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中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2017 Interim Results Presentation

Aug, 2017



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Section 1.

Operations in 2017 1H





Rich Experience

- **Fuling shale gas project**: the first successful commercialized shale gas project outside North America
- **Puguang gas field project**: the largest marine-facies high-sulphur gas field in China
- **Exploration and development project of multiple reservoirs in Shengli Oilfield**: the second largest oilfield in China
- **Tahe oil field project**: mega oil field with 1.2 billion-ton reserve
- **Yuanba gas field project**: the deepest marine-facies reservoir in China
- **E' bei oil and gas field project**: the first horizontal well construction demonstration area in China

Advanced Equipment

- Geophysics: **81 sets** of seismic acquisition equipments, 147 sets of vibroseis, **27,621** full digital seismic 3C geophones and offshore geophysical vessels
- Drilling: **733** onshore drilling rigs, of which **258** for wells at depth of more than 7,000 meters and **13** offshore drilling platforms
- Logging: **125** image logging systems, **169** rapid logging platforms, **434 sets** of comprehensive logging instrument
- Downhole operation: **140 sets** of type-2500 and type-3000 fracturing assembly, **46 sets** of workover rigs with power higher than 750 HP, **6** offshore operation platforms

Strong R&D capability

- **2** academicians of the Chinese Academy of Engineering
- **64** professor-level researchers and nearly **1,300** senior researchers
- **3,500** research, design, laboratory and development staff
- **3** research institutes
- **3** design companies
- **51** various professional technical institutes



National Science and Technology Progress Award 2012&2013

Technologies for safe and efficient development of extra-large ultra-deep high acid gas fields & industrial applications



Golden Prize of the National Quality Engineering

Sichuan-East China Gas Transmission Pipeline Project

Geophysics



Drilling Engineering



Logging and Mud Logging



Downhole Operation



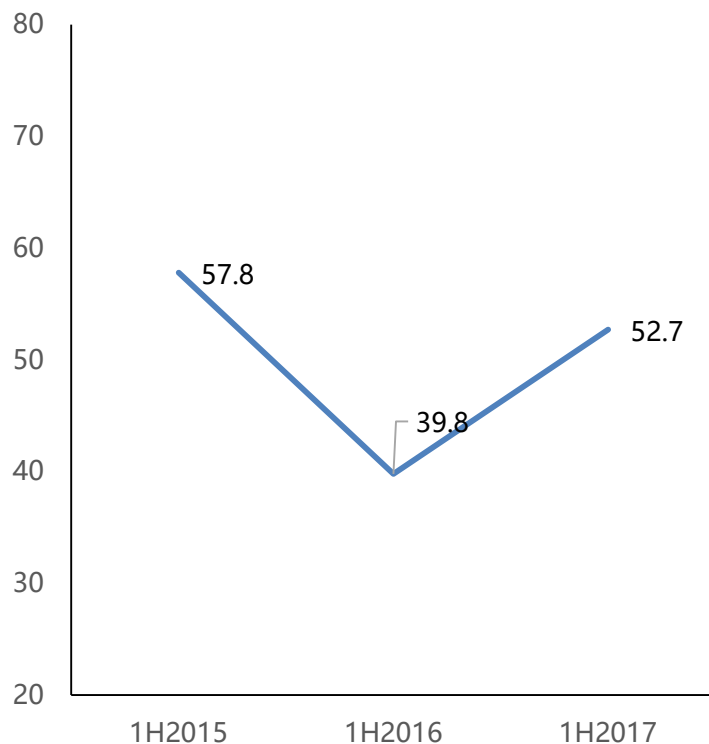
Engineering Construction



Operations in 2017 1H

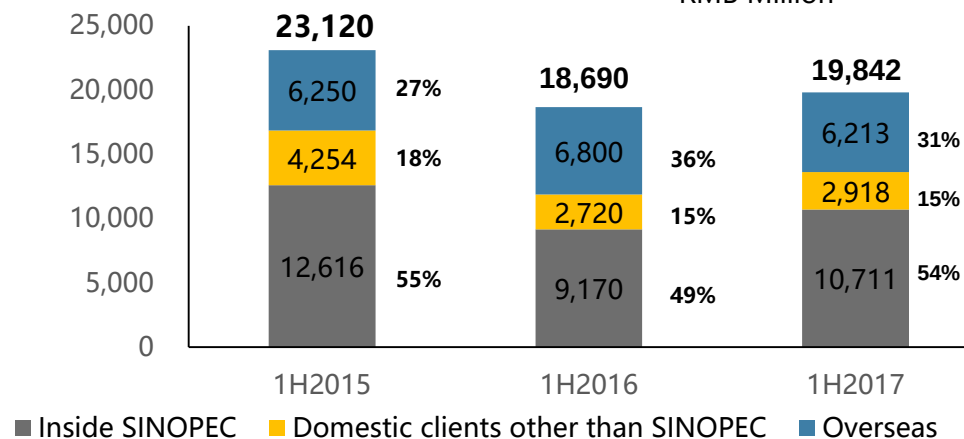
Brent Oil Average Price

USD/Barrel



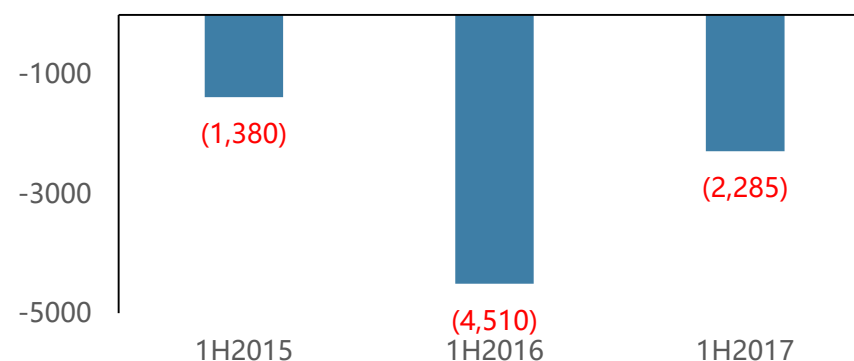
Interim Operating Revenue of 2017

RMB Million



Interim Net Profit of 2017 (ASBE)

RMB Million

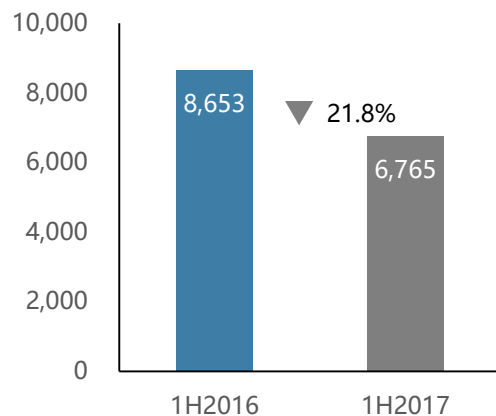


Performance by Segments

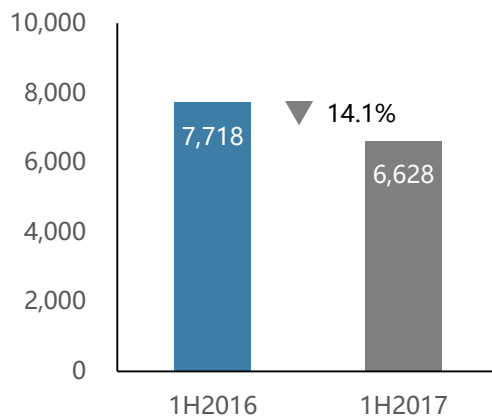


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Geophysics

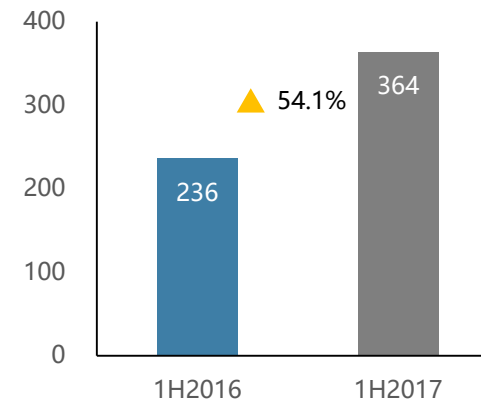


2D Seismic (km)



