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中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2017 Annual Results Presentation

March , 2018



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Section 1: Operations in 2017





中国石油



البنوك الوطنية
National Oil Company
A Subsidiary of Kuwait Petroleum Corporation



أرامكو السعودية
saudi aramco

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
- **Exploration and Development of Multiple Reservoirs in Shengli:** the second largest oilfield in China
- **Take Oil Field:** large oil field with 1.2 billion-ton reserve
- **Yuanba Gas Field:** the deepest marine-facies reservoir in China
- **North Ordos Oil and Gas Field:** the first horizontal well construction demonstration area in China

Advanced Equipment

- Geophysics: **78 sets** of seismic acquisition equipment, **189 sets** of vibroseis, **35,388** full digital seismic 3C geophones
- Drilling: **678** onshore drilling rigs, of which **257** for wells at depth of more than 7,000 meters and **14** offshore drilling platforms
- Logging: **127** image logging systems, **142** rapid logging platforms, **401** sets of comprehensive logging instrument
- Downhole operation: **150** sets of type-2500 and type-3000 fracturing assembly, **52** sets of workover rigs with power higher than 750 HP, **6** offshore operation platforms

Strong R&D capability

- **2** members of the Chinese Academy of Engineering
- **73** professor-level researchers and nearly
- **1,600** 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



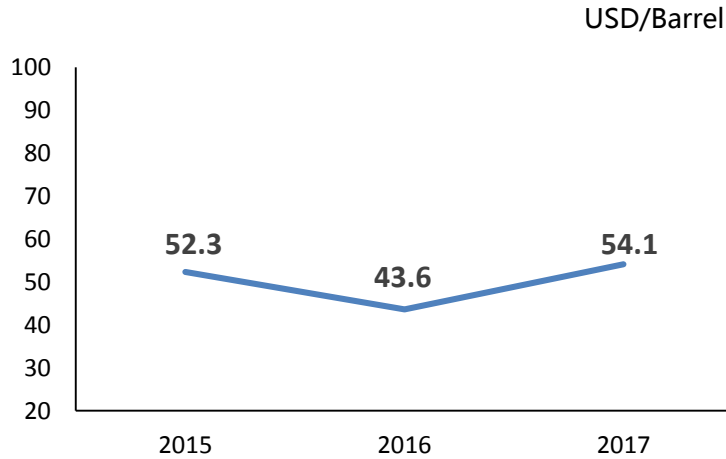
Downhole Operation



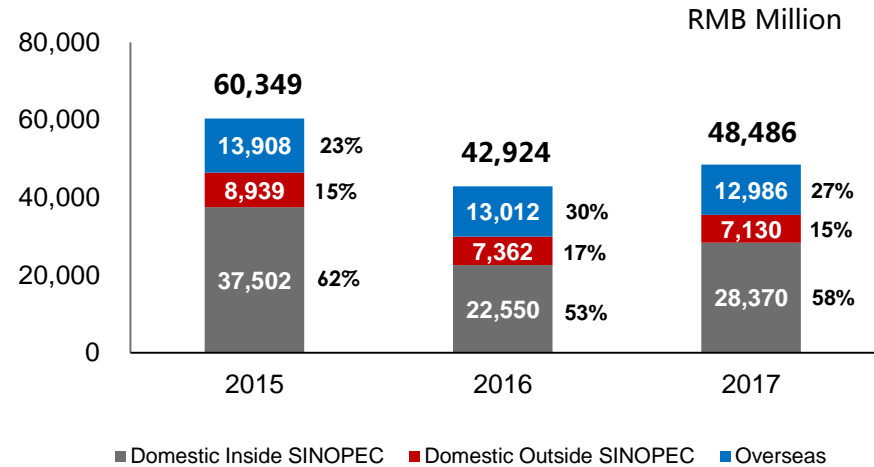
Engineering Construction



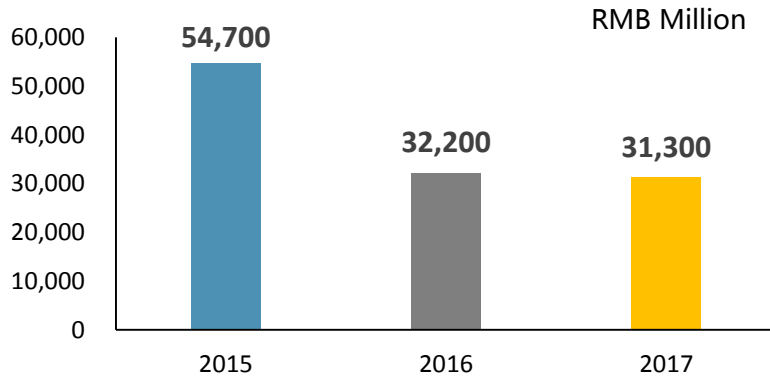
Average Price of Brent Oil



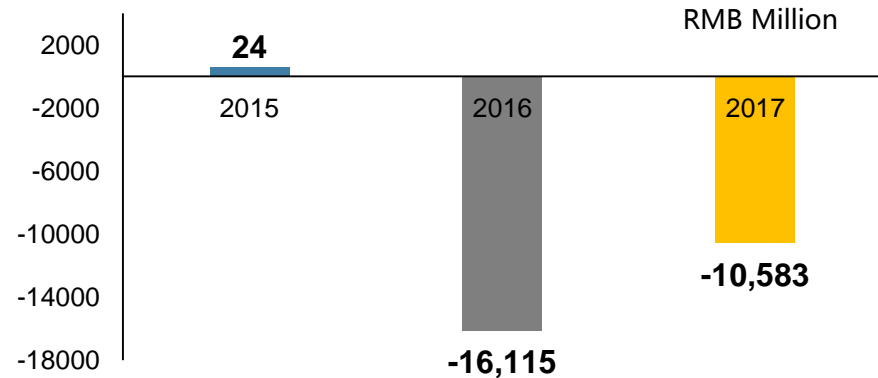
Operating Revenue of 2017



SINOPEC E&P CAPEX

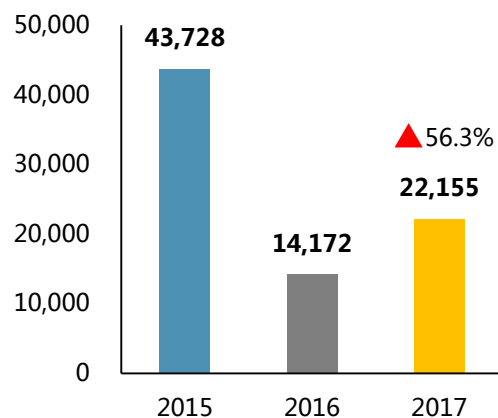


Net Profit of 2017 (ASBE)

