



中国石化
SINOPEC

中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2019 Annual Results Presentation

March, 2020



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Section 1: Operations in 2019





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



National Science and Technology Progress Award 2017

High-Efficiency Exploration and Development in Fuling Large-scale Marine Shale Gas Field

Rich Experiences

- **Fuling Shale Gas:** the first successful commercial shale gas project outside North America
- **Puguang Gas Field:** the largest marine-facies high-sulphur gas field in China
- **Shengli Oil Field:** one of the largest oilfield with complex reservoir in China
- **Tahe Oil Field:** marine carbonate reservoir
- **Yuanba Gas Field:** the deepest marine-facies reservoir in China
- **North Ordos Oil and Gas Field:** the first horizontal well demonstration area in China
- **Shunbei Oil and Gas Field:** the deepest oil and gas field in Asia (Generally Over 8,000m)

Advanced Equipment

- **Geophysics:** **69** sets of seismic equipment, **175** sets of vibroseis, **324,800** collector
- **Drilling:** **692** onshore drilling rigs, of which **294** capable for 7000m+ depth drilling, and **14** offshore drilling platforms
- **Logging:** **135** image logging systems, **464** sets of comprehensive logging instrument
- **Downhole operation:** **148** sets of type-2500 and type-3000 fracturing vehicles, **119** sets of workover rigs with power higher than 750 HP, **6** offshore operation platforms

Strong R&D Capability

- **74** professor-level researchers
- **1,558** senior researchers
- **3,428** research, design, laboratory and development staff
- **3** research institutes
- **3** design companies
- **46** professional technical institutes

Geophysics



Drilling Engineering



Logging and Mud Logging



Downhole Operation

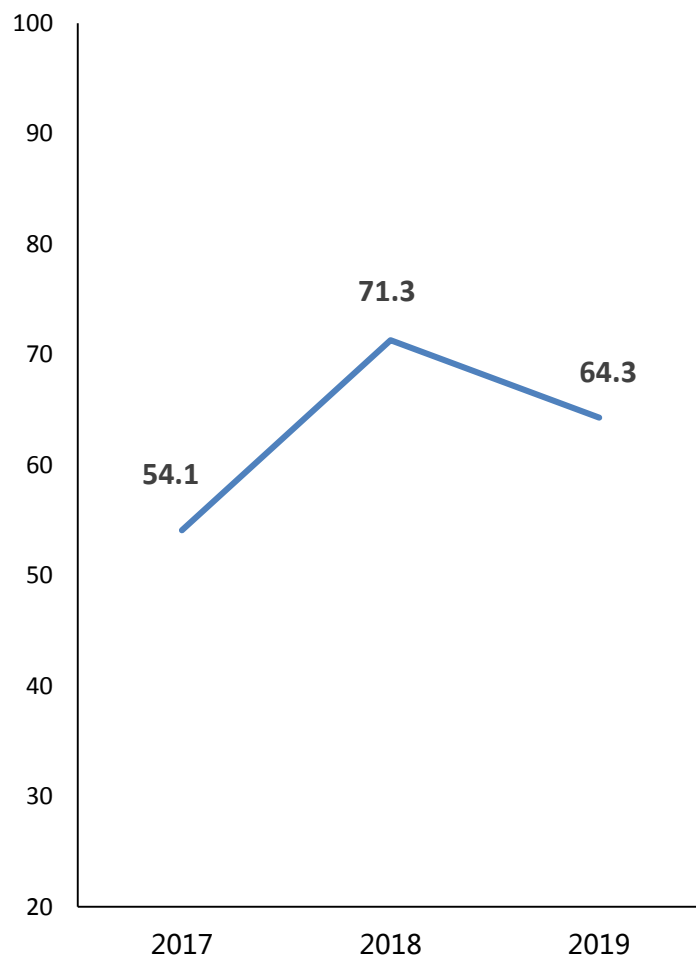


Engineering Construction



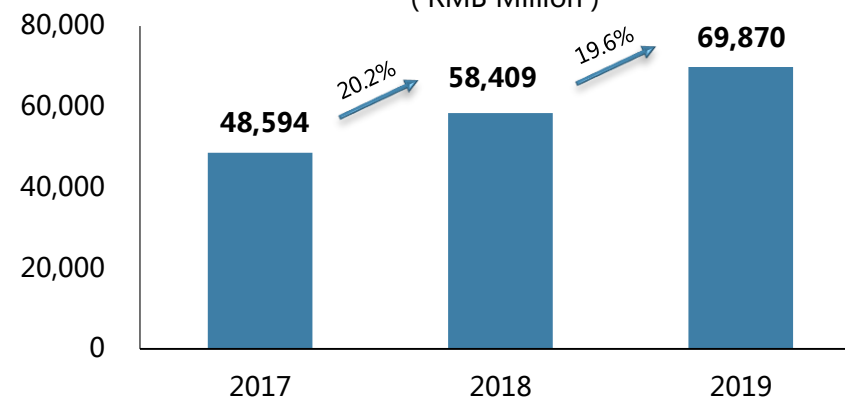
Annual Average Brent Oil Price

(USD/Barrel)



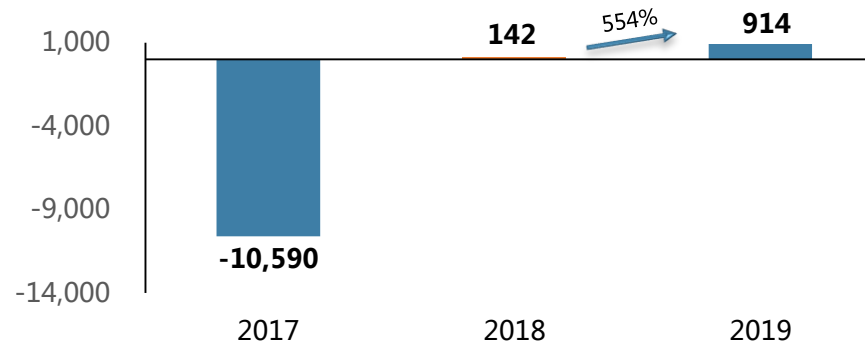
Operating Revenue of 2019

(RMB Million)



Net Profit of 2019 (ASBE)

(RMB Million)