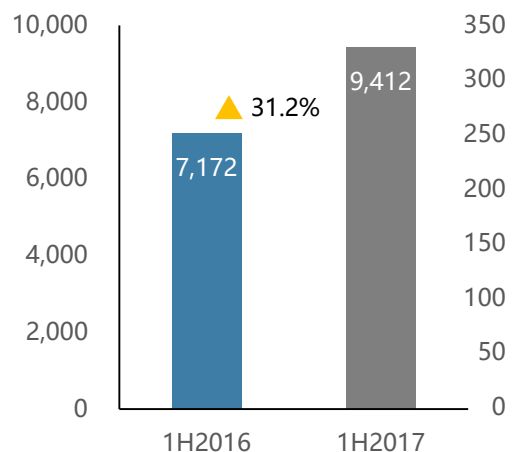
3D Seismic (km²)

Drilling Engineering

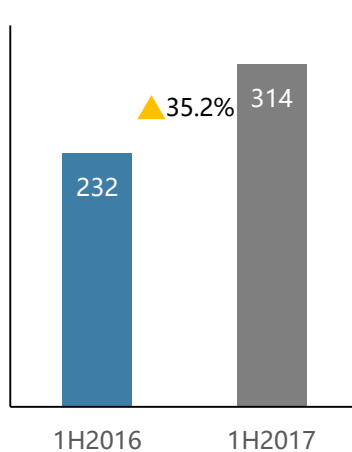


Drilling Footage (10,000m)

Logging & Mud Logging

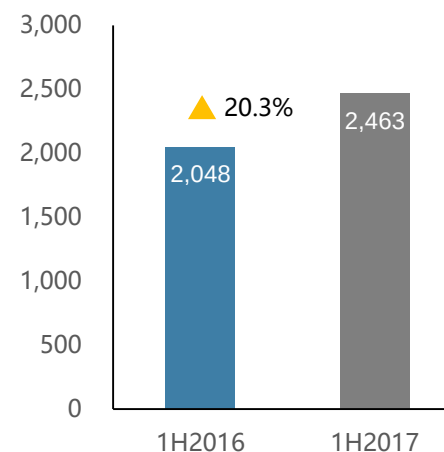


Standard Meter for Logging
(10,000m)



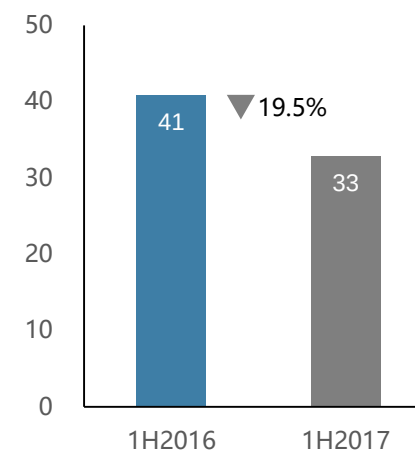
Mud Logging Footage
(10,000m)

Downhole Operation



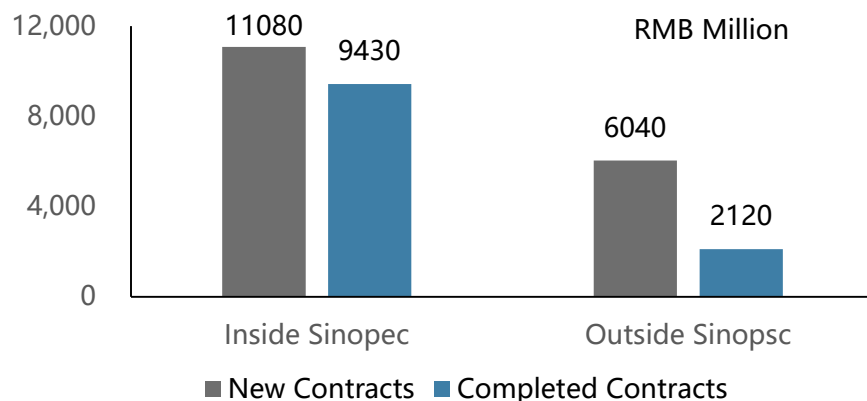
Downhole Operation
(well times)

Engineering Construction



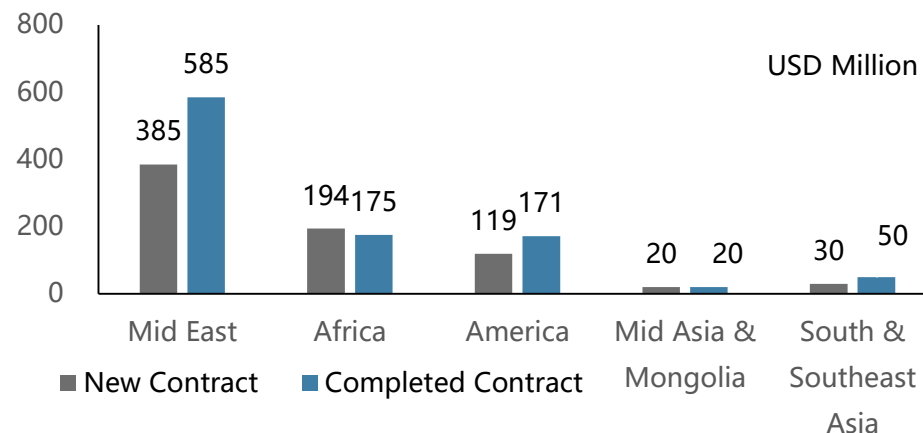
Completed Contract
(RMB 100 million)

Domestic Market Contract Value in 2017 1H



- **Inside Sinopec:** Provided service for key projects such as Shunbei Oil, Fuling Gas, Chuanxi Shale Gas, E' bei Condense Gas, Wen 23 Natural Gas Storage, Maturing Field Adjustments in East China, geothermal energy utilization; an series of construction records were made in projects such as Shunbei Oil and Chuanshen' 1
- **Domestic Market outside Sinopec:** Developed clients such as China Geological Survey Beau, with new contracts valued 140 million RMB in terms of geological services; entered salt alkali mine market in Henan and Inner Mongolia, with new contracts valued 100 million RMB in term of drilling services; awarded EPC Rizhao to Jingbo Pipeline project with contract valued 2.6 billion RMB, awarded National Reserve Pool project with contract valued 900 million RMB, awarded energy-saving and environmental-friendly project 55 million RMB in terms of engineering construction services

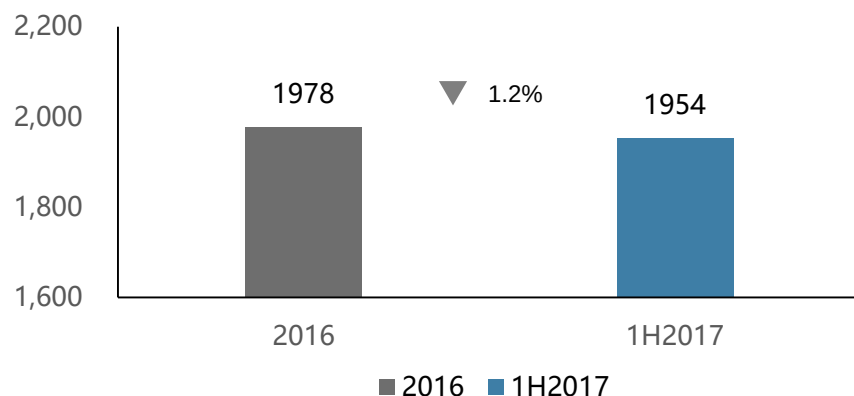
Overseas Market Contract Value in 2017 1H



