



SCHLUMBERGER ANNUAL REPORT



1997



WHO WE ARE



AN INTERACTIVE CD-ROM

WHO WE ARE

Life at
Schlumberger
in the words of
its people

Schlumberger in Brief

	1997	1996	1995
Operating revenue	\$ 10,647,590,000	\$ 8,956,150,000	\$ 7,621,694,000
Net income	\$ 1,295,697,000	\$ 851,483,000	\$ 649,157,000
Basic earnings per share ¹	\$ 2.62	\$ 1.74	\$ 1.33
Diluted earnings per share ¹	\$ 2.52	\$ 1.70	\$ 1.32
Dividends declared per share ¹	\$ 0.75	\$ 0.75	\$ 0.7125

¹Restated for the 2-for-1 stock split on June 2, 1997.

Letter from the Chairman

The continuing increase in demand for oil and gas set the scene for another outstanding year for Schlumberger. Net income of \$1.3 billion and basic earnings per share of \$2.62 were 52% and 51%, respectively, above 1996 levels. Operating revenue grew by 19%, to \$10.65 billion. The strength of the Schlumberger share price during the year resulted in a two-for-one stock split in June.

Oilfield Services had an excellent year. Driven by expanding exploration and production investments, revenue increased 25% and pretax operating income increased 58%. The robust growth was fairly evenly spread geographically and across all services.

Measurement & Systems revenue grew 5%, while pretax operating income was up 20%. However, these group figures mask two contrasting stories. A 31% increase in revenue for automated test equipment, smart cards and systems, reflecting a growing demand worldwide, was offset by an 11% drop in metering revenue, in which currency exchange rates played a dominant role.

As we enter our fourth year of strong growth, it is instructive to look at where we are in the business cycles.

Oilfield Services

Global energy demand for 1997 increased by nearly 4%, while oil demand was up 2.7%. Strongest growth continues to come from Asia and Latin America, which in 1997 accounted for 27% of world oil demand, up from 18% just ten years ago. At the same time, much of today's production comes from oil fields that are more than 30 years old. To meet future demand, lower finding costs will have to be sustained in the face of more challenging targets, while the continued economic exploitation of aging fields will depend on increasing the ultimate recovery rate of hydrocarbons in place. These improvements in productivity will require continuing investments in new technology.

In last year's annual report, when the outlook for our industry was universally positive, we pointed out that the delicate balance between

supply and demand would keep the upstream oil industry highly cyclical. One year later, the slowing of demand growth in Asia has weakened the price of oil. Our clients are responding by approaching 1998 exploration and production spending with some caution, but the Asian effect is more likely to be a pothole than the end of the pavement.

The overall business fundamentals of the oil industry are sound. Despite Asian instability, oil demand for 1998 is still forecast to grow at a healthy 2%. We are convinced that Schlumberger is only at the beginning of a long and favorable business cycle. This optimism is based on three factors. Firstly, demand for oil and gas is expected to keep rising at a brisk pace. Secondly, significant service opportunities in new frontiers, such as Russia, are starting to open up. Lastly, the potential for new technology to enhance the value of our services to our clients continues to increase.

Measurement & Systems

Automated Test Equipment (ATE) and Smart Cards & Systems provide key services to two fast-growing sectors and are expected to continue to develop strongly over the next few years.

The revamping of our metering and services activities into an information services business will be accelerated by the organizational changes we are making, but renewed strong growth is not expected before the turmoil, created by deregulation and privatization in many important markets, abates.

Schlumberger Solutions

Technology

The oil industry today recovers only about 35% of the oil it finds. To make the next quantum leap in productivity, whereby ultimate recovery rates routinely exceed 50%, the process by which oil and gas reservoirs are managed must change.

Firstly, the behavior of the producing reservoir will be monitored in real time through the use of permanent sensors of all types. Combining real-time information with everything that has gone before provides

customers with reservoir knowledge they need to evaluate the risks associated with a range of possible strategies. Reservoir management will become proactive rather than reactive, as problems are detected and corrected before they become expensive or impossible to repair.

Secondly, information technology will be deployed to make all the relevant knowledge available to the user when and where it is needed. Our development work in knowledge management is part of an industry-wide effort to improve our ability to capture knowledge, integrate and preserve it and then make what has been learned quickly and easily available to anyone who will be involved in the next business decision. Our aim is to learn faster and learn forever.

Teamwork

As information technology brings people and ideas together, it also lowers barriers between organizations, enabling more productive teamwork, particularly with customers. These new relationships take the form of alliances or integrated services, in which Schlumberger becomes a complete solutions provider. In this role we integrate and manage best-in-class technology from any supplier to provide a complete solution for the customer. This approach makes it possible for us to provide the oil companies with the full breadth and wealth of Schlumberger knowledge-based expertise to help them optimize the performance of their reservoirs.

What is true for managing a reservoir is also valid for the effective management of the distribution of electricity, gas or water, where huge opportunities exist in this deregulated, competitive market to improve efficiency through integrated solutions and services. Further, our future in smart cards and the growth of our service business in ATE will be determined by our ability to offer the best integrated solutions incorporating a variety of specialized vendors.

What I have described will transform the way we do business. It requires that we have the enabling information technology in place and that we remove all the barriers, real and imagined, associated with our present structure to allow people to function effectively in this new

environment. To identify what changes were needed, we initiated in July 1996 a process of self-examination starting with what we called Forum 2005. In this forum we challenged a group of 36 young, diverse Schlumberger people to imagine what the world would be like in the year 2005, and describe the sort of company they wanted Schlumberger to become.

Since May 1997, we have weighed their recommendations and are now implementing many of the changes they suggested. These include:

- Splitting each business group into *Solutions* and *Products* organizations. The Solutions Group, organized along geographic markets, is our primary interface with our customers. The Products Group, formed by utilizing existing product line expertise, is responsible for technology, service delivery and support;
- Expanding and innovating our use of information technology;
- Promoting flexibility in career planning and development to put more emphasis on personal needs;
- Creating image-building programs to position ourselves more clearly as a global solutions provider.

Above all, the Forum 2005 process emphasized the need for continuous renewal to enable us to respond effectively to changes in an unpredictable world. The engine of our reinvention is already in place: our diversity of culture, gender, education and experience — a richness you can sample via the interactive CD-ROM, *Who We Are*, included with this report. By engaging these diverse voices in constructive debate, we are able to challenge the status quo at all levels in the organization with fresh ideas.

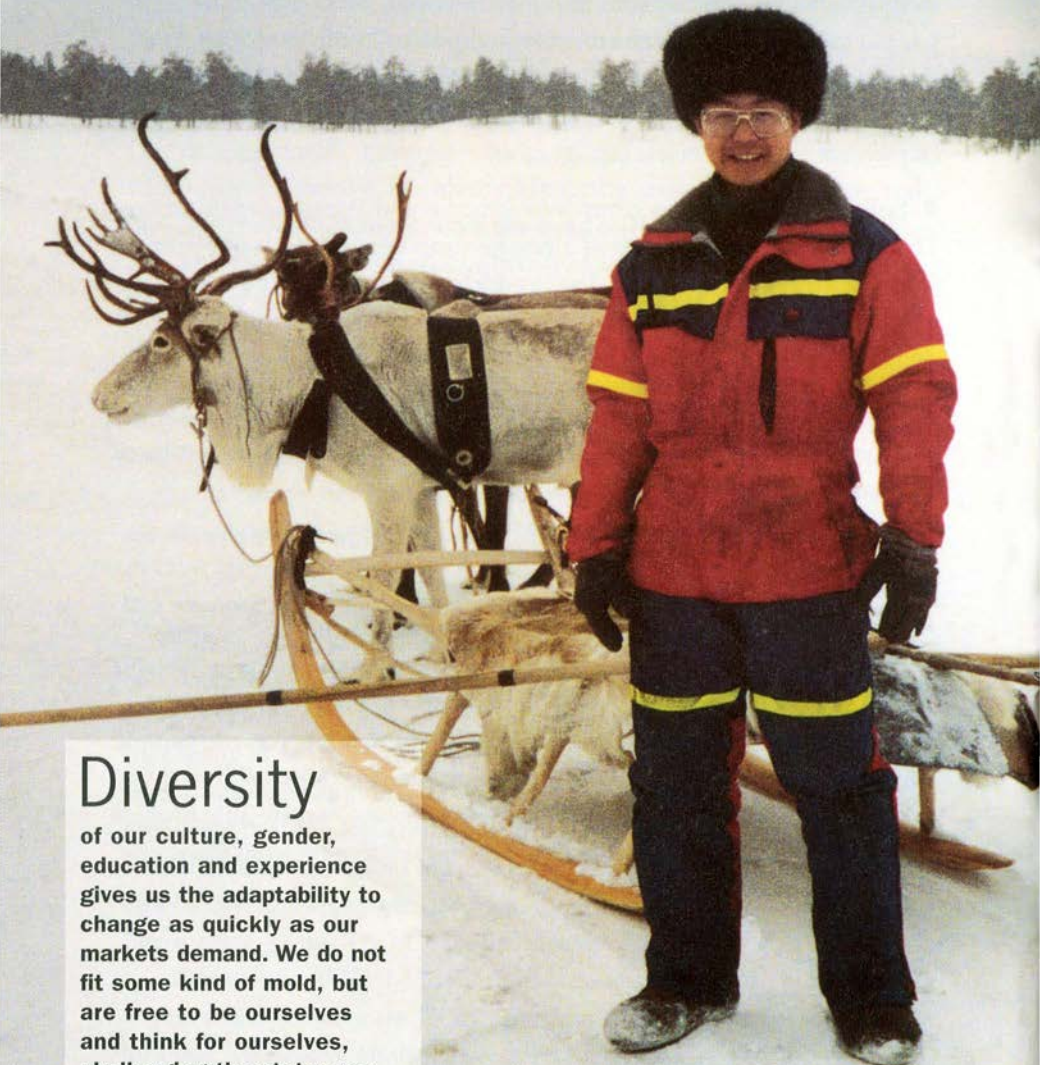


Euan Baird
Chairman & Chief Executive Officer
January 22, 1998

WHO WE ARE

THIS YEAR, THE ACCOMPANYING INTERACTIVE CD-ROM TAKES YOU ON A TRIP INSIDE OUR CULTURE, IN THE WORDS AND PICTURES OF OUR PEOPLE.

FUNDAMENTALLY, WE ARE 63,500 PEOPLE OF 100 NATIONALITIES, LIVING AND WORKING IN 100 COUNTRIES. BUT THAT ONLY SKIMS THE SURFACE.



Diversity

of our culture, gender, education and experience gives us the adaptability to change as quickly as our markets demand. We do not fit some kind of mold, but are free to be ourselves and think for ourselves, challenging the status quo at all levels of the company.

Speed and correctness of
our action also come from
encouraging a productive

autonomy:

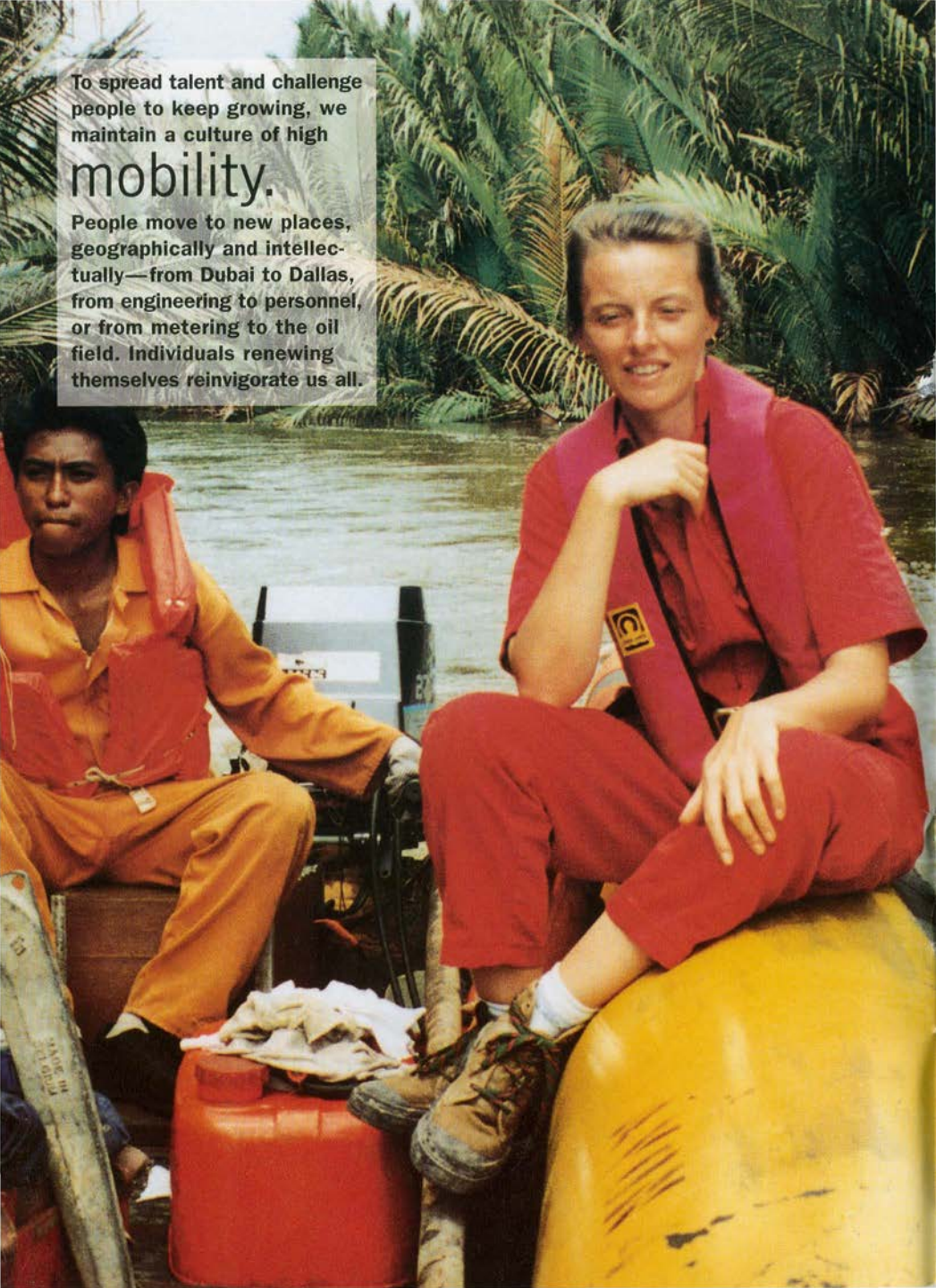
critical decisions are made
by people closest to the
client. Yet, we are not a
company of lone cowboys.
We are independent and
interdependent, because we
know every united team
is more productive than any
individual.



To spread talent and challenge people to keep growing, we maintain a culture of high

mobility.

People move to new places, geographically and intellectually—from Dubai to Dallas, from engineering to personnel, or from metering to the oil field. Individuals renewing themselves reinvigorate us all.

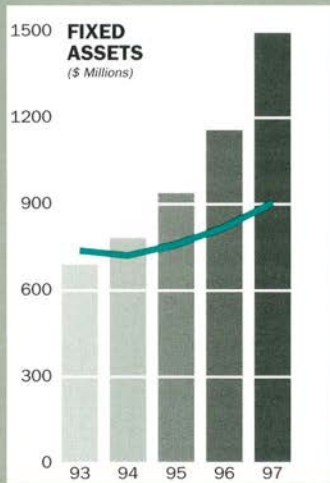
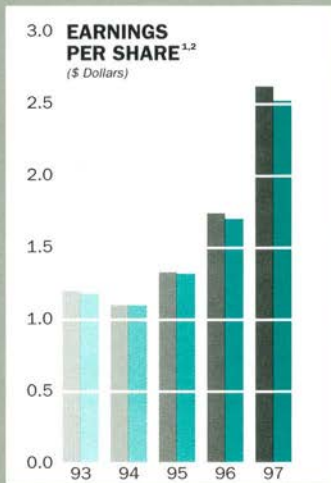
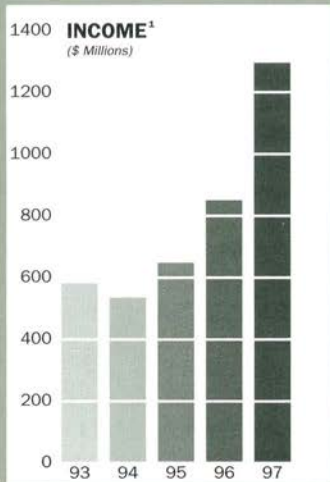
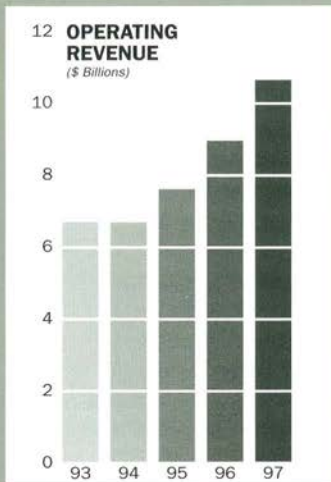




THESE ASSETS—DIVERSITY, AUTONOMY,
MOBILITY AND TECHNOLOGY—GIVE
US A RESILIENCE THAT ENABLES US TO
CHANGE WITH THE CHANGING WORLD.
IT IS OUR FOUNDATION FOR GROWTH,
FOR OURSELVES AND OUR BUSINESS.

At our core, who we are is
technology—

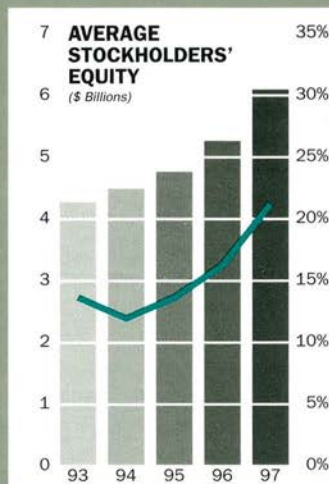
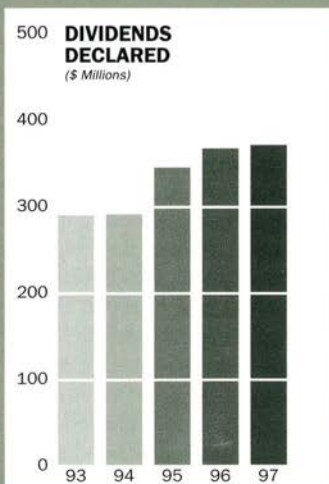
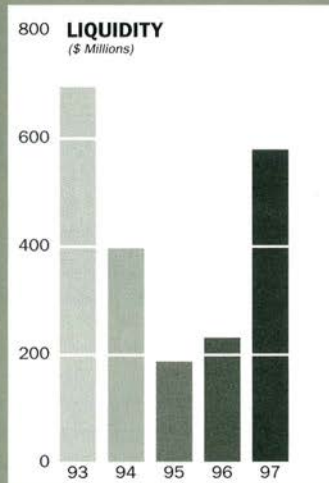
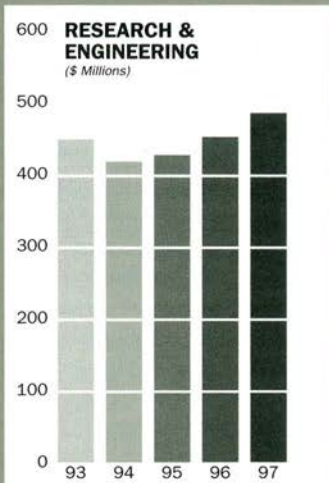
its invention, engineering,
manufacture, application,
improvement and marketing.
Yet, we are more than the
hardware and the software.
Our technical sphere encloses
a growing constellation of
services that solve client
problems—faster, better, at
lower cost to them and at
higher profit to us.



Basic Diluted

Additions Depreciation

¹1993 Income and Earnings Per Share before cumulative effect of a change in accounting principle for postretirement benefits.



Return on Equity %

²Restated for the 2-for-1 stock split on June 2, 1997.

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The Company has two reportable business industry segments, Oilfield Services and Measurement & Systems.

	OILFIELD SERVICES			MEASUREMENT & SYSTEMS		
	1997	1996	% CHANGE	1997	1996	% CHANGE
Operating revenue	\$7,663	\$6,129	25%	\$2,986	\$2,834	5%
Operating income ¹	\$1,557	\$986	58%	\$149	\$124	20%

(Stated in millions)

¹Operating income represents income before income taxes, excluding interest expense and interest and other income, and the unusual items previously announced in the third quarter of 1996. Explanation of these unusual items appears on page 30 in the Notes to Consolidated Financial Statements under "Unusual Items."

Oilfield Services

1997 Results

Oilfield Services achieved impressive growth in 1997. Worldwide oil demand increased by a strong 2.7%, fueled mainly by China, up 11%, Asia excluding China, up 6%, Latin America, up 5%, and by a recovering Russia, up 5%. Oil companies worldwide increased their exploration and production expenditures by 18% over 1996 levels to meet the increase in demand. Oilfield Services operating income grew 58% over last year, reaching \$1.56 billion, with strong contributions from all activities. Operating revenue increased 25%, to \$7.66 billion.

NORTH AMERICA

In North America, revenue increased 33%, and operating income jumped 115%. The rig count climbed 26%. The highest revenue growth came from Dowell and Geco-Prakla, up 27% and 55%, respectively. Dowell growth was due mainly to cementing, fracturing and sand control services. In the Gulf of Mexico, there was strong demand for DeepSea EXPRES* deepwater cementing systems and high client acceptance of the revolutionary, nondamaging ClearFRAC* fracturing fluid. Geco-Prakla marine seismic activity soared in the Gulf of Mexico, driven by high non-exclusive proprietary survey activity for the ongoing Deepwater 2000 operations. Transition Zone activity concentrated on the

South Louisiana coast as part of the Transition 2000 campaign. GeoQuest grew 63%, due to 200% growth in Data Management and Information Technology services and to the introduction of the next-generation GeoFrame* 3.0 integrated reservoir characterization system.

OUTSIDE NORTH AMERICA

Revenue increased 22% outside North America, while rig count increased 2%. Operating income was up 45%. Sedco Forex and Wireline & Testing were the largest contributors to revenue growth, up 42% and 13%, respectively. Sedco Forex benefited from higher dayrates in the North Sea, Asia and West Africa and increased activity in South America, Asia and Africa. Land rig activity increased, including two new rigs in Mexico and two in Algeria. In Asia, fleet expansion and higher swamp barge activity contributed to increased revenue. The growth of Wireline & Testing, led by the Far and Middle East, increased significantly faster than the rig count, due to stronger pricing, increased service efficiencies and market share gains. Higher prices stemmed from the swift deployment of high-technology tools and systems, including PLATFORM EXPRESS*, CMR* and PL Flagship* services. Anadrill grew an impressive 35%, led by Central Europe and the Far East. Growth at Anadrill came from increases in market share and pricing, and from overall market growth. Logging-while-drilling

(LWD) services continued to surge, with the introduction of the new VISION475* MWD (measurements-while-drilling)/LWD system for small-diameter wells.

HIGHLIGHTS

The rapid pace of Oilfield Services growth resulted largely from delivering customized solutions to oil companies striving to increase hydrocarbon production. This allows our clients to meet increasing demand while reducing exploration and production costs to maintain a competitive price per barrel.

Oilfield Services revenue grew 25%, faster than the 18% increase in exploration and production spending by oil companies. The additional growth came from increased drilling activity and from greater communication and cooperation with our clients, leading to increased outsourcing of their noncore activities. Growth was also realized from the application of key technologies and our ability to help clients increase the recovery of hydrocarbons, as with IRO* Integrated Reservoir Optimization service, which was introduced in the fourth quarter.

DRILLING ACTIVITY INCREASES

Throughout 1997, drilling activity and pricing continued to increase. The Sedco Forex average offshore rig utilization of 94% was in line with the previous year. Jackup utilization remained at 100%, and semisubmersible utilization was 97%. The Sedco Forex average onshore rig utilization for the year increased from 57% to 90%. At year end, the Sedco Forex fleet consisted of 84 units: 52 offshore and 32 onshore, up from 83 units at the end of 1996. The fleet includes 13 offshore units under bareboat charter or management contract. Sedco Forex has eight deepwater drilling units capable of drilling in water depths of more than 3000 feet [approximately 1 km].

In July 1997, Oilfield Services received a ten-year integrated management contract in Venezuela to build and operate, on Lake Maracaibo, three new multipurpose service vessel (MPSV) drilling barges and three new MPSV lift boats. The MPSV concept uses small, purpose-built vessels, each equipped with an integrated package of Schlumberger services for well intervention, such as wireline logging, CTD* coiled tubing drilling and tubing replacement. An MPSV can perform a well intervention faster, and at a considerably lower cost, than a full-size drilling unit. All six vessels are scheduled to be in operation by the end of 1998.

In August, the *Maersk Victory* jackup was acquired and renamed *Trident 19*. In September, the Sedco Forex semisubmersibles *Drillstar* and *Sedco Explorer* were sold to a newly formed venture in which Schlumberger has a 25% interest. The rigs will be operated by Sedco Forex under bareboat charters. The gain on sale has been deferred and will be amortized over a six-year period.

