



中国石化
SINOPEC

中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2018 Interim Results Presentation

August , 2018



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Section 1 : Operations in 1H 2018





أرامكو السعودية
saudi aramco



إحدى الشركات التابعة لشركة النفط الكويتية
A Subsidiary of Kuwait Petroleum Corporation

Rich Experiences

- **Fuling Shale Gas:** the first successful commercial shale gas project outside of North America
- **Puguang Gas Field:** the largest marine-facies high-sulphur gas field in China
- **Exploration and Development of Multiple Reservoirs in Shengli:** one of super giant oilfields in China
- **Take Oil Field:** marine carbonate reservoir
- **Yuanba Gas Field:** the deepest developed marine-facies gas reservoir in China
- **North Ordos Oil and Gas Field:** the first capacity building demonstration zone using only horizontal wells in China



Advanced Equipment

- **Geophysics:** 68 sets of seismic acquisition equipment, 161 sets of vibroseis, 26,394 full digital seismic 3C geophones
- **Drilling:** 664 onshore drilling rigs, of which 259 capable for 7000m+ depth drilling, and 15 offshore drilling platforms
- **Logging:** 110 image logging systems, 121 rapid logging platforms, 394 sets of comprehensive logging instrument
- **Downhole operation:** 150 sets of type-2500 and type-3000 fracturing vehicles, 50 sets of workover rigs with power higher than 750 HP, 6 offshore operation platforms



First Prize
National Science and
Technology Progress
Award 2017

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

Strong R&D capability

- 73 professor-level researchers
- 1,500 senior researchers
- 3,500 research, design, laboratory and development staff
- 3 research institutes
- 3 design companies
- 46 specialized subordinate research institutes

Geophysics



Drilling Engineering



Logging and Mud Logging



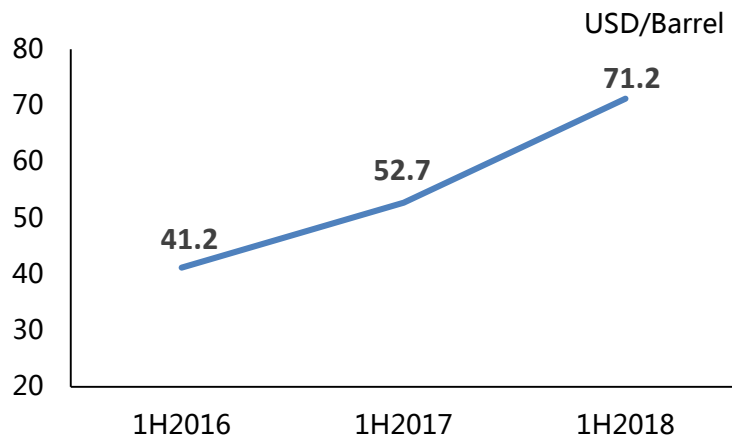
Downhole Operation



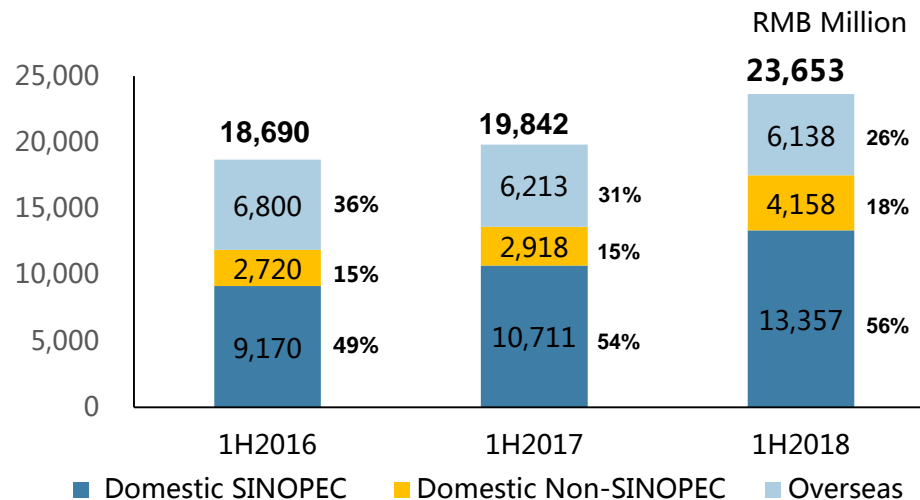
Engineering Construction



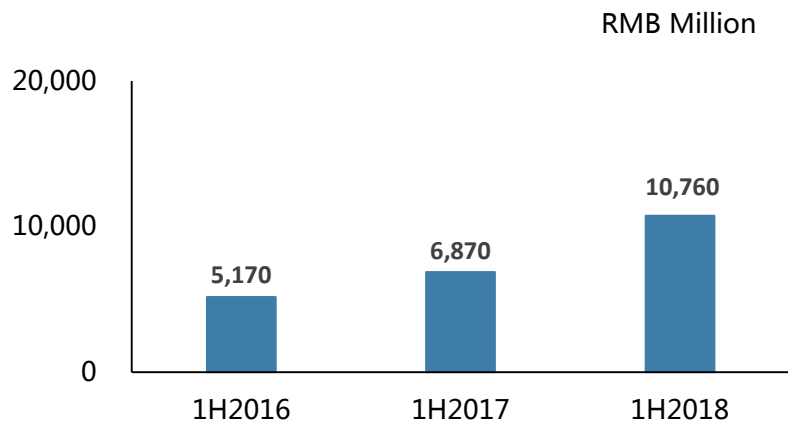
Brent Average Price



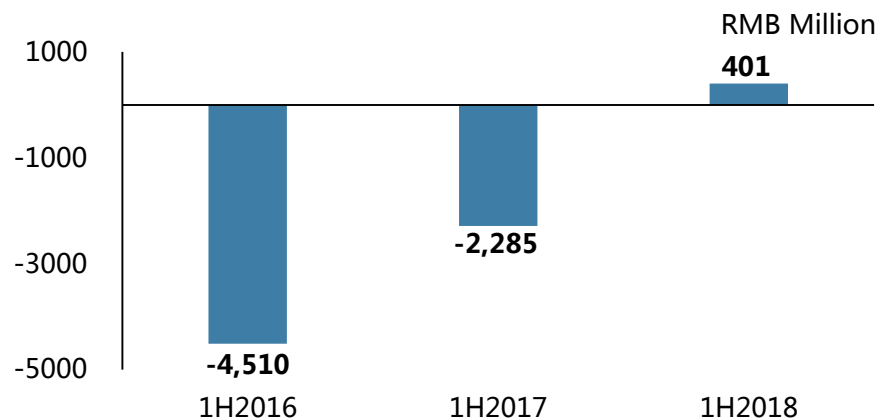
Interim Operating Revenue



SINOPEC E&P CAPEX

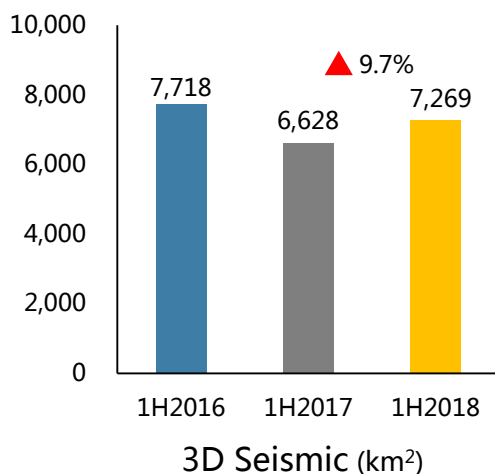
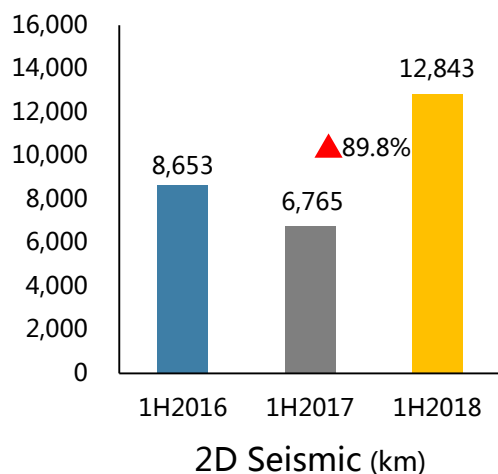