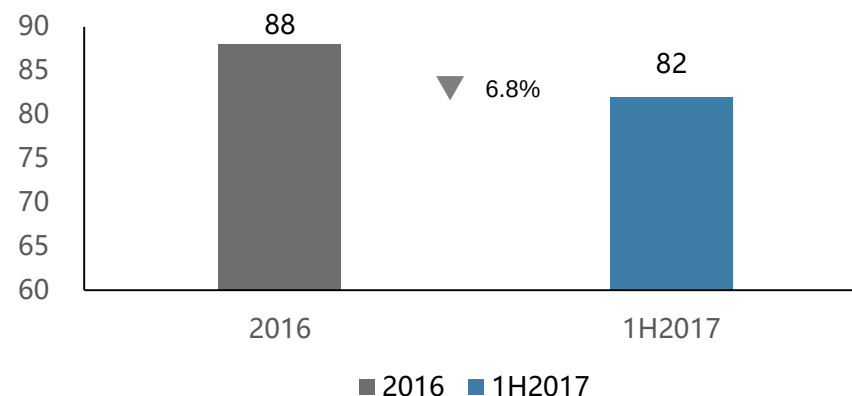
- **Overseas Market:** new contracts valued 750 million USD , completed contracts valued 1 billion USD and backlog contracts valued 4.34 billion USD
- Bolivia and Burma two-dimensional seismic project awarded, Algeria three-dimensional gathering project awarded, Panama marine two-dimensional seismic project awarded
- Turkey geothermal power generation project awarded, with contract valued 84.61 million USD
- In Kuwait, accumulated value of completed contract reached 220 million USD, increased 23.6% YoY. 14 rigs contracts renewed and 2 workover rigs awarded and , Sino-Kuwait Joint Steering Committee was founded
- ITT Phase I project was finished in Ecuador, I-L-Y Oilfield Integrated Service Project and Mexico EBANO Oilfield Integrated Service Project were steadily running

- **Internal Reforming Acceleration** : Working mechanism was established, task fulfillment was stressed and internal reforming was steadily progressing
- **Six Main Systems Establishment**: Emphasized on improving management, tapping potential, fixing loophole and enhancing efficiency and further strengthened safety, environment protection and risk control via reinforced management
- **Excess Capacity Reduction**: 24 crews were cut in 2017 1H, down by 1.2% compared to the end of 2016
- **Management Structure Optimization**: 88 domestic subsidiaries were restructured to 82 and structure-flattering reform was implemented in logging, downhole, drilling and engineering construction segments
- **New Business Exploration**: Human resource exchange cooperation system was established with Sinopec Sales Company and Natural Gas Company , with 3,400 human resource utilized totally.

Number of Crews



Number of Subsidiaries

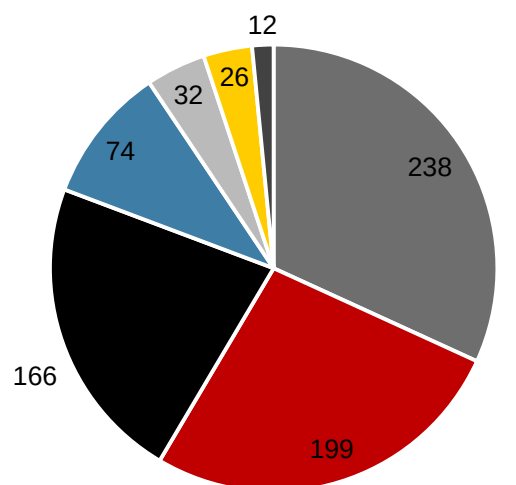


Tap Potential and Enhance Efficiency



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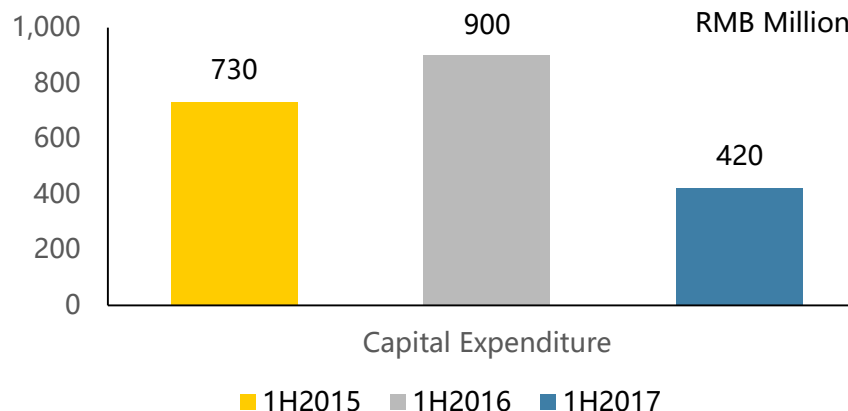
Cost reduction in 2017 1H



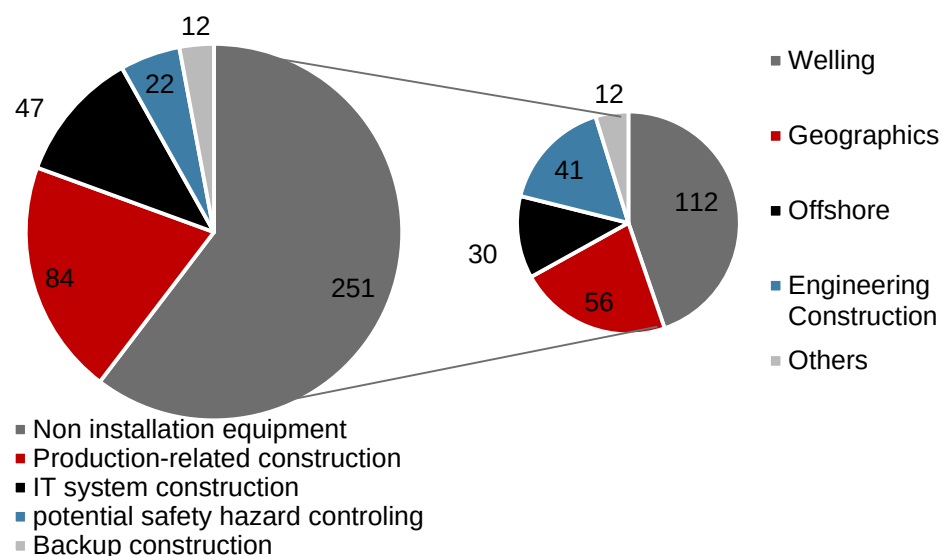
- Organization Operating Cost
- Production Operating Cost
- Procurement Cost
- Labor Output Cost
- Administrative & Sales Operation Cost
- Outsourcing Cost
- Maintenance Cost

**Realized Cost Reduction of
RMB 750 million**

Capital Expenditure



Actual Capital Expenditure in 2017 1H





Continuous Technology Innovation

Patents: 216 new patents applications were filed, 149 patents were granted

Scientific Rewards : 863 Project "Development of Radar Imaging Logging Prototype was accepted by the Ministry of Science and Technology.

The National Science and Technology Major Project "Key Equipment and Tools of Deep Shale Gas Development" was in rapid progress

Accelerated R&D and Site Application

- 1 Shale gas engineering related technologies constantly improved, mature technologies and products such as horizontal directional wells are implemented
- 2 Fast and optimal drilling technology in complex formation, deep and ultra-deep wells upgraded to support the piedmont tectonic belt evaluation in Chuandongbei and exploitation in Shunbei. Logging test breakthrough in ultra-deep oil & gas provided support for the efficient exploration and production of Shunbei Oilfield
- 3 The efficient seismic acquisition technique realized industrial application and Shallow sea seismic exploration technology achieved major breakthrough
- 4 Completed field test of 175°C bearing MWD system in 1-7H ultra-deep horizontal well in Shunbei
- 5 Own brand web-based image logging system completed site experiment, Upgraded measurements-while-drilling tools provided effective support for market expansion

Section 2.

