in 1986 following an increase of $76 million in 1985 and a decrease of $70 million in 1984. Revenue and expenses are translated at the weighted average exchange rates for the period.

All transaction gains and losses are included in income in the period in which they occur. Transaction gains included in the 1986 results amounted to $39 million compared to losses of $24 million in 1985 and gains of $9 million in 1984.

Short-term Investments

Short-term investments are stated at cost plus accrued interest, which approximates market, and comprised mainly time deposits and certificates of deposit in U.S. dollars, and U.S. Government obligations.

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 accumulated 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 oilfield technical equipment manufactured by subsidiaries of the Company. Expenditures for renewals, replacements and betterments are capitalized. Maintenance and repairs are charged to operating expenses as incurred. 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.

Excess of Investment Over Net Assets of Companies Purchased

Costs in excess of net assets of purchased companies having an indeterminate life are amortized on a straight-line basis over 40 years. Accumulated amortization was $29 million and $45 million at December 31, 1986 and 1985, respectively.

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 to 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. 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

The Company and its subsidiaries compute taxes on income 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 or expense items reported in one period for tax purposes and in another period for financial accounting purposes, an appropriate provision for deferred income taxes is made. The provisions were not significant in 1986, 1985 or 1984.

Approximately $3.8 billion of consolidated income retained for use in the business at December 31, 1986 represented undistributed earnings of consolidated subsidiaries and the Company's pro rata share of 20%–50% owned companies. No provision is made for deferred income taxes on those earnings considered to be indefinitely reinvested.

Tax credits and other allowances are credited to current income tax expense on the flow-through method of accounting.

Net Income per Share

Net income per share is 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.

Discontinued Operations

On October 23, 1986, the Company announced an agreement in principle to sell 82% of its Fairchild Semiconductor operations to Fujitsu Limited. The Fairchild operations will be integrated with Fujitsu's U.S. semiconductor business and certain Fujitsu European semiconductor businesses.

As a result of the pending sale, the operating results of the Fairchild Semiconductor business have been reported as discontinued operations in the Consolidated Statement of Operations for 1986 and prior years. The net assets of Fairchild Semiconductor as of December 31, 1986 are shown at realizable value in the Consolidated Balance Sheet. The loss on disposal of $200 million and the estimated operating losses during the phase-out period (January 1, 1987 to closing date) of $70 million have been recorded in 1986 as part of the aggregate discontinued operations loss.

Operating results of Fairchild Semiconductor were as follows:

	(Stated in thousands)		
	1986	1985	1984
Operating revenue	**$ 487,788**	$ 506,481	$689,476
Loss before income taxes	**$ (91,241)**	$(685,099)	$ (2,213)
(Loss) income after income taxes	**$ (93,021)**	$(626,614)	$ 8,762

The 1986 loss from discontinued operations includes a $53 million gain from the favorable settlement of the Data General litigation.

The 1985 loss includes unusual charges of $486 million ($1.63 per share) for the write-off of goodwill ($250 million), a provision of $86 million for disposal of certain assets and $102 million for the consolidation of certain production facilities.

Nonrecurring Charges

In the fourth quarter of 1986, the Company recorded nonrecurring charges with an after tax effect of $1.74 billion, or $6.05 per share. These charges related to the Oilfield Services segment in the amount of $1.46 billion, and to the Measurement, Control & Components segment in the amount of $130 million; $150 million of the balance represents potential interest related to the Company's pending litigation with the U.S. Internal Revenue Service with respect to income from continuing Wireline operations on the outer continental shelf of the United States for the period 1970 through 1986.

The Oilfield Services charges consisted primarily of write-offs of goodwill at Dowell Schlumberger ($182 million), the 50% owned pumping services subsidiary, and at Sedco Forex ($373 million), the drilling services operation, and write-offs and write-downs of certain Oilfield Services equipment and inventories aggregating $730 million. The Measurement, Control & Components charges consisted mainly of provisions for consolidation of operations in both the Measurement & Control and Computer Aided Systems groups.

The pretax effect of the above charges was $1.83 billion; the potential interest related to the Company's pending litigation with the U.S. Internal Revenue Service ($228 million pretax) is classified as interest expense. Tax benefits related to the above charges are included in taxes on income.

Acquisitions

In November 1986, the Company completed the acquisition of 50% of GECO A.S. at a cost of $77 million. GECO provides offshore geophysical services, chiefly in the North Sea and the United States. The acquisition was accounted for as a purchase and the related investment is included in investments in affiliated companies. The pro rata share of GECO's results, from the date of acquisition, is included in the Consolidated Statement of Operations.

On December 24, 1984, a subsidiary of the Company acquired SEDCO, Inc., an offshore drilling contractor operating mainly outside the United States, at a total cost of $968 million ($482 million in cash and approximately 13 million shares of Schlumberger Common Stock valued at $486 million). The acquisition was accounted for as a purchase and the accounts of SEDCO have been consolidated with those of the Company since December 31, 1984.