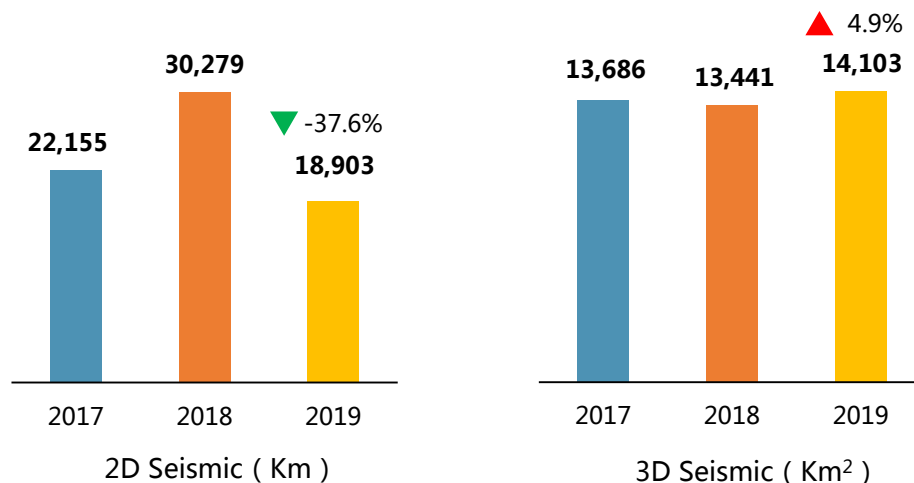


Performance by Segments

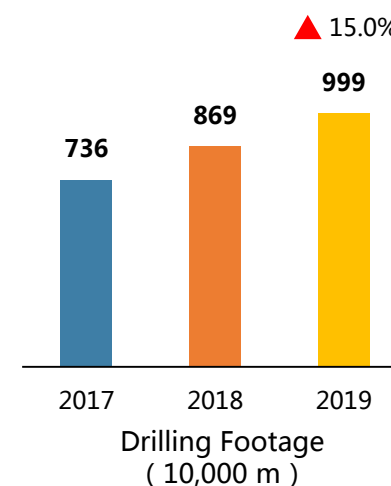


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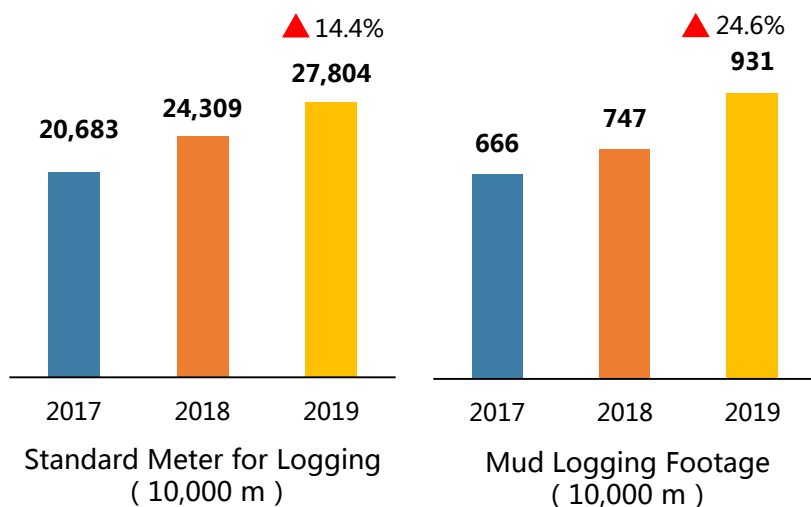
Geophysics



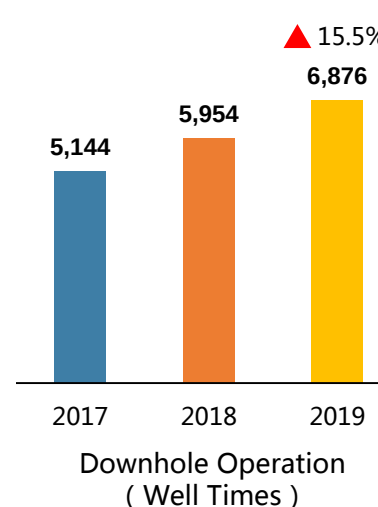
Drilling Engineering



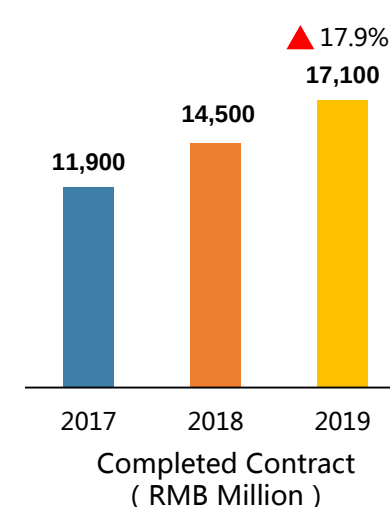
Logging & Mud Logging



Downhole Operation



Engineering Construction



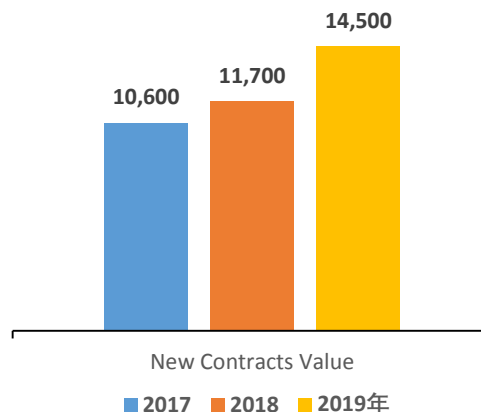
Domestic SINOPEC Market

(RMB Million)



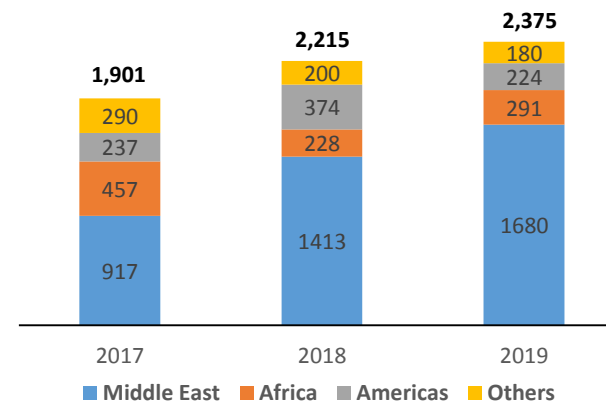
Domestic Non-SINOPEC Market

(RMB Million)



Overseas New Contracts Value

(USD Million)



● Domestic Sinopec Market

- Provided service in key capacity construction projects such as Weirong shale gas, Fuling shale gas, Shunbei oil & gas field, tight gas in Ordos, gas field in west Sichuan and mature oil field in eastern China
- Won contracts in Qingdao-Nanjing gas pipeline project, valued 4 billion RMB
- Promoted the cooperative development of difficult-to-develop reserves, and increased crude production by about 118,000 tons

