1996

SCHLUMBERGER IN BRIEF

	1996	1995	1994
Operating revenue	**$8,956,150,000**	$7,621,694,000	$6,696,845,000
Net income	**$ 851,483,000**	$ 649,157,000	$ 536,077,000
Net income per share	**$3.47**	$ 2.69	$2.21
Dividends declared per share	**$1.50**	$1.425	$1.20

The positive oil industry trends noted in the latter part of 1995 accelerated as 1996 progressed. As a result, Schlumberger had an excellent year. Net income of $851 million and earnings per share of $3.47 were 31% and 29%, respectively, above 1995 levels, while operating revenue grew 18% to $8.96 billion.

Oilfield Services results were outstanding. All areas and services made contributions to growing the revenue by 26% and increasing the pretax operating income by 57%. The fact that the worldwide growth in rig count was only 7.5% highlights the strength of our strategy based on new technology focused on oilfield productivity.

Measurement & Systems had a disappointing year. The significant changes in technology and markets in our metering businesses and a mid-year hiccup in the semiconductor industry slowed the growth of the group to 3%, while pretax operating income was down 18%. The improved results of the last quarter of the year and the high level of orders for Automatic Test Equipment and Electronic Transactions suggest that the segment is poised for recovery.

Over the last 12 months, in response to these results and reinforced by very strong stock markets around the world, the value of Schlumberger stock has increased by over 65%. What have been the major factors underlying this strong performance?

The oil business is driven by demand. Over the last ten years the world demand for oil has risen by an average of 2% per year despite a severe drop of six million barrels per day in the former Soviet Union. Major contributors to this demand include the rapidly expanding economies of Asia and South America, the opening of Central and Eastern European markets and the strong economic performance of the United States. Ten years ago the world had a 20%

surplus in production capacity, left over from the massive exploration and production expenditures of the 1970s. Today, due to economic growth boosted by low oil prices, the world consumes more than 90% of the oil it can produce. As a consequence, the industry has turned its attention toward developing new production which will be viable even with an oil price of $15 per barrel. The oil companies have realized that to reach this level of productivity, they need to be aggressive in the use of new technology and cooperate more effectively with the service industry.

Schlumberger has always believed that low oil prices and growing demand would require more technology, not less. Since the end of the last up cycle, we have focused our research and development efforts on the fundamental factors affecting oilfield productivity. The deployment of these new techniques, which have to be customized to local conditions, requires excellent teamwork between the oil company, which is responsible for the design of the field development, and the service company, which will execute it. Service companies are becoming involved much earlier in the planning of the project, so that their ideas can be incorporated into the initial design. Indeed, when current industry best practices do not provide optimum solutions, these operational alliances between the oil company and the service company often develop into longer term joint research and development projects. In addition, financial incentives are being built into service contracts to help the service companies align their goals with those of the oil companies. This approach has yielded some impressive improvements in the productivity of the industry and there are many more to come. Schlumberger is investing heavily to meet the demand for these new services. In 1996, we spent more than $1.6 billion in product development and fixed assets and we expect the figure for 1997 to be higher.

With business fundamentals so solid and the industry in such a buoyant mood, it is easy to forget that progress in the oil industry is rarely predictable.

First, although the average increase in the demand for oil is expected to be 2% for at least the next ten years, there will be short-term fluctuations as the strength of the world economy varies. The delicate balance between supply and demand will ensure that the upstream oil industry remains highly cyclical even if more flexible production techniques may make the cycles shorter and less severe.

Second, the history of the oil business has always been, and will continue to be, heavily influenced by political events capable of reshaping the industry. What will the next chapter in the politics of the Middle East bring? How will the political regimes of the former Soviet Union and China evolve? What will be the outcome of the world debate on the environment? Not only is the occurrence of such events unpredictable, but their effect on our industry is difficult to assess. We need to remain flexible and be prepared to respond quickly to the unexpected.

Third, to preserve the new atmosphere of cooperation between the oil companies and the service sector, which has played a vital role in the gains of productivity, both sides must have clear and distinct roles. As a case in point, some major service companies are taking equity positions in oil and gas production, in direct competition with the oil companies. If this trend were to develop further, it would be much more difficult for oil companies and service companies to work together in full confidence. Schlumberger strongly believes that productivity gains founded on teamwork will flourish only if the service companies stick to their service role and avoid any potential conflict of interest with the oil companies.

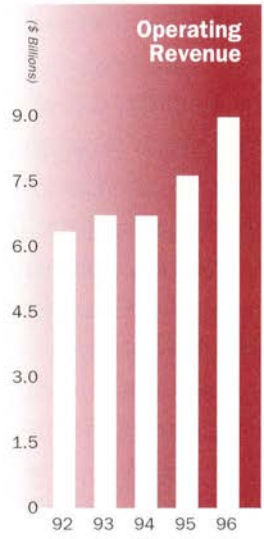
And fourth, the triumph of market economies over government-controlled, centrally planned systems will continue only as long as

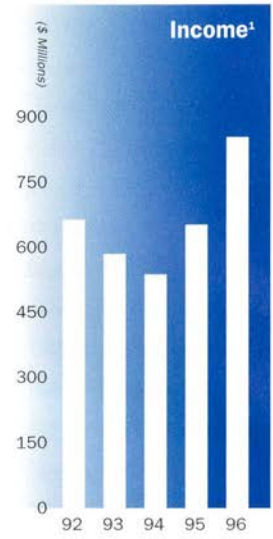
the social costs of the necessary changes are not perceived to be too high and the international business community handles its new-found freedom responsibly and ethically. Failure of business to do so will invite a new and stifling wave of government intervention.

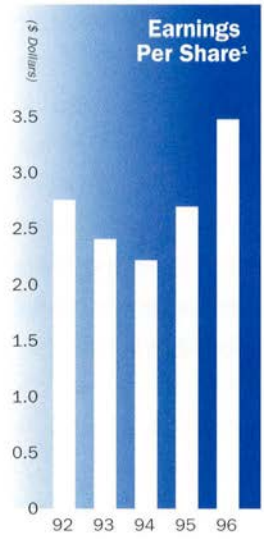
As we consider the longer term, the challenges for the service businesses of Schlumberger are becoming clearer. To take the appropriate decisions swiftly, our customers need usable information, delivered in real time, anywhere in the world. In addition, the delivery system has to be fully interactive. This means that the service companies must provide integrated solutions all the way from the field measurement or service to the desktop of the decision maker. This is as true in the distribution of electricity or gas as it is in the production of an oil field. We perceive the next decade to be one where information technology changes, in a fundamental way, how we and our customers run our businesses.

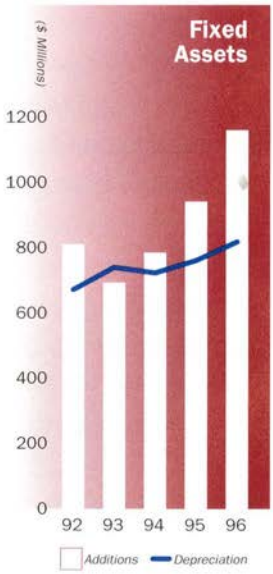
This new market offers Schlumberger the opportunity to develop and deploy an expanding range of services and products that builds on the strengths of our core businesses. It also promises new sources of competition as these service networks become big enough to attract players from other industries. We are convinced, however, that the depth of our global culture, the strong dedication of our people to client service, and our steadfast belief in the importance of new technology, will provide Schlumberger with the essential skills needed to thrive in this highly competitive, global marketplace.

Euan Baird
Chairman & Chief Executive Officer
January 23, 1997

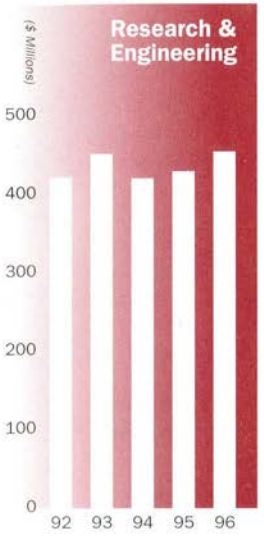


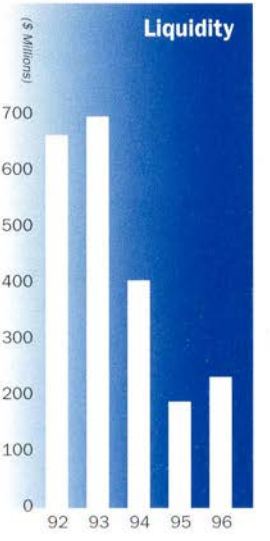


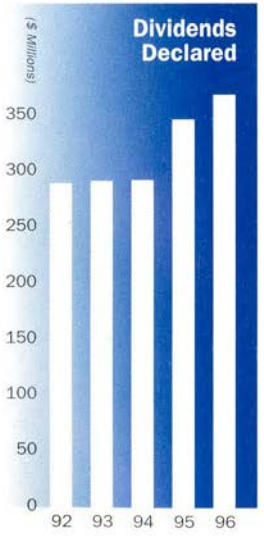




[1] *1993 Income and Earnings Per Share before cumulative effect of a change in accounting principle for postretirement benefits.*


Research & Engineering
($ Millions)
500
400
300
200
100
0
92 93 94 95 96


Liquidity
($ Millions)
700
600
500
400
300
200
100
0
92 93 94 95 96


Dividends Declared
($ Millions)
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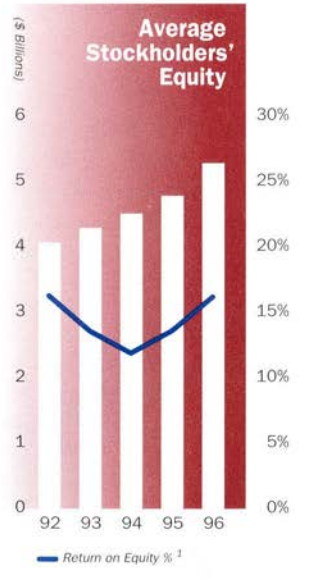
300
250
200
150
100
50
0
92 93 94 95 96


Average Stockholders' Equity
($ Billions)
6
5
4
3
2
1
0
30%
25%
20%
15%
10%
5%
0%
92 93 94 95 96
Return on Equity % [1]

Financial Review

Management's Discussion and Analysis of Results of Operations

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

(Stated in millions)

	OILFIELD SERVICES			MEASUREMENT & SYSTEMS		
	1996	1995	% CHANGE	**1996**	1995	% CHANGE
Operating revenue	**$6,129**	$4,868	26%	**$2,834**	$2,759	3%
Operating income[1]	**$ 986**	$ 627	57%	**$ 124**	$ 151	(18%)

[1]*Operating 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 26 in the Notes to Consolidated Financial Statements under "Unusual Items."*

OILFIELD SERVICES

1996 RESULTS

Operating revenue for Oilfield Services was 26% above last year with strong contributions from all activities. Operating income increased 57%.