In April 1984, a subsidiary of the Company acquired 50% of the Dowell business and assets in the United States from The Dow Chemical Company and in July 1984, a subsidiary of the Company acquired 50% of the Canadian operation of Dowell at a combined cost of $439 million. Dowell Schlumberger provides cementing, stimulation and other oilfield services. The acquisitions were accounted for as purchases and are carried in investments in affiliated companies.

Fixed Assets

A summary of fixed assets follows:

December 31,	*(Stated in millions)* 1986	1985
Land	$ 59	$ 78
Buildings & improvements	607	870
Machinery and equipment	4,517	5,436
Total cost	5,183	6,384
Less accumulated depreciation	3,351	3,259
	$1,832	$3,125

In 1986, certain oilfield services fixed assets were written down as a result of the significant business downturn in the

oil industry.

Estimated useful lives of buildings & improvements range from 8 to 50 years and of machinery and equipment from 2 to 15 years.

Investments in Affiliated Companies

Investments in affiliated companies at December 31, 1986 comprised mainly the Company's 50% investment in the worldwide Dowell Schlumberger business which aggregated $212 million and investments in GECO and 50% owned companies acquired through the acquisition of SEDCO.

Combined financial data for all 50% owned affiliated companies are as follows:

	(Stated in millions)	
December 31,	**1986**	1985
Current assets	**$ 677**	$ 687
Fixed assets	**905**	921
Other assets	**57**	17
	$1,639	$1,625
Liabilities	**$ 837**	$ 752
Equity	**802**	873
	$1,639	$1,625

Equity in undistributed earnings of all 50% owned companies at December 31, 1986 and 1985, amounted to $111 million and $203 million, respectively.

Long-term Debt

Long-term debt consisted of the following:

	(Stated in millions)	
December 31,	**1986**	1985
Bank loan due 1990, interest at money market based rates	**$ 325**	$ 800
Other bank loans	**179**	214
	$ 504	$1,014

Long-term debt at December 31, 1986 is payable principally in U.S. dollars and is due $42 million in 1988, $15 million in 1989, $384 million in 1990, $52 million in 1991 and $11 million thereafter.

Lines of Credit

The Company's principal U.S. subsidiary has a Revolving Credit Agreement with a group of banks. The agreement provides that the subsidiary may borrow up to $1.2 billion until December 31, 1989 at money market based rates, of which $775 million was outstanding as of December 31, 1986. In addition, at December 31, 1986, the Company and its subsidiaries had available unused short-term lines of credit of $496 million.

In 1987, the Company intends to utilize $900 million of short-term investments as a capital contribution to its principal U.S. subsidiary which, in turn, intends to repay $900 million of its outstanding bank loans including $450 million related to the long-term Revolving Credit Agreement. Accordingly, the latter has been classified as short-term bank loans at December 31, 1986.

Capital Stock

The Company is authorized to issue 500,000,000 shares of Common Stock, par value $.01 per share, of which 281,158,829 and 295,974,132 shares were outstanding on December 31, 1986 and 1985, respectively. The Company is also authorized to issue 200,000,000 shares of cumulative Preferred Stock, par value $.01 per share, which may be issued in series with terms and conditions determined by the Board of Directors. No shares of Preferred Stock have been issued. Holders of Common Stock and Preferred Stock are entitled to one vote for each share of stock held.

In December, 1985, the Board of Directors authorized a stock repurchase program which allows the Company to purchase up to 25 million shares of Common Stock, depending on market conditions. The purchases may be made from time to time, within a two year period. As of December 31, 1986, 15,920,280 shares had been purchased under this program.

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

Transactions under stock option plans were as follows:

	Number Of Shares	Option Price Per Share
Outstanding Jan. 1, 1985	4,016,594	$ 2.09–74.72
Granted	556,600	$33.56–42.75
Exercised	(19,341)	$ 2.09–35.06
Lapsed or terminated	(488,945)	$19.08–74.72
Outstanding Dec. 31, 1985	4,064,908	$ 4.76–69.42
Granted	2,327,150	$29.88–36.06
Exercised	(5,403)	$ 7.19–19.08
Lapsed or terminated	(573,144)	$30.88–69.42
Outstanding Dec. 31, 1986	5,813,511	$ 4.76–69.42
Exercisable at Dec. 31, 1986	2,115,557	$ 4.76–69.42
Available for grant		
Dec. 31, 1985	9,438,867	
Dec. 31, 1986	7,683,985	

Income Tax Expense

The Company is incorporated in the Netherlands Antilles where it is subject to an income tax rate of 3%. The Company and its subsidiaries operate in over 100 taxing jurisdictions with statutory rates ranging up to about 50%. Consolidated operating revenue of $4.6 billion in 1986 shown elsewhere in this report includes $1.3 billion derived from operations within the United States.

The Company is in an operating loss carryforward

position in the U.S. At December 31, 1986, the Company had unused operating loss carryforwards for consolidated financial statement purposes of $1 billion which expire in the years 2000 ($235 million) and 2001 ($765 million). The tax benefit of these carryforwards is available to reduce future U.S. federal income tax expense.