In December, Sedco Forex received contracts covering five years to build two *Sedco Express** semisubmersible drilling rigs. The units will be delivered in the fourth quarter of 1999. The *Sedco Express* rig represents the next generation of deepwater, moderate-environment drilling units. Designed to optimize the entire well construction process, it is expected to drill and complete a well approximately 30% faster than a conventional fourth-generation unit. The unit will be able to operate in water depths up to 7500 feet [2.3 km].

RELATIONSHIPS CREATE GROWTH OPPORTUNITIES

Links between Schlumberger and oil and gas companies are continuing to develop through our IPM (Integrated Project Management) activity. This business has expanded from 100 employees in 1995 to nearly 600 today, and has

contributed to earnings on its own and through additional Oilfield Services activities. An example of a recent alliance is the Dacion field project with LASMO plc in Venezuela. In an assessment phase completed in June 1997, a joint integrated team was formed by LASMO, GeoQuest and IPM to identify important technical issues and recommend further actions. The objectives of the development phase are to increase production and optimize recovery of reserves. Upon approval of the plan, IPM will perform its implementation.

KEY TECHNOLOGIES IMPROVE ECONOMICS

In 1997, our Oilfield Services research and engineering investment of \$320 million produced technologies for operating in harsher environments and reducing finding and development costs. Oilfield Services capital expenditure exceeded \$1.3 billion and allowed rapid deployment of these technologies.

For geophysical applications, the Nessie* 4C MultiWave Array* multicomponent seabed acquisition system was introduced by Geco-Prakla at the end of 1996. Seismic waves are of two types — compressional and shear — each providing different information about the subsurface geology. An analysis of the response from the two wave types may determine the type of fluids contained in the formation. Traditional 3D marine seismic data acquired with surface streamers reflect information exclusively from compressional waves, the only ones that can travel through water. This provides a partial image of a reservoir. The Nessie 4C MultiWave Array system, which records both compressional and shear waves at the seabed, has helped our clients learn more about their reservoirs. The system significantly improves the client's ability to map the location and quantities of oil and gas, better enabling them to optimally develop and recover reserves.

During the fourth quarter, a Nessie 4C MultiWave Array crew mobilized for a 200-km² [78-sq mile] multicomponent survey, approximately ten times the size of any previous seabed survey.

Research and engineering in fluid chemistry have resulted in the development of Dowell ClearFRAC fracturing fluid. Fracturing fluids are used to transport sand or other proppants into oil and gas reservoirs to increase hydrocarbon production. Normally these fluids have the disadvantage of leaving some solid residue, which inhibits their full effectiveness. The ClearFRAC formulation is a polymer-free fluid that leaves no residue and results in higher production.

Construction, operating and intervention costs in oil fields were reduced in 1997 through the proliferation and improved placement of highly deviated and horizontal wells, and multilaterals drilled from a common trunk. New VISION475 technology is a slim 4.75-inch MWD/LWD service that reduces total well costs while maximizing hydrocarbon production. This is possible by allowing a reduced wellbore diameter without giving up the real-time formation evaluation measurements needed for optimum geosteering and analysis. The VISION475 application possesses unique logging sensors that allow operators to steer to the most productive zones in a formation. Worldwide deployment of this technology has significantly improved field development returns on investment for clients.

The CMR Combinable Magnetic Resonance service, performed by Wireline & Testing, provides valuable insight to clients for finding oil in complex reservoirs, discovering bypassed and untapped reserves and distinguishing oil from gas. For example, in the North Sea this year, CMR technology was used to log an exploration well in which the target sands held water. However, the CMR log analysis indicated

some unanticipated oil higher up in the well that conventional log analysis would have missed. Subsequent testing confirmed the presence of the oil. The oil company is now evaluating options, reviewing the seismic data and contemplating a sidetrack. Following the CMR success, the oil company decided to run the application in Alaska, Angola and Norway. Overall, worldwide activity for CMR technology doubled since last year.

Today, massive amounts of data are acquired in our Oilfield Services activities. GeoQuest develops software products to interpret and visualize these data and to perform modeling and simulation. The GeoFrame integrated reservoir characterization system is the centerpiece of GeoQuest software development efforts. In 1997, GeoQuest released the next-generation GeoFrame 3.0 application. This software combines the power of IESX* and Charisma* seismic interpretation systems with other applications. It delivers unparalleled power to define and manage reservoirs, and its integrated capabilities let each member of a multidisciplinary team simultaneously view, edit and interpret data and results through all phases of a project. Users indicate a dramatic increase in productivity, a streamlining of their work flow and the ability to create a more accurate reservoir model.

MAXIMIZING THE FINANCIAL PERFORMANCE OF RESERVOIRS

In the fall of 1997, Schlumberger introduced the IRO Integrated Reservoir Optimization service. This service combines new-generation reservoir characterization and flow simulation tools with a team approach to evaluate various field development and production strategies. Working closely with the client, an experienced multidisciplinary team selects and implements the optimal development plan. Reservoir monitoring and control processes are included to

prevent future production problems. The IRO concept offers numerous benefits because it is proactive and closely links development decisions with a thorough understanding of reservoir architecture, flow dynamics and response to various well interventions. In the future, as new data acquisition, communications and software tools are developed, it will be possible to achieve near real-time, interactive reservoir management.

IMPROVING INTERNAL EFFICIENCY

In addition to client-focused advancements, Schlumberger continues to improve its internal efficiency and productivity. The Company has implemented, in full, in all its districts in North America, and is implementing worldwide, the new BASIS* (Business Application Solutions In Schlumberger) business management tool, using the SAP R/3⁺ integrated software application, which replaces dozens of existing discrete applications with a single, seamless solution.

Schlumberger is also overhauling all training programs for engineers. These programs emphasize learning, using information technology (IT), with the objectives of improving training quality while decreasing training time. On-line and CD-ROM training modules have been developed, and full use of IT is achieved by giving every new hire a laptop computer with connectivity to the internal Schlumberger communications network and to the Internet. The immediate result has been a reduction of the training period by up to 25%. The training programs also encourage common steps with the objectives of creating and disseminating a broader Oilfield Services culture, optimizing the costs of training and positioning our engineers to thrive in the increasingly integrated oilfield services environment.

1996 Results

NORTH AMERICA

Revenue in North America grew 21%, while operating income rose 111%, compared with 1995. The rig count increased 10%. All businesses contributed to this growth, most notably GeoQuest, with a revenue increase of 52%, and Dowell and Wireline & Testing, with increases of 17% and 13%, respectively.

As a general trend, prices improved over higher activity and the introduction of new technologies. Dowell took the lead in the technically challenging high-pressure, high-temperature pumping and cementing markets in the Gulf of Mexico. This leadership was affirmed by the success of the DeepSea EXPRES cementing head, an innovative completion technology which facilitates casing cementing operations in deep water. Geco-Prakla significantly expanded its non-exclusive seismic survey activities in the Gulf of Mexico. Sedco Forex returned to North America with two rigs under management contract. Anadrill successfully introduced worldwide the new RAPID* Reentry and Production Improvement Drilling service, a crossdisciplinary technology which improves production economics through reentry, sidetracking and extending existing wellbores.

OUTSIDE NORTH AMERICA

Outside North America, revenue increased 28% and operating income climbed 51%, versus 1995. Rig count rose 5%. All regions grew, with significant upswings in the North Sea, Latin America and West Africa. The largest contributors were Wireline & Testing and Sedco Forex, up 17% and 42%, respectively. Offshore dayrates for Sedco Forex increased significantly. The trend toward integrated services continued, resulting in the expansion of IPM operations. Formed in 1995 in response to increased demand for integrated solutions in

the various phases of the exploration and production process, at the end of 1996, IPM was supervising, on behalf of clients, the operations of 34 drilling rigs.

HIGHLIGHTS

In response to favorable market conditions, Schlumberger boosted capital expenditures for Oilfield Services by 27% in 1996.

As CTD technology provides an effective alternative to conventional drilling in reentry drilling markets, Dowell and Sedco Forex joined forces and expertise in CTD technology, and Anadrill developed the new VIPER* slimhole directional bottomhole assembly for coiled tubing service. In the fourth quarter, Dowell and Baker Oil Tools introduced CoilWORKS* technology, drawing on the strategic alliance between Schlumberger and Baker Hughes. The CoilWORKS service is a seamless answer to workover applications by which the two companies have combined their best-in-class technologies to address the growing demand for economic, total system workover solutions for mature fields.

The GeoSteering* tool, which enables the driller to make course corrections while drilling, made substantial gains in markets in the Far East. The SIMPLER* 101 drilling rig, a new modular land rig, was introduced in Gabon, where it began a five-year integrated services contract in April. Several Dowell drilling fluids products, including QUADRILL*, VISPLEX* and ULTIDRILL* fluids, gained increased acceptance in 1996, in recognition of their contributions to drilling efficiency and well productivity. PLATFORM EXPRESS and CMR services improve the efficiency of wireline logging and deliver critical answers to difficult formation evaluation problems. Activities of both services increased eightfold over 1995 levels. Marine seismic efficiency continued to improve due

to aggressive deployment of the TRILOGY* onboard data management system and Monowing* multistreamer towing technology. The introduction of the fourth-generation Nessie marine streamer, with only a 54-mm [2.1-inch] outside diameter, further extended the towing capacity and efficiency of Geco-Prakla vessels. With the ECLIPSE* reservoir simulation software, the GeoFrame integrated reservoir characterization system and the Finder* line of data management products, GeoQuest now offers the oil industry the most comprehensive range of integrated software systems, data management solutions and processing and interpretation services. Tracking the flow of different fluids in horizontal and high-angle wells became possible with the newly introduced production logging technology. PL Flagship advanced well flow diagnosis service. Building on a solid track record in well testing, the Wireline & Testing Early Production System (EPS) group has expanded significantly. Early production systems saw activity in the North Sea and Africa.

Average offshore rig utilization grew to 94% from 89%, aided by jackup utilization of 100% and semisubmersible utilization of 96%. At year end, the Sedco Forex fleet consisted of 83 rigs, up from 76 at the end of 1995.

1995 Results

NORTH AMERICA

North American revenue rose 3% in 1995, and operating income declined 43%, compared with 1994, while the rig count declined 8%.

New technology was a chief driver of growth. PLATFORM EXPRESS service, the latest-generation wireline logging technology, was introduced in the third quarter, and set new standards for efficiency, reliability and answers in the industry. By year end, there were 17 PLATFORM EXPRESS units deployed in North

America. The successful implementation of new stimulation techniques, such as the PropNET* fluid system for hydraulic fracturing, improved hydrocarbon recovery for clients at a time when eroding gas prices were impeding pressure pumping activity. Our market and technological leadership in MWD and LWD services continued. The ARC5* Array Resistivity Compensated tool was introduced and received wide client acceptance as it provides accurate LWD resistivity measurements in small-diameter wellbores. Also, demand for geological, petrophysical and seismic interpretation software products drove the increase in sales at Software Products. During the year, GeoQuest acquired the Petroleum Division of Intera Information Technologies Corporation, renamed Reservoir Technologies. Seismic activities were adversely impacted by weather in the Gulf of Mexico and lower profitability on sales of non-exclusive seismic data.

OUTSIDE NORTH AMERICA

A 16% rise in revenue and 53% growth in operating income outside North America, along with a 3% increase in rig count, were due mostly to activity in Latin America, Africa and the North Sea. Demand increased for Modular Early Production Facilities and the Universal Pressure Platform. Drilling Fluids services grew substantially in Latin America and the UK sector of the North Sea. Revenue grew due to increased activity and improved drilling rig dayrates in the North Sea and West Africa, offset slightly by a temporary softening in the swamp barge and tender markets and reduced demand for semisubmersibles in Southeast Asia. Several important rig contracts were signed, notably for integrated services. Momentum built in the first three quarters of 1995 in seismic operations was offset in the fourth quarter by poor weather in the North Sea and operational

difficulties in Transition Zone operations. Deployment of Monowing multistreamer towing technology and the TRILOGY data management system continued. New IDEAL* Integrated Drilling Evaluation and Logging systems were deployed worldwide, while the PowerPulse* MWD telemetry tool continued to set new standards for reliability and durability.

Measurement & Systems

1997 Results

Revenue for Measurement & Systems grew 5% compared with 1996, driven primarily by significant growth at Automated Test Equipment (ATE), demand for cards at Electronic Transactions and previously announced acquisitions. These gains were offset by an unstable business environment that affected electricity and gas metering activities in Europe throughout the year, and by an unfavorable fluctuation in currency exchange rates.

