



SSC

中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2015 Annual Results Presentation

March, 2016



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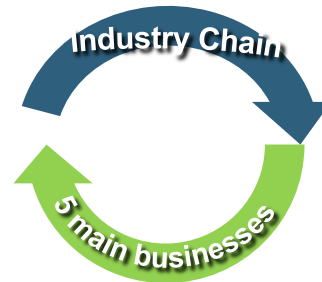
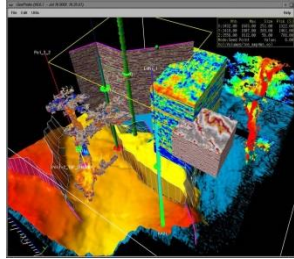
Section 4: 2016 Outlook



Section1.

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

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: **87 sets** of 428XL seismic acquisition equipment, **25,400** full digital seismic 3C geophones, **3** offshore geophysical vessels
- Drilling: **779** onshore drilling rigs , of which **248** for wells at depth of more than 7,000 meters, **6** for 9,000 meters and **1** for 12,000 meters. And **12** offshore drilling platforms
- Logging: **109** image logging systems, **81** rapid logging platforms, **496 sets** of comprehensive logging instruments
- Downhole operation: **110 sets** of type-2000 fracturing assmby, **134 sets** of 2500 and 3000 fracturing assmby, **43 sets** of workover rigs with power higher than 750 HP, **4** offshore operation platforms



Rich Experiences

- **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 China
- **Tahe oil field project:** 1.2 billion-ton reserve large oil field
- **Yuanba gas field project:** The deepest marine-facies reservoir in China
- **Mashen well No.1 :** The deepest well drilled in Asia with depth of 8418 meters



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

Strong R&D capabilities

- | | |
|---|---|
| <ul style="list-style-type: none"> • 2 academicians of the Chinese Academy of Engineering • 58 professor-level researchers and more than 1,300 senior researchers • 3,800 research, design, laboratory and development staff | <ul style="list-style-type: none"> • 3 research institutes • 5 design companies • 42 various professional technical institutes • 54 laboratories and full-scale scientific experimental wells |
|---|---|

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.

Leveraging our high-quality service, accurate market positioning and efficient cost control, we have developed international markets and achieved high brand recognition among clients including many leading global oil companies.