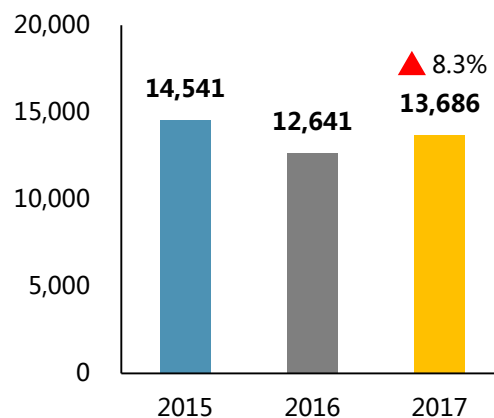


Performance by Segments

Geophysics

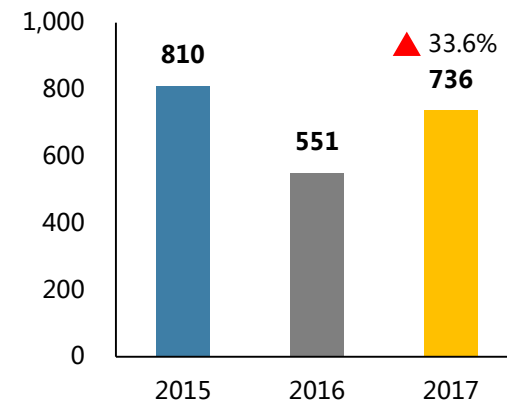


2D Seismic (Km)



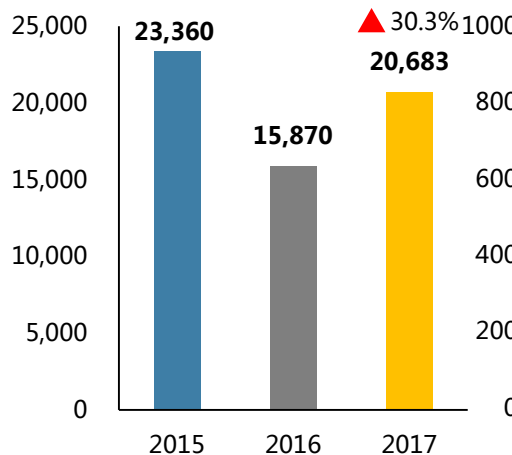
3D Seismic (Km²)

Drilling Engineering

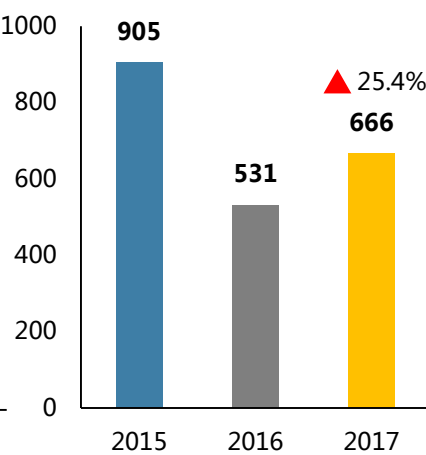


Drilling Footage (10,000 m)

Logging & Mud Logging

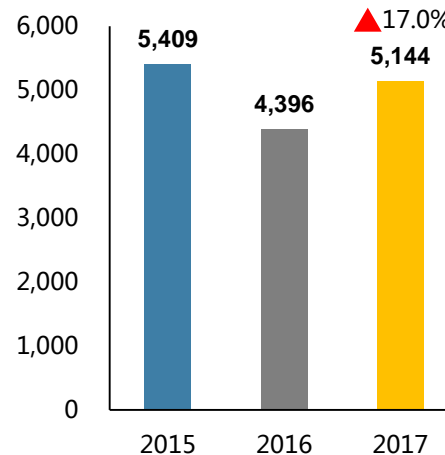


Standard Meter for Logging (10,000 m)



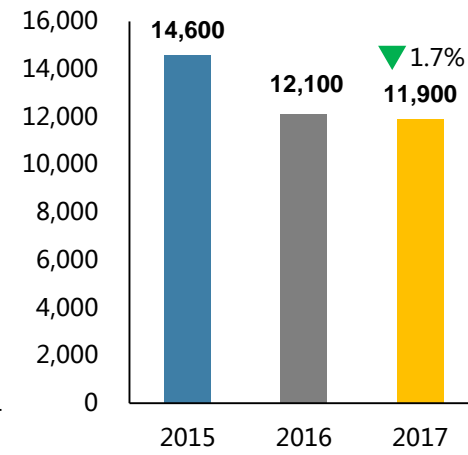
Mud Logging Footage (10,000 m)

Downhole Operation



Downhole Operation (Well Times)

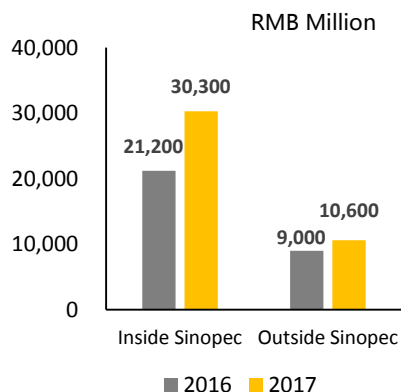
Engineering Construction



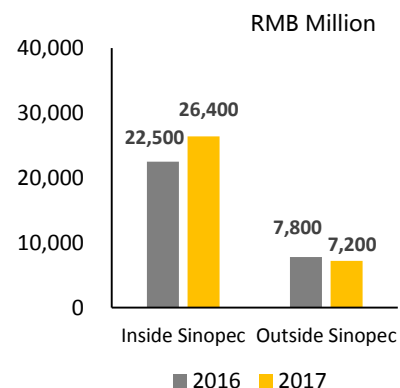
Completed Contract (RMB Million)

Domestic Market

New Contracts Value



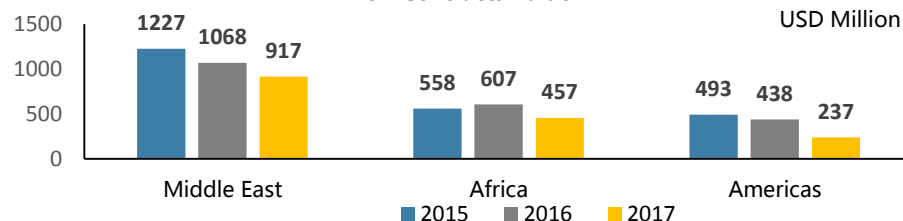
Completed Contracts Value



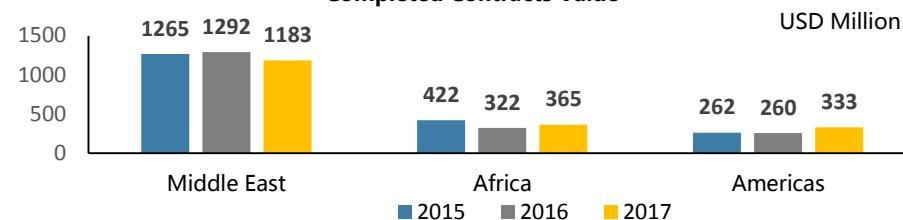
- **Inside Sinopec:** Serviced in ultra-deep oil & gas field in Shunbei, natural gas field in Southwest and tight gas field in Ordos; Constructed Wen-23 gas storage project and First Phase of Xinjiang-Guangdong-Zhejiang Pipeline Project (3.16 billion yuan); Developed 15 blocks of difficult-to-produce reservoir, drilled 23 wells and repaired 54 long-term shutdown wells in Shengli Oilfield
- **Outside Sinopec:** Completed geological survey of shale gas in western Hubei (200 million yuan); Provided vessel services in East China Sea Oilfield (660 million yuan); Awarded the Rizhao-Jingbo Oil Products Pipeline Project (2.63 billion yuan) and National Oil Reserve Construction Project (900 million yuan)
- **Emerging Business:** New contract value of emerging business including underground pipe network detection, land right confirmation and marine surveying and mapping amounted to 108 million yuan, an increase of 31% year-on-year; new contracts for energy conservation and environmental protection services such as solid waste disposal and soil remediation amounted to 169 million yuan, an increase of 133% year-on-year

