



SSC

中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2016 Annual Results Presentation

March, 2017



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Section 1. Operations in 2016





中国石化



أرامكو السعودية
saudi aramco



شركة الكويت للنفط والغاز
A Subsidiary of Kuwait Petroleum Corporation

Rich Experience

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

Advanced Equipment

- Geophysics: **35 sets** of 428XL seismic acquisition equipment, **29,440** full digital seismic 3C geophones, **3** offshore geophysical vessels
- Drilling: **737** onshore drilling rigs , of which **262** for wells at depth of more than 7,000 meters and **13** offshore drilling platforms
- Logging:**117** image logging systems, **140** rapid logging platforms, **489 sets** of comprehensive logging instrument
- Downhole operation: **140 sets** of type-2500 and type-3000 fracturing assembly, **46 sets** of workover rigs with power higher than 750 HP, **6** offshore operation platforms

Strong R&D capability

- **2** academicians of the Chinese Academy of Engineering
- **64** professor-level researchers and more than **1,300** senior researchers
- **3,600** research, design, laboratory and development staff
- **3** research institutes
- **5** design companies
- **51** various professional technical institutes



Special Prize

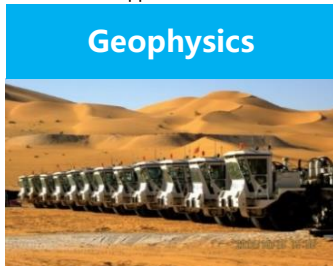
National Science and Technology Progress Award 2012&2013

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

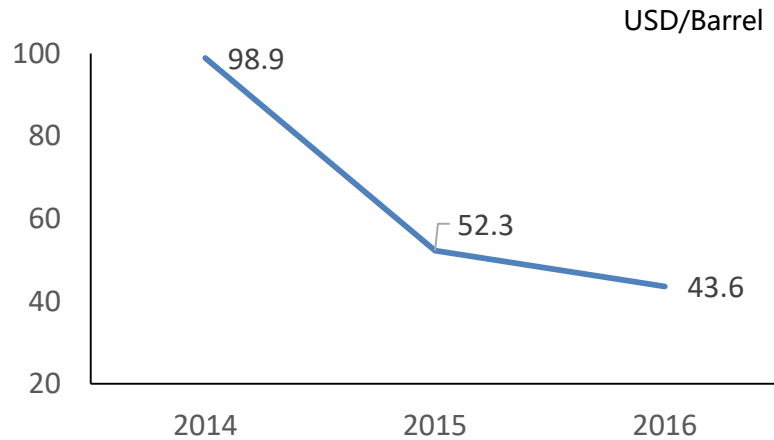


Downhole Operation

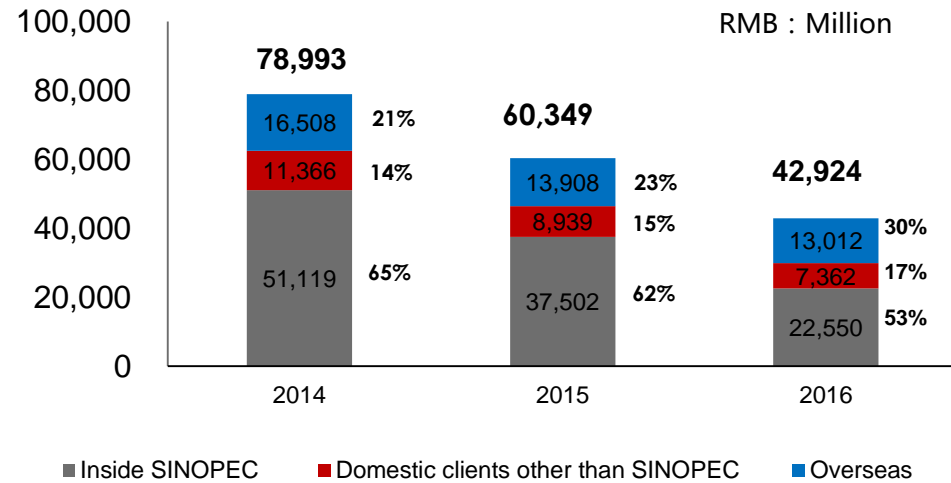


Engineering Construction

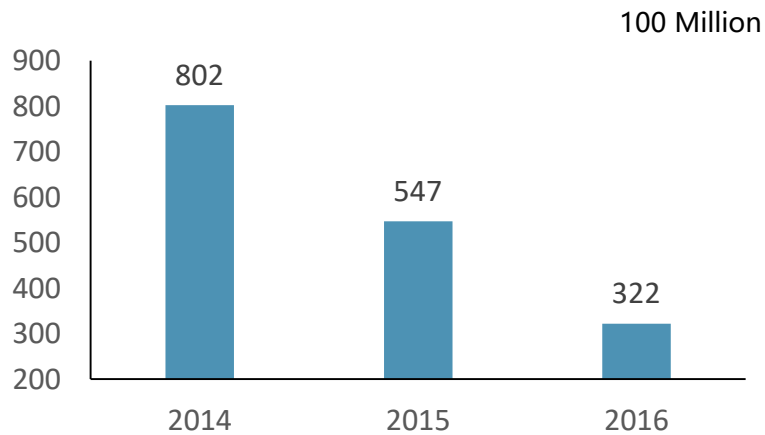
BRENT Oil Price Trend



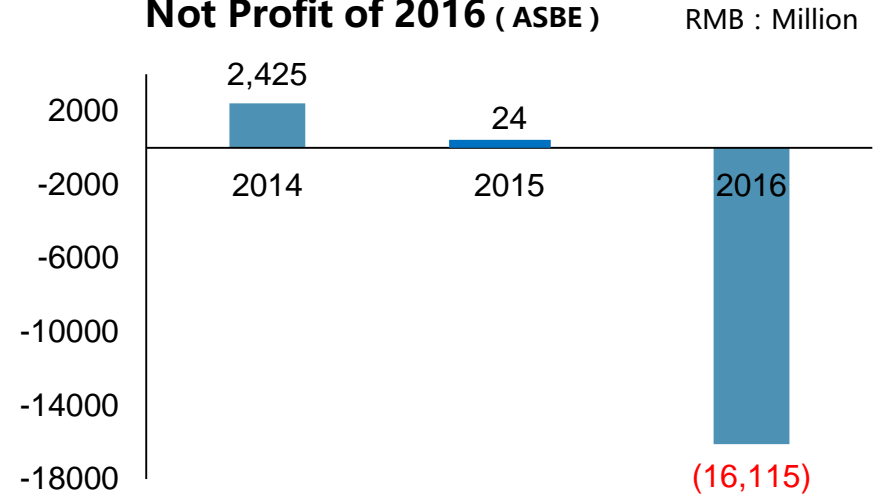
Operating Revenue of 2016



SINOPEC E&P Capex

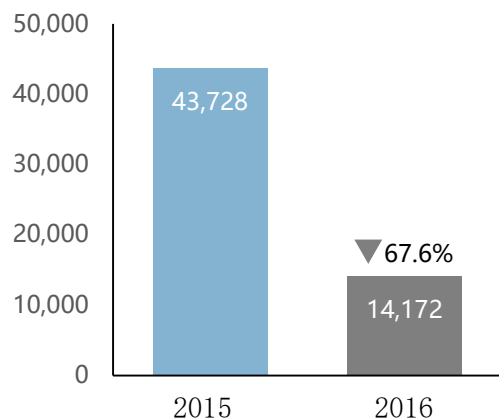


Not Profit of 2016 (ASBE)