Operating income for Measurement & Systems rose 20%, as further turmoil associated with deregulation and privatization in the European metering sector negatively impacted solid results from the other businesses.

Metering revenue decreased 11% compared with 1996, due to negative currency effects in Europe and Asia. The European business environment continued to be affected by the privatization and deregulation of utilities as well as by the implementation of new regulations on procurement. This led to increased competition and severe price erosion. The revenue decline was substantial in Italy and in the UK. In contrast, South America experienced a significant growth in revenue with strong demand for water meters and the new SL16* electricity meter. North America benefited from strong water and gas meter sales. Systems & Services revenue declined 3%. In December, an agreement

was signed with Illinois Power to supply a two-way radio-frequency customer communication system. The contract, which includes operation and maintenance over a 15-year period, represents the industry's largest automatic meter reading (AMR) project to date.

Electronic Transactions revenue and orders grew 26% and 30%, respectively, from 1996. Smart card revenue increased 107% (40%, excluding the Solaic activity acquired in December 1996). This solid growth was spurred by a continued increase in demand for both microprocessor and memory cards, which are used in cellular mobile communications, banking and payphone applications. To support the continued volume growth, additional smart card production operations were established in Hong Kong and Mexico. Sales of telecom equipment improved 7% compared with 1996, as a result of the expansion of operations in China and Mexico to meet growing customer demand.

Compared with 1996, ATE revenue and orders increased 37% and 54%, respectively. Semiconductor testing systems grew 59%, reflecting a favorable trend toward 200-MHz and 400-MHz logic testers. Market share for ATE increased in all semiconductor test market segments. Significant improvements in deliveries of burn-in board loaders and unloaders and assembly systems fueled a 55% increase for automated handling systems. The rise in orders was primarily due to exceptional growth in demand for the ITS9000* family of products at Test Systems, accompanied by an increase at Diagnostic Systems, on stronger customer acceptance of both the IDS2000* and P2X* semiconductor analysis systems. In October 1997, Interactive Video Systems, Inc. (IVS), a metrology solutions provider for the front-end semiconductor fabrication equipment market, was acquired.

1996 Results

Revenue and orders for Measurement & Systems grew 3% and 2%, respectively, compared with 1995. A decline in Metering revenue only partially offset gains at Electronic Transactions and Systems & Services. The rise in orders was led by Electronic Transactions, Water Management and Systems & Services. Operating income declined 18%, mainly due to poor business conditions for metering in Europe and a decrease in demand for semiconductor test equipment.

Compared with 1995, revenue and orders for Metering fell 1% and 3%, respectively. Demand for electricity meters in Europe continued to suffer, particularly in the UK and Germany. Sales of gas meters improved, led by a strong demand in the CIS.

Systems & Services revenue rose 12%, as deregulation created business opportunities in Europe. Orders were up 10% from 1995 driven by increased activity in France and the UK.

Including the acquisitions of Printer and Germann, Electronic Transactions revenue and orders grew 18% and 17%, respectively. Smart cards grew 42%, spurred by demand for memory and microprocessor cards for payphones and cellular phones in China, Italy and the US. Electronic Transactions was the primary supplier of smart cards for the 1996 Olympic Games in Atlanta. Solaic, a French smart card manufacturer, was acquired on December 31, 1996.

Automated Test Equipment revenue was essentially flat compared with the prior year. A substantial increase in volume for IDS10000* diagnostic systems balanced a decrease in demand for other products. Orders increased 3%.

1995 Results

In 1995, revenue and orders grew 18% and 21%, respectively. This growth was primarily

due to acquisitions, favorable currency effects and healthy activity in Europe and Asia. Operating income increased 25%.

For the Metering business, revenue improved 14% and orders rose 17%, due to the acquisition of AEG's worldwide electricity metering operations and robust demand across Europe.

Systems & Services revenue and orders grew 25%, mainly due to the rise in service activities in the UK.

Compared with 1994, revenue and orders for Electronic Transactions soared 31% and 36%, respectively. These gains included contributions from the acquisitions of Malco Plastics and Messerschmidt Apparate in late 1994 and the acquisition of Danyl in 1995. Card activity continued to grow due to cellular subscriber demand in Europe and shipments to China.

Automated Test Equipment revenue and orders improved 32%, driven by strong demand for the ITS9000 family of semiconductor test systems in North America, Europe and Asia.

Net Income

(Stated in millions except per share amounts)

	NET INCOME	EARNINGS PER SHARE ¹	
		BASIC	DILUTED
1997	\$ 1,296	\$ 2.62	\$ 2.52
1996	\$ 851	\$ 1.74	\$ 1.70
1995	\$ 649	\$ 1.33	\$ 1.32

¹Restated for the 2-for-1 stock split on June 2, 1997.

In 1997, operating income of the Oilfield Services segment increased \$571 million, or 58%, to \$1.56 billion. The growth reflected the continued higher demand for oil and gas and the strong increase in exploration and production spending by oil companies. These underlying factors, combined with new technology, greater efficiencies and higher dayrates, resulted in stronger pricing and higher market share.

The Asian and North American markets were significant growth areas. Measurement & Systems operating income increased \$25 million, or 20%, to \$149 million despite adverse exchange rate effects. Automated Test Equipment, Electronic Transactions and activity in Asia all contributed to this increase. Metering activities in Europe declined due to increased competition and severe price erosion.

In 1996, operating income of the Oilfield Services segment increased \$359 million, or 57%, to \$986 million. Growth was due to underlying economic factors, strong demand and the price increases of oil and gas. Other factors included the success of new and existing services such as PLATFORM EXPRESS and LWD technologies. In addition, the strong contribution of Geco-Prakla, which returned to profitability, had a significant impact. Measurement & Systems operating income declined by 18%, to \$124 million, because of steep declines at Automated Test Equipment and Electricity & Gas Metering. A temporary weakness in the semiconductor industry was due to soft market conditions and reduced capital spending by our customers leading to postponements of product deliveries. Turbulence in the electricity metering markets was due to strong pricing pressures and lower volumes in the European markets.

In 1995, operating income of the Oilfield Services segment increased \$132 million, or 27%, to \$627 million. Higher activity outside North America and an improved Geco-Prakla were partially offset by lower results in the US. The only setback was the deterioration in the results of Geco-Prakla, where operational problems in the last quarter offset significant improvements during the first nine months. Severe weather in the Gulf of Mexico and West of Shetland in the North Sea region, lower

profitability on non-exclusive proprietary survey sales and losses resulting from technical and operational problems in Transition Zone activities were the major factors. Measurement & Systems operating income increased by 25%, to \$151 million, because of strong growth at Electronic Transactions and Automated Test Equipment, and acquisitions.

Currency Risks

Refer to page 28, "Translation of Non-US Currencies," in the Notes to Consolidated Financial Statements for a description of the Company's policy on currency hedging. There are no material unhedged assets, liabilities or commitments which are denominated in other than a business' functional currency

While changes in exchange rates do affect revenue, especially in the Measurement & Systems segment, they also affect costs. Generally speaking, the Company is currency neutral. For example, a 5% change in average exchange rates of OECD currencies would have had no material effect on consolidated revenue and net income.

In general, when the US dollar weakens against other currencies, consolidated revenue increases with usually no material effect on net income. This is principally because the fall-through incremental margin in Measurement & Systems offsets the higher Oilfield Services non-US dollar denominated expenses.

The Company's businesses operate principally in US dollars, most European currencies and most South American currencies.

Income Tax Expense

In 1996, with increasing profitability and a strong outlook in the US, the Company recognized 50% of the US income tax benefit related to its US subsidiary's tax loss carry-forward and all temporary differences. This

resulted in a credit of \$360 million. Refer to page 34 in the Notes to Consolidated Financial Statements under "Income Tax Expense" for more information.

In 1997, the Company recognized the remaining 50%, which resulted in no significant reduction of income tax expense.

Research & Engineering

Expenditures were as follows:

	(Stated in millions)		
	1997	1996	1995
Oilfield Services	\$ 320	\$ 294	\$ 279
Measurement & Systems	166	158	148
Other	—	1	1
	<u>\$ 486</u>	<u>\$ 453</u>	<u>\$ 428</u>

Interest Expense

Interest expense increased \$15 million in 1997, following a \$10-million decrease in 1996. The increase in 1997 was due to significantly higher debt balances, only partially offset by lower average borrowing rates.

The decrease in 1996 was due to lower average rates which more than offset higher average debt outstanding.

Liquidity

A key measure of financial position is liquidity, defined as cash plus short-term and long-term investments, less debt. The following table summarizes the Company's change in consolidated liquidity for each of the past three years:

	(Stated in millions)		
	1997	1996	1995
Net income	\$ 1,296	\$ 851	\$ 649
Depreciation & amortization	973	885	820
Other	(5)	(1)	(14)
	<u>2,264</u>	<u>1,735</u>	<u>1,455</u>
Increase in working capital requirements	(496)	(273)	(238)
Fixed asset additions	(1,496)	(1,158)	(939)
Dividends paid	(371)	(367)	(327)
Other	201	132	(6)
	<u>102</u>	<u>69</u>	<u>(55)</u>
Proceeds from employee stock plans	146	180	74
Purchase of shares for Treasury	—	—	(41)
Businesses acquired	(17)	(139)	(217)
Net proceeds on sale of drilling rigs ¹	174	—	—
Other	(57)	(66)	23
Net increase (decrease) in liquidity	<u>\$ 348</u>	<u>\$ 44</u>	<u>\$(216)</u>
Liquidity – end of period	<u>\$ 580</u>	<u>\$ 232</u>	<u>\$ 188</u>

¹In September, the Sedco Forex semisubmersibles Drillstar and Sedco Explorer were sold to a newly formed venture in which Schlumberger has a 25% interest. The rigs will be operated by Sedco Forex under bareboat charters. The gain on sale has been deferred and will be amortized over a six-year period. This transaction had no significant effect on 1997 results and will have no significant impact on future results of operations.

In 1997, 1996 and 1995, the significant increase in working capital requirements followed the higher business activity. The major increases were in the working capital components of receivables and inventory. Higher fixed asset additions reflected the significant increase in Oilfield Services activities.

The current consolidated liquidity level, combined with liquidity expected from operations, should satisfy future business requirements.

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 1997 and 1996, were:

	PRICE RANGE		DIVIDENDS DECLARED
	HIGH	LOW	
1997 ¹			
QUARTERS			
First	\$ 58 ³ / ₁₆	\$ 49	\$ 0.1875
Second	63 ¹ / ₄	51 ¹ / ₈	0.1875
Third	84 ³ / ₈	62 ³ / ₈	0.1875
Fourth	94 ⁷ / ₁₆	72 ³ / ₈	0.1875
1996 ¹			
QUARTERS			
First	\$ 40 ⁵ / ₁₆	\$ 32 ¹¹ / ₁₆	\$ 0.1875
Second	45 ¹¹ / ₁₆	40 ¹ / ₁₆	0.1875
Third	44 ⁷ / ₁₆	39 ¹¹ / ₁₆	0.1875
Fourth	54 ¹ / ₈	42 ¹ / ₈	0.1875

¹Restated for the 2-for-1 stock split on June 2, 1997.

The number of holders of record of the Common Stock of the Company at December 31, 1997, was approximately 22,000. There are no legal restrictions on the payment of dividends or ownership or voting of such shares, except as to shares held in the Company's Treasury. US stockholders are not subject to any Netherlands Antilles withholding or other Netherlands Antilles taxes attributable to ownership of such shares.

Environmental Matters

The Company and its subsidiaries comply with government laws and regulations and responsible management practices for the protection of the environment. The Consolidated Balance Sheet includes accruals for the estimated future costs associated with certain environmental

remediation activities related to the past use or disposal of hazardous materials. Substantially all such costs relate to divested operations and to facilities or locations that are no longer in operation. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations. Consistent with the Company's commitment to protection of the environment, safety and employee health, additional costs, including capital expenditures, are incurred related to current operations.

Outcome of Litigation

In the Contingencies note of the Notes to Consolidated Financial Statements for the years 1994 to 1996, reference was made to a case involving the validity of a 1988 settlement and release in connection with an incidental business venture. On December 11, 1997, the Texas Supreme Court rendered a final judgment in favor of Schlumberger which upheld the original 1993 lower court's decision which exonerated the Company from any liability in this case. As indicated in prior years, no provision had been made in the Consolidated Financial Statements and consequently this judgment had no effect on the consolidated results of operations.

In the 1995 and 1996 Contingencies note of the Notes to Consolidated Financial Statements, reference was made to a case involving a contract dispute in Johnson County, Texas. A settlement was reached with the plaintiff in the fourth quarter of 1997 which had no significant effect on the consolidated results of operations.

