

SCHLUMBERGER LTD /NV/
Form 8-K
September 12, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **September 11, 2003**

SCHLUMBERGER N.V. (SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

Netherlands Antilles
(State or other jurisdiction
of incorporation)

1-4601
(Commission File Number)

52-0684746
(IRS Employer
Identification No.)

153 East 53rd Street, 57th Floor
New York, New York

10022-4624

42, rue Saint-Dominique
Paris, France

75007

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**Parkstraat 83,
The Hague,
The Netherlands**
(Address of principal executive offices)

2514 JG
(Zip or Postal Codes)

Registrant's telephone number in the United States, including area code: **(212) 350-9400**

Item 5. Other Events.

Schlumberger N.V. (Schlumberger Limited) (the Company) completed the sale of its NPTest and Verification Systems businesses in the third quarter of 2003. The Company is filing this Current Report on Form 8-K to reclassify certain financial information of the NPTest and Verification Systems businesses pursuant to the requirements of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long Lived Assets.

SFAS No. 144 provides that, in a period in which a component of an entity either has been disposed of or is classified as held for sale, the income statements for current and prior periods shall report the results of operations of the component as discontinued operations. In that connection, the Company has reclassified certain amounts in its Consolidated Statements of Income and Consolidated Statements of Cash Flows for the three years ended December 31, 2002 to reflect the reclassification required by SFAS No. 144.

This filing does not update the Company's Management Discussion and Analysis and other disclosures in its Form 10-K except as described above since they would not be materially different after giving effect to this reclassification. For information on other developments regarding the Company since the filing of the Form 10-K, please refer to the Company's reports filed under the Securities Exchange Act of 1934.

Selected Financial Data

FIVE-YEAR SUMMARY

(Stated in millions except per share amounts)

| | Year Ended December 31, | | | | |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2002 | 2001 ¹ | 2000 ¹ | 1999 ¹ | 1998 ¹ |
| SUMMARY OF OPERATIONS | | | | | |
| Operating revenue: | | | | | |
| Oilfield Services | \$ 9,347 | \$ 9,867 | \$ 7,253 | \$ 6,043 | \$ 8,029 |
| SchlumbergerSema ² | 2,991 | 2,258 | 238 | 68 | |
| Other ³ | 1,202 | 1,956 | 2,182 | 2,208 | 2,672 |
| Eliminations and other | (298) | (203) | (128) | (18) | |
| Total operating revenue | \$ 13,242 | \$ 13,878 | \$ 9,545 | \$ 8,301 | \$ 10,701 |
| % increase (decrease) over prior year | (5)% | 45% | 15% | (22)% | 1% |
| Pretax segment income: | | | | | |
| Oilfield Services | \$ 1,328 | \$ 1,803 | \$ 1,041 | \$ 595 | \$ 1,288 |
| SchlumbergerSema ² | 34 | (33) | (75) | 3 | 2 |
| Other ³ | 23 | 116 | 152 | 94 | 159 |
| Eliminations ⁴ | (148) | (420) | (206) | (169) | (198) |
| Pretax segment income before minority interest | 1,237 | 1,466 | 912 | 523 | 1,251 |
| Minority interest | | 38 | 7 | 11 | 9 |
| Total pretax segment income, before charges | \$ 1,237 | \$ 1,428 | \$ 905 | \$ 512 | \$ 1,242 |
| % increase (decrease) over prior year | (13)% | 58% | 77% | (59)% | (11)% |
| Interest income | 68 | 154 | 297 | 228 | 164 |
| Interest expense | 364 | 380 | 273 | 184 | 127 |
| Charges (net of minority interest) ⁵ | 3,077 | 134 | (7) | 120 | 432 |
| Taxes on income ⁶ | 282 | 566 | 221 | 132 | 261 |
| Income (loss), continuing operations | \$ (2,418) | \$ 502 | \$ 715 | \$ 304 | \$ 586 |
| % increase (decrease) over prior year | | (30)% | 135% | (42)% | (44)% |
| Income, discontinued operations | \$ 98 | \$ 20 | \$ 20 | \$ 63 | \$ 428 |
| Net income (loss) | \$ (2,320) | \$ 522 | \$ 735 | \$ 367 | \$ 1,014 |
| % increase (decrease) over prior year | | (29)% | 100% | (64)% | (27)% |
| Basic earnings (loss) per share: | | | | | |
| Continuing operations | \$ (4.18) | \$ 0.87 | \$ 1.25 | \$ 0.56 | \$ 1.08 |
| Discontinued operations | 0.17 | 0.04 | 0.04 | 0.11 | 0.78 |
| Net income (loss) | \$ (4.01) | \$ 0.91 | \$ 1.29 | \$ 0.67 | \$ 1.86 |
| Add back amortization of goodwill | | 0.50 | 0.17 | 0.16 | 0.13 |
| Adjusted earnings (loss) per share | \$ (4.01) | \$ 1.41 | \$ 1.46 | \$ 0.83 | \$ 1.99 |

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| | | | | | |
|------------------------------------|-----------|---------|---------|---------|---------|
| Diluted earnings (loss) per share: | | | | | |
| Continuing operations | \$ (4.18) | \$ 0.87 | \$ 1.24 | \$ 0.56 | \$ 1.04 |
| Discontinued operations | 0.17 | 0.04 | 0.03 | 0.11 | 0.77 |
| Net income (loss) | \$ (4.01) | \$ 0.91 | \$ 1.27 | \$ 0.65 | \$ 1.81 |
| Add back amortization of goodwill | | 0.50 | 0.17 | 0.15 | 0.12 |
| Adjusted earnings (loss) per share | \$ (4.01) | \$ 1.41 | \$ 1.44 | \$ 0.80 | \$ 1.93 |
| Cash dividends declared per share | \$ 0.75 | \$ 0.75 | \$ 0.75 | \$ 0.75 | \$ 0.75 |

SUMMARY OF FINANCIAL DATA

| | | | | | |
|---|------------|------------|-----------|-----------|-----------|
| Income as % of operating revenue, continuing operations | (18)% | 4% | 7% | 4% | 5% |
| Income as % of operating revenue, continuing operations excluding charges | 5% | 6% | 7% | 5% | 9% |
| Return on average stockholders' equity, continuing operations | (31)% | 6% | 9% | 4% | 8% |
| Return on average stockholders' equity, continuing operations excluding charges | 9% | 10% | 9% | 6% | 12% |
| Fixed asset additions | \$ 1,364 | \$ 2,038 | \$ 1,290 | \$ 780 | \$ 1,450 |
| Depreciation expense | \$ 1,246 | \$ 1,165 | \$ 929 | \$ 918 | \$ 924 |
| Avg. number of shares outstanding: | | | | | |
| Basic | 579 | 574 | 570 | 549 | 544 |
| Assuming dilution | 579 | 580 | 580 | 564 | 562 |
| AT DECEMBER 31: | | | | | |
| Liquidity ⁷ | \$ (5,021) | \$ (5,037) | \$ 422 | \$ 1,231 | \$ 731 |
| Working capital | \$ 735 | \$ 1,487 | \$ 3,502 | \$ 4,787 | \$ 4,681 |
| Total assets | \$ 19,435 | \$ 22,326 | \$ 17,173 | \$ 15,081 | \$ 16,078 |
| Long-term debt | \$ 6,029 | \$ 6,216 | \$ 3,573 | \$ 3,183 | \$ 3,285 |
| Stockholders' equity | \$ 5,606 | \$ 8,378 | \$ 8,295 | \$ 7,721 | \$ 8,119 |
| Number of employees continuing operations | 78,000 | 80,000 | 59,000 | 54,000 | 58,000 |

- Restated, in part, for organization changes and discontinued operations.
- Sema plc was acquired on April 1, 2001.
- Principally includes the Cards, Terminals, Meters North America and the divested Resource Management Systems (sold in 2001) and Retail Petroleum Services (sold in 1998) businesses.
- Includes amortization of goodwill and other acquisition related intangibles.
- For details of Charges, see pages 23-24 of this Report.
- In 2002, the provision for income tax before the net tax expense on the charges was \$246 million. In 2001, the provision for income taxes, before the tax expense on the charges was \$391 million. In 2000, the provision for income taxes, before the tax benefit on the charges was \$208 million. In 1999, the provision for income taxes, before the tax benefit on the charge and the tax expense on the gain on the sale of RPS financial instruments, was \$124 million. In 1998, the provision for income taxes, before the tax benefit charge, was \$324 million.
- As defined on page 27 of this Report.

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS)

CONSOLIDATED STATEMENT OF INCOME

| Year Ended December 31, | <i>(Stated in thousands except per share amounts)</i> | | |
|--|---|---------------|--------------|
| | 2002 | 2001 | 2000 |
| Revenue | | | |
| Operating | \$ 13,242,062 | \$ 13,877,501 | \$ 9,545,138 |
| Interest and other income | 139,068 | 242,258 | 423,255 |
| | 13,381,130 | 14,119,759 | 9,968,393 |
| Expenses | | | |
| Cost of goods sold and services | 13,619,003 | 10,898,216 | 7,595,162 |
| Research & engineering | 607,315 | 665,348 | 496,389 |
| Marketing | 366,742 | 410,448 | 265,276 |
| General | 647,594 | 665,223 | 401,468 |
| Interest | 367,973 | 384,896 | 276,099 |
| | 15,608,627 | 13,024,131 | 9,034,394 |
| <i>Income (Loss) from continuing operations before taxes and minority interest</i> | (2,227,497) | 1,095,628 | 933,999 |
| Taxes on income | 282,820 | 565,403 | 221,665 |
| <i>Income (Loss) from continuing operations before minority interest</i> | (2,510,317) | 530,225 | 712,334 |
| Minority interest | 91,879 | (28,545) | 2,163 |
| <i>Income (Loss) from Continuing Operations</i> | (2,418,438) | 501,680 | 714,497 |
| <i>Income from Discontinued Operations</i> | 98,443 | 20,537 | 20,099 |
| Net Income (Loss) | \$ (2,319,995) | \$ 522,217 | \$ 734,596 |
| Basic earnings per share: | | | |
| Income (Loss) from Continuing operations | \$ (4.18) | \$ 0.87 | \$ 1.25 |
| Income from Discontinued Operations | 0.17 | 0.04 | 0.04 |
| Net Income (Loss) | (4.01) | 0.91 | 1.29 |
| Add back amortization of goodwill | | 0.50 | 0.17 |
| Adjusted earnings (loss) per share | \$ (4.01) | \$ 1.41 | \$ 1.46 |
| Diluted earnings per share: | | | |
| Income (Loss) from Continuing operations | \$ (4.18) | \$ 0.87 | \$ 1.24 |
| Income from Discontinued Operations | 0.17 | 0.04 | 0.03 |
| Net Income (Loss) | (4.01) | 0.91 | 1.27 |
| Add back amortization of goodwill | | 0.50 | 0.17 |
| Adjusted earnings (loss) per share | \$ (4.01) | \$ 1.41 | \$ 1.44 |
| Average shares outstanding | 578,588 | 574,328 | 570,028 |

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| | | | |
|--|----------------|---------|---------|
| Average shares outstanding assuming dilution | 578,588 | 580,214 | 580,076 |
|--|----------------|---------|---------|

See the *Notes to Consolidated Financial Statements*

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS

ANTILLES) AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

(Stated in thousands)

| December 31, | 2002 | 2001 |
|--|----------------------|----------------------|
| ASSETS | | |
| <i>Current Assets</i> | | |
| Cash | \$ 168,110 | \$ 177,704 |
| Short-term investments | 1,567,906 | 1,439,997 |
| Receivables less allowance for doubtful accounts(2002 \$172,871; 2001 \$145,268) | 3,489,406 | 4,028,450 |
| Inventories | 1,043,057 | 1,204,263 |
| Deferred taxes | 435,887 | 321,767 |
| Other current assets | 481,074 | 532,709 |
| | <u>7,185,440</u> | <u>7,704,890</u> |
| <i>Fixed Income Investments, held to maturity</i> | 407,500 | 576,000 |
| <i>Investments in Affiliated Companies</i> | 687,524 | 648,183 |
| <i>Fixed Assets less accumulated depreciation</i> | 4,663,756 | 4,827,879 |
| <i>Multiclient Seismic Data</i> | 1,018,483 | 1,028,954 |
| <i>Goodwill</i> | 4,229,993 | 6,260,969 |
| <i>Intangible Assets</i> | 558,664 | 811,349 |
| <i>Deferred Taxes</i> | 147,013 | 126,057 |
| <i>Other Assets</i> | 536,822 | 342,086 |
| | <u>\$ 19,435,195</u> | <u>\$ 22,326,367</u> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| <i>Current Liabilities</i> | | |
| Accounts payable and accrued liabilities | \$ 4,580,762 | \$ 4,506,634 |
| Estimated liability for taxes on income | 625,058 | 587,328 |
| Dividend payable | 109,565 | 108,642 |
| Long-term debt - current portion | 452,577 | 31,990 |
| Bank & short-term loans | 682,956 | 983,191 |
| | <u>6,450,918</u> | <u>6,217,785</u> |
| <i>Long-term Debt</i> | 6,028,549 | 6,215,709 |
| <i>Postretirement Benefits</i> | 544,456 | 504,797 |
| <i>Other Liabilities</i> | 251,607 | 372,696 |
| | <u>13,275,530</u> | <u>13,310,987</u> |
| <i>Minority Interest</i> | 553,527 | 636,899 |
| <i>Stockholders Equity</i> | | |
| Common Stock | 2,170,965 | 2,045,437 |
| Income retained for use in the business | 5,560,712 | 8,314,766 |
| Treasury stock at cost | (1,578,358) | (1,694,884) |
| Accumulated other comprehensive income (loss) | (547,181) | (286,838) |

| | | |
|--|----------------------|----------------------|
| | <u>5,606,138</u> | <u>8,378,481</u> |
| | <u>\$ 19,435,195</u> | <u>\$ 22,326,367</u> |