Financials in 2017 1H



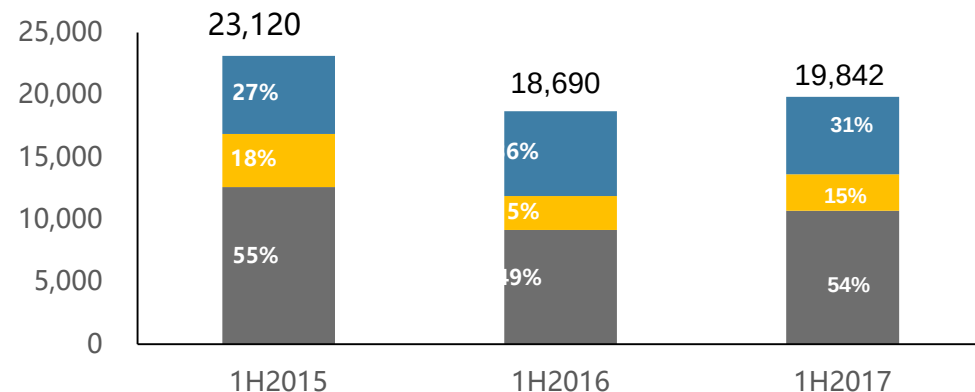
Main Financial Index



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Operating Revenue

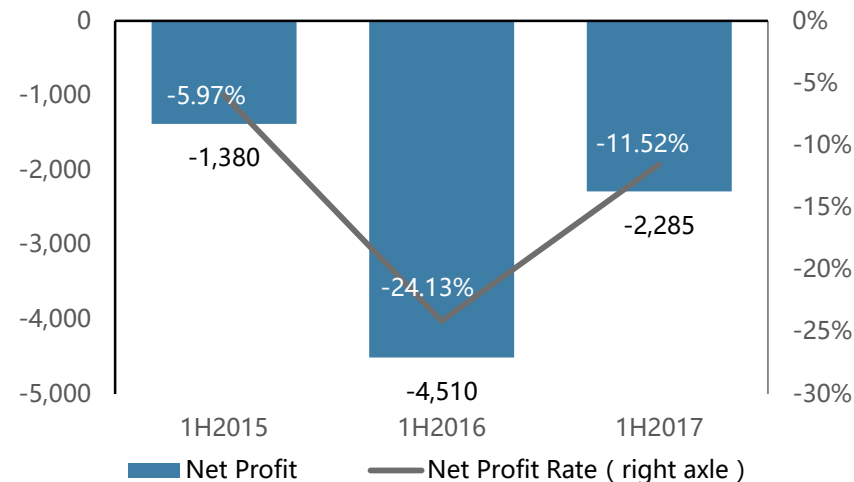
RMB Million



■ SSC Internal Revenue ■ Domestic External Revenue ■ Overseas Revenue

Net Profit

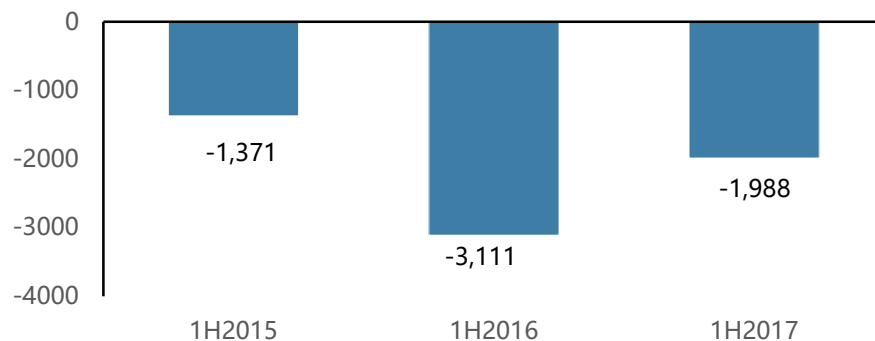
RMB Million



■ Net Profit — Net Profit Rate (right axle)

Operating Cash Flow

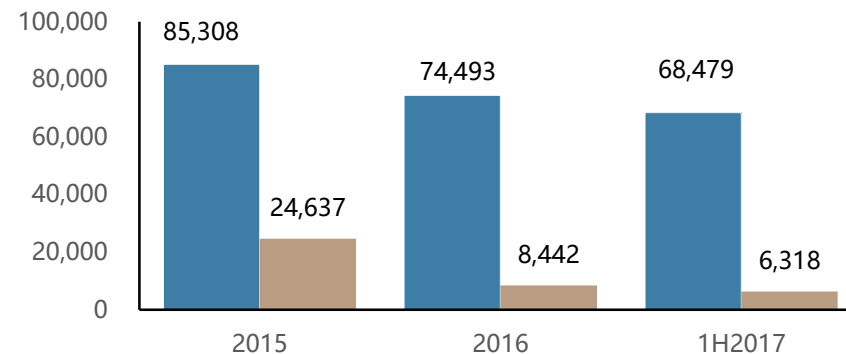
RMB Million



■ Operating Cash Flow

Total Assets and Net Assets

RMB Million



■ Total Assets ■ Net Assets

Financials of 5 Major Business Segments

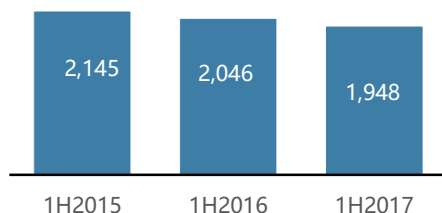


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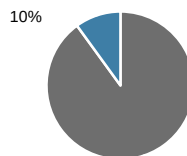
RMB Million

Geophysics

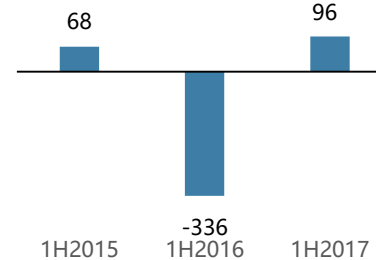
Operating Revenue



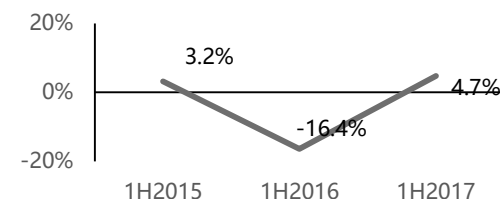
% of Revenue



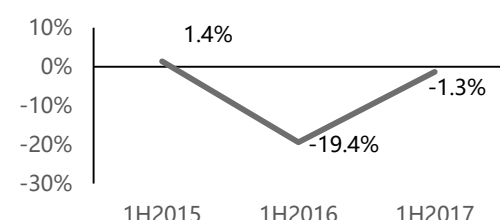
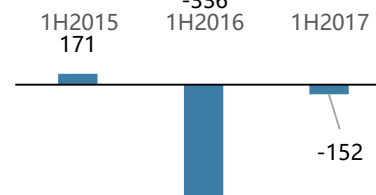
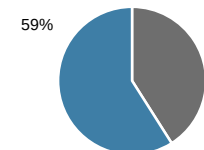
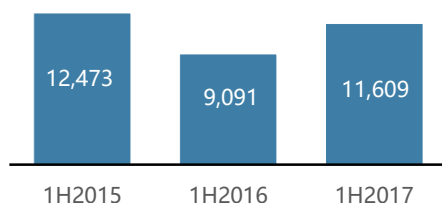
Gross Profit



