



**SSC**

# 中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

## 2016 Interim Results Presentation

August, 2016



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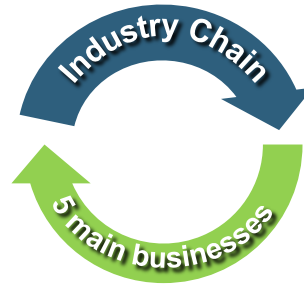
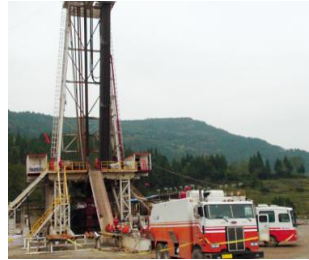
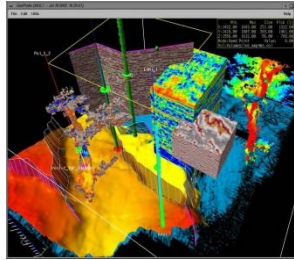
**Section 4: 2016 2H Outlook**

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# Section 1. Company Overview





**Geophysics**

**Drilling Engineering**

**Logging and Mud Logging**

**Downhole Operation**

**Engineering Construction**





**Strategic vision : Become a world-leading integrated oilfield engineering and service provider**

**Expanding markets, improving service, maximizing returns  
advancing win-win cooperation**

**Specialization**

**Market  
orientation**

**Differentiation**

**High-end  
services**

**Globalization**

**Onshore**



**Offshore**

**Domestic**



**Overseas**

**Conventional**



**Unconventional**

**E&C services**



**Comprehensive EPC and PMC  
business model**



## Advanced Equipment

- Geophysics: **47 sets** of 428XL seismic acquisition equipment, **25,400** full digital seismic 3C geophones, **3** offshore geophysical vessels
- Drilling: **711** onshore drilling rigs , of which **243** for wells at depth of more than 7,000 meters, **8** for 9,000 meters and **1** for 12,000 meters and **13** offshore drilling platforms
- Logging: **123** image logging systems, **135** rapid logging platforms, **492 sets** of comprehensive logging instrument
- Downhole operation: **102 sets** of type-2000 fracturing assembly, **134 sets** of 2500 and 3000 fracturing assembly, **46 sets** of workover rigs with power higher than 750 HP, **5** offshore operation platforms



## Rich Experience

- **Fuling shale gas project:** the first successful commercial shale gas project outside North America
- **Puguang gas field project :** the largest marine high-sulphur gas field in China
- **Exploration and development project of multiple reservoirs in Shengli Oilfield :** the second largest oilfield in the PRC
- **Tahe oil field project:** large oil field with 1.2 billion-ton reserve
- **Yuanba gas field project:** the deepest marine-facies reservoir in China
- **Ultra-deep well: Mashen Well No.1** the deepest well drilled in Asia with depth of 8,418 meters  
**Chuanshen Well No.1** the new record in Asia to be created with designed depth of 8,690 meters

## Strong R&D capability

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• <b>2</b> academicians of the Chinese Academy of Engineering</li> <li>• <b>58</b> professor-level researchers and more than <b>1,300</b> senior researchers</li> <li>• <b>3,700</b> research, design, laboratory and development staff</li> </ul> | <ul style="list-style-type: none"> <li>• <b>3</b> research institutes</li> <li>• <b>5</b> design companies</li> <li>• <b>42</b> various professional technical institutes</li> <li>• <b>54</b> laboratories and full-scale scientific experimental wells</li> </ul> |
|---|---|



**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

We have established a long-term strategic partnership with Sinopec Group, our largest client. We have vigorously developed markets outside Sinopec Group, providing services to CNPC, CNOOC and other energy companies in China.



中国石油



1905  
延长石油  
YANCHANG PETROLEUM

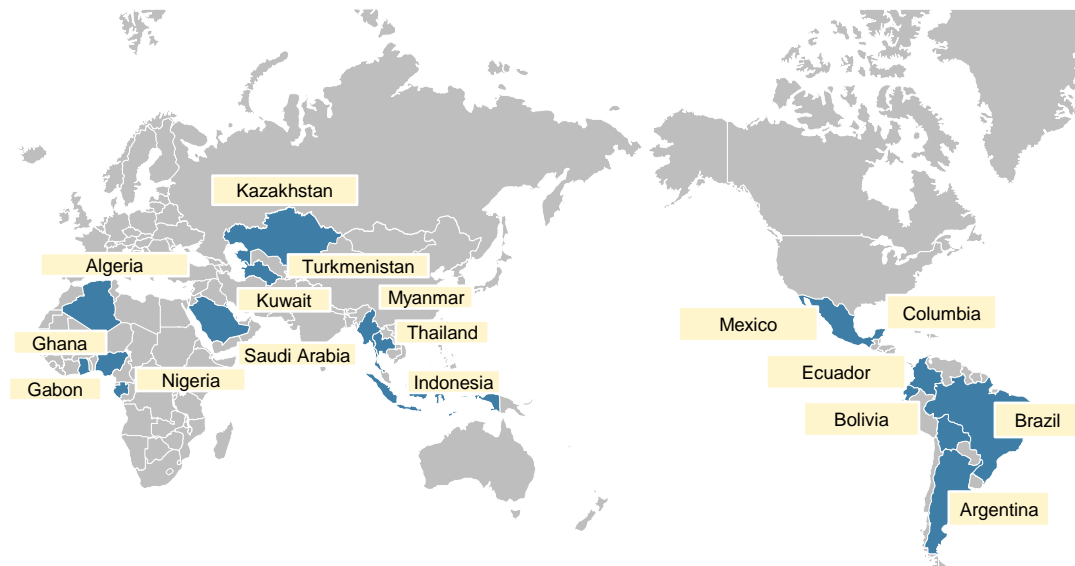


中国华能  
CHINA HUANENG



中国神华  
CHINA SHENHUA

We have leveraged our high-quality service, accurate market positioning and efficient cost control to develop international markets. Our client base covers many global leading oil companies. We are the largest onshore drilling engineering contractor for KPC and Saudi Aramco.





## Stock Option Incentive Scheme

国务院国有资产监督管理委员会

国资产配(2016)390号

### 关于中石化石油工程技术服务股份有限公司 实施股票期权激励计划的批复

中国石油化工集团公司：

你公司《中国石油化工集团公司关于中石化石油工程技术服务股份有限公司实施A股股票期权激励计划的请示》(中国石化人(2016)183号)收悉。经研究，现批复如下：

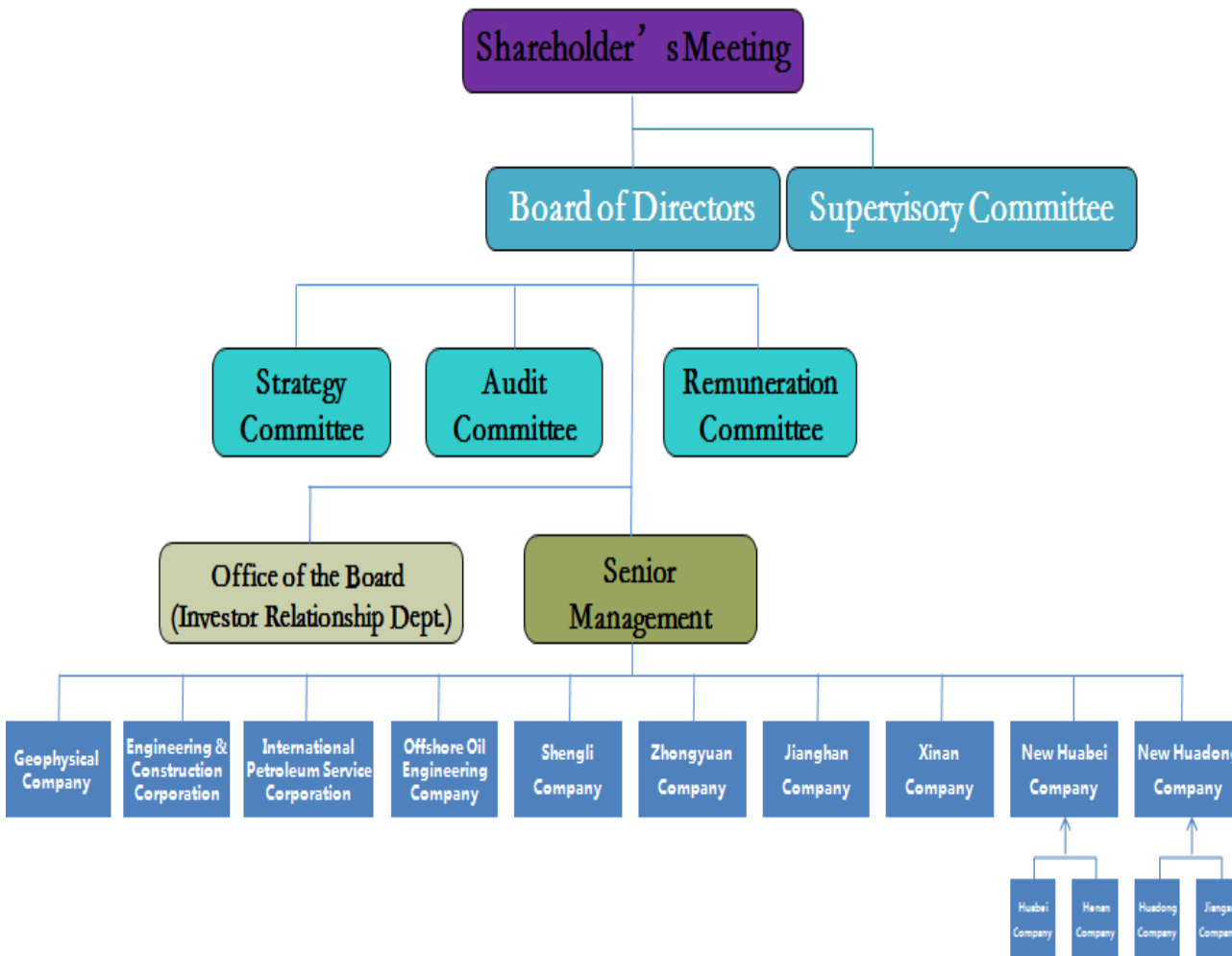
一、原则同意中石化石油工程技术服务股份有限公司(以下简称石化油服)实施A股股票期权激励计划。