中国石油



1905
延长石油
YANCHANG PETROLEUM

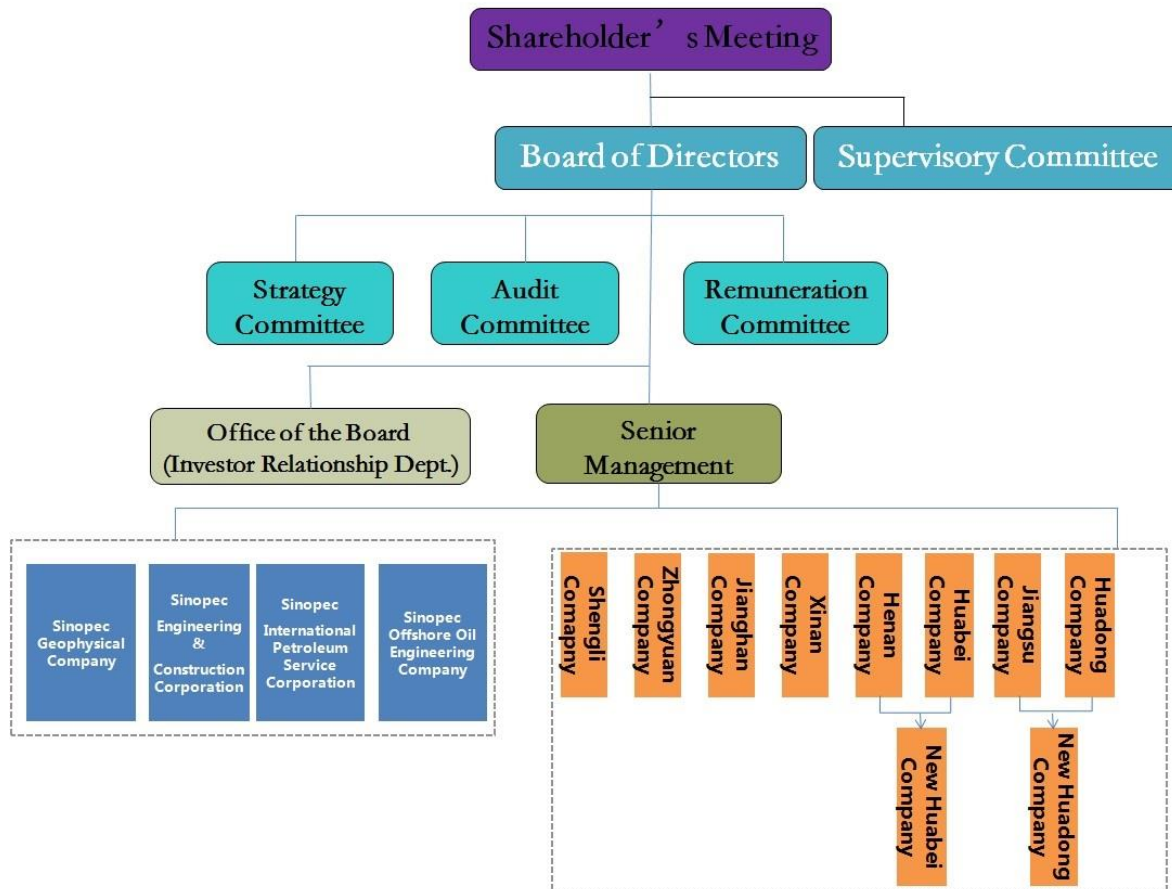


中国华能
CHINA HUANENG

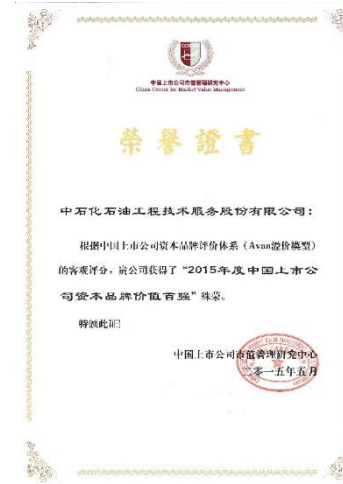


中国神华
CHINA SHENHUA





China's 100 Most Valuable Brands of Publicly Listed Companies



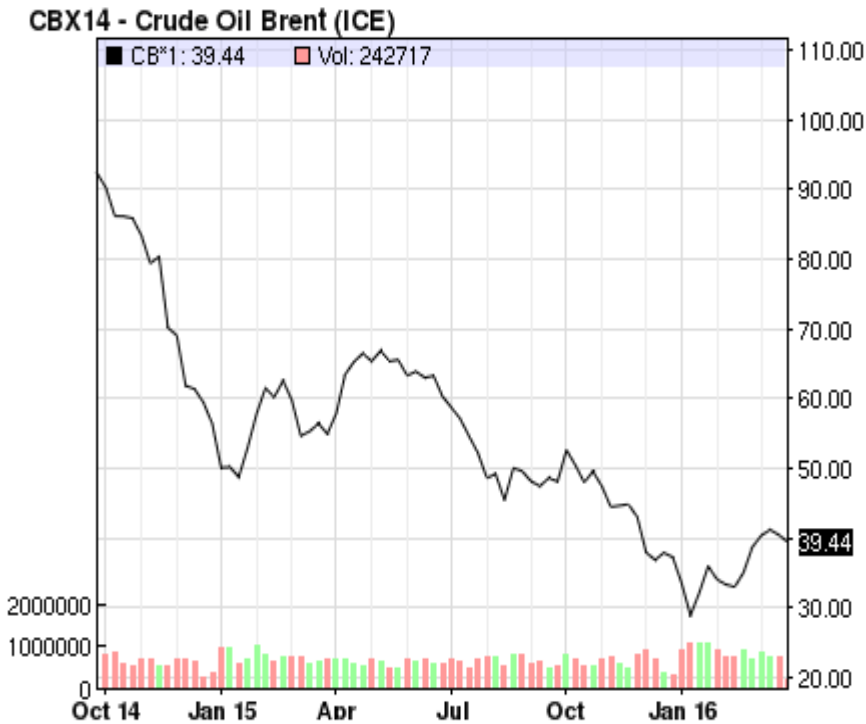
China's Security Golden Bauhinia Awards for the Best Board of Directors of Listed Companies



Section 2. **Operations in 2015**

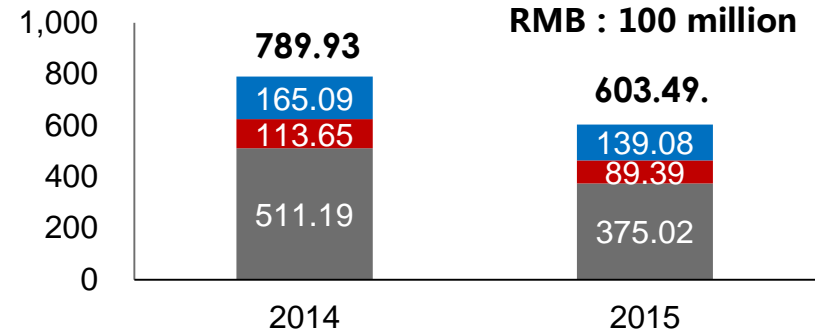


BRENT Oil Price Trend



Resource: Website of NASDAQ

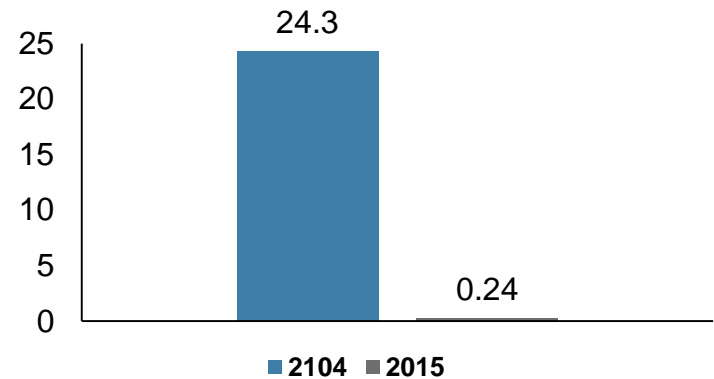
Operating Revenue of 2015



- Overseas
- Domestic clients other than SINOPEC
- Inside SINOPEC

Net Profit of 2015 (ASBE)

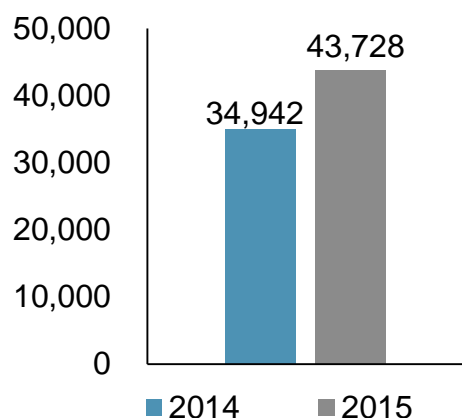
RMB : 100 million



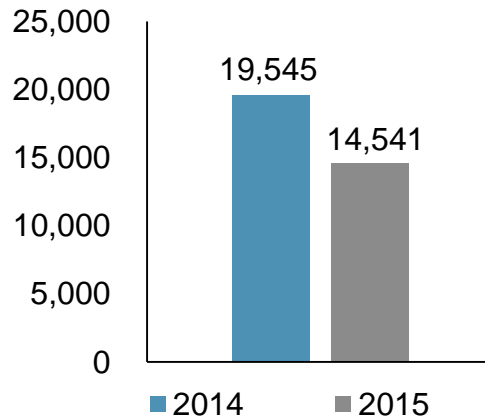
Performance by Segments



Geophysics

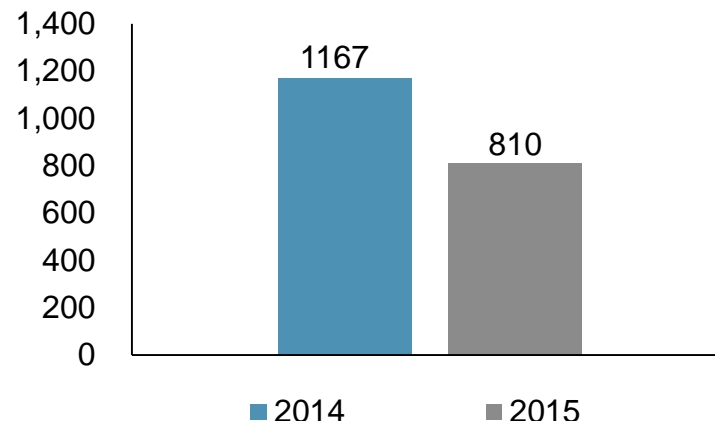


2D Seismic(km)