The Tax Reform Act of 1986 did not have a significant effect on 1986 results of operations and is not expected to have a significant effect on results of operations in 1987.

Leases and Lease Commitments

Total rental expense was $148 million in 1986, $150 million in 1985 and $142 million in 1984. Future minimum rental commitments under noncancelable leases for years ending December 31 are: 1987 — $64 million; 1988 — $54 million; 1989 — $37 million; 1990 — $22 million; and 1991 — $27 million. For the ensuing three five-year periods, these commitments decrease from $32 million to $4 million. The minimum rentals over the remaining terms of the leases aggregate $17 million.

Tax Assessments

The U.S. Internal Revenue Service has completed its examinations for the years 1970 through 1980 and, as previously reported, has proposed assessments based upon income from continuing Wireline operations on the outer continental shelf. Similar assessments are expected for years subsequent to 1980. The Company is contesting these assessments. This issue for years 1970 through 1975 is pending before the U.S. District Court in Houston. In the fourth quarter of 1986, the Company recorded a charge against earnings of $228 million for potential interest on taxes related to the proposed assessments for years 1970 through 1986. The net after tax effect of the above charge was $150 million.

Management is of the opinion that the reserve for estimated liability for taxes on income and related interest is adequate and that any adjustments which may ultimately be determined will not have a material adverse effect on the Company's financial position and results of operations.

Contingencies

During 1980, a floating hotel, the Alexander Kielland, functioning as a dormitory for offshore work crews in the North Sea, capsized in a storm. The substructure of the floating hotel had been originally built as a drilling rig by an independent shipyard from a design licensed by a subsidiary of the Company. The Company's subsidiary was not involved in the ownership or operation of the drilling rig or in its conversion or use as a floating hotel. The accident has been investigated by a Commission appointed by the Norwegian Government, which has published its report. In October of 1981 and in February of 1982, the Company's subsidiary, the independent shipyard and one of its subcontractors were sued in France by Phillips Petroleum Company Norway and eight others operating as a group in the Ekofisk Field in the North Sea and by the Norwegian insurers of the Alexander Kielland seeking recovery for losses resulting from the accident of approximately $106 million (at December 31, 1986 currency exchange rates).

While the Company does not believe it, or its subsidiary, has liability in this matter, the litigation will involve complex international issues which could take several years to resolve and involve substantial legal and other costs. In the opinion of the Company, any liability that might ensue would not be material in relation to its financial position or results of operations.

The Company and its subsidiaries are party to various other legal proceedings, including environmental matters. Although the ultimate disposition of these proceedings is not presently determinable, any liability that might ensue would not be material in relation to the consolidated financial position or results of operations of the Company.

Pension and Deferred Benefit Plans

Expense for pension and deferred benefit plans was $46 million, $105 million and $99 million, and for compulsory contributions for French retirement benefits was $23 million, $16 million and $17 million in 1986, 1985 and 1984, respectively.

Actuarial present value of accumulated benefits at January 1, 1986 and 1985 for U.S. and Canadian defined benefit plans was $240 million and $234 million, respectively, substantially all of which were vested. Net assets available for benefits at January 1, 1986 and 1985 for such plans were $375 million and $293 million, respectively. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9% in 1986 and 7% in 1985.

Segment Information

The Company's business comprises two segments: (1) Oilfield Services and (2) Measurement, Control & Components. The Oilfield Services segment offers wellsite and contract drilling services to the petroleum industry throughout the world. The Measurement, Control & Components segment provides computer aided design, manufacturing and testing products, and manufactures measurement and control products and electronic components, which are sold to public utilities, governments, laboratories and industrial plants, primarily in the U.S. and Europe. Services and products are described in more detail earlier in this report.

Financial information for the years ended December 31, 1986, 1985 and 1984 by industry segment and by geographic area is as follows:

(Stated in millions)

Industry Segment 1986	*Oilfield Services*	*Measurement, Control & Components*	*Adjust. & Elim.*	*Consolidated*
Operating revenue				
Customers	$2,652	$1,916	$ —	$ 4,568
Intersegment transfers	—	44	(44)	—
	$2,652	$1,960	$ (44)	$ 4,568
Operating income (loss)	$ 8	$ 74	$(1,614)*	$ (1,532)
Interest expense				(410)
Interest and other income less other charges — $(23)				393
Loss before taxes				$ (1,549)
Depreciation expense	$ 593	$ 93	$ 2	$ 688
Fixed asset additions	$ 319	$ 127	$ 1	$ 447
At December 31				
Identifiable assets, continuing operations	$2,372	$1,593	$ (32)	$ 3,933
Identifiable assets, discontinued operations				150
Corporate assets				3,929
Total assets				$ 8,012
Industry Segment 1985				
Operating revenue				
Customers	$3,966	$1,619	$ —	$ 5,585
Intersegment transfers	—	43	(43)	—
	$3,966	$1,662	$ (43)	$ 5,585
Operating income	$1,039	$ 69	$ 1	$ 1,109
Interest expense				(209)
Interest and other income less other charges — $32				402
Income before taxes				$ 1,302
Depreciation expense	$ 627	$ 70	$ 3	$ 700
Fixed asset additions	$ 548	$ 99	$ 3	$ 650
At December 31				
Identifiable assets, continuing operations	$4,371	$1,460	$ (50)	$ 5,781
Identifiable assets, discontinued operations				737
Corporate assets				4,764
Total assets				$11,282
Industry Segment 1984				
Operating revenue				
Customers	$3,616	$1,630	$ —	$ 5,246
Intersegment transfers	—	30	(30)	—
	$3,616	$1,660	$ (30)	$ 5,246
Operating income	$1,170	$ 147	$ 10	$ 1,327
Interest expense				(146)
Interest and other income less other charges — $(4)				393
Income before taxes				$ 1,574
Depreciation expense	$ 554	$ 67	$ 3	$ 624
Fixed asset additions	$ 441	$ 106	$ 12	$ 559
At December 31				
Identifiable assets, continuing operations	$4,473	$1,252	$ (91)	$ 5,634
Identifiable assets, discontinued operations				1,107
Corporate assets				4,172
Total assets				$10,913