(一)股票期权授予人员范围包括公司董事(不含非执行董事、独立非执行董事、监事)、高级管理人员及对公司经营业绩和持续发展有直接影响的管理骨干和专业技术骨干，共计495人。

(二)授予的股票期权限制期为两年(24个月整)，限制期满后分三年匀速分批解锁。

(三)授予的股票期权数量不超过5085万股(占公司总股本的0.38%)，其中授予激励对象个人的股票期权数量最高为21万股。具体授予数量，按照实际授予价格、预期收益水平相应调整。股票

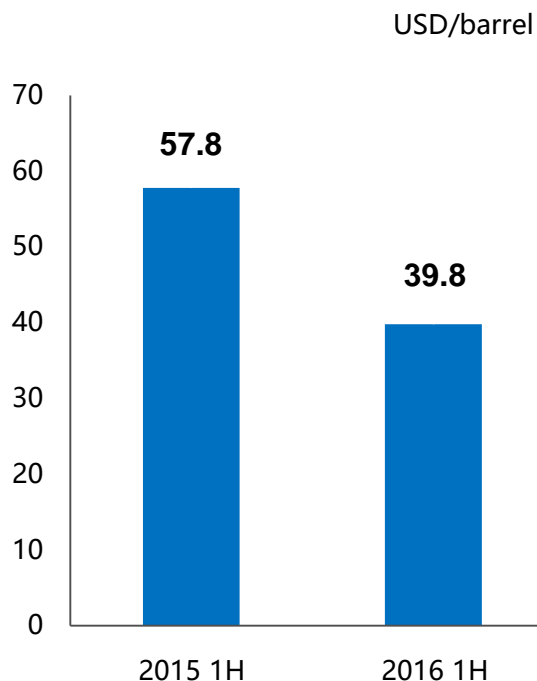
中国石化集团公司  
收(11)号庚-2-份  
2016年5月26日 明



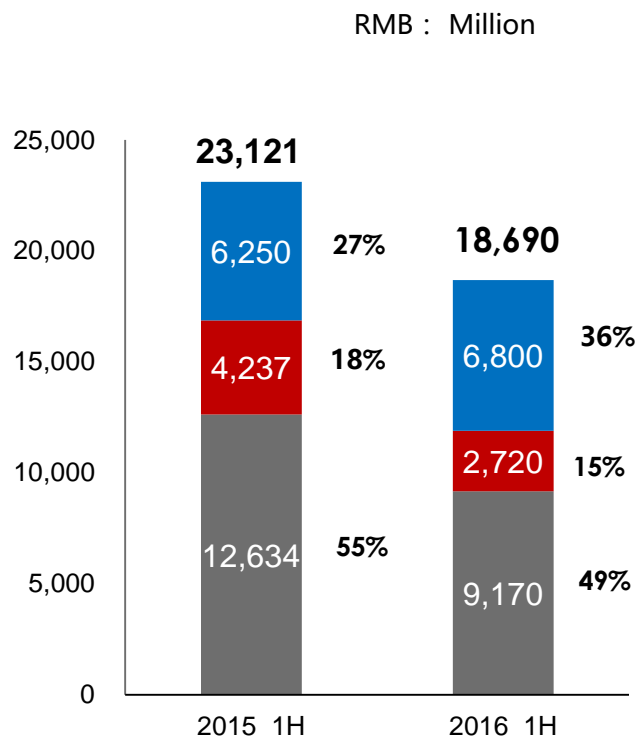
## **Section 2. Operations in 2016 1H**



## Average Brent Oil Price in 2016 1H

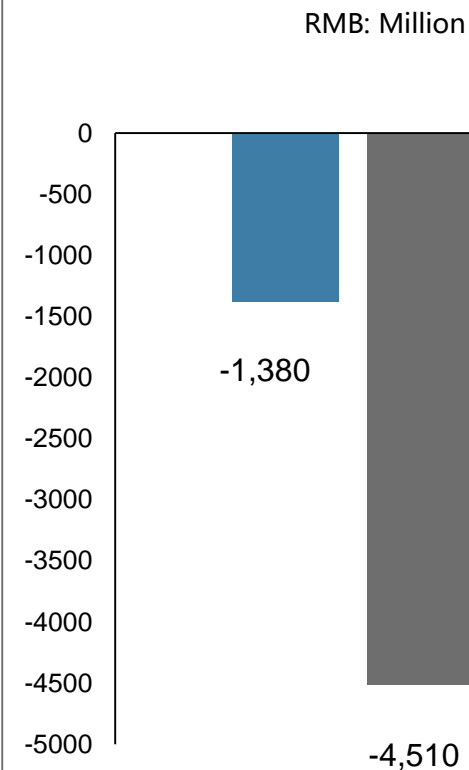


## Operating Revenue in 2016 1H



- Inside Sinopec
- Domestic clients other than Sinopec
- Overseas

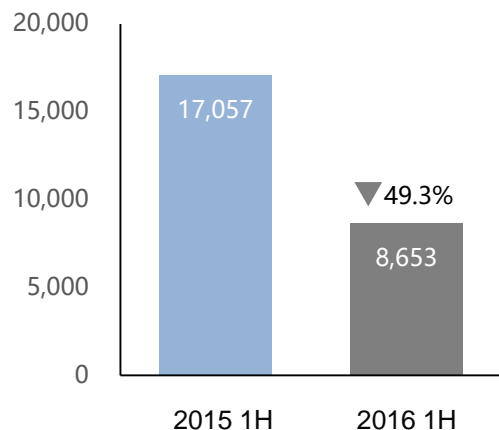
## Net Profit of 2016 1H (ASBE)



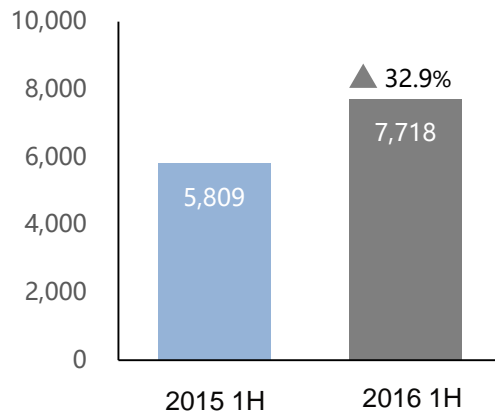
■ 2015 1H ■ 2016 1H

# Performance by Segments

## Geophysics

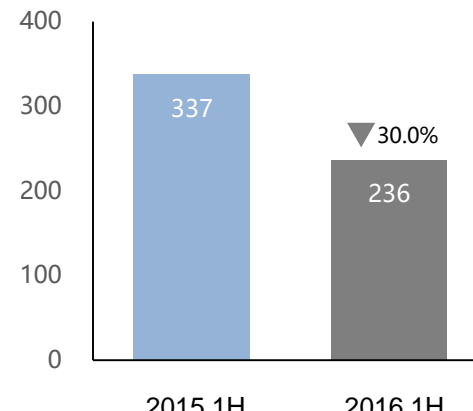


2D Seismic ( km )



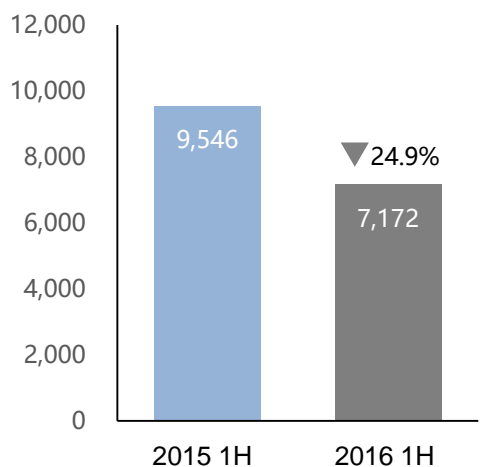
3D Seismic ( km<sup>2</sup> )