North America

In 1996, North American revenue and operating income rose 21% and 111%, respectively, compared to 1995, while rig count increased 10%. All activities contributed to this growth. Most significantly, GeoQuest revenue increased 52%, with Information Technology and Data Management revenue quadrupling. Dowell and Wireline & Testing revenues increased 17% and 13%, respectively.

Geco-Prakla significantly expanded its marine activities to acquire high-quality, non-exclusive seismic data in the Gulf of Mexico. After a five-year absence, Sedco Forex returned to North America with two rigs under management contract, the *Laffit Pincay* in the Gulf of Mexico and the *Bill Shoemaker* being readied for work offshore Canada in early 1997.

Outside North America

Outside North America, revenue and operating income increased 28% and 51%, respectively, and 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 day-rates for Sedco Forex increased significantly. Activity for heavy land rigs grew in the Middle East during the fourth quarter. The trend toward integrated services continued, resulting in the expansion of Integrated Project Management (IPM) operations.

Highlights

The strong 26% growth of Schlumberger Oilfield Services in 1996 drew from four factors:

- *growth of the overall market*
- *added value of new technology*
- *client outsourcing and Schlumberger joint services*
- *new markets.*

GROWTH OF THE OVERALL MARKET

In 1996, many events impacted the oilfield environment and Schlumberger business. The most significant has been an increase in worldwide oil demand of 2.3% over 1995, to a daily average of 72 million barrels. This has driven up the oil price from $17 to $24 a barrel, a sizable increase of 41%, despite the partial resumption of Iraqi exports after a six-year absence from the market. In this environment of strong demand and higher oil prices, oil companies increased their exploration and

production expenditure by 15% in 1996.

With its broad portfolio of services, leading technology and global presence, Schlumberger is uniquely positioned to take full advantage of this industry growth. To keep pace with market expansion, Schlumberger boosted capital expenditures for Oilfield Services by 27%.

Increased exploration and production activity may greatly impact some prices, as illustrated by surging dayrates for drilling rigs, driven by the shrinking supply of offshore rigs. The average Sedco Forex rig utilization rate for 1996 was 78.5% compared to 66% in the previous year. Average offshore rig utilization increased from 89% to 94%, aided by jackup utilization of 100% and semisubmersible utilization of 96%. Industry-wide competitive offshore rig utilization was 89% compared to 81% last year. At year end, the Sedco Forex fleet consisted of 83 rigs, up from 76 at the end of 1995, with 33 land rigs and 50 offshore rigs, including four offshore units under charter, plus three lake barges and three semisubmersibles under management contract. The third-generation semisubmersible *Actinia* was acquired in October. In other business areas, prices have been generally stable, improving where new technology was introduced and where activity increased significantly, such as in North America.

ADDED VALUE OF NEW TECHNOLOGY

During the market downturn in the late 1980s, Schlumberger continued to invest heavily in research and engineering. Today the Company is harvesting the fruits of this commitment. In response to client needs, new technology is successfully being applied to improve recovery from existing fields, to lower finding and producing costs for new reservoirs and to reduce risk. Schlumberger affirmed its leadership in all its Oilfield Services activities in 1996, and successfully introduced new technologies and products, among them:

The GeoSteering* tool, which enables the driller to make rapid course corrections while drilling, made substantial gains in markets in the Far East, where it contributed to improving well productivity.

The PowerPak* steerable drilling motor, the PowerPulse* measurements-while-drilling (MWD) telemetry tool and the CDR* Compensated Dual Resistivity tool enabled Anadrill to set a world record of 15,446 feet drilled in a single run in an extended-reach well in Argentina. Clients recognized benefits in economic efficiency and reduced environmental impact.

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. This revolutionary rig introduces a major redesign with streamlined functionalities to drill high-quality wells at optimum cost. It achieves greater efficiency through integration of the various elements of the drilling process, requiring fewer rig personnel. Because it is much smaller than conventional land rigs, SIMPLER equipment can be quickly moved to new locations, occupies a smaller footprint and has the flexibility to reduce nondrilling expenses.

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. Dowell became the leader in the technically challenging high-pressure, high-temperature pumping and cementing markets in the North Sea, Far East and Gulf of Mexico. This leadership was affirmed by the success of the DeepSEA EXPRES* cementing head, an innovative technology

used for subsea completions. This system greatly improves the efficiency of casing cementing operations in deep water.

PLATFORM EXPRESS* services, providing the industry's most advanced basic formation evaluation, and the CMR* Combinable Magnetic Resonance tool, 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 most advanced in the industry. Late in the year, the introduction of the fourth-generation NESSIE* marine streamer, the slimmest in the world with a 54-mm [2.1-inch] outside diameter, further extended the towing capacity and efficiency of Geco-Prakla vessels. Efficiency also improved for Land and Transition Zone seismic, where the Olympus-IMS* land information management system was completed. These improvements, combined with highly successful geographic positioning of the fleet, better weather offshore and stable prices per streamer, led to a 32% increase in revenue.

CLIENT OUTSOURCING AND SCHLUMBERGER JOINT SERVICES

The trend among oil companies to refocus on their core business and outsource noncore activities plays directly to the technical strength of Schlumberger. Indicative of this continuing trend, GeoQuest realized its strongest growth in 1996 from Data Management and Information Technology products and services, as major data management contracts were awarded to Schlumberger for projects throughout the world.

Because of the increased demand for integrated solutions in the various phases of the exploration and production process, IPM, the Schlumberger Integrated Project Management group, was formed in 1995. At the end of 1996, IPM was supervising, on behalf of clients, the operations of 34 drilling rigs. Having started mainly with well construction projects, IPM is now also expanding into production enhancement and maintenance. The priority of IPM is to provide best-in-class solutions using an independent approach that brings together IPM expertise, including management tools such as the well engineering management system, with other Schlumberger expertise and third parties as needed.

Customers are demanding more sophisticated reservoir characterization, more accurate reservoir monitoring and greater production performance. By taking advantage of the synergy of technologies across Schlumberger oilfield activities, the Company has been able to meet these new client demands. For example, the combination of our efforts in directional drilling, in MWD service and in wireline logging led to a 57% leap in the Schlumberger logging-while-drilling (LWD) business. Also, as part of the industry's push toward greater reservoir efficiency and integration of services, Sedco Forex won the management contract for two lake barges from Lagoven in Lake Maracaibo, Venezuela. These two barges were converted to multipurpose service vessels, which can each offer the combined intervention capabilities of several barges and boats.

Another crossdisciplinary technology introduced worldwide in 1996 was the RAPID* Reentry and Production Improvement Drilling service. RAPID technology is the single source for a complete range of multidisciplinary services dedicated to improving production economics through reentry, sidetracking and

extending existing wellbores. The RAPID concept was accepted by our clients and activity increased briskly, led by strong gains in North America.

Coiled tubing drilling (CTD*) technology is providing 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 and introduced it in the North Sea and in South America. The VIPER system is able to orient, measure and drill simultaneously, resulting in improved wellbore efficiency.

Coiled tubing technology also benefited workover activity. 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.

NEW MARKETS

The world's first commercial 4D seismic service using a proprietary seabed sensor to compare 3D seismic surveys over time, was successfully launched with several surveys acquired in the North Sea. This service delivers to clients improved reservoir characterization and monitoring over the life of the reservoir and allows more efficient production management.

Reservoir optimization is a key developing market. To enhance Schlumberger capability in this field and to improve our expertise in fluid acquisition and analysis, Wireline & Testing acquired the Aberdeen-based company, Oilphase Sampling Services Limited, a reservoir fluid sampling company.

In order to broaden its software offerings, GeoQuest acquired The Production Analyst* and OilField Manager* products. Added to existing applications, such as the Dowell CADE Office* suite of software and the QLA* Quick Look Analysis software, these products allowed GeoQuest to move fully into both PC- and UNIX†-based production data analysis, reservoir management applications and support. 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.

Throughout the year, solutions were implemented to respond to complex well problems. For instance, tracking the flow of different fluids in horizontal and high-angle wells was once nearly impossible. Now, the newly introduced production logging technology, PL Flagship* advanced well flow diagnosis service, can evaluate complex multiphase flow behavior and diagnose production problems in horizontal wells.

Building on a solid track record in well testing, the Wireline & Testing early production system (EPS) group has expanded significantly. Modular EPS technology reduces clients' capital investment, improves their cash flow and lowers risk. It also provides an efficient means to improve the economics of marginal fields. Early production systems saw activity in the North Sea and Africa. An additional unit is being readied for installation in early 1997.

In Marine seismic, Geco-Prakla continued

to develop its onboard offshore processing services. This premium-rate business is now regularly provided on many deep-sea vessels, reducing drastically the processing turnaround time for large-volume surveys.

1995 RESULTS

North America

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

During the year, PLATFORM EXPRESS technology, the latest-generation wireline logging service, was introduced, setting new standards for efficiency, reliability and answers in the wireline logging industry. By year end, there were 17 PLATFORM EXPRESS units deployed in North America.

The erosion of gas prices in 1995 hindered pressure pumping activity. New stimulation techniques, such as the PropNET* fluid system for hydraulic fracturing, were successfully implemented, helping to improve customers' hydrocarbon recovery.

Seismic activities were adversely impacted by weather in the Gulf of Mexico and lower profitability on sales of non-exclusive seismic data. Market and technological leadership in MWD and LWD services continued. The ARC5* Array Resistivity Compensated tool was introduced and received wide client acceptance. This tool provides accurate LWD resistivity measurements in small-diameter wellbores.

Sales for Software Products rose sharply, driven by demand for geological, petrophysical and seismic interpretation software products. During the year, GeoQuest purchased the Petroleum Division of Intera Information Technologies Corporation, which was renamed Reservoir Technologies.

Outside North America

Outside North America, revenue and operating income increased 16% and 53%, respectively, and rig count rose 3%. Activity was driven predominantly by Latin America, Africa and the North Sea.

Several important rig contracts were signed, including integrated service contracts in Thailand and Gabon and the opportunity to reenter the Gulf of Mexico after a five-year absence. Demand for Modular Early Production Facilities and sales of the Universal Pressure Platform continued to grow at a rapid rate. Drilling Fluids services grew substantially in 1995, led by activity in Latin America and the UK sector of the North Sea.

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.

Higher activity and improved drilling rig dayrates in both the North Sea and West Africa contributed to revenue growth, which was partially offset by a temporary softening in the swamp barge and tender markets and falling demand for semisubmersibles in Southeast Asia.

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.

1994 RESULTS

North America

In 1994, revenue and operating income in North America rose 19% and 28%, respectively, over 1993, while rig count grew 11%.