Interim Net Profit (PRC ASBE)

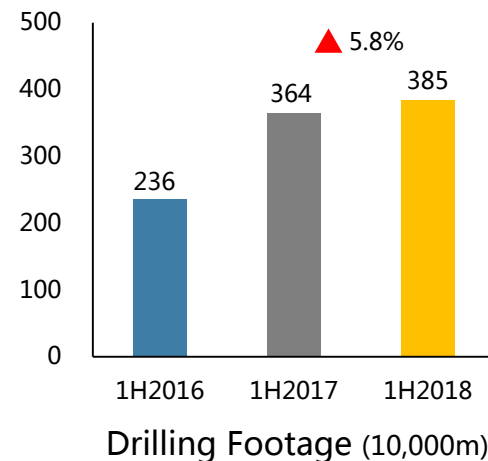


Performance by Segments

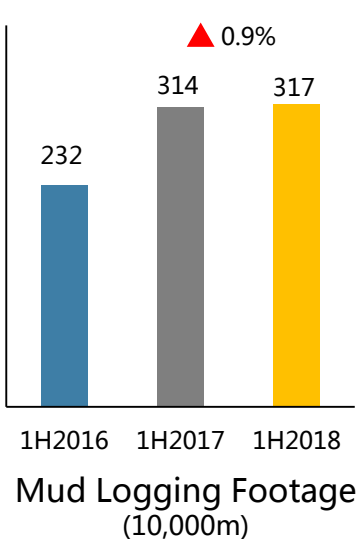
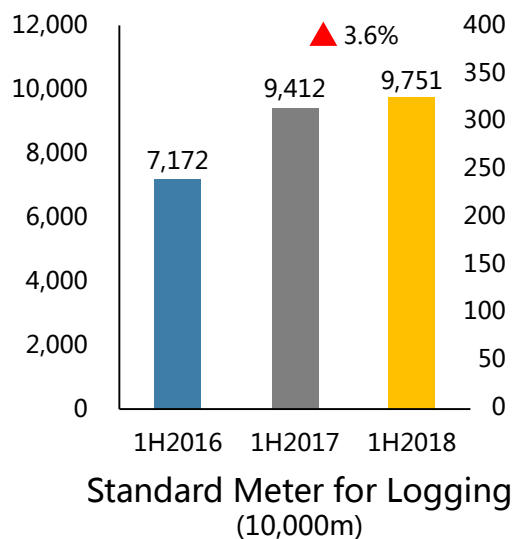
Geophysics



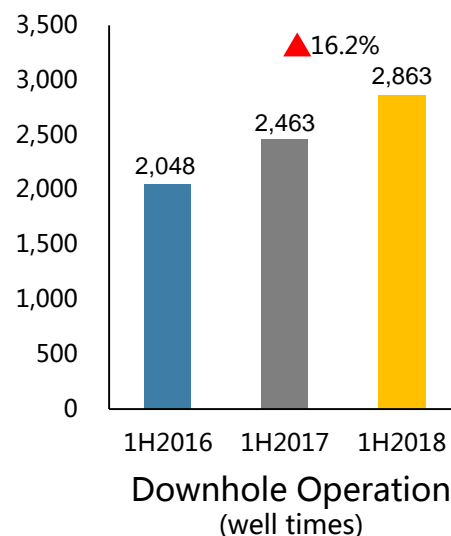
Drilling Engineering



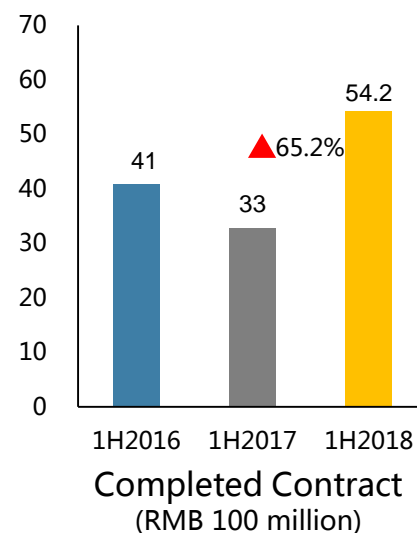
Logging & Mud Logging



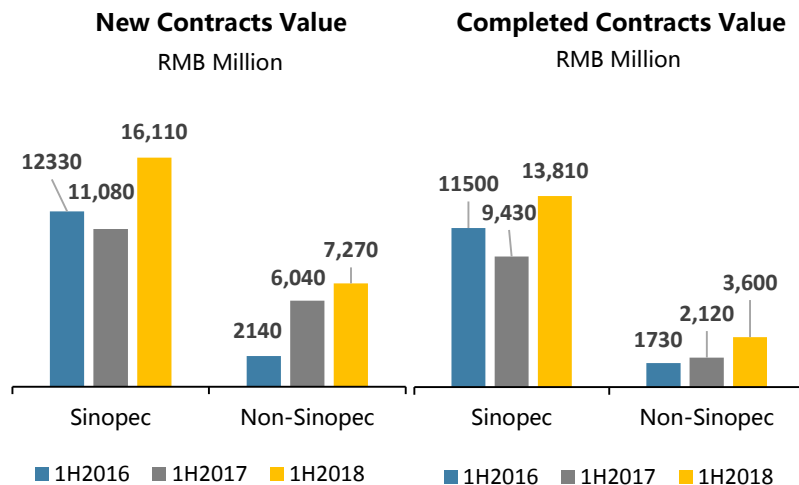
Downhole Operation



Engineering Construction

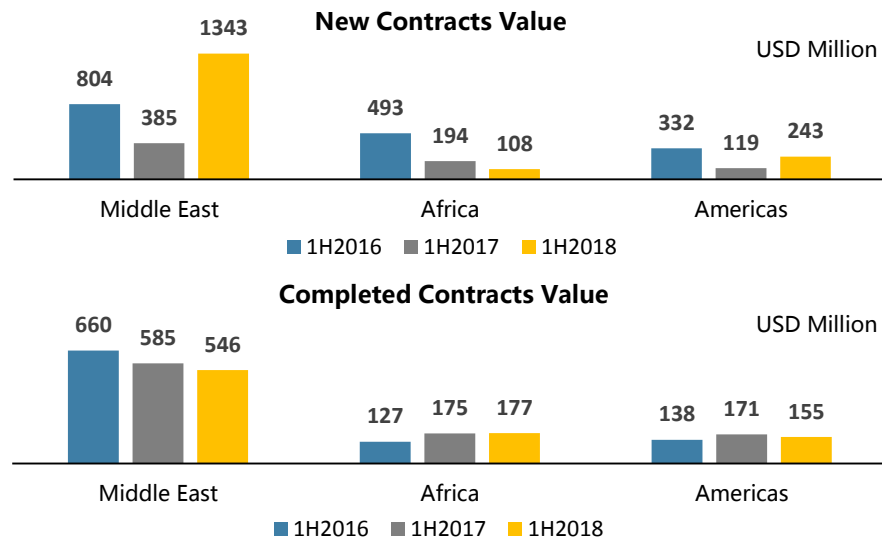


Domestic Market



- **SINOPEC Market** : New contracts valued 16.1 billion yuan, completed contracts valued 13.8 billion yuan. Focused effort on the oil & gas field construction in Fuling Phase II, Shunbei, tight gas in North China, medium and shallow reservoir in west Sichuan, Puguang, Weirong and old oilfield in East China. Promoted Wen-23 gas storage project. Won the bidding of 6 out of the total 7 sections of Rizhao-Puyang-Luoyang crude pipeline (446 million yuan) and 6 out of the total 8 sections of Ordos-Anping-Cangzhou gas pipeline (1.22 billion yuan)
- **Non-SINOPEC Market** : New contracts valued 7.3 billion yuan, completed contracts valued 3.6 billion yuan. Entered shale gas market in Sichuan, signed contracts valued 890 million yuan for 30 drilling rigs. Won drilling contracts in Daqing and Chuanqing oilfield. Explore-6 drilling platform won a contract of offshore exploration well drilling for CNOOC.