New Accounting Standard

During 1996, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 128, "Earnings per Share." Since the standard is effective with the fourth quarter of 1997, the Company has adopted this standard. All prior periods have been restated.

Year 2000 Issue

The "Year 2000 Issue" is the inability of computers and computing technology to recognize correctly the Year 2000 date change. The problem results from a long-standing practice by programmers to save memory space by denoting Years using just two digits instead of four digits. Thus, systems that are not Year 2000 compliant may be unable to read dates correctly after the Year 1999 and can return incorrect or unpredictable results. This could have a significant effect on the Company's business/financial systems as well as products and services, if not corrected.

Schlumberger recognizes that the "Year 2000 Issue" creates a significant uncertainty to its business and that Year 2000 compliance to safeguard operations and minimize business disruption is a key business obligation.

A "Millennium Compliance Program" is under way throughout the Company to ensure that all mission-critical business systems, products and services both in the US and internationally in all business segments are Year 2000 compliant. The Company is also actively working with suppliers, contractors and alliance partners to promote Year 2000 compliance.

In 1994, the Company decided to upgrade its main business systems with compliant programs such as SAP R/3 and QAD MFG/PRO[†]. In 1997, a complete inventory of all business systems took place throughout the Company

resulting in an accelerated implementation of compliant programs and in the initial establishment of contracts with third-party vendors for the repair, testing and implementation of nearly 19,500 programs.

While all business sectors will be required to maintain deadlines and priorities on the business applications mentioned above, the main focus in 1998 will be on products and services. The assessment of existing products and services in each business segment is incomplete and hence the Company cannot as yet make a final conclusion as to whether all products and services will be Year 2000 compliant. However, the Company does believe, based on the assessments completed to date, that mission-critical Year 2000 problems can be corrected. The introduction of Year 2000 Project Teams throughout the Company has been accelerated. Deadlines and objectives for the completion of assessment and repair of noncompliant mission-critical products and services by the end of 1998 have been established. The main focus in 1999 will be on testing and implementation of repaired programs, products and services.

Efforts will be made to protect the Company from being adversely impacted in the Year 2000 by entities not affiliated with the Company (suppliers, financial institutions, etc.). The Company will promote knowledge sharing with customers, suppliers and alliance partners to attempt the most efficient Year 2000 solutions.

The Company expects that the total cost of addressing this issue over the next two years will be \$40 million - \$60 million, but the assessments are not yet complete. This cost estimate does not include the normal upgrading of business and financial systems which would be Year 2000 compliant. Costs incurred in connection with Year 2000 compliance will be treated as period costs and expensed as incurred.

Consolidated Statement of Income

(Stated in thousands except per share amounts)

Year Ended December 31,	1997	1996	1995
<i>Revenue</i>			
Operating	\$ 10,647,590	\$ 8,956,150	\$ 7,621,694
Interest and other income	106,823	69,515	91,536
	10,754,413	9,025,665	7,713,230
<i>Expenses</i>			
Cost of goods sold and services	7,836,952	6,835,444	5,804,157
Research & engineering	486,205	452,608	427,848
Marketing	307,036	301,304	283,790
General	369,030	355,392	345,441
Interest	86,843	72,020	81,620
Unusual items	–	333,091	–
Taxes on income	372,650	(175,677)	121,217
	9,458,716	8,174,182	7,064,073
<i>Net Income</i>	\$ 1,295,697	\$ 851,483	\$ 649,157
Basic earnings per share ¹	\$ 2.62	\$ 1.74	\$ 1.33
Diluted earnings per share ^{1,2}	\$ 2.52	\$ 1.70	\$ 1.32
Average shares outstanding ¹	495,215	490,041	484,748
Average shares outstanding assuming dilution ^{1,2}	514,345	500,498	487,864

¹Restated for the 2-for-1 stock split on June 2, 1997.

²The calculation of diluted earnings per share assumes that all stock options and warrants are exercised at the beginning of the period and the proceeds used to purchase shares at the average market price for the period.

See Notes to Consolidated Financial Statements

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

Consolidated Balance Sheet

(Stated in thousands)

December 31,	1997	1996
ASSETS		
<i>Current Assets</i>		
Cash and short-term investments	\$ 1,761,077	\$ 1,358,948
Receivables less allowance for doubtful accounts (1997 \$60,535; 1996 \$58,981)	2,819,898	2,260,091
Inventories	1,094,070	938,974
Deferred taxes on income	175,927	222,456
Other current assets	220,248	262,148
	6,071,220	5,042,617
<i>Long-Term Investments, held to maturity</i>	742,751	323,717
<i>Fixed Assets</i> less accumulated depreciation	3,768,639	3,358,581
<i>Excess of Investment Over Net Assets</i> <i>of Companies Purchased</i> less amortization	1,167,624	1,225,335
<i>Deferred Taxes on Income</i>	202,774	203,983
<i>Other Assets</i>	143,723	170,818
	\$ 12,096,731	\$ 10,325,051
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 2,297,370	\$ 2,200,161
Estimated liability for taxes on income	384,167	367,562
Bank loans	750,303	743,018
Dividend payable	93,821	92,842
Long-term debt due within one year	104,237	70,827
	3,629,898	3,474,410
<i>Long-Term Debt</i>	1,069,056	637,203
<i>Postretirement Benefits</i>	396,559	383,129
<i>Other Liabilities</i>	306,294	203,929
	5,401,807	4,698,671
<i>Stockholders' Equity</i>		
Common stock	931,096	818,803
Income retained for use in the business	8,061,731	7,137,744
Treasury stock at cost	(2,249,765)	(2,315,946)
Translation adjustment	(48,138)	(14,221)
	6,694,924	5,626,380
	\$ 12,096,731	\$ 10,325,051

See Notes to Consolidated Financial Statements

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

Consolidated Statement of Cash Flows

(Stated in thousands)

Year Ended December 31,	1997	1996	1995
Cash flows from operating activities:			
Net income	\$ 1,295,697	\$ 851,483	\$ 649,157
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	972,539	885,198	820,196
Earnings of companies carried at equity, less dividends received (1997 \$2,474; 1996 \$1,911; 1995 \$1,000)	(2,021)	5,212	(3,791)
Provision for losses on accounts receivable	24,007	27,036	20,306
Other adjustments	(2,778)	(4,613)	(3,562)
Change in operating assets and liabilities:			
Increase in receivables	(642,772)	(319,448)	(136,312)
Increase in inventories	(184,388)	(144,774)	(99,334)
Decrease (increase) in deferred taxes	46,529	(26,226)	-
Increase (decrease) in accounts payable and accrued liabilities	132,452	161,463	(9,243)
Increase (decrease) in estimated liability for taxes on income	37,150	39,851	(3,684)
Other – net	31,578	(73,044)	(39,389)
Net cash provided by operating activities	1,707,993	1,402,138	1,194,344
Cash flows from investing activities:			
Purchases of fixed assets	(1,495,980)	(1,157,957)	(938,847)
Sales/retirements of fixed assets	97,004	98,584	26,936
Payment for purchase of businesses	(13,730)	(115,262)	(200,805)
Net proceeds on sale of drilling rigs	174,000	-	-
(Increase) decrease in investments	(846,194)	(218,914)	129,165
Decrease in other assets	24,852	1,050	42,496
Net cash used in investing activities	(2,060,048)	(1,392,499)	(941,055)
Cash flows from financing activities:			
Dividends paid	(370,771)	(366,791)	(327,189)
Proceeds from employee stock purchase plan	50,055	38,807	36,159
Proceeds from exercise of stock options	95,495	141,299	37,518
Purchase of shares for Treasury	-	-	(40,552)
Proceeds from issuance of long-term debt	815,579	195,009	486,518
Payments of principal on long-term debt	(309,685)	(165,742)	(287,455)
Net increase (decrease) in short-term debt	50,831	212,523	(143,444)
Net cash provided by (used in) financing activities	331,504	55,105	(238,445)
Net (decrease) increase in cash	(20,551)	64,744	14,844
Cash, beginning of year	137,259	72,515	57,671
Cash, end of year	\$ 116,708	\$ 137,259	\$ 72,515

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				TRANSLATION ADJUSTMENT	INCOME RETAINED FOR USE IN THE BUSINESS
	ISSUED		IN TREASURY			
	SHARES ¹	AMOUNT	SHARES ¹	AMOUNT		
Balance, January 1, 1995	614,802,904	\$ 695,946	130,338,980	\$ 2,406,321	\$(57,104)	\$ 6,350,433
Translation adjustment					44,298	
Sales to optionees less shares exchanged		5,223	(1,742,660)	(32,296)		
Purchases for Treasury			1,380,000	40,552		
Employee stock purchase plan	1,449,588	36,159				
Net income						649,157
Dividends declared (\$0.7125 per share ¹)						(345,518)
Balance, December 31, 1995	616,252,492	737,328	129,976,320	2,414,577	(12,806)	6,654,072
Translation adjustment					(1,415)	
Sales to optionees less shares exchanged		42,668	(5,314,696)	(98,631)		
Employee stock purchase plan	1,483,494	38,807				
Net income						851,483
Dividends declared (\$0.75 per share ¹)						(367,811)
Balance, December 31, 1996	617,735,986	818,803	124,661,624	2,315,946	(14,221)	7,137,744
Translation adjustment					(33,917)	
Sales to optionees less shares exchanged		29,314	(3,323,223)	(61,743)		
Employee stock purchase plan	1,399,623	50,055				
Net income						1,295,697
IVS acquisition		16,324	(238,812)	(4,438)		
Tax benefit on stock options		16,600				
Dividends declared (\$0.75 per share ¹)						(371,710)
Balance, December 31, 1997	619,135,609	\$ 931,096	121,099,589	\$ 2,249,765	\$(48,138)	\$ 8,061,731

¹Restated for the 2-for-1 stock split on June 2, 1997.

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 on the equity method and classified in Other Assets. The Company's pro rata share of after-tax earnings is included in Interest and other income. Equity in undistributed earnings of all 50% owned companies at December 31, 1997, was not material.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ from these estimates, management believes that the estimates are reasonable.

REVENUE RECOGNITION

Generally, revenue is recognized after services are rendered and products are shipped.

TRANSLATION OF NON-US CURRENCIES

All assets and liabilities recorded in functional currencies other than US dollars are translated at current exchange rates. The resulting adjustments are charged or credited directly to the Stockholders' Equity section of the Consolidated Balance Sheet. Revenue and expenses are

translated at the weighted-average exchange rates for the period. All realized and unrealized transaction gains and losses are included in income in the period in which they occur. The Company policy is to hedge against unrealized gains and losses on a monthly basis. Included in the 1997 results were transaction losses of \$2 million, compared with a gain of \$10 million in 1996 and a loss of \$2 million in 1995.

Currency exchange contracts are entered into as a hedge against the effect of future settlement of assets and liabilities denominated in other than the functional currency of the individual businesses. Gains or losses on the contracts are recognized when the currency exchange rates fluctuate, and the resulting charge or credit offsets the unrealized currency gains or losses on those assets and liabilities. At December 31, 1997, contracts and options were outstanding to purchase the US dollar equivalent of \$402 million in various foreign currencies. These contracts mature on various dates in 1998, 1999 and 2000.

INVESTMENTS

Both short-term and long-term investments held to maturity are stated at cost plus accrued interest, which approximates market, and comprise primarily Eurodollar time deposits, certificates of deposit and commercial paper, Euronotes and Eurobonds, substantially all denominated in US dollars. Substantially all the investments designated as held to maturity that were purchased and sold during the year had original maturities of less than three months. Short-term investments that are designated as trading are stated at market. The unrealized gain on such securities at December 31, 1997, was not significant.

For purposes of the Consolidated Statement of Cash Flows, the Company does not

consider short-term investments to be cash equivalents as they generally have original maturities in excess of three months. Short-term investments at December 31, 1997 and 1996, were \$1.6 billion and \$1.2 billion, respectively.

INVENTORIES

Inventories are stated principally at average or standard cost, which approximates average cost, or at market, if lower. Inventory consists primarily of materials and supplies.

EXCESS OF INVESTMENT OVER NET ASSETS OF COMPANIES PURCHASED

Cost in excess of net assets of purchased companies is amortized on a straight-line basis over periods ranging from 5 to 40 years. Accumulated amortization was \$343 million and \$287 million at December 31, 1997 and 1996, respectively.

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 manufacturing cost (average 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.

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.

Approximately \$3.4 billion of consolidated income retained for use in the business at December 31, 1997, 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 or earnings that would not be taxed when remitted.