Growth was supported by the continuing deployment of the MAXIS 500* Multitask Acquisition and Imaging System and the successful introduction of the MAXIS Express* high-efficiency acquisition system. This innovative system was specifically designed to operate in high-volume and development markets. Coiled tubing services, rig-related activity and increased client acceptance of DESC* Design and Evaluation Services for Clients program combined to offset a slowdown in fracturing activity due to softening of natural gas prices. In Louisiana, the Digiseis-FLX* transition zone telemetric acquisition system was successfully introduced. Directional drilling activity grew with continued implementation of PowerPak steerable motors and the successful integration of Great Land Directional Drilling Inc., Alaska's leading directional drilling company.

Outside North America

Outside North America, revenue and operating income fell 6% and 1%, respectively, and rig count fell 5%.

The MAXIS 500 acquisition system was aggressively deployed worldwide, together with new imaging technology logging tools. Activity from recently acquired Drilling Fluids services contributed positively to results, with strong activity in the Far East and Latin America. In Marine seismic, there was a shift away from proprietary surveys in favor of non-exclusive data in the Gulf of Mexico and the North Sea. Fleet upgrading was continued to expand the number of streamers towed per vessel. A decline in Land and Transition Zone activity had an adverse impact on results. In drilling, weak activity in the first two quarters was offset by higher activity in the second half of the year. Two semisubmersibles, the *Sedco 700* and *Sedneth 701*, underwent life-enhancement modifications in preparation for contracts for tender-assisted drilling in 1995. Directional drilling activity was strong, supported by MWD and LWD services. The GeoSteering tool performed successfully in the Gulf of Mexico, the North Sea, Africa and the Far East. Long-term data management contracts were finalized in Africa, Europe, Latin America and the Middle East to assist oil companies in maximizing their computing and data resources.

MEASUREMENT & SYSTEMS

1996 RESULTS

Revenue for Measurement & Systems increased 3% from 1995, as significant gains in Electronic Transactions and Systems & Services offset poorer performance in Electricity & Gas Metering. Orders for the year were up 2%, led by Electronic Transactions, Water Management and Systems & Services.

Measurement & Systems operating income was 18% below 1995 due to a shift in the business environment for Electricity & Gas Metering in Europe and a temporary decline in the demand for semiconductor test equipment, which affected the Automatic Test Equipment business.

Metering revenue and orders fell 1% and 3%, respectively. Electricity & Gas Metering revenue was down 5%. European results suffered due to lower demand for electricity meters, particularly in the UK and Germany, which led to weaker prices. In France, a shift from electromechanical to lower priced electronic products exacerbated this problem. In the US, the metering businesses experienced growth, led by increased worldwide acceptance of their multifunction and multimeasurement products. Sales of gas meters increased, led by strong demand from the CIS. Water

Management revenue improved 7% supported by a greater worldwide recognition of the need to conserve water.

Systems & Services revenue increased 12% from 1995. The service businesses grew in Europe, particularly in the UK, where deregulation has enabled us to do work previously handled by the utilities. Meter Communication Systems (MCS) grew through increased shipments of radio meter communication devices to electric utilities. A new business group, Distributed Measurement Solutions (DMS), was formed to address opportunities created by deregulation of the energy industry. Orders were up 10% from 1995 through increased contractual activity in France and the UK.

In 1996, Electronic Transactions revenue and orders grew 18% and 17%, respectively, from 1995. These results include the impact of the acquisition of a majority interest in Printer, a Mexican magnetic stripe card manufacturer, and of Germann, a German turnkey gasoline station provider. Electronic Transactions also acquired Solaic, a French smart card manufacturer, on December 31, 1996. Sales of smart cards grew 42% from 1995, excluding the effect of business acquisitions. This growth was driven by widening acceptance of memory and microprocessor cards for payphones and cellular phones in China, Italy and the US. The growth accelerated rapidly throughout the year. Electronic Transactions was the principal supplier of electronic cash cards and terminals for the 1996 Olympic Games in Atlanta.

Automatic Test Equipment revenues in 1996 were comparable to 1995. Significantly higher volume of IDS10000* diagnostic systems compensated for reduced demand for other products. Orders increased 3% due to a surge in orders for ITS9000* test systems during the last quarter.

1995 RESULTS

Revenue and orders increased 18% and 21%, respectively, from 1994 due primarily to acquisitions, favorable currency fluctuations and strong activity in Europe and Asia. Operating income increased 25% from 1994, led by the metering business and robust growth of Electronic Transactions.

Compared to 1994, revenue and orders from the metering business improved 14% and 17%, respectively, due to the acquisition of AEG's worldwide electricity metering operations and healthy demand across Europe. Gains in Electricity can be attributed to increased demand for remote reading systems in the US, for electronic meters from EDF, the French national utility, and from telemanagement systems from ENEL, the national utility in Italy. Demand increased for gas products in the CIS and Eastern Europe. Expansion in the UK was supported by the reorganization of British Gas and higher demand from municipalities. Water Management continued to grow in Western Europe and the US, combined with significant demand in both Eastern Europe and Asia. During the year, the MAPS* communications systems were introduced.

In 1995, Systems & Services revenue and orders increased 25%, primarily due to solid growth of service activities in the UK.

Electronic Transactions revenue and orders increased 31% and 36%, respectively. These results include the effects of the acquisition of Malco Plastics and Messerschmidt Apparate in late 1994 and the acquisition of Danyl in 1995. Cards activity continued to grow due to stronger cellular subscriber demand in Europe and shipments to China. Telecom benefited from card-based payphone applications, with higher shipments to Latin America, the Middle East and France. Retail Petroleum Systems

exhibited growth from equipment and service revenue from North America and Europe, and was further supported by a new service operation in Russia.

Automatic Test Equipment revenue and orders were both up 32% from 1994. At Test Systems, sustained growth was spurred by strong demand for the ITS9000 family of semiconductor test systems in North America, Europe and Asia. Revenue doubled at Automated Systems, driven by contributions from the entire product range.

1994 RESULTS

Revenue and orders decreased 1% and 2%, respectively, from 1993. Operating income was 34% below the prior year.

Compared to 1993, metering revenue was essentially flat while orders dropped 3%. The majority of growth resulted from the acquisition of AEG's European metering operations, with additional support from exports to the Middle East and Europe, and the acquisition of Heliowatt Germany in 1993. For Gas, growth in the UK was severely impacted by significant curtailments in the conventional residential meter replacement program. Improvements in Water Management were driven by the continued strength of the US economy, the economic recovery in France and Germany, and healthy demand for water meters in Mexico and Argentina.

Systems & Services revenue and orders increased 32% from 1993.

In 1994, Electronic Transactions revenue and orders were up by 9% and 6%, respectively. Retail Petroleum Systems revenue increased for both equipment and services in most countries; however, lower product prices resulted in reduced margins. Messerschmidt Apparate and Malco Plastics were acquired late in the year.

Revenue and orders at Automatic Test Equipment increased 23% and 29%, respectively, with all activities experiencing growth. The IDS10000 system was successfully launched by Diagnostic Systems, and Automated Systems doubled its activity run rate. Activity continued to strengthen through the year, most notably in Asia.

Net Income

(Stated in millions except per share amounts)

	1996		1995		1994	
	AMOUNT	PER SHARE	AMOUNT	PER SHARE	AMOUNT	PER SHARE
Net income	**$851**	**$3.47**	$649	$2.69	$536	$2.21

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 has returned to profitability, had a significant impact. Measurement & Systems operating income declined by 18% to $124 million because of steep declines at Automatic 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 United States. 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 NEPS 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 Automatic Test Equipment, and acquisitions.

In 1994, operating income of the Oilfield Services segment increased $27 million, or 6%, to $495 million. Strong oilfield activity in North America and an improved Geco-Prakla were only partially offset by declines in activity outside North America. Measurement & Systems operating income declined 34% to $121 million due mainly to lower results at Electronic Transactions, Gas Management and Electricity Management. Improvements at Automatic Test Equipment were not sufficient to offset these shortfalls.

Currency Risks

Refer to page 24, "Translation of Non-US Currencies," 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

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. Refer to page 30, in the Notes to Consolidated Financial Statements under "Income Tax Expense" for more information.

Research & Engineering

Expenditures were as follows:

(Stated in millions)

	1996	1995	1994
Oilfield Services	**$294**	$279	$279
Measurement & Systems	**158**	148	139
Other	**1**	1	1
	$453	$428	$419

Interest Expense

Interest expense decreased $10 million in 1996 following a $18 million rise in 1995. The decrease in 1996 was due to lower average rates which more than offset higher average debt outstanding.

The increase in 1995 was due to an increase in both average debt outstanding and average rates.

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)

	1996	1995	1994
Net income	**$ 851**	$ 649	$ 536
Depreciation & amortization	**885**	820	776
Other	**(1)**	(14)	(5)
	1,735	1,455	1,307
Increase in working capital requirements	**(273)**	(238)	(356)
Fixed asset additions	**(1,158)**	(939)	(783)
Dividends paid	**(367)**	(327)	(292)
Other	**132**	(6)	85
	69	(55)	(39)
Proceeds from employee stock plans	**180**	74	61
Purchase of shares for Treasury	**–**	(41)	(148)
Businesses acquired	**(139)**	(217)	(172)
Other	**(66)**	23	6
Net increase (decrease) in liquidity	**$ 44**	$(216)	$(292)
Liquidity – end of period	**$ 232**	$ 188	$ 404

In 1996, 1995 and 1994, 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 1996 and 1995 were:

	PRICE RANGE		DIVIDENDS DECLARED
	HIGH	LOW	
1996			
QUARTERS			
First	$ 80⅞	$ 65⅜	$ 0.375
Second	91⅜	80⅛	0.375
Third	89⅛	79⅜	0.375
Fourth	108¼	84¼	0.375
1995			
QUARTERS			
First	$ 60⅛	$ 50⅛	$ 0.300
Second	66⅜	58⅛	0.375
Third	69⅜	61¼	0.375
Fourth	70½	58⅞	0.375

The number of holders of record of the Common Stock of the Company at December 31, 1996, was approximately 22,000. There are no legal restrictions on the payment of dividends or ownership or voting of such shares. United States stockholders are not subject to any Netherlands Antilles withholding or other Netherlands Antilles taxes attributable to ownership of such shares.

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 accrued. 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.

