

## Integration

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Integration maximizes the value delivered from differentiated technology, reliability, and efficiency.

## Integration

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The increasing diversity of oil and gas resources presents technical challenges for our customers—and at the same time opportunities for Schlumberger. Technology and process must be customized just as much for high-cost deepwater development as for unconventional reservoirs.

We're going to share our perspectives on the value that integration can bring in lowering the cost per barrel for our clients, and driving the financial performance of both our customers, and ourselves.

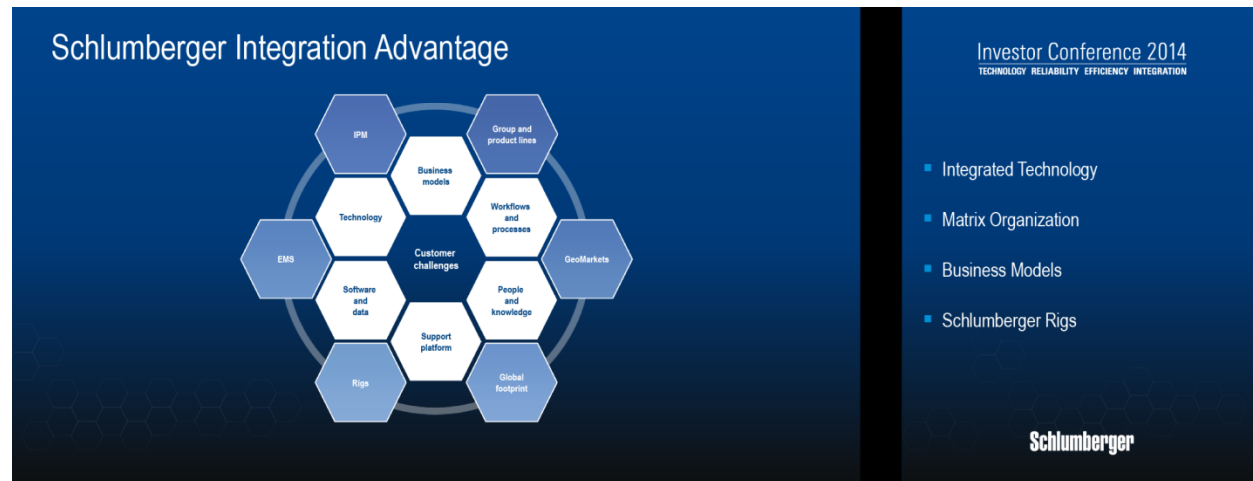
We have shown that the impact of technology can be enhanced by integration, particularly when backed by improved reliability and greater efficiency. Schlumberger has been involved in integration-type projects for many years, and we are now taking the next step in elevating this to another level.

Yesterday you heard about technology that is helping to improve the returns of our customers' assets. The integration of our technology portfolio in different plays such as exploration, deepwater, unconventional and conventional is having a dramatic impact on the value we are providing, which is helping to further differentiate ourselves from our competitors.



The most important part of integration involves our customers, where our experts and theirs use common process or workflows to enhance the value created. Yesterday, we described a number of the

challenges that customers face. They range from reducing subsurface risk as exploration and appraisal begins, to increasing the ultimate recovery achievable when the reservoir reaches the end of its economic life. These challenges can be impacted not only by technology, business model and workflow, but also by qualified people, global back office support, and by software to allow a seamless integration of all the parts.



Integration is not only occurring within and across our group and product line organization, it is also happening within research, engineering and manufacturing, and within our field operations—and it is backed by the transformational initiatives and programs that you just heard about. None of this integration is easy, but we now have a track record that goes nearly 20 years to help us make it a success.

In doing this, we benefit from four key differentiating advantages. The first concerns many of the fully integrated technologies, processes and systems that we have already shown you. The process of integrating technology and workflows is not easy and takes a unique mindset and the skills of individuals to help bring this all together. This process and skill set is not easy to duplicate by our competitors.

The second is the matrix organization that we first introduced more than 15 years ago, and that we described in great detail at our 2011 conference.

Third is the growth in integrated services revenue that has been enabled by a range of different business models.

Last is the access to drilling rigs that has long been a Schlumberger strength, and one that has recently been enhanced by our purchase of Saxon drilling last month.

We will now take each of these differentiators to show you how we are uniquely positioned to add value to our clients projects through integration.



I don't plan to talk about our first advantage—integrated technology—at this point since it was covered in many of the other conference presentations.



Our second advantage is the matrix organization that we introduced with the GeoMarket\* and product line structure in 1998. In this structure, the product lines lie at the center of the organization and remain in charge of the technology portfolio, resource management, as well as product and service delivery.

To complement this, our geographic organization is responsible for customer-interface coordination, multi-product-line opportunities, managing the main support functions, as well as providing general business oversight.

This is enhanced by our global footprint. Today we operate in over 85 countries, in many of which we have been present for more than 70 years. Throughout this time, we have invested continuously in infrastructure and resources, creating a global deployment platform that is unmatched in our industry.



We have also maintained a strong commitment to recruiting and developing local talent everywhere we operate, creating both extensive local knowledge as well as deep and long-standing customer relationships. In addition, we have established research, engineering and manufacturing centers throughout the world, making sure they touch all operating environments and that they remain close to the regional challenges of our customers. This a major advantage for Schlumberger.

The matrix of a geographic and product line organization has allowed us to break down the silos that can sometimes occur in large organizations to bring an integrated offering to our customers very quickly. Depending on customer challenges and needs, we have the track record and expertise to deliver these types of projects anywhere in the world.