See the *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, | 2002 | 2001 | 2000 |
|---|--------------------|--------------------|--------------------|
| Cash flows from operating activities: | | | |
| Income (loss) from continuing operations | \$ (2,418,438) | \$ 501,680 | \$ 714,497 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization ¹ | 1,535,304 | 1,874,669 | 1,256,206 |
| Non-cash charges and gains on sale of businesses | 3,196,923 | 271,174 | 2,706 |
| Gain on sale of drilling rigs | (86,858) | | |
| Earnings of companies carried at equity, less dividends received | (64,280) | (61,715) | (39,805) |
| Deferred taxes | (48,702) | 17,595 | 5,257 |
| Provision for losses on accounts receivable | 66,425 | 56,619 | 32,301 |
| Change in operating assets and liabilities: | | | |
| Decrease (increase) in receivables | 542,669 | (907,535) | (364,130) |
| Decrease (increase) in inventories | 72,383 | (259,290) | (194,640) |
| Decrease (increase) in other current assets | 47,938 | (8,048) | (38,656) |
| (Decrease) increase in accounts payable and accrued liabilities | (592,878) | 204,751 | 493,104 |
| Increase (decrease) in estimated liability for taxes on income | 28,470 | 12,626 | (12,069) |
| Increase in postretirement benefits | 39,659 | 28,417 | 24,914 |
| Other net | (144,158) | (162,602) | (221,900) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,174,457 | 1,568,341 | 1,657,785 |
| Cash flows from investing activities: | | | |
| Purchases of fixed assets | (1,360,241) | (2,038,450) | (1,289,564) |
| Multiclient seismic data capitalized | (344,705) | (416,188) | (222,934) |
| Capitalization of intangible assets | (169,354) | (29,782) | (28,034) |
| Sales/retirements of fixed assets & other | 276,022 | 30,824 | 149,494 |
| Acquisition of Sema plc | (132,155) | (4,778,498) | |
| Other business acquisitions | (44,431) | (452,951) | (1,075,446) |
| Other acquisition related payments | (70,340) | | |
| Business divestitures | 259,271 | 902,953 | 154,843 |
| Sale of drilling rigs | 95,000 | | |
| Option payment on sale of drilling rigs | 24,900 | | |
| Sale (purchase) of investments, net | 51,334 | 2,430,911 | 551,619 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,414,699) | (4,351,181) | (1,760,022) |
| Cash flows from financing activities: | | | |
| Dividends paid | (433,134) | (430,328) | (426,465) |
| Proceeds from employee stock purchase plan | 107,810 | 78,965 | 69,089 |
| Proceeds from exercise of stock options | 67,275 | 42,795 | 160,281 |
| Proceeds from issuance of long-term debt | 933,709 | 4,815,028 | 956,641 |
| Payments of principal on long-term debt | (1,179,321) | (2,092,670) | (724,911) |
| Net (decrease) increase in short-term debt | (308,623) | 370,608 | 113,608 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (812,284) | 2,784,398 | 148,243 |

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| | | | |
|---|-------------------|-------------------|-------------------|
| Discontinued operations | <u>36,346</u> | <u>27,802</u> | <u>1,196</u> |
| Net (decrease) increase in cash before translation effect | (16,180) | 29,360 | 47,202 |
| Translation effect on cash | 6,586 | (12,374) | (19,073) |
| Cash, beginning of year | 177,704 | 160,718 | 132,589 |
| Cash, end of year | \$ 168,110 | \$ 177,704 | \$ 160,718 |

¹ Includes multiclient seismic data costs.

See the *Notes to Consolidated Financial Statements*

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS

ANTILLES) AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Stated in thousands)

| | Common Stock | | Retained Income | Accumulated Other Comprehensive Income (Loss) | | | Comprehensive Income (Loss) |
|--|--------------|----------------|--------------------|--|----------------------|---------------------------|--------------------------------|
| | Issued | In Treasury | | Marked to Market | Pension Liability | Translation Adjustment | |
| | | | | | | | |
| Balance, January 1, 2000 | \$ 1,820,186 | \$ (1,878,612) | \$ 7,916,612 | \$ | \$ | \$ (137,158) | \$ 311,016 |
| Translation adjustment | | | | | | (28,487) | (28,487) |
| Sales of businesses | | | | | | 26,441 | 26,441 |
| Sales to optionees less shares exchanged | 61,224 | 99,057 | | | | | |
| Employee stock purchase plan | 42,495 | 26,594 | | | | | |
| Net income | | | 734,596 | | | | 734,596 |
| Dividends declared (\$0.75 per share) | | | (427,732) | | | | |
| Tax benefit on stock options | 40,000 | | | | | | |
| Balance, December 31, 2000 | 1,963,905 | (1,752,961) | 8,223,476 | | | (139,204) | 732,550 |
| Translation adjustment | | | | | | (171,930) | (171,930) |
| RMS disposition | | | | | | 73,865 | 73,865 |
| Derivatives marked to market | | | | (49,569) | | | (49,569) |
| Sales to optionees less shares exchanged | 17,130 | 25,420 | | | | | |
| Shares granted to Directors | 156 | 89 | | | | | |
| Employee stock purchase plan | 46,397 | 32,568 | | | | | |
| Net income | | | 522,217 | | | | 522,217 |
| Dividends declared (\$0.75 per share) | | | (430,927) | | | | |
| Tax benefit on stock options | 17,849 | | | | | | |
| Balance, December 31, 2001 | 2,045,437 | (1,694,884) | 8,314,766 | (49,569) | | (237,269) | 374,583 |
| Translation adjustment | | | | | | (55,422) | (55,422) |
| Reed Hycalog disposition | | | | | | 22,063 | 22,063 |
| Derivatives marked to market | | | | (33,291) | | | (33,291) |
| Minimum pension liability (US/UK Plans) | | | | | (313,564) | | (313,564) |
| Tax benefit on minimum pension liability | | | | | 110,000 | | 110,000 |
| Investment Grant Prideco stock | | | | 9,871 | | | 9,871 |
| Sales to optionees less shares exchanged | 25,410 | 41,671 | | | | | |
| Shares granted to Directors | 129 | 65 | | | | | |
| Employee stock purchase plan | 58,056 | 49,754 | | | | | |
| Net loss | | | (2,319,995) | | | | (2,319,995) |
| Dividends declared (\$0.75 per share) | | | (434,059) | | | | |
| Technoguide acquisition | 34,496 | 25,036 | | | | | |
| Tax benefit on stock options | 7,437 | | | | | | |
| Balance, December 31, 2002 | \$ 2,170,965 | \$ (1,578,358) | \$ 5,560,712 | \$ (72,989) | \$ (203,564) | \$ (270,628) | \$ (2,580,338) |

See the *Notes to Consolidated Financial Statements*

SCHLUMBERGER LIMITED (SCHLUMBERGER N.V., INCORPORATED IN THE NETHERLANDS

ANTILLES) AND SUBSIDIARY COMPANIES

SHARES OF COMMON STOCK

| | Shares | | |
|------------------------------|--------------------|---------------------|--------------------|
| | Issued | In Treasury | Outstanding |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, January 1, 2000 | 667,054,806 | (101,123,676) | 565,931,130 |
| Employee stock purchase plan | | 1,431,309 | 1,431,309 |
| Sold to optionees | 30,987 | 5,331,268 | 5,362,255 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, December 31, 2000 | 667,085,793 | (94,361,099) | 572,724,694 |
| Employee stock purchase plan | | 1,752,833 | 1,752,833 |
| Shares granted to Directors | | 4,800 | 4,800 |
| Sold to optionees | 8,385 | 1,399,686 | 1,408,071 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, December 31, 2001 | 667,094,178 | (91,203,780) | 575,890,398 |
| Employee stock purchase plan | | 2,677,842 | 2,677,842 |
| Shares granted to Directors | | 3,500 | 3,500 |
| Sold to optionees | 10,490 | 2,243,400 | 2,253,890 |
| Acquisition of Technoguide | | 1,347,485 | 1,347,485 |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, December 31, 2002 | <u>667,104,668</u> | <u>(84,931,553)</u> | <u>582,173,115</u> |

See the *Notes to Consolidated Financial Statements*

Notes to Consolidated Financial Statements**Business Description**

Founded in 1927, Schlumberger Limited is a global technology services company consisting of three business segments: first, Schlumberger Oilfield Services, one of the leading providers of technology services and solutions to the international petroleum industry; second, SchlumbergerSema, an IT services company providing consulting and systems integration services, and network and infrastructure solutions, primarily to the global energy sector, including oil and gas, and other regional markets spanning the telecommunications, finance and public sectors and third, the Other business segment which principally comprises the Cards, Terminals and Meters North America activities.

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 of America.

Discontinued Operations

On December 20, 2002, Schlumberger completed the sale of its Reed Hycalog drillbits business. The proceeds included \$259 million in cash and 9.7 million shares of Grant Prideco common stock with a value of \$103 million. The results for the Reed Hycalog operations are reported as *Discontinued Operations* in the *Consolidated Statement of Income* and, in 2002, includes results of operations of \$32 million and gain on sale of \$66 million. The net assets sold were approximately \$185 million.

Revenue and operating income from these discontinued operations for 2002, 2001 and 2000 were as follows:

| | <i>(Stated in millions)</i> | |
|-------------|-----------------------------|-------------------|
| | Operating | |
| | Revenue | Income |
| | <u> </u> | <u> </u> |
| 2002 | \$ 212 | \$ 32 |
| 2001 | \$ 245 | \$ 32 |
| 2000 | \$ 195 | \$ 14 |

Discontinued Operations in 2003

In the third quarter of 2003, Schlumberger completed the sales of its NPTest and Verification Systems businesses. The proceeds were \$220 million in cash. The results for the NPTest and Verification Systems operations are reported as Discontinued Operations in the Consolidated Statement of Income. These dispositions were first presented as discontinued operations in the second quarter of 2003. The historic financial

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statements have been reclassified to give effect to those transactions for all periods presented. The disposition of NPTest resulted in a net loss of \$12 million on the sale on net assets of approximately \$160 million. The disposition of Verification Systems resulted in a net loss of \$18 million on the sale on net assets of approximately \$14 million.

Revenue and operating income from these discontinued operations for 2002, 2001 and 2000 were as follows:

| | <i>(Stated in millions)</i> | |
|-------------|-----------------------------|----------------------|
| | Operating | |
| | Revenue | Income (Loss) |
| | <u> </u> | <u> </u> |
| 2002 | \$ 240 | \$ 1 |
| 2001 | \$ 181 | \$ (11) |
| 2000 | \$ 286 | \$ 6 |

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 *Investments in Affiliated Companies*. The pro rata share of Schlumberger after-tax earnings is included in *Interest and Other Income*. All inter-company accounts and transactions have been eliminated.

Reclassifications

Certain items from prior years have been reclassified to conform to the current year presentation.

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 revenue and expenses during the reporting period. On an on-going basis, Schlumberger evaluates its estimates, including those related to bad debts, valuation of inventories and investments, recoverability of goodwill and intangible assets, income tax provision and deferred taxes, profit assumptions on long-term percentage-of-completion contracts, contingencies and litigation and actuarial assumptions for employee benefit plans. Schlumberger bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of

which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Products and Services Revenue

Schlumberger's products and services are generally sold based upon purchase orders or contracts with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post delivery obligations. Revenue is recognized for products upon delivery, customer acceptance and when title passes. Revenue is recognized when services are rendered and collectibility is reasonably assured.

Certain revenues are recognized on a time and materials basis, or on a percentage of completion basis, depending on the contract, as services are provided. Revenue from time and material service contracts is recognized as the services are provided. Revenue from fixed price contracts is recognized over the contract term based on the percentage of the cost of services provided during the period compared to the total estimated cost of services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes probable and reasonably estimated.