CONSOLIDATED STATEMENT OF INCOME

(Stated in thousands except per share amounts)

Year Ended December 31,	**1996**	1995	1994
Revenue			
Operating	**$8,956,150**	$7,621,694	$6,696,845
Interest and other income	**69,515**	91,536	83,898
	9,025,665	7,713,230	6,780,743
Expenses			
Cost of goods sold and services	**6,835,444**	5,804,157	5,107,889
Research & engineering	**452,608**	427,848	418,871
Marketing	**301,304**	283,790	251,750
General	**355,392**	345,441	321,433
Interest	**72,020**	81,620	63,328
Unusual items	**333,091**	–	–
Taxes on income	**(175,677)**	121,217	81,395
	8,174,182	7,064,073	6,244,666
Net Income	**$ 851,483**	$ 649,157	$ 536,077
Net income per share	**$3.47**	$2.69	$2.21
Average shares outstanding	**245,021**	242,374	243,423

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

CONSOLIDATED BALANCE SHEET

ASSETS		*(Stated in thousands)*
December 31,	**1996**	1995
Current Assets		
Cash and short-term investments	**$ 1,358,948**	$1,120,533
Receivables less allowance for doubtful accounts (1996 $58,981; 1995 $58,246)	**2,260,091**	1,939,873
Inventories	**938,974**	782,168
Deferred taxes on income	**222,456**	–
Other current assets	**262,148**	181,129
	5,042,617	4,023,703
Long-Term Investments, held to maturity	**323,717**	279,950
Fixed Assets less accumulated depreciation	**3,358,581**	3,118,458
Excess of Investment Over Net Assets of Companies Purchased less amortization	**1,225,335**	1,330,490
Deferred Taxes on Income	**203,983**	–
Other Assets	**170,818**	157,499
	$10,325,051	$8,910,100

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,200,161**	$1,773,605
Estimated liability for taxes on income	**367,562**	299,841
Bank loans	**743,018**	515,703
Dividend payable	**92,842**	91,706
Long-term debt due within one year	**70,827**	83,417
	3,474,410	2,764,272
Long-Term Debt	**637,203**	613,404
Postretirement Benefits	**383,129**	354,830
Other Liabilities	**203,929**	213,577
	4,698,671	3,946,083
Stockholders' Equity		
Common stock	**818,803**	737,328
Income retained for use in the business	**7,137,744**	6,654,072
Treasury stock at cost	**(2,315,946)**	(2,414,577)
Translation adjustment	**(14,221)**	(12,806)
	5,626,380	4,964,017
	$10,325,051	$8,910,100

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,	1996	1995	1994
Cash flows from operating activities:			
Net income	**$ 851,483**	$ 649,157	$ 536,077
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**885,198**	820,196	776,167
Earnings of companies carried at equity, less dividends received (1996 $1,911; 1995 $1,000; 1994 $5,377)	**5,212**	(3,791)	(1,621)
Provision for losses on accounts receivable	**27,036**	20,306	23,039
Other adjustments	**(4,613)**	(3,562)	(3,574)
Change in operating assets and liabilities:			
Increase in receivables	**(319,448)**	(136,312)	(182,989)
Increase in inventories	**(144,774)**	(99,334)	(37,444)
Increase in deferred taxes	**(26,226)**	–	–
Increase (decrease) in accounts payable and accrued liabilities	**161,463**	(9,243)	(77,412)
Increase (decrease) in estimated liability for taxes on income	**39,851**	(3,684)	(73,801)
Other – net	**(73,044)**	(39,389)	(15,379)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,402,138**	1,194,344	943,063
Cash flows from investing activities:			
Purchases of fixed assets	**(1,157,957)**	(938,847)	(782,837)
Sales/retirements of fixed assets	**98,584**	26,936	105,240
Payment for purchase of businesses	**(115,262)**	(200,805)	(171,631)
(Increase) decrease in investments	**(218,914)**	129,165	50,230
Decrease (increase) in other assets	**1,050**	42,496	(88)
NET CASH USED IN INVESTING ACTIVITIES	**(1,392,499)**	(941,055)	(799,086)
Cash flows from financing activities:			
Dividends paid	**(366,791)**	(327,189)	(292,368)
Proceeds from employee stock purchase plan	**38,807**	36,159	36,183
Proceeds from exercise of stock options	**141,299**	37,518	25,145
Purchase of shares for Treasury	**–**	(40,552)	(148,089)
Proceeds from issuance of long-term debt	**195,009**	486,518	143,889
Payments of principal on long-term debt	**(165,742)**	(287,455)	(176,420)
Net increase (decrease) in short-term debt	**212,523**	(143,444)	261,616
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**55,105**	(238,445)	(150,044)
Net increase (decrease) in cash	**64,744**	14,844	(6,067)
Cash, beginning of year	**72,515**	57,671	63,738
CASH, END OF YEAR	**$ 137,259**	$ 72,515	$ 57,671

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollar amounts in thousands)

	COMMON STOCK					
	ISSUED		IN TREASURY		TRANSLATION ADJUSTMENT	INCOME RETAINED FOR USE IN THE BUSINESS
	SHARES	AMOUNT	SHARES	AMOUNT		
Balance, January 1, 1994	306,667,168	$660,129	63,118,111	$2,283,743	$ (76,507)	$6,106,461
Translation adjustment					19,403	
Sales to optionees less shares exchanged		(366)	(702,621)	(25,511)		
Purchases for Treasury			2,754,000	148,089		
Employee stock purchase plan	734,284	36,183				
Net income						536,077
Dividends declared ($1.20 per share)						(292,105)
Balance, December 31, 1994	307,401,452	695,946	65,169,490	2,406,321	(57,104)	6,350,433
Translation adjustment					44,298	
Sales to optionees less shares exchanged		5,223	(871,330)	(32,296)		
Purchases for Treasury			690,000	40,552		
Employee stock purchase plan	724,794	36,159				
Net income						649,157
Dividends declared ($1.425 per share)						(345,518)
Balance, December 31, 1995	308,126,246	737,328	64,988,160	2,414,577	(12,806)	6,654,072
Translation adjustment					(1,415)	
Sales to optionees less shares exchanged		42,668	(2,657,348)	(98,631)		
Purchases for Treasury						
Employee stock purchase plan	741,747	38,807				
Net income						851,483
Dividends declared ($1.50 per share)						(367,811)
Balance, December 31, 1996	308,867,993	$818,803	62,330,812	$2,315,946	$ (14,221)	$7,137,744

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, 1996, 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. Included in the 1996 results were transaction gains of $10 million, compared to a loss of $2 million and a gain of $2 million in 1995 and 1994, respectively.

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, 1996, contracts were outstanding to purchase the US dollar equivalent of $103 million in various foreign currencies and to sell the equivalent of $62 million at forward rates on the dates the contracts were entered. These contracts mature on various dates in 1997.

INVESTMENTS

The Consolidated Balance Sheet reflects the Company's investment portfolio separated between current and long-term based on maturity. Except for $111 million of investments which are considered trading at December 31, 1996 (1995 $104 million), it is the Company's intent to hold the investments until maturity.

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 holding gain on such securities was not significant.

Long-term investments mature in 1998 $78 million, in 1999 $92 million and $154 million thereafter.

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, 1996 and 1995, were $1.2 billion and $1.0 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 7 to 40 years. Accumulated amortization was $287 million and $278 million at December 31, 1996 and 1995, 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 $2.5 billion of consolidated income retained for use in the business at December 31, 1996, 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.

NET INCOME PER SHARE

Net income per share is computed by dividing net income by the average number of common shares outstanding during the year. The effect of common stock equivalents on the computation of earnings per share was not significant.

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

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. During the quarter, the Electricity and Gas Management product lines were combined into a single business in response to the huge market and technology changes occurring in the energy supply sector. This combination will result in lower headcount and fewer manufacturing facilities and products. At Geco-Prakla, the Land and Transition Zone businesses have improved, however, they are still in a loss position and accordingly, require radical changes in organization and structure, and the write-off of Land goodwill. The after-tax charge of $300 million includes 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, 1996, $12 million of the severance and termination had been spent. The remainder should be spent within the next 18 months.

Acquisitions

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 OGCI 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.

During 1995, subsidiaries of the Company acquired a further 40% interest in CGST Save, a French gas meter service company; the remaining 40% interest in J.B. Rombach, a German metering business; G.S.I. Saudi Arabia Ltd., a land seismic company; the Petroleum Division of Intera Information Technologies Corporation, a reservoir simulation software company; and Danyl Inc., a point-of-sale terminal manufacturer. The purchase prices were $71 million, $42 million, $15 million, $59 million and $12 million, respectively. These acquisitions were accounted for as purchases. Costs in excess of net assets acquired were $167 million which are being amortized on a straight-line basis over periods between 15 and 25 years.

Fixed Assets

A summary of fixed assets follows:

(Stated in millions)

December 31,	1996	1995
Land	$ 71	$ 78
Buildings & improvements	1,040	1,027
Machinery and equipment	8,467	8,003
Total cost	9,578	9,108
Less accumulated depreciation	6,219	5,990
	$3,359	$3,118

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:

(Stated in millions)

December 31,	1996	1995
US dollar	$ 195	$ 110
German mark	185	165
UK pound	137	192
Japanese yen	101	113
Other	19	33
	$ 637	$ 613

Long-term debt is at variable rates; substantially all of the debt is at rates up to 7%. Such rates are reset every six months or sooner. Accordingly, the carrying value of long-term debt at December 31, 1996, approximates the aggregate fair value.

Long-term debt at December 31, 1996, is due $208 million in 1998, $33 million in 1999, $190 million in 2000, $101 million in 2001 and $105 million thereafter.

At December 31, 1996, there were no interest rate swap arrangements outstanding. 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 1996 and an immaterial effect on consolidated interest expense in 1995. The exposure in the event of nonperformance by the other parties to the arrangements is not significant.

Lines of Credit

At December 31, 1996, 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, 1996, the Company and its subsidiaries had available unused lines of credit of approximately $626 million.

Capital Stock

The Company is authorized to issue 500,000,000 shares of Common Stock, par value $0.01 per share, of which 246,537,181 and 243,138,086 shares were outstanding on December 31, 1996 and 1995, 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 7.5 million shares of Schlumberger Limited

Common Stock at an exercise price of $59.95 per share. The warrant is fully vested and non-transferable.

Stock Compensation Plans

As of December 31, 1996, 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 FASB Statement 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)

	1996	1995
Net Income		
As reported	**$ 851**	$ 649
Pro forma	**$ 809**	$ 641
Earnings per share		
As reported	**$3.47**	$2.69
Pro forma	**$3.30**	$2.65

As required by FASB Statement 123, the above pro forma data reflects the effect of stock option grants and the employee stock purchase plan during 1996 and 1995.

STOCK OPTION PLANS

During 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 FASB Statement 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 1996 and 1995: dividend yield of 1.5%; expected volatility of 20%; 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 5.50 years for officers and 2.39 years for other employees. The weighted-average fair value of options granted during 1996 and 1995 is $21.07 and $17.40, respectively.