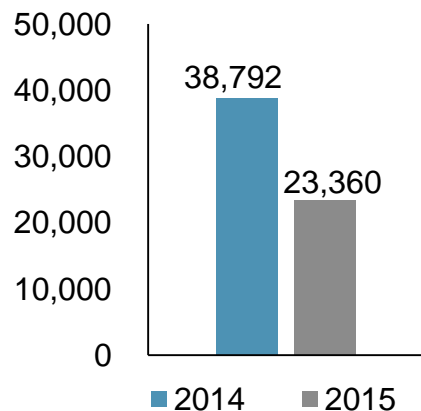
3D Seismic(km²)

Drilling Engineering

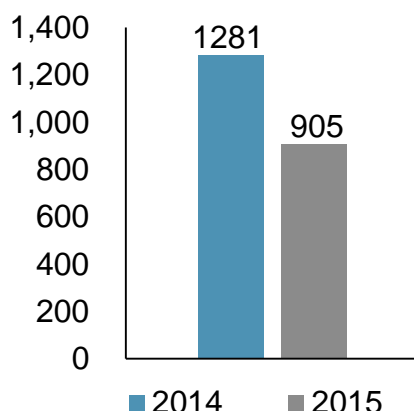


Drilling Footage(10,000m)

Logging & Mud Logging

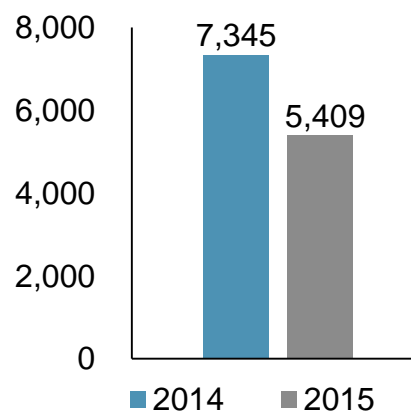


Standard Meter for Logging (10,000m)



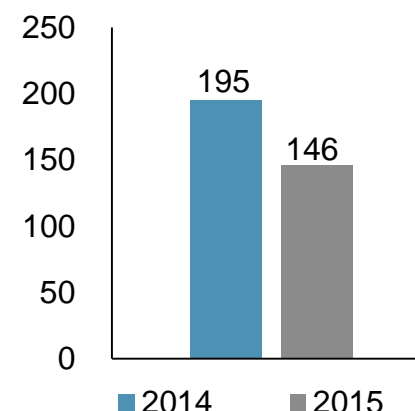
Mud logging footage (10,000m)

Downhole Operation



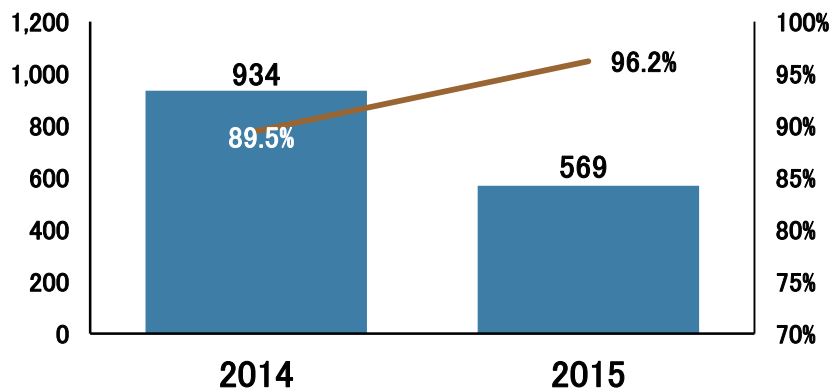
Downhole Operation (well times)

Engineering Construction



Completed Contract (RMB 100 million)

Inside Sinopec



- SSC completed drilling footage of 5690 kilometers, down by 39% over the same period last year.
- Our share in Sinopec drilling market reached 96.2%, up by 6.7 percentage points over last year.



Phase I of 5 bcm capacity in Fuling shale gas project was successfully completed.

Outside Sinopec

- Work volumes of drilling, mud logging and downhole operation increased by 2.2% to 11.6%.
- The number of drilling crews reached 115, with 19 more drilling crews working in domestic market outside Sinopec.
- 16 drilling crews started to work for CNPC, adding the total number to 86. The total drilling footage in CNPC market was 1102.6 kilometers, with a year-on-year increase of 26.3 kilometers.
- SSC focused on expanding markets such as Huaneng, Shenhua, China Geological Survey Bureau, Chongqing, and Shanxi coalbed methane.

New Contracts, USD 2.71 Billion; Completed Contracts, USD 2.26 Billion

- Wellbore Business: New signed contracts valued USD 2.02 billion, completed contracts valued USD 1.52 billion
- Geophysical Business: New signed contracts valued USD 310 million, completed contracts valued USD 250 million
- Engineering & Construction Business: New signed contracts valued USD 380 million, completed contracts valued USD 490 million

Kuwait: 17 new drilling rig (workover rig) contracts awarded, total value USD 870 million, adding the total number of drilling rigs to 53, the largest drilling contractor for KPC

Saudi Arabia : New wellbore contracts valued USD 750 million, the total number of drilling rig 51, the largest onshore drilling contractor for Saudi Aramco; renewed and new 2D geophysical contracts valued USD 54 million; new road and bridge construction contracts valued USD 110 million

Algeria: New wellbore contracts valued USD 89 million, awarded 8 new drilling rig contracts valued USD 350 million; New geophysical contracts valued USD 130 million, the largest international geophysical contractor in Algeria

Bolivia : Renewed and new contracts of wellbore, geophysical and engineering & construction business valued USD 200 million

Ecuador: New contracts of comprehensive reservoir service, wellbore and geophysics valued USD 140 million; a lump-sum service contract for wellbore service in TIPUTINI oilfield awarded

Integration and Restructuring

Corporate Level

Huabei Co. + Henan Co. → Huabei Co.