## Drilling Engineering

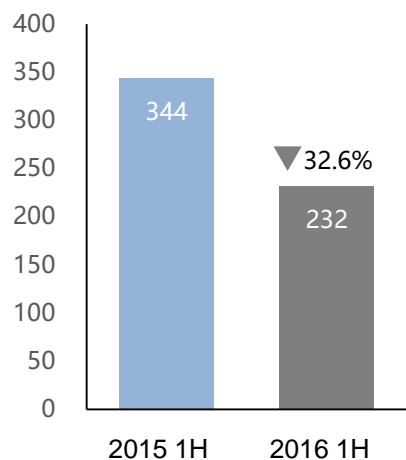


Drilling Footage ( 10,000m )

## Logging & Mud Logging

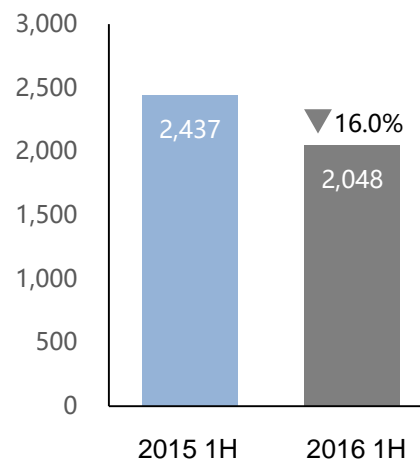


Standard Meter for Logging ( 10,000m )



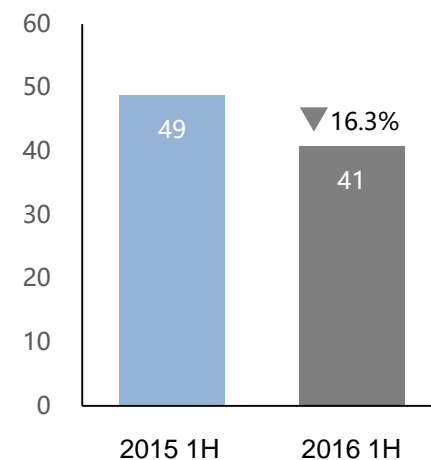
Mud Logging Footage ( 10,000m )

## Downhole Operation



Downhole Operation ( well times )

## Engineering Construction



Completed Contract ( RMB 100 million )

## Sinopec Inside

### **Inside Sinopec: new contracts valued 12.33 billion Yuan and completed contracts value 11.5 billion Yuan**

- Provide service for key projects with advanced technology and experienced staff
- Reinforce subcontract management and enhance market share inside Sinopec
- Optimize Fuling Shale Gas Phase II Capacity Construction: 4.57 days reduced in average completing period of drilling

## Sinopec Domestic Outside

### **Domestic Market outside Sinopec: new contracts valued 2.14 billion Yuan and completed contracts valued 1.73 billion Yuan**

- Make efforts to consolidate domestic market outside Sinopec. Signed annual drilling frame agreement with domestic partners for traditional business, awarded an oil tank construction contract by State Reserve Bureau valued 340 million Yuan
- Continuously expand new market. Signed strategic cooperation agreement with Guizhou Energy Agency to explore coal bed methane market in Guizhou. Awarded 16 oil and gas wells projects by China Geological Survey Bureau and other clients. Awarded 13 seismic project valued 110 million Yuan

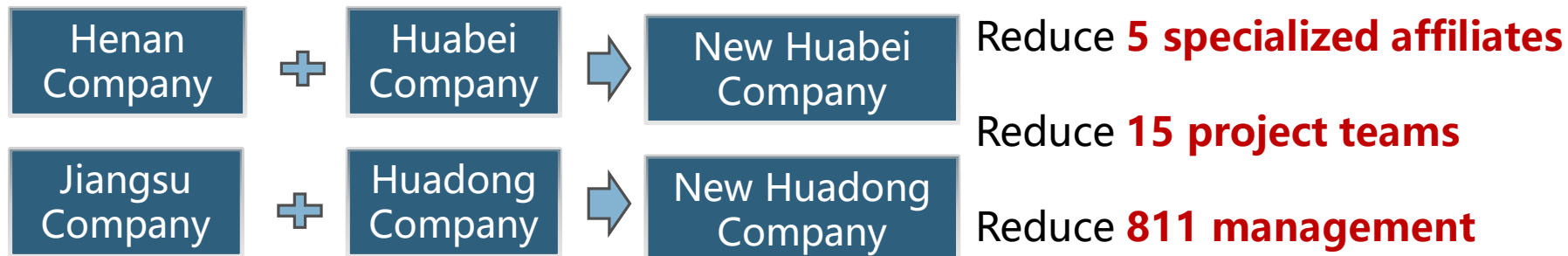
## Overseas Market

### **Overseas market: new contracts valued 1.71 billion USD, a Y-o-Y increase of 2.4%, completed contracts valued 1.01 billion USD and backlog contracts valued 5.51 billion USD**

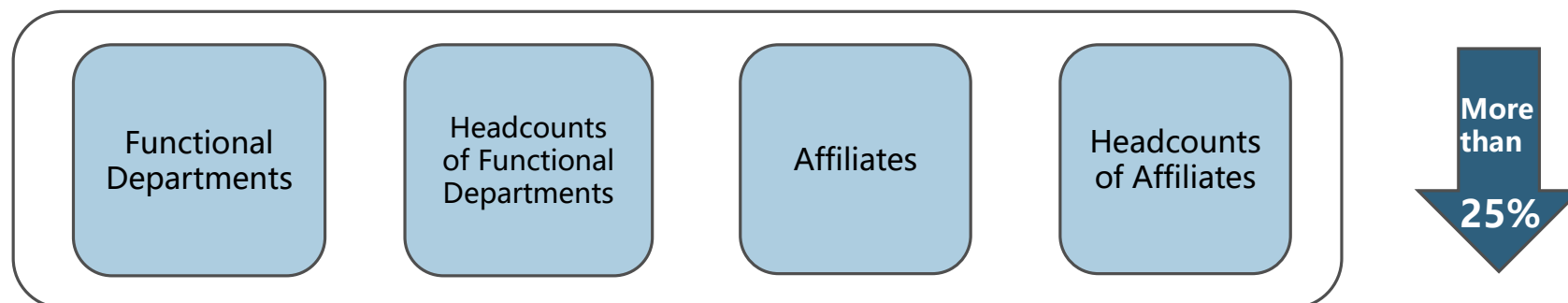
- Middle East market 800 million USD
- Africa market 490 million USD
- America market 330 million USD



## Corporate Level



## Regional Company Level



## Cost Reduction in 2016 1H

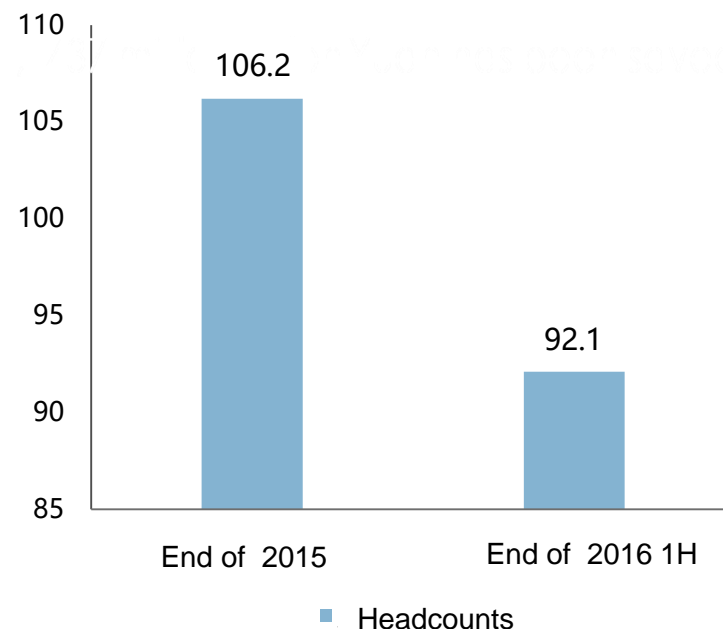
RMB: Million

Category	2016 Annual Target	Completed in 2016 1H
Decrease of Administrative Operation Expense	200	70
Decrease of Labor Cost	500	136
Decrease of Procurement Cost	250	155
Decrease of Maintenance Cost	100	29
Decrease of Renting and Service Cost	210	126
Decrease of Financial Expense	40	-80
<b>Total</b>	<b>1,300</b>	<b>437</b>