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding Jan. 1, 1995	11,560,849	$56
Granted	753,700	$62
Exercised	(897,919)	$44
Lapsed or cancelled	(346,150)	$61
Outstanding Dec. 31, 1995	11,070,480	$58
Granted	4,131,000	$79
Exercised	(2,758,242)	$54
Lapsed or cancelled	(244,840)	$64
Outstanding Dec. 31, 1996	12,198,398	$65
Exercisable at Dec. 31, 1995	6,259,270	
Dec. 31, 1996	4,963,908	
Available for grant Dec. 31, 1995	9,444,095	
Dec. 31, 1996	5,557,935	

The following table summarizes information concerning currently outstanding and exercisable options by two ranges of exercise prices:

Range of exercise prices	$29.250 - $64.500
Number outstanding at 12/31/96	7,343,448
Weighted average remaining contractual life	5.93
Weighted average exercise price	$58
Number exercisable at 12/31/96	4,494,418
Weighted average exercise price	$58
Range of exercise prices	**$64.813 - $93.625**
Number outstanding at 12/31/96	4,854,950
Weighted average remaining contractual life	8.83
Weighted average exercise price	$77
Number exercisable at 12/31/96	469,490
Weighted average exercise price	$59

EMPLOYEE STOCK PURCHASE PLAN

Under the Schlumberger Discounted Stock Purchase Plan, the Company is authorized to issue up to 8,000,000 shares of Common Stock to its employees. 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 741,747 shares and 724,794 shares to employees in 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 1996 and 1995: dividend yield of 1.5%; expected life of one year; expected volatility of 20%; and risk-free interest rates of 5.71% for 1996 and 5.61% for 1995. The weighted-average fair value of those purchase rights granted in 1996 and 1995 is $19.45 and $14.42, respectively.

Income Tax Expense

With increasing profitability and strong outlook in the US, in the third quarter of 1996 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.

The Company and its subsidiaries operate in over 100 taxing jurisdictions.

At December 31, 1996, the US deferred tax asset was $381 million and the valuation allowance was $53 million.

The Company's US consolidated group has a net operating loss carryforward at December 31, 1996, of $293 million and net deductible temporary differences were $782 million. Significant temporary differences pertain to postretirement medical benefits and fixed assets. Most of the tax loss carryforward will expire in the years 2002 - 2003.

The normal recurring provision for income taxes in 1996 was $206 million; effective tax rate was 20%. In 1995 and 1994, the effective tax rates were 16% and 13%, respectively. The effect of the US operating loss carryforward was a significant reconciling item between the US statutory federal tax rate (35%) and the Company's effective tax rate in each year.

The Company's provision for deferred taxes (excluding the effect of the unusual items) was less than $5 million in each of the three years in the period ended December 31, 1996. The remaining component of income tax expense was the current provision in each year.

Leases and Lease Commitments

Total rental expense was $232 million in 1996, $206 million in 1995 and $192 million in 1994. Future minimum rental commitments under noncancelable leases for years ending December 31 are: 1997 $90 million; 1998 $72 million; 1999 $58 million; 2000 $40 million; and 2001 $30 million. For the ensuing three five-year periods, these commitments decrease from $35 million to $3 million. The minimum rentals over the remaining terms of the leases aggregate $25 million.

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 accrued. 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 a case in Texas involving the validity of a 1988 settlement and release in connection

with an incidental business venture, the trial court, in 1993, rendered a judgment notwithstanding the verdict of the jury, exonerating Schlumberger from any liability. In late 1994, a Texas Court of Appeals reversed the trial court judgment and reinstated the jury award of about $75 million against Schlumberger. The Texas Supreme Court granted the Schlumberger motion to hear the case. Oral argument was held before the Texas Supreme Court on October 11, 1995. Schlumberger and outside counsel believe the decision of the trial court was correct. Consequently, no provision has been made in the Consolidated Financial Statements for this matter.

In May 1996, in a case involving a $3-million contract dispute, the trial court in Johnson County, Texas, entered judgment on jury findings adverse to Schlumberger for $23 million in damages, which has been doubled, plus attorneys' fees and interest. The Company and its outside counsel believe the findings and the judgment are not supported by the evidence and law, and have filed an appeal. Accordingly, no provision has been made in the accompanying financial statements for this matter.

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 64-65 in this report. Oilfield Services and Measurement & Systems are reportable segments.

Financial information for the years ended December 31, 1996, 1995 and 1994, by industry segment and by geographic area is as follows:

(Stated in millions)

	OILFIELD SERVICES	MEASUREMENT & SYSTEMS	ADJUST. & ELIM.	CONSOL-IDATED
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
INDUSTRY SEGMENT 1994				
Operating revenue				
Customers	$4,362	$2,335	$ –	$ 6,697
Inter-segment transfers	3	4	(7)	–
	$4,365	$2,339	$ (7)	$ 6,697
Operating income	$ 495	$ 121	$(23)	$ 593
Interest expense				(63)
Interest and other income plus other credits – $3				87
Income before taxes				$ 617
Depreciation expense	$ 625	$ 92	$ 5	$ 722
Fixed asset additions	$ 661	$ 91	$ 31	$ 783
At December 31				
Identifiable assets	$4,766	$1,936	$(14)	$ 6,688
Corporate assets				1,634
Total assets				$ 8,322

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, 1996, 1995 and 1994, 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.

(Stated in millions)

	WESTERN HEMISPHERE		EASTERN HEMISPHERE		ADJUST. & ELIM.	CONSOL-IDATED
	US	OTHER	EUROPE	OTHER		
GEOGRAPHIC AREA 1996						
Operating revenue						
Customers	$2,103	$1,150	$3,065	$2,638	$ –	$ 8,956
Inter-area transfers	443	7	169	35	(654)	–
	$2,546	$1,157	$3,234	$2,673	$ (654)	$ 8,956
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)	–
	$2,184	$ 922	$2,928	$2,142	$ (554)	$ 7,622
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
GEOGRAPHIC AREA 1994						
Operating revenue						
Customers	$1,650	$ 749	$2,299	$1,999	$ –	$ 6,697
Inter-area transfers	251	10	140	30	(431)	–
	$1,901	$ 759	$2,439	$2,029	$ (431)	$ 6,697
Operating income	$ 177	$ 106	$ 49	$ 304	$ (43)	$ 593
Interest expense						(63)
Interest and other income plus other credits – $3						87
Income before taxes						$ 617
At December 31						
Identifiable assets	$1,660	$ 620	$2,387	$2,210	$ (189)	$ 6,688
Corporate assets						1,634
Total assets						$ 8,322

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 all years were 7.5%, 4.5% and 8.5%, respectively.

Net pension cost in the US for 1996, 1995 and 1994, included the following components:

(Stated in millions)

	1996	1995	1994
Service cost – benefits earned during the period	**$27**	$26	$25
Interest cost on projected benefit obligation	**50**	46	44
Expected return on plan assets (actual return: 1996 $94; 1995 $137; 1994 $3)	**(52)**	(47)	(46)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost/other	**4**	4	6
Net pension cost	**$27**	$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.

The funded status of the plans at December 31, 1996 and 1995, was as follows:

(Stated in millions)

	1996	1995
Actuarial present value of obligations:		
Vested benefit obligation	**$639**	$615
Accumulated benefit obligation	**$641**	$617
Projected benefit obligation	**$700**	$675
Plan assets at market value	**771**	698
Excess of assets over projected benefit obligation	**71**	23
Unrecognized net gain	**(155)**	(96)
Unrecognized prior service cost	**34**	39
Unrecognized net asset at transition date	**(7)**	(9)
Pension liability	**$ (57)**	$ (43)

Assumed discount rate and rate of compensation increases used to determine the projected benefit obligations were 8% and 4.5%, respectively; the expected long-term rate of return on plan assets was 8.5%. Plan assets at December 31, 1996, consist of common stocks ($504 million), cash or cash equivalents ($42 million), fixed income investments ($135 million) and other investments ($90 million). Less than 1% of the plan assets at December 31, 1996, 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 $16 million,

$13 million and $16 million in 1996, 1995 and 1994, 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 all years were 7.5%, 5% and 8.5%, respectively.

Net pension cost in the UK plan for 1996, 1995 and 1994 (translated into US dollars at the average exchange rate for the periods), included the following components:

(Stated in millions)

	1996	1995	1994
Service cost – benefits earned during the period	**$12**	$10	$10
Interest cost on projected benefit obligation	**9**	9	10
Expected return on plan assets (actual return: 1996 $36; 1995 $43; 1994 $(11))	**(18)**	(16)	(15)
Amortization of transition asset and other	**(3)**	(2)	(3)
Net pension cost	**$ –**	$ 1	$ 2

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

(Stated in millions)

	1996	1995
Actuarial present value of obligations:		
Vested benefit obligation	**$132**	$108
Accumulated benefit obligation	**$132**	$108
Projected benefit obligation	**$150**	$129
Plan assets at market value	**276**	222
Excess of assets over projected benefit obligation	**126**	93
Unrecognized net gain	**(111)**	(85)
Unrecognized prior service cost	**4**	4
Unrecognized net asset at transition date	**(4)**	(5)
Pension asset	**$ 15**	$ 7

The assumed discount rate and rate of compensation increases used to determine the projected benefit obligation were 8% and 5%, respectively; the expected long-term rate of return on plan assets was 8.5%. Plan assets consist of common stocks ($219 million), cash or cash equivalents ($6 million) and fixed income investments ($52 million). None of the plan assets represents 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 1996, 1995 and 1994, were $15 million, $14 million and $12 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 $93 million, $80 million and $71 million in 1996, 1995 and 1994, 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 $38 million, $37 million and $34 million in 1996, 1995 and 1994, respectively. Outside of the United States, 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.

In 1996, service cost and interest cost expenses were $13 million and $26 million,

respectively, compared to $12 million and $25 million in 1995. The principal actuarial assumptions used to measure the above-mentioned costs were a discount rate of 7.5% in 1996 and 7.5% in 1995, and a medical cost trend rate of 10% graded to 6% over the next six years and 6% thereafter.

The funded status at December 31, 1996 and 1995, was as follows:

(Stated in millions)	**1996**	1995
Accumulated postretirement benefit obligation:		
Retirees	**$143**	$173
Fully eligible	**8**	6
Actives	**135**	181
	$286	$360
Unrecognized net gain (loss)	**92**	(5)
Unrecognized prior service	**5**	–
Postretirement benefit liability at December 31	**$383**	$355

The assumed discount rate used to determine the accumulated postretirement benefit obligation was 8% for 1996 and 7.5% in 1995. At December 31, 1996, the medical cost trend rate has been lowered to reflect actual experience over the last four years to 9% graded to 5% over the next six years and 5% thereafter.

If the assumed medical cost trend rate was increased by one percentage point, health care cost in 1996 would have been $45 million, and the accumulated postretirement benefit obligation would have been $324 million at December 31, 1996.