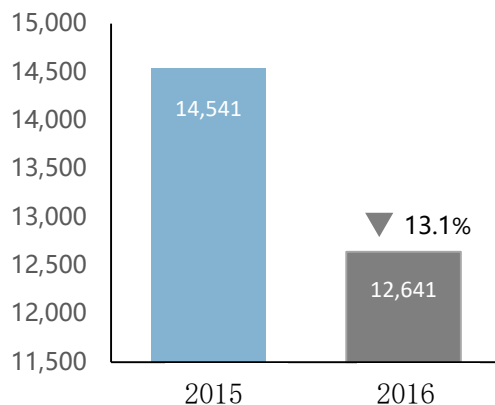


Performance by Segments

Geophysics

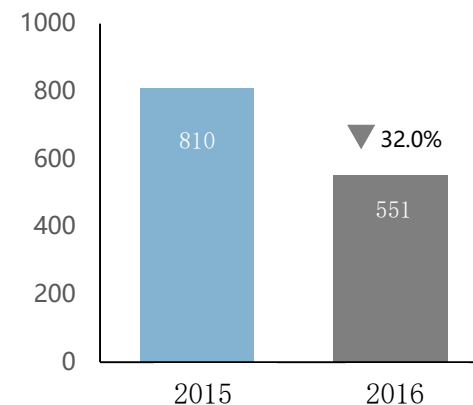


2D Seismic (km)



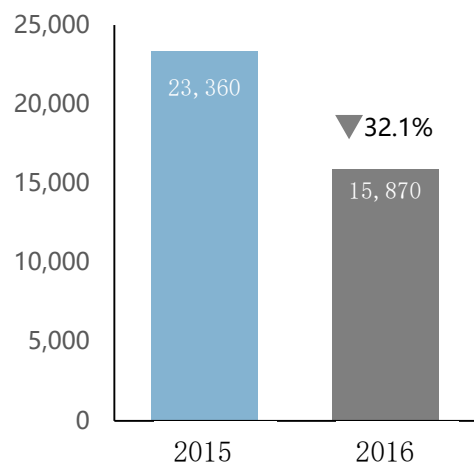
3D Seismic (km²)

Drilling Engineering

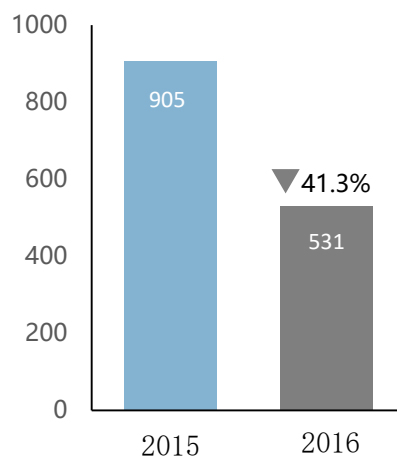


Drilling Footage (10,000m)

Logging & Mud Logging

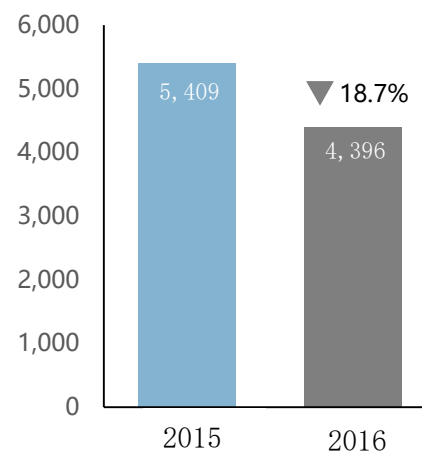


Standard Meter for Logging
(10,000m)



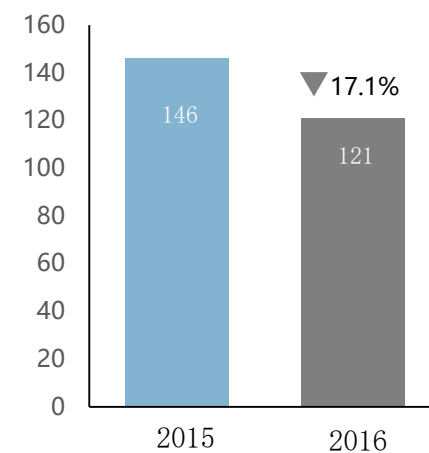
Mud Logging Footage
(10,000m)

Downhole Operation



Downhole Operation
(well times)

Engineering Construction



Completed Contract
(RMB 100 million)

Inside Sinopec

Inside Sinopec: new contracts valued 21.2 billion Yuan and completed contracts valued 22.5 billion Yuan

- Provided service for key projects such as Fuling Phase II, Weixi Block, E'bei and Shunbei Oil and Gas Field Construction with advanced technology and experienced crews
- Cooperated with clients against harsh conditions and consolidated market share with drilling share exceeding 96%

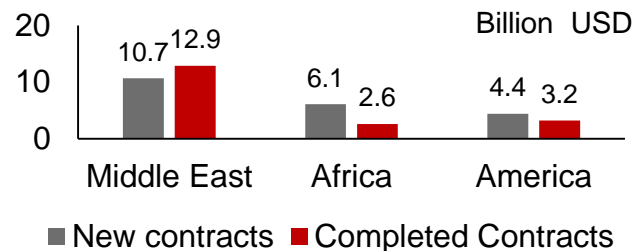
Domestic Outside Sinopec

Domestic Market outside Sinopec: new contracts valued 9.02 billion Yuan and completed contracts valued 7.78 billion Yuan

- Signed strategic cooperation agreement with Guizhou Energy Agency and Shaanxi Gas Group
- Awarded 34 wells projects by CNPC and CNOOC, 14 parameter wells projects and 13 onshore seismic project by China Geological Survey Bureau
- Entered oil tank construction market of State Reserve Bureau and natural gas pipeline construction market in Hunan

Overseas Market

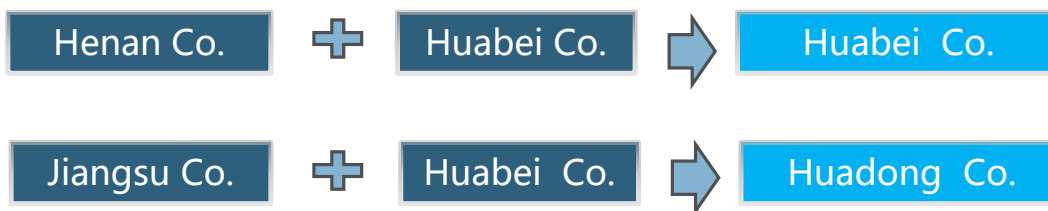
Overseas market: new contracts valued 2.38 billion USD, completed contracts valued 2.12 billion USD and backlog contracts valued 5.1 billion USD



- In Kuwait: 8 rigs contracts newly signed , 18 rigs renewed, a total of 53 rigs. In Saudi Arabia, 15 rigs contracts newly signed or renewed, a total of 51 rigs
- In Algeria, 8 rigs contracts newly signed, a total of 9 rigs. In Kenya, road upgraded project awarded
- In Ecuador, ITT(Phase I) 40 wells drilling & completing projects awarded. In Bolivia, 4 seismic projects awarded