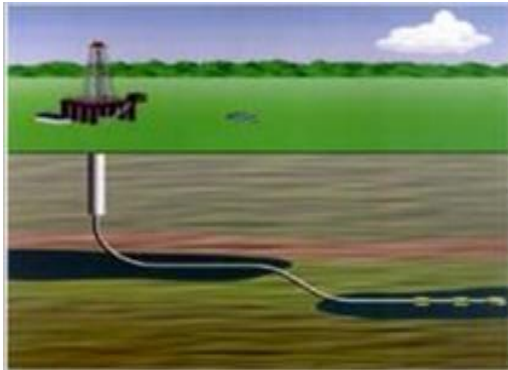
**437 million Yuan was saved in 1H**

## Headcounts Reduction

Unit: Thousand



- **Headcounts reduced by 14,000**
- **Drilling and mud logging crews reduced by 133**



## Enhance Technology Innovation

### Patents

- 195 patents granted , 229 patents application filed

### Science and Technology Awards

- “Super High Pressure and High Power Oil and Gas Fracturing Unit Research and its Cluster Application” won Second Prize of National Science and Technology Progress Award

## Fuling Shale Gas Technologies

- Constructed proprietary wells engineering technology system such as fast and optimal shale gas well drilling, high performance water-base drilling fluid for shale gas horizontal well, high efficiency special operations, etc., developed 14 series of core technologies and applied for 14 invention patents.
- 14 invention patents filed, 14 utility model patents granted, 16 standard specification formed, 2 software copyright obtained.

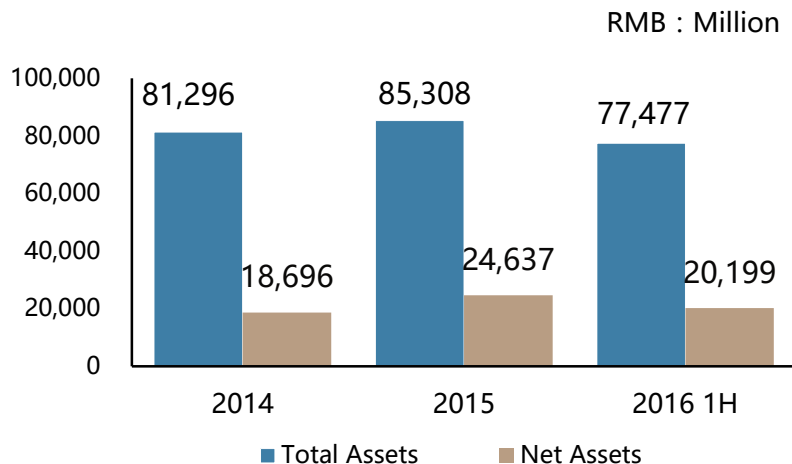
## Technical Applications and R & D Center Construction

- Completed the field test of high temperature (175°C) bearing MWD system in 1-7H ultra-deep horizontal well in Shunbei, indicating great progress has been made in high-end measurements-while-drilling tools research & development.
- Action device has successfully replaced coiled tubing in the operation of transmission perforation with pressure for the first time in North 201-12HF Well.
- The broadband seismic acquisition technique based on vibroseis is widely used in the desert area and the frozen soil region, improving the quality of seismic data .
- Initiated Middle East R&D Center to advance high-end business such as lump-sum drilling, gas well drilling, cementing, mudding, downhole tools service, etc. in Middle East.

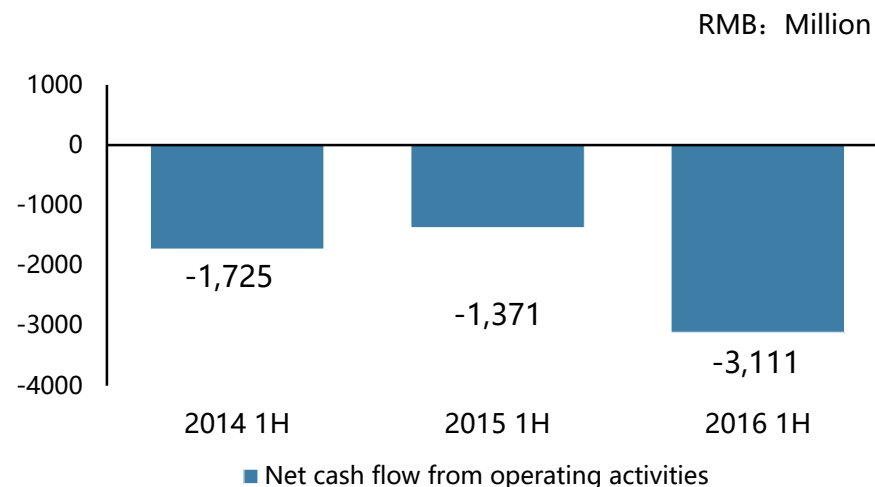
# Section 3. Financials in 2016 1H



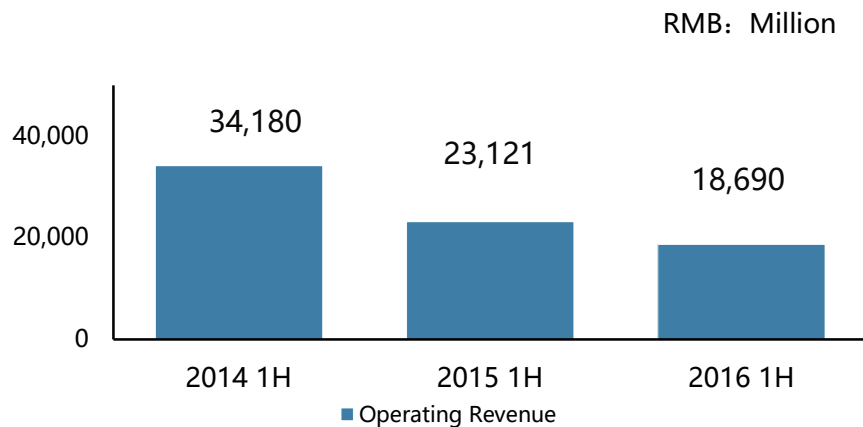
## Total Assets and Net Assets



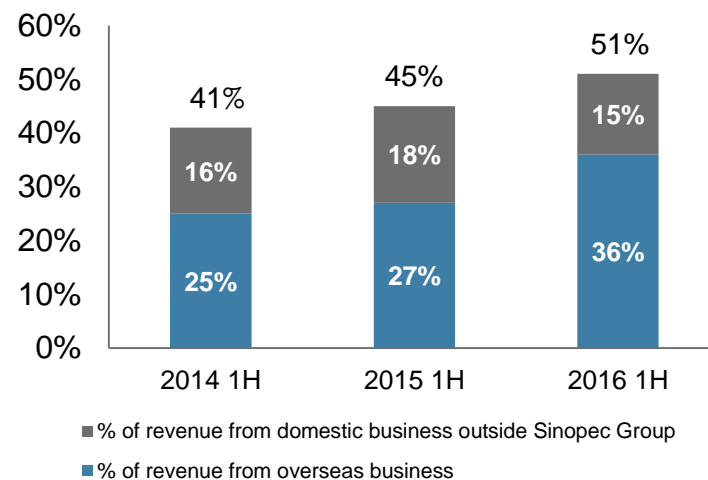
## Operating Cash Flow



## Operating Revenue



## % of Revenue from Business outside Sinopec Group



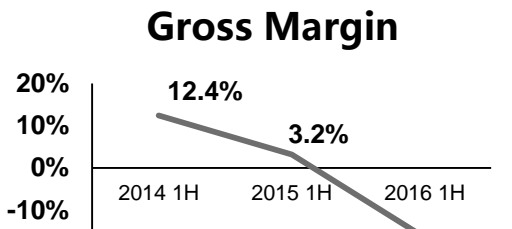
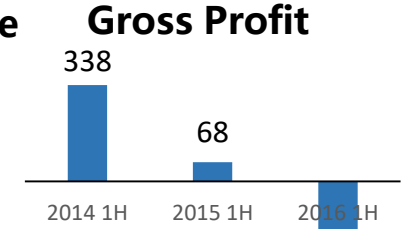
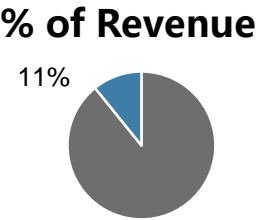
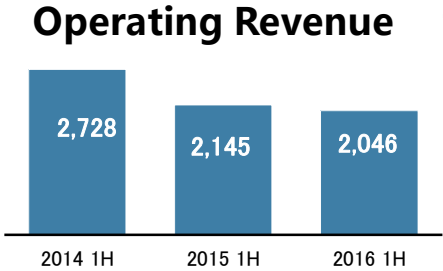


