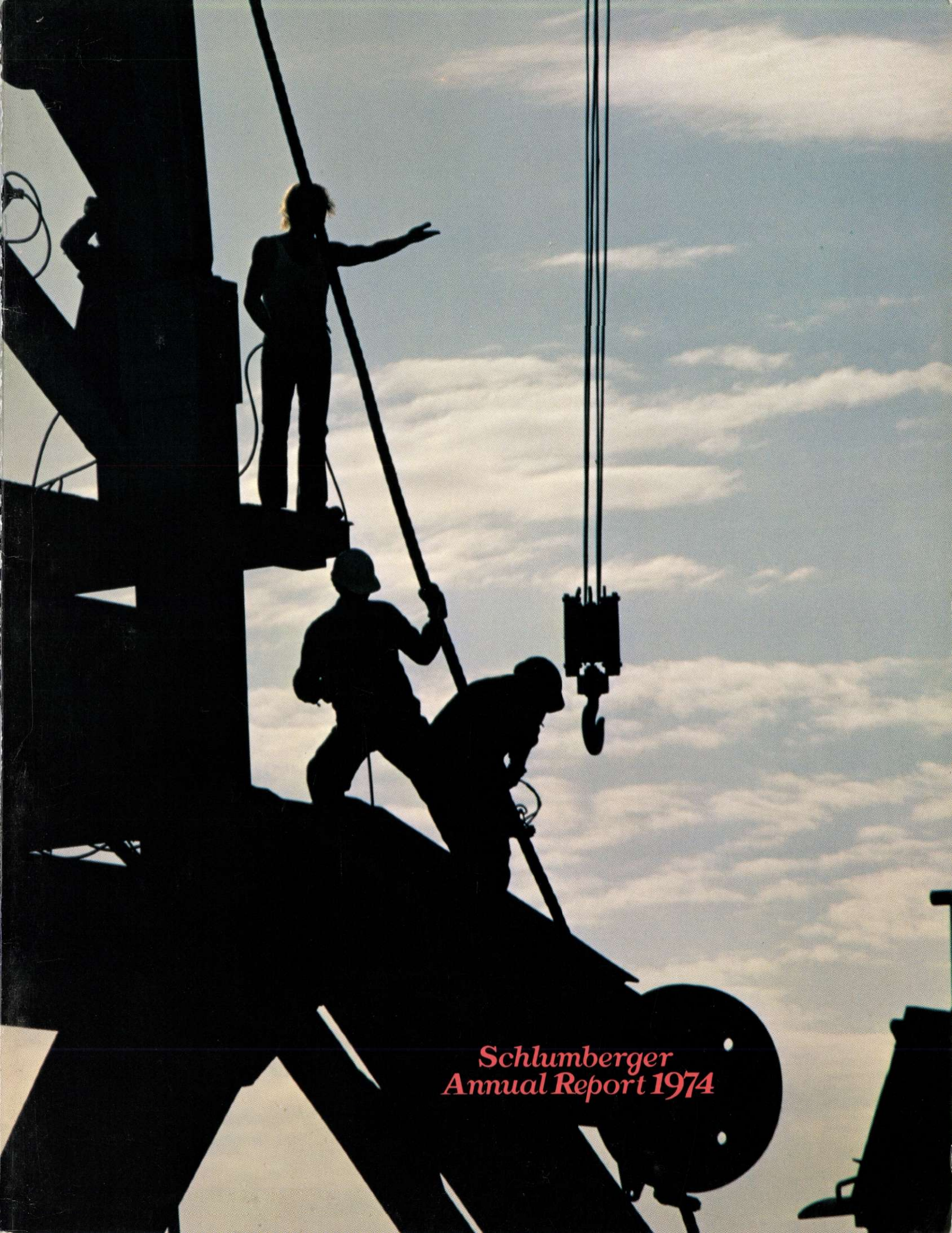


Schlumberger Annual Report 1974

In Brief

	1974	1973	1972
Revenues	$1,172,035,000	$945,829,000	$812,062,000
Net Income	$ 147,630,000	$ 92,362,000	$ 70,233,000
Net Income Per Share	$4.02	$2.53	$1.94
Dividends Paid Per Share	$0.69	$0.525	$0.485

COVER: *setting up a drilling rig*

To the Shareholders

The year 1974 has been the best year in Schlumberger history. Record sales and record earnings were achieved in every quarter and for the full year.

Obviously circumstances helped, particularly in the oil industry. But we did it because every Schlumberger man in the world, whatever his job, worked like never before to get us there.

Two fundamental economic factors underlie the results of the past year.

1. Every single division of Schlumberger oilfield services—wireline services, drilling services, production services—every one of them, month after month, set new records. Triggered by the oil embargo, spurred by higher oil prices, stimulated by significant discoveries offshore, exploration for oil surged forward. Throughout the world, old oil producing countries like the U.S. or the Middle East, new oil producing territories like the Java Sea, Nigeria or the North Sea, all set new records.

2. Schlumberger electronic and meter activities had a more difficult year. During the first half, like many industries, we experienced both record inflation and record orders. Then, as the summer faded away, in a seesaw pattern, signs of a definite slowdown set in. First in Europe from September, then in the U.S., closer to the end of the year. Nevertheless, we had improved results both in Europe and the U.S. in all major units.

You will find in this report (read the Business and Financial Review) the relevant facts and figures which marked Schlumberger operations and business in 1974. But the world economy is changing so fast that this is no time to linger with satisfaction over the impressive results of 1974.

In recent months, more loudly in recent weeks, one hears many prophets of gloom. A major depression is ahead, which means 1975, so they say. It will not only affect, as in 1974, the automobile and the building industries but the whole economy. The oil industry might even be in greater trouble as political problems will compound the difficulties of the economy, so some others say. I do not share these views. I believe that man has the means to correct the mistakes of the past three years and establish a new economic balance.

Regarding the oil situation, so important to Schlumberger, they argue that the surplus of oil production will force the price of crude oil to crumble, resulting in the collapse of OPEC. Meanwhile, many governments plead for lower oil prices and at the same time contemplate higher taxation and higher import duties, thereby defeating their purpose.

In the midst of these contradictions, there is however a ray of hope. Simple common sense is beginning to filter through the thick layer of passion. Almost everybody agrees that the oil reserves of the world must be expanded and more diversified geographically. This can be achieved under one condition—a reasonable stability in the price of crude oil. The OPEC countries, the U.S., Western Europe agree on this principle if they do not agree on what that price should be. Few people remember that the price of crude oil peaked in the middle fifties and actually declined in constant dollars until 1969. This goes a long way to explain the oil and gas shortage, the wasteful use of this essential commodity, the dramatic increase of crude oil prices in late 1973. When an artificial economic situation is maintained too long, the risk of explosion increases.

The U.S. has regulated the price of gas and oil for years. Many countries in Western Europe have taxed this com-

modity excessively. Obviously, the OPEC countries put their own interest first in fixing oil prices. But a fixed price is better than uncontrolled, speculative and wide fluctation as happened to other commodities. OPEC should not fix oil prices unilaterally. I am convinced that an international agreement will be found between producing and consuming countries to maintain a stable price of crude oil, sole condition to explore for new sources of oil.

This policy does not require great imagination but common sense and determination. The same reasoning applies beyond oil prices to the key factors which govern the world economy.

The major industrial nations experienced an incredible prosperity and rate of growth from 1950 to 1971 with a spectacular expansion of world production and international trade. Then in August 1971 the alarm was sounded by the first devaluation of the dollar, causing the collapse of the Bretton Woods international agreement. Floating currencies resulted in broad swings in currency values and vast speculation in currencies. In turn, as could be expected, steep variations in interest rates and uncontrolled movement of short term money from one country to another strained the international banking system. The result is now clear: major economic indexes went awry. Double digit inflation yesterday, maybe double digit unemployment tomorrow.

It is my conviction that the key mechanisms of the world economy cannot be left to the so-called automatisms of the free market or to self-regulating systems. Currency relationships, interest rates, the price of gold, the price of the major commodities must be set by international agreement. Man can do better than blindly follow the extremes; either to believe that, if he keeps his hands off, economic laws will solve all problems or that he can dictate and regulate all the economic functions. Neither will work. If man tries to control the flow of blood in each artery and each vein of the body, he will fail, but he better watch the heart beat.

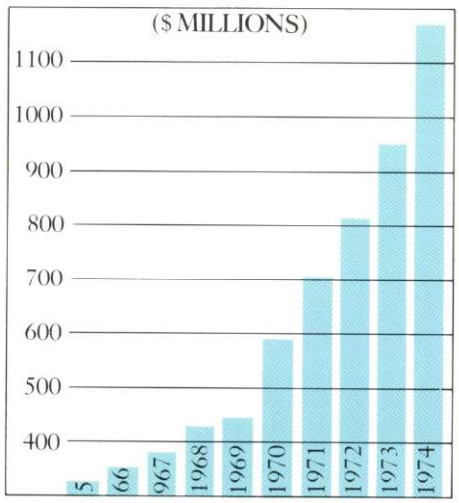
For 1975, in spite of many fluctuations, of many shifts from country to country, from continent to continent, oil exploration will go forward and Schlumberger services will grow. Our electronic and meter business will see a leveling off of orders and shipments, but all the work done in the past three years will materialize in improved earnings. The preliminary indications of the first quarter bear out this conviction.

The Board of Directors on February 27, 1975 approved a three for two split of the common stock.

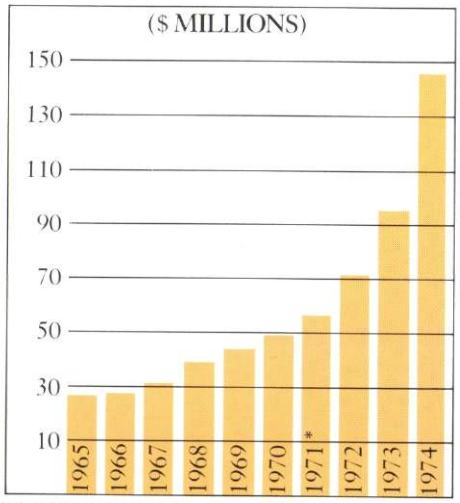
March 3, 1975

JEAN RIBOUD
CHAIRMAN AND PRESIDENT

Business and Financial Review

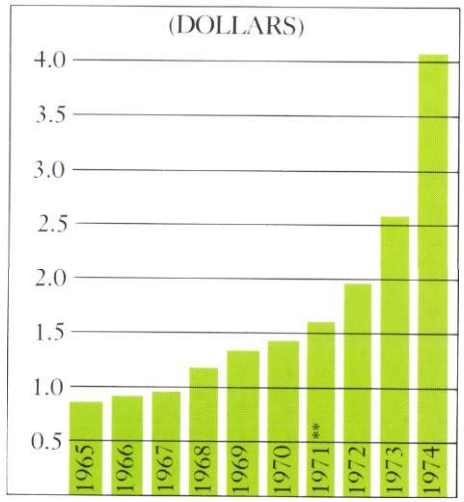


REVENUES



NET INCOME

*Before extraordinary net gains.