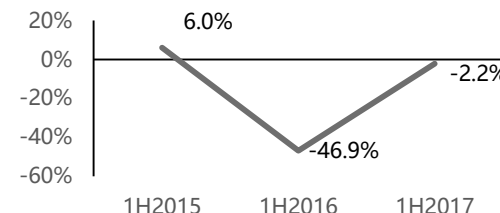
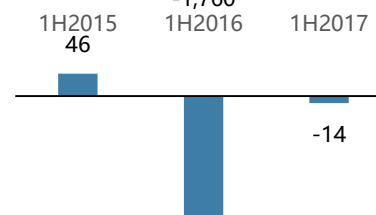
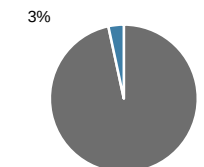
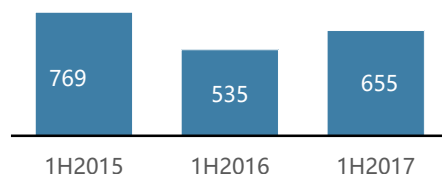
Gross Profit Margin



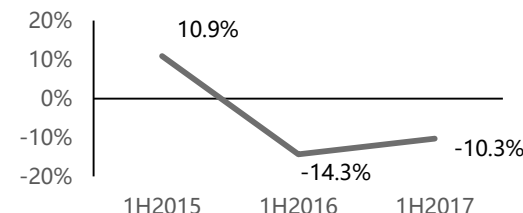
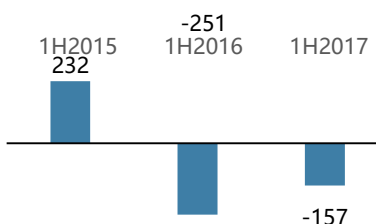
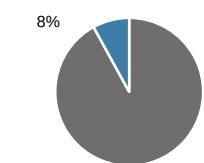
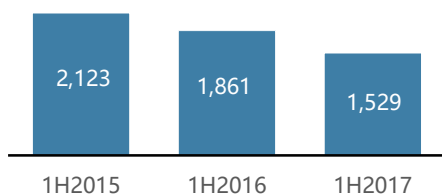
Drilling



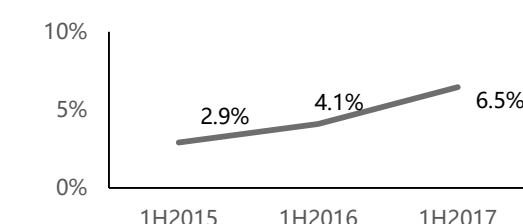
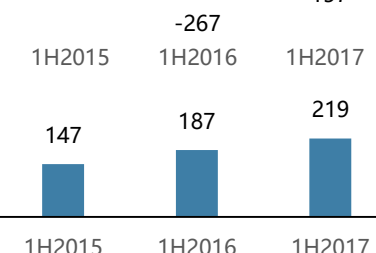
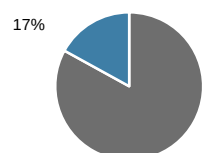
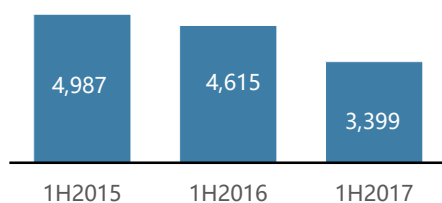
Logging and Mud Logging



Downhole Operation



Engineering Construction

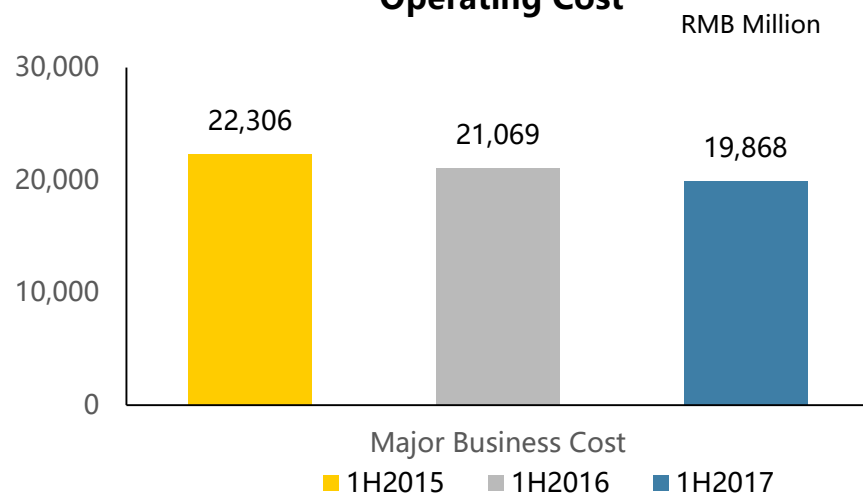


Cost and Profitability Analysis

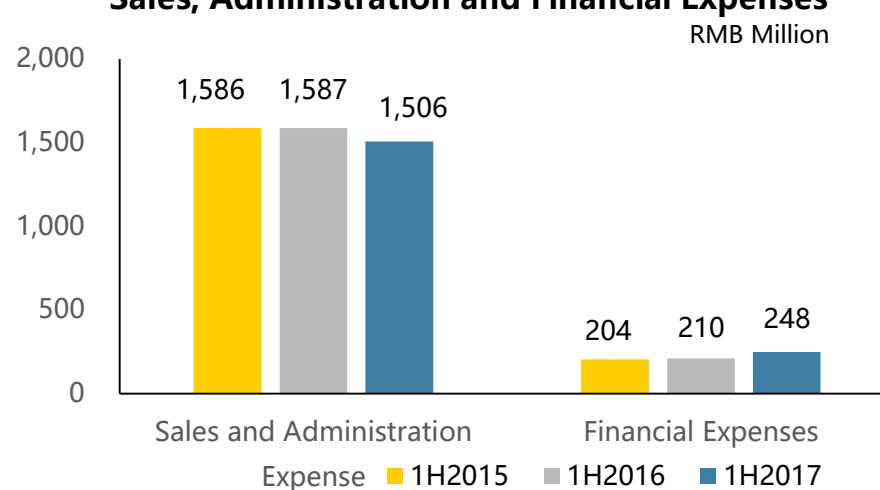


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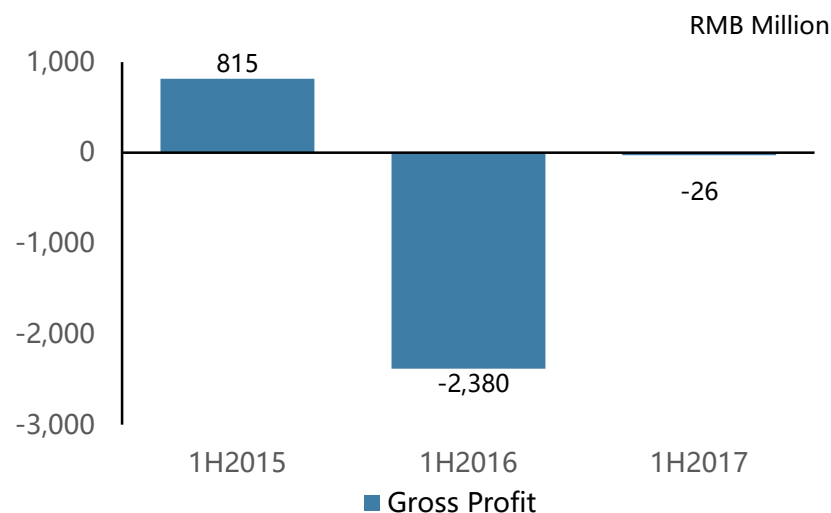
Operating Cost