Overseas Market

New Contracts Value



Completed Contracts Value



- **Overseas market :** New contracts valued USD 1.9 billion, completed contracts valued USD 2.02 billion and backlog contracts valued USD 4.47 billion
- **Middle East :** Signed (renewed) contracts of 19 drilling rigs (USD 470 million) in Saudi Arabia; obtained qualifications from Saudi Aramco for gas wells, coiled tubing and mechanical repairs service; obtained KJO offshore drilling rigs and comprehensive service qualifications; Signed contract of 26 drilling and workover rigs (USD 200 million) and contract of logging service of 5+1 years (USD 26 million) in Kuwait
- **South America :** 35 wells for ITT Turnkey Drilling Project (USD 150 million) in Ecuador
- **Africa :** Signed contract of 2 offshore drilling projects (USD 150 million) in Nigeria; won four bids for geophysical exploration projects (USD 71.81 million) in Algeria; Entered Congo's logging market for the first time.
- **Other Overseas Markets :** Signed the First Phase of No.5 Natural Gas Pipeline Project in Thailand (USD 196 million) and Geothermal Power Generation Drilling Project in Turkey (USD 84.61 million)

Downsizing Organization

- Reduced operating units to 80, compared to 97 in 2014
- Cut administrative offices and departments directly under operating units by 19%, from 996 to 806
- Consolidated headquarters departments from 17 to 12, reduced by 30%

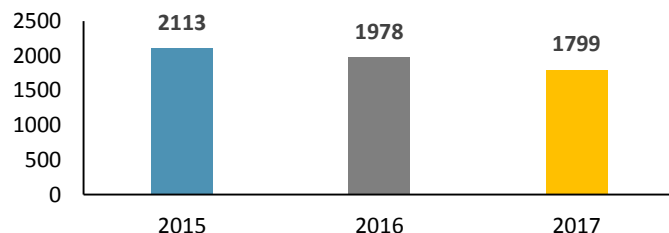
Integrating Auxiliary Services

- Integrated auxiliary services and established professional teams
- Established contracting operating mechanism. Motivated employees to start a business, innovate and create profit
- Reduced 63 grassroots units of auxiliary services and 48 grassroots units applied contracting mechanism

Reducing Excess Capacity

- Cut 179 professional crews
- Phased out 267 sets of old drilling rigs and other equipment with 2.123 billion yuan write-down

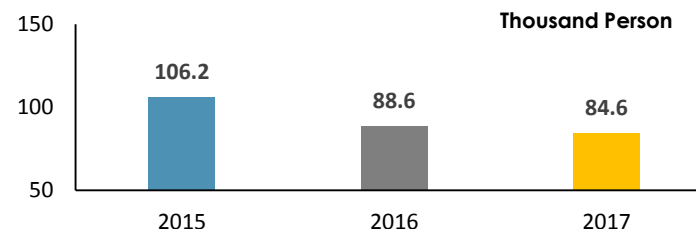
Number of Crews



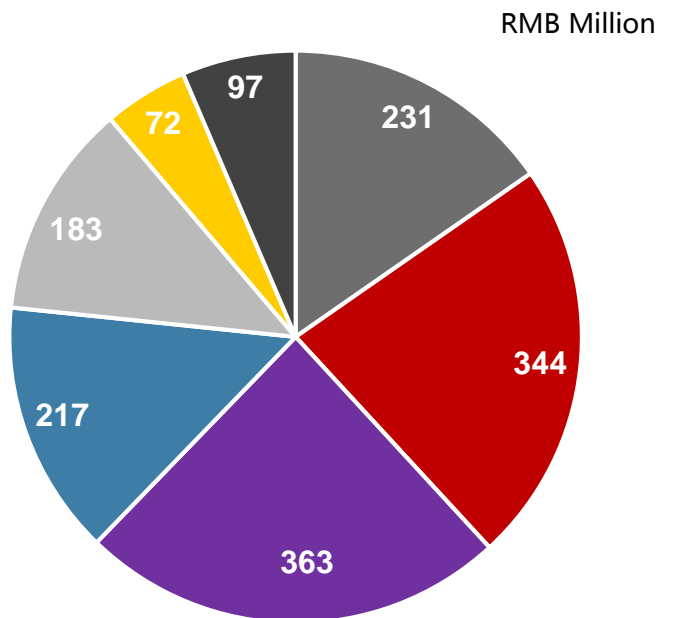
Diverting Surplus Staff

- Diverted surplus staff through multiple channels, encouraged employees to undertake external businesses and provide labor services, and accumulatively reduced 4,000 staff

Total Number of Staff



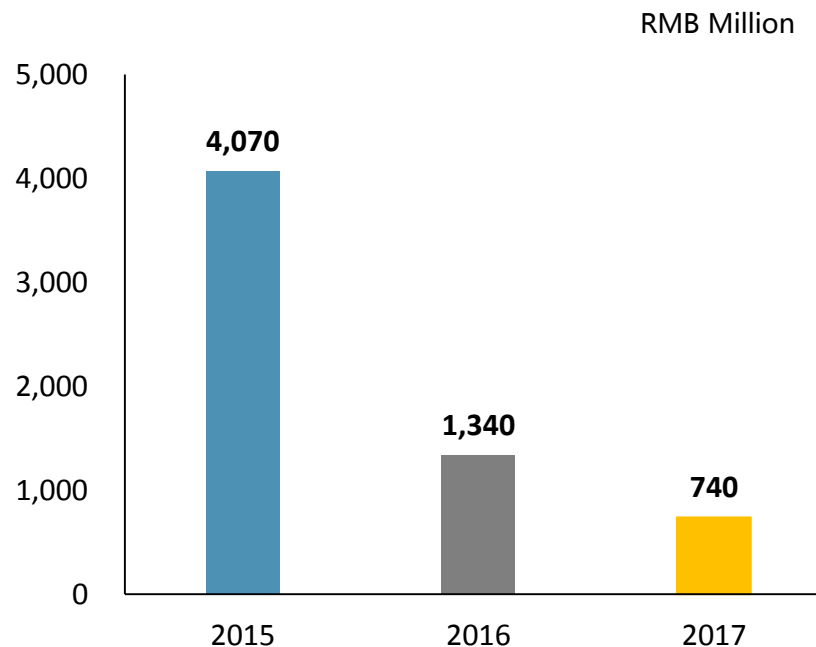
Cost Reduction in 2017



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

**Cost Reduction of
1.51 Billion Yuan**

Capital Expenditure





Strengthened Technology Innovation

Patents : 494 new patents applications filed, 322 patents granted

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. National 863 program Radar Imaging Log Prototype Development passed acceptance

Ultra-Deep Drilling

- Refreshed the record of deepest well in Asia by Shunbei Appraisal-1 well (8430m) and Appraisal-2 well (8433m) in succession

Unconventional Oil and Gas

- Improved shale gas engineering technology to support the capacity construction and peripheral deep layer exploration in Fuling shale gas field
- Strived to make technological breakthrough in leak-proof and plugging in tight oil and gas reservoirs in Ordos, one-shot plugging success rate reached 92%

Geophysical Technology

- Single point high-density 3D seismic technology realized industrialized application in eastern matured region; and sophisticated mountain seismic exploration integrated technology was widely applied overseas