Huadong Co. + Jiangsu Co. → Huadong Co.

Corporate Level: We have completed the project scheme of integration in Huabei and Huadong Company

Subsidiary Level

Shengli E&C + Jiangsu E&C → Shengli E&C

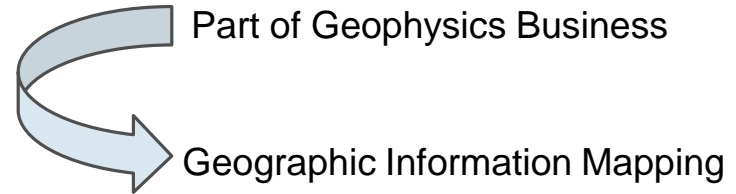
Jiangsu Geophysics + Huadong Geophysics → Huadong Geophysics

Henan Geophysics + Zhongyuan Geophysics → Huabei Geophysics

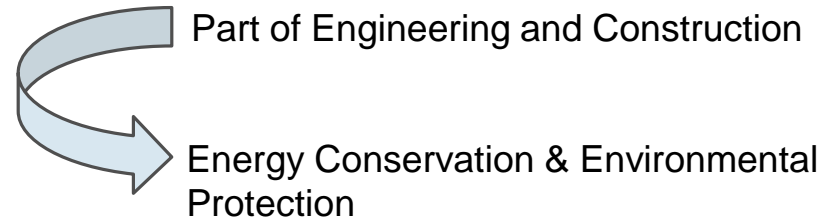
Subsidiary Level:

- After the integration and restructuring of Geophysics Company, functional departments and affiliated offices are streamlined by more 50% and a centralized data processing center is established.
- After the integration and restructuring of Engineering and Construction Company, functional departments and affiliated offices are simplified by 28.3% and 52.5% respectively.

Business Transformation



Annual revenue of 180 million Yuan achieved and 1500 staff transferred into the company.



Sinopec Energy and Environmental Engineering Co., Ltd. started running .

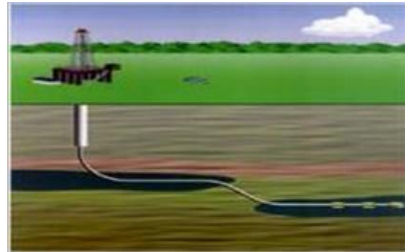
Cost Reduction & Efficiency Enhancement

Categories	Annual Target	Completed in 2015
Operation Expense	0.5	1.1
Labor Cost	2.5	4.0
Procurement Cost	1.5	3.1
Renting and Maintenance	2.5	2.6
Financial Expense	1.0	1.0
Total	8.0	11.8

- Cut cost by 1.18 billion, 48% more than the annual target of 800 million Yuan
- Reduce headcount by 10,300 while the annual target is 10,000

Management Improvement

- Promote “Well Factory” mode in Fuling area, cost per well is reduced by 20%, drilling construction period is reduced by 40% , the efficiency of fracturing and testing is increased.
- Fully utilize internal idle assets, dispose of inefficient assets with net value of 384 million Yuan.
- Optimize multichannel equipment management system, establish cross-regional and cross-business-chain resource sharing and optimized platform.
- Innovate labor organization form, optimize labor allocation, promote “separation of crew and equipment” “separation of workers and fixed-post” mode.



Technology

- Developed 6 series petroleum engineering technologies , including shale gas, acid gas, tight oil & gas, shallow water oil and gas reservoir, deep oil and gas reservoir and coalbed methane

Patent

- 432 patents application filed , 247 patents granted

Science and Technology Awards

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

Highlight the role of science & technology. Increase scientific & technological research efforts. Various technical applications improve operation.

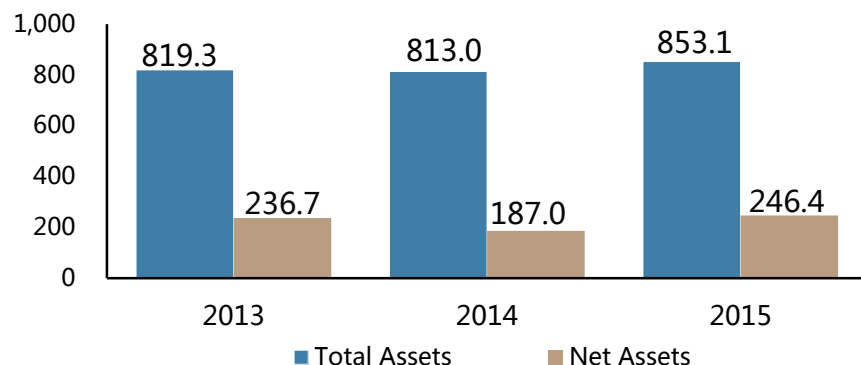
- Carried out 318 projects research and applied series of technologies for petroleum engineering, including shale gas, acid gas, tight oil & gas and deep oil & gas reservoir.
- Carried out 25 projects research, including western piedmont zone geophysical technology, Fuling integrated and complete sets of technology, measurement and control while drilling, leak-proof technology under complex geological conditions, and long distance pipeline engineering project.
- Major breakthroughs were made in shale gas exploration and exploitation project and equipment manufacturing technology. Complete technical series with proprietary intellectual property was initially formed and localization of core equipment of wellbore engineering was achieved.