● Domestic non-Sinopec Market

- Gathered to CNPC, CNOOC and other high-quality market, 55 rigs entered the PetroChina southwest shale gas market.
- Made steady process in oil and gas exploration market of China Geological Survey Bureau and Chinese Academy of Geological Sciences

● Overseas Market

- **Middle East** : Signed new wellbore contracts valued USD 1.17 billion in Saudi Arabia, 2 rigs enter gas well service market, 6 drilling rigs obtained unconventional business first time, and signed S84 3D geophysical exploration projects contracts valued USD 176 million and MIP pipeline project of USD 265 million. In Kuwait, entered the field of deep well drilling and workover, comprehensive logging, and drilling bit services, and signed 2 deep well workover rigs and 7 logging teams service projects
- **South America** : In Ecuador, signed contracts with WAYRA for 41 wells drilling projects, with total contract valued of USD 98 million , Cumulative new contract value of USD 180 million
- **Africa and Others** : In Algeria, signed 3 geophysical data acquisition projects of USD 140 million



Personnel in 3 tiers of administration units decreased by 10.4% YoY



Integrated and cut 25 auxiliary grassroots units;



Optimized team structure, and guided administration units to grassroots front-line units. Market-based and project-based employment methods were used to supplement the frontline.

Downsizing Organization



Increased the performance wages proportion from 40% to 50%



Single-well/single-project evaluation + linked evaluation mechanism



Formed the project coordination teams for western, northern and southwestern areas.

Performance Incentives

Project Management



Asset Allocation
and Leasing Center



Project
Management



Human Resources
Allocation Center

- Coordinated over 9,000 staffs transfers at all levels, effectively alleviating the contradiction of staff mismatch
- Redeployed 6 drilling rigs



Patents & Awards

- Patents: applied for 711 new patents home and abroad, 351 granted in 2019



Improving R&D System

- Set up 2 R&D centers (Shengli and Zhongyuan) and 10 technology centers (Drilling well, MWD ect.)



Tackling key Technology

- Successfully tested the self-developed drilling RSS and made breakthrough progress
- Applied the jointly developed 185 °C high temperature MWD successfully in Shunbei industrial zone
- New network imaging logging system, wideband acceleration detector, and node seismic acquisition instrument reached the international advanced level



Transformation Of Scientific Achievement

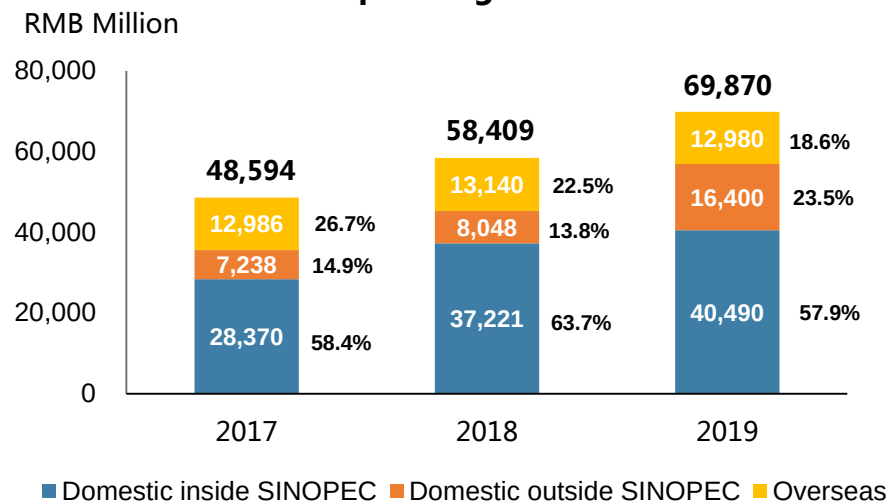
- Signed contracts with Saudi Aramco for hydrogen sulfide detection, coiled tubing and wellsite construction, and launched industrialization plan for the automation of drilling rig strings
- Ecuador' s ILY project and Mexico' s EBANO comprehensive reservoir service projects progressed steadily