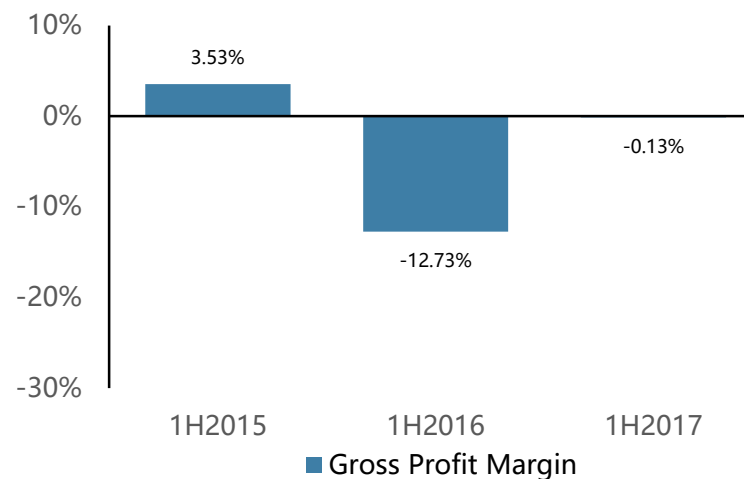
Sales, Administration and Financial Expenses



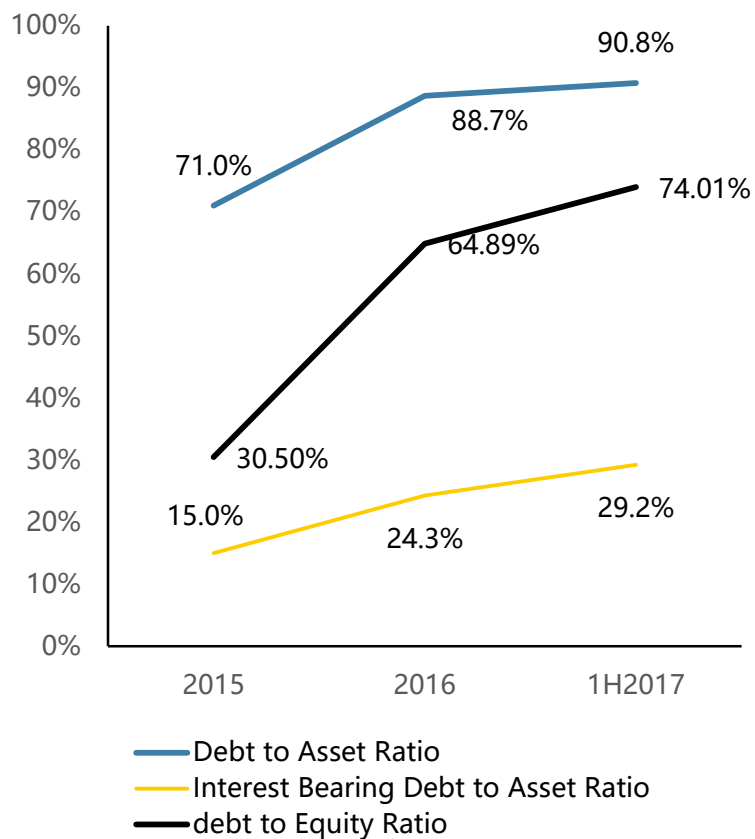
Gross Profit



Gross Profit Margin

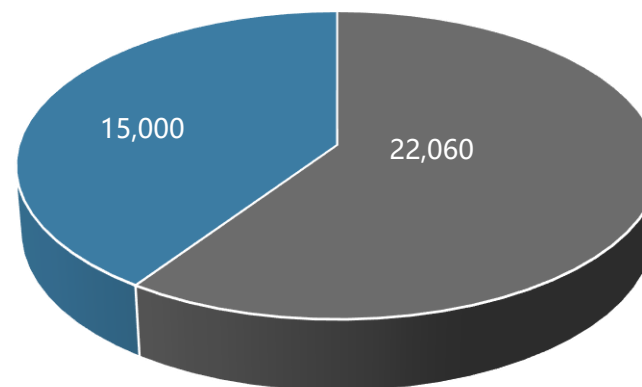


Structural Condition of Assets and Liabilities



Credit Facility from Financial Institutions

RMB Million



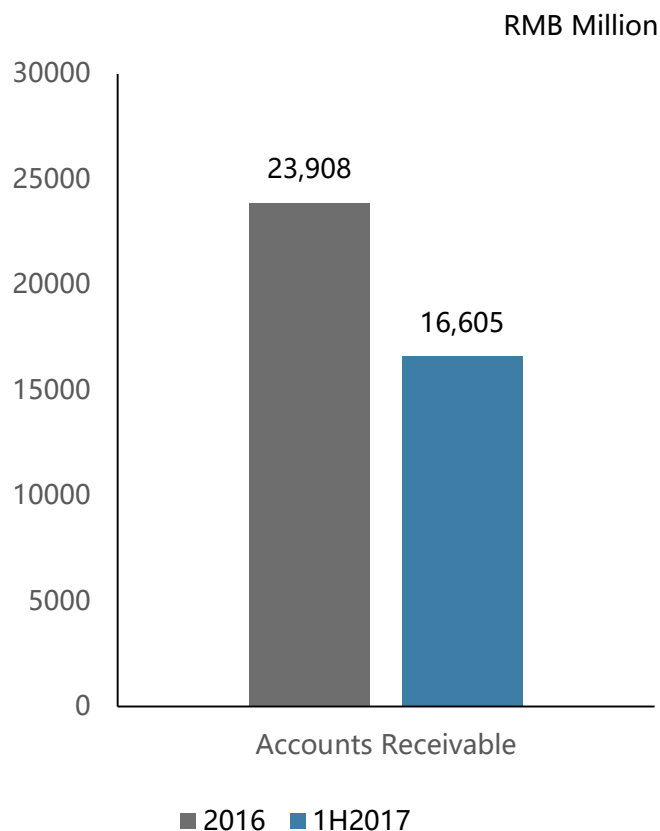
- Credit Facility for loan from Sinopec financial institution
- Comprehensive Credit Facility from Banks(Not for Loan)

Analysis of A/R and Inventory

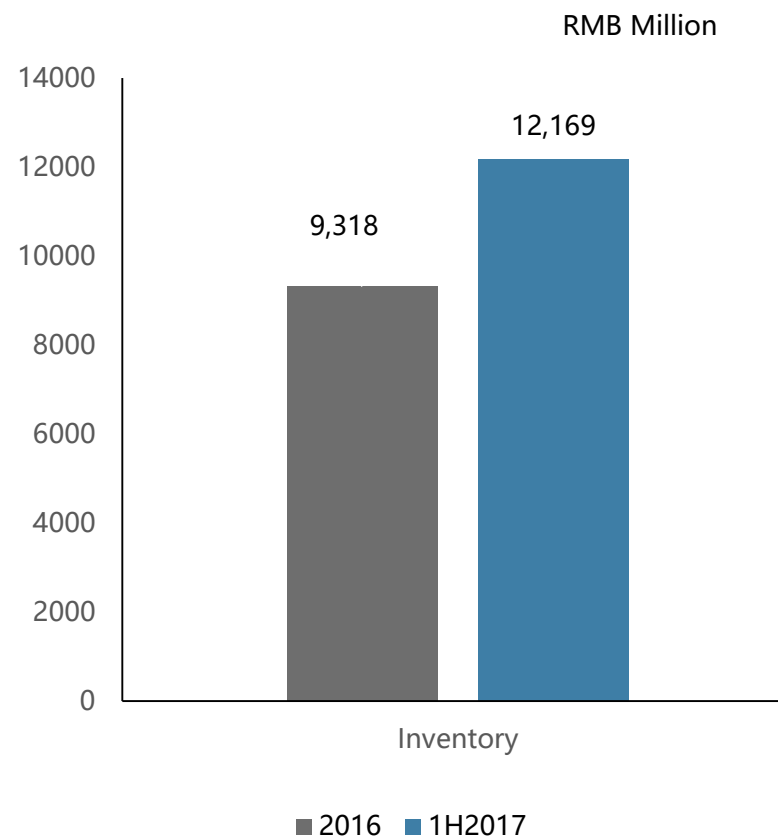


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Changes in Accounts Receivable