EARNINGS PER SHARE*

*Adjusted for three-for-two stock splits in March, 1966 and May, 1969 and three-for-one stock split in September, 1972.
**Before extraordinary net gains.

In 1974 Schlumberger revenues were over a billion dollars for the first time and earnings increased for the eleventh consecutive year. Net income of $148 million increased 60% and revenues of $1.2 billion gained 24% over the previous year. Earnings per share were $4.02 compared to $2.53 a year ago. Net income growth was strong throughout the year; the first quarter was up 49% and the remaining quarters showed year to year gains of 67%, 60% and 62%, respectively.

Fourth quarter net income increased 62% on a 20% gain in revenue; earnings per share were $1.23 compared to $0.76. Most of the improvement was from oilfield services; wireline revenues increased 48%, drilling and production services 37% over the same quarter a year ago.

For the full year 1974, all major operations contributed significantly to the improved revenues, but the impressive gain in earnings was due principally to acceleration of oilfield activity worldwide. Revenues from oilfield wireline services were up 38%, drilling operations 60% and all other oilfield service activity was substantially higher than in 1973. U.S. Electronics sales increased 20%. Revenues from Meters & Electronics—Europe gained 26% but conversion to U.S. dollars reduced this to 11% because of the relative strength of the dollar during most of 1974 compared to 1973. It was not until late 1974 that the franc regained strength.

Revenue by Business Category

	$ Millions		%
	1974	1973	Improvement
Oilfield Services	$ 569	$412	38%
Electronics —U.S.A.	156	130	20
Meters & Electronics —Europe	428	387	11
All other, including interest income	19	17	
	$1,172	$946	24%

Oilfield wireline service activity was very strong throughout 1974. For the full year, revenues in the Eastern Hemisphere and South America were up 42% and North America was 31% ahead of 1973. Also, earnings improved in all areas. There were several contributing factors which are continuing into 1975:

—The trend to more drilling in remote areas; offshore now accounts for nearly 40% of new drilling.

—Higher price of crude oil provides unprecedented incentives to explore and develop.

—High levels of activity result in more efficient use of men and equipment.

Drilling and production service results were well ahead of the previous year. Forex Neptune revenues increased 60% and earnings doubled; both land and offshore activities were strong especially in the Middle East and the North Sea. Dowell Schlumberger (50% owned), Johnston and Flopetrol also made impressive gains.

Deteriorating economic factors had no significant impact on Schlumberger business except in the latter part of the year when incoming orders declined at European Meters and Electronics and to a lesser extent at U.S. Electronics. Nevertheless, revenues from those operations, even in the fourth quarter, were well ahead of 1973. European Meters and Electronics net income improved significantly in several divisions: Gas, Industrial Control, Valves and International. A large part of this improvement was offset by increased losses at most of the European electronics operations.

U.S. Electronics sales were up 20% and net income improved in all divisions. EMR-Telemetry had a particularly good year. Heath sales increased 18% but earnings improved only slightly because of adverse cost/price relationships early in the year and disappointing mail order sales during the Christmas season.

Going into 1975, the backlog at Meters & Electronics—Europe was approximately $180 million, 33% higher than last year; at U.S. Electronics it was $60 million, about the same as a year ago. In the early months of 1975 new orders for these operations are slower than last year, but business activity in all oilfield service operations is stronger than ever.

Currency

After some fluctuation very early in the year, exchange rates for the principal currencies of the western world remained relatively stable until late in the year when the dollar weakened appreciably in relation to most other currencies except U.K. sterling and the Italian lira. Currency fluctuation had no material effect on earnings mainly because of Schlumberger policy to avoid significant long or short positions in currencies other than the U.S. dollar. However, 1974 revenue growth

was adversely affected by the relative strength of the U.S. dollar compared to 1973. This reduced the dollar equivalent of 1974 sales billed in French francs. Had the same exchange rate prevailed in both years, consolidated Schlumberger revenues for 1974 would have increased about 30% rather than 24%, as reported.

Late in 1974 and continuing into early 1975, the French franc has strengthened in relation to the U.S. dollar; this trend, if continued, would increase the dollar equivalent of revenues on 1975 sales billed in francs.

Macco Oil Tool

In November 1974, Schlumberger purchased the Macco Oil Tool Company from Brown Oil Tools, Inc. for $5 million cash. Macco, located in Houston, Texas, manufactures, sells and services gas lift equipment and other oilfield specialty tools. Revenues in 1974 were $5 million.

Research and Engineering

Research & engineering expense was $43.5 million in 1974 compared to $41.3 million in 1973—an increase of only 5.3%. However, more than half of research & engineering expense is incurred in French francs and the relative weakness of the franc in 1974 compared to the previous year depressed the dollar equivalent of franc spending. On a constant dollar basis, research & engineering expense increased 13% over 1973. Expenditures included $20 million for oilfield activities, $6 million for Electronics—U.S.A. and $17 million for Meters & Electronics—Europe.

Taxes on Income

Estimated liability for taxes on income at year end 1974 was $123 million compared to $94 million at the end of 1973. The increase of $29 million reflects a provision for income taxes on substantially higher pretax earnings in 1974. Also contributing to the increase were added provisions for taxes which may be payable in the future depending on the interpretation of income taxation laws and regulations of various countries as they relate to worldwide operations of Schlumberger.

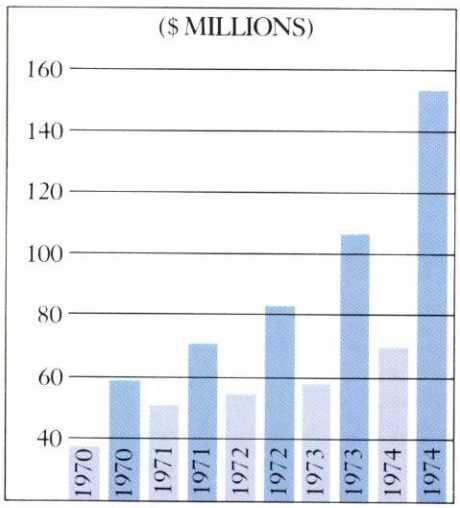
Management believes adequate provision has been made at December 31, 1974 for overall tax contingencies in the U.S.A. and other countries where Schlumberger operates.

Capital Expenditures

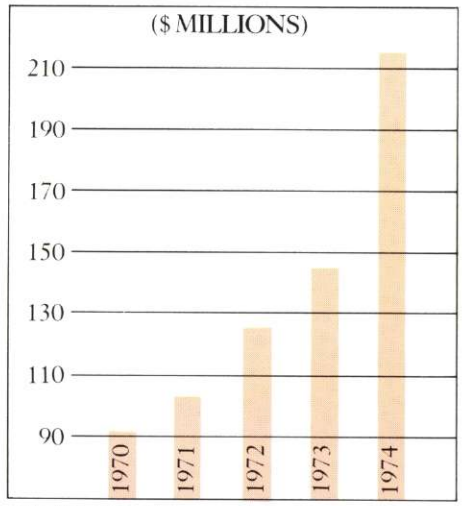
Additions to fixed assets totaled $163 million in 1974 compared to $115 million in 1973. Capital expenditures by business category were as follows:

	$ Millions	
	1974	1973
Oilfield—		
Wireline Services	$ 76.1	$ 52.3
Drilling & Production Services	55.5	38.9
	131.6	91.2
Electronics—U.S.A.	3.9	4.6
Meters & Electronics —Europe	27.0	17.4
Other	.1	1.4
	$162.6	$114.6

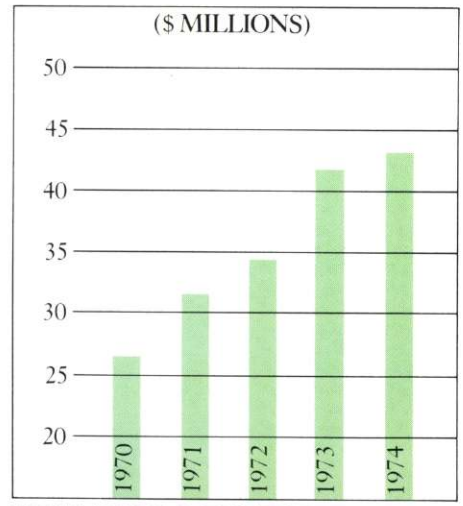
Depreciation expense for 1974 was $69.4 million (43% of fixed asset additions) compared to $58.3 million in 1973. Fixed asset budgets for 1975 total $208 million, with most of the anticipated increase for wireline services.



NET FIXED ASSET ADDITIONS ■ DEPRECIATION ■



CASH FLOW



RESEARCH & ENGINEERING

Common Stock and Dividends

During the year, 94,759 shares of stock were sold to employees under stock option plans of which 87,209 shares were newly issued and 7,550 were treasury shares. At 1974 year end, 36,735,463 shares were outstanding, excluding 1,093,794 shares held in the Treasury. At the close of the previous year there were 36,640,704 shares outstanding excluding 1,101,344 treasury shares.

Purchases of treasury stock have been made in prior years and may continue to be made in the future for general corporate purposes, including sale under employees' stock option plans. No treasury shares were purchased in 1974.

The cash dividend was raised by the Board of Directors at the February 1974 meeting to an annual rate of $0.72 per share from the previous rate of $0.60, and again at the December 1974 meeting to an annual rate of $0.90 per share. As a result, the annual rate of the dividend was increased 50% during the year.

On February 27, 1975, the Board of Directors approved a three-for-two split of the common stock. Certificates for the additional shares will be issued on or about April 16, 1975 to stockholders of record on March 21, 1975.