** Includes pretax nonrecurring charges of $1.60 billion.*

Transfers between segments and geographic areas are for the most part made at regular prices available to unaffiliated customers. Certain Oilfield Services segment fixed assets are manufactured within that segment and some are supplied by Measurement, Control & Components.

Corporate assets largely comprise short-term investments.

During the years ended December 31, 1986, 1985 and 1984 neither sales to any government nor sales to any single customer exceeded 10% of consolidated operating revenue.

(Stated in millions)

	Western Hemisphere		*Eastern Hemisphere*				
Geographic Area 1986	*U.S.*	*Other*	*France*	*Other European*	*Other*	*Adjust. & Elim.*	*Consolidated*
Operating revenue							
Customers	$1,101	$584	$761	$ 932	$1,190	$ —	$ 4,568
Interarea transfers	247	3	174	56	5	(485)	—
	$1,348	$587	$935	$ 988	$1,195	$ (485)	$ 4,568
Operating income (loss)	$ (261)	$ 44	$ 15	$ 136	$ 168	$(1,634)*	$ (1,532)
Interest expense							(410)
Interest and other income less other charges — $(23)							393
Loss before taxes							$ (1,549)
At December 31							
Identifiable assets, continuing operations	$1,057	$433	$853	$ 743	$ 977	$ (130)	$ 3,933
Identifiable assets, discontinued operations							150
Corporate assets							3,929
Total assets							$ 8,012
Geographic Area 1985							
Operating revenue							
Customers	$1,614	$816	$595	$ 979	$1,581	$ —	$ 5,585
Interarea transfers	343	5	180	32	1	(561)	—
	$1,957	$821	$775	$1,011	$1,582	$ (561)	$ 5,585
Operating income	$ 62	$235	$ 68	$ 274	$ 511	$ (41)	$ 1,109
Interest expense							(209)
Interest and other income less other charges — $32							402
Income before taxes							$ 1,302
At December 31							
Identifiable assets, continuing operations	$2,193	$585	$873	$ 983	$1,381	$ (234)	$ 5,781
Identifiable assets, discontinued operations							737
Corporate assets							4,764
Total assets							$11,282
Geographic Area 1984							
Operating revenue							
Customers	$1,571	$745	$558	$ 890	$1,482	$ —	$ 5,246
Interarea transfers	206	7	161	18	4	(396)	—
	$1,777	$752	$719	$ 908	$1,486	$ (396)	$ 5,246
Operating income	$ 229	$229	$ 44	$ 288	$ 554	$ (17)	$ 1,327
Interest expense							(146)
Interest and other income less other charges — $(4)							393
Income before taxes							$ 1,574
At December 31							
Identifiable assets, continuing operations	$2,192	$835	$618	$ 924	$1,274	$ (209)	$ 5,634
Identifiable assets, discontinued operations							1,107
Corporate assets							4,172
Total assets							$10,913

** Includes pretax nonrecurring charges of $1.60 billion.*

Supplementary Information

Operating revenue and related cost of goods sold and services comprised the following:

		(Stated in millions)	
Year ended December 31,	**1986**	1985	1984
Operating revenue			
Sales	**$1,932**	$1,783	$1,766
Services	**2,636**	3,802	3,480
	$4,568	$5,585	$5,246
Direct operating costs			
Goods sold	**$1,312**	$1,131	$1,055
Services	**2,198**	2,519	2,088
	$3,510	$3,650	$3,143

The caption "Interest and other income" includes interest income, principally from short-term investments, of $356 million, $443 million and $389 million for 1986, 1985 and 1984, respectively.