Offshore Drilling

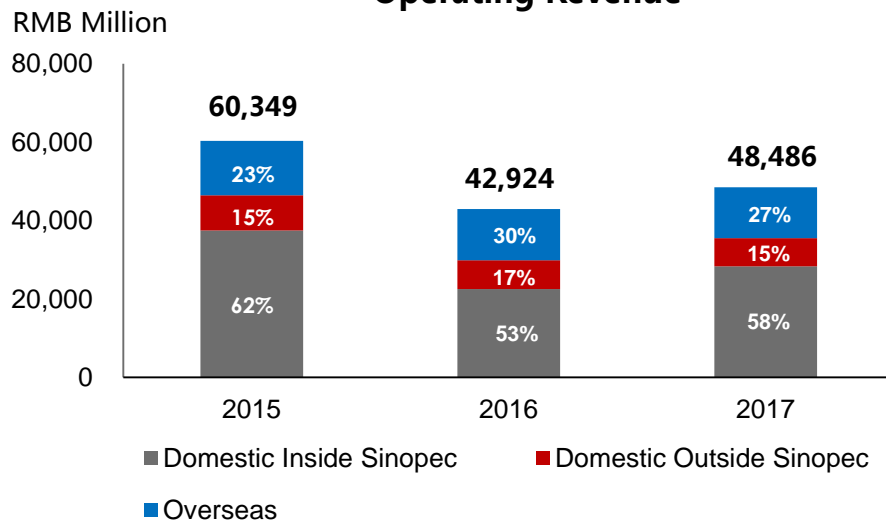
- Made significant breakthrough in drilling and coring of gas hydrate offshore. Completed the world' s first sidetracking in 24 " riser in the South China Sea

Section 2: Financials in 2017

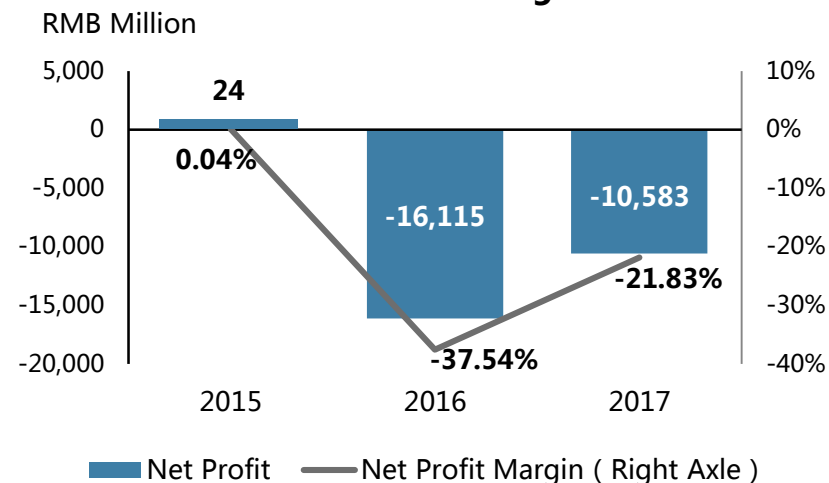


Main Financial Indicators

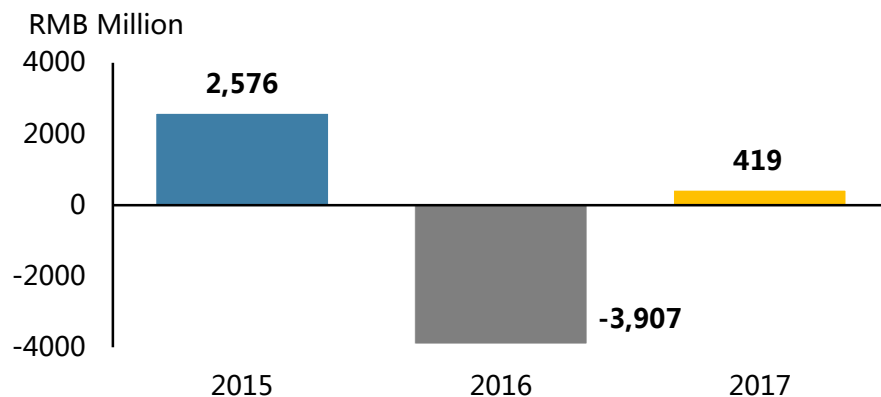
Operating Revenue



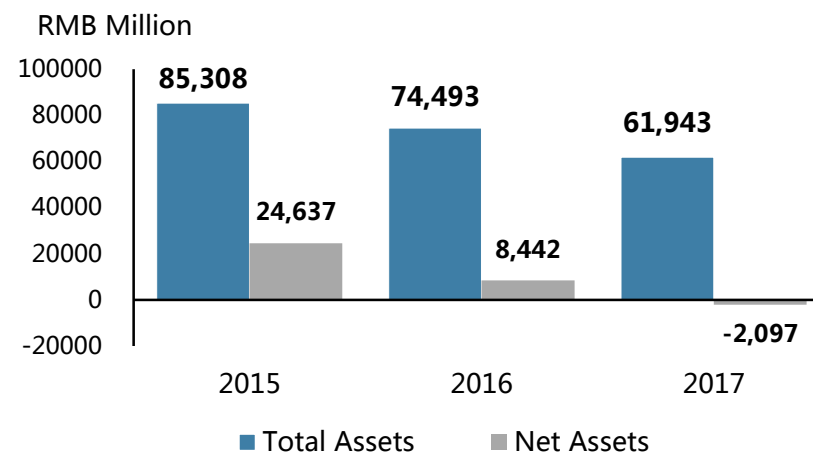
Net Profit & Margin



Operating Cash Flow



Total Assets and Net Assets



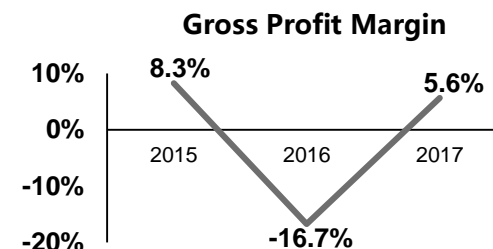
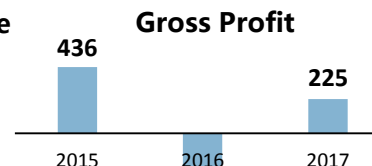
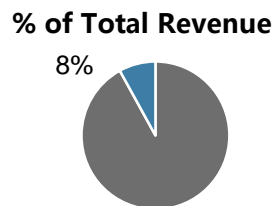
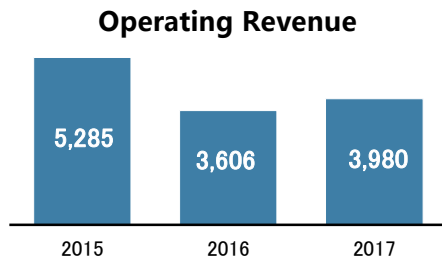
Financials of 5 Business Segments