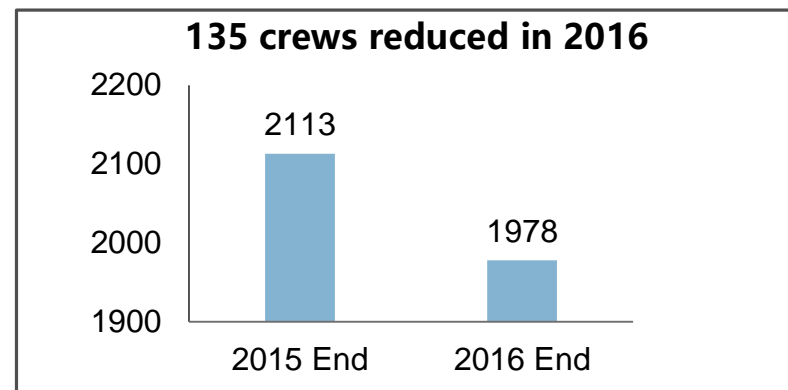
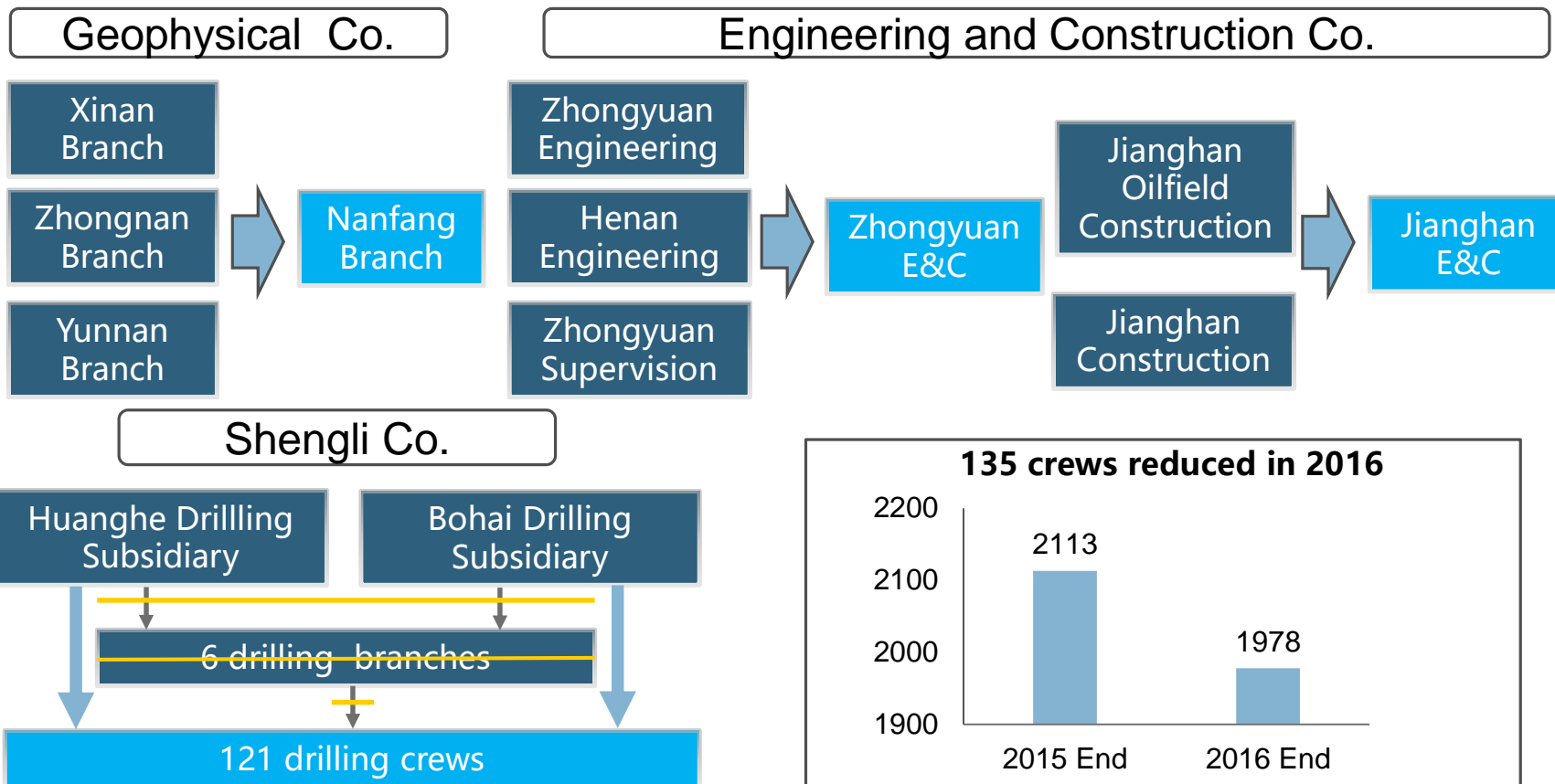
Reform and Restructure

Corporate Level

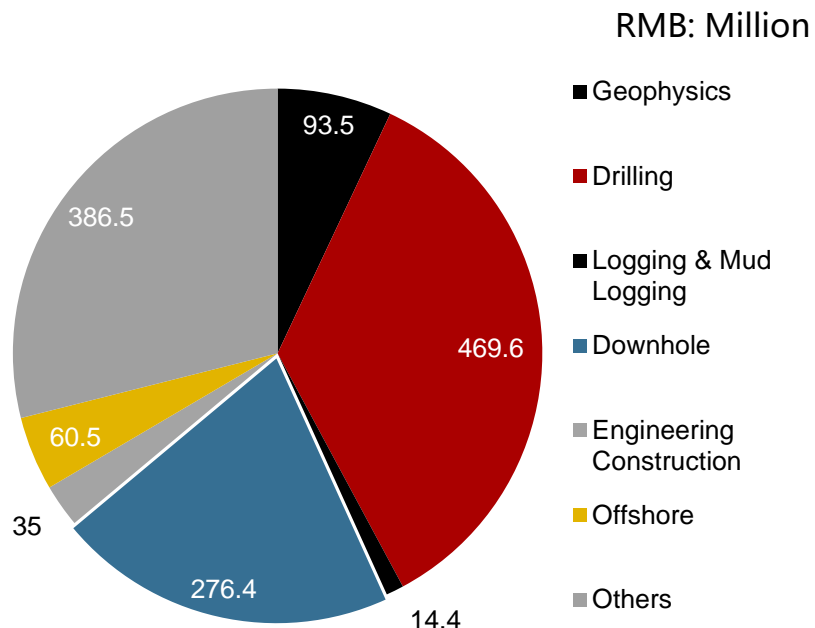


- Reduced :**
- regional companies by 2
 - subsidiaries by 7
 - functional departments by 35

Regional/Specialized Company Level

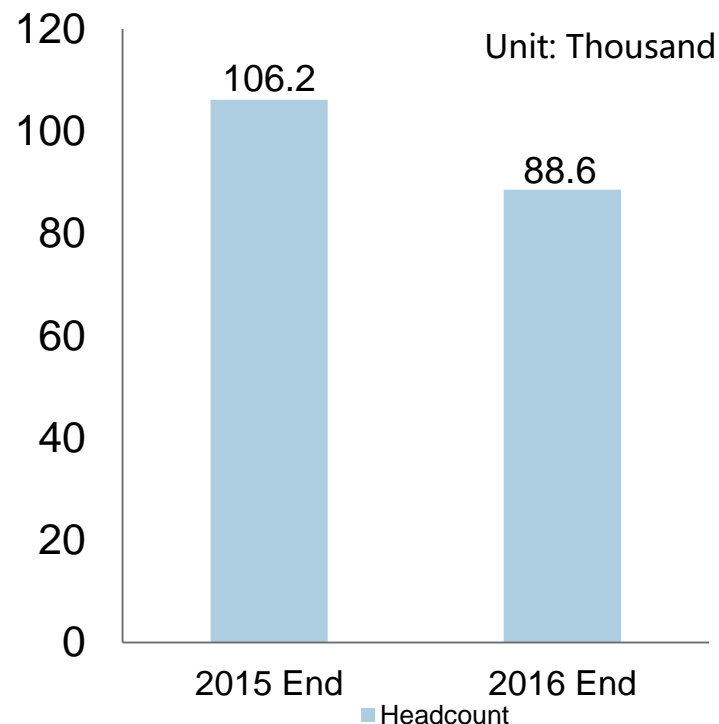


Capital Expenditure in 2016



Actual Capex 1.34 Billion Yuan
Reduced Capex by 2.11 Billion Yuan

Headcount in 2016



Cut 1.33 Billion Yuan of administrative expenses, labor cost and procurement cost
Reduce headcount by 17,600



Enhance Technology Innovation

Patents

- 379 patents granted , 465 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;
- Deviation Control PDC Drill Bit won national excellent patent.

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, reservoir identification and production evaluation, environmental protection etc., developed 14 series of core technologies. Compare with the beginning of construction, average completion period reduced by 33.4%, fracturing and testing period reduced by 56.8%.
- 14 invention patents filed, 14 utility model patents granted, 16 standard specification formed, 2 software copyright obtained.