Also on February 27, the Board adopted a resolution recommending that the stockholders approve an increase in the authorized captial stock of the company from 60 million to 120 million shares.

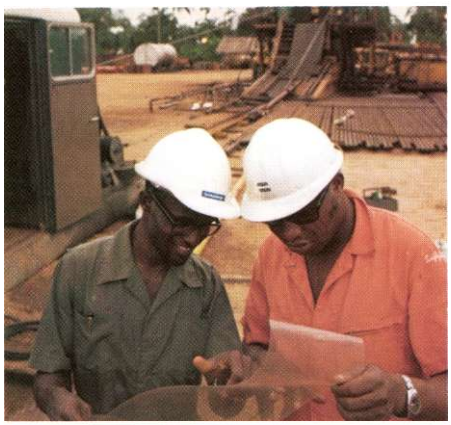
Oilfield Services

Demand for Schlumberger wireline, drilling and production services increased substantially in 1974. Revenues of $569 million were up 38% over the previous year. Activity was higher in all major areas throughout the world, especially strong in the Far East, the Middle East, the North Sea, South America and in the United States. Earnings and revenues improved in every Schlumberger oilfield division.

Wireline Services

Revenues from wireline services were $395 million, an increase of over $100 million for the year. Personnel, facilities and equipment were expanded accordingly. During the year, 470 engineers were hired compared to 300 in 1973 and facilities of the eleven training centers were enlarged. Many of the field service centers were expanded and additional centers were opened in new geographical areas, five in North America alone. Also, the Houston plant electronic shop added 13,000 square feet to increase production capacity by 50%.

To cope with more difficult environmental conditions, wireline design engineers are concentrating on the development of tools and techniques for logging deep high-temperature wells, small diameter wells, and wells containing corrosive hydrogen sulfide. To further this effort, a new test vessel was just installed in Houston to simulate well conditions up to 600°F and 35,000 pounds per square inch.



Schlumberger engineer and client discuss a well log in West Africa.

Several wireline services, recently introduced by Schlumberger, improve data accuracy and give more reliable indications of hydrocarbons under difficult conditions. Growth of these services has been limited only by the availability of the new tools:

— The Compensated Neutron run in combination with the density tool was offered throughout the world. This service delineates gas bearing zones, provides a more accurate porosity determination, and also helps determine the type of rock matrix.

— The Dual Laterolog was introduced in most areas. It provides more accurate resistivity data helping to define hydrocarbon bearing formations under adverse conditions, e.g. where the drilling mud is saline and/or formation resistivity is high.

Dipmeter sales increased primarily as a consequence of increased exploration drilling. The dipmeter log helps the geologist to determine the location of subsequent wells and assists in the interpretation of the geologic sequence.

Well logging data can be analyzed in greater detail by using computers with software developed by Schlumberger. Sales of computer processed log interpretation (CPI) increased remarkably—about 100% in the Eastern Hemisphere and 50% in North America. In the early part of 1974, a large-scale computer was added in Houston. It is already overloaded and a second one will be installed in 1975. A similar computer was installed in

Paris late last year to handle anticipated growth of CPI in the Eastern Hemisphere.

Communication terminals which will link five regional offices directly with the Houston computers are now being installed in North America. With these terminals the computer will be used more efficiently, and processed data can be delivered to the client more quickly.

NORTH AMERICA

Wireline revenues increased 31% in North America. Growth was substantial in all U.S. divisions:

—As a result of more favorable economic incentives, the total number of active land drilling rigs increased 24%. Revenues from well completion services increased substantially; more wells were completed and the industry made it a priority to optimize production from older wells.

—Offshore, because of increased lease sales,almost all rigs available were active.

—The Thermal Decay Time (TDT) service continued to grow steadily in the U.S. The new dual spacing TDT tool provides an evaluation of the productive potential of zones behind the pipe in cased wells; it can help to differentiate between oil and gas zones.

—New improved perforating guns were designed and introduced successfully. Perforating guns shoot holes through the casing and cement into the formation, thus allowing the fluids to flow. The new Schlumberger guns shoot deeper and obtain more production from each perforation than competitive guns.

—A new pipe corrosion detector, the Pipe Analysis Tool, was successfully introduced in northeastern U.S. It evaluates the condition of casing, a vital interest in gas storage wells.

In Canada, revenues increased slightly despite a 14% decrease in the number of active rigs. Unresolved tax proposals have slowed investment in mineral resources. A significant number of drilling rigs moved from Canada into active U.S. areas.

SOUTH AMERICA

Revenues improved 42% in South America as the search for new oil quickened; overall the number of development wells increased 11%. Exploration moved into the remote jungle areas of Peru; deep wells were successful in the South Lake Maracaibo region of Venezuela. Offshore Brazil was more active, and a major discovery was made there late in the year.

Revenues were also up in Argentina, Ecuador, Colombia and in the Caribbean area. Drilling was at a slower pace in Bolivia and Trinidad resulting in little change.

Schlumberger activities were relatively unaffected in South America by political uncertainties. More than half of South American wireline revenues today are derived from national oil companies.

EASTERN HEMISPHERE

Revenues increased 42% in the Eastern Hemisphere as exploration and development drilling expanded rapidly both on land and offshore. Offshore revenues increased 47% while land revenues increased 38%. The increase in land drilling was the first in many years.

The substantial growth came from four regions: the Middle East, the Far East, Nigeria and the North Sea.

In the Eastern Hemisphere alone the oil industry added 41 new offshore rigs to the 145 previously active. Of these new rigs, 15 were assigned to the North Sea. In the Far East, another major offshore expansion occurred in Malaysian and Vietnamese waters. Land activity throughout Indonesia continued to expand. In the Middle East, major

drilling programs started in 1973 matured in 1974 resulting in much higher revenues in both Iran and Saudi Arabia. In Nigeria growth was more rapid on land than offshore.

VECTOR

Revenues increased 26% over the previous year. The market is growing rapidly for special armored electrical cables used on large offshore drilling rigs to control subsea drilling and completion wellheads. Potential for growth in this market is good as exploration moves into deeper water farther offshore.

Drilling & Production Services

FOREX NEPTUNE

Drilling revenues were up 60% in 1974 mainly from increased activity in the Middle East, the North Sea and Nigeria.

Land drilling activity increased substantially. Seven rigs were transferred to Iraq from other areas during the year.

Growth offshore was mainly from two new semisubmersible platforms; until late 1973 *Pentagone 81* was the only Schlumberger semisubmersible in service. In 1974 *Pentagone 82* and *Pentagone 83*, which is operated for a Norwegian owner, were active throughout the year. *Pentagone 84* was completed and started drilling in November. All four of these units were operating in the North Sea except that *Pentagone 82* was drilling in Hudson Bay during the summer months.

Flopetrol ship, Oil Dragon, testing a Middle East well.

Additional drilling units under construction:

—For land operations—A new heavy helicopter rig will be completed in 1975 for Indonesian activity. Also three heavy rigs are being assembled for delivery in 1975 and 1976, all three scheduled to drill in Iran.

—For offshore—*Trident I*, a jackup, was launched from a Singapore shipyard and began drilling in Malaysia early in 1975. A tender, *Triton*, and another jackup, *Trident II*, also are being constructed in Singapore and are committed to drilling contracts beginning at the end of 1975 and 1976 respectively.

FLOPETROL

Revenues increased 45% over the previous year; most of the improvement was in the Far East, northern Europe and the Middle East. Flopetrol revenues are mainly from services, but sales of oilfield production test equipment gained significantly in 1974.

The new vessel *Oil Dragon* has added substantially to flow testing revenues in the Middle East. This ship has an eight-head giant burner, which permits tests of offshore oil wells at high flow rates without polluting air or water.

In 1974, Flopetrol introduced a unique service called Early Production Facility which makes it possible for oil companies to start limited production from offshore wells several years before permanent production facilities are installed. Flopetrol furnishes production equipment which is installed in a buoyant cylindrical tower, anchored to the sea bottom. The top of the tower is above water and

serves as a tanker loading facility.

JOHNSTON

Business volume was up 30%; major growth was from formation evaluation and completion tool services; also Earthquaker drilling jar service doubled.

Several new services and tools were introduced in 1974. The Johnston Shock Guard has been very well accepted; it is designed to protect drilling equipment at the surface from shock and vibration. Johnston is working on the development of a Kick Detector, a safety device to help detect gas in downhole drilling mud. Also in the early stage of development is a valve assembly that fits on a subsea wellhead. This device may make it possible to conduct wireline operations and formation tests through wellheads on the ocean floor. This would have applications in the Eastern Hemisphere where offshore wells are drilled in deeper water.

Johnston manufacturing facilities were doubled in 1974 at a cost of $2 million. Additional production machinery planned for 1975 will increase manufacturing capacity 50% over the 1974 level.

DOWELL SCHLUMBERGER (50% owned)

Revenues gained 41% primarily due to activity in the Far East and the Middle East.

The number of Dowell Schlumberger pumping units installed on offshore platforms increased from 70 to 105. These units are used to pump cement behind the casing, or fluid into formations to stimulate oil or gas production.

Two more offshore service vessels were added to the existing fleet making a total of four now in operation. *Bigorange 5* operates offshore Brazil, and *Bigorange 6* in the Far East in Brunei. These ships are equipped to pump acid into producing wells at a high injection rate to loosen underground formations and stimulate oil or gas production.

Several products and services were introduced to improve production. The Water Pack Service is a new method for placing gravel in the well bore to eliminate the influx of formation sand in produced oil or gas. A Pad Acid Emulsion also was introduced; this retards action of the acid when deeper penetration into formations is required such as in limestone reservoirs.

Future Prospects -Oilfield Services

Overall, prospects for North America are very good; the economic incentives to produce more oil will assure continued acceleration of drilling in all areas of the United States. Canada is not likely to grow until the tax matters are resolved by the government. U.S. land rig activity is expected to operate at maximum level; offshore lease sales, projected for 1975 and beyond, should keep all available offshore rigs busy. Alaskan activity will be significantly higher to develop the production necessary for the pipeline.

In South America, Venezuela is in the process of nationalizing the oil industry; there may be political changes and economic problems in several other countries. However, oil development is of primary importance to each of these countries and is likely to expand further in 1975 and beyond.

Exceptional demand for Schlumberger oilfield services should continue in the Eastern Hemisphere. Activity will be strong in the Far East, the Middle East, the North Sea, and West Africa. New areas of exploration include offshore Portugal, Egypt and Greece.