Supplementary Information

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

(Stated in millions) Year ended December 31,	**1996**	1995	1994
Operating revenue			
Sales	**$2,428**	$2,372	$2,019
Services	**6,528**	5,250	4,678
	$8,956	$7,622	$6,697
Direct operating costs			
Goods sold	**$1,704**	$1,645	$1,372
Services	**5,131**	4,159	3,736
	$6,835	$5,804	$5,108

Cash paid for interest and income taxes was as follows:

(Stated in millions) Year ended December 31,	**1996**	1995	1994
Interest	**$ 73**	$ 81	$ 64
Income taxes	**$179**	$132	$148

Accounts payable and accrued liabilities are summarized as follows:

(Stated in millions) December 31,	**1996**	1995
Payroll, vacation and employee benefits	**$ 488**	$ 425
Trade	**712**	564
Taxes, other than income	**182**	156
Other	**818**	629
	$2,200	$1,774

The caption "Interest and other income" includes interest income, principally from short-term and long-term investments, of $73 million, $89 million and $78 million for 1996, 1995 and 1994, respectively, partially offset by the Company's share of the loss from the Omnes joint venture of $5 million in 1996.

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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, 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.

Price Waterhouse LLP
New York, New York
January 23, 1997

QUARTERLY RESULTS (UNAUDITED)

The following table summarizes results for each of the four quarters for the years ended December 31, 1996 and 1995. Gross profit equals operating revenue less cost of goods sold and services.

(Stated in millions except per share amounts)

	OPERATING		NET INCOME	
	REVENUE	GROSS PROFIT	AMOUNT	PER SHARE
QUARTERS–1996				
First	$2,028	$ 478	$ 171	$ 0.70
Second	2,151	519	196	0.80
Third	2,262	510	229	0.93
Fourth	2,515	614	255	1.04
	$8,956	$2,121	$ 851	$ 3.47
QUARTERS–1995				
First	$1,762	$ 426	$ 147	$ 0.61
Second	1,877	459	167	0.69
Third	1,919	464	169	0.70
Fourth	2,064	469	166	0.69
	$7,622	$1,818	$ 649	$ 2.69

FIVE-YEAR SUMMARY

(Stated in millions except per share amounts)

Year Ended December 31,	1996	1995	1994	1993	1992
SUMMARY OF OPERATIONS					
Operating revenue:					
Oilfield Services	$ 6,129	$4,868	$4,365	$4,338	$3,849
Measurement & Systems	2,834	2,759	2,339	2,370	2,484
Total operating revenue	$ 8,956	$7,622	$6,697	$6,705	$6,332
% increase over prior year	18%	14%	–%	6%	3%
Operating income:					
Oilfield Services	$ 986	$ 627	$ 495	$ 468	$ 546
Measurement & Systems	124	151	121	184	178
Eliminations	(52)	(17)	(23)	(23)	(28)
	$ 1,058	$ 761	$ 593	$ 629	$ 696
% increase (decrease) over prior year	39%	28%	(6%)	(10%)	(5%)
Interest expense	72	82	63	69	77
Taxes on income[1]	(176)	121	81	81	86
Income, before cumulative effect of a change in accounting principle	$ 851	$ 649	$ 536	$ 583	$ 662
% increase (decrease) over prior year	31%	21%	(8%)	(12%)	(19%)
Postretirement benefits	–	–	–	(248)	–
Net income	$ 851	$ 649	$ 536	$ 335	$ 662
Income per share:					
Before cumulative effect of a change in accounting principle	$ 3.47	$ 2.69	$ 2.21	$ 2.40	$ 2.75
Postretirement benefits	–	–	–	(1.03)	–
Net income	$ 3.47	$ 2.69	$ 2.21	$ 1.37	$ 2.75
Cash dividends declared	$ 1.50	$1.425	$ 1.20	$ 1.20	$ 1.20
SUMMARY OF FINANCIAL DATA					
Income as % of operating revenue	10%	9%	8%	9%	10%
Return on average stockholders' equity	16%	14%	12%	14%	16%
Fixed asset additions	$ 1,158	$ 939	$ 783	$ 691	$ 809
Depreciation expense	$ 819	$ 760	$ 722	$ 739	$ 671
Average number of shares outstanding	245	242	243	243	241
AT DECEMBER 31,					
Liquidity	$ 232	$ 188	$ 404	$ 696	$ 663
Working capital	$ 1,568	$1,259	$1,037	$ 908	$1,242
Total assets	$10,325	$8,910	$8,322	$7,917	$7,007
Long-term debt	$ 637	$ 613	$ 394	$ 447	$ 374
Stockholders' equity	$ 5,626	$4,964	$4,583	$4,406	$4,231
Number of employees	57,000	51,000	48,000	48,000	51,000

[1] *In 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.*


FIRST UNION
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On the North Sea, one hundred fifty miles northeast of Aberdeen, Scotland, a new approach to oilfield management is helping convert marginal fields to attractive prospects.

On Atlanta, Georgia, at the Centennial Olympic Games, a crucial foothold for smart card technology was established in the potentially huge North American market.

These two Schlumberger businesses—separated by an ocean, but united by a common entrepreneurial culture—illustrate the fundamentals that contributed to excellent results in 1996.

The stories in both places express a core theme for Schlumberger: Anticipate customer needs, address them with superior technology and deliver the best possible solutions.

Atlanta and Aberdeen frontiers: New markets for smart cards, new techniques for North Sea oil.

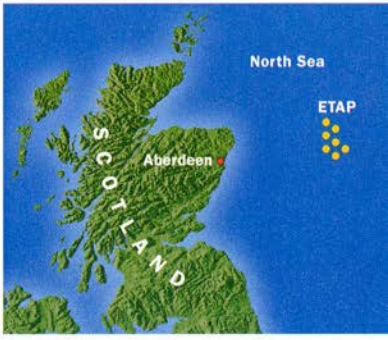
Oilfield Services

"Basically, the client said 'Here's our reservoir. We want you to work with us and manage the field.... Take it from the reservoir to the refinery.'"

MACHAR AND BEYOND: A NEW PATH TO PROFITABLE GROWTH

Declining production in a growing number of North Sea oil fields is stimulating the search for new oil. Many recently developed reservoirs were considered just a few years ago to be too small or complex for even a second look. But advances in technology and industry practice are converting these marginal fields into profitable prospects.

The core of the solution is a new approach to field appraisal and development, in which oil companies and service companies redefine their roles and look at new ways to share risks and rewards. A proving ground for this innovation, using Schlumberger technology and services, is the Machar field operated by BP Exploration Operating Company Ltd.



The Machar field lies 150 miles northeast of Aberdeen, in a cluster of oil fields called the Eastern Trough Area Project (ETAP).

Discovered in 1972, the Machar field (spoken with a guttural "ch" as in Loch Ness) was estimated to hold 55 million barrels of recoverable oil. The reservoir was too complex to confidently evaluate with technology of the day, and was considered marginal in economic terms.

By 1992, BP had moved to reduce overhead and increase efficiency, and with output declining from its mature fields, sought a new way to develop fields like Machar. In the past, the company managed the work of service companies and drew on its internal expertise. But this approach would no longer work.

"When dealing with marginal fields," said Dave Blackwood, BP asset manager, "with uncertain reserves and flow potential, and a thinner margin with low oil prices, we need partners willing not only to share risk and reward, but also to focus on the business goal of evaluating the reservoir and producing oil."

To test the viability of Machar, a floating early production system was

used, consisting of a semisubmersible drilling rig connected to a tanker. In addition to its usual function of drilling and servicing wells, the rig was converted to also handle production of oil and gas. With this setup, a few existing wells were recompleted to evaluate the reservoir size and flow rates, which determine whether permanent production is feasible. Testing took place for 21 months, far longer than a conventional two- or three-day test, and therefore yielded a more confident appraisal of the reservoir. Oil produced during testing was exported to the tanker, providing cash flow even before full-fledged production began. What was new was the way the system was managed, employing new technology and a unique alliance.

In the past, the oil company would have managed the entire appraisal, shouldering all risk and accepting all reward. Instead, in 1994 BP enlisted what became the Turnkey Additional Production (TAP) alliance, which drew together contractors who would supply the best possible solutions. The alliance evolved into:

- Schlumberger Integrated Project Management (IPM), managing well engineering and well construction;
- Sedco Forex, providing a drilling semisubmersible rig, *Sedco 707*, retrofitted with equipment to handle production from the reservoir, and managing logistics, such as transportation and supplies;
- Coflexip Stena Offshore, supplying the tanker, subsea construction and flow lines connecting the rig and tanker;
- ABB Vetco Gray, providing subsea engineering, managing procurement of subsea equipment, and designing production

and water injection equipment.

•Schlumberger Wireline & Testing, providing low-cost, reusable early production and testing equipment installed on *Sedco 707*, conducting wireline logging, perforating, and managing permanent downhole sensors, which provide a continuous stream of information for better, more cost-effective well management.

•Camco, working through Wireline & Testing, providing light wireline services and completion hardware for one of the wells.

Other Schlumberger companies were awarded work on the project. Anadrill provided directional and reentry drilling, with wells steered in real time using the GeoQuest GeoViz* 3D reservoir modeling software. Well planning also drew on comparison of seismic with logging-while-drilling and wireline data. In addition, GeoQuest helped identify drillable structures by integrating actual rock samples with data from logs. This was especially important in mapping Machar's complex geology.

Dowell supplied drilling fluids and fluids engineering, well cementing and stimulation. Strengths that contributed to the selection of Dowell included its advanced synthetic drilling fluid and innovative technique for well stimulation, which coaxes out more oil than would flow naturally. Use of ULTIDRILL fluid enhanced drilling efficiency and protected reservoir producibility. In addition, monitoring of drilling fluids with the automated FMP* fluids monitoring package allowed for rapid modification of fluid chemistry

In an early production system, a flexible line from the drilling rig offloads oil to a tanker about one mile away. (Inset) Tanker *Stena Savonita* and *Sedco 707* in early production mode at Conoco's Banff field in the North Sea.

Some of the team involved in development of Machar and other oil fields of the Eastern Trough Area Project (ETAP) in the North Sea: From left across both pages are John Kozicz of Sedco Forex; Tony Oldfield and Kevin Forbes, both of Schlumberger Integrated Project Management (IPM); Bob Talbott of IPM with Gerald Smith of Wireline & Testing;

in response to changing well conditions. Dowell also developed a stimulation setup that avoids "killing" the well, thereby further protecting reservoir producibility. Use of this technique in one well, with treatment from the Dowell *BIGORANGE*XVIII* stimulation vessel, achieved a world-record 460-fold increase in well productivity.

First appraisal oil flowed just 19 weeks after approval of the project.