Section 3. **Financials in 2015**



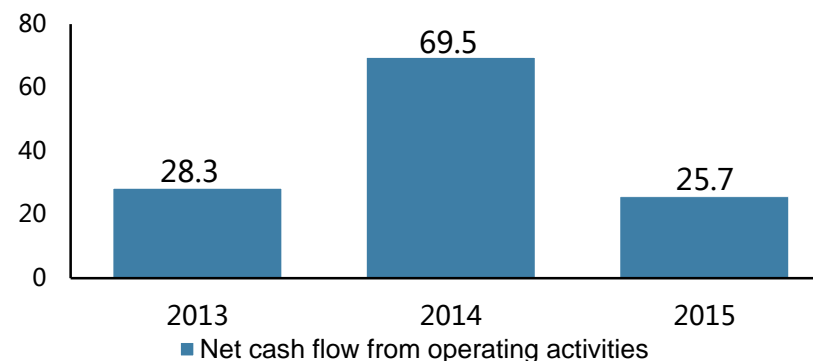
Total Assets and Net Assets

RMB : 100 million



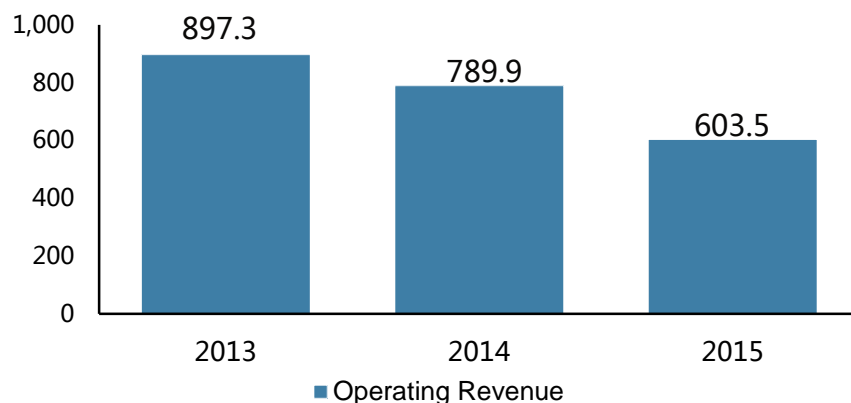
Operating Cash Flow

RMB: 100 million

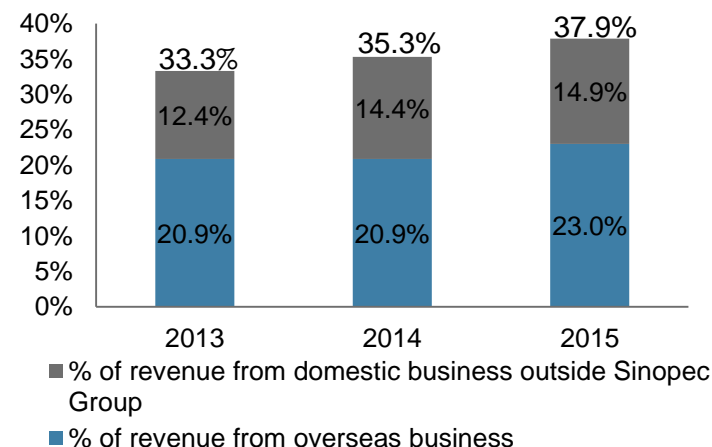


Operating Revenue

RMB: 100 million



% of Revenue from Business outside Sinopec Group



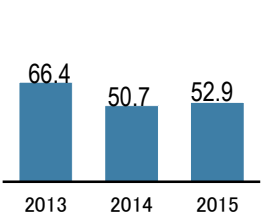
Revenue and Gross Profit of 5 Major Business Segments



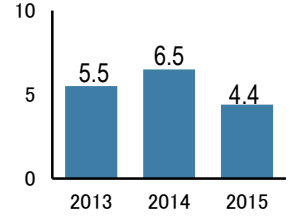
RMB 100 million

Geophysics

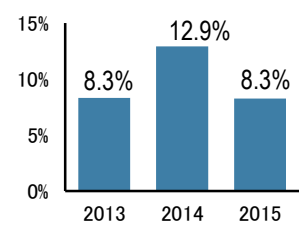
Operating Revenue



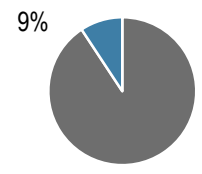
Gross Profit



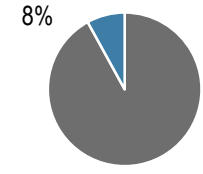
Gross Profit Margin



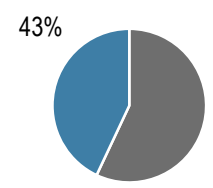
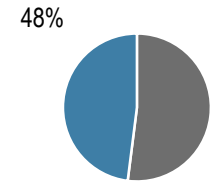
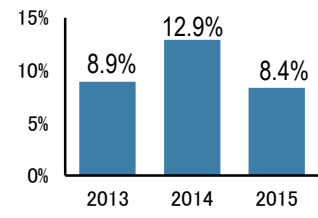
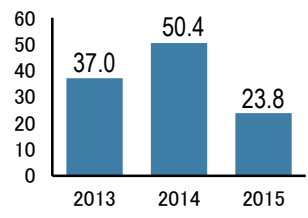
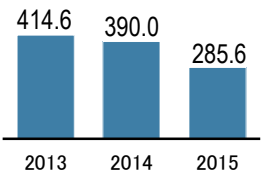
% of Revenue



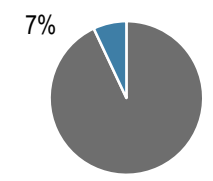
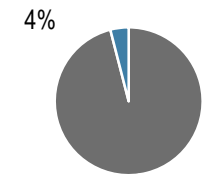
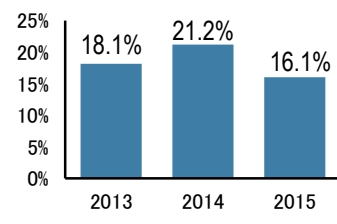
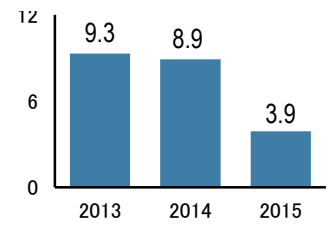
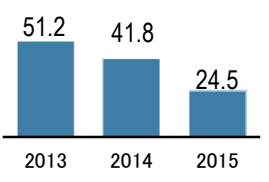
% of Gross Profit