Small caliber, positive displacement water meter.

Compagnie des Compteurs was acquired by Schlumberger five years ago. Since then a number of unrelated operations were sold or closed, others were strengthened by acquisition or expansion of product lines and markets. Also during the five year period, several major steps were taken to improve operating efficiency—reorganization, modernization, relocation and building programs:

—Consolidation of electricity meter manufacturing in France at Poitiers, in Italy at Frosisone;

—Regrouping of Gas Division operations at Colombes, west of Paris; remodeling of the old plant and construction of new buildings to provide facilities for all French production of industrial gas metering and control equipment, and to provide space for the Gas Division headquarters organization, transferred from Montrouge;

—Renovation of domestic gas meter plant at Reims, in eastern France to improve manufacturing efficiency and provide more capacity;

—Consolidation of panel meter and protective relay manufacturing at Montrouge.

As a result of these changes and other improvements total employment at Meters & Electronics—Europe decreased more than 20% from 1970 to the end of 1974. During this same period sales increased from $230 million to $428 million and net income doubled. Profitability, however, is still below the minimum acceptable return of 5% on sales.

In 1974 sales improved 26% ex-

pressed in local currency—translated to U.S. dollars this was only 11% because of the relative strength of the U.S. dollar compared to 1973. Every operating division contributed to the improvement in revenue.

Profit improved in 1974 even though losses in electronics operations increased substantially. The gain was attributable to improvement in four divisions: Gas, Industrial Control, International and Valves.

ENERGY DIVISION

Energy Division produces domestic and industrial electricity meters, network protection systems and remote load controls. Sales were up 13% mainly because of increases in Italy and Austria. Volume in France was lower in the fourth quarter particularly on domestic meters and ripple control relays.

During the year the Division completed development of a new series of measurement transformers and protective relays for high-voltage lines (200 and 400 KV). This equipment was designed primarily for the national electric utility company of France. It will increase safety and reliability of electric power distribution networks.

In 1975 construction of additional facilities will be completed at Poitiers where electricity metering operations for France are located.

LIQUID DIVISION

Liquid Division manufactures water meters and industrial meters for other liquids; also provides meter rental, reading and maintenance services for residential apartments. Revenue increased 24%; all product lines contributed except gasoline pumps.

Two new water meters were introduced in 1974. A small-caliber positive displacement meter improves performance and is easy to connect. Also, a low-cost monojet meter should boost wholesale business in France and open up new export markets.

Since September a new service has been offered to apartment dwellers which measures heat distributed to each apartment; this helps to determine heating costs for each tenant.

GAS DIVISION

Gas Division manufactures domestic and industrial gas meters and control equipment. Revenue advanced 60% over the previous year. Unit sales in France declined, but revenues in Italy doubled.

A two-year project to modernize the manufacturing facilities at Colombes is now finished; the old plant was renovated and a new one was built at a cost of $6 million. This is now the largest and most up-to-date manufacturing facility in Europe for the production of industrial gas meters and gas expansion equipment.

Also, $1 million was spent to renovate the domestic gas meter plant at Reims. By the end of 1975 modernization of the plants at Frankfurt and Milan will be completed.

VALVES DIVISION

Valves Division (Malbranque/Serseg) produces industrial valves, specialized valves for oil refineries, high pressure valves for electrical power plants and valves used in the construction industry. Export sales of petroleum valves account for a third of the business.

Revenues increased 40% in 1974. More than $10 million in orders were received from U.S. customers for petroleum valves. Because of the depressed construction industry in France, sales of household plumbing valves declined.

During the year, this division intro-

duced a new line of butterfly valves used on methane tankers. Malbranque/Serseg is one of the two companies licensed by the French Atomic Energy Commission to supply control valves for the atomic gaseous diffusion plant to be built in France.

MECHANICAL DIVISION

Mechanical Division fabricates castings, sheet metal parts, and various time mechanisms; half of the sales are intercompany. Revenues were up 25% mainly because of improved sales of nonferrous castings. Industrial clocks and parking stub distributors also contributed.

A new line of quartz clocks was marketed at the beginning of the year. These are precise (under one second per month deviation), high reliability master time clocks. Orders have been received from the French national railroad, one hotel chain and several hospitals.

Sales of castings made by the lost wax method increased 50% over the previous year; these precision castings are sold mainly to the aeronautic and telecommunication industries.

During the year, $3 million was invested in new equipment including more powerful modern presses to improve manufacturing efficiency.

INDUSTRIAL CONTROL DIVISION

Industrial Control Division produces manufacturing process control instruments and systems for application in a variety of industries such as food processing and textiles.

Revenues increased 25% over 1973 mainly due to sales of new instruments —pneumatic and electronic control systems, pressure regulating valves and pressure transducers. A third of the sales in 1974 were accounted for by products less than two years old.

INTERNATIONAL DIVISION

International Division manufactures and markets meters (electricity, gas and water); plants are located in Belgium, Holland, Spain, Switzerland, Argentina, Brazil and Chile; also acts as sales agent for other divisions in countries where it is established. Revenues increased 40% because of higher sales in Belgium and Spain.

A new single-phase electricity meter, conforming to Latin American standards, was put on the market in Brazil. Later in the year a similar instrument was introduced in Belgium and Holland; this one is designed to conform to the standards of Austria, Germany and Italy.

A new mini relay for industrial use, the RE6000, was added in Argentina where it will strengthen Schlumberger market leadership of industrial and protective relays.

SCHLUMBERGER INSTRUMENTS & SYSTEMS

SIS (Schlumberger Instruments & Systems) products include electronic measuring and test instruments, data systems, transducers and broadcasting audio equipment. Plants are located in France, England and Germany. Revenues of this group improved 16% over the previous year.

Substantial orders were received in 1974 from several new customers:
—Audio equipment for the Information Center of Kinshasa, Zaire; also for the Television Center of Kuwait.
—A contract for development of an airborne recorder for the Swedish Viggen aircraft.
—Density transducers and equipment

to measure oil flow for a pipeline in the Soviet Union.

In 1974 operating losses increased substantially at SIS. To reverse this trend, significant changes were made. In October, SIS was disbanded—the top management and separate sales organization were eliminated and the division was integrated with European Meters and Electronics operations.

Outlook

The backlog of Meters & Electronics —Europe at the end of 1974 was about $180 million—33% higher than a year ago. But orders were slower in the fourth quarter, notably for domestic meters. This trend is likely to continue until the economic climate improves.

For the immediate future there are some favorable factors: the order backlog which is heavy in petroleum valves, simulation systems, broadcasting equipment and transformers; export sales continue to increase; inherent cost improvement from new and modernized manufacturing facilities; reduced losses following the SIS reorganization. On the other hand, orders linked to the construction industry continue to lag. On balance, there should be modest improvement in 1975 earnings.

For the long term, the construction industry and utilities will provide a growing and stable replacement business; also, new markets relating to energy supply are developing such as construction of nuclear power plants which use equipment produced by the meter divisions. European Meters and Electronics is spending $17 million annually for research & engineering to improve and develop products for future markets especially in energy measurement and control.

Schlumberger U.S. Electronics sales were $156 million, an increase of 20% over 1973.

All operating units were profitable; earnings improved significantly at EMR-Telemetry, Weston Components, EMR-Photoelectric, but were still disappointing at Weston Instruments. Heath sales were at a record level, but net income was only slightly higher than last year due to the adverse impact of U.S. price controls in the early part of the year.

HEATH

Heath sales reached $90 million, an increase of 18% over the previous year:
—TV made the biggest gains as a result of higher sales to technical correspondence schools and introduction of a newly designed color TV kit, the GR 2000. Advanced concepts in this TV include silent electronic tuning selected by digital logic, display of time and channel number on the screen, and touch-controlled sound level.
—Orders continued to increase for Heath electronic test instruments, mainly low priced oscilloscopes, counters, function generators and multimeters—many of these are sold as assembled units, as well as in kit form.

Heathkit dual-trace oscilloscope.

In 1974 Heath engineers developed a number of new products:
—For radio amateurs—an entire line of equipment for single-sideband communications, featuring the SB 104 transceiver—a breakthrough in the utilization of solid state technology. Heath is a major, worldwide supplier of ham radio gear.
—For laboratory technicians and TV servicemen—15MHz and 10MHz oscilloscopes at relatively low prices for quality equipment.
—For the home—a complete home-protection system including a new safety alarm and intrusion detector system.

Heath sales improved 12% in Canada, and about 8% in Europe.

Schlumberger Products Corporation sells Heathkit products through retail stores in the U.S.; two new stores were opened in 1974 at Toledo, Ohio, and Norfolk, Virginia. This brings the total number of stores in the U.S. to 46.

WESTON COMPONENTS

Weston Components (Archbald) revenues in 1974 were up 39%; the business was spread about equally among three categories:
—Nuclear instrumentation to control and monitor various functions of nuclear reactors and power plants.
—"Build to print" equipment manufactured under contract for other companies; also wireline equipment for Schlumberger oilfield services.
—Components for industry: potentiometers used in electronic equipment; x-ray gauges used in rolling mills of the metal industry to control plate thickness.

Growth of Schlumberger wireline services resulted in substantial intercompany orders for wireline equipment built at Archbald.

Sales of potentiometers were up, both in the U.S. and Europe; in 1974 a new type was designed for automated production. Orders for x-ray gauges from the steel industry picked up in the final months of the year. The backlog of nuclear instrumentation and other subcontract work at year-end was $26 million compared to $28 million a year ago.

WESTON INSTRUMENTS

Weston Instruments (Newark) manufactures analog and digital panel meters, aircraft and aerospace instruments, industrial thermometers, tachometers and test intruments. Weston sells these products in the U.S. and in Europe through distributors and to original equipment manufacturers for use in their products.

Manufacturing facilities were expanded during the year in Puerto Rico, where Weston has assembled meters since 1953. A simplified design for analog panel meters was completed; production of this new Mustang panel meter began in the Puerto Rico plant late in the year.

In the fourth quarter Weston received a large order for special equipment to be used in the U.S. space shuttle project. In November, Weston Instruments was given an achievement award by the National Aeronautics and Space Administration (NASA) for outstanding performance on the Skylab project.

EMR

EMR-Telemetry (Sarasota) had a good year; sales were up 27% and profits were well ahead of the previous year.