### Business Models—Proven Capabilities

Discrete Services	Bundled Services	Integrated Services	Well Construction	Production Management
Narrow scope	Multiple services	Coordination & services	Project mgmt. & services	Project mgmt. & services
Standard contracts	Standard contracts	Performance contract	Lump-sum turnkey	Fee per barrel
Spot market	Annual	Annual	Multiyear	>10 years

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- Integrated Technology
- Matrix Organization
- Business Models
- Schlumberger Rigs

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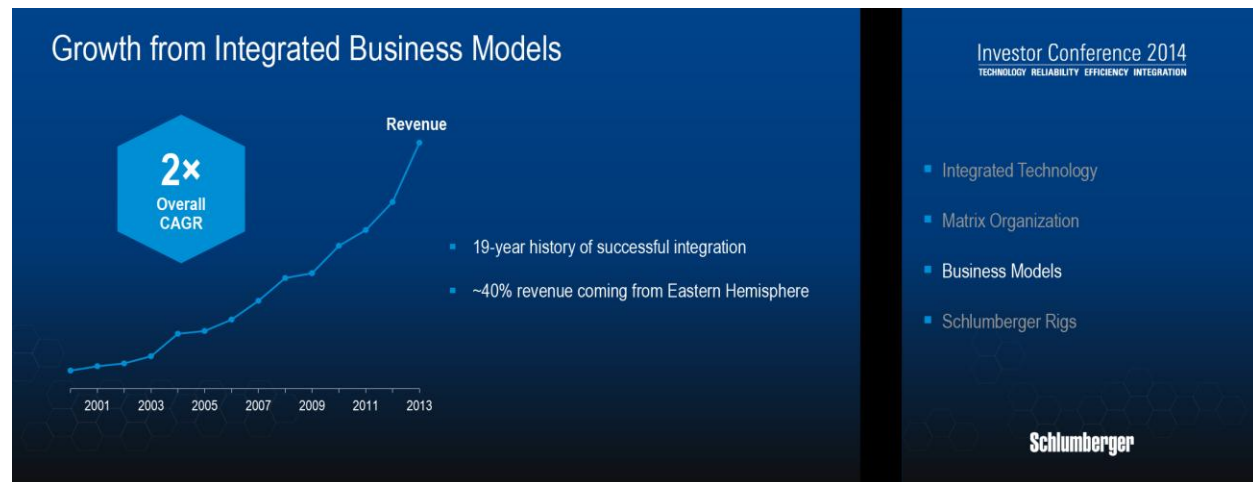
In terms of business model, the integration of products and services with workflow and process can take many forms. Our third advantage lies in the experience we have gained in these over the last 20 years. And here we see five business models depicting our view of the evolution of these in our industry.

As the pace and complexity of operations have grown, the traditional approach—typically known as discrete services—has become increasingly inefficient and expensive for our customers to manage.

To control costs and minimize downtime, customers may solicit tenders for bundled services, lumping together several related discrete offerings from a single supplier for a lower total cost. While this approach may reduce the price, it often fails to boost efficiency, especially when the product lines and in many cases the individual service providers, continue to function independently.

Given these drawbacks as well as the magnitude of the challenges facing the industry today, what we need are truly integrated operations. What is an integrated operation? Put simply, it is one in which the interactions among the parts are fundamentally different than they have been in conventional discrete or bundled services operations. In integrated operations, all the products, services, and personnel are streamlined and coordinated across the usual domain boundaries as if they were a cohesive system with a single objective. As an industry, we need to integrate services in field operations at the well site, as well as technologies and engineering workflows back in the office. The

ultimate integrated operation would be one in which both parties—oil company and service provider—are fully aligned and work together as one.



Our Integrated Project Management (IPM) business is one example of this. It is made up of well construction and production management projects and we have a large organization that supports these types of projects. IPM was started some 19 years ago to address a growing requirement from our customers to integrate services and technologies. This has now grown into a portfolio of multiyear, multirig contracts as well as into technically more challenging work in deeper and tougher wells. The majority of IPM contracts are of a long-term nature in order to leverage operational efficiency and experience.

IPM customers come from all sectors and include international oil companies, independents and national oil companies—all of whom we treat equally. During the last decade, IPM has consistently achieved double-digit revenue growth, even when the industry has gone through a downturn. Activity was initially weighted towards the Western hemisphere but in the last three to four years we have seen a large uptake in business in the Eastern hemisphere, which now makes up about 40% of our total revenue with operations in North Africa, the Middle East, China and Russia.



The fourth advantage that clearly differentiates Schlumberger in the supply of integrated services is the access to drilling rigs. We have always said that this was essential in this type of activity. And for this reason we have always maintained a rig management group with the necessary expertise to oversee all of our drilling operations.

The acquisition in May of this year of Saxon drilling, a company with which we have had a relationship since 2008, was a requirement to give us improved access to rigs in some parts of the world. For six years, Saxon's land drilling rigs have provided us with an excellent integration platform, allowing us to optimize the drilling process in major projects around the world. The conversion of our minority share in Saxon into full ownership as a result of the acquisition forms a major part of our integrated well construction and production management growth plans.

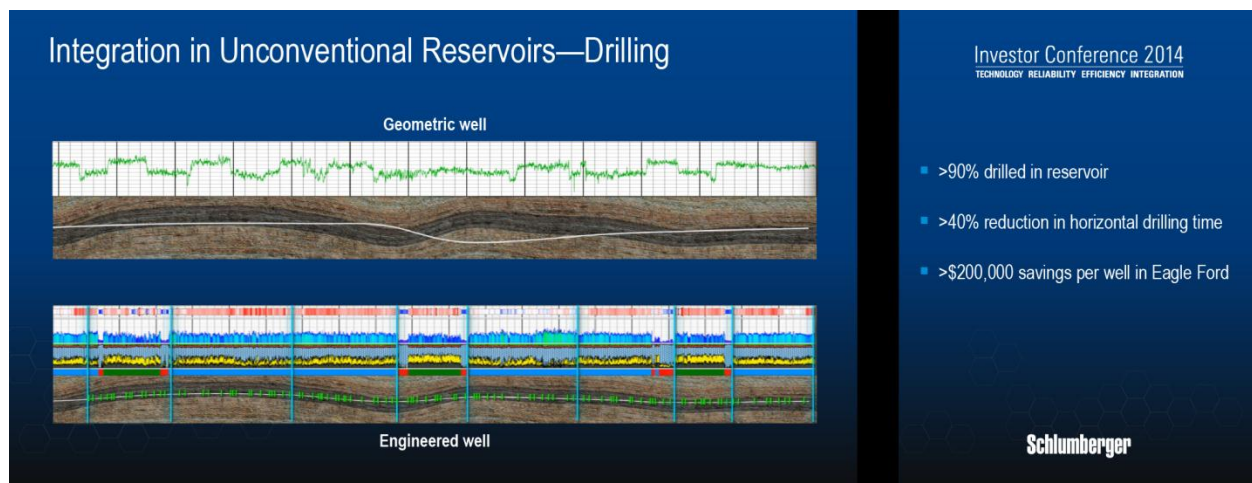
In doing this, our approach will evolve the engineering of the drilling system from a simple combination of discrete services to optimal systems customized through extensive design and modeling capabilities for specific customer requirements. We described some of these capabilities yesterday when we discussed Drilling Group technologies. We believe that the addition of proven Saxon expertise in drilling engineering and services to our existing rig ownership and management will be the key enablers for further advances in drilling efficiency that will lead to superior performance and incremental margins in challenging land-based operating environments.