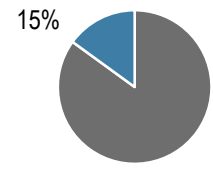
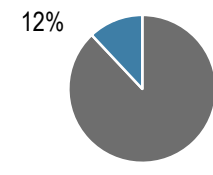
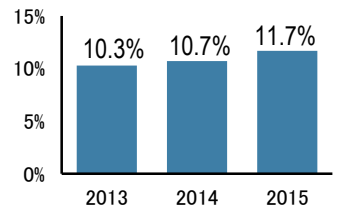
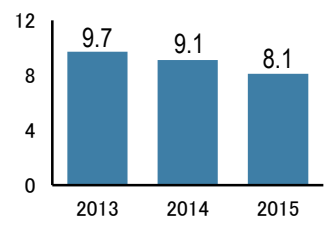
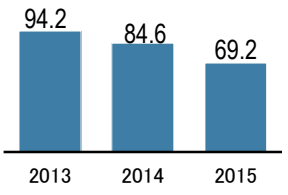
Drilling



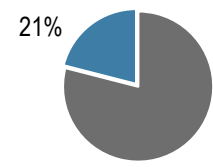
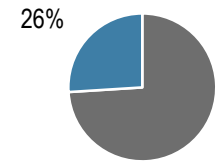
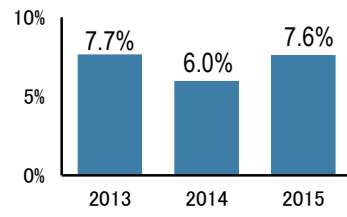
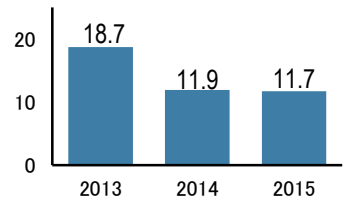
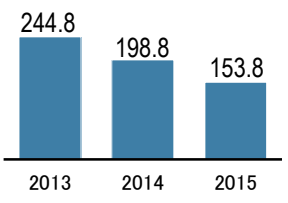
Logging and Mud Logging