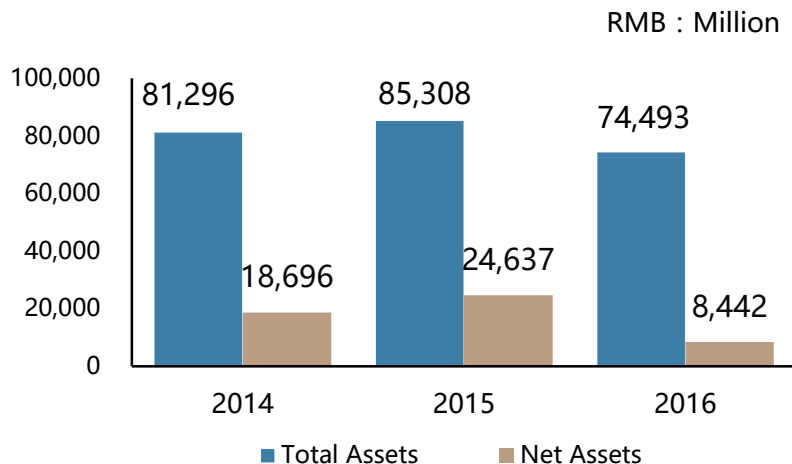
R&D and Site Applications

- Upgrade fast and optimal drilling technology in complex formation, deep and ultra-deep wells. Support the piedmont tectonic belt evaluation in Chuandongbei and exploitation in Shunbei. Mashen No.1 well create the deepest well record in Asia with a depth of 8418 meters.
- Completed 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.
- Completed field test of high performance water-base drilling fluid in shale gas well, increasing drilling rate by 20%. Upgrade lost circulation prevention and plugging technology, one-time-success plugging rate increased from 40% to 82.6% in Hangjinqi area
- 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 .
- Proprietary SINOLOGO900 Net working Image Logging Instrument was successfully tested; complete field test of Gamma Imaging Tool used in LWD in Ying66-Xie98 well.