Section 2: Financials in 2019

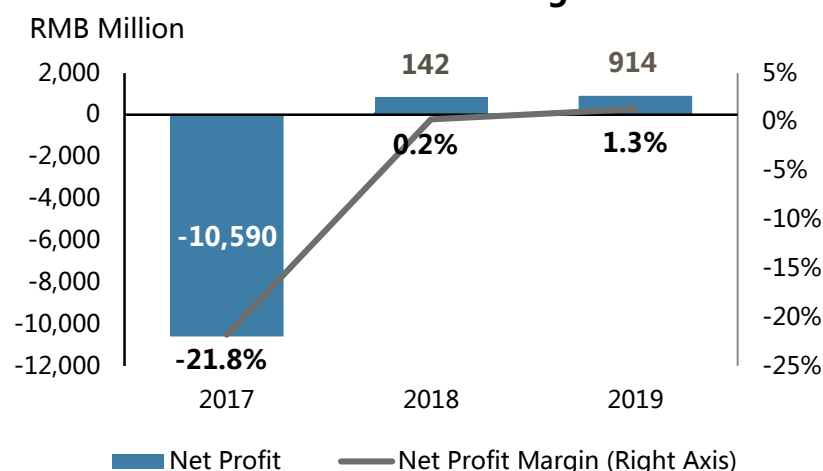


Main Financial Indicators

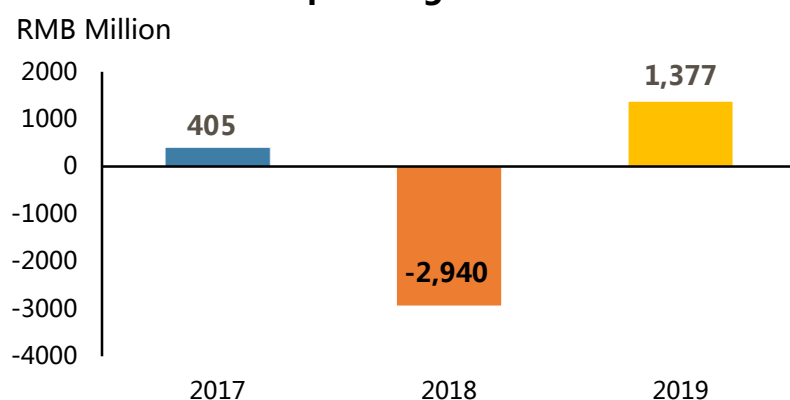
Operating Revenue



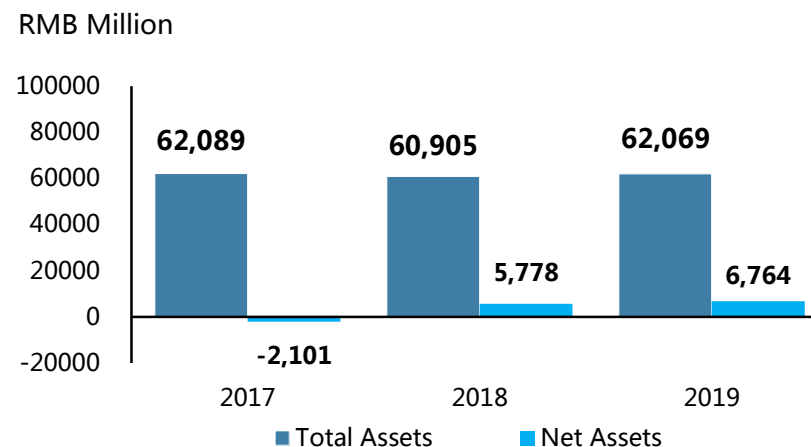
Net Profit & Margin



Operating Cash Flow



Total Assets & Net Assets

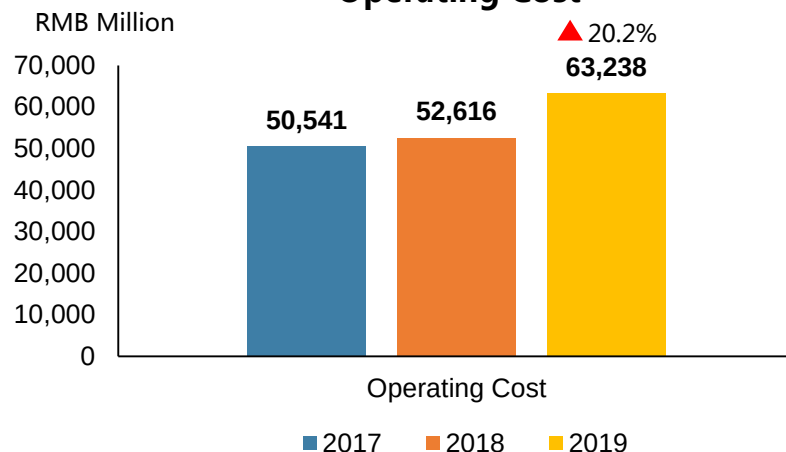


Profitability , Receivables and Inventory

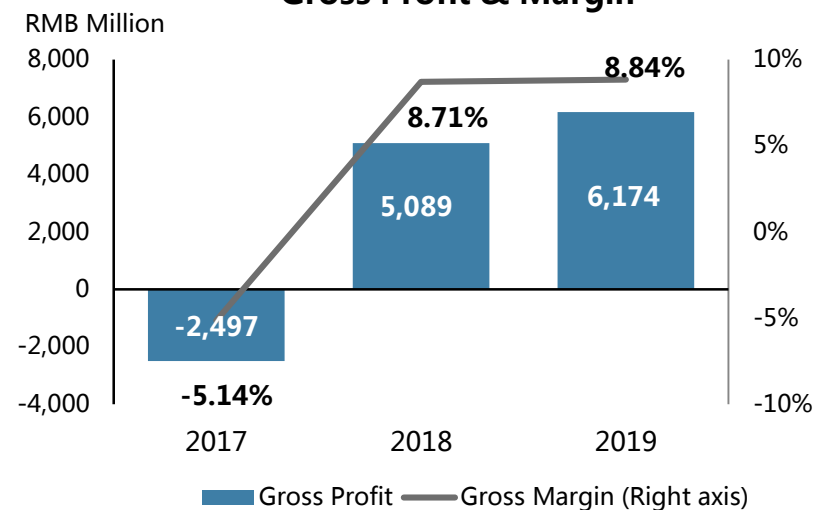


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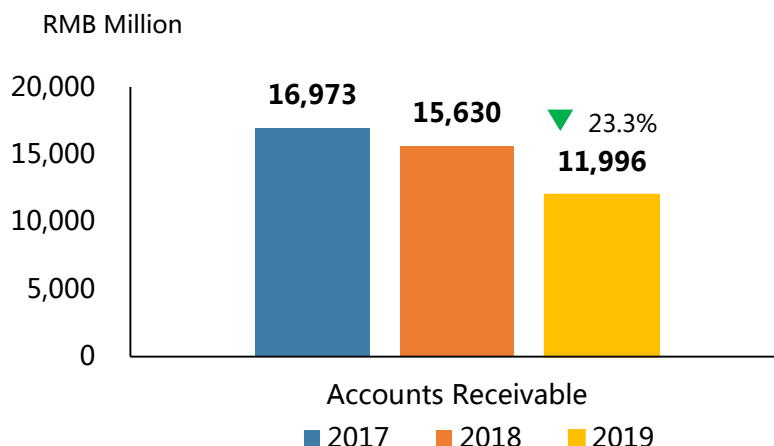
Operating Cost



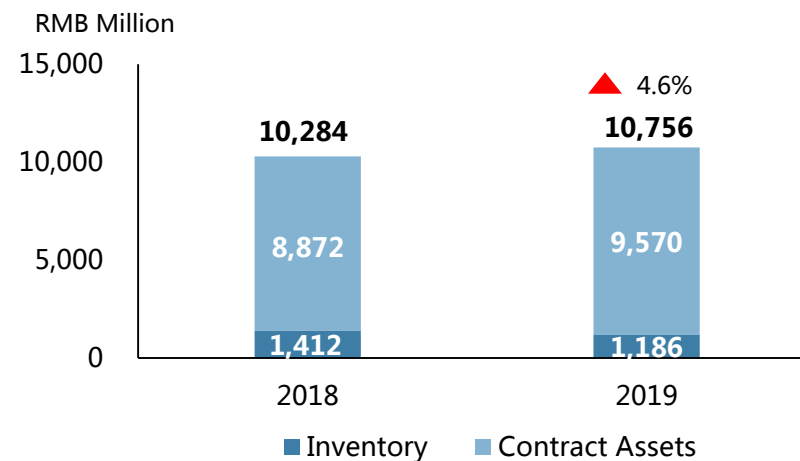
Gross Profit & Margin



Accounts Receivable



Inventory & Contract Assets



五大业务板块收入和毛利分析

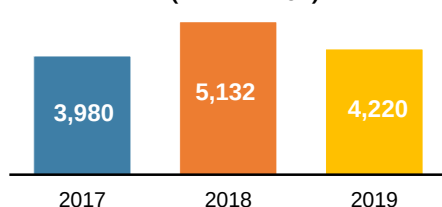


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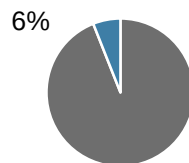