Accounts payable and accrued liabilities are summarized as follows:

	(Stated in millions)	
December 31,	**1986**	1985
Payroll, vacation and employee benefits	**$ 258**	$ 293
Trade	**281**	344
Accrued interest	**178**	12
Other	**622**	539
	$1,339	$1,188

Report of Independent Accountants

To the Board of Directors and Stockholders
of Schlumberger Limited:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and changes in financial position present fairly the financial position of Schlumberger Limited and its subsidiaries at December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, 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

New York, New York
February 12, 1987

Quarterly Results (Unaudited)

The following table summarizes results for each of the four quarters for the years ended December 31, 1986 and 1985. Gross profit equals operating revenue less cost of goods sold and services. For 1986, earnings per share for the year does not equal the sum of the four quarters due to the decrease in average shares outstanding resulting from the Company's stock repurchase program.

(Amounts in millions except per share amounts)

	Continuing Operations				Total	
	Operating		Income (Loss)		Net Income (Loss)	
	Revenue	Gross Profit	Amount	Per Share	Amount	Per Share
Quarters — 1986						
First	$1,355	$ 433	$ 193	$ 0.66	$ 148	$ 0.51
Second	1,179	315	78	0.27	55	0.19
Third	1,008	158	(59)	(0.20)	(42)	(0.14)
Fourth	1,026	152	(1,867)*	(6.60)*	(2,179)*	(7.71)*
	$4,568	$1,058	$(1,655)	$(5.76)	$(2,018)	$(7.02)
Quarters — 1985**						
First	$1,433	$ 566	$314	$1.05	$304	$1.01
Second	1,382	495	253	0.84	212	0.71
Third	1,329	460	241	0.81	208	0.70
Fourth	1,441	414	170	0.57	(373)	(1.25)
	$5,585	$1,935	$978	$3.27	$351	$1.17

**Includes nonrecurring charges with an after tax effect of $1.74 billion, or $6.15 per share; they include the write-off of goodwill, equipment and inventory in the Oilfield Services segment and provisions for consolidation of operations in the Measurement & Control and Computer Aided Systems groups.*

***Includes unusual charges with an after tax effect of $464 million ($1.56 per share) in the fourth quarter and $21 million ($0.07 per share) in the second quarter, relating to the discontinued Fairchild Semiconductor operation; they include the write-off of goodwill and provisions for disposal of certain assets and the consolidation of certain production facilities.*

Five Year Summary

(Amounts in millions except per share amounts)

Year Ended December 31,	1986	1985	1984	1983	1982
Summary of Operations					
Revenue:					
Oilfield Services	$ 2,652	$ 3,966	$ 3,616	$ 3,414	$ 4,054
Measurement, Control & Components	1,916	1,619	1,630	1,577	1,501
Interest and other income	370	434	390	279	255
	$ 4,938	$ 6,019	$ 5,636	$ 5,270	$ 5,810
% (Decrease) increase over prior year	(18%)	7%	7%	(9%)	6%
Operating income:					
Oilfield Services	$ 8	$ 1,039	$ 1,170	$ 1,187	$ 1,656
Measurement, Control & Components	74	69	147	143	152
Eliminations	(1,614)[A]	1	10	13	(17)
	$ (1,532)[A]	$ 1,109	$ 1,327	$ 1,343	$ 1,791
% Decrease over prior year	N/A	(16%)	(1%)	(25%)	(3%)
Interest expense	$ 410	$ 209	$ 146	$ 110	$ 111
Taxes on income	$ 106	$ 324	$ 401	$ 363	$ 514
(Loss) income, continuing operations	$ (1,655)[B]	$ 978	$ 1,173	$ 1,152	$ 1,415
% (Decrease) increase over prior year	N/A	(17%)	2%	(19%)	10%
(Loss) income, discontinued operations	$ (363)	$ (627)[C]	$ 9	$ (68)	$ (67)
Net (loss) income	$ (2,018)[B]	$ 351[C]	$ 1,182	$ 1,084	$ 1,348
(Loss) income per share					
Continuing operations	$ (5.76)[B]	$ 3.27	$ 4.07	$ 3.96	$ 4.83
Discontinued operations	(1.26)	(2.10)[C]	0.03	(0.23)	(0.23)
Net (loss) income	$ (7.02)[B]	$ 1.17[C]	$ 4.10	$ 3.73	$ 4.60
Cash dividends declared	$ 1.20	$ 1.20	$ 1.12	$ 1.00	$ 0.92
Summary of Financial Data					
Income as % of revenue, continuing operations	N/A	16%	21%	22%	24%
Return on average stockholders' equity, continuing operations	N/A	14%	19%	21%	30%
Fixed asset additions	$ 447	$ 650	$ 559	$ 394	$ 925
Depreciation expense	$ 688	$ 700	$ 624	$ 606	$ 538
Average number of shares outstanding	287	299	289	291	293
At December 31,[D]					
Liquidity	$ 2,263	$ 2,511	$ 2,182	$ 2,279	$ 1,350
Working capital	$ 2,119	$ 3,349	$ 3,221	$ 3,030	$ 2,171
Total assets	$ 8,012	$11,282	$10,913	$ 8,353	$ 7,846
Long-term debt	$ 504	$ 1,014	$ 966	$ 455	$ 462
Stockholders' equity	$ 4,123	$ 6,877	$ 6,992	$ 5,819	$ 5,226
Number of employees (excluding Fairchild Semiconductor)	49,661[F]	60,955	64,263[E]	55,150	59,112

