

Schlumberger Fourth-Quarter and Full-Year 2008 Executive Remarks

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Malcolm Theobald—Schlumberger Limited VP Investor Relations

Welcome to today's fourth-quarter and full-year 2008 results conference call for Schlumberger Limited.

Before we begin, I'd like to review the logistics and format of today's call. Some of the information in today's call may include forward-looking statements as well as non-GAAP financial measures. A detailed disclaimer and other important information are included in the FAQ document which is available on our website, or upon request.

And now for the call participants and format. Sitting with me for today's call are Andrew Gould, Chairman and Chief Executive Officer, and Simon Ayat, Chief Financial Officer. Prior to Andrew's overview of the results and his comments on the outlook, Simon will first review the financial results. After the opening comments, we will open the call for questions.

And now, I'll turn the call over to Simon.

Simon Ayat—Schlumberger Limited Chief Financial Officer

Thank you, Malcolm. Ladies and gentlemen, thank you for participating in this conference call.

Schlumberger fourth-quarter income from continuing operations, excluding charges and credits, was \$1.03 per share, down \$0.22 sequentially and down \$0.08 compared to the same quarter of last year. As announced, we are taking actions to reduce our global workforce as a result of the recent decline in activity in the oil field services sector. We, therefore, recorded an exceptional charge of \$0.08 per share during the quarter primarily to reflect these actions and create a provision relating to a client with liquidity issues. Depending on how the market situation evolves, further actions may be necessary.

Turning to the business Segments, Oilfield Services fourth-quarter revenue fell by 2% sequentially, while WesternGeco revenue dropped 33% sequentially. Oilfield Services generated \$1.6 billion in pretax operating income, down \$100 million sequentially with margins slipping by 117 basis points to 25.6%.

By Area, Oilfield Services pretax operating margin highlights were as follows. My comments are on a sequential basis:

North America pretax margin improved by 115 basis points to 22.3% with a strong offshore recovery in the Gulf of Mexico after the hurricane-impaired third quarter and strong activity in US land West and in Alaska. These increases were partially offset by the impact of pricing pressure in the US land Central and US land North GeoMarkets*.

Latin America pretax margin declined 211 basis points to 18% with lower activity levels in the Venezuela/Trinidad & Tobago GeoMarket and unfavorable activity mix in the Peru/Colombia/Ecuador and Mexico/Central America GeoMarkets. In Europe/CIS/Africa, pretax margin reduced 295 basis points to 26.1% as Russia experienced a seasonal decline in activity offshore in Sakhalin combined with significant reductions in activity in other areas due to lower customer spending. Less favorable revenue mix in the North Sea and Nigeria and Gulf of Kenya GeoMarkets also reduce Area margin. Finally, Middle East & Asia pretax margin declined 199 basis points to 33.5% on lower overall activity and less favorable technology mix in the Arabian and India GeoMarkets.

WesternGeco pretax income of \$88 million reflected a decline in pretax margins of 25.1 percentage points to 14.7%. Marine decreased from the record third-quarter results through lower utilization and a high number of transits, while the lower level of Multiclient sales depressed margins significantly.

Now turning to Schlumberger as a whole, the effective tax rate (ETR) before the impact of the exceptional charges was 21.5%, which was in line with last quarter; the ETR is expected to be in the low 20s for 2009. Net debt was \$1.1 billion at the end of the quarter representing a sequential improvement of \$600 million. Further, we ended the quarter with approximately \$4.2 billion of cash and investments on hand. In addition, \$1.8 billion of committed debt facilities and commercial bank, with commercial banks remain unused and were available at the end of December. This compares to short-term debt of only \$1.6 billion reflecting the continued strength of our balance sheet and leaving us with more than enough liquidity to meet all corporate and operational requirements.

Significant liquidity events during the quarter included \$154 million off the stock buyback program, \$234 million of pension funding, and \$1.25 billion of capex, including \$83 million multi-client surveys capitalized. During the quarter we bought back 2.7 million shares for \$154 million at an average price of \$57.05. Given the current credit and economic environment we anticipate that the total dollar amount of stock repurchases in 2009 will be significantly less than the \$1.8 billion spent during 2008. This anticipated reduction will serve to increase Schlumberger's financial flexibility during these uncertain times.

Our stock buyback activity during 2009 will continue to be targeted to offset any dilution caused by our stock based compensation programs. Oilfield Services capex is expected to approach \$2.2 billion in 2009, while WesternGeco capex is expected to reach \$800 million in 2009. This includes \$385 million relating to the construction of seismic vessels.

And now I'll turn the conference over to Andrew.

Andrew Gould—Schlumberger Limited Chairman and Chief Executive Officer

Thank you, Simon. Good morning, everybody.

Oil field Services full-year 2008 revenue of \$24.28 billion increased 20% versus 2007 driven by Area growth of 28% in Latin America, 24% in Europe/CIS/Africa, 18% in Middle East Asia, and 11% in

North America. All Technologies experienced double-digit growth, most notably in Well Services, Drilling Measurements and Wireline. Sequentially, however, Oilfield Services revenue declined in the fourth quarter, largely due to the weakening of many local currencies against the US dollar as well as to lower activity in Russia, and with exception of North America generally weaker activity around the globe. This general weakness was partly due to seasonal weather effects and partly to initial client curtailment of spending. As a consequence, with the exception of North America, pretax operating margins declined.