Geophysics

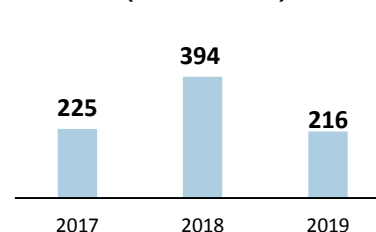
Operating Revenue
(RMB Million)



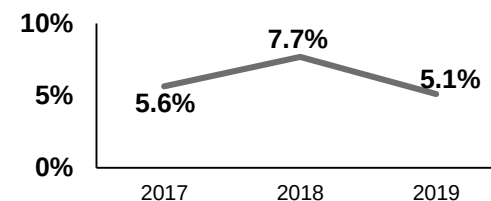
% of Total Revenue



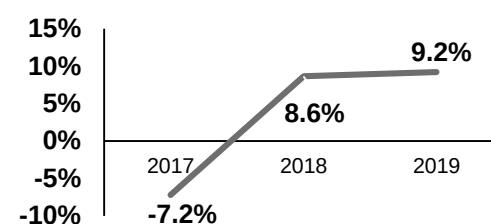
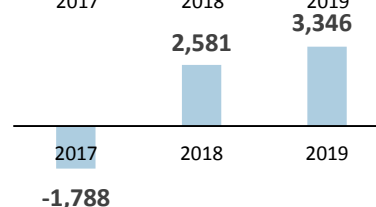
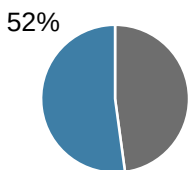
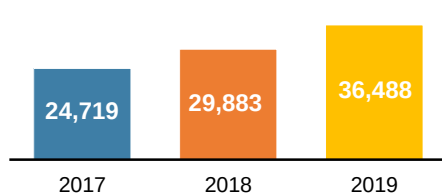
Gross Profit
(RMB Million)



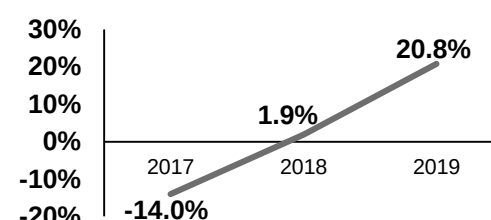
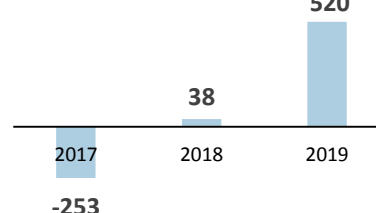
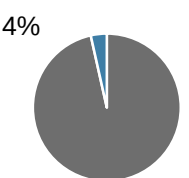
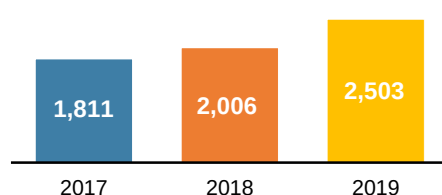
Gross Profit Margin



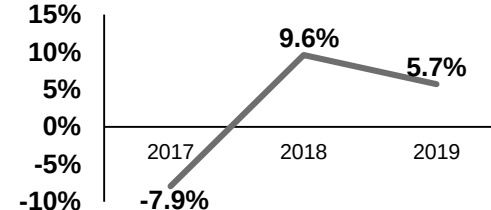
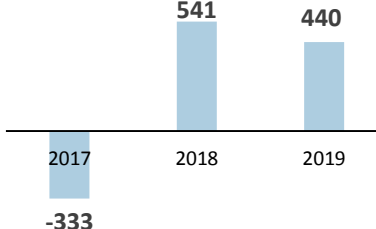
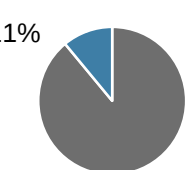
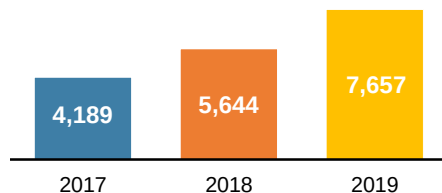
Drilling



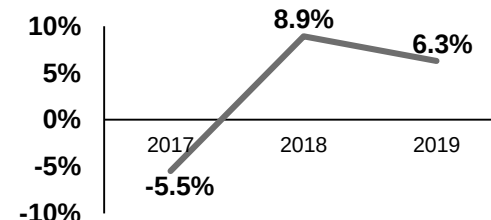
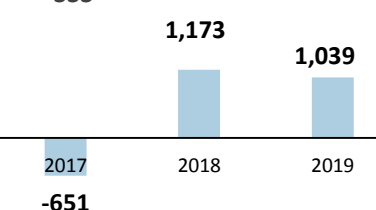
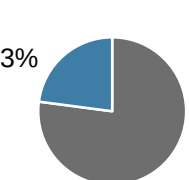
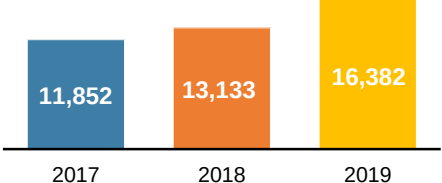
Logging and
Mud Logging