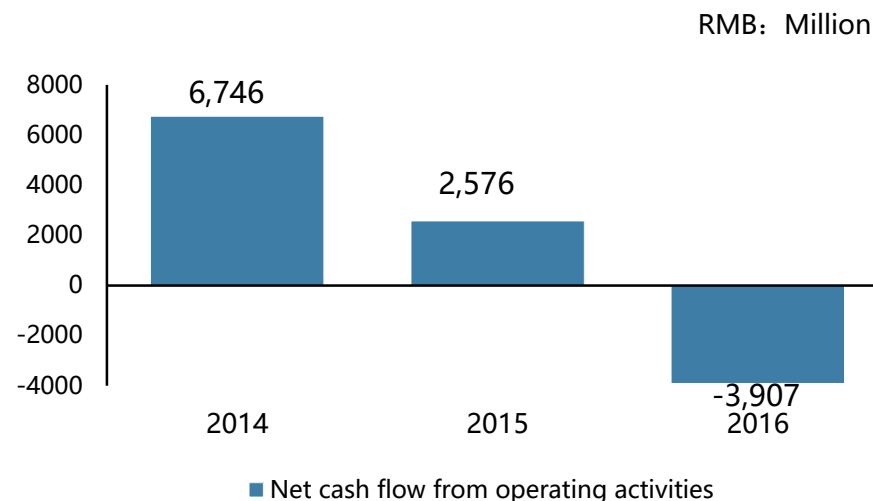
Section 2. Financials in 2016



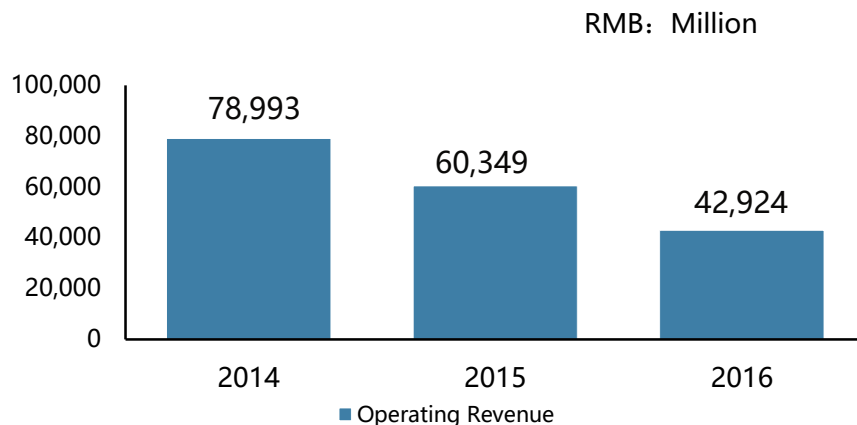
Total Assets and Net Assets



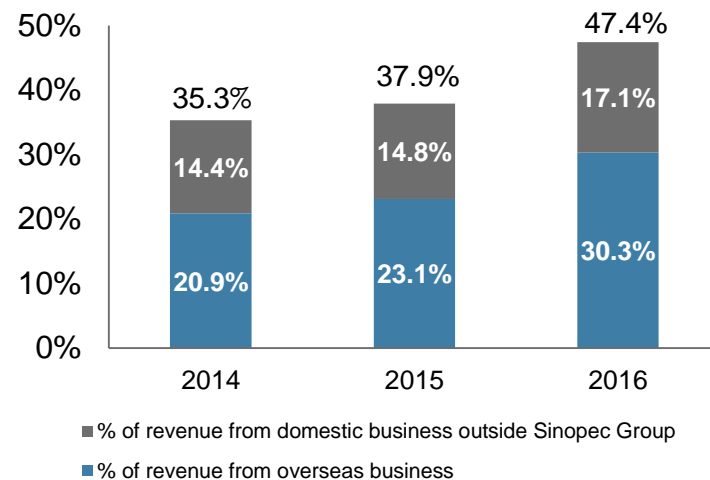
Operating Cash Flow



Operating Revenue



% of Revenue from Business outside Sinopec Group

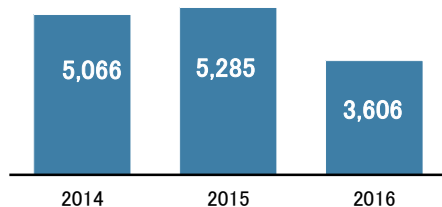


Revenue and Gross Profit of 5 Major Business Segments

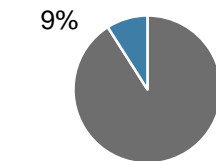
RMB : Million



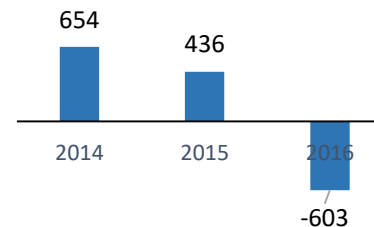
Operating Revenue



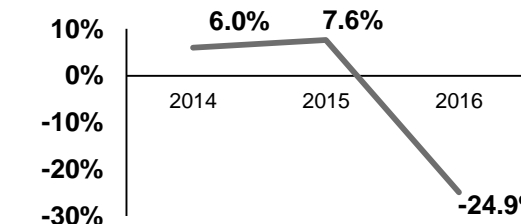
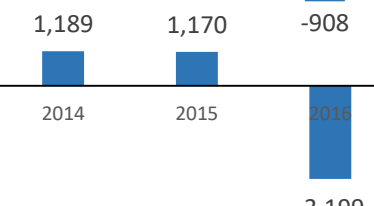
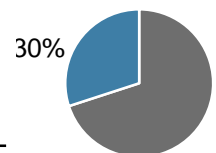
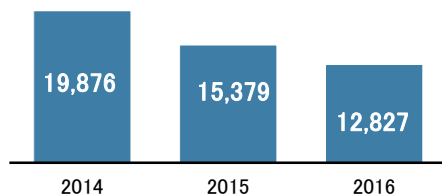
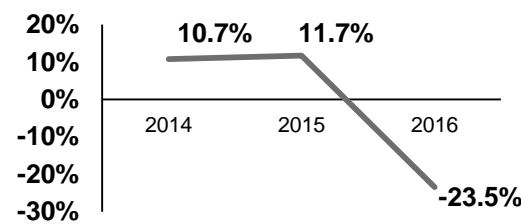
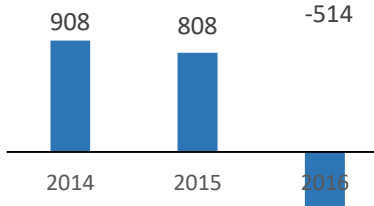
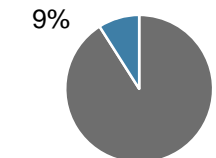
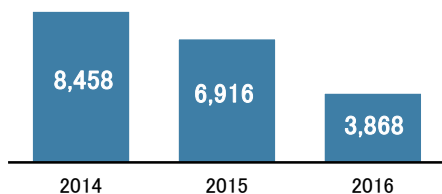
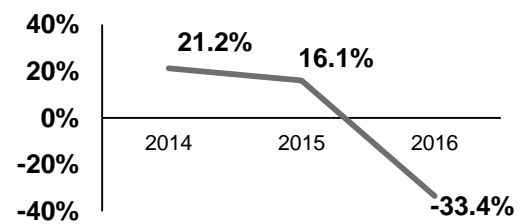
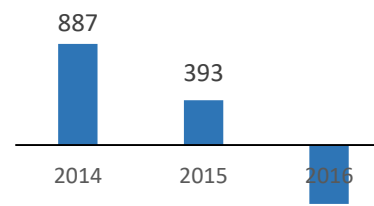
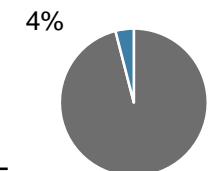
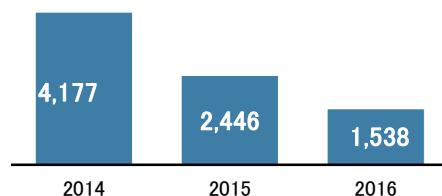
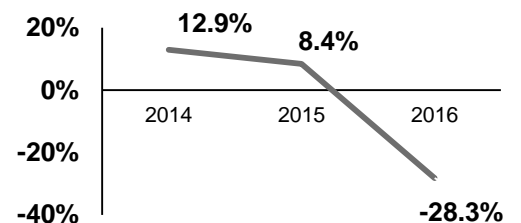
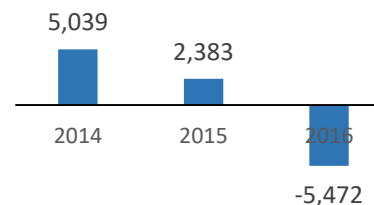
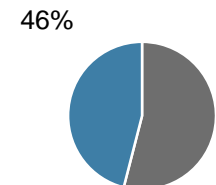
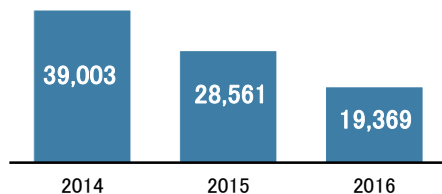
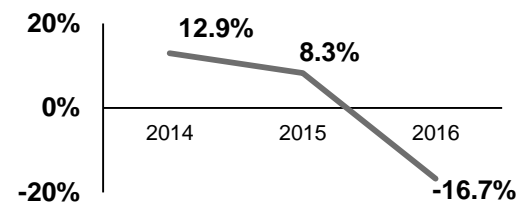
% of Revenue



Gross Profit



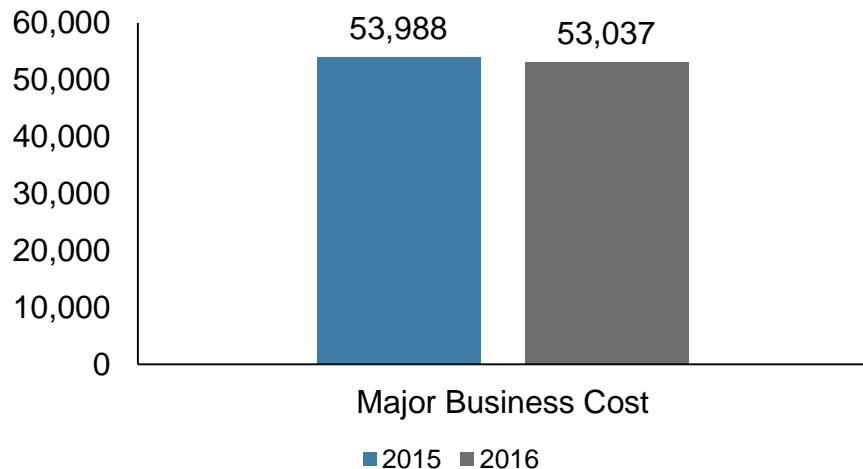
Gross Profit Margin



Cost and Profitability Analysis

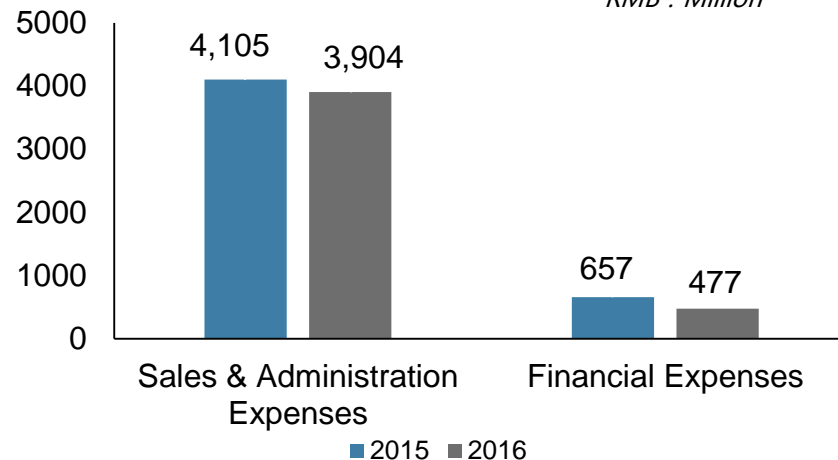
Operating Cost

RMB : Million



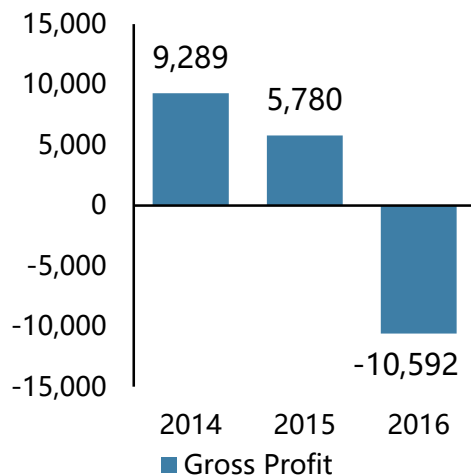
Sales, Administration and Financial Expenses