# Revenue and Gross Profit of 5 Major Business Segments

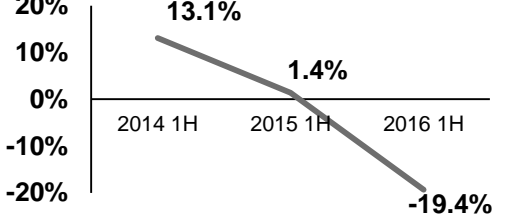
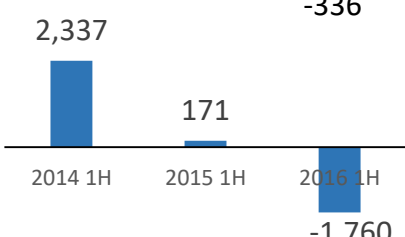
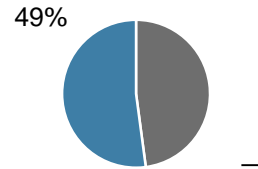
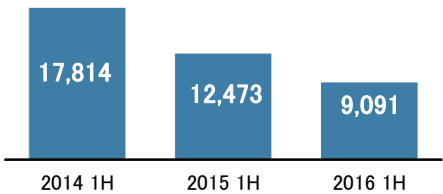


RMB : Million

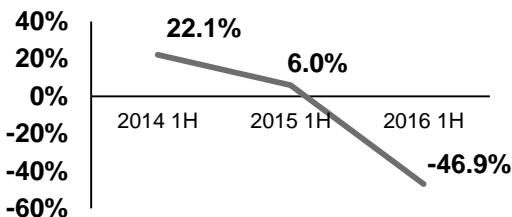
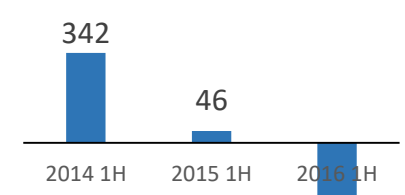
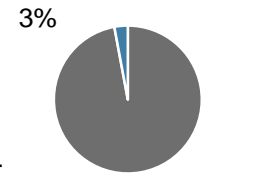
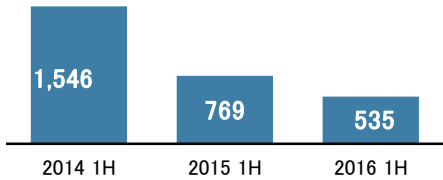
**Geophysics**



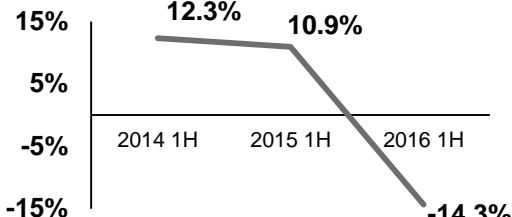
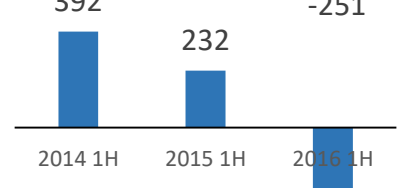
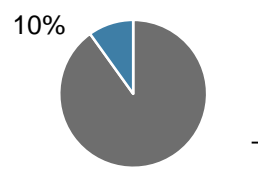
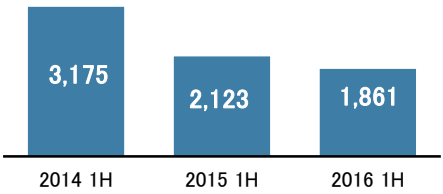
**Drilling**



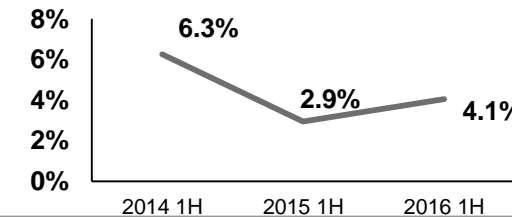
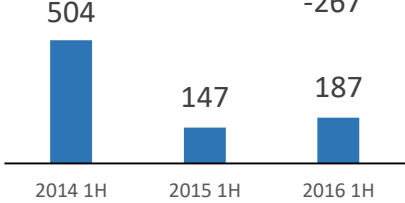
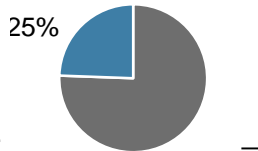
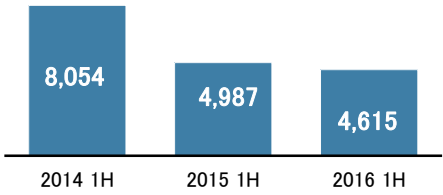
**Logging and Mud Logging**