Software Revenue

Revenue derived from the sale of licenses for its software, maintenance and related services may include installation, consulting and training services.

If services are not essential to the functionality of the software, the revenue for each element of the contract is recognized separately based on its respective vendor specific objective evidence of fair value when all of the following conditions are met: a signed contract is obtained, delivery has occurred, fee is fixed and determinable and collectibility is probable.

If an ongoing vendor obligation exists under the license arrangement, or if any uncertainties with regard to customer acceptance are significant, revenue for the related element is deferred based on its vendor specific objective evidence of fair value. Vendor specific objective evidence of fair value is determined as being the price for the element when sold separately. If vendor specific objective evidence of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or all elements have been delivered.

Multiple Element Arrangement and Collectibility

Many sales are generated from complex contractual arrangements that require significant revenue recognition judgments, particularly in the areas of multiple element arrangements. Revenues from contracts with multiple element arrangements, such as those including installation and integration services, are recognized as each element is earned based on the relative fair value of each element and when there are no undelivered

elements that are essential to the functionality of the delivered elements.

The assessment of collectibility is particularly critical in determining whether revenue should be recognized in the current market environment. As part of the revenue recognition process, Schlumberger determines whether trade and notes receivables are reasonably assured of collection based on various factors, including the ability to sell those receivables and whether there has been deterioration in the credit quality of customers that could result in the inability to sell the receivables. In situations where Schlumberger has the ability to sell the receivables without recourse, revenue is recognized to the extent of the value Schlumberger could reasonably expect to realize from the sale. Schlumberger defers revenue and related costs when it is uncertain as to whether it will be able to collect or sell the receivable. Schlumberger defers revenue but recognizes costs when it determines that the collection or sale of the receivable is unlikely.

Translation of Non-US Currencies

The Oilfield Services segment functional currency is primarily the US dollar. The SchlumbergerSema segment and Other segment functional currencies are primarily local 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. Schlumberger's policy is to hedge against unrealized gains and losses on a monthly basis. Included in the 2002 results were transaction losses of \$2 million, compared with losses of \$7 million and \$4 million in 2001 and 2000, 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 partially offsets the unrealized currency gains or losses on those assets and liabilities. On December 31, 2002, contracts were outstanding for the US dollar equivalent of \$1,594 million in various foreign currencies. These contracts mature on various dates in 2003.

Investments

Both short-term investments and fixed income investments, held to maturity comprise primarily eurodollar time deposits, certificates of deposit and commercial paper, euronotes and eurobonds, substantially all denominated in US dollars. They are stated at cost plus accrued interest, which approximates market. Substantially all the investments designated as held to maturity that were purchased and matured 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 gains/losses on such securities at December 31, 2002 were not significant.

For purposes of the *Consolidated Statement of Cash Flows*, Schlumberger does not consider short-term investments to be cash equivalents as they generally have original maturities in excess of three months.

Inventories

Inventories are stated at average cost or at market, whichever is lower. Inventory consists of materials, supplies and finished goods.

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 using the straight-line method. Fixed assets include the manufacturing cost (average cost) of oilfield technical equipment manufactured or assembled by subsidiaries of Schlumberger. Expenditures for renewals, replacements and improvements 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.

Multiclient Seismic Data

Schlumberger capitalizes the cost of obtaining multiclient surveys. Such costs are charged to *Cost of goods sold and services* based on a percentage of estimated total revenue that Schlumberger expects to receive from the sales of such data. The carrying value of individual surveys is reviewed, at least annually, and adjustments to the value are made based upon the revised estimated revenues for the surveys.

Capitalized Software

The costs incurred for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established, generally when all of the planning, designing, coding and testing activities that are necessary in order to establish that the product can be produced to meet its design specifications including functions, features and technical performance requirements are completed. These capitalized costs are subject to an ongoing assessment of recoverability

based on anticipated future revenues and changes in hardware and software technologies. Costs that are capitalized include direct labor and related overheads.

Amortization of capitalized software development costs begins when the product is available for general release. Amortization is provided on the lesser of a product-by-product basis on the straight-line method or the sales ratio method over the estimated useful life. Unamortized capitalized software development costs determined to be in excess of the net realizable value of the product are expensed immediately.

Schlumberger capitalizes certain costs of internally developed software. Capitalized costs include purchased materials and services, payroll and payroll related costs and interest costs. The costs of internally developed software is amortized on a straight-line basis over the estimated useful life which is principally 6 years.

Impairment of Long-lived Assets

On an annual basis Schlumberger reviews the carrying value of its long-lived assets, including goodwill and intangible assets. In addition, whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate, a review is performed. Schlumberger assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

In accordance with SFAS 142 (*Goodwill and Other Intangible Assets*), which was adopted by Schlumberger commencing January 1, 2002, goodwill ceased to be amortized.

Taxes on Income

Schlumberger 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. Any effect of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of the deferred tax asset will not be realized in the future, Schlumberger provides a corresponding valuation allowance against deferred tax assets.

Approximately \$2.5 billion of consolidated income retained for use in the business on December 31, 2002 represented undistributed earnings of consolidated subsidiaries and the pro rata Schlumberger 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.

Earnings per Share

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Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income by the average number of common shares outstanding assuming dilution, the calculation of which assumes that all stock options and warrants which are in the money are exercised at the beginning of the period and the proceeds used, by Schlumberger, to purchase shares at the average market price for the period. The following is a reconciliation from basic earnings per share to diluted earnings per share from continuing operations for each of the last three years:

(Stated in thousands except per share amounts)

| | Income (loss) | Average | Earnings (loss) |
|----------------------|------------------------|--------------------|----------------------------|
| | from Continuing | Shares | Per Share from |
| | Operations | Outstanding | Continuing |
| | <u>Operations</u> | <u>Outstanding</u> | <u>Operations</u> |
| 2002 | | | |
| Basic | \$ (2,418,438) | 578,588 | \$ (4.18) |
| Effects of dilution: | | | |
| Options | | | |
| Diluted ¹ | <u>\$ (2,418,438)</u> | <u>578,588</u> | <u>\$ (4.18)</u> |
| 2001 | | | |
| Basic | \$ 501,680 | 574,328 | \$ 0.87 |
| Effects of dilution: | | | |
| Options | | 5,886 | |
| Diluted | <u>\$ 501,680</u> | <u>580,214</u> | <u>\$ 0.87</u> |
| 2000 | | | |
| Basic | \$ 714,497 | 570,028 | \$ 1.25 |
| Effects of dilution: | | | |
| Options | | 10,048 | (0.01) |
| Diluted | <u>\$ 714,497</u> | <u>580,076</u> | <u>\$ 1.24</u> |

¹ There is no dilution of shares or earnings per share in 2002 due to the net loss.

Adjusted Net Income

The following is a reconciliation of reported net income (loss) to adjusted net income (loss) following the adoption of SFAS 142 (*Goodwill and Other Intangible Assets*) on January 1, 2002 see *New Accounting Standards* below.

(Stated in thousands)

| | 2002 | 2001 | 2000 |
|----------------------------|-----------------------|-------------------|-------------------|
| Reported Net Income (Loss) | \$ (2,319,995) | \$ 522,217 | \$ 734,596 |
| Goodwill amortization | | 291,574 | 94,746 |
| Adjusted Net Income (Loss) | <u>\$ (2,319,995)</u> | <u>\$ 813,791</u> | <u>\$ 829,342</u> |

Research & Engineering

All research and engineering expenditures are expensed as incurred, including costs relating to patents or rights that may result from such expenditures. Included in 2001 expenditures was a charge of \$25 million for in-process R&D related to the Bull CP8 acquisition.

New Accounting Standards

In June 2001, SFAS 141 (*Business Combinations*) and SFAS 142 (*Goodwill and Other Intangible Assets*) were issued. SFAS 141 was adopted by Schlumberger for acquisitions subsequent to June 30, 2001. SFAS 142 was adopted by Schlumberger commencing January 1, 2002. As required by SFAS 142, Schlumberger undertook an initial review of goodwill impairment in the first quarter of 2002 and completed an event driven review in the fourth quarter of 2002. The findings of the independent valuation indicated there was

an impairment writedown of \$2.6 billion which was approved by the Board of Directors in December 2002 in conjunction with the approval of the new strategic plan for SchlumbergerSema.

Amortization of goodwill and workforce ceased with effect from January 1, 2002. Assembled workforce, net of deferred taxes, of \$175 million was reclassified to *Goodwill*.

Amortization of goodwill and other intangibles included in Schlumberger's results are as follows:

| | (Stated in millions) | | |
|-------------------|----------------------|---------------|---------------|
| | Pretax | | |
| | 2002 | 2001 | 2000 |
| Goodwill | \$ | \$ 270 | \$ 96 |
| Workforce | | 32 | |
| Other intangibles | 72 | 45 | 5 |
| | \$ 72 | \$ 347 | \$ 101 |

In June 2001, SFAS 143 (*Accounting for Asset Retirement Obligations*) was issued. SFAS 143 will be adopted by Schlumberger commencing January 1, 2003. Schlumberger does not believe that the implementation of this standard will have any material effect on its financial position and results of operations.

In August 2001, SFAS 144 (*Accounting for Impairment or Disposal of Long-Lived Assets*) was issued. SFAS 144 was adopted by Schlumberger commencing January 1, 2002 and did not have a material effect on its financial position or results of operations.

Effective January 1, 2002, Schlumberger adopted the FASB EITF Abstract 01-14, (*Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*). Prior year revenue has been restated to include reimbursable costs billed to customers which had been classified as a contra expense and now must be classified as revenue. The reclassification was only required in the Oilfield Services (OFS) segment as the SchlumbergerSema segment was already in compliance with the new standard. OFS *operating revenue* and *cost of goods sold & services* increased in 2001 by \$557 million and in 2000 by \$416 million. There was no effect on cash flow or net income.

On July 29, 2002, the Financial Accounting Standards Board issued SFAS 146 (*Accounting for Costs Associated with Exit or Disposal Activities*). The standard required companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, (*Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity [including Certain Costs Incurred in a Restructuring]*). SFAS 146 replaced Issue 94-3. Schlumberger will apply SFAS 146 prospectively to exit or disposal activities initiated after December 31, 2002. As a result, in the future, charges related to restructuring plans may be recorded over multiple reporting periods as opposed to the date the plan was approved.

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In November 2002, FASB Interpretation No. 45 (*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*) was issued. It requires certain accounting and disclosures of guarantees to third parties including indebtedness. The statement is effective on a prospective basis for guarantees issued or modified after December 31, 2002. Schlumberger does not believe that the implementation of this statement will have a material effect on its financial position or results of operations.

In January 2003, the Emerging Issues Task Force (EITF) issued No. 00-21 *Accounting for Revenue Arrangements with Multiple Deliverables*. This EITF establishes the criteria for recognizing revenue in arrangements when several items are bundled into one agreement. EITF 00-21 does not allow revenue recognition unless the fair value of the undelivered element(s) is available and the element has stand-alone value to the customer. EITF 00-21 also provides guidance on allocating the total contract revenue to the

individual elements based upon the available fair value of each deliverable. Schlumberger is in the process of determining if this pronouncement will have a material impact on its financial position or results of operations.

Hanover Compressor Transaction

In August 2001, Schlumberger sold its Oilfield Services worldwide gas compression activity to Hanover Compressor Company. The proceeds included common stock of Hanover Compressor, with a value at closing of \$173 million, which is restricted from marketability until August 30, 2004 and a \$150 million long-term subordinated note maturing December 15, 2005.

The market value of Schlumberger's investment in Hanover Compressor common stock was \$80 million as of December 31, 2002. Following the decline in the market value of the stock below carrying value during the second quarter of 2002, Schlumberger has performed, and continues to perform, a periodic assessment in accordance with its policy to determine whether an other-than-temporary decline in fair value has occurred. Schlumberger evaluated the recoverability of its investment by reviewing recent information related to the industry and the operating results and financial position of Hanover Compressor and by considering Schlumberger's requirement, ability and intent to hold the investment on a long-term basis. Schlumberger concluded that evidence existed at December 31, 2002 to support the recoverability of its carrying value, that there were no events or changes in circumstances specifically relating to the business prospects of Hanover Compressor, that the underlying business fundamentals are good with natural gas supplies reduced and higher natural gas prices in North America, that the decline in the market value of the stock is consistent with historical industry volatility and is largely attributable to the general market conditions. In addition, the recently announced Hanover cutbacks in workforce and capital expenditures coupled with no immediate debt maturities should provide adequate capital resources in the near-term. Schlumberger views the recent changes to Hanover Compressor's senior management team as positive with respect to its investment. Accordingly, Schlumberger concluded that the decline in market value of its investment (\$93 million) in Hanover Compressor as of December 31, 2002 was temporary in nature and has not reduced the cost basis of that investment. If the decline in value persists or should Schlumberger's assessment change, Schlumberger would take a charge to its earnings for the amount that is deemed unrecoverable.