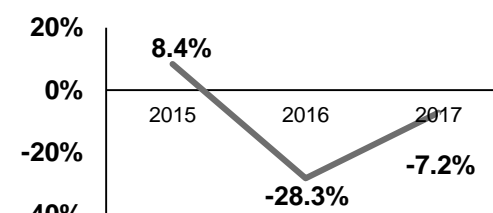
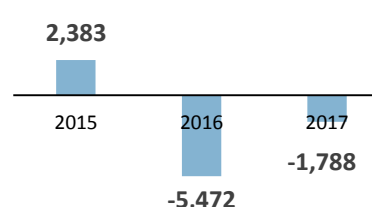
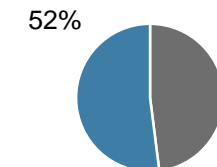
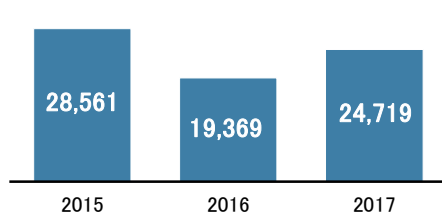
SSC

RMB Million

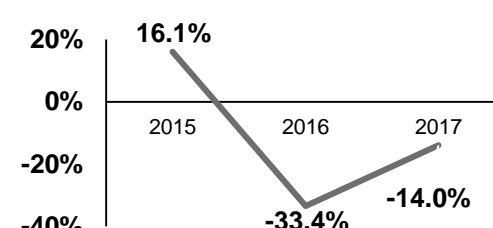
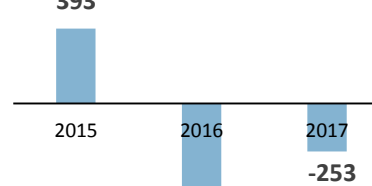
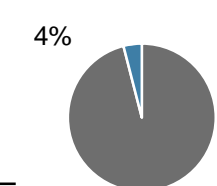
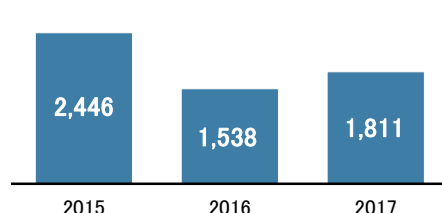
Geophysics



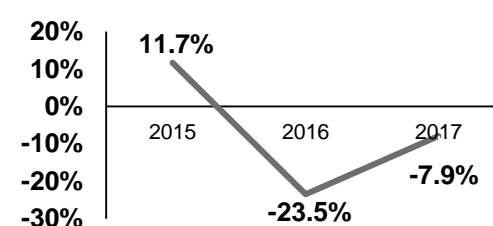
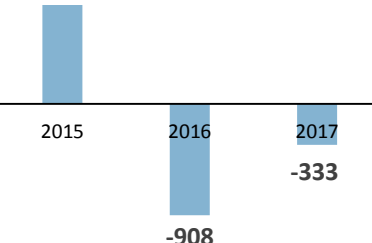
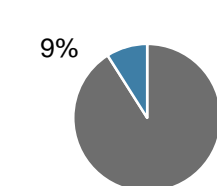
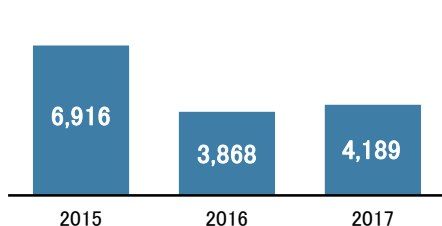
Drilling



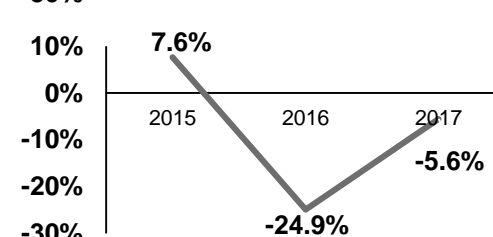
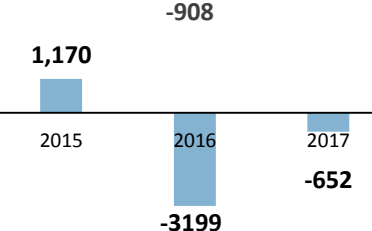
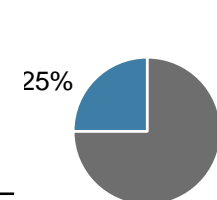
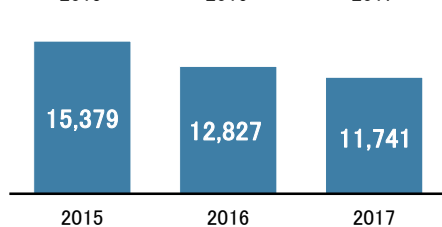
Logging and Mud Logging