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

EARNINGS PER SHARE

As required by SFAS 128, the Company must report both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing net income by the average number of common shares outstanding assuming dilution, the calculation of which assumes that all stock options and warrants are exercised at the beginning of the period and the proceeds used, by the Company, to purchase shares at the average market price for the period. The following is a reconciliation from basic earnings per share to diluted earnings per share for each of the last three years:

(Stated in thousands except per share amounts)

	NET INCOME	AVERAGE SHARES OUTSTANDING	EARNINGS PER SHARE
1997			
Basic	\$1,295,697	495,215	\$ 2.62
Effect of dilution:			
Options		10,992	
Warrants		8,138	
Diluted	\$1,295,697	514,345	\$ 2.52
1996			
Basic	\$ 851,483	490,041	\$ 1.74
Effect of dilution:			
Options		6,142	
Warrants		4,315	
Diluted	\$ 851,483	500,498	\$ 1.70
1995			
Basic	\$ 649,157	484,748	\$ 1.33
Effect of dilution:			
Options		2,315	
Warrants		801	
Diluted	\$ 649,157	487,864	\$ 1.32

RESEARCH & ENGINEERING

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

Unusual Items

In 1996, the Company announced a charge of \$300 million after tax in the third quarter related primarily to the Electricity & Gas and Geco-Prakla Land and Transition Zone businesses. The after-tax charge of \$300 million included pre-tax charges of \$112 million for severance and termination costs, other facilities' closure costs of \$39 million, goodwill write-offs of \$122 million, and other asset impairments/charges of \$60 million.

The severance and termination costs relate

to less than 5% of the worldwide workforce primarily in Europe and pertain to both manufacturing and operating personnel in about 30 locations. Most of the other facilities' closure costs relate to the write-down of buildings, equipment and other assets to net realizable value.

In addition, the Company recorded a charge of \$58 million after tax, including a loss on the divestiture of the remaining defense-related activity, certain asset impairments and other charges. The amount is classified in Cost of goods sold and services (\$47 million) and Taxes on income (\$11 million).

As of December 31, 1997, \$65 million of the severance and termination had been spent. The remainder should be spent within the next 18 months.

Acquisitions

During 1997, subsidiaries of the Company acquired Interactive Video Systems, Inc., a metrology solutions provider for the front-end semiconductor fabrication equipment market, and S.A. Holditch and Associates, Inc., a petroleum and geoscience consulting services company. These acquisitions were accounted for as purchases. Costs in excess of net assets acquired were \$38 million which are being amortized on a straight-line basis over periods of 5 and 15 years, respectively.

During 1996, subsidiaries of the Company acquired Solaic, SA (on December 31, 1996), a magnetic and smart card manufacturer; an 80% interest in Printer, a magnetic stripe card manufacturer; Oilphase Sampling Services Ltd., a reservoir fluid sampling company; The Production Analyst* and OilField Manager* software products from OGC Software, Inc.; Germann, a turnkey gasoline station provider; Guéant, a gas dispenser service company; and a 33% equity interest in DAP Technologies

Limited, a developer and manufacturer of rugged handheld computer products. The purchase prices were \$75 million, \$9 million, \$7 million, \$8 million, \$8 million, \$7 million and \$4 million, respectively. These acquisitions were accounted for as purchases. Costs in excess of net assets acquired were \$91 million which are being amortized on a straight-line basis over periods between 7 and 25 years.

Investments

The Consolidated Balance Sheet reflects the Company's investment portfolio separated between current and long-term, based on maturity. Except for \$117 million of investments which are considered trading at December 31, 1997 (1996—\$111 million), it is the Company's intent to hold the investments until maturity.

Long-term investments mature in 1999—\$97 million, in 2000—\$205 million and \$441 million thereafter.

At December 31, 1997, there were interest rate swap arrangements outstanding having a total principal amount of \$80 million. These arrangements mature at various dates in 1998, and interest rates are adjusted quarterly. Interest rate swap arrangements had no material effect on consolidated interest income.

Fixed Assets

A summary of fixed assets follows:

December 31,	<i>(Stated in millions)</i>	
	1997	1996
Land	\$ 75	\$ 71
Buildings & improvements	1,009	1,040
Machinery and equipment	9,126	8,467
Total cost	10,210	9,578
Less accumulated depreciation	6,441	6,219
	\$3,769	\$3,359

Estimated useful lives of Buildings & improvements range from 5 to 50 years and of Machinery and equipment from 2 to 25 years.

Long-Term Debt

A summary of long-term debt by currency follows:

December 31,	<i>(Stated in millions)</i>	
	1997	1996
US dollar	\$ 323	\$ 195
French franc	186	—
UK pound	122	137
German mark	118	185
Japanese yen	111	101
Italian lira	93	7
Canadian dollar	68	—
Other	48	12
	\$1,069	\$ 637

Long-term debt is at variable rates; substantially all of the debt is at rates up to 8%. Such rates are reset every six months or sooner. Accordingly, the carrying value of long-term debt at December 31, 1997, approximates the aggregate fair value.

Long-term debt at December 31, 1997, is due as follows: \$372 million in 1999, \$266 million in 2000, \$197 million in 2001, \$146 million in 2002 and \$88 million thereafter.

At December 31, 1997, there were no interest rate swap arrangements outstanding related to debt. At times, interest rate swap arrangements are entered into to adjust non-US dollar denominated debt and interest rates into US dollars. Interest rate swap arrangements had no impact in 1997 and 1996. The exposure, in the event of nonperformance by the other parties to the arrangements, would not be significant.

Lines of Credit

At December 31, 1997, the Company's principal US subsidiary had an available unused Revolving Credit Agreement with a group of banks. The Agreement provided that the subsidiary may borrow up to \$500 million until December 1998 at money market-based rates. In addition, at December 31, 1997, the Company and its subsidiaries had available unused lines of credit of approximately \$830 million.

Capital Stock

The Company is authorized to issue 1,000,000,000 shares of Common Stock, par value \$0.01 per share, of which 498,036,020 and 493,074,362 (restated for the 2-for-1 stock split on June 2, 1997) shares were outstanding on December 31, 1997 and 1996, respectively. The Company is also authorized to issue 200,000,000 shares of cumulative Preferred Stock, par value \$0.01 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 January 1993, Schlumberger acquired the remaining 50% interest in the Dowell Schlumberger group of companies. The purchase price included a warrant, expiring in 7.5 years and valued at \$100 million, to purchase (restated for the 2-for-1 stock split on June 2, 1997) 15 million shares of Schlumberger Limited Common Stock at an exercise price of \$29.975 per share. The warrant is fully vested and nontransferable.

Stock Compensation Plans

As of December 31, 1997, the Company has two types of stock-based compensation plans, which are described below. The Company applies APB Opinion 25 and related Interpretations in

accounting for its plans. Accordingly, no compensation cost has been recognized for its stock option plans and its stock purchase plan. Had compensation cost for the Company's stock-based plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS 123, the Company's net income and earnings per share would have been the pro forma amounts indicated below:

(Stated in millions except per share amounts)

	1997	1996	1995
Net income			
As reported	\$ 1,296	\$ 851	\$ 649
Pro forma	\$ 1,233	\$ 809	\$ 641
Basic earnings per share ¹			
As reported	\$ 2.62	\$ 1.74	\$ 1.33
Pro forma	\$ 2.49	\$ 1.65	\$ 1.32
Diluted earnings per share ¹			
As reported	\$ 2.52	\$ 1.70	\$ 1.32
Pro forma	\$ 2.40	\$ 1.62	\$ 1.31

¹Restated for the 2-for-1 stock split on June 2, 1997.

As required by SFAS 123, the above pro forma data reflect the effect of stock option grants and the employee stock purchase plan during 1997, 1996 and 1995.

STOCK OPTION PLANS

During 1997, 1996, 1995 and in prior years, officers and key employees were granted stock options under the Company's stock option plans. The exercise price of each option equals the market price of the Company's stock on the date of grant; an option's maximum term is ten years, and options generally vest in 20% increments over five years.

As required by SFAS 123, the fair value of each grant is estimated on the date of grant using the multiple option Black-Scholes option-

pricing model with the following weighted-average assumptions used for 1997, 1996 and 1995: dividend of \$0.75; expected volatility of 21% for 1997 grants and 20% for 1996 and 1995 grants; risk-free interest rates for the 1997 grant to officers of 6.19% and 5.80% - 6.77% for the 1997 grants to all other employees; risk-free interest rates for 1996 grants of 5.38% - 6.36% for officers and 5.09% - 6.01% for all other employees; risk-free interest rates for

1995 grants of 5.85% - 7.88% for officers and 5.70% - 7.66% for all other employees; and expected option lives of 7.27 years for officers and 5.09 years for other employees for 1997 grants and 8.4 years for officers and 5.39 years for other employees for 1996 and 1995 grants.

A summary of the status of the Company's stock option plans as of December 31, 1997, 1996 and 1995, and changes during the years ending on those dates is presented below:

	1997 ¹		1996 ¹		1995 ¹	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
FIXED OPTIONS						
Outstanding at beginning of year	24,396,796	\$ 32.50	22,140,960	\$ 29.00	23,121,698	\$ 28.00
Granted	6,157,271	\$ 84.50	8,262,000	\$ 39.50	1,507,400	\$ 31.00
Exercised	(3,405,622)	\$ 28.75	(5,516,484)	\$ 27.00	(1,795,838)	\$ 22.00
Forfeited	(529,140)	\$ 36.52	(489,680)	\$ 32.00	(692,300)	\$ 30.50
Outstanding at end of year	26,619,305	\$ 45.21	24,396,796	\$ 32.50	22,140,960	\$ 29.00
Options exercisable at year-end	10,786,864		9,927,816		12,518,540	
Weighted-average fair value of options granted during the year	\$ 26.11		\$ 10.53		\$ 8.70	

¹Restated for the 2-for-1 stock split on June 2, 1997.

The following table summarizes information concerning currently outstanding and

exercisable options by three ranges of exercise prices at December 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AS OF 12/31/97	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF 12/31/97	WEIGHTED-AVERAGE EXERCISE PRICE
\$ 4.2100 - \$31.4690	8,858,775	5.71	\$28.5219	6,238,135	\$28.9303
\$31.5320 - \$42.2820	11,120,229	6.87	\$36.6741	4,428,729	\$34.2084
\$46.8130 - \$90.5000	6,640,301	9.63	\$81.5801	120,000	\$46.8130
\$ 4.2100 - \$90.5000	26,619,305	7.17	\$45.2138	10,786,864	\$31.2719

EMPLOYEE STOCK PURCHASE PLAN

Under the Schlumberger Discounted Stock Purchase Plan, the Company is authorized to issue up to 10,012,245 shares of Common Stock to its employees. On January 21, 1998, the Board, subject to stockholder approval, amended the Plan to increase the aggregate number of shares available for purchase to 22,012,245. Under the terms of the Plan, employees can choose each year to have up to 10% of their annual earnings withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning or end of the plan year market price. Under the Plan, the Company sold 1,399,623, 1,483,494 and 1,449,588 shares to employees in 1997, 1996 and 1995, respectively. Compensation cost has been computed for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 1997, 1996 and 1995: dividend of \$0.75; expected life of one year; expected volatility of 28% for 1997 and 20% for 1996 and 1995; and risk-free interest rates of 5.64% for 1997, 5.71% for 1996 and 5.61% for 1995. The weighted-average fair value of those purchase rights granted in 1997, 1996 and 1995, was \$17.845, \$9.73 and \$7.21, respectively.

Income Tax Expense

In the third quarter of 1996, with increasing profitability and strong outlook in the US, the Company recognized 50% of the US income tax benefit related to its US subsidiary's tax loss carryforward and all temporary differences. This resulted in a credit of \$360 million.

In the second quarter of 1997, the Company released the remaining valuation allowance

related to its US subsidiary's tax loss carryforward and all temporary differences. The resulting reduction in income tax expense was not significant.

The Company has net deductible temporary differences of \$940 million at December 31, 1997. Significant temporary differences pertain to postretirement medical benefits, fixed assets, employee benefits and inventory.

The Company and its subsidiaries operate in over 100 taxing jurisdictions where statutory tax rates generally vary from 0% - 50%.

The effective tax rates in 1997, 1996 (before the unusual items) and 1995, were 22%, 20% and 16%, respectively. The variations from the US statutory federal tax rate (35%) and the Company's effective tax rates were due to several factors, including the effect of the US operating loss carryforward and a substantial proportion of operations in countries where taxation on income is lower than in the US.

The Company's 1997 income tax expense includes a deferred tax benefit of \$17 million. In 1996 and 1995, due to the Company's US consolidated group net operating loss carryforward, the deferred tax provision excluding the effect of the 1996 unusual items, was less than \$5 million. The remaining component of income tax expense was the current provision in each year.