The \$150 million long-term subordinated note has a mandatory prepayment upon the issuance, sale or other disposition by Hanover Compressor of any shares of capital stock or other equity interests pursuant to a public offering or a private placement otherwise prepayment is discretionary. As of December 31, 2002, Schlumberger considers the carrying value of the note to be fully collectible.

As part of the sale agreement, Schlumberger agreed that the financing of the PIGAP II joint venture in Venezuela would be non-recourse to the buyer and would be executed prior to December 31, 2002. Accordingly, Schlumberger was obligated, with respect to the financing, to guarantee 30% (approximately \$80 million) until the project was completed in 2002 and, if as of December 31, 2002, refinancing had not become non-recourse to the buyer or the project had not achieved substantial completion, Hanover Compressor had an option to put its interest in the joint venture back to Schlumberger.

As Schlumberger originally deferred the gain on the sale of the joint venture in 2001, there would be no impact on Schlumberger results of operations if Hanover Compressor were to exercise its option.

Subsequent event (unaudited)

As an outcome of the turmoil in Venezuela, although the project reached substantial completion, the non-recourse financing for the project was not achieved by December 31, 2002. On January 30, 2003, Hanover Compressor gave notice of its intention to exercise its right to put its

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ownership interest in the joint venture back to Schlumberger. The put is subject to certain consents and other conditions. Schlumberger's obligation to provide a guarantee with respect to the financing was eliminated.

Charges Continuing Operations

Schlumberger recorded the following charges/credits in continuing operations:

In December 2002, a net charge of \$3,081 million (\$5.30 per share). On December 10, 2002, Schlumberger announced that the Board of Directors had approved an updated strategy for its SchlumbergerSema business segment. The new strategic plan outlook, current business values and the reorganization of SchlumbergerSema constitute significant events that required an impairment analysis to be performed in accordance with FAS 142. SchlumbergerSema was valued on a stand-alone basis; each reporting unit within SchlumbergerSema was valued using a discounted cash flow analysis based on a long-term forecast prepared by SchlumbergerSema management with the assistance of a third party valuation expert. The implied multiples yielded by the discounted cash flow analysis were compared to observed trading multiples of comparable companies and recent transactions in the IT services industry to assess the fair value of the reporting units. The fair value was below the book value. As a result, goodwill was written down to its estimated fair value based on Schlumberger's valuation. The impairment of goodwill mainly reflects the current difficulties of the telecommunications industry and the severely depressed market values of the IT companies serving SchlumbergerSema's sector. Certain intangible assets were also identified and written down as part of this process.

Schlumberger recorded severance, facility and other costs in an effort to reduce costs at SchlumbergerSema and WesternGeco. These costs related to expenses that offer no future benefit to the ongoing operations of these businesses. During the fourth quarter, Schlumberger also recorded an impairment charge, to reflect a change in the business projections of the WesternGeco business, related to capitalized multiclient seismic library costs, a deferred tax valuation allowance and other costs.

The total of the above charges was \$3,168 million. A summary, including the gain on the sale of drilling rigs of \$87 million, is as follows:

| | |
|--|----------|
| Goodwill impairment | \$ 2,638 |
| Intangibles impairment | 147 |
| SchlumbergerSema severance & other | 97 |
| WesternGeco severance & other | 117 |
| Multiclient seismic library impairment | 184 |
| Other | 42 |
| | <hr/> |
| Charges before tax and minority interest | 3,225 |
| Tax ¹ | 33 |
| Minority interest | (90) |
| | <hr/> |
| | 3,168 |
| Gain on sale of drilling rigs | (87) |
| | <hr/> |
| | \$ 3,081 |
| | <hr/> |

¹ Includes deferred tax valuation allowance of \$94 million.

The above charges before tax and minority interest and the gain on sale of drilling rigs are recorded in *Cost of goods sold & services*.

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In March 2002, a charge of \$29 million (pretax \$30 million and minority interest credit of \$1 million; \$0.05 per share diluted) related to the financial/economic crisis in Argentina where in January, the government eliminated all US dollar contracts and

converted US dollar denominated accounts receivable into pesos. As a result, Schlumberger's currency exposure increased significantly. With currency devaluation, an exchange loss (net of hedging) on net assets, primarily customer receivables, was incurred. In addition, a provision was recorded for downsizing facilities and headcount. The small SchlumbergerSema exposure in Argentina was also provided for. The pretax change is classified in *Cost of goods sold and services* in the *Consolidated Statement of Income*.

In March 2001, a charge of \$25 million (\$0.04 per share diluted) for in-process research and development related to the Bull CP8 acquisition.

In June 2001, a charge of \$280 million (\$0.48 per share diluted) for the estimated impairment charge from the disposition of certain Resource Management Services businesses (Electricity and Water outside North America and worldwide Gas businesses). This charge included the writeoff of goodwill (\$139 million) and cumulative translation adjustment (\$79 million).

In September 2001, a pretax credit of \$42 million (after tax \$3 million) representing the gain on the sale of the worldwide gas compression business, partially offset by an impairment charge relating to the expected disposition of certain activities. The proceeds from the sale of the worldwide gas compression business included \$274 million in cash, a \$150 million long-term subordinated note and newly issued Hanover Compressor Company shares with a value of \$173 million. The shares have a three year marketability restriction. As part of the transaction, Schlumberger agreed that the financing of a certain joint venture project (PIGAP II) would be non-recourse to the buyer and would be executed prior to December 31, 2002. Accordingly, Schlumberger was obligated with respect to the financing to guarantee 30% (approximately \$80 million) until the project was completed in late 2002. If as of December 31, 2002 refinancing had not become non-recourse to the buyer or the project has not achieved substantial completion, the buyer has an option to put its interest in such joint venture back to Schlumberger. The gain on the sale of this joint venture was deferred.

In December 2001, a pretax credit of \$119 million (net \$5 million after tax and minority interest, \$0.01 per share diluted), consisting primarily of the following:

- n A credit of \$223 million (\$117 million after tax) from the sale of the former Resource Management Services North American Water division.
- n A pretax charge of \$43 million (\$37 million after tax) for employee termination costs, principally in Europe and the US, related to Oilfield Services and SchlumbergerSema in response to the prevailing business conditions.
- n A tax charge for reorganization costs of \$29 million.
- n A further pretax charge of \$28 million (\$20 million after tax) related to the second quarter estimated loss on the divestiture of certain Resource Management Services businesses following the actual closing in the fourth quarter.
- n A \$33 million pretax asset writedown (\$23 million after tax and minority interest) for technological impairment related to certain Land seismic assets in the newly formed joint venture.

The above 2001 pretax amounts are recorded: an aggregated \$119 million charge in *Cost of goods sold and services*, a \$25 million charge in *Research & engineering* and a \$10 million credit in *Minority interest*.

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In December 2000, a pretax charge of \$84 million offset by a pretax gain of \$82 million (net \$3 million after tax and minority interest, \$0.00 per share diluted), consisting of the following:

- n A charge of \$29 million (\$25 million after tax) related primarily to the writedown of certain inventory and severance costs in the semiconductor business due to weak market conditions.

- n A charge of \$55 million (\$39 million after tax and minority interest) related to the creation of the WesternGeco seismic joint venture, including asset impairments and severance costs for Schlumberger's existing Geco-Prakla business.
- n A credit of \$82 million (\$61 million after tax) resulting from the gain on the sale of two Gas Services businesses in Europe. Revenue and operating net results for these divested activities were \$110 million and a \$740,000 loss, respectively, in 2000 (10 months) and \$163 million and \$2.7 million profit, respectively in 1999.

The pretax gain on the sale of the Gas Services businesses is included in *Interest & other income*. The pretax Semiconductor Solutions and WesternGeco charges are included in *Cost of goods sold and services*. A \$9 million credit is included in *Minority interest* relating to the WesternGeco charges.

An analysis of the December 2002 pretax severance and facility charges is as follows:

| | <i>(Stated in millions)</i> | | |
|-----------------------------------|-----------------------------|------------------|-------------------|
| | Severance | | Facilities |
| | Amount | Headcount | Amount |
| Charges | \$ 94.5 | 3,492 | \$ 42.8 |
| Paid in December 2002 | 32.9 | 1,643 | 6.6 |
| Balance, December 31, 2002 | \$ 61.6 | 1,849 | \$ 36.2 |

The remaining severance costs are expected to be paid before September 30, 2003.

The December 2001 charge included severance costs of \$41 million (775 people) which have been paid.

The December 2000 charges included severance costs of \$9 million (380 people) which have been paid.

Acquisitions

Acquisition of Sema plc

On February 12, 2001, Schlumberger announced that it had reached an agreement with the board of directors of Sema plc on the terms of a recommended offer for the entire issued and to be issued share capital of Sema plc.

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On March 8, 2001, a wholly owned subsidiary of Schlumberger acquired, through market purchases, approximately 20% of the issued share capital of Sema at a cost of \$1 billion.

On April 6, 2001, the offer for the shares of Sema plc was declared unconditional in all respects. The aggregate consideration for the acquisition of 100% of the issued Sema shares was \$5.15 billion (including expenses of the transaction) which was financed from existing cash resources and borrowings under a \$3 billion credit facility.

On October 3, 2001, wholly owned subsidiaries of Schlumberger issued \$1.9 billion European bonds (Euro 1.4 billion and £425 million). The average rate of these bonds is 5.9% with maturity from 2008 through 2032. The proceeds from the issues were used to repay short-term bank loans originally taken out by those subsidiaries to finance the acquisition of Sema plc.

The acquisition was accounted for using the purchase method of accounting and the goodwill and identifiable intangibles aggregated \$5.19 billion which were being amortized on a straight-line basis in 2001. Effective January 1, 2002, with the adoption of SFAS 142 (see *New Accounting Standards*), amortization of goodwill and workforce ceased. Identifiable intangibles continue to be amortized on a straight-line basis over 10 years.

The aggregate value of goodwill and identifiable intangibles comprised the following:

| | |
|---------------------------------|-----------------------------|
| | <i>(Stated in billions)</i> |
| Cost (including expenses) | \$ 5.15 |
| Purchase accounting adjustments | 0.34 |
| Net tangible assets acquired | (0.30) |
| | <u>5.19</u> |

Purchase accounting adjustments consisted primarily of severance costs (\$84 million 1781 people), facility reductions (\$33 million), pension plan adjustments (\$136 million) and tax restructuring costs (\$50 million). At December 31, 2001, \$26 million (593 people) of the severance costs had been paid. All remaining severance costs were paid in 2002.

For financial reporting purposes, Schlumberger included the results of operations of Sema in its consolidated accounts commencing April 1, 2001. If Sema had been included in the consolidated financial statements of Schlumberger from January 1, consolidated revenue for the twelve months ended December 31, 2001 would have increased by \$538 million (unaudited) to \$14.3 billion (unaudited) and consolidated net income would have decreased by approximately \$140 million (unaudited), to \$382 million (unaudited), related primarily to increased interest expense and amortization of intangibles, and lower interest income. On a proforma basis, Schlumberger 2000 operating revenue and net income would have been \$12 billion (unaudited) and \$300 million (unaudited), respectively.

Sema is an IT services company (with approximately 22,000 employees at the date of acquisition) that provides its customers with design, implementation, operations and management of information systems and IT-related consulting services. Among the industry sectors which Sema serves, Sema has increasingly focused on the telecommunications and finance sectors, and provides a range of its own software products specifically designed for these sectors in addition to its IT services. Sema's customers include a wide variety of businesses and governmental departments around the world. Sema's services and product offerings include systems integration and consulting; software products for the telecommunications, energy, transport and finance sectors; and outsourcing.

Other Acquisitions

During 2002, subsidiaries of Schlumberger acquired the following:

- n In March, Inside Reality, a Norwegian based company specializing in virtual reality technology for the oil and gas industry. The acquisition price was \$18 million in cash. Assets acquired included intangible assets of \$18 million.
- n In April, DBR International Inc., a Canadian based company which manufactures fluid analysis equipment and provides fluid analysis consulting services to the oil and gas industry. The acquisition price was \$12 million in cash. Assets acquired included \$6 million of goodwill.
- n In April, A.Comeau and Associates, a Canadian based provider of electrical engineering products and services for artificially lifted wells. The purchase price was \$6 million in cash. Assets acquired included goodwill of \$6 million.
- n In December, Technoguide AS, a software leader in the reservoir modeling domain. The purchase price was \$68 million comprising of \$8 million in cash and 1.35 million shares of Schlumberger stock valued at \$60 million. Assets acquired included goodwill of \$23 million and \$44 million of intangible assets (primarily Intellectual Property).

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These acquisitions were accounted for using the purchase method of accounting.