Looking at the Areas in more detail, sequential performance in North America was lead by the US Gulf of Mexico GeoMarket as activity recovered from the slowdown of the hurricane season in the third quarter and as higher ultra deepwater rig count lead to strong demand for Wireline Well Testing and Well Services technologies.

On land, revenue in the US land West GeoMarket increased on demand for Well Services and Drilling and Measurement Services and artificial lift products, while the Alaska GeoMarkets saw a seasonal build up in activity that resulted in robust demand for Well Services and Drilling and Measurement Technologies. Also on the positive side, Schlumberger Information Solutions experienced growth from seasonally strong year-end software and hardware sales. These increases however, were partially offset by the US land Central and Northern GeoMarkets where the reducing rig count that accelerated at the quarter end resulted in lower revenue. In Canada, revenue was lower primarily due to the weakening Canadian dollar.

Sequential revenue in Latin America fell with activity for Wireline and Well Services Technologies and Completions products in the Venezuela/Trinidad & Tobago GeoMarket decreased, and as the Mexico/Central America GeoMarket suffered lower activity and Integrated Project Management operations. These decreases however were partially offset by strength in the Brazil GeoMarket from higher offshore exploration-related demand for Wireline, Well Testing and Drilling & Measurements services. And in the Peru/Colombia/Ecuador GeoMarket from strong demand for Artificial Lift and Information Solutions products. Overall Area revenue was reduced by an estimated 4% due to the weakening of local currencies against the US dollar.

In Europe/CIS/Africa, sequential revenue declined by 5% due to the weakening of local currencies against the US dollar particularly in the North Sea, Continental Europe and Russia. Russia also saw significant reductions in activity from lower customer spending, in addition to the seasonal slowdown in Sakhalin. Activity, however, increased in the Libya GeoMarket with strong demand for Artificial Lift products and for Drilling& Measurements, Well Testing and Wireline services. The Continental Europe GeoMarket also grew with higher demand for Wireline and Drilling & Measurements Technologies.

In the Middle East & Asia Area, revenue decreased as a result of seasonal weather-related effects in the Australia/Papua New Guinea/New Zealand and in the China/Japan/Korea GeoMarkets. Lower activity in Qatar as projects were completed, a less favorable activity mix in Brunei/Malaysia/Philippines, and reduced customer spending in China/Japan/Korea and the Arabian GeoMarkets all affected revenue. While these declines primarily affected Wireline, Drilling & Measurements and Well Services activity, they were partially offset by growth in the Gulf GeoMarket for Artificial Lift products, Well Services and Drilling & Measurements Technologies.

At WesternGeco, the sequential 33% decline in quarterly revenue was largely due to increases in Marine, excuse me, decreases in Marine which was affected by vessel transit, dry docks and project start ups. Multiclient revenue also decreased significantly as customers reduced discretionary spending. Margins suffered in consequence. At the end of the year, however, WesternGeco benefited from an all-time record backlog of \$1.8 billion, under pinned by a number of long-term contracts.

The sharp drop in oil and gas prices due to lower demand, higher inventories and the belief that demand will erode further in 2009 as a result of reduced economic activity is leading to rapid and substantial reductions in exploration and production expenditure. At current prices, most of the new categories of hydrocarbon resources are not economic to develop. It would also take time for inflation to be removed from the system and to bring finding and development costs more in line with lower oil and gas prices. We therefore expect 2009 activity to weaken across-the-board, with the most significant declines occurring in North American natural gas drilling, Russian oil production enhancement, and in material offshore basins.

Exploration offshore will be somewhat curtailed, but commitments already planned are likely to be honored. Seismic expenditures, particularly for multi-client data are likely to decrease from last year, and pricing erosion will compound these effects on revenue. In this market we are taking the necessary action to adjust our operating cost base while preserving our long-term commitment to technology development, key skill sets and service and product quality.

The key indicator of future recovery in oilfield services activity will be a stabilization and recovery in the demand for oil. The recent years of increased exploration and production spending have not been sufficient to substantially improve the supply situation. The age of the production base, accelerating decline rates, the smaller size of recently developed fields, will mean that any prolonged reduction in investment will sow the seeds of a strong rebound. We have no doubt that Schlumberger will emerge from the current downturn a stronger Company, better positioned to participate in the subsequent upturn.

And I will now hand the call back to Malcolm.

Malcolm Theobald—Schlumberger Limited VP Investor Relations

On behalf of the Schlumberger Management team, I would like to thank you for participating in today's call. Shelley will now provide the closing comments.

Operator

Thank you, ladies and gentlemen. This conference will be made available for replay after 10:30 a.m. today, and will run through February 23rd at midnight. To access the AT&T replay system at any time please dial 1-800-475-6701, international participants dial 1-320-365-3844 and enter the access code 972151. Again, those numbers are 1-800-475-6701, international participants dial 1-320-365-3844 and the access code 972151.

That does conclude your conference for today. Thank you for your participation and for using AT&T's executive teleconference. You may now disconnect.

*Mark of Schlumberger