**Downhole Operation**

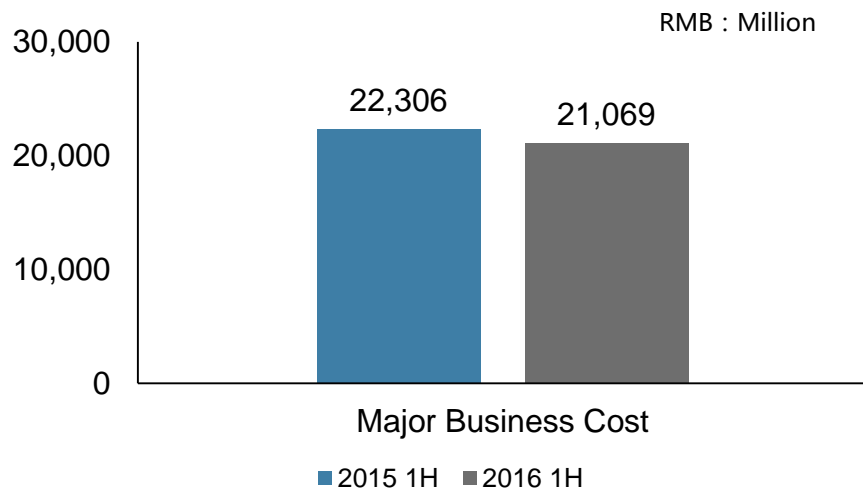


**Engineering Construction**

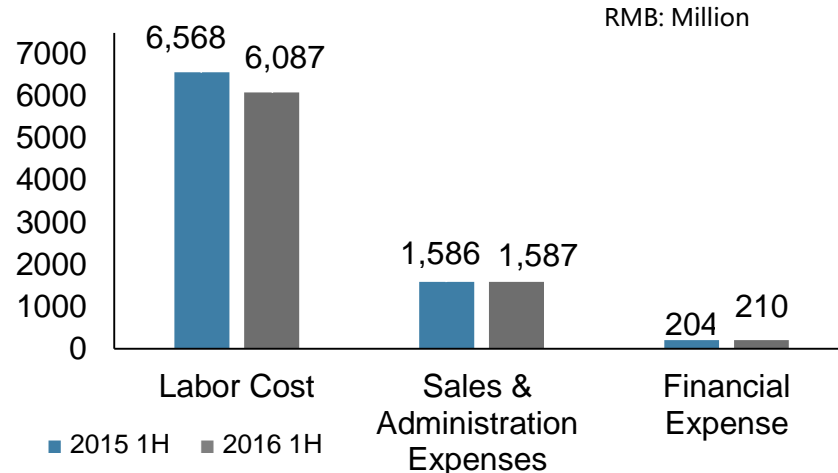


# Cost and Profitability Analysis

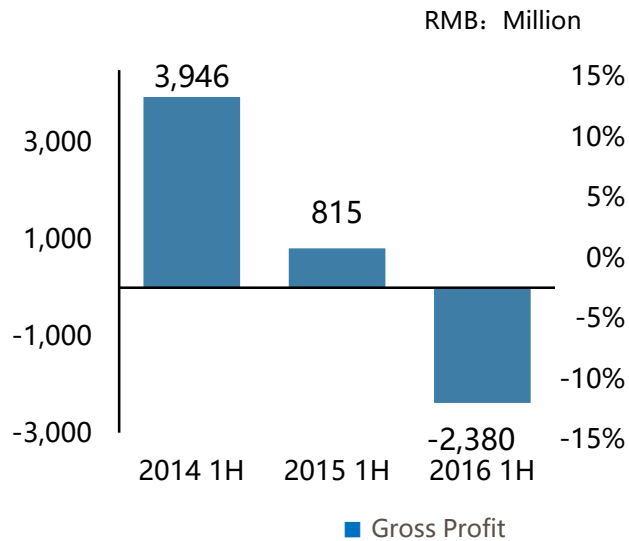
## Operating Cost



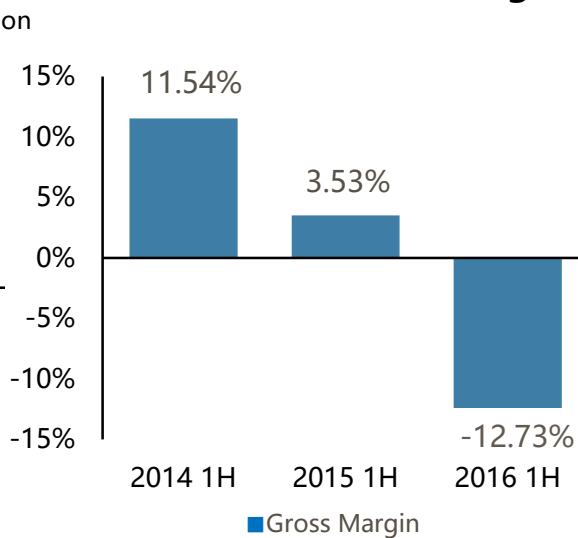
## Expenses and Labor Cost



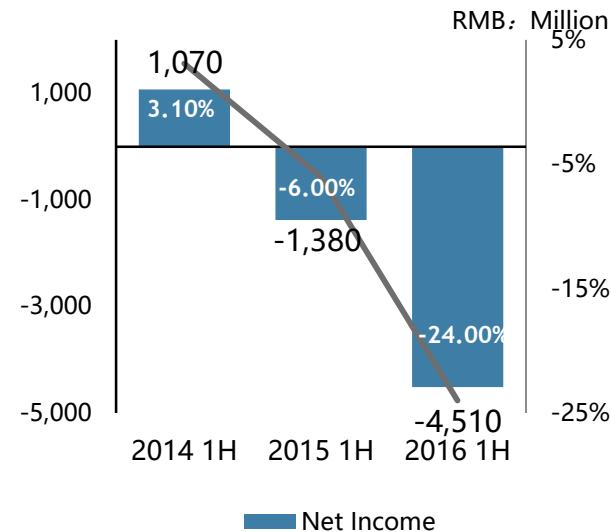
## Gross Profit



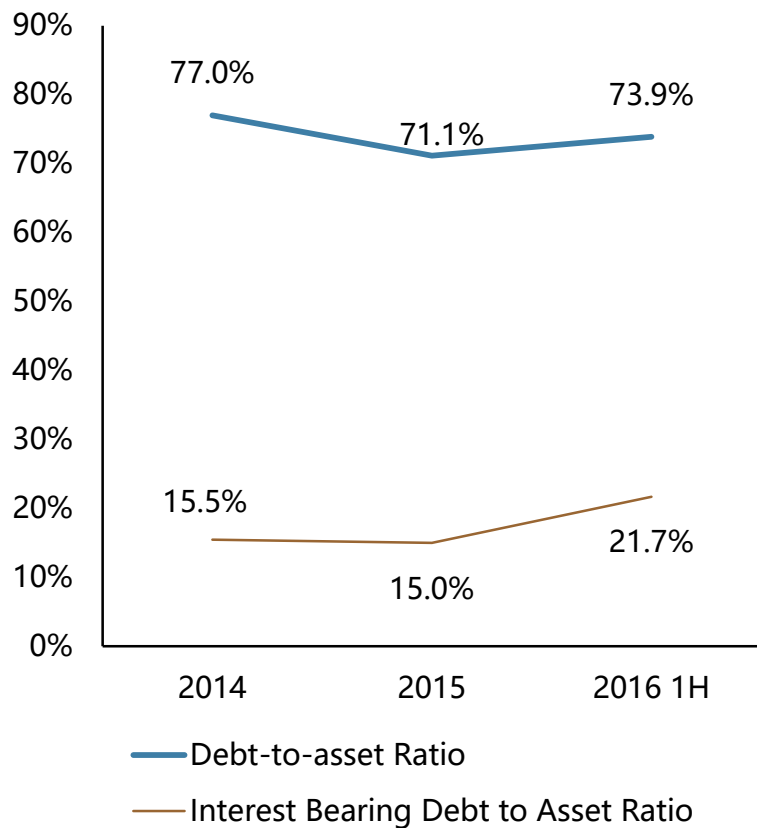
## Gross Profit Margin



## Net Income



## Structural Condition of Assets and Liabilities



## EBITDA Interest Coverage Ratio

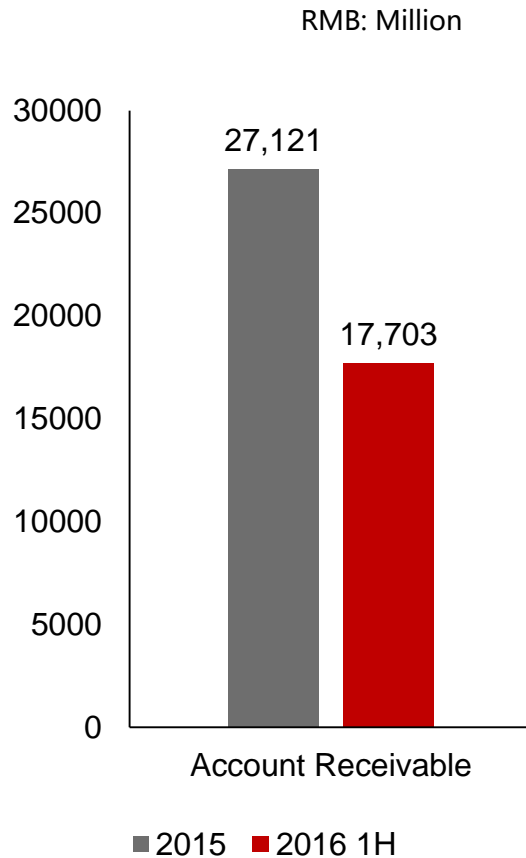


# Analysis of Accounts Receivable and Inventory

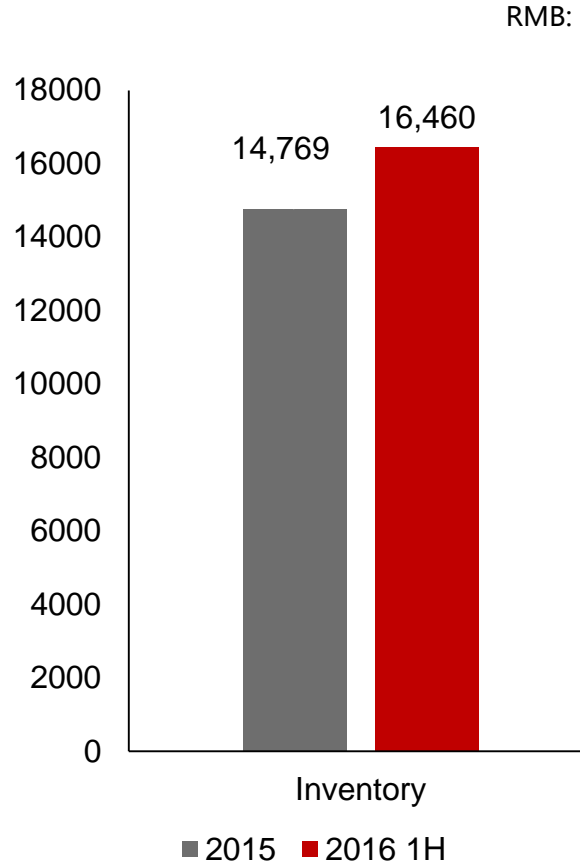


SSC

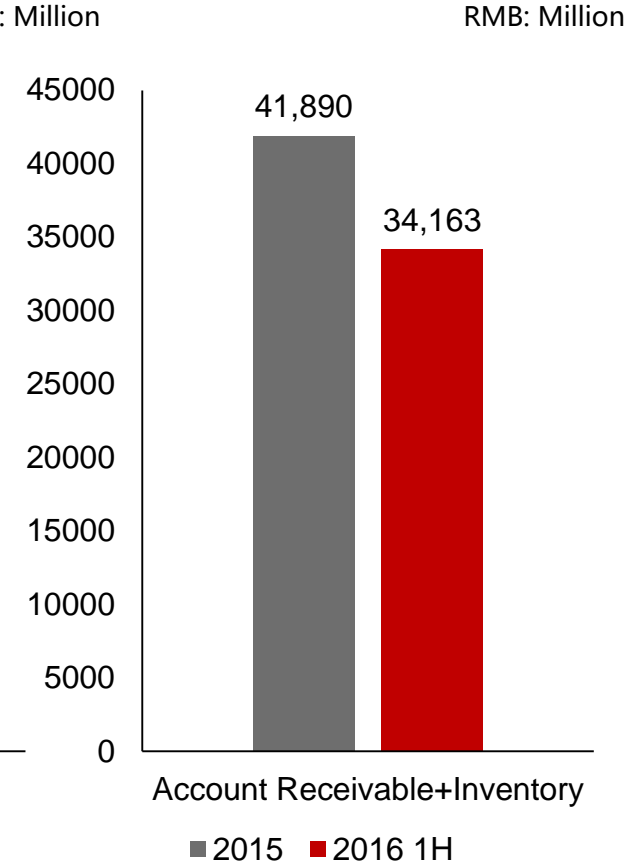
Changes in Accounts Receivable



Changes in Inventory

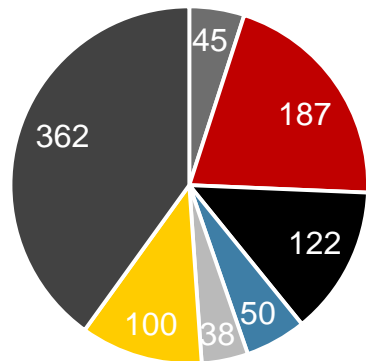


Changes in Accounts Receivable + Inventory



## Capital Expenditure of 2016 1H 904 Million Yuan

RMB : Million



- HSE Hazard Control Project
- Kuwait Workover Rigs Renewal and Reconstruction
- Algeria Drilling Rigs Renewal and Reconstruction
- 8000 HP Multi-Purpose Vessel
- Downhole Test Equipment
- Offshore Operation Platform
- Other Project