During 2001, subsidiaries of Schlumberger acquired the following:

- n In March, Bull CP8, a market leader in microprocessor-based smart cards and associated systems applications for the banking, mobile communications and network security industries. The acquisition price was \$313 million in cash. Assets acquired included identifiable intangibles (primarily patents) of \$136 million and goodwill of \$140 million. In-process R&D, which aggregated \$25 million, was charged to expense in the first quarter.

- n In June, Infosynergy ASA, a Norwegian based company specializing in customer information and billing systems integration. The acquisition price was \$29 million in cash. Assets acquired included goodwill of \$29 million.

- n In September, Sensor Highways Limited, a UK based market leader in the design, manufacture and deployment of a new generation of fiber optic sensors specializing in real-time data solutions to the oil and gas, process and power distribution industries. The acquisition price was \$100 million, consisting of \$70 million in cash and \$30 million in notes. Assets acquired included identifiable intangibles of \$48 million and goodwill of \$50 million.

- n In September, Phoenix Petroleum Services, a UK based leader in providing tools, technologies and techniques for optimizing production in artificially lifted wells, particularly those using submersible pumps. The acquisition price was \$33 million in cash. Assets acquired included goodwill of \$26 million.

These acquisitions were accounted for using the purchase method of accounting.

During 2000, subsidiaries of Schlumberger acquired the following:

- n In January, Telweb Inc., an Internet access company based in Quebec, Canada. The purchase price was \$28 million and the assets acquired included goodwill of \$28 million.

- n In April, Operational Services, Inc., which provides a systematic approach to production management through efficient systems and processes. The purchase price was \$13 million and the assets acquired included goodwill of \$13 million.

- n In May, substantially all of the assets of CellNet Data Systems, Inc., a provider of telemetry services for the development and deployment of large-scale automatic metering reading systems. The acquisition was handled through Chapter 11 procedure and was approved by the bankruptcy court. The purchase price was \$209 million and there was no goodwill arising on the acquisition.

- n In October, Data Marine Systems Limited, a global provider of telecommunications services for transmitting data from remote locations. The purchase price was \$83 million and the assets acquired included goodwill of \$75 million.

- n In November, a 70% interest in the Convergent Group, a provider of business consulting, software engineering, system integration and project management services. The purchase price was \$263 million and the assets acquired included goodwill of \$214 million.

- n In November, a 70% interest in WesternGeco, a new venture which combined the Schlumberger surface seismic business, Geco-Prakla, and the Western Geophysical seismic unit of Baker Hughes Incorporated. The purchase price was \$720 million which comprised \$500 million in cash and a 30% interest, valued at \$220 million, in Geco-Prakla. There was no goodwill arising on the acquisition.

These acquisitions were accounted for using the purchase method of accounting.

Proforma results pertaining to the above acquisitions are not presented as the impact was not significant.

Investments in Affiliated Companies

Schlumberger and Smith International Inc. operate a drilling fluids joint venture of which Schlumberger owns a 40% interest and records income using the equity method of accounting. Schlumberger's investment on December 31, 2002 and 2001 was \$592 million and \$573 million, respectively. Schlumberger's equity income from this joint venture in 2002 was \$48 million, \$51 million in 2001 and \$33 million in 2000.

Investments

The Consolidated Balance Sheet reflects the Schlumberger investment portfolio separated between current and long term, based on maturity. Under normal circumstances it is the intent of Schlumberger to hold the investments until maturity, with the exception of investments which are consider trading (December 31, 2002 \$0; December 31, 2001 \$146 million).

Fixed income investments mature as follows: \$138 million in 2004 and \$270 million in 2005.

On December 31, 2002, there were no interest rate swap arrangements outstanding related to investments. Interest rate swap arrangements had no material effect on consolidated interest income.

Securitization

In September 2000, a wholly owned subsidiary of Schlumberger entered into an agreement to sell, on an ongoing basis, up to \$220 million of an undivided interest in its accounts receivable, and subsequently amended up to \$250 million. The amount of receivables sold under this agreement totaled \$155 million at December 31, 2002 and \$176 million at December 31, 2001. Unless extended by amendment, the agreement expires in September 2003.

Inventory

A summary of inventory follows:

| | <i>(Stated in millions)</i> | |
|----------------------------------|---------------------------------|--------------------|
| <u>As at December 31,</u> | <u>2002</u> | <u>2001</u> |
| Raw Materials & Field Materials | \$ 1,010 | \$ 1,087 |
| Work in Process | 118 | 180 |
| Finished Goods | 138 | 220 |
| | 1,266 | 1,487 |
| Less reserves for obsolescence | 223 | 283 |
| | \$ 1,043 | \$ 1,204 |

Fixed Assets

A summary of fixed assets follows:

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| <u>As at December 31,</u> | <i>(Stated in millions)</i> | |
|----------------------------------|-----------------------------|--------------------|
| | <u>2002</u> | <u>2001</u> |
| Land | \$ 63 | \$ 82 |
| Buildings & Improvements | 1,225 | 1,050 |
| Machinery & Equipment | 10,314 | 10,047 |
| | <hr/> | <hr/> |
| Total cost | 11,602 | 11,179 |
| Less accumulated depreciation | 6,938 | 6,351 |
| | <hr/> | <hr/> |
| | \$ 4,664 | \$ 4,828 |
| | <hr/> | <hr/> |

The estimated useful lives of Buildings & Improvements are primarily 30 to 40 years. For Machinery & Equipment, 11% is being depreciated over 16 to 25 years, 10% over 10 to 15 years and 79% over 2 to 9 years.

Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data is as follows:

| | <i>(Stated in millions)</i> | |
|-------------------------------|-----------------------------|-------------------|
| | 2002 | 2001 |
| | <u> </u> | <u> </u> |
| Balance at beginning of year | \$ 1,029 | \$ 976 |
| Capitalized in year | 345 | 416 |
| Charged to cost of sales | (172) | (363) |
| Impairment, charged to income | (184) | |
| | <u> </u> | <u> </u> |
| Balance at end of year | \$ 1,018 | \$ 1,029 |
| | <u> </u> | <u> </u> |

Goodwill

The change in the carrying amount of goodwill is as follows:

| | <i>(Stated in millions)</i> | |
|---|-----------------------------|-------------------|
| | 2002 | 2001 |
| | <u> </u> | <u> </u> |
| Balance at beginning of year | \$ 6,261 | \$ 1,576 |
| Reclassification of Assembled Workforce, net of deferred taxes ¹ | 175 | |
| Impairment, charged to income | (2,638) | |
| Impact of change in exchange rates | 370 | (118) |
| Amortization, charged to income | | (261) |
| Other, including acquisitions and divestitures ² | 62 | 5,064 |
| | <u> </u> | <u> </u> |
| Balance at end of year | \$ 4,230 | \$ 6,261 |
| | <u> </u> | <u> </u> |

1. Following adoption of SFAS 142 on January 1, 2002.
2. 2001 includes acquisition of Sema plc (\$4.84 billion).

The changes in the carrying amount of goodwill by business segment in 2002 is as follows:

| | <i>(Stated in millions)</i> | | | |
|--|-----------------------------|---------------------|-------------------|-------------------|
| | Oilfield | Schlumberger | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | Services | Sema | Other | Total |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year | \$ 1,980 | \$ 3,952 | \$ 329 | \$ 6,261 |
| Reclassification of Assembled Workforce, net of deferred taxes | | 175 | | 175 |
| Impairment, charged to income | | (2,618) | (20) | (2,638) |
| Other ¹ | 112 | 53 | 267 | 432 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balance at end of year | \$ 2,092 | \$ 1,562 | \$ 576 | \$ 4,230 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

1. Including acquisitions, divestitures and impact of change in exchange rates.

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The changes in the carrying amount of goodwill by business segment in 2001 is as follows:

| | <i>(Stated in millions)</i> | | | |
|---------------------------------|------------------------------|------------------------------|---------------|-----------------|
| | <u>Oilfield Services</u> | <u>Schlumberger Sema</u> | <u>Other</u> | <u>Total</u> |
| Balance at beginning of year | \$ 1,036 | \$ 213 | \$ 327 | \$ 1,576 |
| Acquisition of Sema plc | 950 | 3,890 | | 4,840 |
| Amortization, charged to income | (62) | (167) | (32) | (261) |
| Other ¹ | 56 | 16 | 34 | 106 |
| Balance at end of year | <u>\$ 1,980</u> | <u>\$ 3,952</u> | <u>\$ 329</u> | <u>\$ 6,261</u> |

1. Including other acquisitions, divestitures and impact of change in exchange rates.

Intangible Assets

A summary of intangible assets follows:

| | <i>(Stated in millions)</i> | |
|--------------------------------|-----------------------------|-------------------------|
| | <u>Dec. 31 2002</u> | <u>Dec. 31 2001</u> |
| Gross book value | \$ 953 | \$ 914 |
| Less: Accumulated amortization | 394 | 103 |
| | <u>\$ 559</u> | <u>\$ 811</u> |

The amortization charged to income was \$118 million in 2002. In accordance with SFAS 142 (see New Accounting Standards), \$259 million (net of amortization) has been reclassified to *Goodwill*.

Intangible assets principally comprise patents, software, technology and other. At December 31, the gross book value, accumulated amortization and amortization periods of intangible assets were as follows:

| | <u>2002</u> | | <u>2001</u> | | |
|----------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|---------------------------------|
| | <u>Gross Book Value</u> | <u>Accumulated Amortization</u> | <u>Gross Book Value</u> | <u>Accumulated Amortization</u> | <u>Amortization Periods</u> |
| Software | \$ 458 | \$ 164 | \$ 214 | \$ 44 | 5-10 years |

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| | | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|------------|
| Technology | 242 | 81 | 175 | 6 | 5-10 years |
| Patents | 174 | 124 | 143 | 29 | 5-10 years |
| Other ¹ | 79 | 25 | 382 | 24 | 1-15 years |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | |
| | \$ 953 | \$ 394 | \$ 914 | \$ 103 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | |

1. In 2001, includes Assembled Workforce which was reclassified to goodwill following the adoption of SFAS 142 on January 1, 2002.

The weighted average amortization period for all intangible assets is approximately 7 years.

Amortization charged to income for the subsequent five years is estimated, based on the December 31, 2002 Gross Book Value, to be 2003 \$134 million, 2004 \$112 million, 2005 \$96 million, 2006 \$75 million and 2007 \$56 million.

Long-term Debt

A summary of long-term debt by currency at December 31 follows:

(Stated in millions)

| | 2002 | | | | 2001 | | | |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|
| | Bonds | CP | Others | Total | Bonds | CP | Others | Total |
| US dollar | \$ 997 | \$ 724 | \$ 407 | \$ 2,128 | \$ | \$ 335 | \$ 2,859 | \$ 3,194 |
| Euro | 1,399 | 442 | 237 | 2,078 | 1,188 | | 377 | 1,565 |
| UK pound | 676 | 579 | 122 | 1,377 | 615 | | 586 | 1,201 |
| Canadian dollar | 116 | | 75 | 191 | 115 | | 14 | 129 |
| Japanese yen | | | 58 | 58 | | | 107 | 107 |
| Other | | | 197 | 197 | | | 20 | 20 |
| | \$ 3,188 | \$ 1,745 | \$ 1,096 | \$ 6,029 | \$ 1,918 | \$ 335 | \$ 3,963 | \$ 6,216 |

During January 2002, two principal subsidiaries of Schlumberger in Europe initiated a Euro commercial paper program, which is guaranteed by Schlumberger Limited and supported by a long-term credit facility. Commercial paper borrowings are classified as long-term debt to the extent of their backup by available and unused committed facilities maturing in more than one year and the intent to maintain these obligations for longer than one year.

On April 4, 2002, the principal US subsidiary of Schlumberger issued \$1 billion of 10 year notes with a coupon rate of 6.50% in the US market. The notes were issued under rule 144A without registration rights for life. The fair market value at December 31, 2002 was \$1,112 million.

At December 31, 2002, the borrowings in euro included \$881 million of bonds at 5.25% due in 2008 and \$518 million of bonds at 5.875% due in 2011 issued in the Euro market by the principal subsidiary in France. The aggregate fair market value at December 31, 2002 was \$1,483 million.

At December 31, 2002, the borrowings in UK pound included \$398 million of bonds at 6.25% due in 2008 and \$278 million of bonds at 6.50% due in 2032 issued in the Euro market by the principal subsidiary in the UK. The aggregate fair market value at December 31, 2002 was \$734 million.

The remainder of the long-term debt is at variable interest rates. Such rates are reset every six months or sooner. The carrying value of this long-term debt on December 31, 2002 approximates its fair market value. The weighted-average interest rate of the total debt outstanding on December 31, 2002 was 5.0%, including the effect of the interest rate swaps discussed below.

Long-term debt on December 31, 2002, is due as follows: \$410 million in 2004, \$355 million in 2005, \$315 million in 2006, \$1,835 million in 2007 and \$3,114 million thereafter.