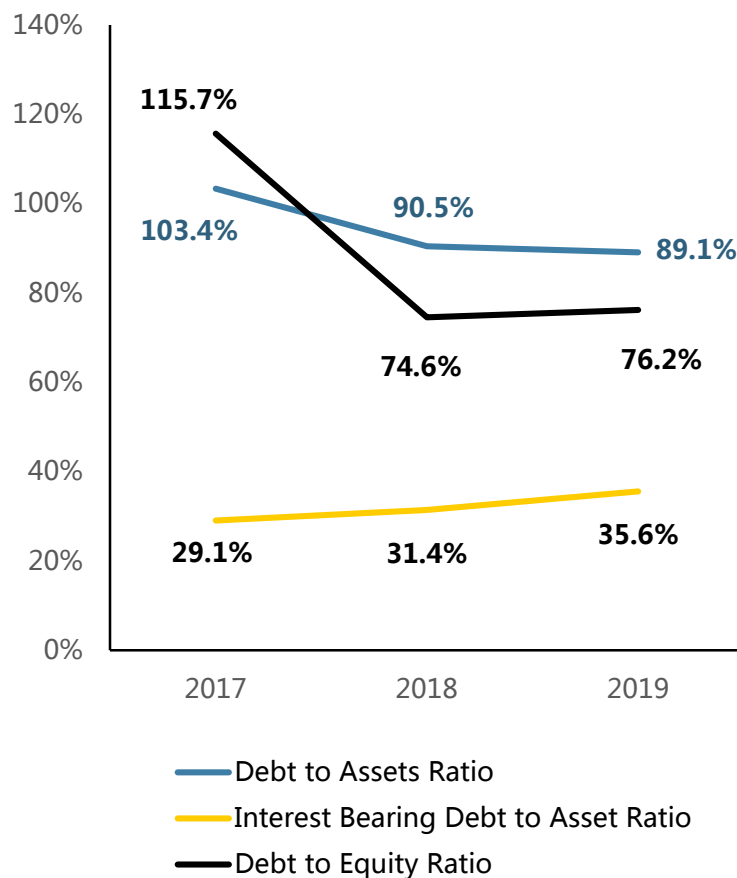
Downhole
Operation



Engineering
Construction

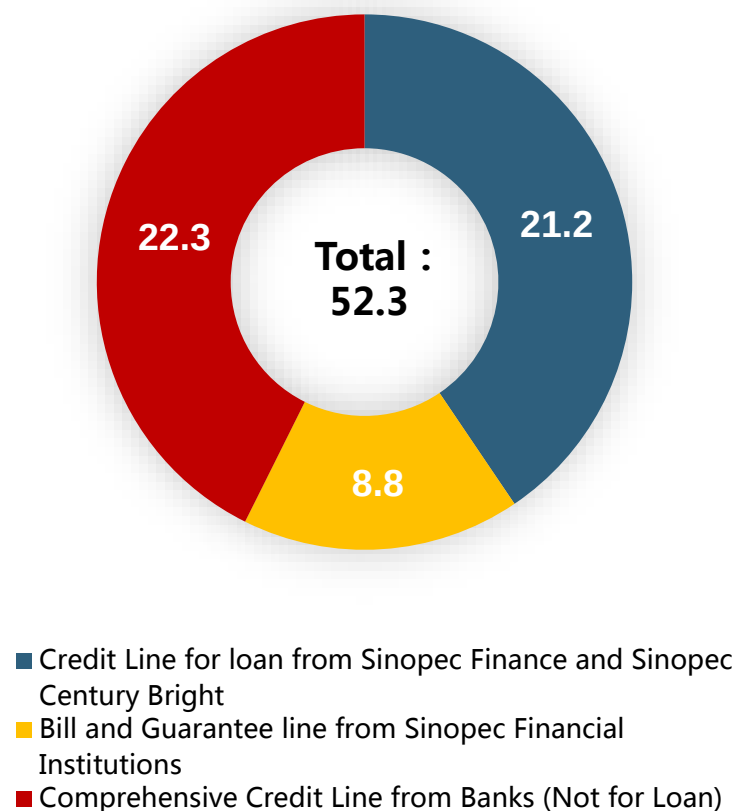


Structure of Assets and Liabilities

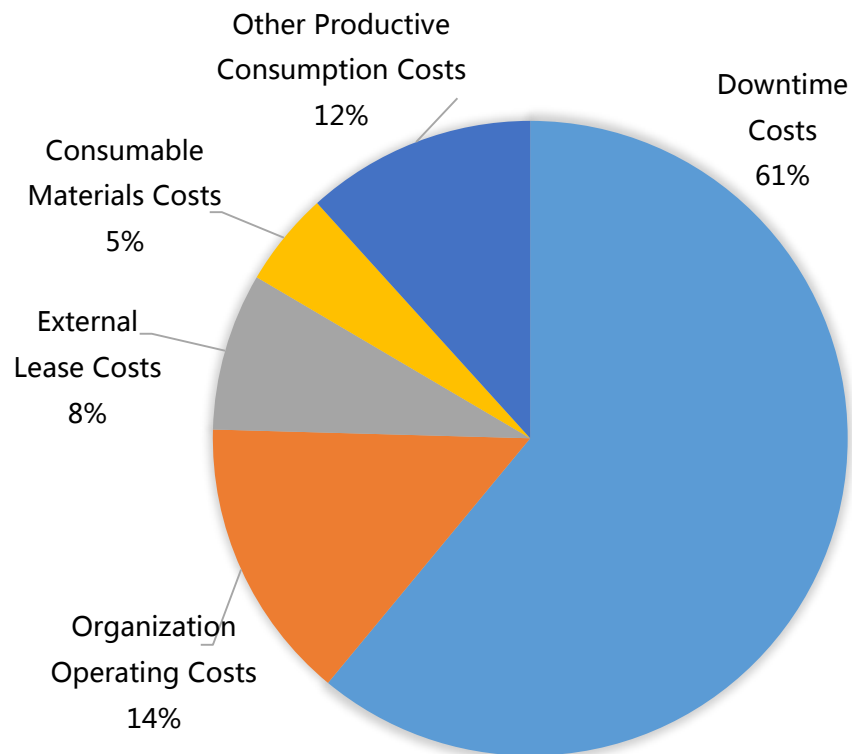


Credit Facility from Financial Institutions

(Unit: RMB Billion)



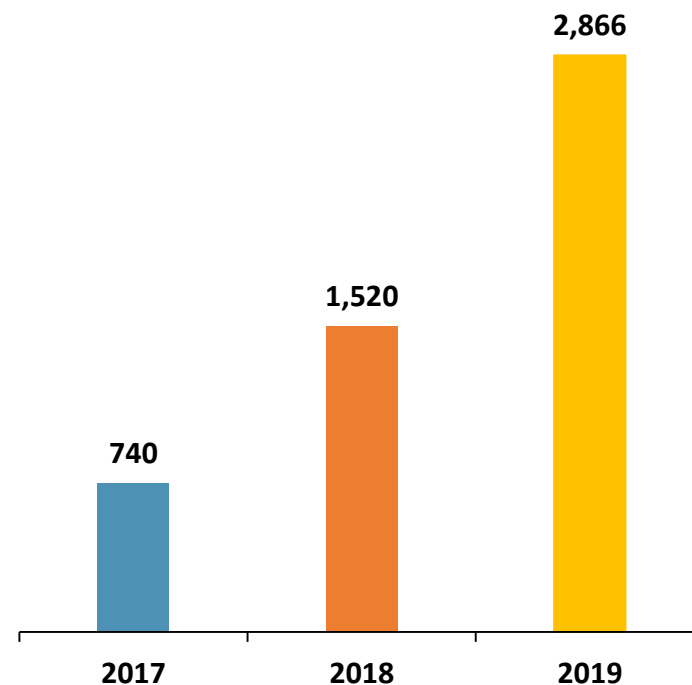
Costs Reduction in 2019



- The costs reduction in 2019 was 623 million yuan, 104% of the annual target

Capital Expenditure in 2019

(Unit: RMB million)