Leases and Lease Commitments

Total rental expense was \$285 million in 1997, \$232 million in 1996 and \$206 million in 1995. Future minimum rental commitments under noncancelable leases for years ending December 31 are: 1998 \$157 million; 1999 \$142 million; 2000 \$119 million; 2001 \$97 million; and 2002 \$82 million. For the ensuing three five-year periods, these commitments decrease

from \$149 million to \$4 million. The minimum rentals over the remaining terms of the leases aggregate to \$26 million.

Included in the rental expenses and future minimum rental commitments above are the Sedco Forex semisubmersibles *Drillstar* and *Sedco Explorer*. In September 1997, these rigs were sold to a newly formed venture in which the Company has a 25% interest. The rigs will be operated by Sedco Forex under bareboat charters.

Contingencies

The Company and its subsidiaries comply with government laws and regulations and responsible management practices for the protection of the environment. The Consolidated Balance Sheet includes accruals for the estimated future costs associated with certain environmental remediation activities related to the past use or disposal of hazardous materials. Substantially all such costs relate to divested operations and to facilities or locations that are no longer in operation. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations.

In addition, the Company and its subsidiaries are party to various other legal proceedings. Although the ultimate disposition of these proceedings is not presently determinable, in the opinion of the Company any liability that might ensue would not be material in relation to the Consolidated Financial Statements.

Segment Information

The Company's business comprises three segments: Oilfield Services, Measurement & Systems and Omnes. Services and products are described in more detail on pages 46-47 in this report.

Oilfield Services and Measurement & Systems are reportable segments.

Financial information for the years ended December 31, 1997, 1996 and 1995, by industry segment and by geographic area, is as follows:

(Stated in millions)

	OILFIELD SERVICES	MEASUREMENT & SYSTEMS	ADJUST. & ELIM.	CONSOLIDATED
INDUSTRY SEGMENT 1997				
Operating revenue				
Customers	\$7,663	\$2,985	\$ -	\$10,648
Inter-segment transfers	-	1	(1)	-
	\$7,663	\$2,986	\$ (1)	\$10,648
Operating income	\$1,557	\$ 149	\$(58)	\$ 1,648
Interest expense				(87)
Interest and other income				107
Income before taxes				\$ 1,668
Depreciation expense	\$ 788	\$ 114	\$ 3	\$ 905
Fixed asset additions	\$1,353	\$ 140	\$ 3	\$ 1,496
At December 31				
Identifiable assets	\$7,101	\$2,481	\$(99)	\$ 9,483
Corporate assets				2,614
Total assets				\$12,097
INDUSTRY SEGMENT 1996				
Operating revenue				
Customers	\$6,129	\$2,827	\$ -	\$ 8,956
Inter-segment transfers	-	7	(7)	-
	\$6,129	\$2,834	\$ (7)	\$ 8,956
Operating income	\$ 986	\$ 124	\$(52)	\$ 1,058
Interest expense				(72)
Interest and other income				70
Unusual items				(380)
Income before taxes				\$ 676
Depreciation expense	\$ 700	\$ 111	\$ 8	\$ 819
Fixed asset additions	\$1,018	\$ 131	\$ 9	\$ 1,158
At December 31				
Identifiable assets	\$5,961	\$2,518	\$(41)	\$ 8,438
Corporate assets				1,887
Total assets				\$10,325
INDUSTRY SEGMENT 1995				
Operating revenue				
Customers	\$4,867	\$2,755	\$ -	\$ 7,622
Inter-segment transfers	1	4	(5)	-
	\$4,868	\$2,759	\$ (5)	\$ 7,622
Operating income	\$ 627	\$ 151	\$(17)	\$ 761
Interest expense				(82)
Interest and other income less other charges - \$1				91
Income before taxes				\$ 770
Depreciation expense	\$ 650	\$ 104	\$ 6	\$ 760
Fixed asset additions	\$ 800	\$ 122	\$ 17	\$ 939
At December 31				
Identifiable assets	\$5,192	\$2,213	\$(29)	\$ 7,376
Corporate assets				1,534
Total assets				\$ 8,910

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.

During the years ended December 31, 1997, 1996 and 1995, neither sales to any government nor sales to any single customer exceeded 10% of consolidated operating revenue.

Corporate assets largely comprise short-term and long-term investments.

	WESTERN HEMISPHERE		EASTERN HEMISPHERE		<i>(Stated in millions)</i>	
	US	OTHER	EUROPE	OTHER	ADJUST. & ELIM.	CONSOLIDATED
GEOGRAPHIC AREA 1997						
Operating revenue						
Customers	\$ 2,696	\$ 1,508	\$ 3,093	\$ 3,351	\$ -	\$ 10,648
Inter-area transfers	580	14	338	46	(978)	-
	<u>\$ 3,276</u>	<u>\$ 1,522</u>	<u>\$ 3,431</u>	<u>\$ 3,397</u>	<u>\$ (978)</u>	<u>\$ 10,648</u>
Operating income	\$ 374	\$ 266	\$ 349	\$ 816	\$ (157)	\$ 1,648
Interest expense						(87)
Interest and other income						107
Income before taxes						\$ 1,668
At December 31						
Identifiable assets	\$ 2,713	\$ 1,329	\$ 2,705	\$ 2,746	\$ (10)	\$ 9,483
Corporate assets						2,614
Total assets						\$ 12,097
GEOGRAPHIC AREA 1996						
Operating revenue						
Customers	\$ 2,103	\$ 1,150	\$ 3,065	\$ 2,638	\$ -	\$ 8,956
Inter-area transfers	443	7	169	35	(654)	-
	<u>\$ 2,546</u>	<u>\$ 1,157</u>	<u>\$ 3,234</u>	<u>\$ 2,673</u>	<u>\$ (654)</u>	<u>\$ 8,956</u>
Operating income	\$ 195	\$ 166	\$ 243	\$ 546	\$ (92)	\$ 1,058
Interest expense						(72)
Interest and other income						70
Unusual items						(380)
Income before taxes						\$ 676
At December 31						
Identifiable assets	\$ 2,249	\$ 885	\$ 3,300	\$ 2,069	\$ (65)	\$ 8,438
Corporate assets						1,887
Total assets						\$ 10,325
GEOGRAPHIC AREA 1995						
Operating revenue						
Customers	\$ 1,826	\$ 905	\$ 2,779	\$ 2,112	\$ -	\$ 7,622
Inter-area transfers	358	17	149	30	(554)	-
	<u>\$ 2,184</u>	<u>\$ 922</u>	<u>\$ 2,928</u>	<u>\$ 2,142</u>	<u>\$ (554)</u>	<u>\$ 7,622</u>
Operating income	\$ 130	\$ 135	\$ 170	\$ 367	\$ (41)	\$ 761
Interest expense						(82)
Interest and other income less other charges - \$1						91
Income before taxes						\$ 770
At December 31						
Identifiable assets	\$ 1,748	\$ 720	\$ 2,894	\$ 2,025	\$ (11)	\$ 7,376
Corporate assets						1,534
Total assets						\$ 8,910

Pension and Other Benefit Plans

US PENSION PLANS

The Company and its US subsidiary sponsor several defined benefit pension plans that cover substantially all employees. The benefits are based on years of service and compensation on a career-average pay basis. These plans are substantially fully funded with a trustee in respect to past and current service. Charges to expense are based upon costs computed by independent actuaries. The funding policy is to contribute annually amounts that are allowable for federal income tax purposes. These contributions are intended to provide for benefits earned to date and those expected to be earned in the future.

The assumed discount rate, compensation increases and return on plan assets used to determine pension expense in 1997 were 8%, 4.5% and 8.5%, respectively. The assumed discount rate in 1996 and 1995 was 7.5%.

Net pension cost in the US for 1997, 1996 and 1995, included the following components:

	<i>(Stated in millions)</i>		
	1997	1996	1995
Service cost – benefits earned during the period	\$29	\$27	\$26
Interest cost on projected benefit obligation	55	50	46
Expected return on plan assets (actual return: 1997 \$165; 1996 \$94; 1995 \$137)	(57)	(52)	(47)
Amortization of transition asset	(2)	(2)	(2)
Amortization of prior service cost/other	3	4	4
Net pension cost	\$28	\$27	\$27

Effective January 1, 1996, the Company and its subsidiaries amended their pension plans to improve retirement benefits for current employees. The funded status at December 31, 1995, reflects the amendment.

Effective January 1, 1998, the Company and

its subsidiaries amended their pension plans to improve retirement benefits for retired employees. The funded status at December 31, 1997, reflects the amendment.

The funded status of the plans at December 31, 1997 and 1996, was as follows:

	<i>(Stated in millions)</i>	
	1997	1996
Actuarial present value of obligations:		
Vested benefit obligation	\$750	\$639
Accumulated benefit obligation	\$754	\$641
Projected benefit obligation	\$824	\$700
Plan assets at market value	913	771
Excess of assets over projected benefit obligation	89	71
Unrecognized net gain	(204)	(155)
Unrecognized prior service cost	55	34
Unrecognized net asset at transition date	(5)	(7)
Pension liability	\$ (65)	\$ (57)

Assumed discount rate and rate of compensation increases used to determine the projected benefit obligations were 7.5% and 4.5%, respectively, in 1997, and 8% and 4.5%, respectively, in 1996; the expected long-term rate of return on plan assets was 8.5% for both years. Plan assets at December 31, 1997, consisted of common stocks (\$524 million), cash or cash equivalents (\$58 million), fixed income investments (\$253 million) and other investments (\$78 million). Less than 1% of the plan assets at December 31, 1997, represented Schlumberger Limited Common Stock.

NON-US PENSION PLANS

Outside of the US, subsidiaries of the Company sponsor several defined benefit and defined contribution plans that cover substantially all employees who are not covered by statutory plans. For defined benefit plans, charges to expense are based upon costs computed by independent actuaries. These plans are substantially fully

funded with trustees in respect to past and current service. For all defined benefit plans, pension expense was \$15 million, \$16 million and \$13 million in 1997, 1996 and 1995, respectively. The only significant defined benefit plan is in the UK.

The assumed discount rate, compensation increases and return on plan assets used to determine pension expense in 1997 were 8%, 5% and 8.5%, respectively. The assumed discount rate in 1996 and 1995 was 7.5%.

Net pension cost in the UK plan for 1997, 1996 and 1995 (translated into US dollars at the average exchange rate for the periods), included the following components:

	(Stated in millions)		
	1997	1996	1995
Service cost – benefits earned during the period	\$ 14	\$ 12	\$ 10
Interest cost on projected benefit obligation	14	9	9
Expected return on plan assets (actual return: 1997 \$26; 1996 \$36; 1995 \$43)	(24)	(18)	(16)
Amortization of transition asset and other	(4)	(3)	(2)
Net pension cost	\$ –	\$ –	\$ 1

The funded status of the plan (translated into US dollars at year-end exchange rates) was as follows:

	(Stated in millions)	
	1997	1996
Actuarial present value of obligations:		
Vested benefit obligation	\$ 200	\$ 132
Accumulated benefit obligation	\$ 200	\$ 132
Projected benefit obligation	\$ 227	\$ 150
Plan assets at market value	339	276
Excess of assets over projected benefit obligation	112	126
Unrecognized net gain	(92)	(111)
Unrecognized prior service cost	3	4
Unrecognized net asset at transition date	(4)	(4)
Pension asset	\$ 19	\$ 15

The assumed discount rate and rate of compensation increases used to determine the projected benefit obligation were 7.5% and 5%, respectively, in 1997 and 8% and 5%, respectively, in 1996; the expected long-term rate of return on plan assets was 8.5% in 1997 and 1996. Plan assets consisted of common stocks (\$268 million), cash or cash equivalents (\$10 million) and fixed income investments (\$61 million). None of the plan assets represented Schlumberger Limited Common Stock.

For defined contribution plans, funding and cost are generally based upon a predetermined percentage of employee compensation. Charges to expense in 1997, 1996 and 1995, were \$23 million, \$15 million and \$14 million, respectively.

OTHER DEFERRED BENEFITS

In addition to providing pension benefits, the Company and its subsidiaries have other deferred benefit programs. Expense for these programs was \$123 million, \$93 million and \$80 million in 1997, 1996 and 1995, respectively.

HEALTH CARE BENEFITS

The Company and its US subsidiary provide health care benefits for certain active employees. The cost of providing these benefits is recognized as expense when incurred and aggregated \$33 million, \$38 million and \$37 million in 1997, 1996 and 1995, respectively. Outside the US, such benefits are mostly provided through government-sponsored programs.

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company and its US subsidiary provide certain health care benefits to former employees who have retired under the US pension plans.