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On December 31, 2002, interest rate swap arrangements outstanding were: pay fixed/receive floating on US dollar debt of \$800 million; pay fixed/receive floating on Japanese yen debt of \$67 million. These arrangements mature at various dates to December 2009. Interest rate swap arrangements increased consolidated interest expense in 2002 by \$37 million.

Lines of Credit

On December 31, 2002, wholly owned subsidiaries of Schlumberger had separate lines of credit agreements aggregating \$7.7 billion with commercial banks, of which \$7.3 billion was committed and \$3.7 billion was available and unused. It included \$4.6 billion of committed facilities which support borrowings under commercial paper programs in the United States and Europe, of which \$3.6 billion matures in January 2007 and \$1 billion which matured in January 2003 was renewed for \$500 million. Interest rates and other terms of borrowing under these lines of credit vary from country to country.

Derivative Instruments and Hedging Activities

Commencing January 1, 2001, Schlumberger adopted SFAS 133 (Accounting for Derivative Instruments and Hedging Activities). Schlumberger uses derivative instruments such as interest rate swaps, currency

swaps, forward currency contracts and foreign currency options. Forward currency contracts provide a hedge against currency fluctuations on assets/liabilities denominated in other than a functional currency. Options are usually entered into as a hedge against currency variations on firm commitments generally involving the construction of long-lived assets.

Schlumberger maintains a foreign-currency risk management strategy that uses derivative instruments to protect its interests from unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. Movements in foreign currency exchange rates pose a risk to Schlumberger's operations as exchange rate changes may affect profitability and cash flow. Schlumberger uses foreign currency forward exchange contracts, swaps and options. Schlumberger also maintains an interest rate risk management strategy that uses fixed rate debt and derivatives to minimize significant, unanticipated earnings fluctuations caused by interest rate volatility.

Schlumberger's specific goals are (1) to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain of its debt and (2) to lower (where possible) the cost of borrowed funds.

By using derivative financial instruments to hedge exposure to changes in exchange rates and interest rates, Schlumberger exposes itself to credit risk and market risk. Schlumberger minimizes the credit risk by entering into transactions with high-quality counterparties, limiting the exposure to each counterparty and monitoring the financial condition of its counterparties. Market risk is managed through the setting and monitoring of parameters that limit the types and degree of market risk which are acceptable.

At December 31, 2002, Schlumberger recognized a net \$83 million charge in Stockholders' Equity relating to derivative instruments and hedging activities. This charge was primarily due to the change in the fair market value of Schlumberger's US interest rate swaps as a result of declining interest rates.

Capital Stock

Schlumberger is authorized to issue 1,500,000,000 shares of common stock, par value \$0.01 per share, of which 582,173,115 and 575,890,398 shares were outstanding on December 31, 2002 and 2001, respectively. Schlumberger 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.

Stock Compensation Plans

As of December 31, 2002, Schlumberger had two types of stock-based compensation plans, which are described below. Schlumberger 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 stock-based Schlumberger plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method of SFAS 123, Schlumberger net income and earnings per share would have been the pro forma amounts indicated below:

(Stated in millions except per share amounts)

| 2002 | 2001 | 2000 |
|------|------|------|
|------|------|------|

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| | | | |
|-----------------------------------|------------|---------|---------|
| Net income (loss) | | | |
| As reported | \$ (2,320) | \$ 522 | \$ 735 |
| Pro forma | \$ (2,476) | \$ 386 | \$ 633 |
| Basic earnings (loss) per share | | | |
| As reported | \$ (4.01) | \$ 0.91 | \$ 1.29 |
| Pro forma | \$ (4.28) | \$ 0.67 | \$ 1.11 |
| Diluted earnings (loss) per share | | | |
| As reported | \$ (4.01) | \$ 0.91 | \$ 1.27 |
| Pro forma | \$ (4.28) | \$ 0.67 | \$ 1.09 |

Stock Option Plans

During 2002, 2001, 2000 and in prior years, officers and key employees were granted stock options under Schlumberger stock option plans. For all of the stock options granted, the exercise price of each option equals the market price of Schlumberger stock on the date of grant; an option's maximum term is ten years, and options generally vest in 20% increments over five years.

As required by SFAS 123, the fair value of each grant is estimated on the date of grant using the multiple option Black-Scholes option-pricing model with the following weighted-average assumptions used for 2002, 2001 and 2000: dividend of \$0.75; expected volatility of 32-36% for 2002 grants, 32-35% for 2001 grants and 27-33% for 2000 grants; risk-free interest rates for the 2002 grants of 4.34%-5.25% for officers and 3.04%-4.73% for the 2002 grants to all other employees; risk-free interest rates for the 2001 grants of 4.91% for officers and 3.87%-5.01% for the 2001 grants to all other employees; risk-free interest rates for the 2000 grants of 5.75%-6.84% for officers and 5.69%-6.72% for the 2000 grants to all other employees; and expected option lives of 6.6 years for officers and 5.07 years for other employees for 2002 grants, expected option lives of 5.51 years for officers and 5.02 years for other employees for 2001 grants, expected option lives of 7.16 years for officers and 5.49 years for other employees for 2000 grants.

A summary of the status of the Schlumberger stock option plans as of December 31, 2002, 2001 and 2000, and changes during the years ending on those dates is presented below:

| | 2002 | | 2001 | | 2000 | |
|--|-------------|---------------------------------|-------------|---------------------------------|-------------|---------------------------------|
| | Shares | Weighted-average exercise price | Shares | Weighted-average exercise price | Shares | Weighted-average exercise price |
| Fixed Options | | | | | | |
| Outstanding at beginning of year | 32,836,340 | \$55.80 | 31,208,321 | \$54.43 | 31,613,924 | \$37.91 |
| Granted | 7,314,617 | \$55.14 | 4,110,468 | \$61.55 | 5,643,500 | \$79.64 |
| Exercised | (2,296,593) | \$30.02 | (1,444,588) | \$31.88 | (5,447,870) | \$30.76 |
| Forfeited | (984,680) | \$66.69 | (1,037,861) | \$71.27 | (601,233) | \$62.03 |
| Outstanding at year-end | 36,869,684 | \$57.03 | 32,836,340 | \$55.80 | 31,208,321 | \$54.43 |
| Options exercisable at year-end | 21,142,473 | | 19,724,680 | | 16,277,868 | |
| Weighted-average fair value of options granted during the year | \$ 20.22 | | \$ 21.51 | | \$ 30.03 | |

The following table summarizes information concerning currently outstanding and exercisable options by five ranges of exercise prices on December 31, 2002:

| Range of exercise prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|-----------------------------------|---|---------------------------------|-----------------------------------|---------------------------------|
| | Number outstanding as of 12/31/02 | Weighted-average remaining contractual life | Weighted-average exercise price | Number exercisable as of 12/31/02 | Weighted-average exercise price |
| | | | | | |

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| | | | | | |
|---------------------|-------------------|------|-----------|-------------------|-----------|
| \$ 3.831 - \$22.073 | 114,170 | 2.71 | \$ 18.925 | 114,170 | \$ 18.925 |
| \$24.142 - \$30.710 | 5,354,259 | 2.18 | \$ 27.634 | 5,354,259 | \$ 27.634 |
| \$30.795 - \$44.843 | 4,290,878 | 3.97 | \$ 39.264 | 3,883,836 | \$ 38.990 |
| \$46.075 - \$65.330 | 16,516,490 | 7.96 | \$ 56.343 | 4,528,477 | \$ 55.207 |
| \$71.315 - \$82.348 | 10,593,887 | 6.28 | \$ 80.566 | 7,261,731 | \$ 80.811 |
| | <u>36,869,684</u> | 6.16 | \$ 57.030 | <u>21,142,473</u> | \$ 53.844 |

Employee Stock Purchase Plan

Under the Schlumberger Discounted Stock Purchase Plan, Schlumberger is authorized to issue up to 22,012,245 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 Schlumberger 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, Schlumberger sold 2,677,842, 1,752,833 and 1,431,309 shares to employees in 2002, 2001 and 2000, respectively. Proforma 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 2002, 2001 and 2000: Dividend of \$0.75; expected life of one year; expected volatility of 34% for 2002, 36% for 2001 and 38% for 2000; and risk-free interest rates of 1.74% for 2002, 3.03% for 2001, 5.71% for 2000. The weighted-average fair value of those purchase rights granted in 2002, 2001 and 2000, was \$13.324, \$15.540 and \$23.141, respectively.

Income Tax Expense

Schlumberger and its subsidiaries operate in more than 100 taxing jurisdictions where statutory tax rates generally vary from 0% to 50%.

In 2002, pretax book income in the US included gains from a business divestiture aggregating approximately \$143 million. Pretax book income from continuing operations subject to US and non-US income taxes for each of the three years ended December 31, was as follows:

| | <i>(Stated in millions)</i> | | |
|-----------------------|-----------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| United States | \$ 143 | \$ 677 | \$ 45 |
| Outside United States | (2,376) | 373 | 889 |
| Pretax income | \$ (2,227) | \$ 1,096 | \$ 934 |

Schlumberger has net deferred tax assets of \$583 million on December 31, 2002 including a partial valuation allowance of \$147 million relating to a certain European net operating loss, and \$488 million on December 31, 2001. Significant components of net deferred tax assets at December 31, 2002 included postretirement and other long-term benefits (\$200 million), current employee benefits (\$225 million), fixed assets, inventory and other (\$123 million) and net operating losses (\$182 million less a partial valuation allowance of \$147 million). At December 31, 2001, it included postretirement and other long-term benefits (\$186 million), current employee benefits (\$93 million), fixed assets, inventory and other (\$120 million) and net operating losses (\$49 million).

The components of consolidated income tax expense from continuing operations were as follows:

| | <i>(Stated in millions)</i> | | |
|-------------------------|-----------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| Current: | | | |
| United States - Federal | \$ 26 | \$ 343 | \$ 25 |

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| | | | |
|------------------------------|-------------------|-------------------|-------------------|
| United States - State | 1 | 43 | 4 |
| Outside United States | 182 | 179 | 186 |
| | <u> </u> | <u> </u> | <u> </u> |
| | \$ 209 | \$ 565 | \$ 215 |
| | <u> </u> | <u> </u> | <u> </u> |
| Deferred: | | | |
| United States - Federal | \$ 28 | \$ 5 | \$ (4) |
| United States - State | 2 | 3 | (2) |
| Outside United States | (103) | (8) | 13 |
| Valuation allowance | 147 | | |
| | <u> </u> | <u> </u> | <u> </u> |
| | \$ 74 | \$ | \$ 7 |
| | <u> </u> | <u> </u> | <u> </u> |
| Consolidated taxes on income | \$ 283 | \$ 565 | \$ 222 |
| | <u> </u> | <u> </u> | <u> </u> |

Schlumberger reported several charges/credits in continuing operations in each of the three years. These are more fully described in the note *Charges - Continuing Operations* on page 45. A reconciliation of the US statutory federal tax rate (35%) to the consolidated effective tax rate is:

| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|-------------------|-------------------|-------------------|
| US federal statutory (benefit) rate | (35)% | 35% | 35% |
| US state income taxes | % | 2% | % |
| Non US income taxed at different rates | (6)% | (5)% | (11)% |
| Valuation allowance | 7% | % | % |
| Charges and credits | 47% | 20% | % |
| | <u> </u> | <u> </u> | <u> </u> |
| Effective income tax rate | 13% | 52% | 24% |
| | <u> </u> | <u> </u> | <u> </u> |

Schlumberger's effective tax rate, excluding charges and credits, was 26%, 32% and 24% in 2002, 2001 and 2000 respectively.

Leases and Lease Commitments

Total rental expense was \$458 million in 2002, \$390 million in 2001 and \$287 million in 2000. Future minimum rental commitments under noncancelable leases for years ending December 31 are: \$219 million in 2003; \$187 million in 2004; \$130 million in 2005; \$109 million in 2006; and \$117 million in 2007. For the ensuing three five-year periods, these commitments decrease from \$309 million to \$19 million. The minimum rentals over the remaining terms of the leases aggregate to \$29 million.

Contingencies

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, the risk of personal injury, natural resource or property damage claims and other factors, it is possible that the ultimate remediation costs may exceed the amounts estimated. However, in the opinion of management, such additional costs are not expected to be material relative to consolidated liquidity, financial position or future results of operations.

In addition, Schlumberger 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 Schlumberger any liability that might ensue would not be material in relation to the consolidated liquidity, financial position or future results of operations.

Schlumberger's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and receivables from clients. Schlumberger places its cash and cash equivalents with financial institutions and corporations, and limits the amount of credit exposure with any one of them. Schlumberger actively evaluates the creditworthiness of the issuers in which it invests. The receivables from clients are concentrated within a few significant industries and geographies.

Segment Information

Schlumberger operates three reportable business segments: Oilfield Services (OFS), SchlumbergerSema (SLSEMA) and Other.