[A] *Includes nonrecurring charges relating to operating income of $1.60 billion.*
[B] *Includes nonrecurring charges relating to continuing operations of $1.74 billion ($6.05 per share).*
[C] *Includes unusual charges relating to discontinued operations of Fairchild Semiconductor with an after tax effect of $486 million ($1.63 per share).*
[D] *The December 31, 1984 balance sheet includes SEDCO which was acquired in December 1984.*
[E] *Includes 8,900 employees of SEDCO, Inc. and Dowell in North America, acquired in 1984.*
[F] *Includes 1,500 employees of GECO A.S., acquired in 1986.*

Management

Euan Baird

At a meeting on October 1, 1986, the Board of Directors elected unanimously Euan Baird as Chairman, President and Chief Executive Officer, replacing Michel Vaillaud.

Mr. Baird, 49, was born in Scotland and joined Schlumberger in 1960. He began his career as a Wireline field engineer and held assignments of increasing responsibility in the Wireline organization. In 1979, he was appointed Executive Vice President in charge of worldwide Wireline operations. He was elected to the Schlumberger board in May 1986.

Mr. Baird attended Aberdeen University in Scotland and graduated from Cambridge University with a degree in geophysics. He lives in New York with his Danish wife Angelica, a writer. They have two daughters.

On October 6, 1986, André Salaber was elected Executive Vice President of Schlumberger Limited; located in New York, he is responsible for worldwide Wireline, Seismic & Testing operations. Mr. Salaber was previously President of Dowell Schlumberger.

On October 16, 1986, Michel Gouilloud, Executive Vice President Technology, was made responsible for the Computer Aided Systems group, replacing Jimmy Lee.

On November 15, 1986, the Wireline, Seismic & Testing operations, outside North America, were consolidated into a single unit for the Eastern Hemisphere and Latin America. Heinz Denkl was appointed President of this unit. Located in Montrouge, near Paris, Mr. Denkl reports to André Salaber, Executive Vice President.

Effective January 1, 1987, Patrick Corser was appointed Controller of Schlumberger Limited, replacing William W. Dunn.

Effective January 1, 1987, Andrew Gould was appointed Treasurer, Schlumberger Limited, replacing Patrick Corser. Mr. Gould was previously Wireline, Seismic & Testing group controller.

MM. Corser and Gould report to Arthur Lindenauer, Executive Vice President and Chief Financial Officer.

Oilfield Services

Wireline, Seismic & Testing Services

Wireline & Testing Services
Measurement of physical properties of underground formations to help locate and define oil and gas reservoirs and assist in the completion, development and production phases of oil wells. Measurements are made by lowering electronic instruments in the wells at the end of an electric cable called the "wireline".

Well testing; pressure measurements; completion and workover services; production services.

Seismic Services
GECO (50% owned): Marine seismic data acquisition, processing and interpretation services.

Drilling & Pumping Services

Drilling Services
Sedco Forex: Drilling offshore and on land.
Anadrill: Well-site computer analysis of surface and downhole drilling and geological data; directional drilling services; drilling tool rentals.

Pumping Services
Dowell Schlumberger (50% owned): Well cementing and stimulation.

Measurement, Control & Components

Measurement & Control

Electricity Management: Electricity meters and equipment for electric power distribution; load and rate management systems; network protection systems and measuring transformers for electric power transmission.

Water and Gas: Water meters and distribution equipment; gas meters and distribution equipment.

Instruments: Magnetic tape recorders; data acquisition systems; electronic instruments for industrial, laboratory and aerospace applications; industrial data logging and telemetry systems; transducers.

Electronic Transactions: Electronic payment terminals, smart cards, card-operated public payphones; fuel dispensing systems; parking terminals.

Fairchild Weston: Data acquisition and recording; signal processing and electronic countermeasures systems; control equipment for nuclear power systems; miniature CCD cameras and high performance reconnaissance cameras; radar simulation and training systems.

Control, Valves and Technology: Process control equipment; petroleum, nuclear and industrial valves.

Computer Aided Systems

Sentry: Design verification and production testing of semiconductors.

Factron: Automatic testing and fault diagnosis of printed-circuit board subassemblies.

Applicon: Computer aided engineering, design and manufacturing systems for electronic and mechanical components and systems.

Benson: Graphics products for use with computer systems.