Downhole Operation

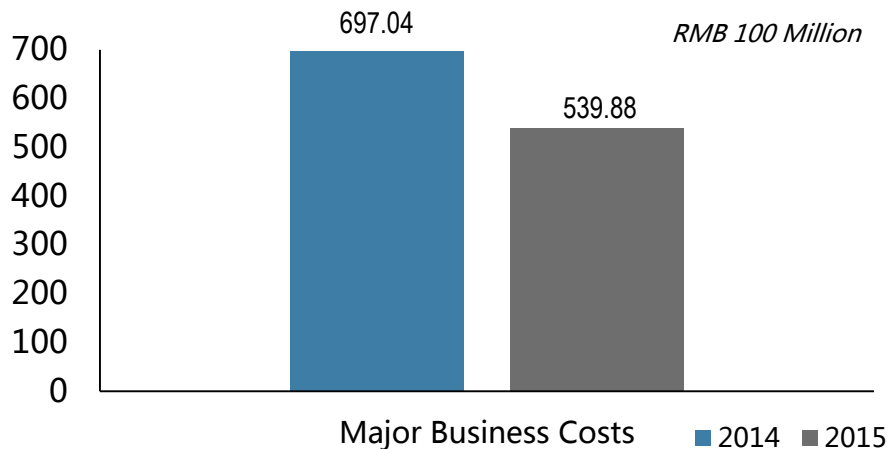


Engineering Construction

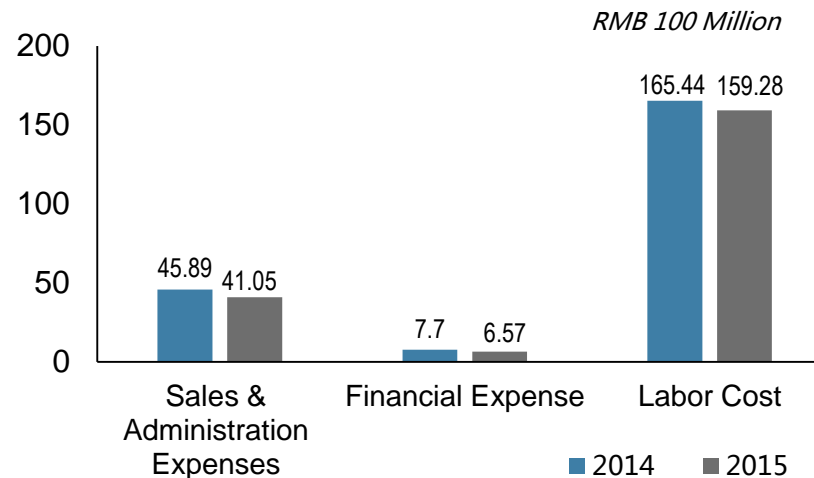


Note: % based on 2015 annual data

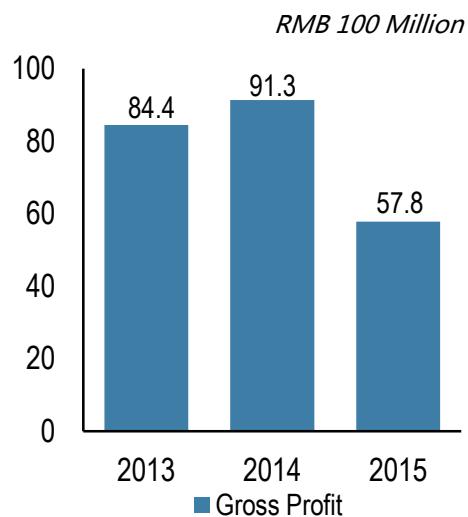
Operating Cost



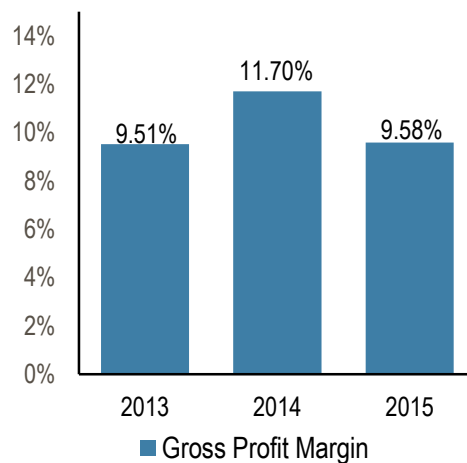
Expenses and Labor cost



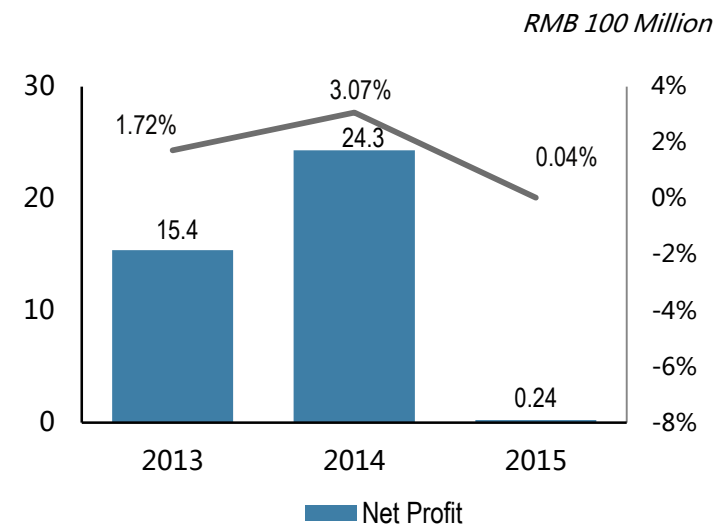
Gross Profit



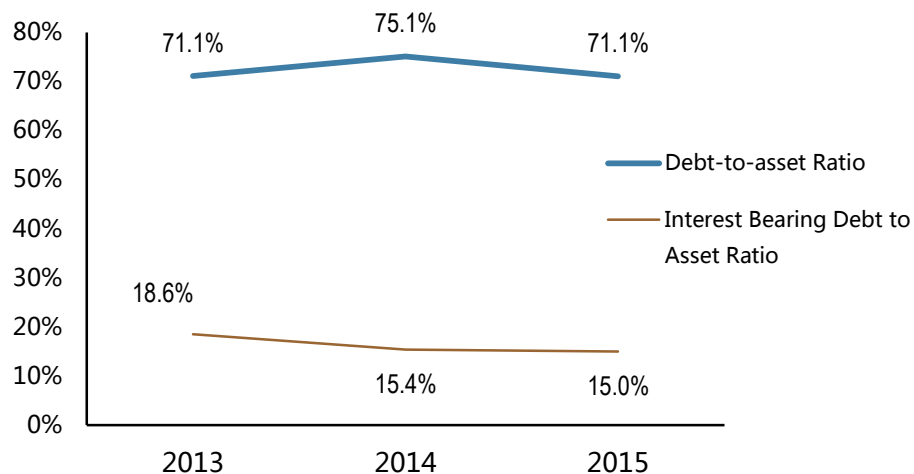
Gross Profit Margin



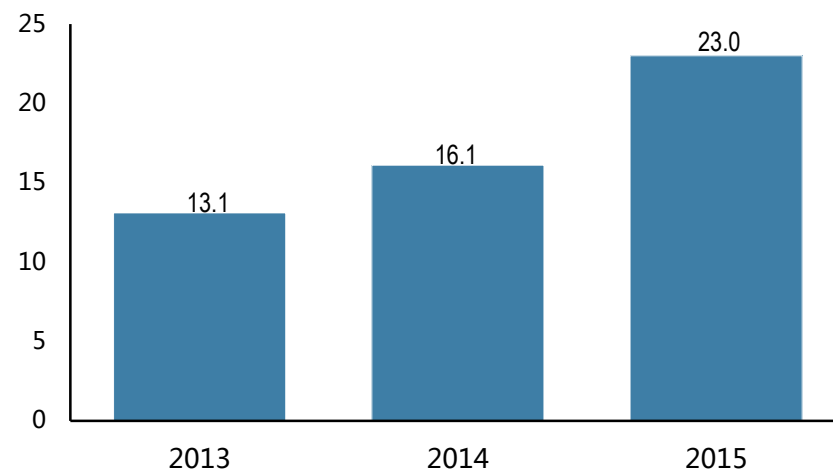
Net Income



Structural condition of Assets and Liabilities

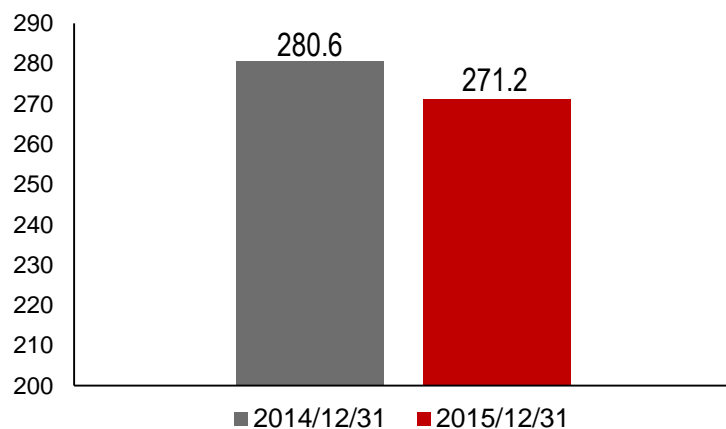


EBITDA Interest Coverage Ratio



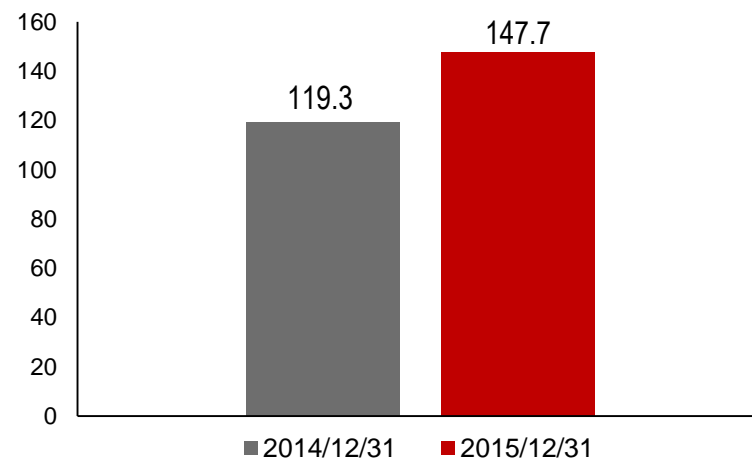
Changes in Accounts Receivable

RMB 100 Million



Changes in Inventory