RMB : Million

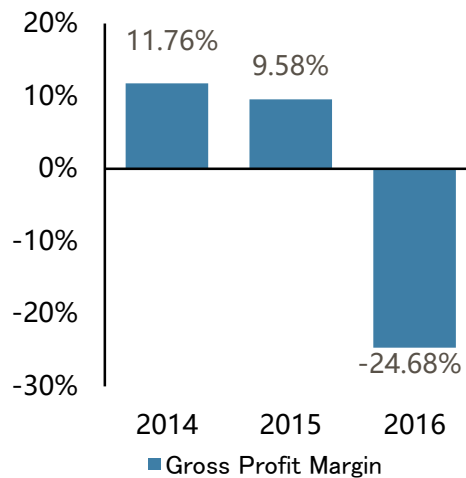


Gross Profit

RMB : Million

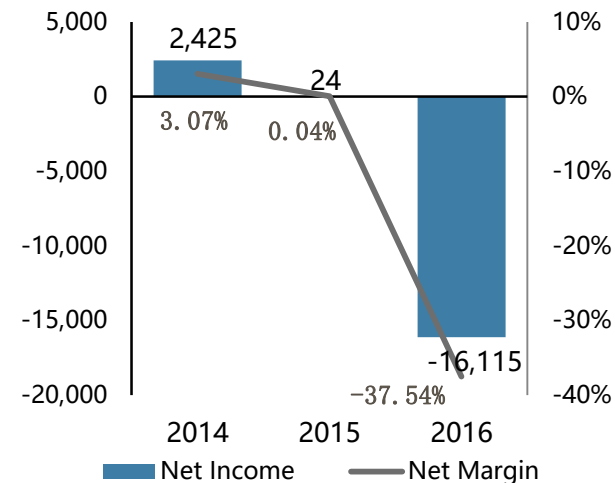


Gross Profit Margin

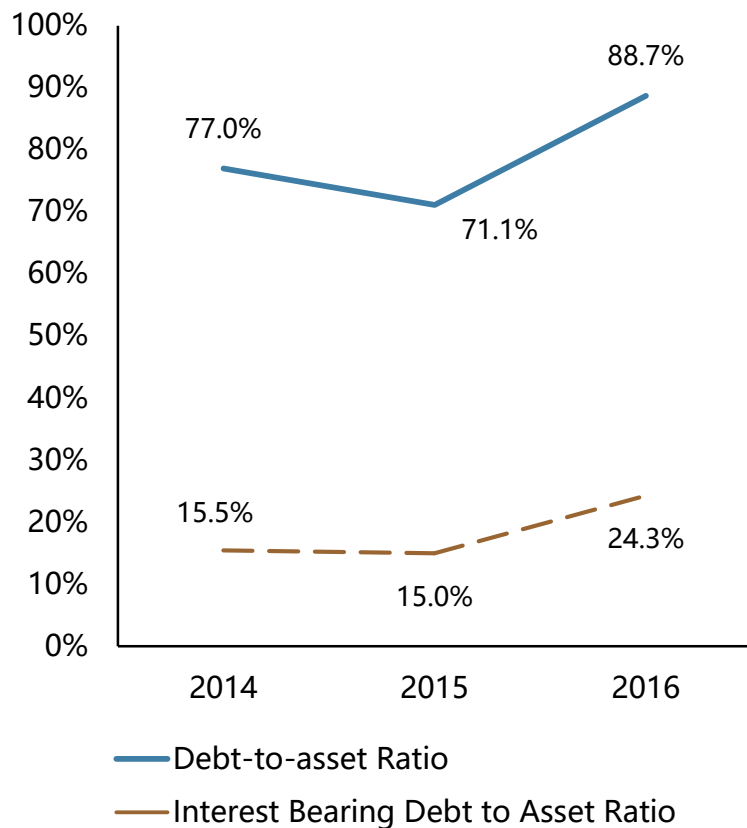


Net Income

RMB : Million

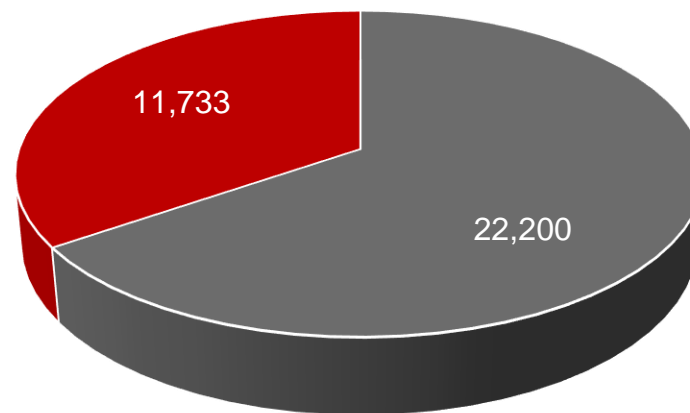


Structural Condition of Assets and Liabilities



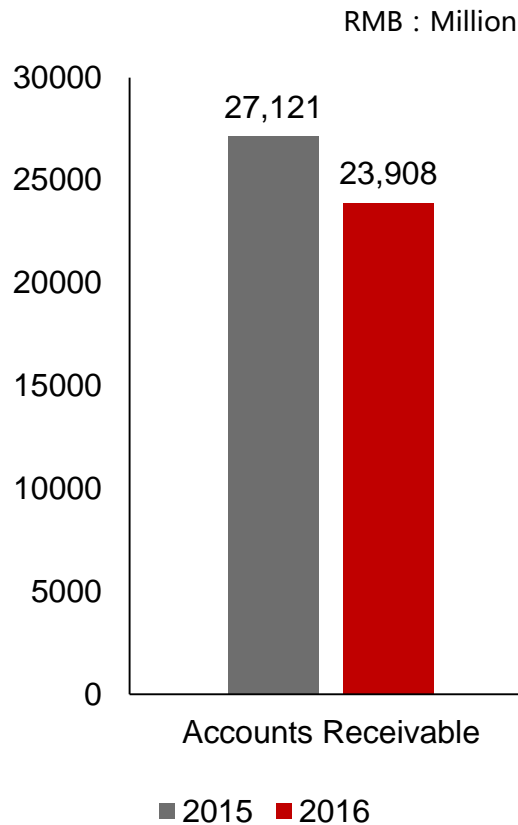
Credit Facility from Financial Institutions

RMB : Million

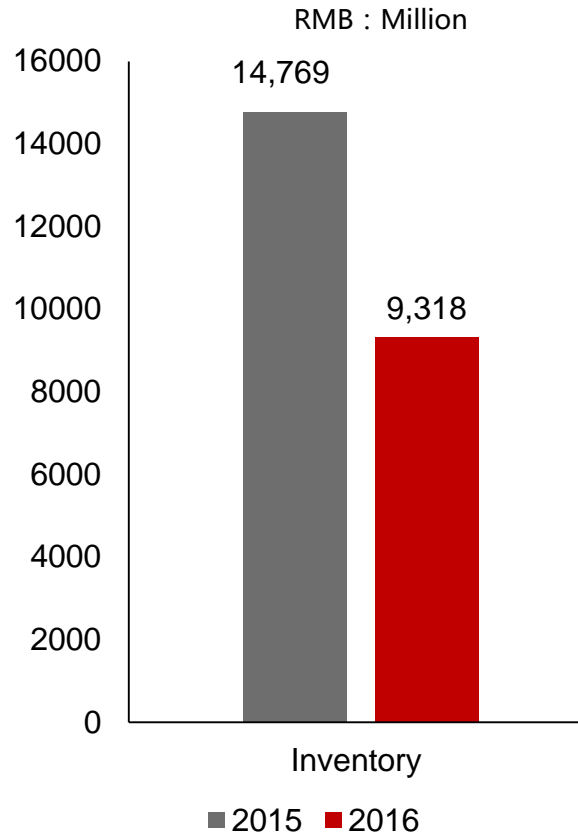


- Credit Facility for loan from Sinopec Financial Institutes
- Comprehensive Credit Facility from Banks (Not for loan)