Downhole Operation

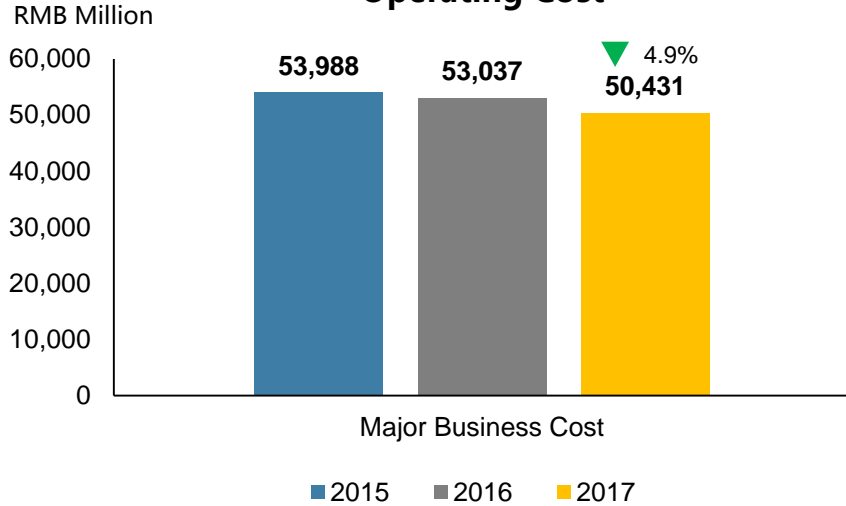


Engineering Construction

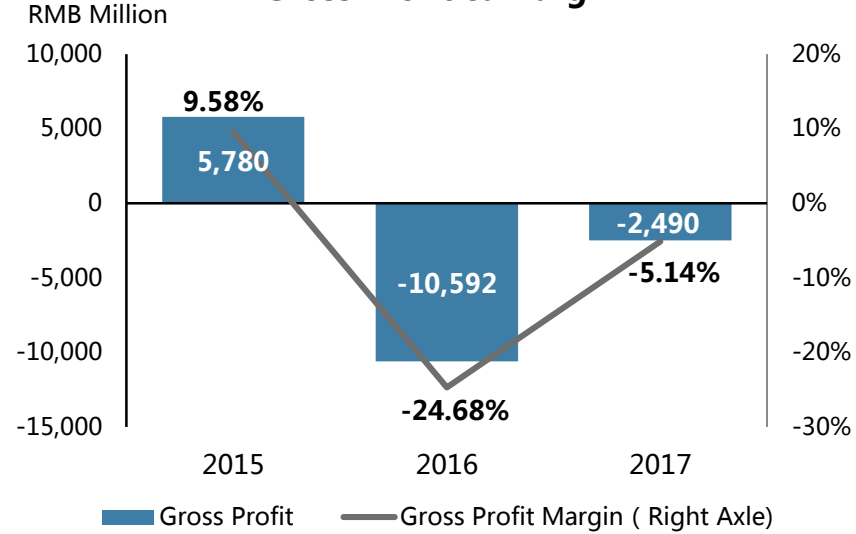




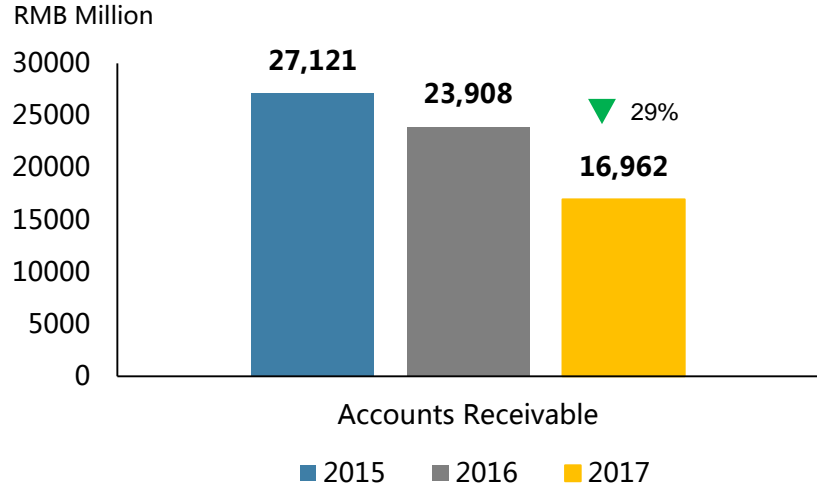
Operating Cost



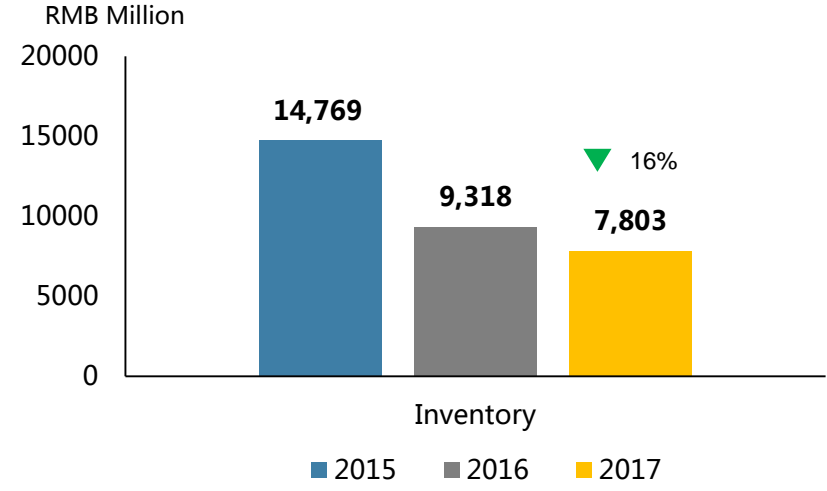
Gross Profit & Margin



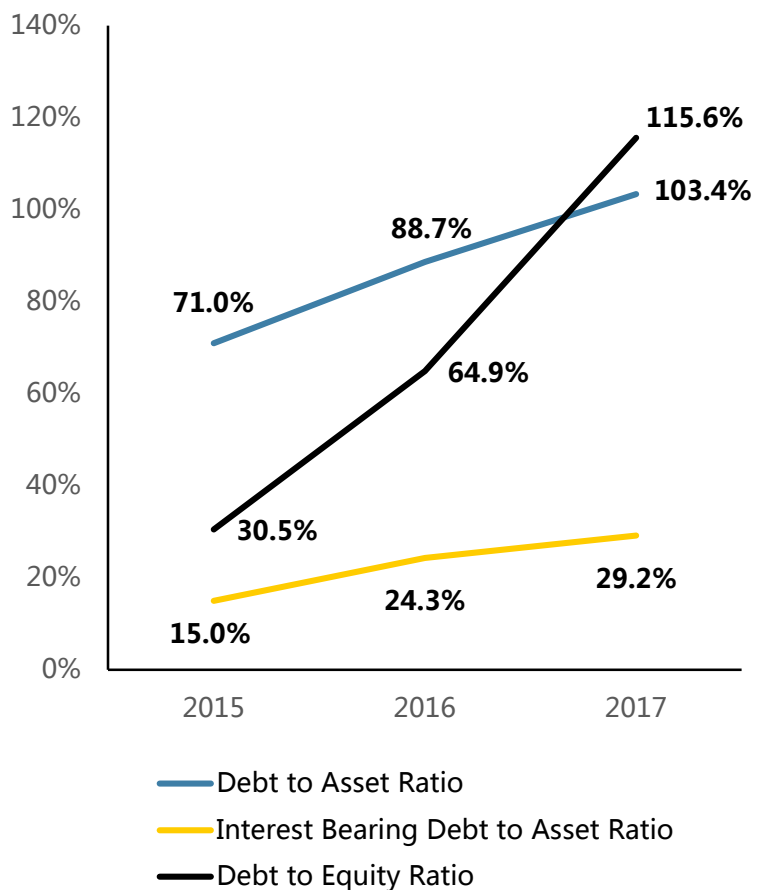
Changes in Accounts Receivable



Changes in Inventory

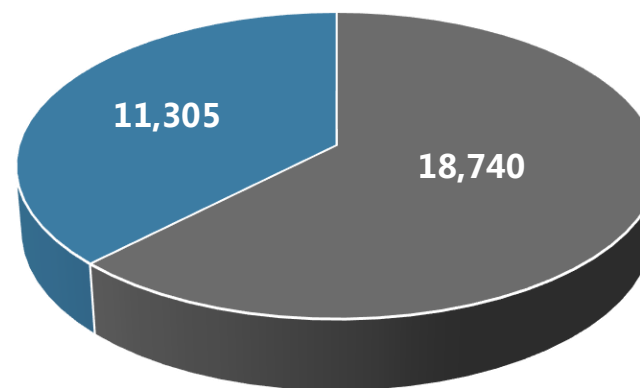


Structure of Assets and Liabilities



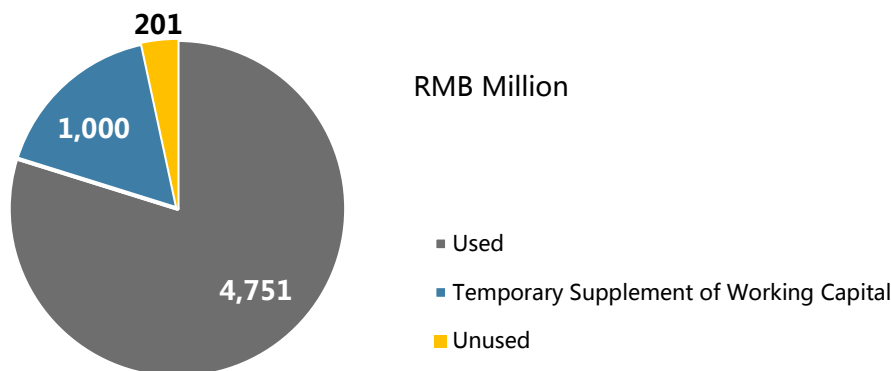
Credit Facility from Financial Institutions