The principal actuarial assumptions used to measure costs were a discount rate of 8% in 1997 and 7.5% in 1996 and 1995. The overall medical cost trend rate assumption beginning

December 31, 1996, was 9% graded to 5% over the next six years and 5% thereafter. Previously the overall assumption had been 10% graded to 6% over the next six years and 6% thereafter.

Net periodic postretirement benefit cost in the US for 1997, 1996 and 1995, included the following components:

	<i>(Stated in millions)</i>		
	1997	1996	1995
Service cost – benefits earned during the period	\$ 9	\$ 13	\$ 12
Interest cost on accumulated postretirement benefit obligation	21	26	25
Amortization of unrecognized net gain and other	(5)	–	–
	\$25	\$39	\$37

The funded status at December 31, 1997 and 1996, was as follows:

	<i>(Stated in millions)</i>	
	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	\$ 149	\$ 143
Fully eligible	50	44
Actives	106	99
	305	286
Unrecognized net gain	87	92
Unrecognized prior service	5	5
Postretirement benefit liability at December 31	\$ 397	\$ 383

The assumed discount rate used to determine the accumulated postretirement benefit obligation was 7.5% for 1997 and 8% for 1996.

If the assumed medical cost trend rate was increased by one percentage point, health care cost in 1997 would have been \$30 million, and the accumulated postretirement benefit obligation would have been \$355 million at December 31, 1997.

Supplementary Information

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

	<i>(Stated in millions)</i>		
Year ended December 31,	1997	1996	1995
Operating revenue			
Sales	\$ 2,664	\$ 2,428	\$ 2,372
Services	7,984	6,528	5,250
	\$10,648	\$8,956	\$7,622
Direct operating costs			
Goods sold	\$ 1,822	\$ 1,704	\$ 1,645
Services	6,015	5,131	4,159
	\$ 7,837	\$6,835	\$5,804

Cash paid for interest and income taxes was as follows:

	<i>(Stated in millions)</i>		
Year ended December 31,	1997	1996	1995
Interest	\$ 87	\$ 73	\$ 81
Income taxes	\$ 271	\$ 179	\$ 132

Accounts payable and accrued liabilities are summarized as follows:

	<i>(Stated in millions)</i>	
December 31,	1997	1996
Payroll, vacation and employee benefits	\$ 541	\$ 488
Trade	870	712
Taxes, other than income	175	182
Other	711	818
	\$2,297	\$2,200

The caption "Interest and other income" includes interest income, principally from short-term and long-term investments, of \$99 million, \$73 million and \$89 million for 1997, 1996 and 1995, respectively.

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 income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Schlumberger Limited and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan

and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

A handwritten signature in black ink that reads "Price Waterhouse LLP". The signature is written in a cursive, flowing style.

Price Waterhouse LLP
New York, New York
January 21, 1998

Quarterly Results

(UNAUDITED)

The following table summarizes results for each of the four quarters for the years ended December 31, 1997 and 1996. Gross profit

equals operating revenue less cost of goods sold and services.

(Stated in millions except per share amounts)

	OPERATING			EARNINGS PER SHARE ¹	
	REVENUE	GROSS PROFIT	NET INCOME	BASIC	DILUTED
QUARTERS-1997					
First	\$ 2,402	\$ 619	\$ 260	\$ 0.53	\$ 0.51
Second	2,602	673	306	0.62	0.60
Third	2,736	735	357	0.72	0.69
Fourth	2,908	784	373	0.75	0.72
	<u>\$ 10,648</u>	<u>\$ 2,811</u>	<u>\$ 1,296</u>	<u>\$ 2.62</u>	<u>\$ 2.52</u>
QUARTERS-1996					
First	\$ 2,028	\$ 478	\$ 171	\$ 0.35	\$ 0.35
Second	2,151	519	196	0.40	0.39
Third	2,262	510	229	0.47	0.46
Fourth	2,515	614	255	0.52	0.50
	<u>\$ 8,956</u>	<u>\$ 2,121</u>	<u>\$ 851</u>	<u>\$ 1.74</u>	<u>\$ 1.70</u>

¹Restated for the 2-for-1 stock split on June 2, 1997.

Five-Year Summary

(Stated in millions except per share amounts)

Year Ended December 31,	1997	1996	1995	1994	1993
SUMMARY OF OPERATIONS					
Operating revenue:					
Oilfield Services	\$ 7,663	\$ 6,129	\$ 4,868	\$ 4,365	\$ 4,338
Measurement & Systems	2,986	2,834	2,759	2,339	2,370
Total operating revenue	\$ 10,648	\$ 8,956	\$ 7,622	\$ 6,697	\$ 6,705
% increase over prior year	19%	18%	14%	-%	6%
Operating income:					
Oilfield Services	\$ 1,557	\$ 986	\$ 627	\$ 495	\$ 468
Measurement & Systems	149	124	151	121	184
Eliminations	(58)	(52)	(17)	(23)	(23)
	\$ 1,648	\$ 1,058	\$ 761	\$ 593	\$ 629
% increase (decrease) over prior year	56%	39%	28%	(6%)	(10%)
Interest expense	87	72	82	63	69
Taxes on income ¹	373	(176)	121	81	81
Income, before cumulative effect of a change in accounting principle	\$ 1,296	\$ 851	\$ 649	\$ 536	\$ 583
% increase (decrease) over prior year	52%	31%	21%	(8%)	(12%)
Postretirement benefits	-	-	-	-	(248)
Net income	\$ 1,296	\$ 851	\$ 649	\$ 536	\$ 335
Basic earnings per share ² :					
Before cumulative effect of a change in accounting principle	\$ 2.62	\$ 1.74	\$ 1.33	\$ 1.10	\$ 1.20
Postretirement benefits	-	-	-	-	(0.51)
Basic earnings per share	\$ 2.62	\$ 1.74	\$ 1.33	\$ 1.10	\$ 0.69
Diluted earnings per share ² :					
Before cumulative effect of a change in accounting principle	\$ 2.52	\$ 1.70	\$ 1.32	\$ 1.10	\$ 1.18
Postretirement benefits	-	-	-	-	(0.51)
Diluted earnings per share	\$ 2.52	\$ 1.70	\$ 1.32	\$ 1.10	\$ 0.67
Cash dividends declared per share ²	\$ 0.75	\$ 0.75	\$ 0.7125	\$ 0.60	\$ 0.60
SUMMARY OF FINANCIAL DATA					
Income as % of operating revenue	12%	10%	9%	8%	9%
Return on average stockholders' equity	21%	16%	14%	12%	14%
Fixed asset additions	\$ 1,496	\$ 1,158	\$ 939	\$ 783	\$ 691
Depreciation expense	\$ 905	\$ 819	\$ 760	\$ 722	\$ 739
Average number of shares outstanding ² :					
Basic	495	490	485	487	485
Assuming dilution	514	500	488	489	489
AT DECEMBER 31,					
Liquidity	\$ 580	\$ 232	\$ 188	\$ 404	\$ 696
Working capital	\$ 2,441	\$ 1,568	\$ 1,259	\$ 1,037	\$ 908
Total assets	\$ 12,097	\$ 10,325	\$ 8,910	\$ 8,322	\$ 7,917
Long-term debt	\$ 1,069	\$ 637	\$ 613	\$ 394	\$ 447
Stockholders' equity	\$ 6,695	\$ 5,626	\$ 4,964	\$ 4,583	\$ 4,406
Number of employees	63,500	57,000	51,000	48,000	48,000

¹In 1996, the normal recurring provision for income taxes, before recognition of the US tax loss carryforward benefit and the tax effect of the unusual items, was \$206 million.

²Restated for the 2-for-1 stock split on June 2, 1997.

Directors

Don E. Ackerman^{1,2}

*Private Investor
Bonita Springs, Florida*

Euan Baird^{3,4}

*Chairman & Chief Executive Officer
Schlumberger*

John Deutch³

*Institute Professor
Massachusetts Institute of Technology
Cambridge, Massachusetts*

Denys Henderson²

*Chairman
The Rank Group Plc
London*

André Lévy-Lang^{1,3}

*Chairman of the Board of Management
Compagnie Financière de Paribas
Paris*

William T. McCormick, Jr.^{2,4}

*Chairman & Chief Executive Officer
CMS Energy Corp.
Dearborn, Michigan*

Didier Primat³

*President
Priminvest Holding N.V.
Curaçao, N.A.*

Nicolas Seydoux^{2,4}

*Chairman & Chief Executive Officer
Gaumont
Paris*

Linda Gillespie Stuntz¹

*Partner
Stuntz & Davis P.C.
Washington, D.C.*

Sven Ullring^{1,4}

*President & Chief Executive Officer
Det Norske Veritas
Hovik, Norway*

Yoshiko Wakumoto³

*Advisor
Toshiba Corporation
Tokyo*

Officers

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Arthur Lindenauer

*Executive Vice President
Chief Financial Officer*

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Executive Vice President

Andrew Gould

Executive Vice President

Victor E. Grijalva

Executive Vice President

Clermont A. Matton

Executive Vice President

Irwin Pfister

Executive Vice President

Ian Strecker

Executive Vice President

David S. Browning

Secretary & General Counsel

Pierre E. Bismuth

Vice President-Personnel

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Vice President

Jean-Dominique Percevault

Vice President

William J. Prins

Vice President

Pierre-Jean Sivignon

Treasurer

Carole H. Finamore

Assistant Secretary

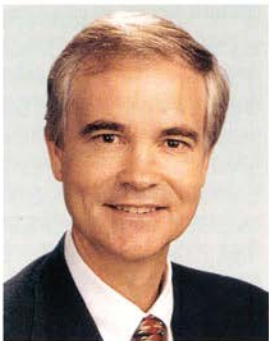
¹Member, Audit Committee

²Member, Compensation Committee

³Member, Finance Committee

⁴Member, Nominating Committee

New Executive Vice Presidents



Chad Deaton

*Executive Vice President
Oilfield Services Solutions Group*

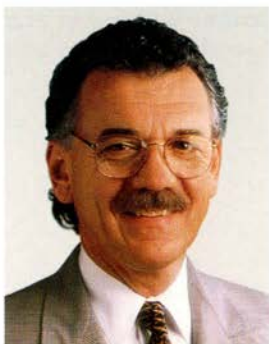
Chad Deaton was previously president of Dowell, based in Sugar Land, Texas. Since joining the Company in 1976, he has held a number of management positions with Wireline & Testing and Dowell in North America and Europe. He has a BS degree in geology.



Andrew Gould

*Executive Vice President
Oilfield Services Products Group*

Andrew Gould was previously president of Wireline & Testing, based in Paris. He joined Schlumberger in 1975 and held management positions with Sedco Forex, Dowell and Wireline & Testing. He has a bachelor's degree in economic history and is a qualified Chartered Accountant.



Irwin Pfister

*Executive Vice President
Test & Transactions*

Irwin Pfister was president of Automated Test Equipment since 1991, based in San Jose, California. He has 19 years of experience in management of electronic equipment and systems businesses. He has a BS degree in mathematics.

The Schlumberger Organization

Schlumberger comprises three business segments: Oilfield Services, Measurement & Systems, and Omnes.

Oilfield Services provides virtually every type of exploration and production service required during the life of an oil and gas reservoir: seismic data acquisition, processing and interpretation; drilling rigs; drilling fluids; directional drilling and real-time drilling analysis; cementing and stimulation of wells; wireline logging; well evaluation, testing and production; integrated data services and software; and project management. As of February 1, 1998, the business is organized in two groups, Solutions and Products. The *Solutions Group* is organized along geographic lines to develop, sell and implement all oilfield services as well as customized and integrated solutions to meet specific client needs. The *Products Group* is responsible for product development across the organization as well as training and technical support for each type of service in the field to ensure the highest standards of service to clients.

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Omnes provides information technology and communications services to oil and gas companies and to companies with operations in remote regions. It offers solutions for wide- and local-area networks, including satellite-based networks, network security, Internet, intranet and messaging.

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Schlumberger can be accessed on the Internet at <http://www.slb.com>

STOCK TRANSFER AGENT AND REGISTRAR

BankBoston, N.A.
c/o Boston EquiServe
Investor Relations
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Boston, Massachusetts 02266-8040
1-800-733-5001 or 1-781-575-3400

FORM 10-K

The Company's 1997 annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge. From the US and Canada, call 1-800-99-SLB-99. International callers dial 1-402-573-9796. Alternatively, write to the Secretary, Schlumberger Limited, 277 Park Avenue, New York, NY 10172. It can also be accessed on the Internet at <http://www.slb.com/ir>

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277 PARK AVENUE, NEW YORK, NEW YORK 10172
42, RUE SAINT-DOMINIQUE, 75007 PARIS
PARKSTRAAT 83, 2514 JG THE HAGUE