EMR is a leader in data acquisition and reduction systems used for testing and monitoring. Initially these systems were designed for aerospace applications. Now EMR produces similar systems for other industries confronted with testing problems requiring high-speed monitoring of a large number of sensors. Significant orders were received for systems to test vehicles (cars, trucks), and diesel engines; also for systems to acquire, process and analyze performance data from large turbines and compressors which generate electrical power.

In 1974 several aerospace telemetry systems were shipped to Japan, India and Italy for use in their space programs.

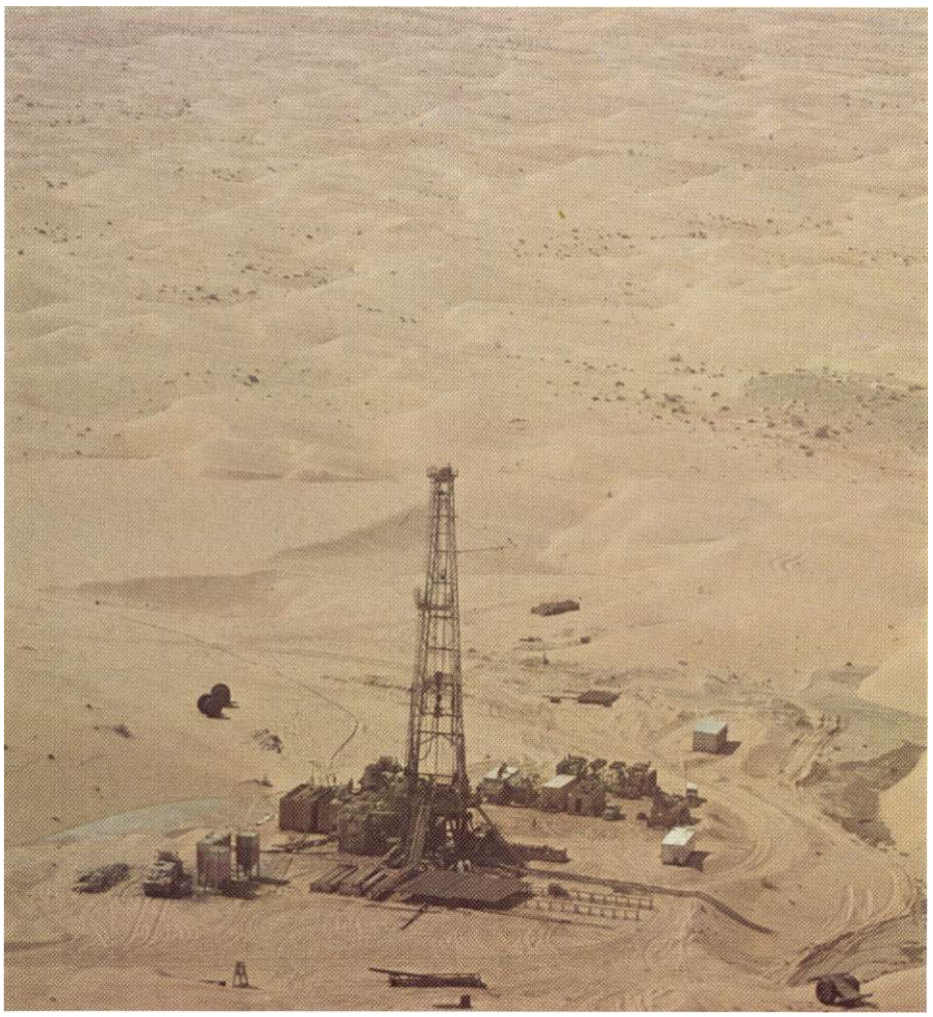
EMR-Photoelectric (Princeton) produces light sensing devices (photoelectric tubes) for oilfield service applications and space satellite programs. The division is engaged in further development of an Optical Data Digitizer (ODD), a computer activated digital camera. In contrast to conventional passive scanning systems, the ODD performs like the human eye. From the data observed, it selects and focuses only on the factors pertinent to the problem. The unique two-way interaction between computer and EMR optical sensor opens up numerous applications in both industrial supervision and inspection, and laboratory research.

Outlook

Weston and EMR operations started the year with record backlogs; current sales volume is good and prospects for the year are favorable. Business at Heath has softened; retail sales are about level with last year but mail orders are down. Improvement in Heath results for the full year will depend largely upon recovery of the U.S. economy in the last half.

◀*The drill bit, about to be lowered in the well.*

▼*A Schlumberger drilling location in the Middle East.*



Back in the summer of 1943, a secondhand rig driven by a steam engine was drilling an exploratory well in a French gas field. The rig belonged to two Frenchmen, Raymond Godet and Amédée Maratier, who had just started a drilling business, which they called Forex.

Ten years later Schlumberger purchased a share of the business, and by 1963 had a controlling interest in the company. In 1971, Schlumberger acquired full ownership of Forex and also of Neptune, an offshore drilling company. Since then Schlumberger drilling operations have been further expanded: today the company owns 48 land rigs and 9 offshore drilling units, representing a total investment of $175 million; replacement cost would be substantially greater. In 1974 alone, nearly $50 million was invested in new equipment; another $50 million will be spent to build additional equipment in 1975.

Since 1963, when Forex was first consolidated in Schlumberger accounts, revenues from drilling operations have grown from $26 million to over $120 million. About 60% of the business is from land drilling and 40% offshore; most of the activity is in the Eastern Hemisphere. Land drilling activity of the company is primarily in Nigeria, the Middle East, North Africa and Indonesia. Offshore, the company operates four semisubmersibles in the North Sea, and there are substantial revenues from the Far East and Brazil; also, in the summer of 1974 there was a special drilling program in Hudson Bay.

Many different rigs are needed to cope with a variety of drilling environments: swamp barges for shallow river deltas; jackups in seas up to 350 feet deep; drilling tenders for calm waters; semisubmersibles for deeper, rougher seas; rigs for operation on permanent offshore platforms; special rigs for the desert or the jungle; and common land rigs for easily accessible terrain.

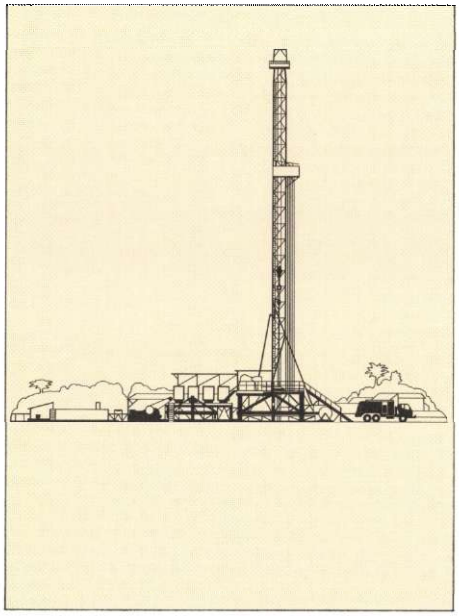
In 1974 Schlumberger completed construction of several large drilling rigs: for offshore—a semisubmersible (Pentagone 84), and a jackup (Trident I).

◀*Rigging up to drill a well on the Arabian Peninsula. Drill rigs for desert operations are assembled at the site. The unassembled components of the rig are transported across the desert on heavy-duty trucks.*

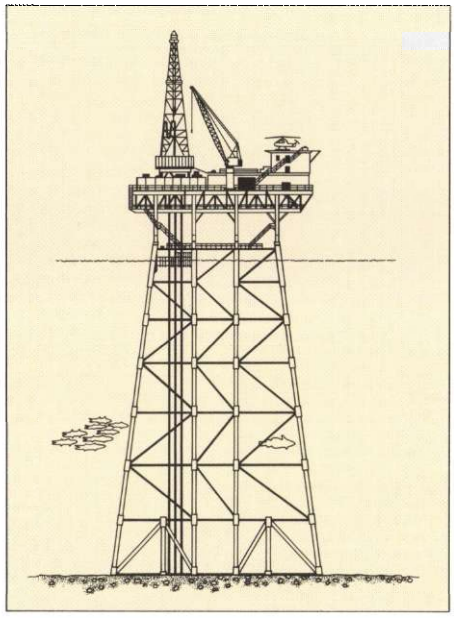
◀*A Forex Neptune rig in Anibawa, Nigeria, and the crew. A string of drill pipe is hanging from the derrick. Behind the men are four 475 HP engines that provide power for hoisting and drilling. The crew keeps this rig working around the clock. Most of them are Nigerian nationals including all of the drillers.*

▶*Belle Isle, one of two barges drilling in the swampy Niger river delta near the coast of Nigeria. This location is accessible only by boat or helicopter. Crews live in the large houseboat anchored near the swamp barge. A similar unit Lutèce is working only a few miles from this site.*