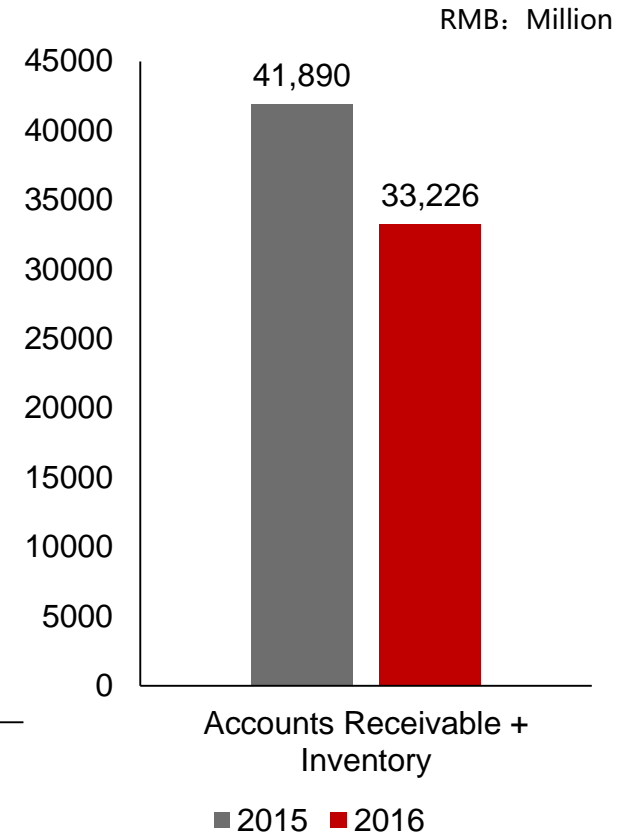
Changes in Accounts Receivable



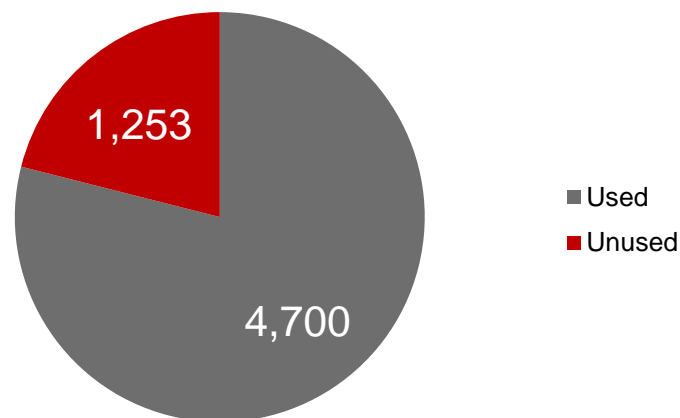
Changes in Inventory



Changes in Accounts Receivable + Inventory



RMB : Million



RMB : Million

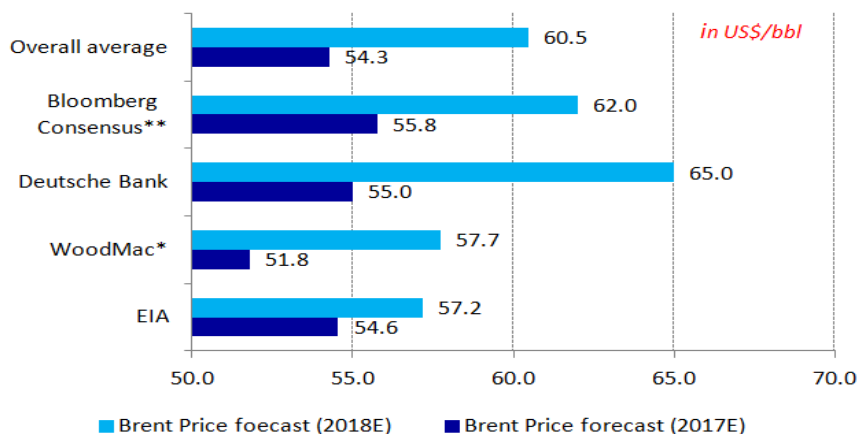
Project	Expected Investment	Investment of 2016	Accumulated Investment
Kuwait Drilling Project	1,600	336.4	1,031.4
25 Meter Drilling Platform Construction	466	61.9	312.9
8000 HP Multi-Purpose Vessel	195	34.0	172.0
LOGIQ Image Logging System	120	5.00	112.2
Downhole Test Equipment	139	0.00	139.00
Top Drive Equipment	110	0.00	110.00
Coiled Tubing Equipment	80	0.00	70.8
Pipeline Construction Equipment	530	3.9	39.7
Supplement of Working Capital	2,713	0.00	2,712.52
Total	5,953	441.2	4,700.6

Section 3. 2017 Outlook



Brent Crude Oil Outlook

(USD/Barrel)

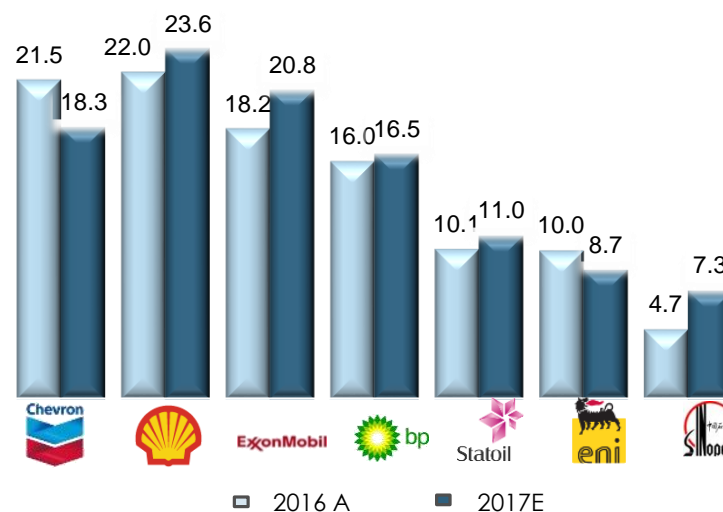


Source: Deutsche Bank Research, ended on March 6th 2017

* based on 2H16 forecast ** as on March 6th 2017

Predicted CAPEX of Major Upstream Enterprises

(Billion USD)



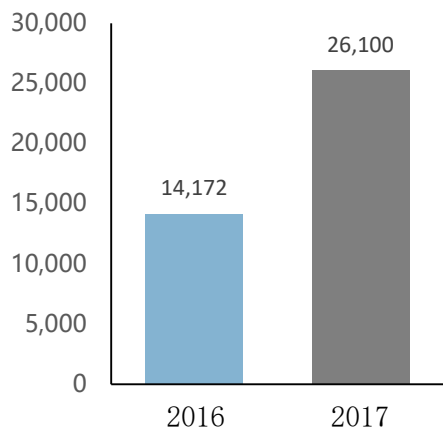
Source: website of companies, Wood Mackenzie, ended on March 6th 2017

Changes in Oilfield Service Industry

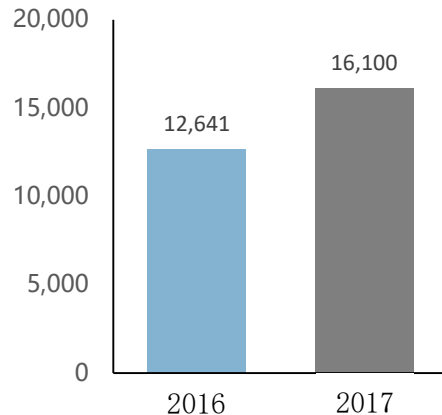
- Impacted by low oil price, more M&As and more polarization among oilfield service companies
- Competitive advantages of oilfield service majors: leaner and healthier structure, enhanced management, higher efficiency and lower costs

2017 Work Volume Plan

Geophysics

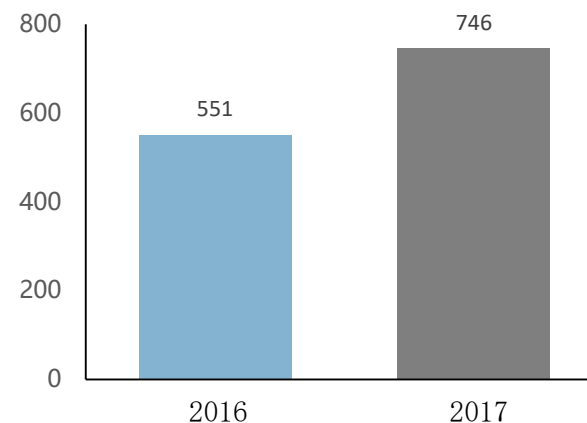


2D Seismic(km)



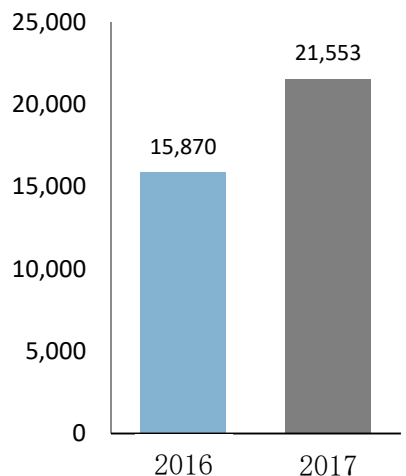
3D Seismic(km²)