The Oilfield Services segment falls into four clearly defined economic and geographical areas and is evaluated on the following basis: North America is a major self-contained market; Latin America comprises regional markets that share a common dependence on the United States; Europe is a major self-contained market that includes the CIS and West Africa, whose economy is increasingly linked to that of Europe; Middle East/Asia includes the remainder of the Eastern Hemisphere, which consists of many countries at different stages of economic development that share a common dependence on the oil and gas industry. The Oilfield Services segment provides virtually all exploration and production services required during the life of an oil and gas reservoir. Schlumberger believes that all the products/services are interrelated and expects similar performance from each.

The SchlumbergerSema segment falls into three clearly defined economic and geographic areas and is evaluated on the following basis: North and South America is a major self-contained market; Europe is a major self-contained market that includes the Middle East and Africa; Asia includes the remainder of the Eastern Hemisphere. The SchlumbergerSema segment is a leading information technology services company providing domain expertise and global capabilities delivered on a local basis. SchlumbergerSema has proven capabilities delivering consulting, systems integration, managed services and products serving the telecommunications, energy & utilities, finance, transport, public sector markets and oil and gas markets.

The Other segment comprises principally the Cards, Terminals and Meters North America activities. In 2001 and 2000, also included are the divested Resource Management Services businesses.

Financial information for the years ended December 31, 2002, 2001 and 2000, by segment, is as follows:

(Stated in millions)

2 0 0 2

| | Revenue | Income after tax & MI | Minority Interest | Tax Expense | Income before tax | Assets | Depn. & Amortn. | Capital Expenditure |
|-----------------------|----------------|--------------------------------------|------------------------------|------------------------|------------------------------|---------------|------------------------------------|--------------------------------|
| OFS | | | | | | | | |
| North America | \$ 2,780 | \$ 254 | \$ | \$ 155 | \$ 409 | \$ 3,154 | \$ 456 | \$ 576 |
| Latin America | 1,471 | 148 | | 27 | 175 | 1,443 | 175 | 143 |
| Europe/CIS/W. Africa | 2,678 | 245 | | 77 | 322 | 1,919 | 291 | 311 |
| Middle East/Asia | 2,368 | 394 | | 63 | 457 | 2,024 | 277 | 284 |
| Eliminations/Other | 50 | (54) | 1 | 18 | (35) | 2,762 | 58 | 126 |
| | <u>9,347</u> | <u>987</u> | <u>1</u> | <u>340</u> | <u>1,328</u> | <u>11,302</u> | <u>1,257</u> | <u>1,440</u> |
| SLSEMA | | | | | | | | |
| North & South America | 545 | (28) | | (15) | (43) | 625 | 40 | 88 |
| Europe/M. East/Africa | 2,317 | 121 | 2 | 45 | 168 | 2,541 | 121 | 95 |
| Asia | 213 | 2 | | 3 | 5 | 369 | 34 | 27 |
| Eliminations/Other | (84) | (74) | (1) | (21) | (96) | 393 | | |

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| | | | | | | | | |
|--------------------------------|------------------|---------------|-----------|---------------|-------------------|------------------|-----------------|-----------------|
| | 2,991 | 21 | 1 | 12 | 34 | 3,928 | 195 | 210 |
| OTHER | 1,202 | 13 | 2 | 8 | 23 | 1,451 | 66 | 26 |
| Corporate eliminations & Other | (298) | (34) | (4) | (110) | (148) | 2,754 | 17 | 29 |
| | <u>\$ 13,242</u> | <u>\$ 987</u> | <u>\$</u> | <u>\$ 250</u> | | <u>\$ 19,435</u> | <u>\$ 1,535</u> | <u>\$ 1,705</u> |
| Interest Income | | | | | 68 | | | |
| Interest Expense | | | | | (364) | | | |
| Charges | | | | | (3,168) | | | |
| | | | | | <u>\$ (2,227)</u> | | | |

(Stated in millions)

2001

| | Revenue | Income after tax & MI | Minority Interest | Tax Expense | Income before tax | Assets | Depn. & Amortn. | Capital Expenditure |
|--------------------------------|------------------|--------------------------|----------------------|----------------|----------------------|------------------|-----------------------|------------------------|
| OFS | | | | | | | | |
| North America | \$ 3,654 | \$ 534 | \$ | \$ 318 | \$ 852 | \$ 3,070 | \$ 602 | \$ 999 |
| Latin America | 1,574 | 161 | | 39 | 200 | 1,582 | 163 | 238 |
| Europe/CIS/W. Africa | 2,341 | 264 | | 80 | 344 | 2,022 | 275 | 320 |
| Middle East/Asia | 2,162 | 388 | | 67 | 455 | 1,741 | 257 | 396 |
| Eliminations/Other | 136 | (93) | 35 | 10 | (48) | 2,532 | 36 | 159 |
| | <u>9,867</u> | <u>1,254</u> | <u>35</u> | <u>514</u> | <u>1,803</u> | <u>10,947</u> | <u>1,333</u> | <u>2,112</u> |
| SLSEMA | | | | | | | | |
| North & South America | 523 | (25) | | (27) | (52) | 906 | 33 | 108 |
| Europe/M. East/Africa | 1,714 | 93 | | 33 | 126 | 3,763 | 55 | 57 |
| Asia | 155 | 9 | | 4 | 13 | 508 | 26 | 57 |
| Eliminations/Other | (134) | (99) | | (21) | (120) | 2,321 | | |
| | <u>2,258</u> | <u>(22)</u> | | <u>(11)</u> | <u>(33)</u> | <u>7,498</u> | <u>114</u> | <u>222</u> |
| OTHER | 1,956 | 96 | 6 | 14 | 116 | 1,465 | 72 | 71 |
| Corporate eliminations & Other | (203) | (303) | (3) | (114) | (420) | 2,416 | 356 | 49 |
| | <u>\$ 13,878</u> | <u>\$ 1,025</u> | <u>\$ 38</u> | <u>\$ 403</u> | | <u>\$ 22,326</u> | <u>\$ 1,875</u> | <u>\$ 2,454</u> |
| Interest Income | | | | | 153 | | | |
| Interest Expense | | | | | (380) | | | |
| Charges | | | | | (143) | | | |
| | | | | | <u>\$ 1,096</u> | | | |

(Stated in millions)

2000

| | Revenue | Income after tax & MI | Minority Interest | Tax Expense | Income before tax | Assets | Depn. & Amortn. | Capital Expenditure |
|-----------------------|--------------|--------------------------|----------------------|----------------|----------------------|--------------|-----------------------|------------------------|
| OFS | | | | | | | | |
| North America | \$ 2,459 | \$ 235 | \$ | \$ 145 | \$ 380 | \$ 2,985 | \$ 403 | \$ 608 |
| Latin America | 1,192 | 64 | | 22 | 86 | 1,305 | 186 | 212 |
| Europe/CIS/W. Africa | 1,666 | 160 | | 57 | 217 | 1,689 | 221 | 259 |
| Middle East/Asia | 1,716 | 275 | | 28 | 303 | 1,475 | 229 | 261 |
| Eliminations/Other | 220 | 22 | (1) | 34 | 55 | 1,585 | | 9 |
| | <u>7,253</u> | <u>756</u> | <u>(1)</u> | <u>286</u> | <u>1,041</u> | <u>9,039</u> | <u>1,039</u> | <u>1,349</u> |
| SLSEMA | | | | | | | | |
| North & South America | 157 | (35) | | (32) | (67) | 637 | 15 | 15 |
| Europe/M. East/Africa | 61 | 2 | | | 2 | 100 | 1 | 2 |
| Asia | 20 | 1 | | 1 | 2 | 5 | 1 | 1 |

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| | | | | | | | | |
|--------------------------------|----------|--------|------|--------|--------|-----------|----------|----------|
| Eliminations/Other | | (9) | | (3) | (12) | | | |
| | 238 | (41) | | (34) | (75) | 742 | 17 | 18 |
| OTHER | 2,182 | 113 | 8 | 31 | 152 | 1,913 | 87 | 139 |
| Corporate eliminations & Other | (128) | (134) | | (72) | (206) | 5,479 | 112 | 8 |
| | \$ 9,545 | \$ 694 | \$ 7 | \$ 211 | | \$ 17,173 | \$ 1,255 | \$ 1,514 |
| Interest Income | | | | | 297 | | | |
| Interest Expense | | | | | (273) | | | |
| Charges | | | | | (2) | | | |
| | | | | | \$ 934 | | | |

Oilfield Services net income eliminations include certain headquarters administrative costs which are not allocated geographically, manufacturing and certain other operations, and costs maintained at the Oilfield Services level including the WesternGeco minority interest expense.

SchlumbergerSema net income eliminations include certain headquarters administrative costs which are not allocated geographically and other costs maintained at the SchlumbergerSema level.

Corporate income eliminations principally comprise the amortization of goodwill (in 2001 and 2000) and other intangibles, as well as nonoperating expenses, such as certain intersegment charges and interest expense (except as shown above), which are not included in the segments' income. Corporate assets largely comprise short-term investments and fixed income investments, held to maturity.

During the three years ended December 31, 2002, no single customer exceeded 10% of consolidated revenue.

Schlumberger did not have revenue from third-party customers in its country of domicile during the last three years. In each of the three years, only revenue in the US exceeded 10% of consolidated revenue. Revenue in the US in 2002, 2001 and 2000 was \$4.0 billion, \$5.1 billion and \$3.5 billion, respectively.

Interest expense excludes amounts which are included in the segments income (2002 \$4 million; 2001 \$5 million; 2000 \$5 million).

Depreciation & Amortization and Capital Expenditure include Multiclient seismic data costs.

Pension and Other Benefit Plans

US Pension Plans

Schlumberger 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 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 annually contribute 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 2002 were 7.25%, 3% and 8.5%, respectively. In 2001, the assumptions were 7.5%, 4.5% and 9%, respectively. In 2000, the assumptions were 7.75%, 4.5% and 9%, respectively.

Net pension cost in the US for 2002, 2001 and 2000, included the following components:

| | <i>(Stated in millions)</i> | | |
|---|-----------------------------|--------------|-------------|
| | 2002 | 2001 | 2000 |
| Service cost - benefits earned during the period | \$ 51 | \$ 38 | \$ 32 |
| Interest cost on projected benefit obligation | 90 | 84 | 76 |
| Expected return on plan assets (actual return: 2002 \$(114); 2001 \$(70); 2000 \$(2)) | (93) | (101) | (97) |
| Amortization of transition assets | | (1) | (1) |
| Amortization of prior service cost/other | 7 | 7 | 5 |
| Amortization of unrecognized net gain | | (4) | (11) |
| Net pension cost | \$ 55 | \$ 23 | \$ 4 |

Effective January 1, 2000, Schlumberger and its subsidiaries amended their pension plans to improve retirement benefits for active employees.

The change in the projected benefit obligation, plan assets and funded status of the plans on December 31, 2002 and 2001, was as follows:

| | (Stated in millions) | |
|---|----------------------|----------|
| | 2002 | 2001 |
| Projected benefit obligation at beginning of the year | \$ 1,254 | \$ 1,105 |
| Service cost | 51 | 38 |
| Interest cost | 90 | 84 |
| Actuarial losses | 123 | 96 |
| Benefits paid | (77) | (69) |
| Projected benefit obligation at end of the year | \$ 1,441 | \$ 1,254 |
| Plan assets at market value at beginning of the year | \$ 1,074 | \$ 1,212 |
| Actual return on plan assets | (114) | (70) |
| Contribution | 69 | 1 |
| Benefits paid | (77) | (69) |
| Plan assets at market value at end of the year | \$ 952 | \$ 1,074 |
| Excess of projected benefit obligation over assets | \$ (489) | \$ (180) |
| Unrecognized net loss | 329 | 1 |
| Unrecognized prior service cost | 22 | 27 |
| Contribution receivable | (50) | |
| Pension liability at end of the year | \$ (188) | \$ (152) |
| Plan assets at market value at end of the year | \$ 902 | \$ |
| Accumulated benefits obligation at end of the year | (1,336) | |
| Minimum liability | (434) | |
| Pension liability at end of the year | 188 | |
| Prior service cost | 22 | |
| Charged to other comprehensive income (loss) | \$ (224) | \$ |

The market performance over the last two years has decreased the value of assets held in the US pension plans and has correspondingly increased the amount by which the pension plans are under-funded. As a result of the decline in the value of the pension plan assets and a decline in the interest rates, which increases the present value of the benefit obligations, Schlumberger recorded in the fourth quarter a non-cash charge to *Stockholders' Equity* of \$224 million. A recovery in market returns in future periods would reverse a portion of the charge.