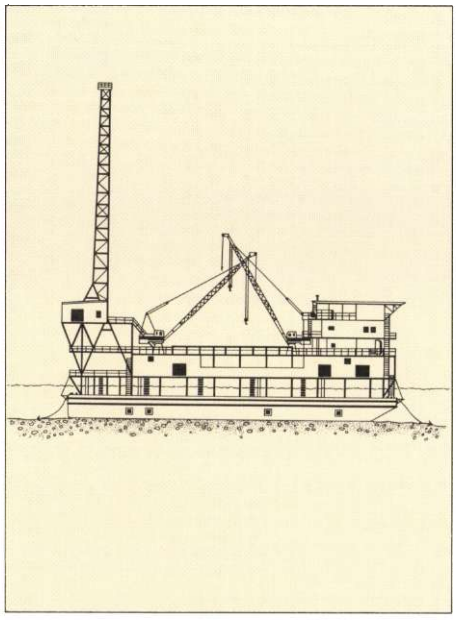
1. LAND DRILLING RIG

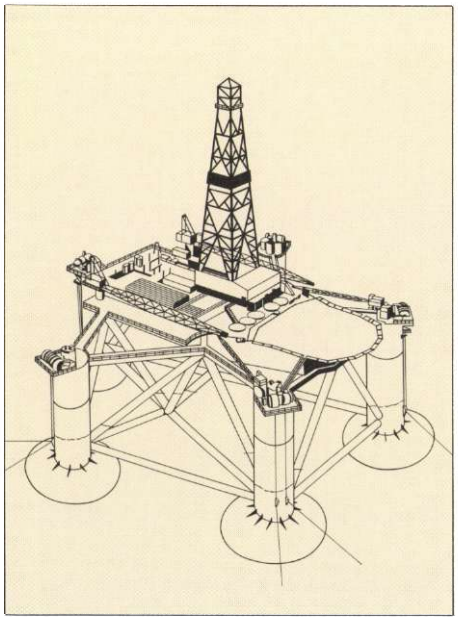


2. PLATFORM RIG

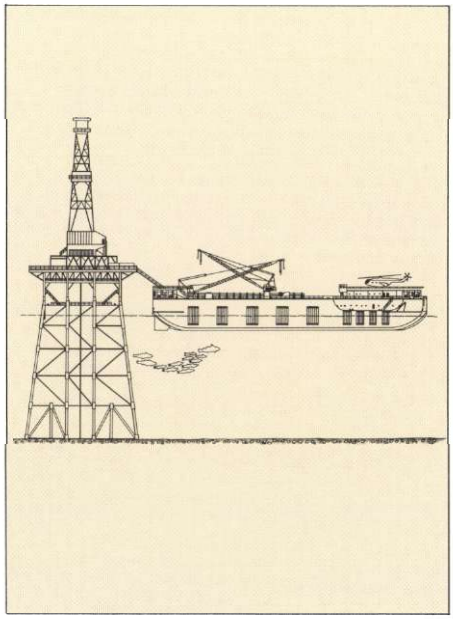


3. SWAMP BARGE

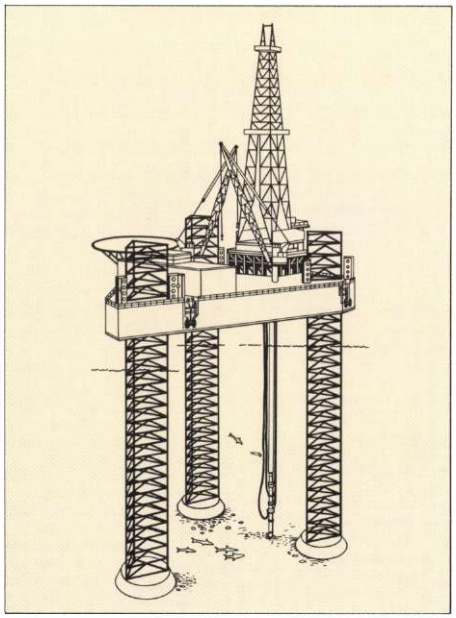




4. SEMISUBMERSIBLE PLATFORM



5. DRILLING TENDER



6. JACKUP

1. A LAND DRILLING RIG. *The company owns 48 land rigs of various sizes.*

2. A PLATFORM RIG *includes drilling equipment, living quarters for the crew, deck cranes and a helicopter landing pad. These rigs are transported by barge or ship in sections and are assembled on an offshore fixed platform owned by the customer. The company has two such rigs, one in the North Sea and one in the Mediterranean.*

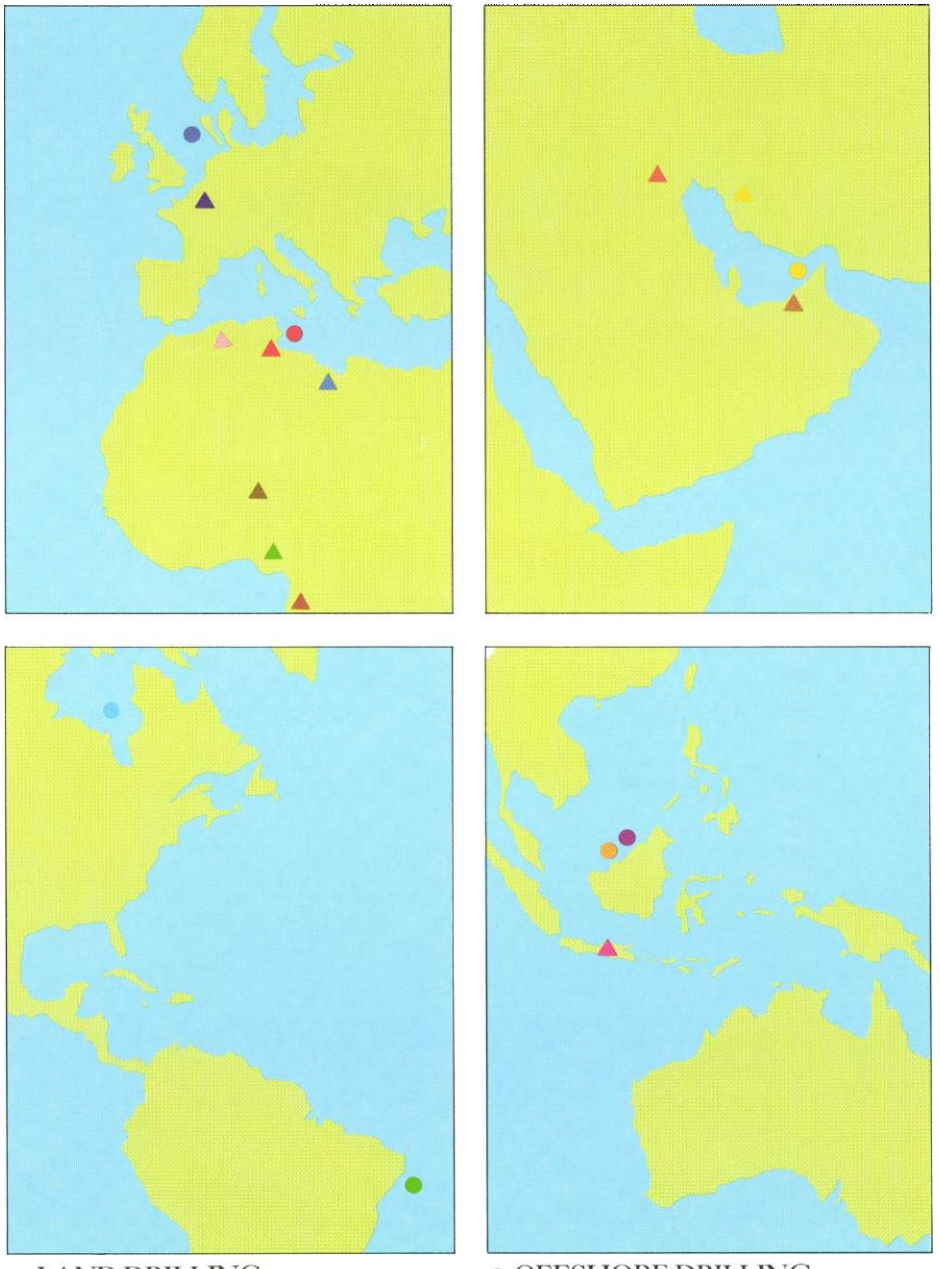
3. SWAMP BARGES *are used for operations in shallow waters. Drilling equipment is mounted on a superstructure attached to a shallow-draft barge. A solid drilling base is established by flooding, until the barge rests on the bottom. When drilling is complete the water is pumped out to refloat the unit.*

4. SEMISUBMERSIBLE PLATFORMS *are used for exploration and completion in rough seas and deep waters. Forex Neptune designed a semisubmersible with five columns, called a Pentagone, which has proved exceptionally stable in the North Sea. The drilling platform of these units sits on steel columns 30' in diameter supported by pontoons which provide buoyancy. At the drilling site the pontoons are partially flooded for stability; the floating semisubmerged unit is held on location by ten 30,000 pound anchors. The company operates four of these units in the North Sea.*

5. A DRILLING TENDER *is used in relatively calm waters; it is anchored on the lee of a fixed platform. The derrick, drawworks, rotary table and well-control equipment carried to the site by the tender are installed on the platform. The tender carries supplies, and machinery to operate the drilling equipment and provides living quarters for the crew. Two tenders are located in the Middle East, and one in the Far East; another is under construction.*

6 JACKUPS *may be used for ocean depths up to 350 feet. These floating, self-elevating platforms have legs that are raised when the unit is being towed. At the drilling site, the legs are lowered to the sea bottom, and the platform is jacked-up until it is raised above the wave level. Two such units are offshore Brazil, and another, launched in 1975, is working in the Far East.*

1974 Operating Locations



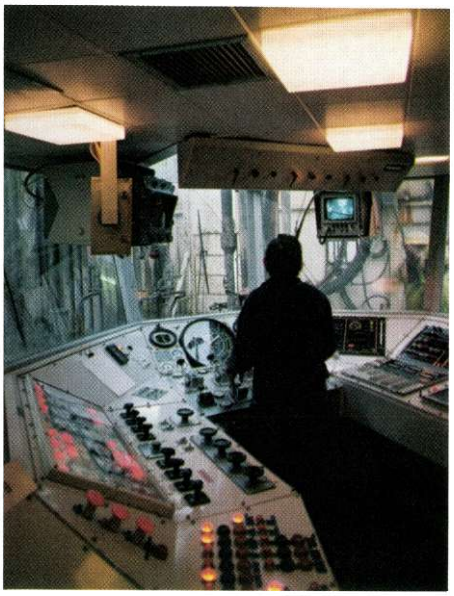
▲ LAND DRILLING

- ▲ *France*
- ▲ *Algeria*
- ▲ *Tunisia*
- ▲ *Libya*
- ▲ *Nigeria*
- ▲ *Gabon*
- ▲ *Niger*
- ▲ *Iran*
- ▲ *Iraq*
- ▲ *Abu Dhabi*
- ▲ *Indonesia*

● OFFSHORE DRILLING

- ● *North Sea*
- ● *Tunisia*
- ● *Hudson Bay*
- ● *Brazil*
- ● *Dubai*
- ● *Malaysia*
- ● *Brunei*

◀*Pentagone 84 which was launched last November has since been drilling in the North Sea. It is seen here operating 90 miles off the Shetland Islands.*



▶*Driller's shelter on board Pentagone 84. From this station he can control all operations on the drilling floor. Also the driller can observe the wellhead on the ocean bottom by means of a closed-circuit TV screen (top right).*

▲*When this picture was taken on Pentagone 84, waves were 18 feet. The vertical pipe under the deck on the left is the "riser," the connection to the submerged wellhead on the sea bottom.*

▲*Pentagone 82 left the North Sea last June to drill in Hudson Bay. It took three weeks to cross the Atlantic.*

Despite delays and bad weather the drilling program was completed: an incomplete well, drilled in 1969, was cleaned and plugged; two new wildcat wells were drilled. In late October, just before the winter freeze, Pentagone 82 was towed back through Hudson Strait; at Cape Chidley in northern Canada an ocean going tug took over and towed the rig back across the Atlantic Ocean to the North Sea where it resumed drilling in December.