Overseas Market



- **Overseas**: New contracts valued USD 1.76 billion, completed contracts valued USD 950 million and backlog contracts valued USD 4.83 billion
- **Middle East** Won KOC contracts with 5+1 year service model for 20 drilling rigs in Kuwait (USD 1.06 billion) and acquired EOR qualification. Kept a leading position in the contractor KPI ranking list of Saudi Aramco, and obtained qualifications of well site construction and H₂S monitoring
- **Americas** In Ecuador, signed new contracts valued USD 215 million, of which USD 150 million came from a LSTK contract of 2 drilling rigs service; In Mexico, EBANO projects transformed from incentive type to production sharing contracts
- **Africa and Other** Obtained TOTAL's global contractor qualification for logging in Chad. Won contracts of 5 blocks (30 gas wells) in Ukraine. Entered the Thailand national oil company market for the first time.

- Reduced headquarters departments from 17 to 12 with related positions down by 20.3%; Reduced operating units to 76 from 80 at the beginning of this year
- Reduce excess capacity and excess professional crews
- Implemented new HR plans and reduced about 2,000 staff; Diverted redundant staff through multiple channels, encouraged about 4500 employees to undertake external businesses and provide labor services

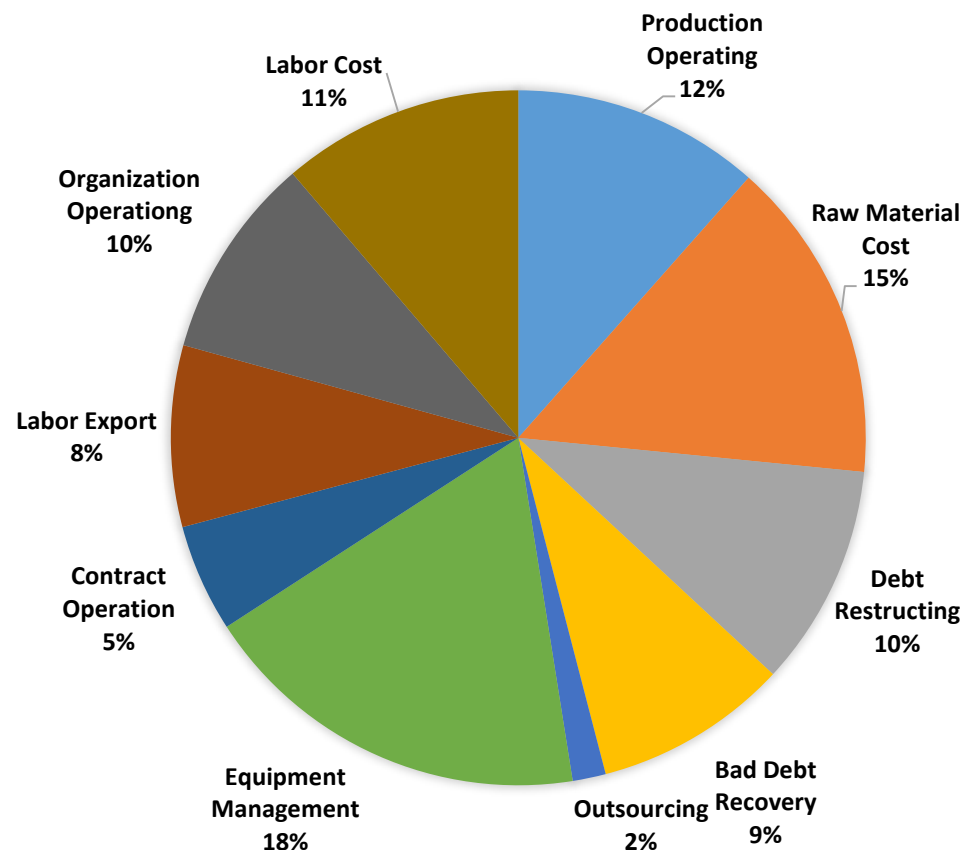
- Reduced grassroot units of auxiliary services from 294 to 145, down by 51%, through contracting mechanism



- Shengli Petroleum Engineering Company consolidated the cementing business of 4 drilling units and established the "Cementing Technology Service Center"
- Integrate resources of directional wells, tools, logging and mud logging, set up comprehensive technical service team to enhance service capability

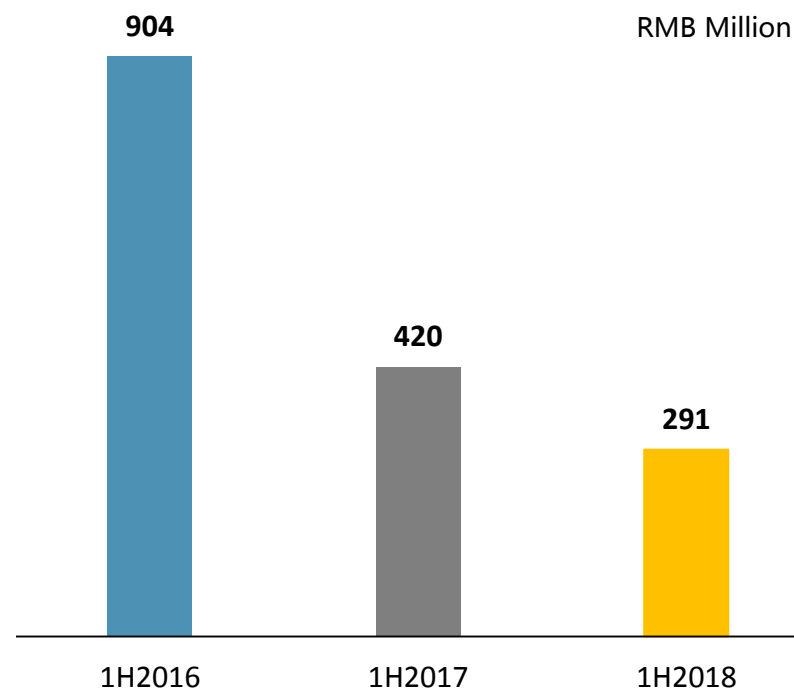
- Strengthened performance assessment and established a market-oriented "Rank & Yank" mechanism
- Strengthened the accountability mechanism of projects' loss, establish a mechanism for equipment sharing. In 1H 2018, 147 sets of idle equipment were redeployed, and 34 sets of idle equipment were leased

Cost Reduction in 1H 2018



- In 1H 2018, the company realized a cost reduction of **1.61 billion** yuan and completed 52% of the annual plan.

Capital Expenditure in 1H 2018



- In 1H 2018, the Capex was **291 million** yuan, including 220 million yuan for non-installed equipment, 20 million yuan for engineering projects, 1 million yuan for safety hazard management projects, and 50 million yuan for IT and others.