## Usage of Proceeds

RMB : Million

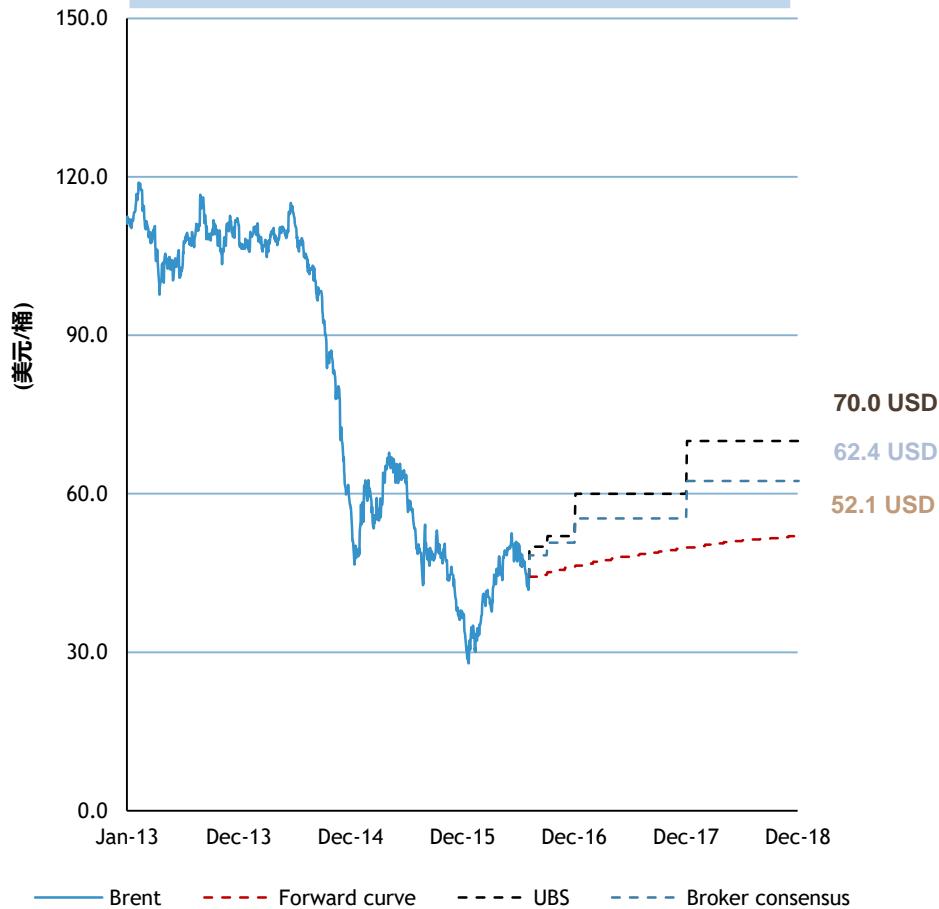
Project	Expected Investment	Investment of 2016 1H	Accumulated Investment
Kuwait Drilling Project	1,600	224.83	919.88
25 Meter Drilling Platform Construction	466	46.36	297.39
8000 HP Multi-Purpose Vessel	195	34.00	171.96
LOGIQ Image Logging System	120	5.00	112.20
Downhole Test Equipment	139	0.00	139.00
Top Drive Equipment	110	0.00	110.00
Coiled Tubing Equipment	80	0.00	70.80
Pipeline Construction Equipment	530	1.05	36.86
Supplied Working Capital	2,713	0.00	2,712.52
<b>Total</b>	<b>5,953</b>	<b>311.24</b>	<b>4,570.61</b>



# Section 4. 2016 2H outlook

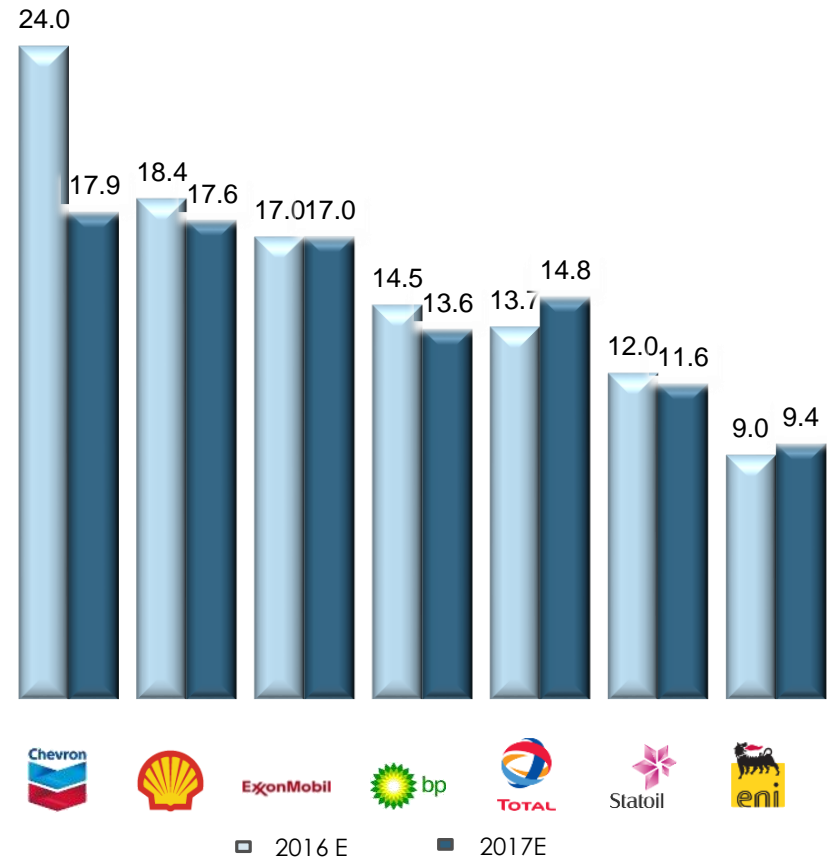


### Brent Crude Oil Price Outlook ( USD / Barrel )



Source: UBS Analysis FactSet website of Aug 4., 2016.  
 Note: 1. UBS Analysis predicts that the crude oil prices from 1<sup>st</sup> quarter to the 4<sup>th</sup> quarter are 36USD/Barrel, 47USD/Barrel, 50USD/Barrel, USD/Barrel respectively.  
 2. 2016E - 2018E Forward Curve prices are calculated by the average annual price.

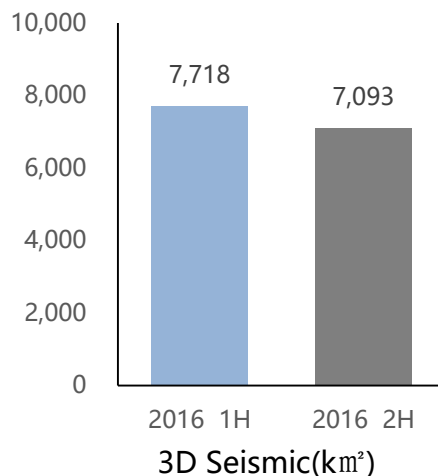
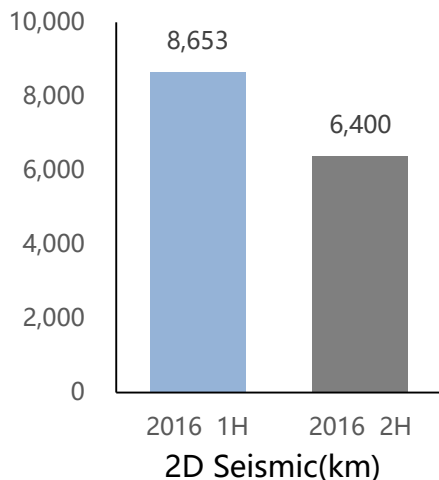
### Predicted CAPEX of Major Upstream Enterprises ( USD Billion )



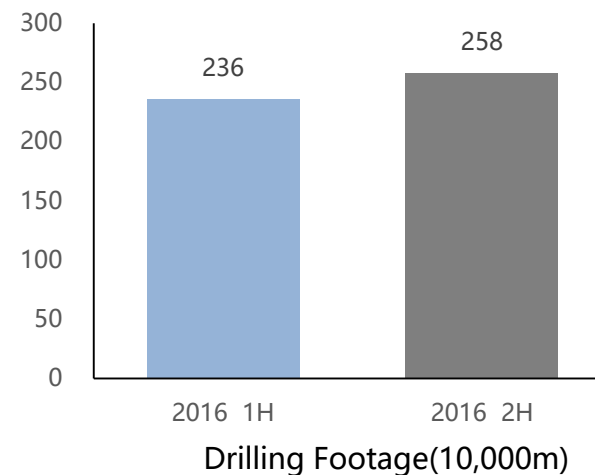
Source: website of the companies, UBS Analysis, FactSet Aug. 4, 2016