Changes in Inventory

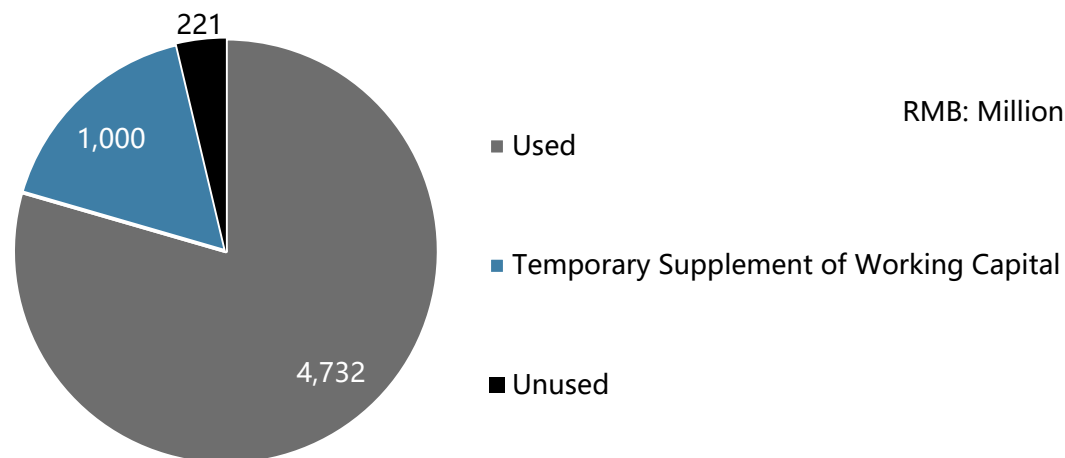


Use of Proceeds



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Usage of Proceeds



Projects Allocations

RMB: Million

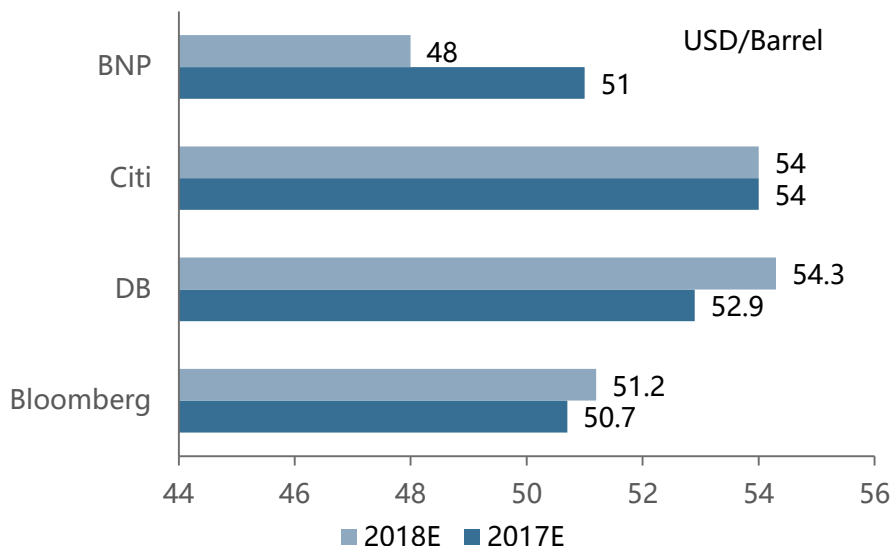
Project	Expected Investment	Investment of 2016	Accumulated Investment
Kuwait Drilling Project	1,600	17	1,049
25 Meter Drilling Platform Construction	466	0	313
8000 HP Multi-Purpose Vessel	195	1	173
LOGIQ Image Logging System	120	0	112
Downhole Test Equipment	139	0	139
Top Drive Equipment	110	0	110
Coiled Tubing Equipment	80	9	80
Pipeline Construction Equipment	530	4	43
Supplement of Working Capital	2,713	0	2,713
Total	5,953	31	4,732

Section 3.

2017 2H outlook

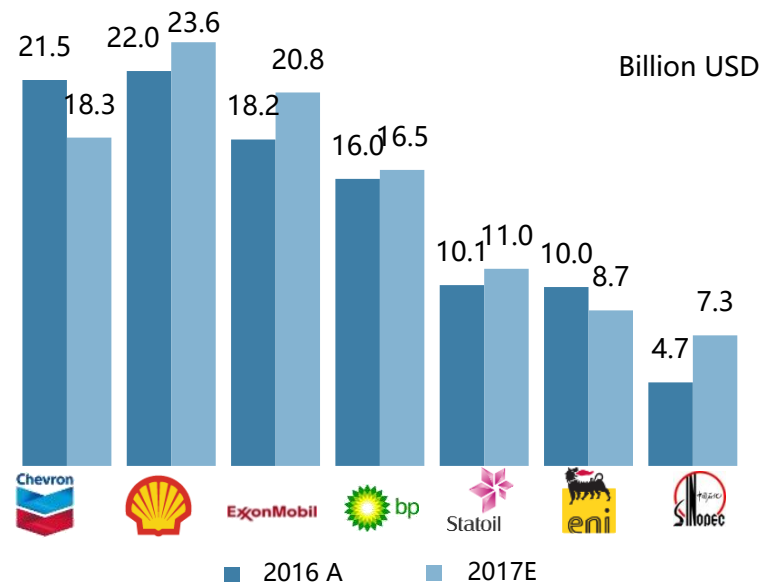


Brent Crude Oil Outlook



Source: Deutsche Bank Research, ended on August 15th 2017

Predicted CAPEX of Major Upstream Enterprises



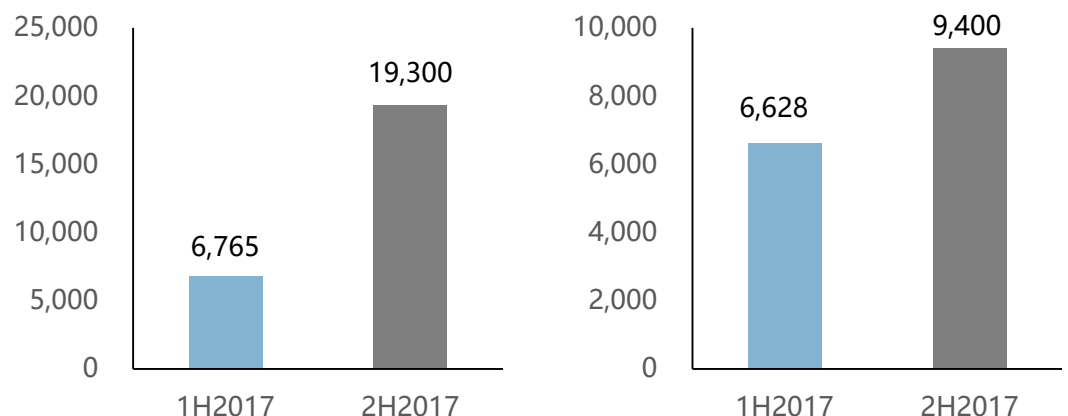
Source: website of companies, Wood Mackenzie, ended on August 15th 2017

Changes in Oilfield Service Industry

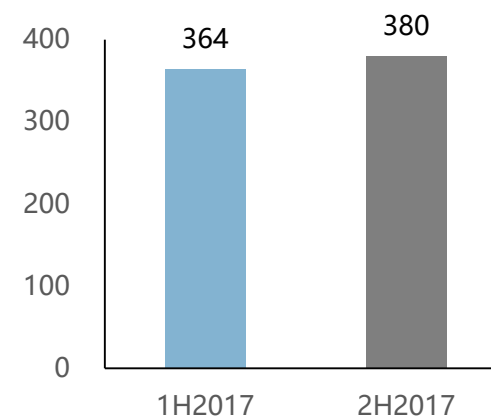
- The world economy sustains moderate growth, and the global crude oil market continuously moves to new equilibrium. It is expected that the international oil price is expected to ascend with fluctuations
- In the second half of the year, it is expected that capital expenditures of E&P of both domestic and overseas oil companies continue to rebound, which would lead the oil field service industry to recover
- Despite the gradual recovery of international oil prices, but low oil prices are still the biggest challenge faced by the oil industry, the market competition is still fierce.