Technology Innovation

Patents : applied for 262 new patents home and abroad, 151 were granted in 1H 2018

Scientific Rewards: High-Efficiency Exploration and Development in Fuling Large-scale Marine Shale Gas Field won the first class prize of National Science and Technology Progress Award. **Engineering Prototype and Matching Technology of Natural Gas Hydrate Coring** and **Radar Imaging Logging Prototype Development** passed the acceptance check of National 863 program

R&D Cooperation

- Signed strategic cooperation agreements with universities such as China University of Petroleum (East China), Changzhou University and Yangtze University
- Joint development of drilling rotary steering tools with Baker Hughes
- Cooperating with Sinopec Houston R&D Center to develop high temperature MWD tools

Technology Application

- **Shale gas matching technology.** Technologies of horizontal well drilling, drilling fluid and cementing in Fuling area were promoted. Drilling-speed-enhance technology research in Weiyuan-Yongchuan deep shale gas reservoir has shown good results
- **Ultra deep well drilling technology.** The application research of key technologies of drilling-speed-enhance in Shunbei ultra-deep oil and gas field has shown significant results
- **Tight oil and gas exploration technology.** Technology of leak-proof and plugging technology in tight oil and gas reservoirs in Ordos has been improved constantly.

New Engineering Records

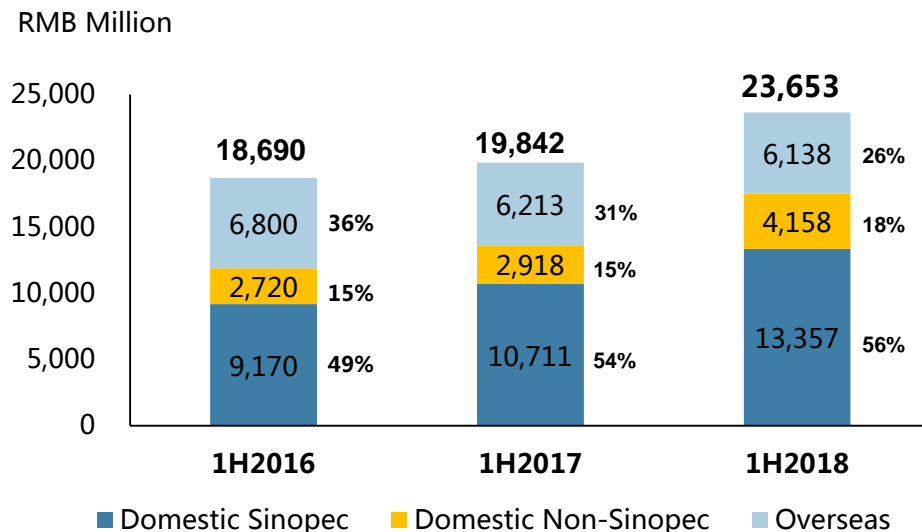
- Shunbei Peng 1 well under construction set the deepest record in Asia, 8,450 meters
- The construction of Fuling JY2-5HF well set several domestic records:
 - The longest horizontal section record (3065m) of onshore shale gas horizontal wells
 - The most fractured stages record (44) of onshore shale gas horizontal wells
 - The most bridge plugs placed by coiled tubing in a single well