We will now show you some examples of integration for unconventional, deepwater and conventional resource development. We will focus on how integration impacts the value generated for both our customers and ourselves. First up are unconventional resources.



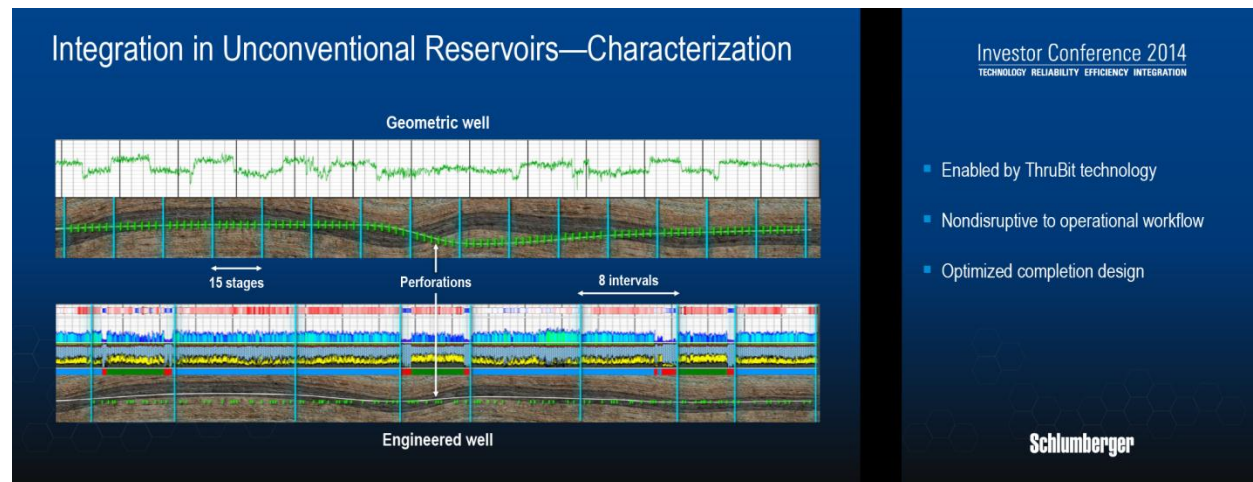
To illustrate the difference and highlight some of the additional value that can be created through integration, I will use the example of a project in the Eagle Ford.



The value of integration in the drilling process is substantial for our customers, and for ourselves.

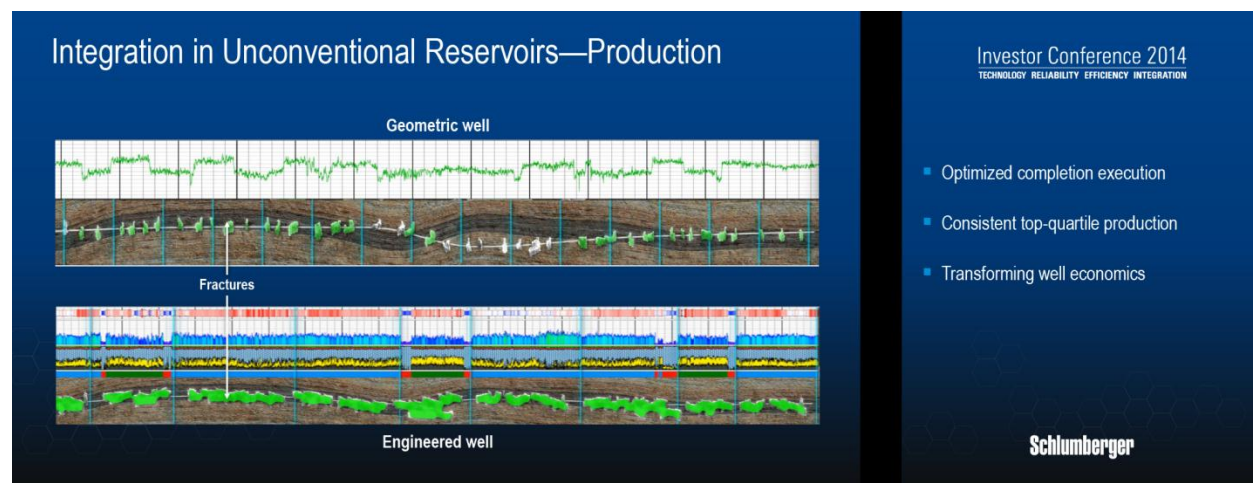
For one customer, we have been able to achieve more than 90% of the lateral drilled in the sweet spot of the reservoir, and a more than 40% reduction in drilling time—which resulted in a saving of over \$200,000 per well.

For Schlumberger we have been able to improve our market share resulting in additional revenue, and to implement performance-based pricing leading to improved incremental margins



The value of integration in the characterization phase of this project is an answer product delivered in time to be used in the completion process of this well, along with a cost-effective solution that we can now deliver to our customer to evaluate the lateral section.

The impact to Schlumberger has been year-on-year growth in revenue of more than 70% in reservoir characterization of the lateral, and the ability to deploy unique logging technology that clearly differentiates us from our competitors. We estimate that in North America alone that this is a \$4-billion market.



The benefits for the customer in integrating the drilling, characterization and completion processes are substantial. We have seen that when putting all the pieces together with a common platform and workflow to integrate our technology, the impact would be \$2.6 million in cost reductions in addition to incremental production revenue in the first year.