# 2016 2H Business Volume Plan

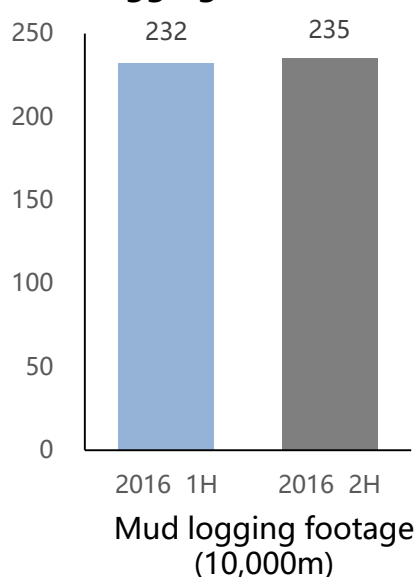
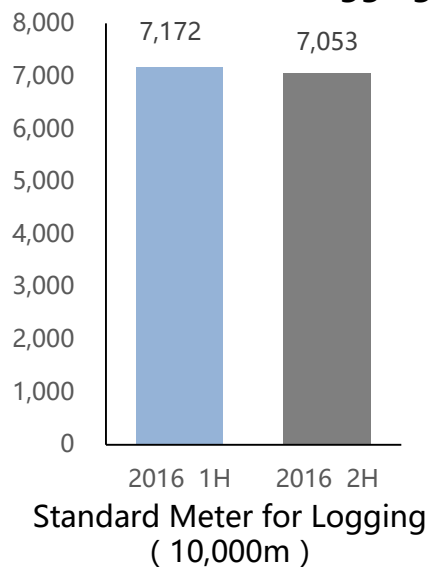
## Geophysics



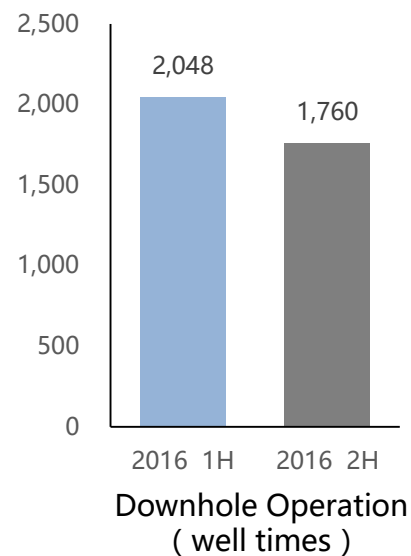
## Drilling Engineering



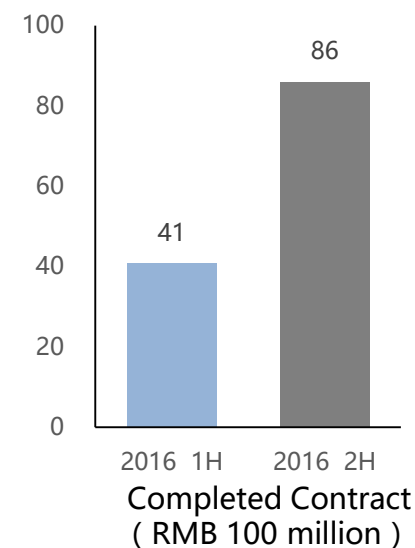
## Logging & Mud Logging



## Downhole Operation



## Engineering Construction



## Stabilize Domestic Market

- Provide services to SINOPEC key projects such as Fuling Phase II, Ebei, Chuanxi, Shengli Offshore and Beibu Gulf with advanced technology and experienced crew
- Explore service modes such as block contracting; Develop low-production-well workover, abandoned well plugging, hard-to-recover reserves, to realize win-win cooperation with SINOPEC group
- Further strengthen strategic partnership with PetroChina, CNOOC and Yanchang etc., integrate resources, exploit advantages and optimize market layout, so to secure stable work volume
- Develop the markets in Tarim, Changqing and Jidong oilfields
- Promote “well-factory” mode and provide full industry chain service to Yanchang Group
- Develop unconventional markets such as Shenhua, Huaneng, Huadian, BEIHC

## Expand Overseas Market

- Secure continuous growth of new contract value and is expected to complete contracts worth 1 billion USD in 2H
- Wellbore: track projects in Kuwait such as integrated development of heavy oil blocks, recovering marine oil on the land and deep well drilling; advance mudding and other service in Saudi Arabia
- Geophysics: consolidate mature markets in North Africa, Middle East and South America. Expand key markets in Algeria and Pakistan
- Comprehensive service: develop markets in Peru, Mexico and Colombia
- E&C: develop infrastructure projects in Pakistan corresponding to China’s “ Belt and Road” initiative
- Offshore: focus on Nigeria offshore drilling project and the project of decommissioning platform in North Sea
- Increase the revenue from overseas markets to 50% of total revenue in 3-5 years

## Reform on Corporate and Regional Level

- Optimize its management and operation mechanism, with corporate headquarter focusing on strategic development while regional companies on business operation.
- Press ahead with restructuring regional companies towards specialization and establishing four management tiers, namely corporate headquarter - regional companies - specialized affiliates - project teams. Affiliates with similar business are to be integrated, whose management will be streamlined accordingly. As a result, the number of specialized affiliates will be reduced by 14%, that of project teams by 36% and that of management staff by 4400.

## Optimize Overall Business Structure

- Optimize business structure and reinforce core business and high value-added business such as comprehensive service, lump-sum wellbore service;
- Push forward transformation and foster geographic information mapping, intelligent pipeline detection, pipeline MRO and energy conservation business.
- Outsource non-core services such as equipment maintenance, transportation and logistics

## Establish Scientific and Fair Remuneration System

- Improve its remuneration system and incentive mechanism to further stimulate employees by appraising on project basis and linking employee remuneration with corporate performance, etc.

## Reinforce Overseas Mechanism Construction

- Integrate overseas management in market development, project management, supporting service, performance appraisal, finance & taxation planning and team building. Reinforce overseas mechanism building by unifying management of crews and remuneration system.
- Realize centralized management of overseas business and tiered decision-making mechanism.



## Optimize Operation

Optimize Operation. Strengthen the management of production planning, process cohesion and key operation sections, improve production efficiency , and reduce running cost by 130 million Yuan. Initiate the building of ERP system by strengthening routine monitoring and risk management to realize the information-based control and systematic operation.

## Cost Control

Cost Control. Establish and improve the cost control mechanism; implement project operation mechanism covering budget, accounting, accountability and evaluation, and aim to reduce expenses by 730 million Yuan in 2H.

## Project Management

Construct “six systems ” that are the decision-making system , production and operation management system, financial budget and accounting management system, classification analysis management system, operation evaluation management system and accountability system to promote the full life cycle management and improve the profitability of projects ; Take firm measures against projects suffering loss; Reduce core project outsourcing.

## Resource Sharing

Promote resource optimization, construct platform for resource sharing, improve the overall efficiency. Take the advantage of strategic partnership with SINOPEC E&P segment, promote synergy of business segments, so to maximize the overall benefits of SINOPEC GROUP and SSC.

# Enhance Technology Innovation



SSC

## ◆ Based on promoting technology innovation, improve SSC R&D mechanism

SINOPEC Research Institute of  
Petroleum Engineering

Shengli R&D center, Zhongyuan R&D center, Geophysics R&D center, Middle East R&D center, Jiangnan Oil and Gas Test Tech Center, Southwest Acid Oil and Gas Field Tech Center



## ◆ Focus on key topics and accelerate the transformation of scientific research achievement

- Promote technologies such as Seisway Seismic Acquisition Software Update, Long Horizontal Wellbore Drilling Tech for Deep Shale Gas, Deep and Ultra-Deep Drilling Efficiency Enhancement, Rotary Steerable System, Drilling Fluid in High Temperature, etc.
- Develop technologies such as network imaging well logging tools suitable for high temperature, comprehensive evaluation on complex clastic rocks and fractured reservoirs, fracturing and testing gas of deep shale gas horizontal well, ultra-deep ultra-pressure and ultra-temperature reservoir reconstruction, etc.



## ◆ Cultivate featured core technology and promote transformation & upgrade

- Refine primary business such as wellbore, geophysics, comprehensive service, R&D and manufacture of featured products, etc.
- Cultivate high-end technical service business
- Develop well completion technologies such as high-precision seismic acquisition, drilling technical service, comprehensive fracturing, etc.



**Confronted with depressed oil price,  
we are forging ahead against all odds  
to perform better and grow stronger!**





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