Directors

Don E. Ackerman ○
Partner, J. H. Whitney & Co.
New York City

Euan Baird
Chairman and Chief Executive Officer
Schlumberger

Robert A. Charpie *
Chairman, Cabot Corporation
Waltham, Massachusetts

Roland Génin *
Chairman of the Executive Committee
Schlumberger

Bernard Hanon
Former Chief Executive Officer
Régie Renault, Paris

George H. Jewell ○
Partner, Baker & Botts
Houston, Texas

Paul Lepercq * □
Chairman, Lepercq Group Ltd.
Hamilton, Bermuda

Georges de Menil
Economist, Professor
Ecole des Hautes Etudes
en Sciences Sociales, Paris

Yoshihiko Morozumi
Chairman
Schlumberger Companies in Japan
Tokyo

Felix G. Rohatyn * □
General Partner, Lazard Frères & Co.
New York City

Pierre Marcel Schlumberger ○
Attorney, Houston, Texas

Nicolas Seydoux
Chairman and Chief Executive Officer
Gaumont, Paris

Richard R. Shinn ○ □
Former Chairman and Chief Executive
Officer, Metropolitan Life Insurance
Company, New York City

○ *Member Audit Committee*
* *Member Executive Committee*
□ *Member Finance Committee*

Officers

Euan Baird
Chairman and Chief Executive Officer

Roland Génin
Chairman of the Executive Committee

Arthur Lindenauer
Executive Vice President
Chief Financial Officer

Donald W. Brooks
Executive Vice President

Michel Gouilloud
Executive Vice President

René Mitieus
Executive Vice President

André Salaber
Executive Vice President

Roy Shourd
Executive Vice President

Ian Strecker
Executive Vice President

David S. Browning
Secretary and General Counsel

Allen D. Klein
Vice President

André Misk
Vice President

Jean-Dominique Percevault
Vice President

Patrick J. B. Corser
Controller

Andrew Gould
Treasurer

Jean Boucharlat
Assistant Secretary

André Laloux
Assistant Secretary

James A. MacKenzie
Assistant Secretary

Thomas O. Rose
Assistant Secretary

Stock Transfer Agents
Morgan Shareholder Services Trust Co.
New York, New York
MBank Houston, N.A.
Houston, Texas

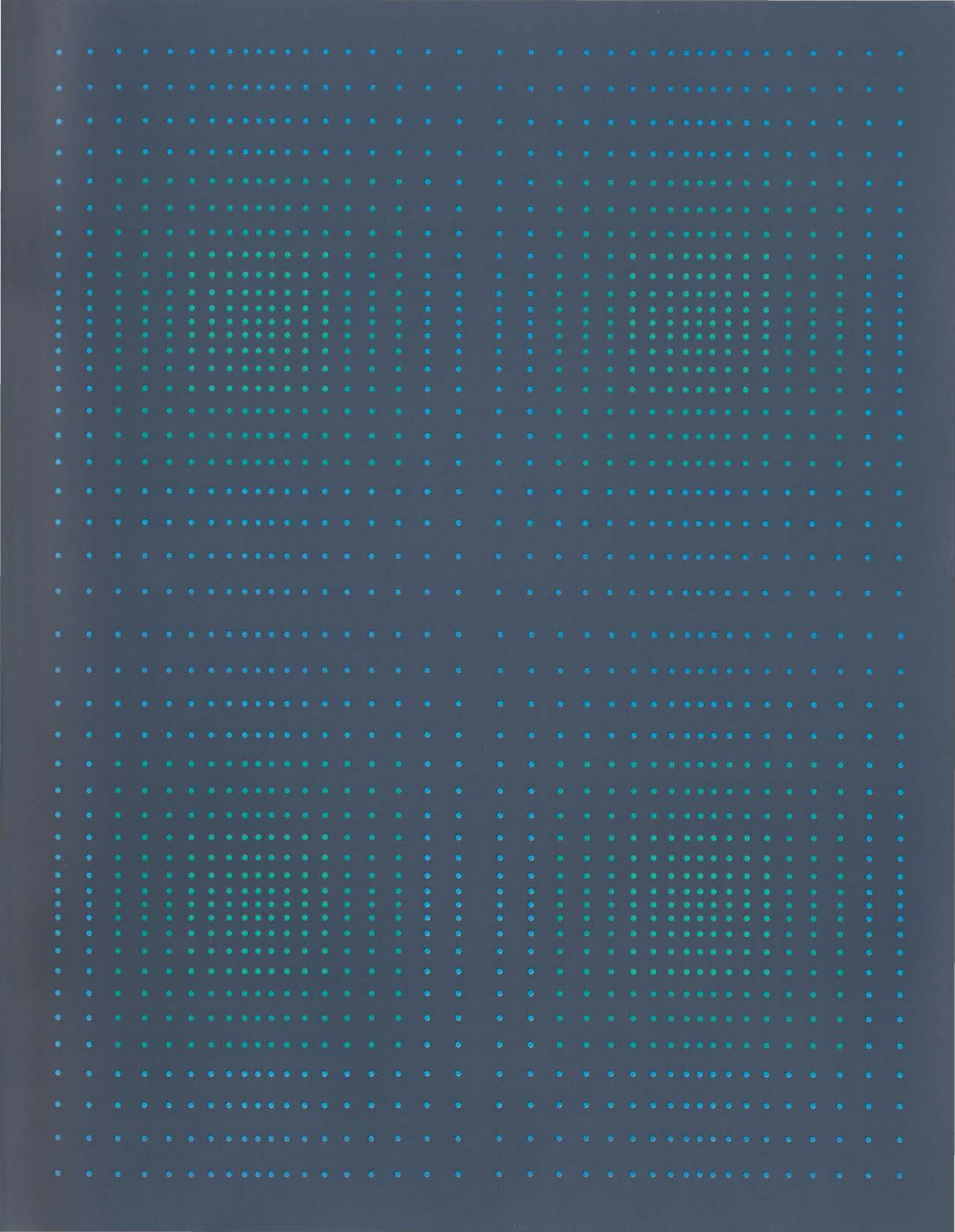
Registrars
Morgan Shareholder Services Trust Co.
New York, New York
MBank Houston, N.A.
Houston, Texas