Section 2: Financials in 1H 2018

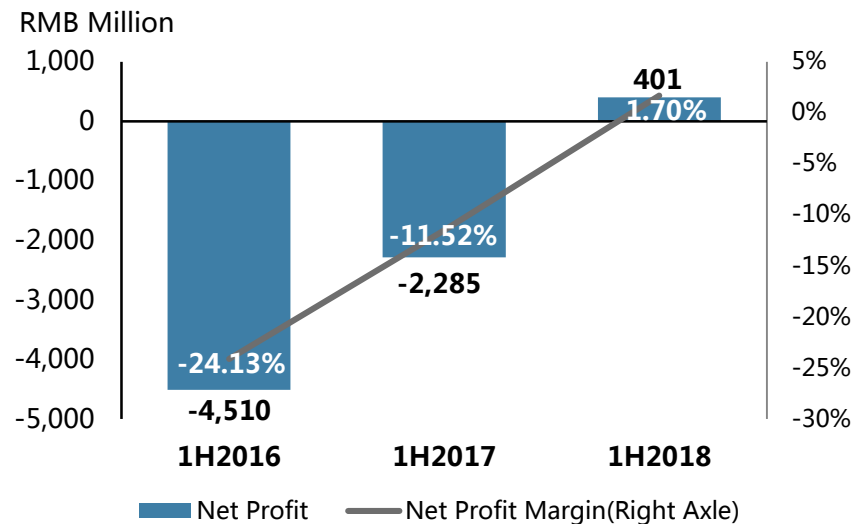


Key Financial Indicators

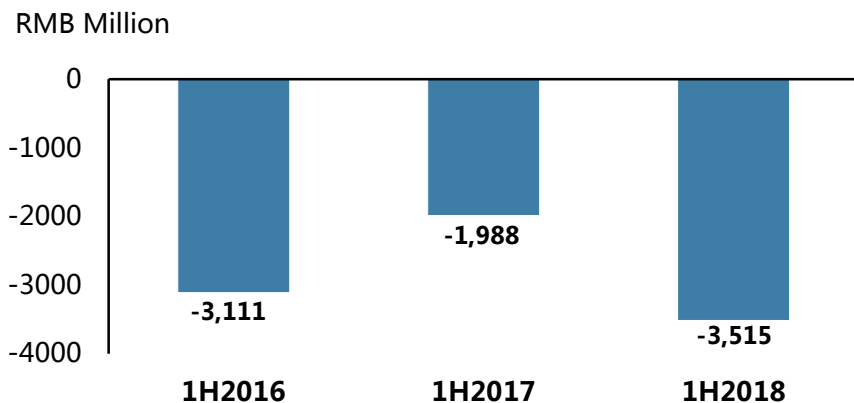
Operating Revenue



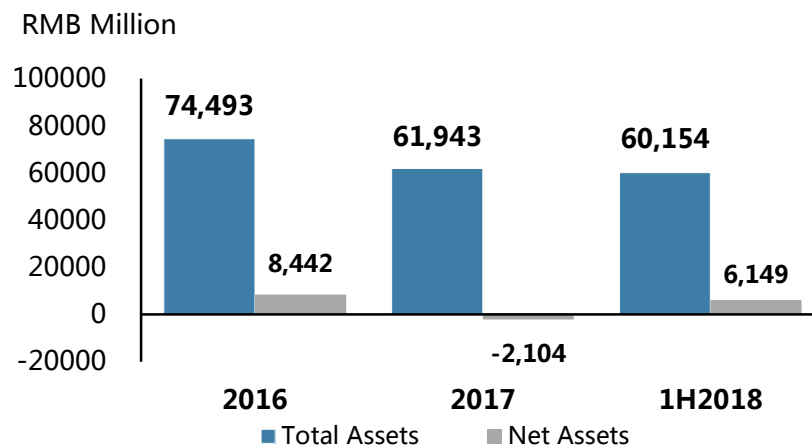
Net Profit & Margin



Operating Cash Flow



Total Assets & Net Assets



Financials of 5 Business Segments

RMB Million



Geophysics



Drilling



Logging and Mud Logging

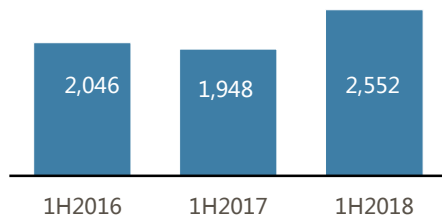


Downhole Operation



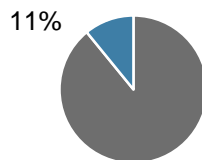
Engineering Construction

Operating Revenue

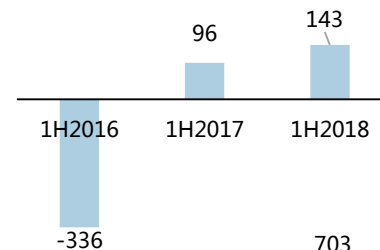


1H2016 1H2017 1H2018

% of Total Revenue

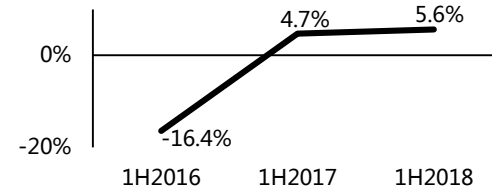


Gross Profit

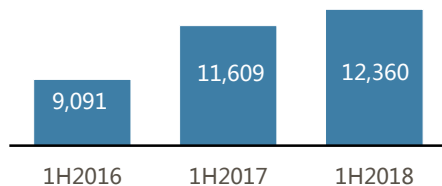


1H2016 1H2017 1H2018

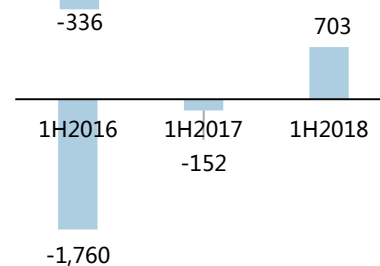
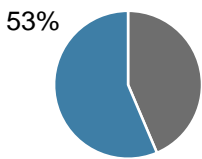
Gross Profit Margin



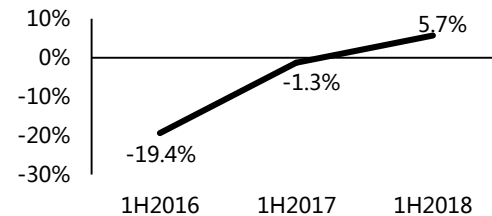
1H2016 1H2017 1H2018



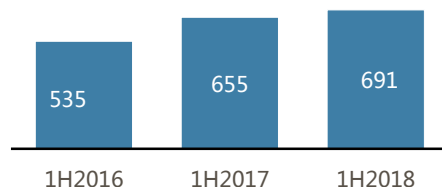
1H2016 1H2017 1H2018



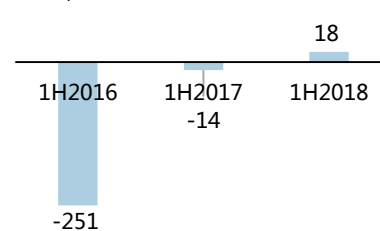
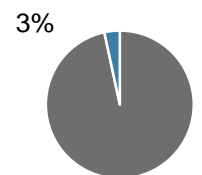
1H2016 1H2017 1H2018



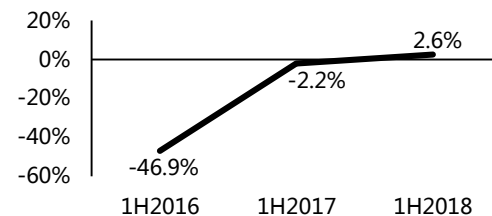
1H2016 1H2017 1H2018



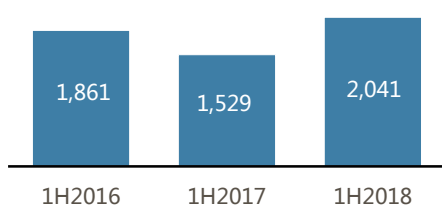
1H2016 1H2017 1H2018



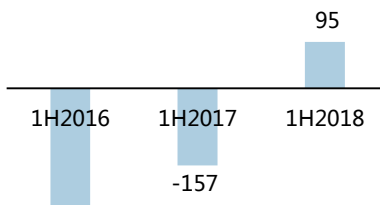
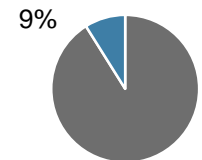
1H2016 1H2017 1H2018



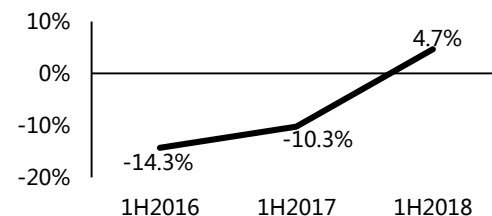
1H2016 1H2017 1H2018



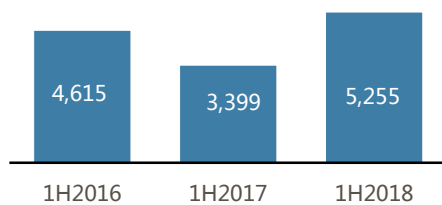
1H2016 1H2017 1H2018



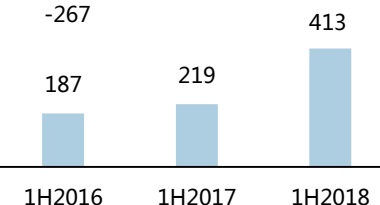
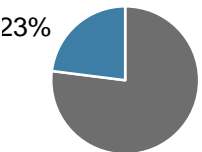
1H2016 1H2017 1H2018