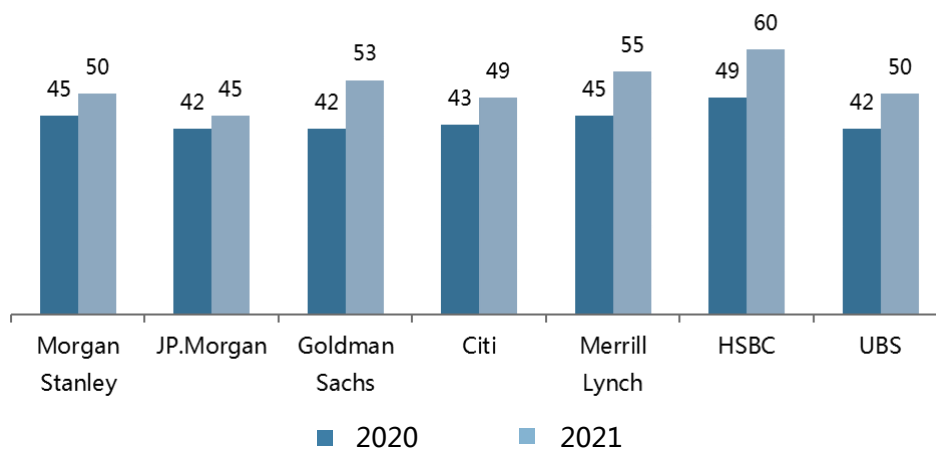
- The 2019 CAPEX was 2.866 billion yuan, mainly used for international market development and equipment updating

Section 3: 2020 Outlook



2020-2021 Brent Oil Price Outlook

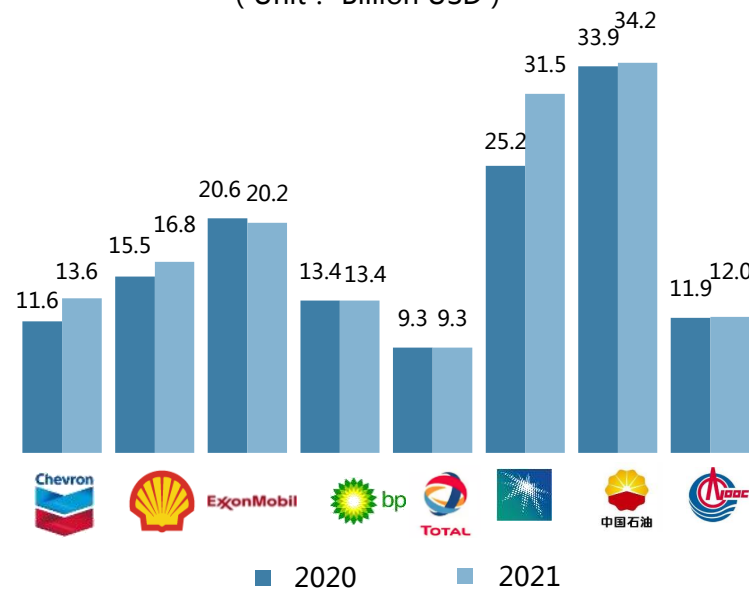
(Unit : USD/barrel)



(Resource : reports from respective agencies)

CAPEX Forecast for Major Upstream Companies

(Unit : Billion USD)



■ 2020 ■ 2021

(Resource : Morgan Stanley)

Changes in the oil service industry

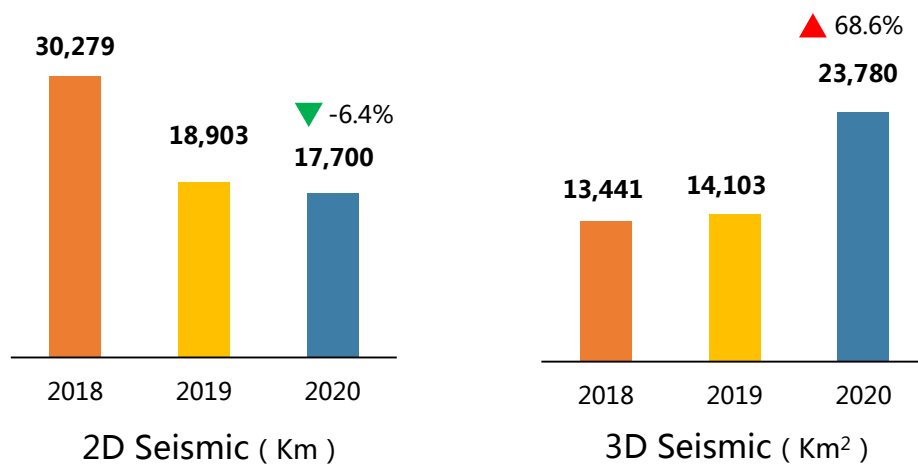
- The recovery of the world economy will slow down and world oil price is expected to fluctuate in the large range
- China' s economy will face an increased downward pressure, but the basic trend of long-term improvement and rigid growth in oil and gas demand will not change
- Driven by the security of national energy strategy, the three major domestic oil companies are expected to continue to increase investment in upstream exploration and development. Oil companies have more stringent requirements for more qualified and efficient oil service business to increase production and reduce costs.

Work Volume in 2020

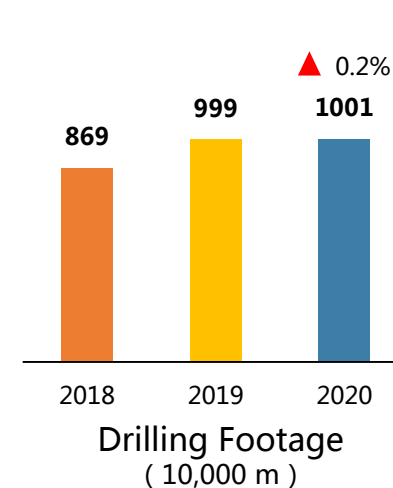


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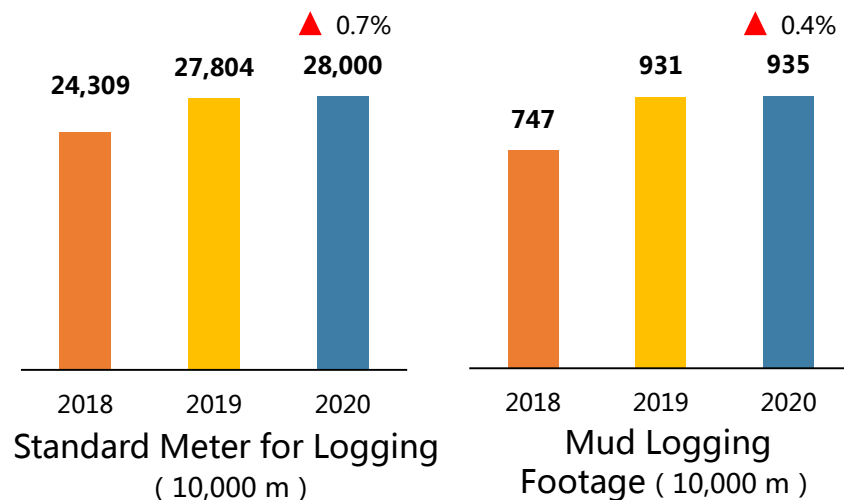
Geophysics