RMB Million



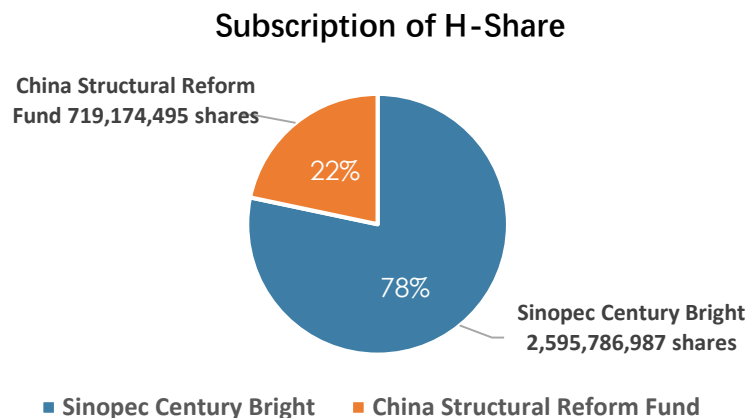
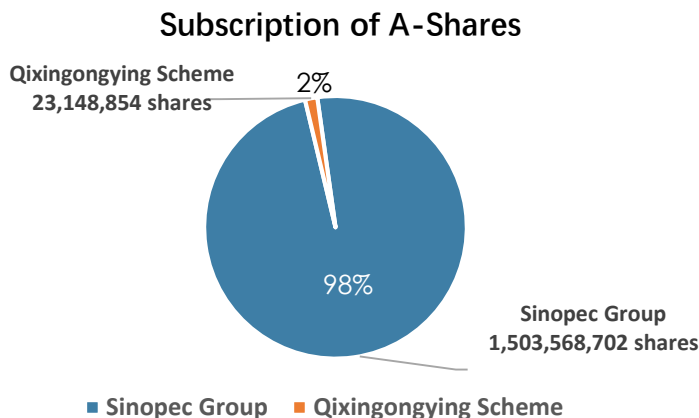
- Credit Facility for Loan from Sinopec Financial Institutions
- Comprehensive Credit Facility from Banks (Not for Loan)

Use of Previous Proceeds



Raised funds of 50.91 million yuan used in 2017

Non-Public Placement in January 2018

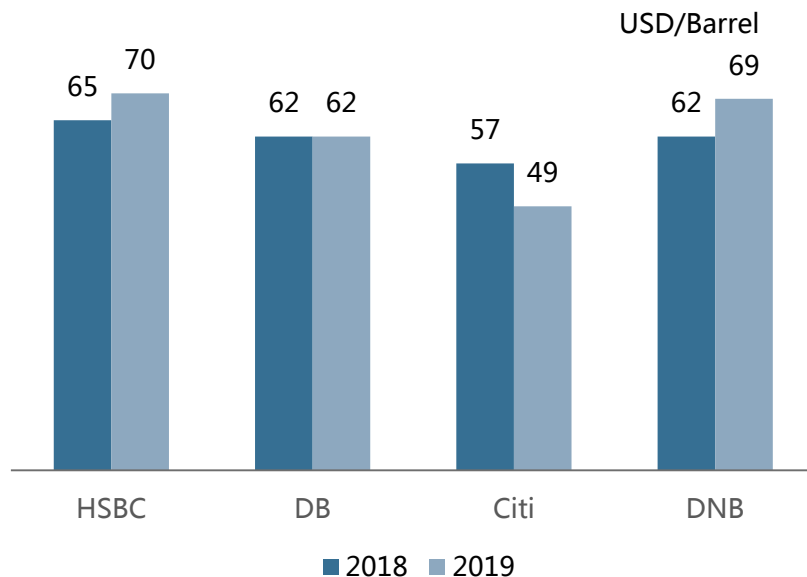


- Issued 1.527 billion A-shares, raising 4 billion yuan. Sinopec Group subscribed for 3.94 billion yuan, and Qixingongying Scheme subscribed for 60 million yuan, subscription price was 2.62 RMB/share
- Issued 3.314 billion H-shares, raising HKD 4.47 billion. Sinopec Century Bright subscribed for HKD 3.5 billion, China Structural Reform Fund subscribed for HKD 970 million, subscription price was 1.35 HKD/ share
- Shareholding of Sinopec Group increased from 65.22% to 70.18%

Section 3: 2018 Outlook

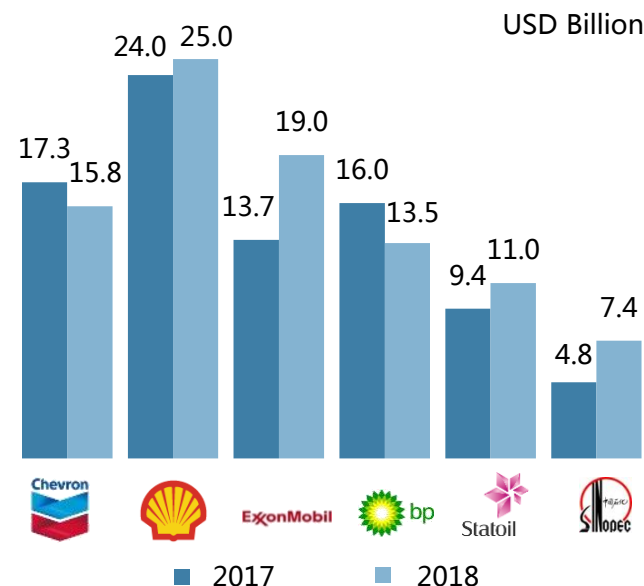


Brent Crude Oil outlook



Source: Deutsche Bank Research, Bloomberg, March 8th 2018

Predicted CAPEX of Major Upstream Enterprises



Source: Company's Information, Deutsche Bank Research, March 8th 2018

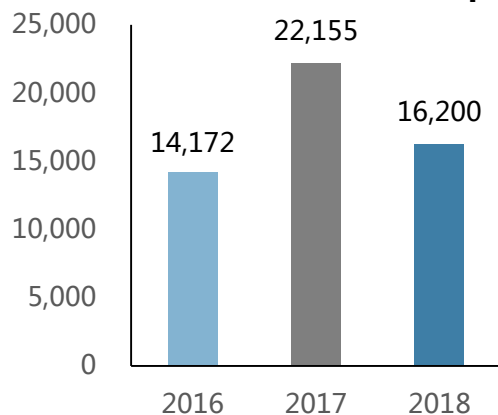
Changes in Oilfield Service Industry

- World economic recovery will continue to accelerate. 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, which will lead to continued recovery of oilfield service
- Despite the gradual pick-up of international oil prices, low oil price scenario is still the biggest challenge faced by the oilfield service industry. Market competition will remain fierce

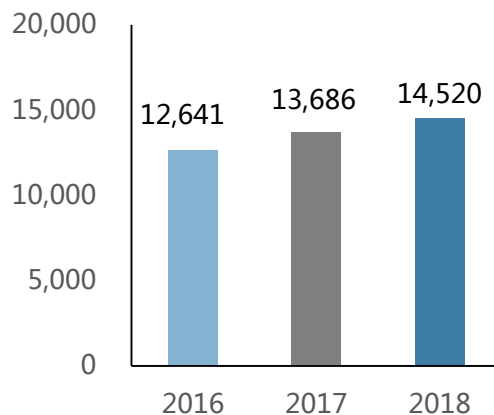
Work Volume Plan in 2018



Geophysics

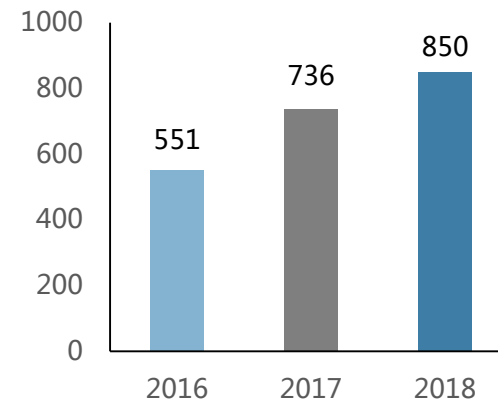


2D Seismic (Km)