Consolidated Balance Sheet-Assets

	December 31, 1974	1973
	(Stated in thousands)	
CURRENT ASSETS:		
Cash	$ 13,844	$ 10,583
Short-term investments, at cost (approximately market)	170,730	134,614
Receivables less allowance for doubtful accounts (1974-$7,686; 1973-$6,070)	356,454	271,897
Inventories	237,214	190,686
Other current assets	23,866	19,329
	802,108	627,109
INVESTMENTS IN AFFILIATED COMPANIES	48,010	38,080
LONG-TERM INVESTMENTS AND RECEIVABLES	24,912	24,246
FIXED ASSETS less accumulated depreciation	423,099	333,620
INTANGIBLE ASSETS	23,634	28,842
OTHER ASSETS	5,825	5,387
	$1,327,588	$1,057,284

SEE NOTES TO FINANCIAL STATEMENTS

Consolidated Balance Sheet-Liabilities & Stockholders' Equity

	December 31, 1974	1973
	(Stated in thousands)	
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 219,542	$ 157,116
Estimated liability for taxes on income	123,221	94,235
Bank loans	127,763	72,862
Dividend payable	8,275	5,506
Long-term debt due within one year	14,207	7,029
	493,008	336,748
LONG-TERM DEBT	98,933	102,610
OTHER LIABILITIES AND RESERVES	23,237	26,870
MINORITY INTEREST IN SUBSIDIARIES	14,166	15,129
	629,344	481,357
STOCKHOLDERS' EQUITY:		
Common stock	141,951	139,186
Income retained for use in the business	556,293	436,741
	698,244	575,927
	$1,327,588	$1,057,284

SEE NOTES TO FINANCIAL STATEMENTS

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

Consolidated Statement of Income

	Year ended December 31, 1974	1973
	(Stated in thousands)	
REVENUES:		
Sales and services	$1,143,440	$922,292
Interest and other income	28,595	23,537
	1,172,035	945,829
EXPENSES:		
Cost of goods sold and services	701,013	581,740
Research and engineering	43,495	41,314
Marketing	74,078	65,028
General	103,314	94,259
Interest	21,456	15,935
Taxes on income	81,049	55,191
	1,024,405	853,467
NET INCOME	$ 147,630	$ 92,362
Net income per share	$ 4.02	$ 2.53
Average number of shares outstanding (thousands)	36,692	36,470

SEE NOTES TO FINANCIAL STATEMENTS

Consolidated Statement of Stockholders' Equity

	Common stock		Income retained for use in the business
	Shares outstanding	Amount	
		(Stated in thousands)	
Balance, January 1, 1973	36,411,474	$130,619	$370,625
Purchase of treasury shares	(67,400)	(249)	(6,174)
Exercise of stock options	296,630	8,816	—
Net income	—	—	92,362
Dividends declared ($.55 per share)	—	—	(20,072)
Balance, December 31, 1973	36,640,704	139,186	436,741
Exercise of stock options	94,759	2,765	—
Net income	—	—	147,630
Dividends declared ($.765 per share)	—	—	(28,078)
Balance, December 31, 1974	36,735,463	$141,951	$556,293

SEE NOTES TO FINANCIAL STATEMENTS

Consolidated Statement of Changes in Financial Position

	Year ended December 31, 1974	1973
	(Stated in thousands)	
SOURCE OF WORKING CAPITAL:		
Net income	$147,630	$ 92,362
Add (deduct) amounts not affecting working capital:		
Depreciation	69,410	58,267
Amortization of intangibles	1,278	889
Equity in net income of 20%-50% owned companies, less dividends received (1974-$4,320; 1973-$2,500)	(8,162)	(3,920)
Other—net	4,760	(3,758)
Working capital provided from operations	214,916	143,840
Working capital from sale of certain operations	—	5,132
Decrease in investments and long-term receivables	—	1,858
Increase in long-term debt	8,117	56,145
Retirement of fixed assets	8,962	7,977
Proceeds from exercise of stock options	2,765	8,816
Total working capital provided	234,760	223,768
APPLICATION OF WORKING CAPITAL:		
Interests acquired in consolidated companies, less net working capital acquired	—	2,453
Additions to fixed assets	162,565	114,558
Dividends declared	28,078	20,072
Increase in investments and long-term receivables	5,207	—
Reduction of long-term debt	13,924	36,281
Purchase of treasury shares	—	6,423
Other—net	6,247	(3,848)
Total working capital applied	216,021	175,939
NET INCREASE IN WORKING CAPITAL	$ 18,739	$ 47,829
INCREASE IN WORKING CAPITAL CONSISTS OF:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 39,377	$ 30,956
Receivables	84,557	37,673
Inventories	46,528	23,601
Other current assets	4,537	2,259
(Increase) decrease in current liabilities:		
Accounts and dividend payable	(65,195)	(23,621)
Estimated liability for taxes on income	(28,986)	(28,269)
Bank loans and debt due within one year	(62,079)	5,230
NET INCREASE IN WORKING CAPITAL	$ 18,739	$ 47,829

SEE NOTES TO FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements

SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Schlumberger Limited have been prepared in accordance with accounting principles generally accepted in the United States of America. Within those principles, the company's more important accounting policies are set forth below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all significant majority-owned subsidiaries. Significant 20%-50% owned companies are accounted for under the equity method and are carried in Investments in Affiliated Companies at Schlumberger's share of net assets; a prorata share of after-tax earnings of these companies is included in "other income". Other investments in affiliated companies are carried at cost (1974-$10.0 million; 1973-$9.9 million) less allowances for possible losses which, based in part on unaudited figures, approximates Schlumberger's share of underlying equity.

TRANSLATION OF NON-U.S. CURRENCIES

Balance sheet items recorded in currencies other than U.S. dollars are translated at current exchange rates except for oilfield inventories, fixed and intangible assets and long-term investments which are translated at historical rates. Revenues and expenses are translated at average current rates of exchange except that depreciation of fixed assets and amortization of intangible assets are translated at historical rates. Translation adjustments and gains or losses on forward exchange contracts are taken up in income currently; these had no material effect on income in 1974 or 1973.

INVENTORIES

Inventories are stated principally at the lower of average or standard cost or market.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less depreciation, which is provided for by charges to income over the estimated useful lives of the assets by the straight-line method. Fixed assets include the cost of company manufactured oilfield technical equipment for use in wireline operations. Expenditures for renewals, replacements and betterments are capitalized. Upon sale or other disposition, the applicable amounts of asset cost and accumulated depreciation are removed from the accounts and the net amount, less proceeds from disposal, is charged or credited to income.

Maintenance and repairs are charged to operating expenses as incurred.

INTANGIBLE ASSETS

Intangible assets represent largely the excess of purchase price over fair value of net tangible assets of businesses acquired. Amounts ($14.4 million) relating to acquisitions which took place principally in 1970 will not be amortized unless a diminution of value occurs. The remainder is being amortized over periods of up to 40 years.

DEFERRED BENEFIT PLANS

The company and its subsidiaries have several voluntary pension and other deferred benefit plans covering substantially all officers and employees, including those in countries other than the U.S.A. These plans are fully funded with trustees in respect of past and current services. Charges to expense are based upon costs computed by independent actuaries.

In France, the principal pensions are provided for by union agreements negotiated by all employers within an industry on a nationwide basis. Rights to future retirement benefits vest currently, but monetary amounts are not assigned to these rights until year of payment. Benefits when paid are not identified with particular employers, but are made from funds obtained through concurrent compulsory contributions from all employers within each industry, based on employee salaries. These plans are accounted for on the defined contribution basis and each year's contributions are charged currently to expense.

TAXES ON INCOME

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

Taxable income may differ from pretax income for financial accounting purposes. To the extent that differences are due to revenue and expense items reported in one period for tax purposes and in another period for financial accounting purposes, appropriate provision for deferred income taxes is made. These provisions were not significant in 1974 or 1973.

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

Approximately $493 million of consolidated income retained for use in the business at December 31, 1974 represents undistributed earnings of subsidiaries and Schlumberger's prorata share of 20%-50% owned companies. Since it is the policy of the company to reinvest substantially all such earnings in the business, no provision has been made for income taxes which would be payable at rates of 3% to 10% on most of these earnings if they were to be remitted to the parent company.

COMMON STOCK

Common stock is carried at the stated

value or proceeds of issued shares, increased by proceeds from sales of treasury shares and reduced prorata for shares reacquired. Any excess of cost of reacquired shares over the prorata amount is treated as a reduction of income retained for use in the business.

EARNINGS PER SHARE

Earnings per share are computed by dividing net income by the average number of common shares outstanding during the year.

RESEARCH AND ENGINEERING

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

GEOGRAPHICAL DISTRIBUTION OF REVENUES AND NET ASSETS

The geographical distribution of revenues in 1974 and 1973 and net assets at December 31, 1974 was approximately as follows:

	Revenues from Sales and Services		Net Assets Dec. 31,
	1974	1973	1974
U.S.A. & Canada	27%	27%	31%
France	28	33	16
Other	45	40	53
	100%	100%	100%

FIXED ASSETS

A summary of fixed assets follows:

	December 31,	
	1974	1973
	(Stated in millions)	
Land	$ 21.9	$ 21.4
Buildings and improvements	124.5	116.0
Machinery and equipment	630.4	498.8
Total cost	776.8	636.2
Less—accumulated depreciation	353.7	302.6
	$423.1	$333.6

LONG-TERM DEBT

At December 31, 1974, consolidated long-term debt, excluding amounts maturing within one year, consisted of the following:

	(Stated in millions)
Payable in French francs:	
Debentures, 5%-6.5% due 1976-1984	$11.7
Loans from Crédit National, 6%-7.25% due 1976-1984	3.5
Loans from French banks (Banking Pool), 8.25% plus 0.5% commitment fee, due 1978-1981	43.5
Loans from Société Générale, 8% due 1976-1977	16.3
Other loans	9.1
	84.1
Payable in U.S. dollars	10.6
Payable in other currencies	4.2
	$98.9

Long-term debt will be due $13.9 million in 1976, $19.1 million in 1977, $16.7 million in 1978, $16.1 million in 1979 and $33.1 million thereafter.