In a departure from conventional field development, Schlumberger and Coflexip Stena took increasing responsibility for various operations at Machar. BP retained full ownership of reservoir assets and developed the production strategy and well design, with Schlumberger companies supporting well completions. Later, the contractors' roles expanded. "Basically, the client said 'Here's our reservoir,'" said Bob Talbott, then Schlumberger district manager of Testing. "'We want you to work with us and manage the field—from well design, drilling, completion, production and processing to transport of oil. Take it from the reservoir to the refinery.'"

At first, the Machar team worked from their home offices scattered across Aberdeen. Later, they moved to a single location for better efficiency.

"When you walked into a Machar meeting," said Jon Turnbull, Machar team leader for BP, "you would struggle to tell who worked for Coflexip Stena, for Schlumberger or BP—we actually had our people reporting to Schlumberger people, Schlumberger people reporting to Coflexip Stena people."

All parties participated in risk and reward, so all focused on reducing

Graeme Wood of Coflexip Stena Offshore; David Blackwood and Jon Turnbull of BP Exploration Operating Company Ltd., which developed the Machar field and three others in ETAP; and Tom O'Rourke (background) with Martha Jones of GeoQuest. Most personnel were based in Aberdeen, which serves as the control center for development of ETAP fields.

risk, raising efficiency and maximizing return. With a very thin management layer, decisions were made quickly by those nearest the action.

The results were impressive. First appraisal oil flowed just 19 weeks after approval of the project, rather than in the typical one or two years for the conventional approach. The rest of the appraisal was then phased to reduce risk. Phase I increased recoverable reserves to 77 million barrels of oil without water injection, which pushes oil toward producing wells. Phase II confirmed that water injection would indeed work, and would double recoverable reserves to 120 million barrels.

During the 25-month project, 14.5 million barrels of oil were exported to the tanker, covering the cost of phase I and providing a cash advance for future investment. When *Sedco 707* finally concluded phase II in May 1996, there had been no loss of work time due to accidents, no leaks or spills, and an overall efficiency 7% above plan. Machar proved to be a viable field, the floating early production system proved it could safely function through two North Sea winters, and Schlumberger proved it could efficiently manage and execute a complex field appraisal project.

"Machar blazed a new trail for Schlumberger," said Tony Oldfield of IPM, manager of phase I. "It showed that we are more than a service provider, working on single wells on short notice. We're the only one who could supply total service integration to manage all aspects of a client project. Early involvement with the customer led us to jointly commit to an aggressive development plan, despite $13-per-barrel oil, in which our revenue was

based on the success, efficiency and safety of the project."

In addition to the alliance companies controlling all resources to develop the reservoir, providing the entire scope of services and assuring availability of equipment, success also came from parallel engineering.

"Parallel engineering allowed us to create solutions as we moved along," said Kevin Forbes, region vice president of IPM. For example, the tanker was being converted to dynamic positioning as drilling was finishing. Design of the production system for *Sedco 707* was carried out in parallel with its construction. While *Sedco 707* was completing wells, the deck of the rig was strengthened to accept 220 tons of new equipment, including 30 km [19 miles] of wiring and 4 km [2.5 miles] of pipe for handling crude oil processing. The retrofitting took 60 days, at a 15% savings over dry-dock cost—and without losing a day of work.

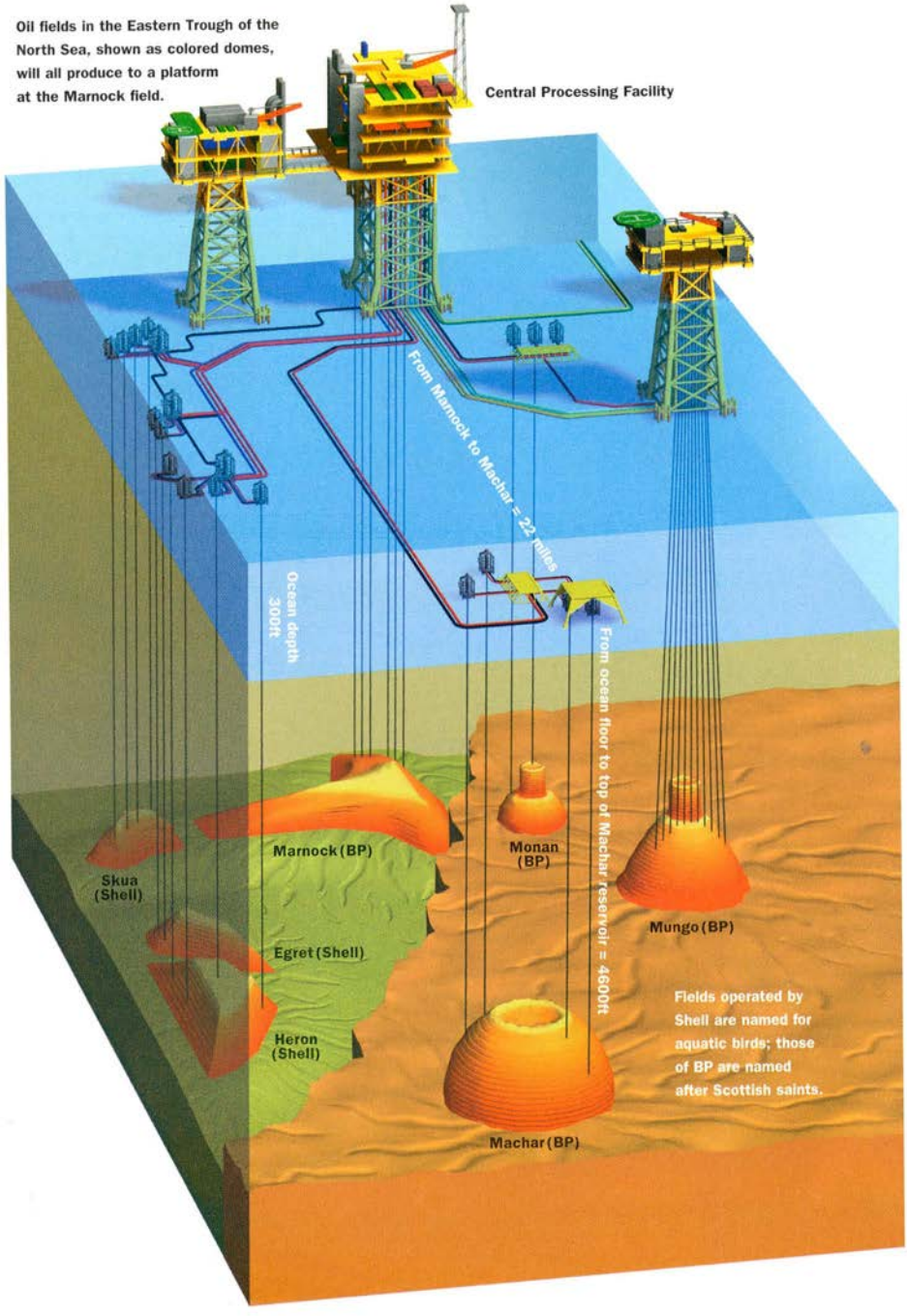
"Parallel engineering allowed us to create solutions as we moved along."

The total project engineering required new ways of thinking and behaving. "We had service companies thinking like operating companies," said Jon Turnbull of BP. In line with this approach, the alliance companies sometimes suspended their own short-term gain for the ultimately larger, more enduring reward of the project's long-term success. For example, flow lines made by a Coflexip Stena competitor and subsea equipment by a Schlumberger competitor were sometimes chosen as better suited to the success of the project.

"The success was based on a small but dedicated project team," said Graeme Wood of Coflexip Stena, project manager for Machar phase II. "We all learned to operate on the grounds that our reward was based foremost on the overall project's success, which is ultimately in all our best interests."

Success at Machar extended the reach of Schlumberger both geographically and in service diversity, and contributed to development of the current largest BP Exploration project worldwide: the Eastern Trough Area Project (ETAP), a collection of initially seven neighboring fields, including Machar, that contain a half billion barrels of oil scheduled to begin

Early production systems consist of modular hardware, framed here in green, that is customized for each rig. The system allows for earlier flow of oil—and revenue.


Oil fields in the Eastern Trough of the North Sea, shown as colored domes, will all produce to a platform at the Marnock field.
Central Processing Facility
From Marnock to Machar = 22 miles
Ocean depth 300ft
From ocean floor to top of Machar reservoir = 4600ft
Skua (Shell)
Marnock (BP)
Monan (BP)
Mungo (BP)
Egret (Shell)
Heron (Shell)
Machar (BP)
Fields operated by Shell are named for aquatic birds; those of BP are named after Scottish saints.

production in 1998. The ETAP fields are up to 35 miles apart and the satellite fields will produce through subsea pipelines to a single central processing facility, which will pipe oil ashore to the UK.

Schlumberger will be a key service provider in ETAP. GeoQuest will process and analyze all of the BP North Sea data, through a five-person dedicated client center in the customer office. In addition, GeoQuest will perform data validation and database management through "service at the screen,"—a fiber-optic link that speeds data from the GeoQuest data archive to the customer. "This gives them a nearly immediate response time," said Martha Jones, GeoQuest information technology manager. "Through our economy of scale, we can offer operating companies a significant savings in data management."

Michelle Churchward, a Schlumberger Oilfield Services attorney who negotiates contracts for early production systems, aboard a helicopter headed for *Sedco 707*, the rig that operated at the Machar and Banff fields.

The process improvement and expertise developed at Machar have also benefited Dowell. It is scheduled to provide reservoir stimulation, fluids engineering and coiled tubing work on ETAP wells, and has delivered cementing, coiled tubing and fluids engineering services on several wells in the northern frontier, West of Shetland.

After leaving Machar, *Sedco 707* and the tanker *Stena Savonita* performed an early production encore this year at Conoco's Banff field. Although the current reserves range remains broad, the early production system has reduced some key uncertainties about the recovery mechanism, the long-term productivity and reservoir connectivity. By the end of November, the system had produced 2.1 million barrels of crude, providing Conoco with a significant revenue stream 18 months sooner than would be acquired conventionally. Likewise, a similar floating early production scheme with the *Sedco Explorer* was put in place at

"Any discomfort is far outweighed by the benefits of a better quality product."

the Clair field West of Shetland, one of the largest in the North Sea region, holding an estimated six billion barrels of oil.

"Machar showed that we all had the ability to reorganize our skill sets," said Dave Blackwood of BP. "In the past, we conducted our business dialogue across the boundary between the oil company and the contractor.

Now, we're trying not to create that boundary in the first place. It's a less comfortable arrangement if you're used to command and control, but any discomfort is far outweighed by the benefits of a better quality product."

Charlie Cosad, wells alliance team leader and Schlumberger project manager for the Eastern Trough Area Project, with his family—from left, Matt, Tess and Dominique—at Castle Dunnottar, a 13th-century ruin near Aberdeen, Scotland.