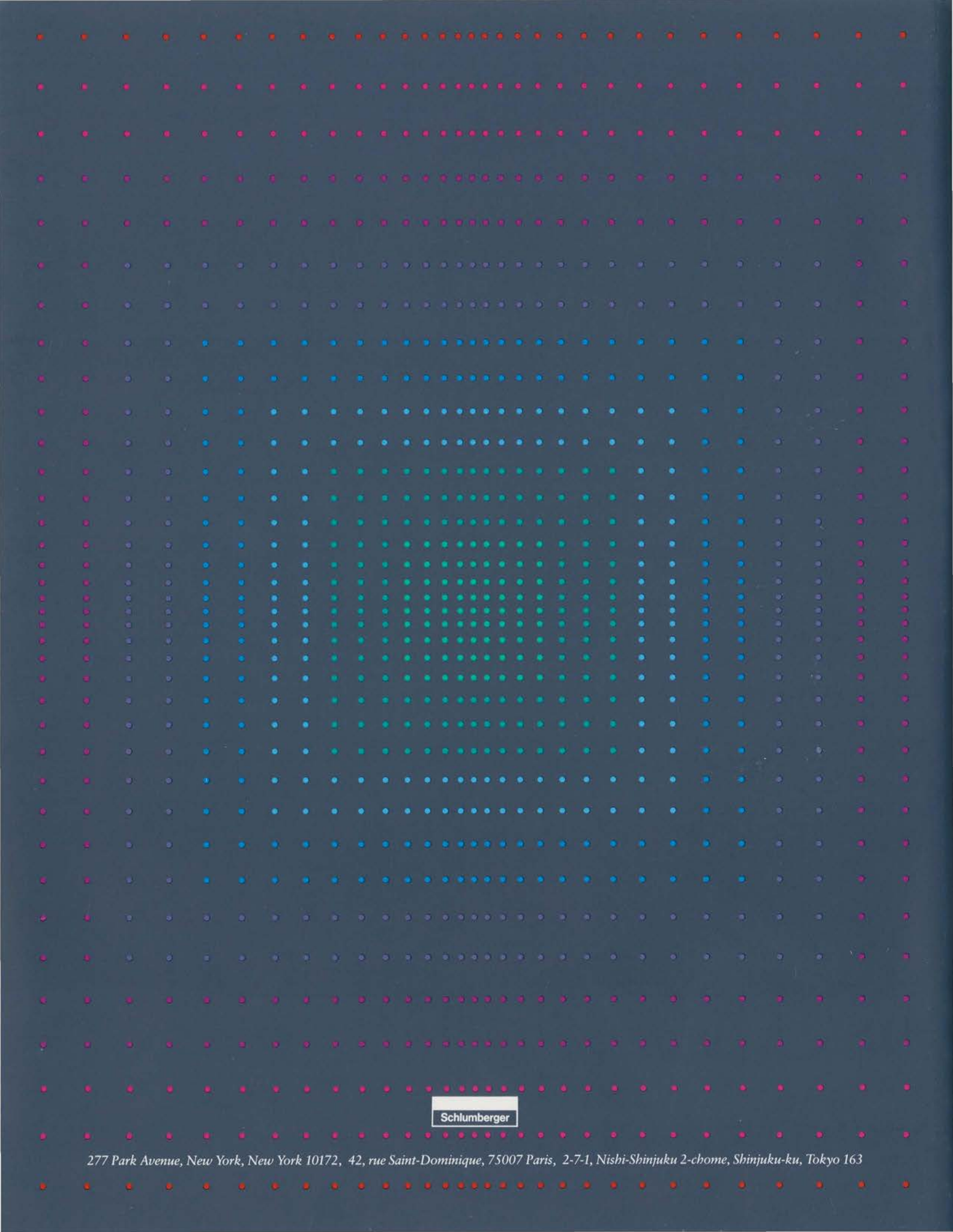
Schlumberger stock is listed on the
New York (trading symbol SLB)
Paris
London
Amsterdam
Frankfurt and
Swiss stock exchanges

Form 10-K
Stockholders may receive without charge a copy of Form 10-K filed with the Securities and Exchange Commission on request to the Secretary, Schlumberger Limited, 277 Park Avenue, New York, New York 10172.

Design
Milton Glaser Inc.

Photography
Erich Hartmann — portraits





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