For Schlumberger, the impact of developing this integrated approach to addressing the challenges in unconventional reservoirs is the building of a sustainable business in North America, and then implementing our learnings overseas. We have also seen an impact on asset utilization and an improvement in incremental margins.

Moving on to the value of integration in deepwater operations, the two main challenges concern the management of operational risk, and the need to ensure optimal project economics.

Deepwater Integrated Services  
Minimize risk and improve economics

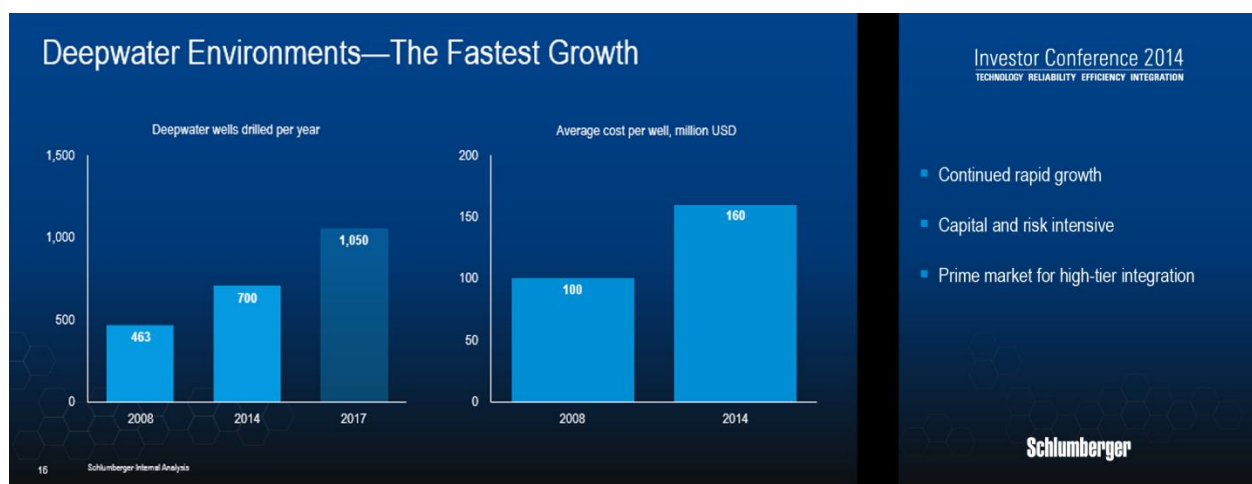
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It is no secret that deepwater environments around the world offer the promise of significant hydrocarbon rewards from an economic perspective. Over the last five years, about 60% of new hydrocarbon reserves have been discovered in such environments.

In order for this unforgiving environment to remain economically viable in the long term, consistent efficiencies must be achieved. The logistical and operational risks inherent to deepwater operations must be identified and mitigated to ensure that costs can be properly managed.

Economically successful deepwater operations must have sound project fundamentals locked in place, and our approach is characterized by four solid foundations that standardize performance in this environment to bring together the right people, technology and process.



The development of new fields and the continuity of exploration activity will drive a further increase in the number of deepwater wells, from 700 in 2014 to an estimated 1,300 wells by the end of the

decade. This projected growth in wells, in combination with the increasing requirement to intervene in mature fields, will require serious improvement in operational efficiencies across the industry.

As the industry becomes increasingly familiar with the operational challenges in such unforgiving conditions, attention must inevitably turn to tackling the economic challenges that deepwater operations present in the long term.

The increase in field development complexity will need to be offset by efficiency improvements. As a consequence we anticipate deepwater capex to reach \$150 billion by the end of 2020, which is in line with the same pace of compound annual growth rate of 11% that we have seen in recent years.

When this is considered against the currently tight supply-demand balance of ultra-deepwater rigs, it is not surprising that the cost per well has been driven up strongly over the last few years. The average cost of a deepwater exploration or appraisal well in 2012 reached \$150 million. These challenges demand that operators and service providers work together—otherwise deepwater project economics may become both marginal and questionable.



Deepwater service delivery focuses on four main executional foundations.

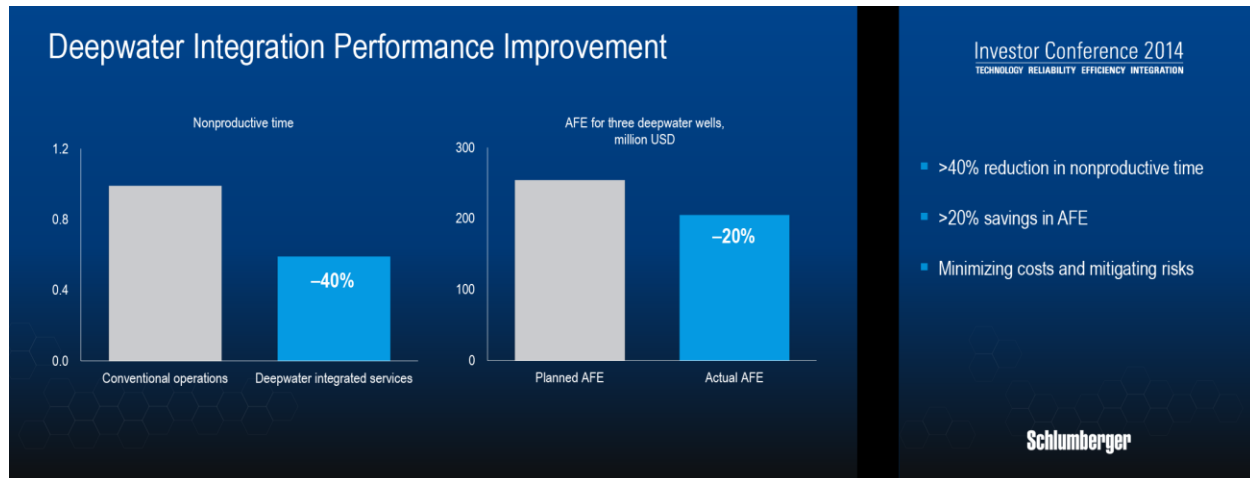
The first is competency assurance. Schlumberger deepwater crews are technically assessed and certified to operate in an offshore environment that requires special attention be paid to well integrity capabilities and superior operational efficiency. More than 2,000 employees make up these crews, and all have been certified since 2010, no mean feat in itself.