Measurement & Systems

"Smart cards are rapidly transforming existing markets and helping create new ones, bringing higher efficiency, greater convenience and additional services to transactions of all kinds."

THE EXPANDING WORLD OF THE SMART CARD

Empty your wallet and what do you find? Some paper money and a handful of plastic—a credit card or two, an ATM card, some frequent flyer cards, a telephone calling card, a hotel frequent guest card, a health plan card....

Now fast forward beyond the year 2000. The paper money may still be around, but you use it less often. The plethora of plastic has converged into a single card. Embedded in the face of that card is a jewel-like integrated circuit that flexes enough computing muscle to make the card an electronic jack-of-all-trades. It is an all-purpose credit-ATM-frequent flyer-phone-health plan card. It is also a new type of payment method called stored value, containing electronic cash for small purchases: a tank of fuel, the curbside parking meter, the morning paper and coffee at the newsstand, bus fare, and a call at a pay phone. Less need for coins and paper money, and more convenience in single, multipurpose card. Welcome to the fast-approaching world of the smart card.

Roving Visa Cash Corp representative Dawn Turner explains Visa Cash at Atlanta's Hartsfield International Airport. Schlumberger provided the majority of smart cards for the trial during the Summer Olympics.

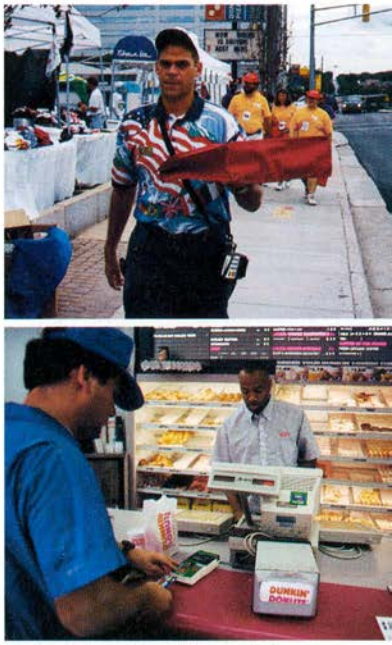
The era of this multiapplication *relationship card*, in which the computing power of a microprocessor allows the card to serve many functions, lies some distance over the horizon. But the first generation of such cards has already arrived. Smart cards are rapidly transforming existing markets and helping create new ones, bringing higher efficiency, greater convenience and additional services to transactions of all kinds. Schlumberger is a leader in smart card technologies and has produced 350 million smart cards used in 80 countries for a variety of applications—retail and banking terminals, cellular and pay phone systems, fuel dispensers, mass transit, parking meter systems and medical applications.

Smart card applications cover a range of markets, including financial transactions, telecommunications, health care and transportation. The Smart Village* infrastructure introduced in 1996 is a modular set of smart card-based solutions for public and private markets.

The smart card is widely used in Europe, where its application over the last ten years has expanded from pay phones and financial applications to mass transit and health care. Smart cards are now taking off in Asia, where surging economies are fueling demand for card applications in banking and telephone systems. Another frontier is North America, where highly diverse banking and telecommunications markets have begun to develop and where the emerging application of electronic cash is being utilized by nearly one million people.

The typical electronic cash, or stored value, smart card is used for incidental purchases, usually under $10 or $20. To make a purchase, the card is inserted into a terminal, which displays the value loaded on the card. The consumer then pushes a button to verify the transaction and deduct the purchase amount. Industry studies show the transaction takes 1 to 6 seconds—much faster than the 30 to 40 seconds of the typical cash transaction.

For the consumer, the cards make budgeting easy and they are convenient—faster than cash or a credit card, no waiting for on-line authorization and no fumbling for change. Retailers also like the simplicity and speed—the cards eliminate errors, losses and delays associated with handling cash.



Fast cash for fast food. The speed of smart card transactions—typically a few seconds—makes them popular with customers at fast-food venues. Domino's Pizza equipped Corporate Area Supervisor Sean Harper (top) with a mobile card reader. Dunkin' Donuts (above) uses fixed card readers.

This year at the Centennial Olympic Games in Atlanta, Georgia, Schlumberger participated in the largest pilot program to date of stored value cards. Three sponsoring banks teamed with Visa to bring to Atlanta the Visa Cash stored value system. Schlumberger was the lead supplier, providing 200 card dispensing machines, 2700 card

readers, and more than half the 2 million smart cards. Across Atlanta, the Visa Cash pilot involved 1500 retail merchant locations, including fast-food retailers, convenience stores, movie theaters, filling stations, pay phones and the city's transit system, the Metropolitan Atlanta Rapid Transit Authority (MARTA). During the 17 days from the opening to closing ceremonies of the Olympics, more than 200,000 transactions totaling $1.1 million took place.

"From our perspective, the message to the market was strong and unequivocal," said Jean-Paul Bize, vice president of Schlumberger Electronic Transactions. "The Atlanta games proved the inherent strength of our value proposition to our clients. No other company in the industry can roll out a complete card-terminal-support solution as quickly as Schlumberger."

Atlanta was also the first large-scale "open system" pilot, in which cards from multiple issuers were accepted by many different merchants and service providers. Most previous programs were in closed systems, in which cards were issued and accepted by only one service provider, such as a mass transit system or concessions in a sports stadium.

"At the 1996 Olympics, people began to understand smart card technology."

"Open systems take time to gather momentum," said Edgar Brown, senior vice president with First Union Corporation, one of the sponsoring banks. "You need to build an infrastructure and educate consumers and retailers—it's a culture change, going from cash to a card that contains cash. The great concentration of people at the Olympics and the visibility of the event gave us that rocket-assist to move ahead quickly."

Most of the cards sold in Atlanta during the Olympics were disposable, with a fixed value of $10, $20, $50 or $100. They were purchased at Schlumberger dispensing machines or at one of the three sponsor banks—First Union, NationsBank and Wachovia. First Union also issued reloadable cards to a small test group of account holders. These cards could be reloaded at ATMs by transferring value from debit or credit cards.

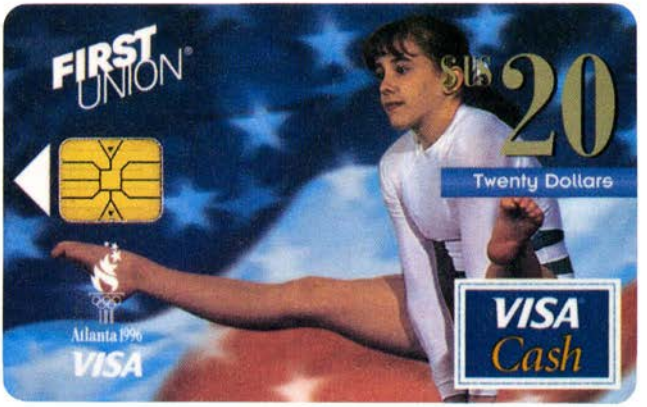
The Visa Cash system in Atlanta continues to expand after the close

of the Olympics. "Our goal in introducing Visa Cash was to use the high-profile Olympic environment to test an entirely new payment method and find out how consumers and merchants felt about it," said Michael Beindorff, executive vice president of marketing and product management for Visa USA. In an independent survey, two-thirds of Visa Cash users found the transaction superior to one with cash. Leading advantages were not having to carry cash or change, not having to count change and having it work just like cash.

A second stored value card pilot with Schlumberger technology is scheduled for launch in 1997 in the upper west side of Manhattan, which has a high concentration of retail establishments. Sponsoring banks plan to issue 50,000 new credit or debit smart cards with microprocessors and equip approximately 500 retail sites with terminals that can read smart cards. The New York trial, involving both Visa and MasterCard, goes a step beyond Atlanta and uses mainly reloadable cards, which customers can recharge at ATMs or other terminals.

Kevin Stone, production manager at the Schlumberger Danyl factory in New Jersey (top), wheels a new smart card dispensing machine into a demonstration area. At the Schlumberger Malco factory in Maryland (above), individual smart cards are printed on larger sheets.

Demand for smart cards continues to move forward. Last year, 50,000 cards was a significant order, whereas this year a large order might reach a half million cards, said Mike Smith, general manager of operations at the Schlumberger Danyl manufacturing center in New Jersey, USA. This center, in the expanding North American market, helps position Schlumberger to better develop stored value and other card applications. These developments will lead to the future multiapplication relationship card—a single



Visa Cash cards issued at the 1996 Games (left) featured limited editions of different Olympic events, increasing their appeal among collectors. The gymnastics venue in Atlanta (right) was one of the most popular.

card for the cellular phone, for banking and for loyalty programs, such as frequent flyer programs.

Addressing this demand for expanded smart card capabilities, in October Schlumberger announced the Cyberflex* smart card line, the first to utilize the Java† programming language. Java makes programming faster, easier and independent of the computer platform. As a result, a larger number of developers can write secure smart card applications, leading to more choices for companies that use smart card products and services.

In the emerging North American market, growth today is fueled by increasing the number of acceptance locations and broadening usage of stored value cards. But ultimately, growth will come from moving to a multiple usage relationship card.

"The importance of the Atlanta pilot was not the launch of a stored value card," said Fred Winkler, executive vice president at First Union. "At the Olympics, people began to understand smart card technology, which opens the door to new applications. Stored value cards aren't the end of the trail. They're the beginning of a new trail."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Going for the Gold

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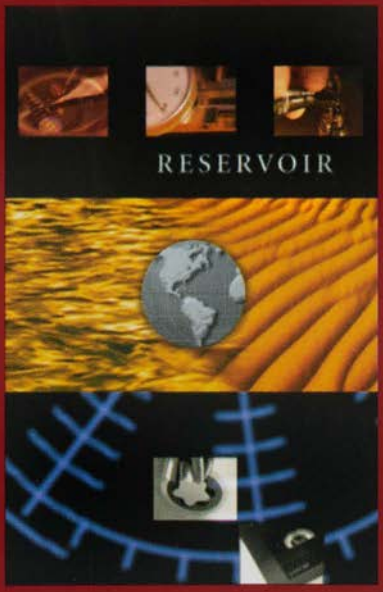
COMING IN SPRING 1997



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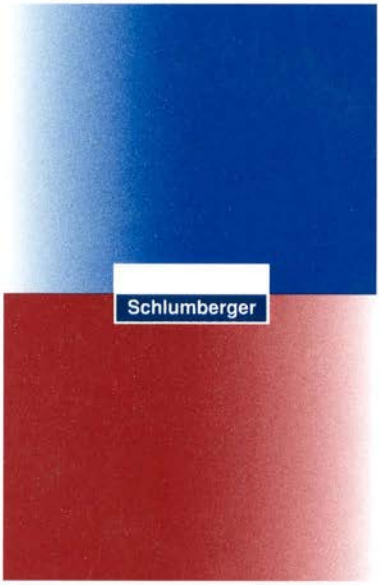

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