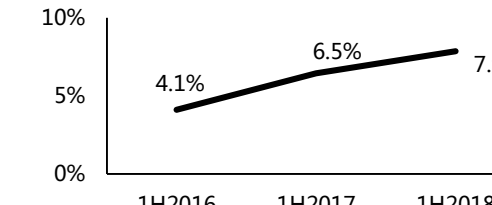
1H2016 1H2017 1H2018



1H2016 1H2017 1H2018

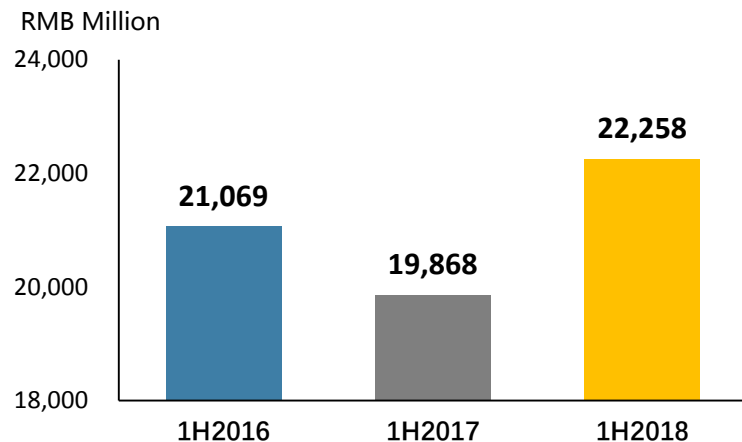


1H2016 1H2017 1H2018

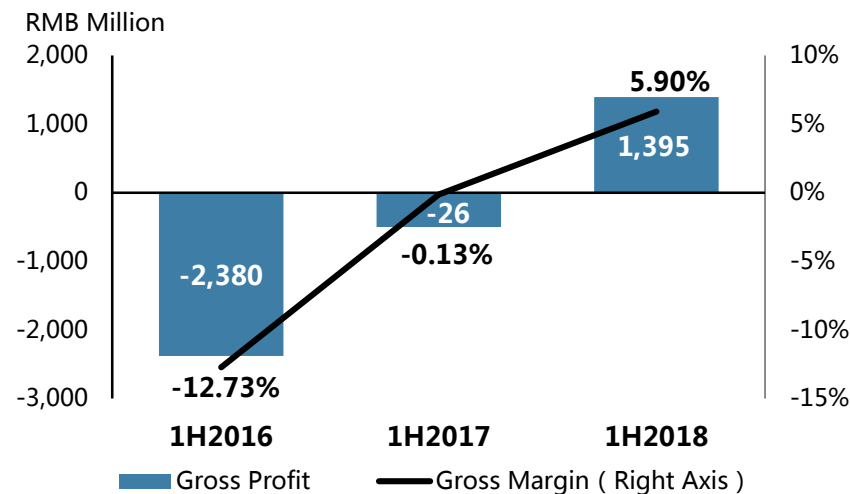


1H2016 1H2017 1H2018

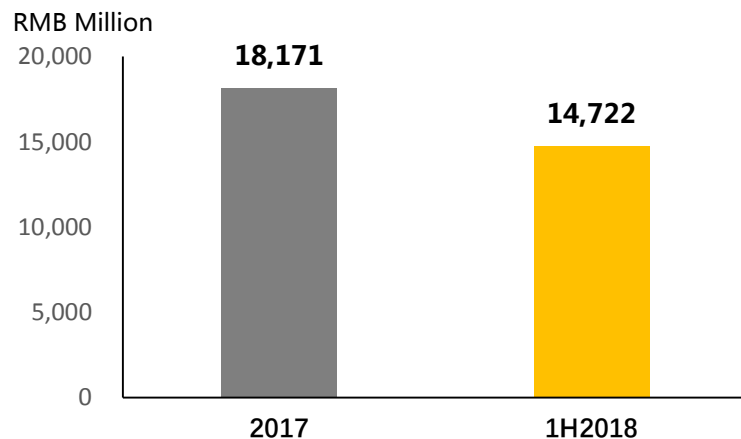
Operating Cost



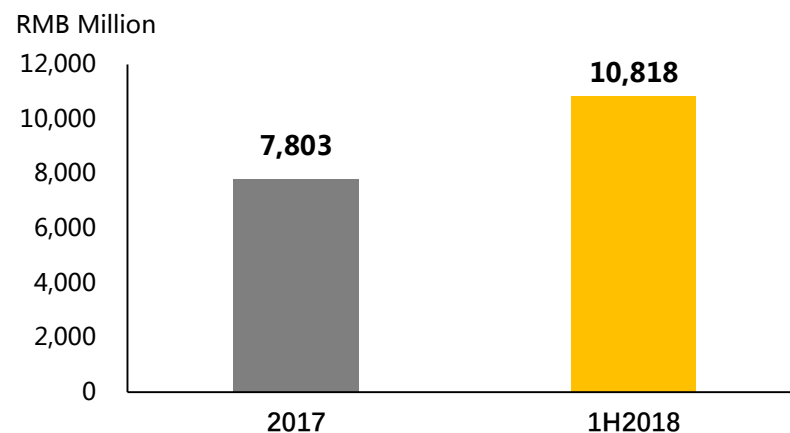
Gross Profit & Margin



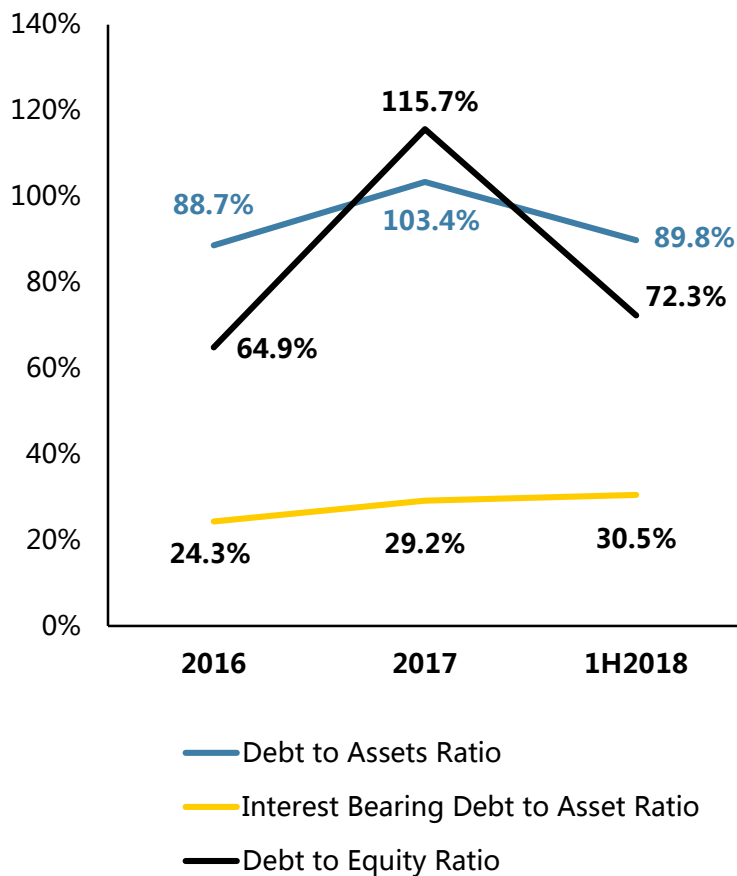
Notes Receivable & Accounts Receivable



Inventory & Contract Assets

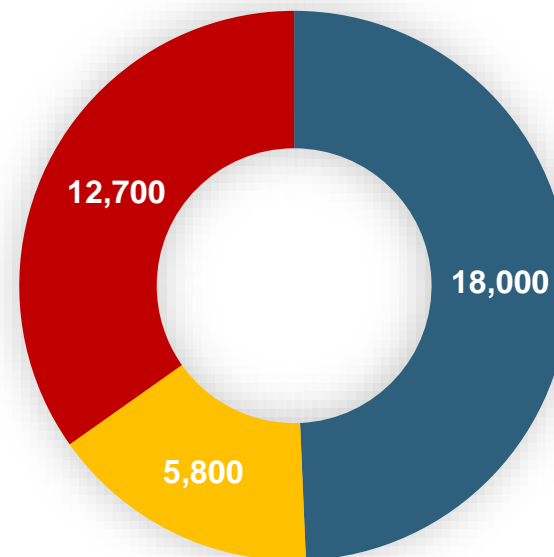


Structure of Assets and Liabilities



Credit Facility from Financial Institutions

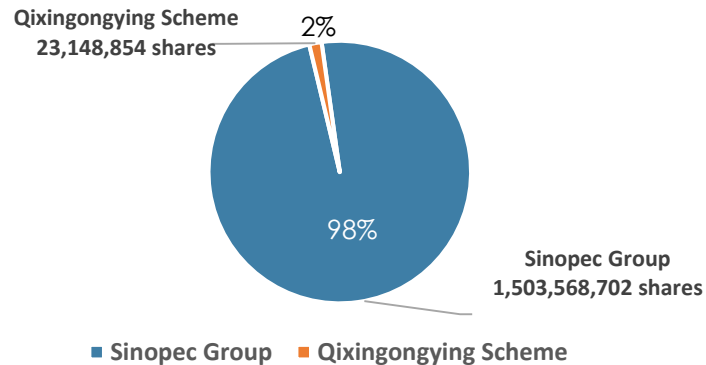
RMB Million



- Credit Line for Loan from Sinopec Financial Institutions
- Bill and Guarantee Facility from Sinopec Finance Co., LTD
- Comprehensive Credit Line from Banks (Not for Loan)

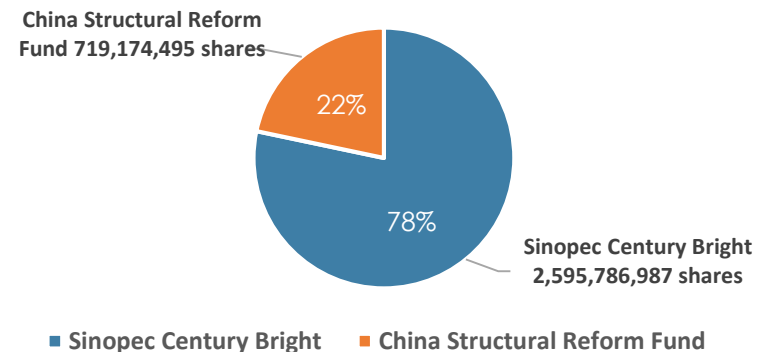
Non-Public Placement in January 2018

Subscription of A-Shares



- Issued 1.527 billion A-shares, raising 4 billion yuan. Sinopec Group subscribed for 3.94 billion yuan, and Qixingongying Scheme subscribed for 60 million yuan, with subscription price at 2.62 RMB/share