The second foundation covers planning and risk management. We engage with our customers early in deepwater project planning, especially in new frontier areas. This practice allows us to work together to better identify and manage operational risks, often before they arise, through a systematic process that ensures project readiness.

The third foundation is our broad and industry leading technology portfolio. For the last 20 years, Schlumberger has developed technologies that enhance deepwater reservoir characterization, improve well construction, and optimize reservoir exploitation. These technologies have been

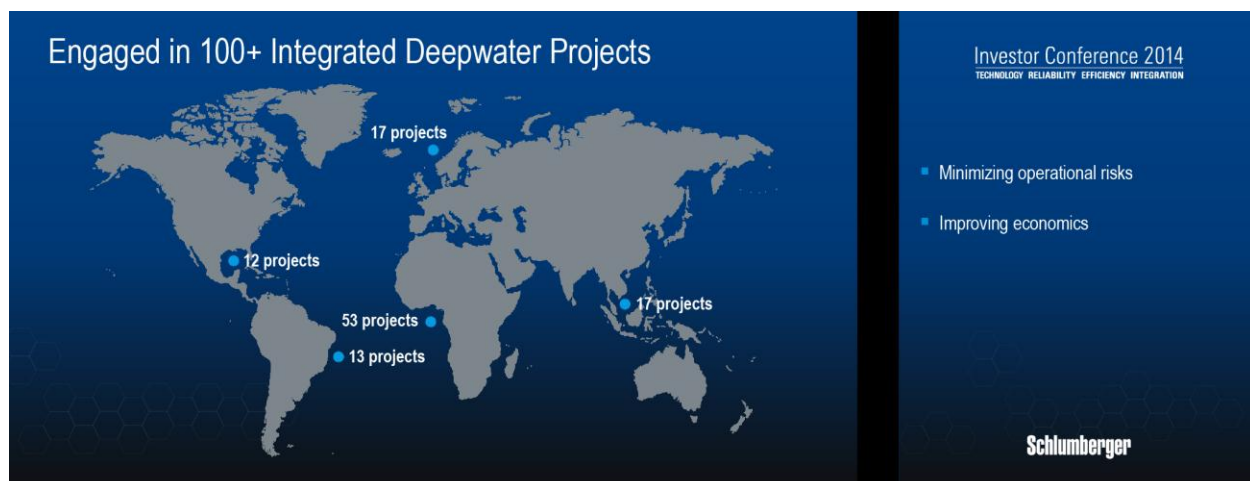
developed with two important drivers in mind for deepwater—superior reliability and operational efficiency.

The fourth foundation is integrated services project management.



Our integrated services model has been used with a variety of customers—including international and national oil companies as well as independents—and has been proven in both new and mature operational environments.

The industry has recognized that in a high-risk, complex and challenging environment such as deepwater, the combination of highly skilled people, competency assurance, planning and risk management programs together with specific workflows translates to savings. In the typical case shown here, savings of up to 20% were realized in project costs and non-productive time was lowered by 40%. As a result of this performance, we were awarded additional deepwater rigs at premium pricing, and the customer recognized this particular project as being the best Integrated Solution in Deepwater in 2013.





Results like these are typical of how our involvement has been critical to overall success. To date, we have completed more than 100 integrated deepwater projects across the world over the last few years and we are seeing more and more customers understand the value of our approach to reducing operational risk and improving project economics.



Having now given you examples of how integration adds value in unconventional and deepwater operations, we'll now move on to well construction and production management where the challenge is to minimize risk and improve operating economics.

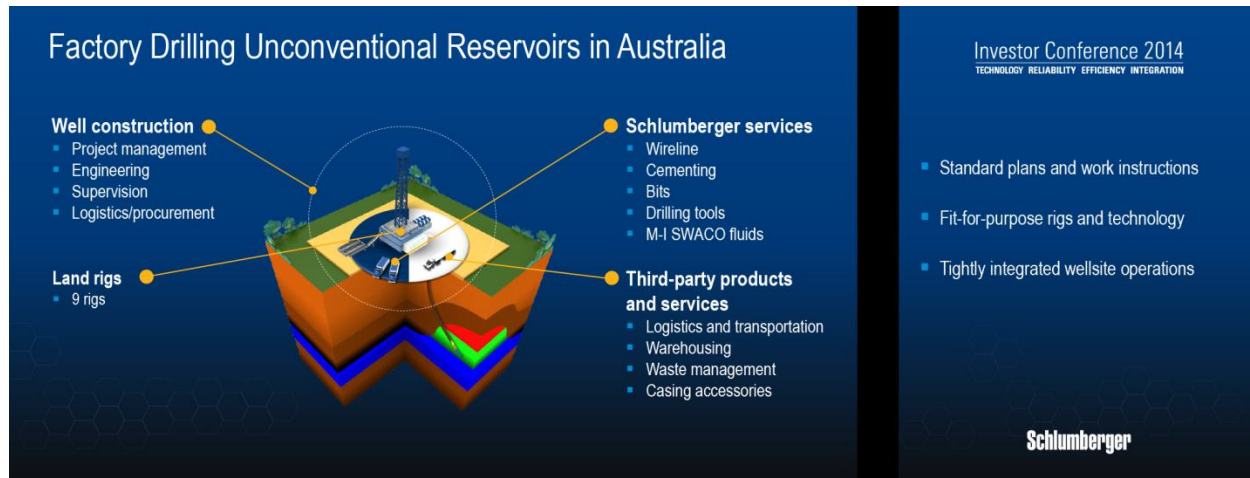


Schlumberger has been successfully executing integrated well construction projects for nearly two decades. Irrespective of the diverse drilling conditions, our objective in these projects is actually quite simple—the effective management of operational risks in order to improve project economics by delivering wells safely, rapidly, and precisely on target.

In 2013 our Integrated Project Management (IPM) product line drilled over 689 wells with 75 rigs, amounting to over 3 million ft of drilling. While these wells were drilled across a very broad range of operating environments, I would like to share two specific examples with you, one from either end of

the spectrum—a high-efficiency factory drilling environment, and a high technical complexity environment.