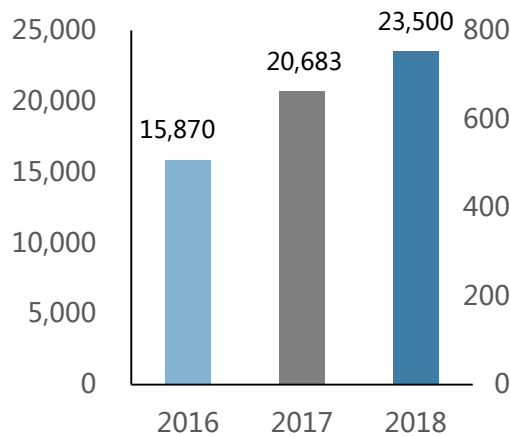
3D Seismic (Km²)

Drilling

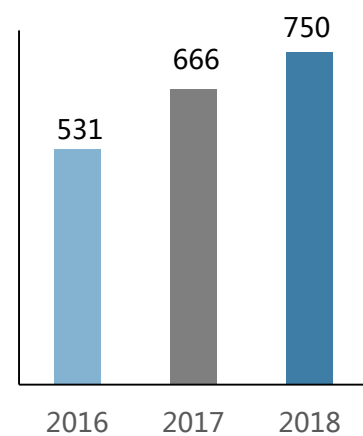


Drilling Footage (10,000 m)

Logging & Mud Logging

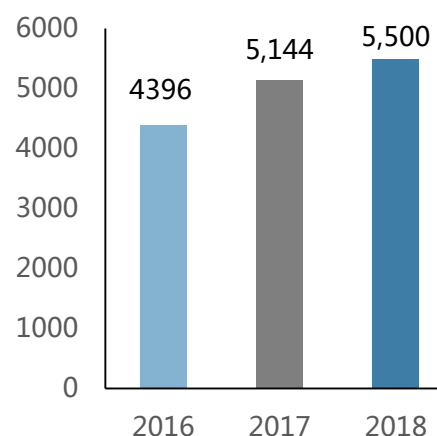


Standard Meter for Logging (10,000 m)



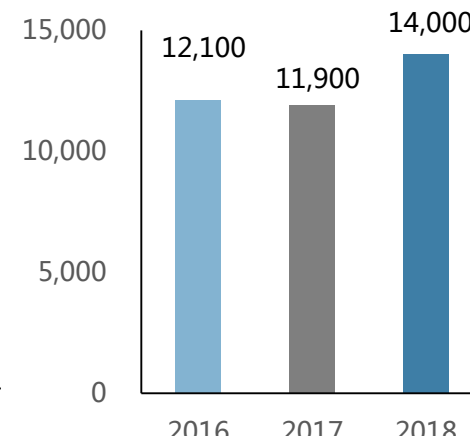
Mud Logging Footage (10,000 m)

Downhole Operation



Downhole Operation (Well Times)

Engineering Construction



Completed Contract (RMB Million)

Domestic Inside Sinopec

- Planned new contracts value of 33.2 billion yuan
- Service for ultra-deep oil & gas field in Shunbei, natural gas field in Southwest and tight gas field in Ordos
- Construction of Wen-23 gas storage, Xinjiang-Guangdong-Zhejiang Pipeline, Rizhao-Puyang-Luoyang crude oil pipeline, Ordos-Anping-Cangzhou gas pipeline and other key projects
- Capacity construction of Fuling shale gas and new cooperation models in Weiyuan, Yongchuan and other areas
- Promoting cooperation model for developing difficult-to-produce reservoir in Shengli Oilfield, building new capacity of 400,000 ton/year and repairing 700 long-term shutdown wells

Domestic Outside Sinopec

- Planned new contracts value of 10 billion yuan
- Deepening strategic cooperation and consolidating CNPC market
- Expanding shale gas market in Southwest, BP shale gas cooperation block and local shale gas blocks
- Promoting integrated reservoir services and consolidating China Geological Survey market
- Intensifying marketing efforts on energy conservation and environmental protection, geographical surveying and mapping, pipeline MRO to foster new market growth drivers

Overseas

- Unifying management of overseas operations, integrating and optimizing resources, and planned new contracts value of USD 2.2 billion
- Expanding high value-added businesses such as integrated oilfield services, cementing, logging and mud logging, energy conservation and environmental protection
- Saudi Arabia: Developing Saudi Aramco market of well drilling, turnkey drilling projects, cementing, drilling mud and other new businesses, resuming geophysics and engineering construction
- Kuwait: Providing integrated services, deep well drilling and logging, cementing
- Kazakhstan: Focusing on SIPC, CNPC and KazMunaiGas

Optimize and Reinforce Main Business

- In accordance with professionalization and specialization, optimize and reinforce core business of well drilling, geophysics, engineering construction, offshore engineering. Integrate the similar-business subsidiaries units by specialization and regions. Develop specialized services by competitive advantages. Improve resources allocation
- Boost transformational development and vigorously promote energy conservation and environmental protection, geographical surveying and mapping, and pipeline MRO. Foster new growth drivers
- Promote contracting of auxiliary (general) business, and strengthen auxiliary professional team and new business development

Promote Market-oriented Management and Operation

- In accordance with market demand, dynamically adjust and optimize team and equipment scale and resources allocation, and significantly reduce crew idling rate and expenses
- Streamline management level and organization, clearly define positioning and responsibilities at each level. Promote more dynamics and robust mechanism
- Complete resettlement of surplus personnel and plan to reduce 3500 staff

Actively Promote Fine Management

- Promote the institutional construction centering project management. Improve project profitability through stringent project management and process control
- Strengthen subcontracting management, reduce outsourcing expenses
- Strengthen full-caliber and full-process cost control, achieve annual cost reduction target of 3.1 billion yuan.
- Promote sharing of information, capital, technology, equipment, etc. Improve overall management efficiency

- ◆ Continuously improve the R&D system and accelerate the construction of technology centers

SINOPEC Research Institute of Petroleum Engineering

Shengli R&D center, Zhongyuan R&D center, Geophysics R&D center ,
Oil and Gas Test Tech Center, Acid Oil and Gas Field Tech Center, E&C
Design and Innovation Center

- ◆ Focus on key projects and accelerate the application of R&D results

- One-trip drilling technology in long horizontal section of deep shale gas
- Safe and efficient drilling technology for extra-deep well in Shunbei, Xinjiang
- ROP-raising technology for difficult-to-drill complex formation in western Sichuan
- Leak-proof and plugging technology for complex formation in Hangjinqi, Ordos

- ◆ Foster featured core technology and promote transformation

- R&D in RSS drilling, HTHP storage logging tools, node seismometer
- Promote the automation of drilling rigs, the application of broadband acceleration detectors, the construction of large-diameter high-grade long-distance pipelines, and the commercialization of mid-deep water and ocean engineering design technologies
- Speed up the development of energy conservation and environmental protection technologies such as solid waste disposal, soil remediation, pipeline MRO, CCUS(carbon capture, utilization and storage)





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