COMMON STOCK

Transactions under stock option plans during 1974 and 1973 were as follows:

	Number of Shares Under Option	
	1974	1973
January 1,	334,296	620,555
Options granted for five years	168,350	34,500
Options exercised	(94,759)	(296,630)
Options lapsed or terminated	(9,526)	(24,129)
December 31,	398,361	334,296

The 398,361 shares under option at December 31, 1974 were held by 355 officers and key employees at option prices ranging from $21.27 to $131.19; options for 149,459 shares were exercisable at that date. A balance of 430,640 shares of common stock remained available for future option under the plans. During 1974 and 1973, 87,209 and 183,230 previously unissued shares, respectively, were sold on exercise of stock options.

Common stock outstanding at December 31, 1974 and 1973 excludes 215,910 and 223,460 reacquired shares held in treasury and 877,884 shares issued to a subsidiary in 1971.

LEASES AND LEASE COMMITMENTS

Total rental expense was $15.1 million in 1974 and $12.7 million in 1973.

Future minimum rental commitments under noncancelable leases for years ending December 31 are: 1975-$4.7 million; 1976-$3.8 million; 1977-$2.4 million; 1978-$2.0 million and 1979-$1.5 million. For the ensuing three five-year periods, these commitments decrease from $5.6 million to $1.1 million. The minimum rentals over the remaining terms of the leases aggregate $15.0 million. Noncancelable rental commitments are principally for real estate and office space. Noncapitalized financing lease commitments are not material.

PROPOSED TAX ASSESSMENTS

The U.S. Internal Revenue Service has completed its examination of Schlumberger's U.S. income tax returns for 1967-1969 and has proposed an assessment of additional tax. The principal parts of the proposed assessment (excluding interest) arise from nonrecurring transfers of assets from a subsidiary to the parent company ($24 million) and from continuing wireline operations on the U.S. outer continental shelf ($6 million). The company maintains that the tax effects of these transactions were properly determined and reported. While it is expected that litigation will be required to resolve these issues, independent counsel is of the opinion that the company's position will prevail. In contesting this proposed assessment, a significant part of the tax may be paid, followed by suit for refund. Any payment made would be recorded as recoverable and would not affect net income.

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

of this income subsequent to 1969.

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

SUPPLEMENTARY INFORMATION

Short-term investments are collectible mainly in U.S. dollars and included interest bearing time deposits of $158 million and $120 million at December 31, 1974 and 1973, respectively.

Interest income was $14.7 million in 1974 and $10.4 million in 1973.

Inventories at December 31, 1974 comprised $43.8 million of operating materials and supplies for oilfield services and $193.4 million applicable to other operations—principally electronic equipment and gas, water and electricity meters.

In 1974, expense of the deferred benefit plans was $17.2 million and of the compulsory contributions for French retirement benefits was $8.5 million; 1973 amounts for such plans were $10.9 million and $7.9 million. Adoption of new plans for certain subsidiaries and amendment to benefit provisions of several existing plans had the effect of increasing pension expense by approximately $4.3 million for 1974. The U.S. Pension Reform Act of 1974 will make necessary minor amendments to some U.S. plans, the effect of which will not be material in relationship to income or financial position.

Operating loss carryforwards available to certain non-U.S. subsidiaries as deductions from their future income, if earned, amounted to $24.6 million at December 31, 1974. Of this amount, $3.7 million expires in 1975, $4.6 million in 1976, $3.5 million in 1977 and $2.5 million in 1978. Substantially all of the remainder can be carried forward indefinitely. Additionally, there are unrecorded contingent future income tax deductions originating in Compteurs as of time of acquisition.

Report of Independent Accountants

PRICE WATERHOUSE & CO.

Sixty Broad Street, New York 10004
February 13, 1975

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF SCHLUMBERGER LIMITED:

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income, stockholders' equity and changes in financial position present fairly the financial position of Schlumberger Limited and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Operating Units

Oilfield Services

Major centers are in the U.S., France, Singapore, Lebanon, Venezuela, Nigeria, and Canada.

WIRELINE SERVICES

Measurement of physical properties of underground formations which helps to locate and define oil and gas reservoirs and to assist in completion, development and production phases of oil wells. Operations are conducted in 72 countries.

Vector

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

DRILLING AND PRODUCTION SERVICES

Forex Neptune

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

Flopetrol

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

Johnston

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

Dowell-Schlumberger
(50% owned)

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

Meters and Electronics -Europe

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

Energy Division

Electricity meters, equipment for electrical power systems.

Liquid Division

Water meters and industrial meters for other liquids.

Gas Division

Gas meters and gas control equipment.

Valves (Malbranque-Serseg)

Industrial valves, specialized valves for the oil industry.

Mechanical Division

Castings, sheet metal parts, timing mechanisms.

Industrial Control Division

Regulating equipment, control systems.

International Division

Meters outside France.

Electronics

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

Electronics–U.S.A.

Heath

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

Weston Components

Nuclear instruments, x-ray gauges, potentiometers; electronic and mechanical subcontracting.

Weston Instruments

Panel and portable meters, aircraft instruments, laboratory instruments.

EMR

Telemetry data systems and instruments, photomultiplier tubes.

Directors and Officers

Directors

JACQUES DE FOUCHIER
Chairman and President,
Compagnie Financière
de Paris et des Pays-Bas, Paris

WILLIAM J. GILLINGHAM
Senior Advisor to the President,
Schlumberger

CHARLES GOODWIN, JR.
Partner, Shearman & Sterling,
attorneys, New York City

ELISHA GRAY II °
Chairman, Finance Committee
and Director, Whirlpool Corp.,
Benton Harbor, Michigan

JOSEPH C. HUTCHESON, III °
Partner, Baker & Botts,
attorneys, Houston, Texas

PAUL A. LEPERCQ * □
President, Lepercq,
de Neuflize & Co.
Members of the New York
Stock Exchange, New York City

GEORGE DE MENIL
Assistant Professor Economics,
Princeton University,
Princeton, New Jersey

FRANÇOISE SCHLUMBERGER PRIMAT
Director, Schlumberger Museum,
France

HERBERT G. REID
Vice President-Finance and Treasurer,
Schlumberger

JOHN E. RHODES □
Chairman, Finance Committee,
Schlumberger

JEAN RIBOUD * □
Chairman of the Board and President,
Schlumberger

BENNO C. SCHMIDT °
Managing Partner,
J.H. Whitney & Co.,
private investment firm,
New York City

JEROME SEYDOUX * □
Executive Vice President,
Schlumberger

AME VENNEMA * □
Chairman, Executive Committee,
Schlumberger

EDWIN N. WEST
Secretary and General Counsel,
Schlumberger

JEROME B. WIESNER
President,
Massachusetts Institute
of Technology,
Cambridge, Massachusetts

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

Officers

JEAN RIBOUD
President and
Chief Executive Officer

AME VENNEMA
Chairman, Executive Committee

WILLIAM J. GILLINGHAM
Senior Advisor to the President

JOHN E. RHODES
Chairman, Finance Committee

CHARLES B. EVANS
Executive Vice President

ROLAND GENIN
Executive Vice President

JEROME SEYDOUX
Executive Vice President

EDWIN N. WEST
Secretary and General Counsel

HERBERT G. REID
Vice President—Finance
and Treasurer

JEAN BABAUD
Vice President

CARL W. BUCHHOLZ
Vice President

LOUIS E. MAGNE
Vice President

NICK A. SCHUSTER
Vice President

MICHEL VAILLAUD
Vice President

JAMES H. POYNER
Controller

Consolidated Summary of Operations

	Year ended December 31,				
	1974	1973	1972	1971	1970(A)
	(Stated in millions)				
Revenues from sales and services	$1,143.4	$922.3	$792.6	$695.9	$578.5
Cost of goods sold and services	701.0	581.7	517.0	461.7	376.9
Other operating expenses	199.9	185.7	159.9	146.1	124.6
	900.9	767.4	676.9	607.8	501.5
Operating income	242.5	154.9	115.7	88.1	77.0
Other income (expense):					
Interest expense	(21.5)	(15.9)	(13.6)	(14.5)	(11.8)
Interest income and other—net	7.7	8.6	11.6	12.7	12.0
	(13.8)	(7.3)	(2.0)	(1.8)	.2
Income before taxes on income	228.7	147.6	113.7	86.3	77.2
Taxes on income	81.1	55.2	43.5	30.1	27.8
Net income	$ 147.6	$ 92.4	$ 70.2	$ 56.2(B)	$ 49.4
Net income per share and equivalent share (C) (D)	$4.02	$2.53	$1.94	$1.58(B)	$1.41
Average number of shares and equivalent shares outstanding (thousands) (C) (D)	36,692	36,470	36,599	37,043	36,384
Dividends declared per share (D)	$0.765	$0.55	$0.493	$0.467	$0.467

(A) Amounts for 1970 include the results of Compagnie des Compteurs and its subsidiaries and of Neptune as from April 1, 1970, the effective date of acquisition of these companies.

(B) Net income for 1971 is before an extraordinary net credit of $1.3 million, equivalent to $.04 per share.

(C) Net income per share for 1970, 1971 and 1972 was computed by dividing net income (plus interest on the convertible debentures during the period they were outstanding—to May 1972) by the average number of common shares and common equivalent shares outstanding during the year. In computing the average shares, the number of shares outstanding during the period April 1970 to May 1972 was increased by those issuable on conversion of debentures and assumed exercise of stock options. Net income per share for 1973 and 1974 was computed by dividing net income by the average number of shares outstanding.

(D) Net income and cash dividends declared per share have been adjusted retroactively for the three-for-one stock split in September 1972.

STOCK TRANSFER AGENTS
First National City Bank
New York City

Bank of the Southwest
Houston, Texas

REGISTRARS
Morgan Guaranty Trust Company
of New York

First City National Bank
Houston, Texas

SCHLUMBERGER STOCK IS LISTED ON THE FOLLOWING EXCHANGES:
New York (trading symbol: SLB)
Paris
London
Amsterdam
Geneva

Schlumberger Limited, 277 Park Avenue, New York, N.Y. 10017/42, Rue Saint-Dominique, Paris 7