Our first example takes us to Queensland, Australia.



The objective of our well construction project in the Surat basin of Eastern Australia is to deliver producing wells that are required to feed customer LNG trains in the world's first project to turn coal seam gas into liquefied natural gas. This requires a very high drilling intensity of about 300 wells per year.

The development of Surat Basin requires an industrialization of the well construction process, much like a manufacturing line. This Factory Drilling\* approach to field development involves standardized and Lean drilling and completion processes focused on reducing time-based costs in an economically marginal field, and efficient planning of the supply chain. This is the first time a Factory Drilling model has been deployed in Australia, and this has provided the required solution for the Surat development.

The factory drilling model integrates four main areas. The first is a project approach through IPM, which provides the overall project management, engineering, supervision and procurement and logistics. The second involves newly designed fit-for-purpose drilling rigs while the third involves Schlumberger services and fit-for-purpose technology, such as record-breaking Smith drill bits from and innovative Well Services cementing technologies. Finally, third-party services such as logistics, transportation, waste management and tubulars are seamlessly integrated.

## Factory Drilling Unconventional Reservoirs in Australia



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- Standard plans and work instructions
- Fit-for-purpose rigs and technology
- Tightly integrated wellsite operations

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On this project, wells are vertical and are typically 500-1,000 m deep. We are currently operating nine Factory Drilling rigs, integrating a multidisciplinary team consisting of IPM, Well Services, Wireline, Smith Bits, M-I SWACO and PathFinder personnel, with the management of some 400 employees and contractors.

The drilling process you see is taken to the limit of efficiency through well-defined engineering and work plans, fit-for-purpose rigs and technology, and tightly integrated operational execution. This same level of efficiency is maintained just as consistently on well after well as in a manufacturing process.

## Factory Drilling Unconventional Reservoirs in Australia



- 4 days average saving in drilling time
- 2 days average saving in completion time
- 4 rigs delivering 30 wells per month

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In a project like this where the economics are heavily driven by time-related costs, drilling time has gone from eight days per well at the start of the project, to four days per well at the end of last year. In the last month, we have actually approached three days per well. Similarly we started the project with completion times of four days per well and are now under two days per well. This performance has been achieved through over the 800 wells that have been drilled and completed since the project started.

From the customer viewpoint, integration leads directly to efficiency and cost reduction, fit-for-purpose rigs and technology that drive operational integration, and finally, more wells delivered within the same timeframe lead to higher production capacity and lower project risk in driving the LNG trains.

### Mexico South—Complex Land Drilling



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- Planning and risk management
- Multidisciplinary design and execution
- Real-time operations optimization

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Now let me take you to our next example, which is a highly complex drilling environment with many technical challenges in the South of Mexico. This requires integration across multiple fronts, and we have a unique capacity to deliver wells with this scale of complexity. In fact we have been executing in this environment successfully for the past seven years.

The technical complexities in these wells range from geological- and reservoir-related challenges as well as drilling challenges due to tough geomechanical conditions, all of which lead to risks and uncertainties that need to be mitigated through solid well design and executional capacity. If these risks are not managed correctly, they can lead to costly outcomes including well control issues, hole stability problems, and even loss of a well or a section of a well.

### Mexico South—Multiple Dimensions of Integration



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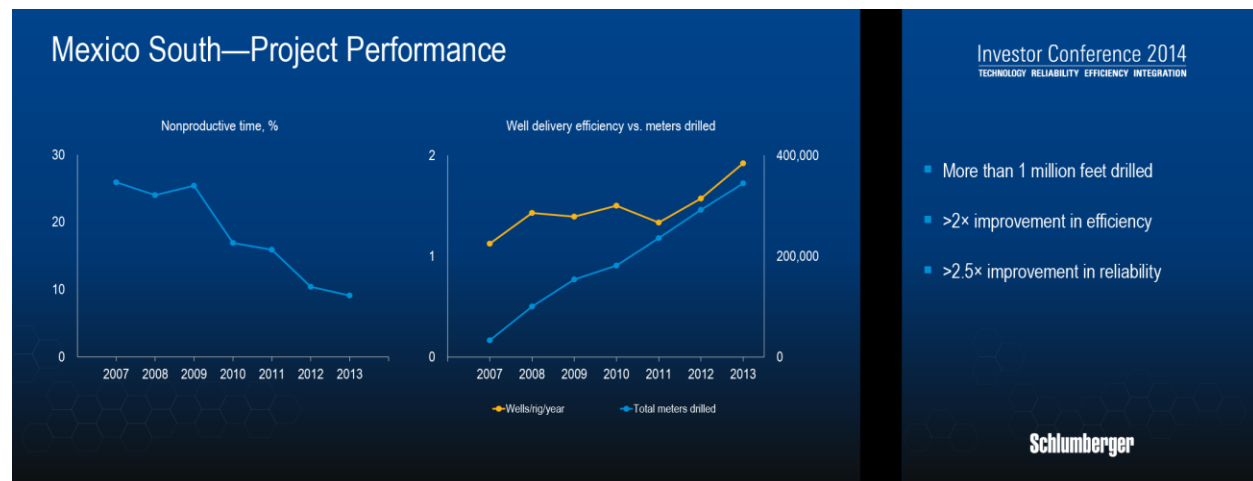
- Planning and risk management
- Multidisciplinary design and execution
- Real-time operations optimization

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For successful execution of a project such as this, seamless integration is needed across multiple dimensions. This leads to a very comprehensive risk management process which is essential in this level of complexity. There are four key dimensions to this.

First, integration across multiple geoscience disciplines allows us to plan for contingencies during the planning stage as well as in real-time look-ahead exercises during the execution stage. Second, engineering design of the wells integrates lessons learned and best practices, as well as input from multiple disciplines and operating segments. Third, product line technologies are integrated within the workflows to ensure optimization is achieved. For example, the full drilling group suite from bottomhole assembly to drilling fluids is optimized for top performance. Last, operational risks are mitigated during execution through real-time monitoring and decision making, with multidisciplinary teams in place.