Subscription of H-Share

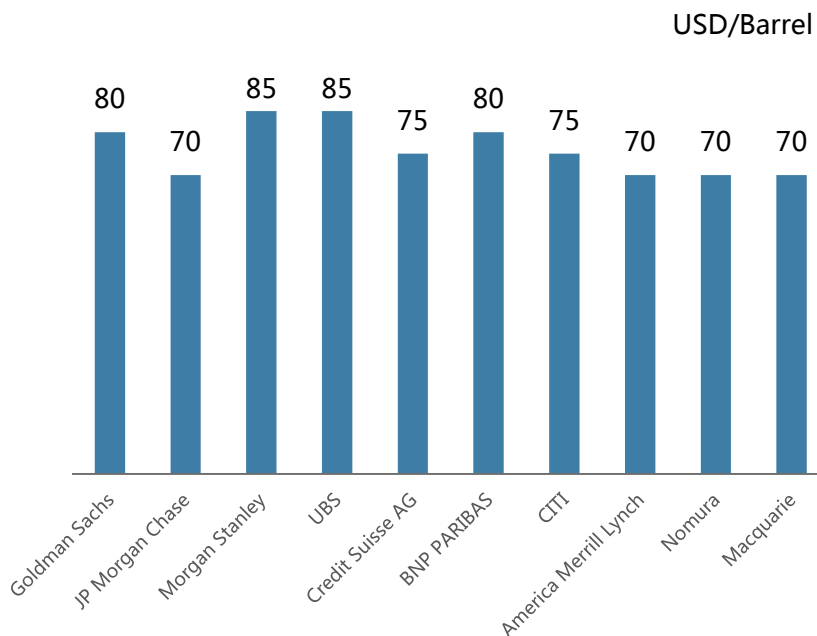


- Issued 3.314 billion H-shares, raising HKD 4.47 billion. Sinopec Century Bright subscribed for HKD 3.5 billion, China Structural Reform Fund subscribed for HKD 970 million, with subscription price at 1.35 HKD/ share
- Shareholding of Sinopec Group increased from 65.22% to 70.18%

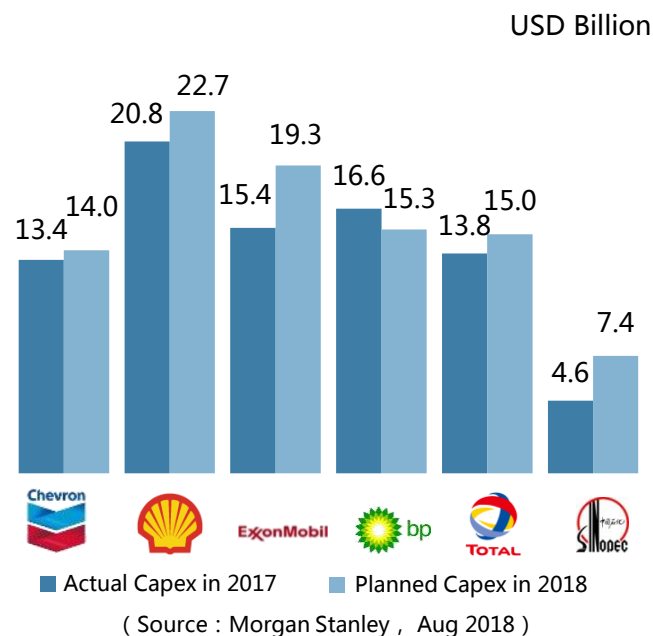
Section 3: Outlook for 2H 2018



Brent outlook



Predicted CAPEX of Upstream Enterprises

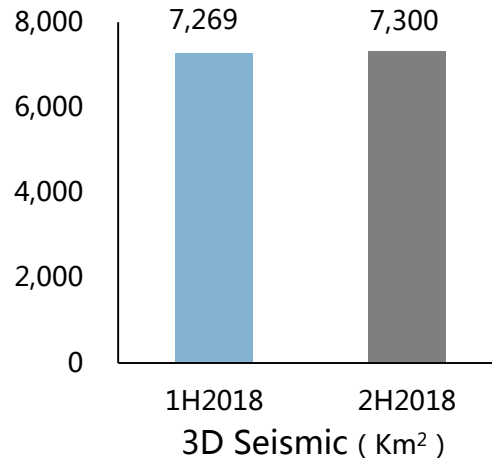
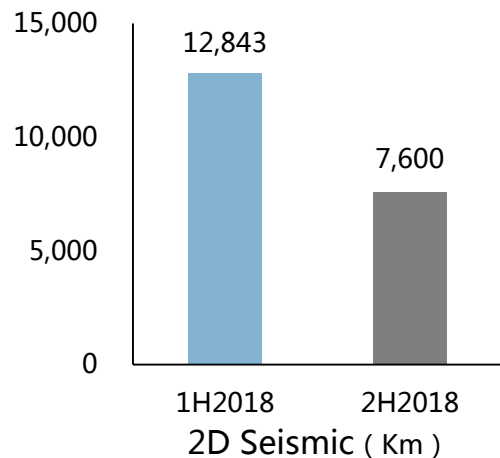


Changes in Oilfield Service Industry

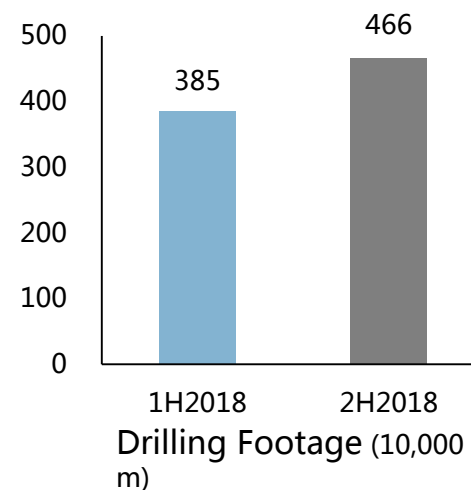
- World economy will keep moderate increase. Global crude oil market will be rebalancing. It is expected that the international oil price will rise with fluctuations
- E&P CAPEX of both domestic and overseas oil companies will continue to rebound rapidly, which will lead to continued picking-up of oilfield service

Work Volume Plan in 2018

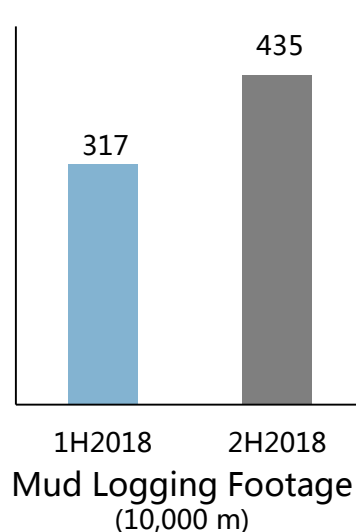
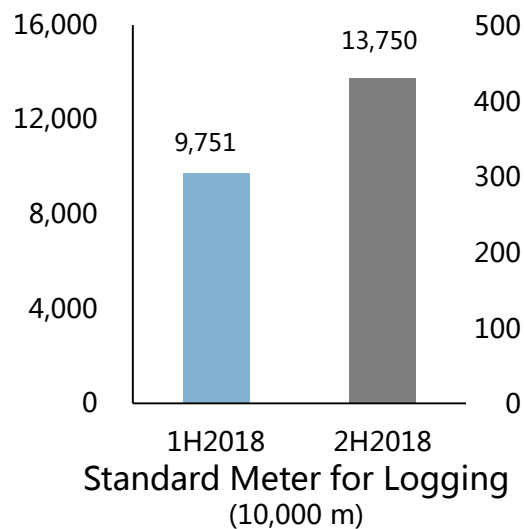
Geophysics