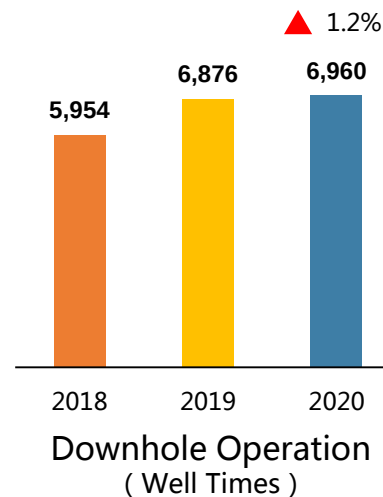
Drilling Engineering



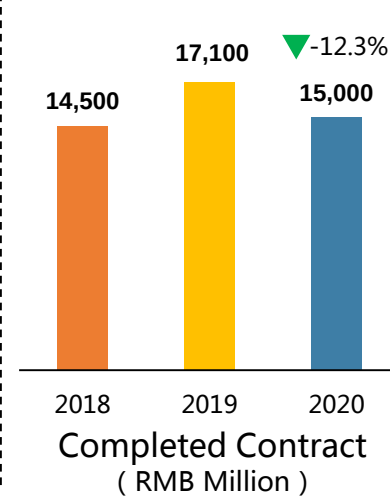
Logging & Mud Logging



Downhole Operation

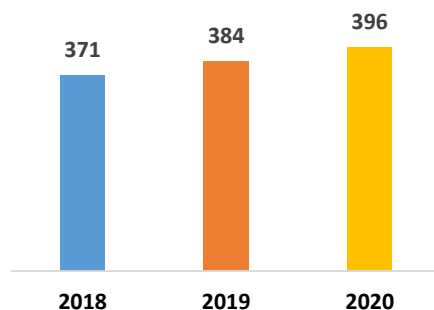


Engineering Construction



Domestic Sinopec Market

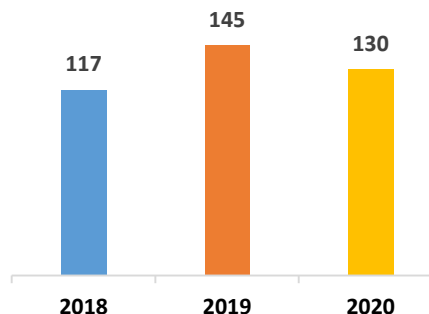
New Contract Value
(100 million yuan)



- Provide quality services for oil exploration in Tarim Basin, Eastern Fault, Jungar Basin and natural gas exploration in Sichuan Basin and Ordos Basin
- Provide efficient services in key industrial areas such as Shunbei ultra-deep oil and gas fields, Southwest natural gas, Ordos tight oil and gas and deep shale gas in southern Sichuan
- Focus on the development of key pipeline projects such as Qingdao-Nanjing, Qianjiang-Zhongyuan, Longkou-Linyi-Puyang , West line of Ordos-Anping-Cangzhou and Suyu external pipeline project

Domestic Non-Sinopec Market

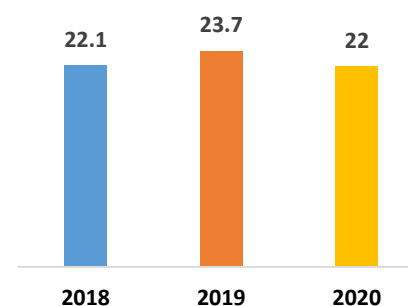
New Contract Value
(100 million yuan)



- Consolidate existing high-quality markets of CNPC and CNOOC, and pay close attention to the capacity construction of key areas such as PetroChina's southern Sichuan shale gas, Tarim and Karamay, as well as major exploration and development projects such as CNOOC Bohai Bay, Beibu Gulf, and South Yellow Sea project
- Continuously strengthen strategic cooperation with key clients such as China Geological Survey Bureau and Yanchang Group
- Keep an eye on the national oil and gas pipeline market, and closely follow key central and local government gas, water conservancy, and municipal projects

Overseas Market

New Contract Value
(100 million USD)



- Consolidate and expand key markets such as Saudi Arabia, Kuwait, Ecuador, and Mexico
- keep an eye on reservoir integrated service projects in Ecuador, Kuwait, and Mexico
- Taking the drilling business as the "Pioneer " to introduce logging, cementing and completion, directional wells, drilling fluids, coiled tubing, fracturing and other businesses to oversea high-end market
- Focus on the engineering construction markets in Saudi Arabia, Kenya, and Thailand.

Optimize resource integration



- Optimize the market resources, establish and improve the market-oriented resource allocation mechanism
- Optimize materials and equipment resources through lease centers, and promote unified management in key areas
- Optimize human resources and take HR as the deployment center
- Optimize engineering technology resources to establish and improve technology sharing mechanism

Optimize business structure



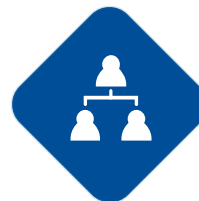
- Focus on the development of core main businesses, promote geophysical exploration, strengthen wellbore business, and optimize engineering construction
- Enhance the development of high value-added technical service business
- Coordinate the development of emerging businesses

Optimize HR structure



- Improve the project manager system, implement market-based remuneration, contract management and professional development
- Further increase the personnel proportion from main business

Optimize organization structure



- Integrate logging companies with small scales and weak profitability
- Optimize and integrate related units in the same area in the engineering construction segment
- Promote internal integration of the related geophysics branches

Enhancing Technology Innovation

Improve eight integrated support technologies

Continuously improve 8 sets of integrated technologies, including integrated shale gas, acid gas, deep oil and gas reservoirs, shallow sea oil and gas reservoirs, tight oil and gas reservoirs, coalbed methane, E&P of mature oilfields in the East China, and geothermal resources development and utilization projects

Improve R&D System

Improve the construction of four R&D platforms continuously, cultivate offshore engineering technology centers, and promote the constructions of key laboratories such as MWD, wellbore working fluids, high temperature and high pressure oil and gas testing

Focus on core technologies

Focus on core technologies, break the technical bottlenecks, meet technical needs under complex working conditions such as ultra-deep, high temperature/pressure, and small boreholes, and improve core competitiveness

Accelerate the transformation of results

Accelerate the promotion of RSS, new SINOLOG900 network image logging system, node seismic acquisition system, and the integration of electrical control of long-distance pipelines and complex oil reservoir integrated technology





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