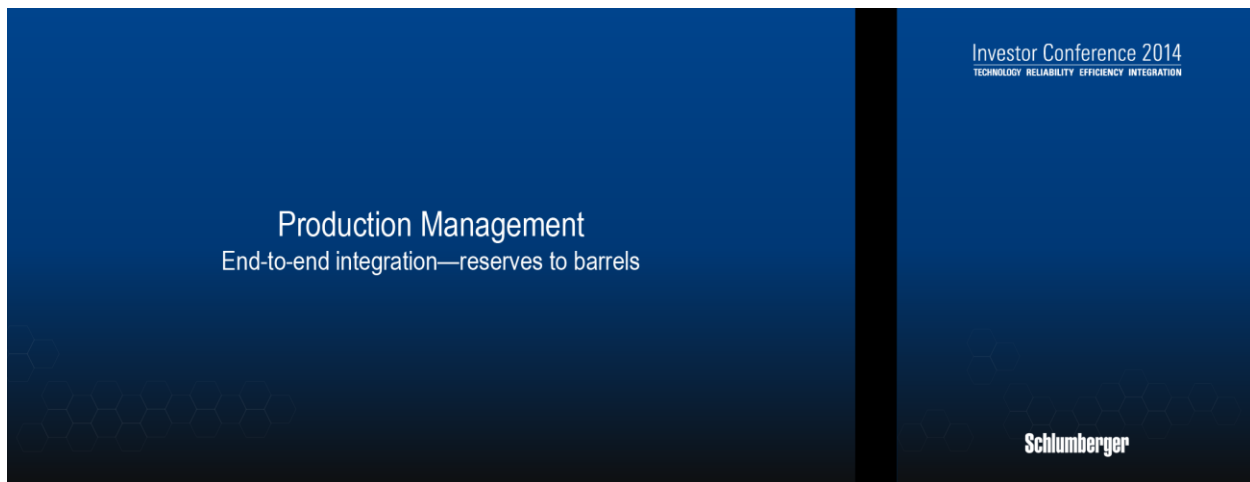
In summary, the key integration elements that cut across each of these dimensions are our capacity for planning and risk management; seamless, multidisciplinary collaboration in design and execution; and the capacity to plan and react in real-time to take well informed decisions.



Since the project started more than seven years ago, we have successfully drilled over 1 million feet in this environment. During this time we have reduced the non-productive time by a factor of two-and-a-half, from an average of 25% to a single-digit figure. With our significant experience in this area, we have doubled well delivery efficiency—and are now able to deliver two wells per rig per year. These are significant achievements in a highly complex environment such as this.

We will now move on to the next level of integration, production management projects.





In the production arena, we have seen even greater changes through the role and impact of integration in long-term incentivized production projects. This is perhaps the ultimate form of integration, both in terms of potential and impact.



Our production management project experience goes back more than 15 years. Today we co-manage over 170,000 boepd through 10 production management projects across various geographies and operating environments.

## Shushufindi—Ecuador

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- 15-year contract, signed January 2012
- Production incentive contract (fee per bbl)
- ~900 people mobilized
- Largest production management project

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The most recent example of our integration capabilities in this area is the Schlumberger Production Management (SPM) Shushufindi project in Ecuador. Shushufindi is the largest onshore field in Ecuador, and with 3.6 billion barrels of oil originally in place this is one of the largest onshore fields in South America.

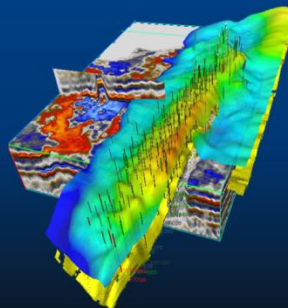
In January 2012, SPM, in association with two consortium partners was awarded a fee-for-barrel contract to manage the field on behalf of PetroAmazonas, the national oil company of Ecuador. Schlumberger signed the contract for Shushufindi on 31 January 2012, with the first rigs arriving six weeks later in March, and production-related operations beginning in April.

The aim of the project was to rejuvenate and redevelop this mature brown field and generate incremental production. SPM undertakes and invests all subsurface engineering, well engineering, well drilling and workover activity in return for a payment which is completely linked to incremental production. The project integrates every Schlumberger product line with the exception of WesternGeco. This involves a total of 1,625 people—both from Schlumberger and from third parties—operating three drilling and seven workover rigs.

## Shushufindi—Understanding the Subsurface



➤  
9 months

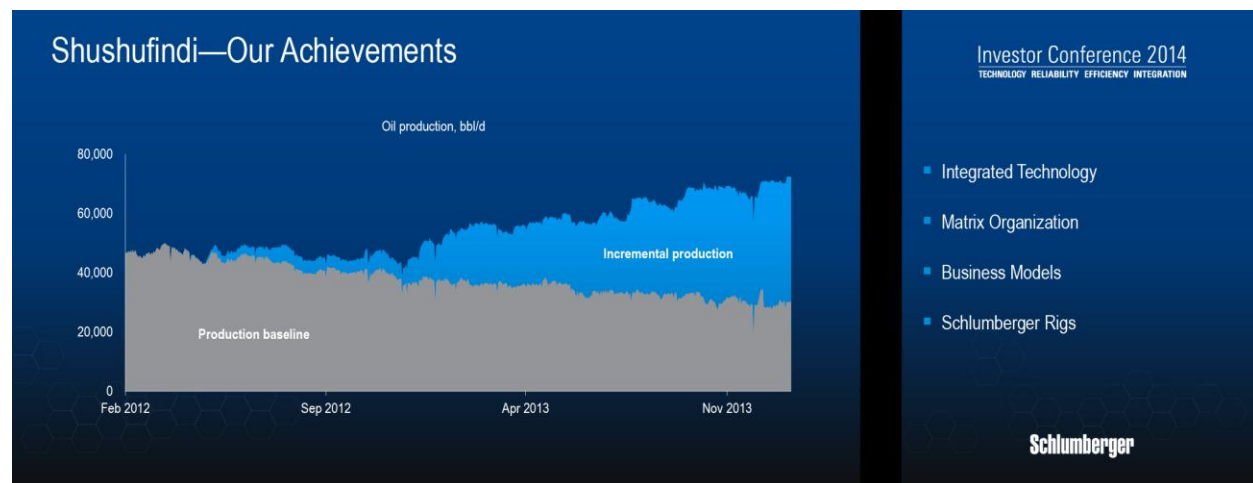
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- 9 months of field development planning
- 72 additional wells identified
- Waterflood development planned for 2014