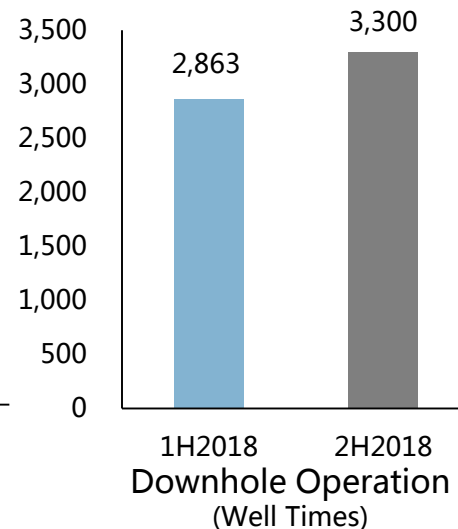
Drilling



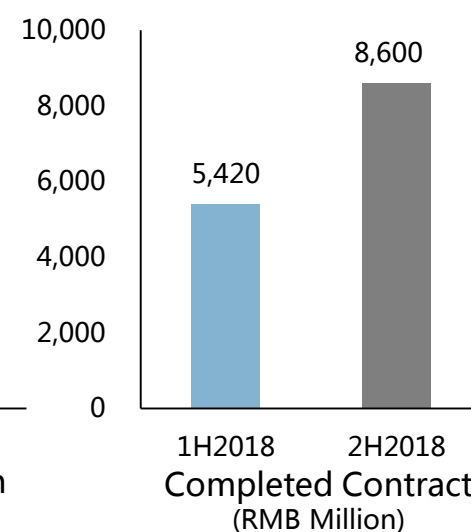
Logging & Mud Logging



Downhole Operation



Engineering Construction



Domestic Sinopec Market

- Serve the production construction in Weirong, West Sichuan, Dongsheng, Haiyu, etc.
- Boost development efficiency in Shunbei ultra-deep oilfield, South West natural gas field and Ordos tight oil & gas field
- Promote the cooperation for development of difficult-to-produce reservoir and repairing long-term shutdown wells in Shengli Oilfield
- Focused effort for Construction of Rizhao-Puyang-Luoyang crude oil pipeline, Ordos-Anping-Cangzhou gas pipeline, Xinjiang-Guangdong-Zhejiang Pipeline, Wen-23 gas storage and other key projects
- Bid for key projects such as Shandong LNG Phase II and Sichuan-East Gas Pipeline Phase II



Domestic Non-Sinopec Market

- Expand traditional markets such as Tarim, Southwest shale gas, Jidong, Hainan, Xinjiang and West of South China Sea
- Make full play of company's unconventional oil & gas engineering technology to explore domestic shale gas and coalbed methane market
- Closely follow the exploration dynamics through E&P blocks bidding
- Develop new business such as pipeline MRO (maintenance , repair and operation) , energy conservation and environmental protection, geographic information mapping



Overseas

- Wellbore business: bid for Saudi Aramco oil and gas well drilling and workover project, start the project of 20 drilling and workover rig in Kuwait
- Geophysics business: bid for Saudi Aramco S84 3D collection and projects in Algeria, Bolivia, Pakistan, etc.
- Engineering construction business: focus on Thailand's oil pipelines, road and bridge projects in Saudi Arabia and Uganda
- Reservoir business: focus on promoting Kuwait oilfield integrated services



Optimize and Reinforce Main Business

- Develop high-end businesses, continuously inject new technologies into drilling, downhole operations, geophysics, engineering construction and other main businesses; integrate technologies, equipment, talents and other resources to accelerate the development of technical services such as logging, testing, cementing and drilling fluids, etc. Accelerate the extension of industrial value chain to resource end and manufacturing end.
- Promote transformational development, vigorously promote the development of energy conservation and environmental protection, geographic information mapping and pipeline MRO (maintenance , repair and operation) , and foster new profit growth drivers

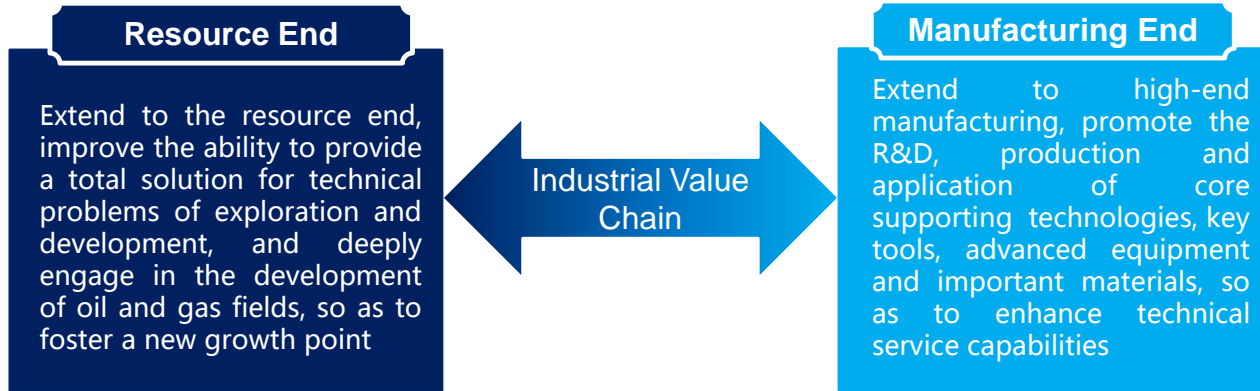
Promote Market-oriented Management and Operation

- Further flatten management levels, standardize organization constructing and downsize management personnel, establish an efficient management system and a lean management organization.
- Take the leverage of performance appraisal, strengthen the sharing of human resources, dynamically regulate and optimize the scale of team and equipment and resource allocation.
- Adhere to the market-oriented operation, professional management and socialized development, implement contractual operation of auxiliary business, establish settlement relationship of labor and product between the auxiliary and main business to ensure the profitability

Actively Promote Fine Management

- Promote the institutional system construction with project management as its core. Improve project profitability through stringent project management and process control
- Strengthen full-process cost control so as to achieve the annual cost and expense reduction target of 3.1 billion yuan
- Promote sharing of information, capital, technology, equipment, etc. Improve overall management efficiency

◆ Extend The Industrial Value Chain to Both Ends and Accelerate Transformational Development



◆ Promote Technological R&D to Upgrade the Efficiency

Improve 8 Integrated Technologies	Continuously improve 8 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
Informatization Construction	Accelerate the construction of ERP and integrated cloud platform, actively develop automation technologies and intelligent equipment, reduce labor intensity and employment and improve efficiency
Key Technologies Development	Continue to tackle MWD of 185 °C and 204 °C small borehole electric imaging logging tools to meet the logging requirements in ultra-deep gas & oil wells. Accelerate the upgrading and promotion of proprietary logging instruments with independent intellectual property rights, and help to explore international market
Mature Technologies Promotion	Enhance the industrialization of mature technologies, promote the application of broadband acceleration detectors, marine engineering design in medium and deep water , full process industrial application of CCUS, automatic pipe-processing equipment on drilling rigs to enhance efficiency
Industrial M&A Fund	Study on the establishment of an industrial M&A fund, focusing on M&A opportunities of high-end technical services and equipment manufacturing





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