Drilling

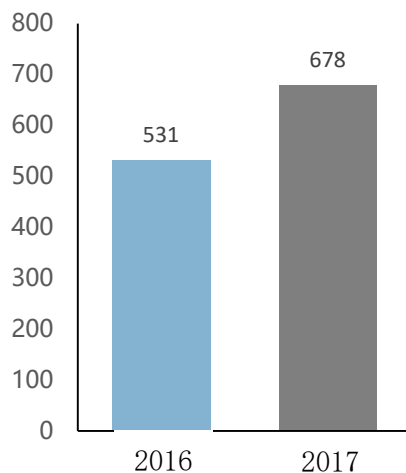


Drilling Footage(10,000m)

Logging & Mud Logging

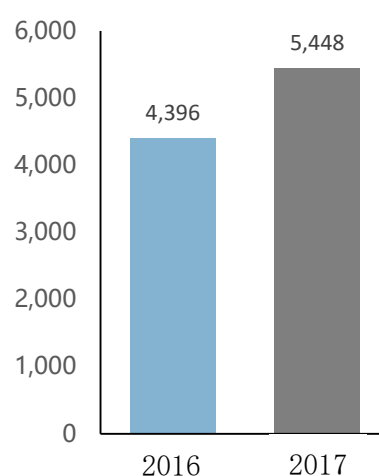


Standard Meter for Logging(10,000 m)

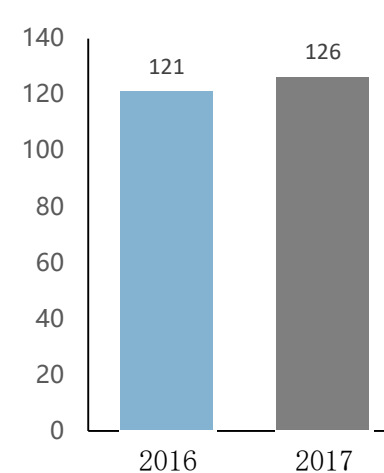


Mud Logging Footage (10,000m)

Downhole Operation Engineering Construction



Downhole Operation (well times)



Completed Contract (RMB 100 million)

Inside Sinopec

- Provide service to the exploitation and exploration through on-site service, optimization of exploration scheme, crews and equipment, to stabilize the market share.
- Provide service to Sinopec key projects such as Fuling 10 billion m³ Capacity Construction , Chuanxi Marine Facies Gas Field, Ebei Tight Gas Reservoir Exploration, Wen 23 Gas Storage Construction, South Line of Xin-Yue-Zhe Pipeline, EOR Project in east mature oilfields and geothermal utility projects etc.

Domestic Outside Sinopec

- Develop comprehensive service projects and unconventional oil & gas projects. Consolidate “well factory” integrated service mode with Yanchang Group and Guizhou Energy Agency. Follow up with oil and gas exploration of BEIHC.
- Expand shale gas market in Oil and Gas Center of China Geological Survey, Huaneng, Huadian and Chongqing area, leveraging proprietary technology in shale gas development.
- Develop coalbed methene (CBM) and geothermal market in Shanxi, Shaanxi and Guizhou.

Overseas Market

- Planned new contracts valued 2.43 billion USD and completed contracts valued 2.16 billion USD in 2017.
- Wellbore: focus on execution and renewal projects under way in Saudi Arabia and Kuwait; ensure smooth operation of new rigs in Algeria; advance cement, mudding and other service in Saudi Arabia; promote projects in Kuwait such as integrated development of heavy oil blocks, recovering marine oil onshore and deep well drilling, workover and mud logging.
- Geophysics: enhance integrated acquisition, processing and interpretation service capability, focus on Algeria, Saudi Arabia, Bolivia and Egypt.
- Comprehensive service: promote the comprehensive service mode in Ecuador.
- E&C: focus on construction of oil, gas and water pipeline, oil and gas processing station, road and bridges, tanks. Enhance engineering, procurement and EPC management capability.

Reform on Corporate and Regional Level

- Establish four management tiers, namely corporate headquarter – regional/specialized companies – affiliated subsidiaries - project teams. Reinforce management capability of corporate headquarter. Enhance performance capability of regional/specialized company.
- Press ahead with restructuring affiliated subsidiaries with similar business. Streamline management level between affiliated subsidiaries and project. Realize the number of affiliated subsidiary and functional departments reduced by over 25%.
- Take Shengli Company and Zhongyuan Company as pilot companies of comprehensive reform.

Adjust Crew Structure

- Based on market and business layout, obsolete crews of low efficiency, restructure crews of similar business and control total number of crews, to reduce 79 crews.
- Optimize labor structure and make an extra 200 million Yuan through output of labor service.

Optimize Business Structure

- Reinforce core business such as wellbore, geophysics, comprehensive service, featured products R&D and manufacture, drilling technical service.
- Outsource non-core business such as pre-drilling construction, equipment maintenance, support service etc.
- Push forward transformation and foster geographic information mapping, pipeline MRO and energy conservation business.

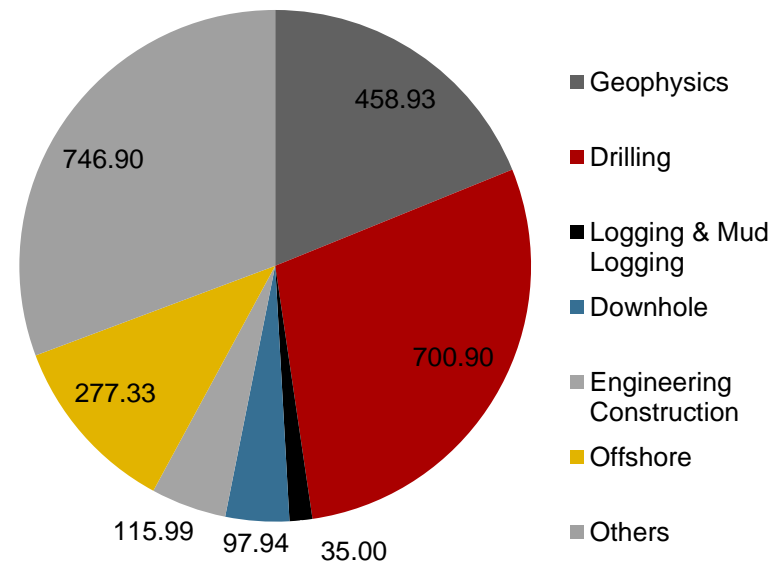
Reinforce Overseas Management

- Restructure overseas management organization and unify management of crews to optimize allocation of resources such as staff, fund and material.
- Integrate overseas management in market development, project management, supporting service, performance appraisal, finance & taxation planning and team building to realize centralized management of overseas business and tiered decision-making mechanism.

- Carry out cost control measures strictly in reduction of administrative expense, operational cost, procurement cost and outsourcing cost, get benefit from strengthening project management and labor output.
- Construct “six systems”, i.e. decision-making system, production and operation system, financial budget and accounting system, classification analysis system, operation evaluation system and accountability system to reinforce risk control and the full life cycle management.
- Take tailor-made measures on losing-money projects, set up reward and punishment system.
- Improve market-based remuneration system. Strengthen performance-based appraisal, linking employee remuneration with profit, revenue from the market outside Sinopec and fund collection.

Planned Capital Expenditure of 2.43 Billion Yuan in 2017

RMB : Million



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, Jiangnan Oil and Gas Test Tech Center, Southwest Acid Oil and Gas Field Tech Center ;E&C Design and Innovation Center



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

- Tackle supporting technologies of exploration and development in deep shale gas, ultra-deep well drilling, acidic oil and gas, shallow sea, etc.
- Generalize the use of safe & optimized drilling technology for deep well and ultra-deep well, Lost circulation prevention and plugging. Popularize the application of customized drill bits, near-bit geo-steering system, MWD bearing 175° C, SINOWSL Mud Logging Unit system.



- ◆ Cultivate featured core technology and promote transformation & upgrade

- Debottleneck technologies such as the Rotary Steerable System, imaging tool used in LWD, high performance dynamical drilling. Develop high temperature fracturing fluid and acid fluid key additive. Carry out pilot experiment for network imaging logging system.
- Accelerate environment conservation technologies like harmless treatment and recyclable use of wastes, pipeline MRO and CCUS (CO₂ Capture, Utilization and Storage)





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