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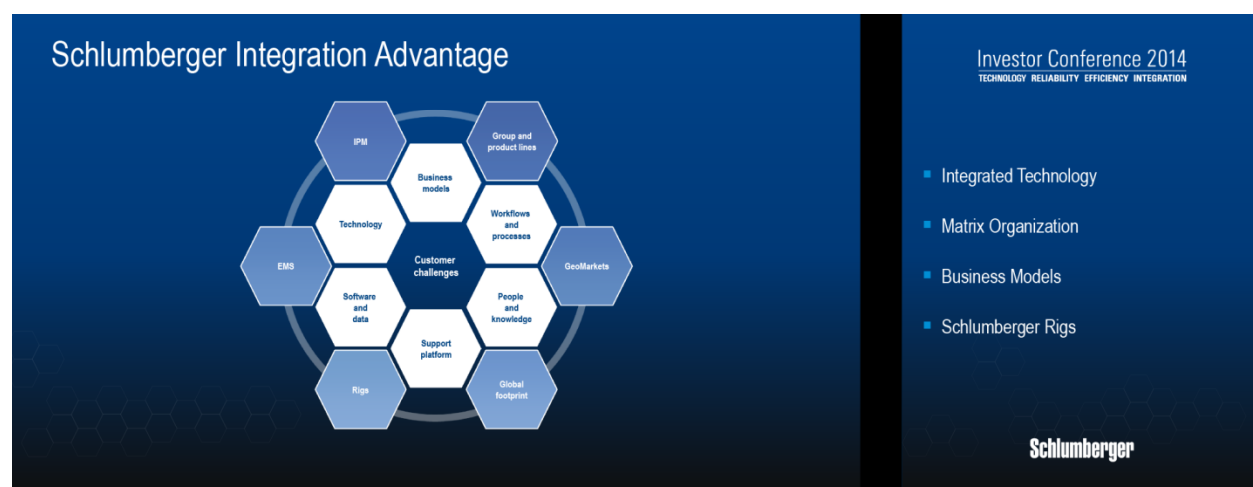
After taking over the field in April 2012, the project team built a new static and dynamic model of the reservoir using the Petrel E&P software platform, to take the field from paper records to a state-of-the-art reservoir simulation model in nine months. As a result, new reserves, opportunities for infill drilling, and workovers of existing wells were identified.

The new subsurface model now indicates reservoir upside with 72 additional wells identified and a waterflood development planned for 2014.



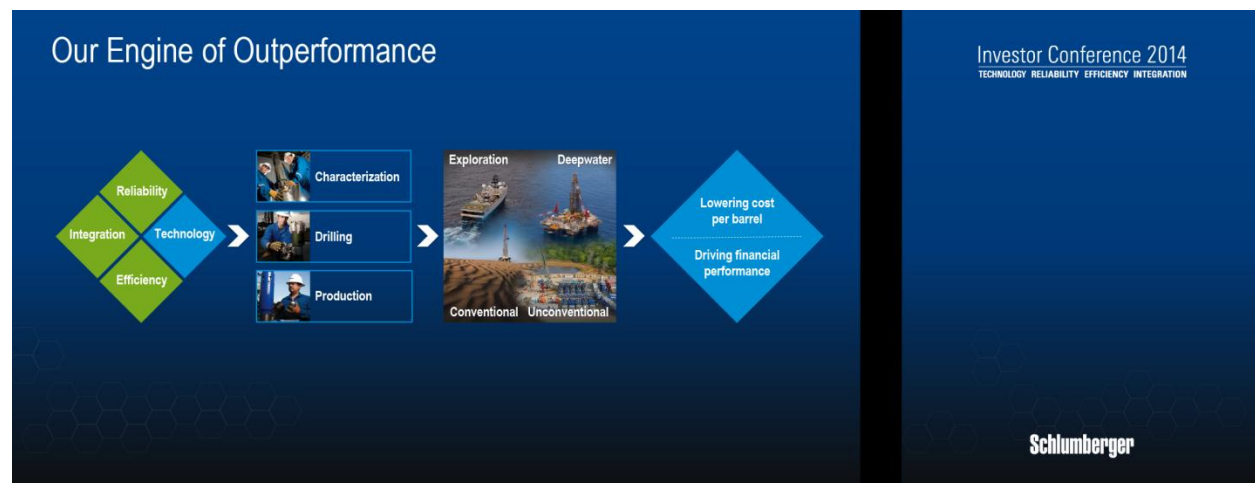
In the last 24 months we have drilled 63 wells, worked-over 54 wells, and increased field production to over 75,000 bbl/d which represents over 40,000 bbl/d of incremental production above the baseline. This is a truly remarkable achievement, and I would argue that very few companies, let alone oilfield service companies, have the expertise and integration capabilities to undertake this scope of work and deliver similar results in such a short time frame.

For our customer, this has delivered 14.9 million barrels of additional production. For Schlumberger, this has elevated Ecuador into a new GeoMarket organization in which Schlumberger activity has doubled since the start of the project.



Ladies and gentlemen, our customers continue to seek further integration of services, technology, and associated processes and we have demonstrated how the Schlumberger approach to integrated operations is adding value to a wide range of our customers' activities. That value created is shared between customer and Schlumberger, with key drivers coming from the requirement to work in different ways in an environment where commodity prices limit industry investment.

Integration leads to improved operational efficiency, increased production, and ultimately, economic gains for ourselves and our customers. Our proven performance and strong technology portfolio allows us to take risk based on our ability to execute and through this generate incremental margins. We are uniquely differentiated in this type of activity, and believe that this continues to be an area in which the industry is both changing and developing its ways of working.



In conclusion, integration maximizes the value delivered from differentiated technology, reliability, and efficiency. These four themes, which we introduced yesterday, make up our engine of outperformance.

Thank you.