The assumed discount rate, the rate of compensation increases and the expected long-term rate of return on plan assets used to determine the projected benefit obligations were 6.75%, 3% and 8.5%, respectively, in 2002, and 7.25%, 4.5% and 9%, respectively, in 2001. Plan assets, excluding the contribution receivable, on December 31, 2002, consisted of common stocks (\$524 million), cash or cash equivalents (\$98 million), fixed income investments (\$228 million) and other investments (\$52 million). On December 31, 2002, there is no investment of the plan assets in Schlumberger common stock.

Non-US Pension Plans

Outside the US, subsidiaries of Schlumberger 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 funded with trustees in respect to past and current service. For all defined benefit plans, pension expense was \$58 million, \$52 million and \$23 million in 2002, 2001 and 2000, respectively. Based on plan assets and the projected benefit obligation, 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 2002 were 5.75%, 4.0% and 9.0% respectively. In 2001, the assumptions were 6%, 4% and 9%, respectively.

Net pension cost in the UK plan for 2002, 2001 (including the Sema plc plans) and 2000 (translated into US dollars at the average exchange rate for the periods), included the following components:

| | <i>(Stated in millions)</i> | | |
|--|-----------------------------|-------------------|-------------------|
| | 2002 | 2001 | 2000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Service cost - benefits earned during the period | \$ 58 | \$ 47 | \$ 22 |
| Interest cost on projected benefit obligation | 59 | 44 | 17 |
| Expected return on plan assets (actual return: 2002 (\$147); 2001 (\$47); 2000 (\$28)) | (91) | (68) | (34) |
| Amortization of transition asset and other | 1 | (2) | (5) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net pension cost | \$ 27 | \$ 21 | \$ |
| | <u> </u> | <u> </u> | <u> </u> |

The change in the projected benefit obligation, plan assets and funded status of the plan (translated into US dollars at year-end exchange rates) was as follows:

| | (Stated in millions) | |
|---|-------------------------|---------------|
| | 2002 | 2001 |
| Projected benefit obligation at beginning of the year | \$ 989 | \$ 311 |
| Acquisition of Sema | | 580 |
| Service cost | 58 | 47 |
| Interest cost | 59 | 44 |
| Contributions by Plan participants | 7 | |
| Actuarial (gains) losses | (45) | 55 |
| Loss (gain) on exchange | 106 | (2) |
| Benefits paid | (25) | (21) |
| Disposals | (7) | (25) |
| Projected benefit obligation at end of the year | <u>\$ 1,142</u> | <u>\$ 989</u> |
| Plan assets at market value at beginning of the year | \$ 868 | \$ 385 |
| Acquisition of Sema | | 540 |
| Actual return on plan assets | (147) | (47) |
| Gain (loss) on exchange | 81 | (5) |
| Employer contributions | 39 | 31 |
| Employee contributions | 7 | 6 |
| Benefits paid | (25) | (21) |
| Disposals | (8) | (21) |
| Plan assets at market value at end of the year | <u>\$ 815</u> | <u>\$ 868</u> |
| Excess of projected benefit obligation over assets | \$ (327) | \$ (121) |
| Unrecognized net loss | 351 | 131 |
| Unrecognized prior service cost | 1 | 1 |
| Unrecognized net asset at transition date | (2) | (1) |
| Pension asset | <u>\$ 23</u> | <u>\$ 10</u> |
| Assets of under-funded plans at market value at end of the year | \$ 335 | \$ |
| Accumulated benefit obligation of under-funded plans at end of the year | (495) | |
| Minimum liability of under-funded plans | (160) | |
| Pension liability of under-funded plans | 70 | |
| Charged to other comprehensive income (loss) | <u>\$ (90)</u> | <u>\$</u> |

The market performance over the last two years has decreased the value of assets held in the UK pension plans and has correspondingly increased the amount by which the pension plans are under-funded. As a result of the decline in the value of the pension plan assets and a decline in the interest rates, which increased the present value of the benefit obligations, Schlumberger recorded in the fourth quarter a non-cash charge to *Stockholders' Equity* of \$90 million. A recovery in market returns in future periods would reverse a portion of the charge.

The assumed discount rate and rate of compensation increases used to determine the projected benefit obligation were 5.70% and 3.75%-2.55% respectively in 2002, and 5.75% and 4%, respectively in 2001. Plan assets consisted of common stocks (\$610 million), cash or cash equivalents (\$64 million) and fixed income investments (\$141 million). None of the segregated plan assets represented Schlumberger common stock.

For defined contribution plans, funding and cost are generally based upon a predetermined percentage of employee compensation. Charges to expense in 2002, 2001 and 2000, were \$44 million, \$32 million and \$22 million, respectively.

Other Deferred Benefits

In addition to providing pension benefits, Schlumberger and its subsidiaries have other deferred benefit programs, primarily profit sharing. Expenses for these programs were \$143 million, \$192 million and \$114 million in 2002, 2001 and 2000, respectively.

Health Care Benefits

Schlumberger 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 \$79 million, \$68 million and \$60 million in 2002, 2001 and 2000, respectively. Outside the US, such benefits are mostly provided through government-sponsored programs.

Postretirement Benefits Other than Pensions

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

The principal actuarial assumptions used to measure costs were a discount rate of 7.25% in 2002, 7.5% in 2001 and 7.75% in 2000. The overall medical cost trend rate assumption is 9.5% graded to 5% over the next six years and 5% thereafter.

Net periodic postretirement benefit cost in the US for 2002, 2001 and 2000, included the following components:

| | <i>(Stated in millions)</i> | | |
|--|-----------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| | — | — | — |
| Service cost benefits earned during the period | \$ 21 | \$ 13 | \$ 10 |
| Interest cost on accumulated postretirement benefit obligation | 41 | 32 | 28 |
| Amortization of unrecognized net gain and other | 4 | (1) | (3) |
| | — | — | — |
| | \$ 66 | \$ 44 | \$ 35 |
| | — | — | — |

The change in accumulated postretirement benefit obligation and funded status on December 31, 2002 and 2001, was as follows:

| | <i>(Stated in millions)</i> | |
|--|-----------------------------|-------------|
| | 2002 | 2001 |
| | — | — |
| Accumulated postretirement benefit obligation at beginning of the year | \$ 478 | \$ 398 |
| Service cost | 21 | 13 |
| Interest cost | 41 | 32 |
| Actuarial losses (gains) | 121 | 53 |
| Benefits paid | (21) | (18) |
| Other | 36 | |
| | — | — |
| Accumulated postretirement benefit obligation at the end of the year | 676 | 478 |
| Unrecognized net gain | (105) | 14 |
| Unrecognized prior service cost/other | (27) | 13 |

| | | |
|---|---------------|---------------|
| Postretirement benefit liability on December 31 | <u>\$ 544</u> | <u>\$ 505</u> |
|---|---------------|---------------|

The components of the accumulated postretirement benefit obligation on December 31, 2002 and 2001, were as follows:

| | <i>(Stated in millions)</i> | |
|----------------|-----------------------------|-------------|
| | 2002 | 2001 |
| Retirees | \$ 277 | \$ 237 |
| Fully eligible | 110 | 67 |
| Actives | 289 | 174 |
| | \$ 676 | \$ 478 |

The assumed discount rate used to determine the accumulated postretirement benefit obligation was 6.75% for 2002 and 7.25% for 2001.

If the assumed medical cost trend rate was increased by one percentage point, health care cost in 2002 would have been \$76 million, and the accumulated postretirement benefit obligation would have been \$806 million on December 31, 2002.

If the assumed medical cost trend rate was decreased by one percentage point, health care cost in 2002 would have been \$52 million, and the accumulated postretirement benefit obligation would have been \$574 million on December 31, 2002.

Supplementary Information

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

| <u>Year ended December 31,</u> | <i>(Stated in millions)</i> | | |
|--------------------------------|-----------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| Operating revenue | | | |
| Products | \$ 3,733 | \$ 4,525 | \$ 3,829 |
| Services | 9,509 | 9,353 | 5,716 |
| | \$ 13,242 | \$ 13,878 | \$ 9,545 |
| Direct operating costs | | | |
| Goods sold | \$ 1,848 | \$ 2,610 | \$ 2,302 |
| Services | 8,436 | 7,778 | 5,150 |
| | \$ 10,284 | \$ 10,388 | \$ 7,452 |

Cash paid for interest and income taxes for continuing operations was as follows:

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(Stated in millions)

| Year ended December 31, | 2002 | 2001 | 2000 |
|--------------------------------|---------------|---------------|---------------|
| Interest | \$ 373 | \$ 363 | \$ 268 |
| Income taxes | \$ 251 | \$ 298 | \$ 231 |

Accounts payable and accrued liabilities are summarized as follows:

| As at December 31, | (Stated in millions) | |
|---|----------------------|-----------------|
| | 2002 | 2001 |
| Payroll, vacation and employee benefits | \$ 957 | \$ 929 |
| Trade | 999 | 1,184 |
| Taxes, other than income | 245 | 312 |
| Accrued expenses | 1,266 | 1,697 |
| Other | 1,114 | 385 |
| | \$ 4,581 | \$ 4,507 |

Interest and other income includes the following:

| Year ended December 31, | (Stated in millions) | | |
|--|----------------------|---------------|---------------|
| | 2002 | 2001 | 2000 |
| Interest income | \$ 69 | \$ 159 | \$ 302 |
| Equity in net earnings of affiliated companies | 64 | 62 | 39 |
| Gain on sale of business | | | 82 |
| Gain on sale of financial instruments | 6 | 21 | |
| | \$ 139 | \$ 242 | \$ 423 |

Allowance for doubtful accounts is as follows:

| Year ended December 31, | (Stated in millions) | |
|------------------------------|----------------------|---------------|
| | 2002 | 2001 |
| Balance at beginning of year | \$ 145 | \$ 107 |
| Provision in year | 66 | 57 |
| Written off in year | (47) | (43) |
| Other ¹ | 9 | 24 |
| Balance at end of year | \$ 173 | \$ 145 |

¹ Includes business acquisitions and divestitures.

To the Board of Directors and Stockholders

of Schlumberger Limited

In our opinion, the accompanying consolidated balance sheets 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

As discussed in the note *New Accounting Standards* to the Consolidated Financial Statements, in 2002 the Company changed its accounting method for goodwill.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York

January 22, 2003, except for the discontinued operations accounting treatment discussed in the note *Discontinued Operations in 2003* as to which the date is September 11, 2003

Quarterly Results

(UNAUDITED)

The following table summarizes Schlumberger's results for each of the four quarters for the years ended December 31, 2002 and 2001. Revenue and Gross margin, which equals operating revenue less cost of goods sold and services, has been restated to exclude discontinued operations.

(Stated in millions except per share amounts)

| | Revenue | Gross Margin | Net Income | Earnings per share ⁷ | |
|----------------------|------------------|-----------------|-------------------|------------------------------------|------------------|
| | | | | Basic | Diluted |
| Quarters-2002 | | | | | |
| First ¹ | \$ 3,257 | \$ 695 | \$ 172 | \$ 0.30 | \$ 0.30 |
| Second | 3,337 | 740 | 196 | 0.34 | 0.34 |
| Third | 3,446 | 712 | 173 | 0.30 | 0.30 |
| Fourth ² | 3,434 | (2,433) | (2,861) | (4.92) | (4.92) |
| | <u>\$ 13,474</u> | <u>\$ (286)</u> | <u>\$ (2,320)</u> | <u>\$ (4.01)</u> | <u>\$ (4.01)</u> |
| Quarters-2001 | | | | | |
| First ³ | \$ 2,951 | \$ 701 | \$ 235 | \$ 0.41 | \$ 0.41 |
| Second ⁴ | 3,712 | 550 | (93) | (0.16) | (0.16) |
| Third ⁵ | 3,710 | 899 | 195 | 0.34 | 0.34 |
| Fourth ⁶ | 3,685 | 893 | 185 | 0.32 | 0.32 |
| | <u>\$ 14,058</u> | <u>\$ 3,043</u> | <u>\$ 522</u> | <u>\$ 0.91</u> | <u>\$ 0.91</u> |

¹ Includes an after-tax charge of \$29 million (\$0.05 per share diluted).

² Includes a net, after-tax charge of \$3,081 million (\$5.30 per share).

³ Includes a \$25 million (pretax and after tax) in-process R&D charge (\$0.04 per share diluted).

⁴ Includes a net, after-tax charge of \$280 million (\$0.48 per share diluted).

⁵ Includes a net, after-tax credit of \$3 million (\$0.00 per share diluted).

⁶ Includes a net, after-tax credit of \$5 million (\$0.01 per share diluted).

⁷ The addition of earnings per share by quarter may not equal total earnings per share for the year.

* Mark of Schlumberger

Item 7. Financial Statements and Exhibits.

(c) Exhibits.

23.1 Consent of Independent Accountants

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SCHLUMBERGER N.V.
(SCHLUMBERGER LIMITED)

Date: September 11, 2003

By: /s/ FRANK A. SORGIE

Frank A. Sorgie
Chief Accounting Officer