Work Volume Plan in 2017 2H

Geophysics



Drilling

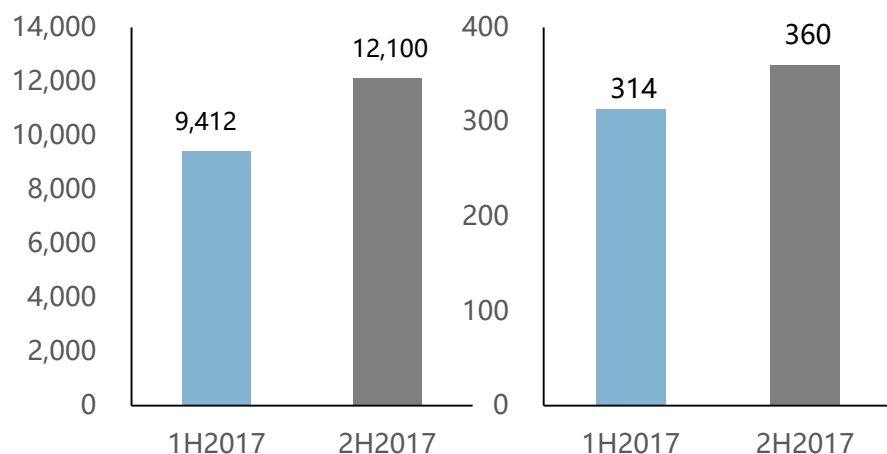


2D Seismic(km)

3D Seismic(km²)

Drilling Footage(10,000m)

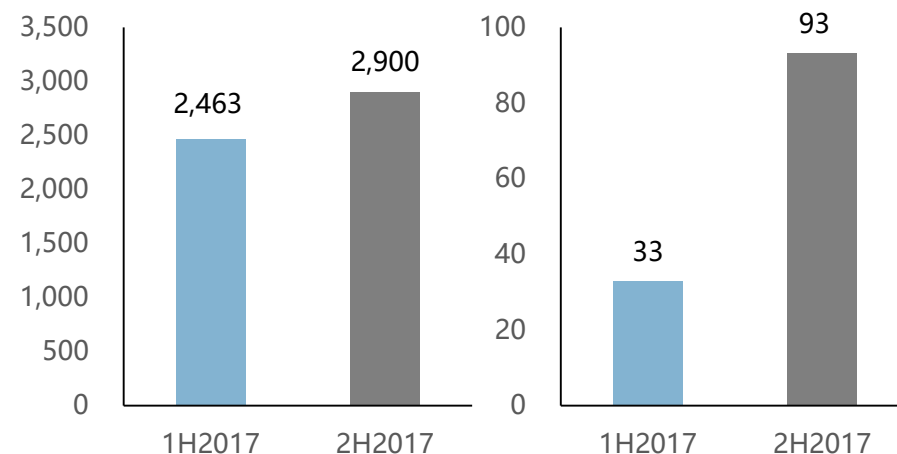
Logging & Mud Logging



Standard Meter for Logging(10,000 m)

Mud Logging Footage (10,000m)

Downhole Operation Engineering Construction



Downhole Operation (well times)

Completed Contract (RMB 100 million)

Expand Market in Full Steam



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Inside Sinopec

- Follow the E&P segment of Sinopec and establish the mechanism of regular negotiation between SSC regional companies and oilfield companies
- Provide services to Sinopec key projects such as Fuling 10 billion m³ Capacity Construction, Chuanxi Marine Facies Gas Field, E'bei Tight Gas Reservoir Exploration
- Complete major projects such as Xin-Yue-Zhe pipelines, geothermal energy utilization, Wen 23 Gas Storage effectively and efficiently
- Expand new service patterns such as oilfield blocks contract

Domestic Outside Sinopec

- Reinforce cooperation with Petro-China, CNOOC, Yanchang Group, China Geological Survey Beau
- Deepen the integration of service cooperation model, further develop emerging markets such as shale gas, coalbed methane and geothermal energy
- Speed up the kickoffs of Zhejiang, Sichuan, Shanxi, Shaanxi and other gas pipeline projects; fulfill the operation support for the awarded key drilling projects such as Yanchang-Huangling Integration, Tarim Basin Oilfield, Changning, Jidong and China Geological Survey Beau
- Expand service markets in "Xiong' An "such as geothermal drilling, infrastructure construction, smart city, smart pipeline and geological census

Overseas Market

- Promote overseas business unified management, integration and optimization of resources, fulfill overall competitive advantage
- Focus on Saudi Arabia, Kuwait, Algeria, Turkey and other key markets, speed up the process for the high value-added business and new business to go abroad, such as oilfield integrated services, cementing, logging, mudding, energy saving and environmental protection
- Continue to develop high-tech, high value-added market, focusing on expanding horizontal wells, underbalanced drilling, acid fracturing, drilling fluids, gas wells drilling and deep well drilling

Strengthen the Main Business

- According to the direction of specialization, reinforce core business such as wellbore, geophysics, engineer construction, offshore engineering, integrate overlapping subsidiaries based on professional segments, promote the specialized business and improve resource allocation.
- Implement auxiliary business contracting management, strengthen the cultivation of specialized team and new business expansion

Promote the Market-Orientated Management

- Adjust the size and structure of the crews according to market demand, optimize the allocations of resources such as equipment and technology, cut excess capacity, passing pressure and stimulate vitality
- Flatten the management levels and institutions, accelerate internal HR system, ensure the positions and responsibilities of each level of management team, fulfill main duties, enhance operating vitality, development momentum and management efficiency

Reinforce Precision Management

- Continue to promote the project management as the core of the system construction, so as to improve project profitability
- Further deepen the precision management, continue to strengthen the cost control, realize the target of RMB 1.33 billion cost reduction
- Speed up the construction of ERP information system and oil engineering technology services integration platform construction, establish sharing platform of information, capital, technology and equipment to comprehensively improve the management efficiency

Enhance Technology Innovation



SSC

- Focus on main fields of exploration, major market regions and key technology link, to promote technology and product updates, enhance the ability to support technical services and develop market capabilities

HTHP Deep Reservoir Technology

- Ensure to gather all geological data to support the explorations and exploitations of ultra-deep reservoir in West China

Shale Gas Related technology

- Improve the shale oil & gas engineering integration supporting technology to provide support for the exploration of Fuling Shale Gas Phase II and mid-to-deep shale gas field

Integration of Matured Oilfield Engineering

- Support the efficient EOR of matured oilfields in East China

Shallow Sea Oil & Gas Reservoir Technology

- Carry out global shallow sea area technical adaptability evaluation to support overseas market expansion

Innovative Development model

- Focus on key core technologies such as rotary directional drilling and high-performance drilling tools

M&A Funds

- Focus on high-end technology services and high-end equipment manufacturing opportunities





<http://ssc.sinopec.com>

Investors Relationship

Tel : +86 10 5996 5998

Fax : +86 10 5996 5997

Mailbox : ir.ssc@sinopec.com