RMB 100 Million



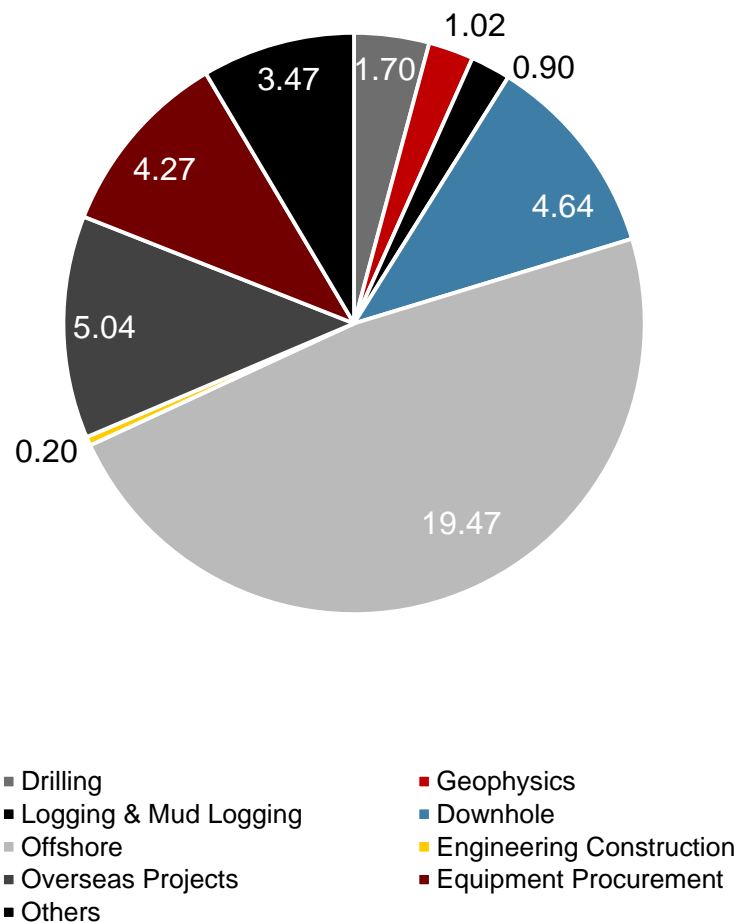
Capital Expenditure and Usage of Proceeds



SSC

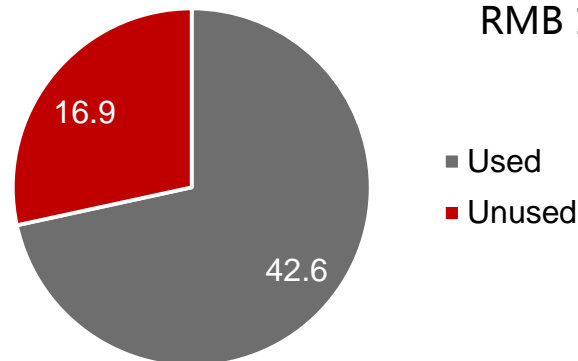
Capital Expenditure of 2015

RMB 100 Million



Usage of Proceeds

RMB 100 Million

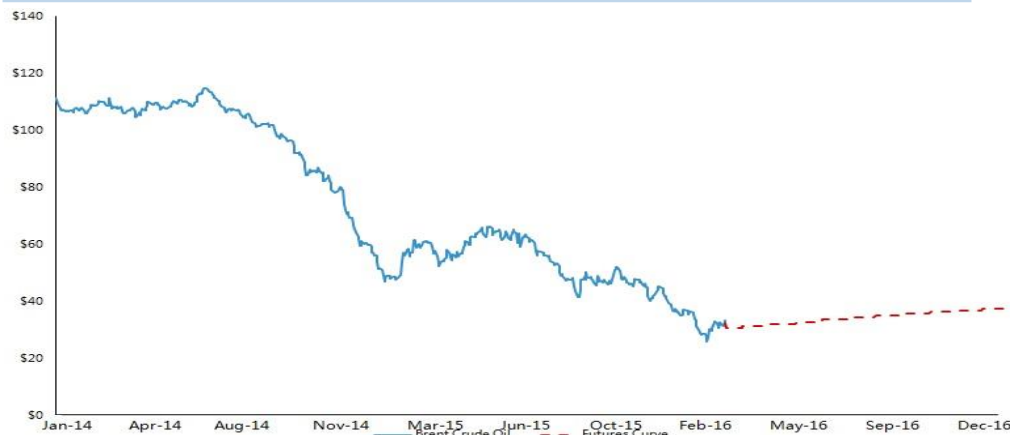


Projects	Expected Amount	Accumulated Expenditure
Kuwait Drilling Project	16.0	7.0
25 Meter Drilling Platform	4.7	2.5
8000 HP Multi-Purpose Vessel	2.0	1.4
LOGIQ Image Logging System Project	1.2	1.1
Downhole Test Equipment	1.4	1.4
Top Drive Equipment	1.1	1.1
Coiled Tubing Equipment	0.8	0.7
Pipeline Construction Equipment	5.3	0.4
Supplied Working Capital	27.1	27.1
Total	59.5	42.6

Section 4. **2016 outlook**

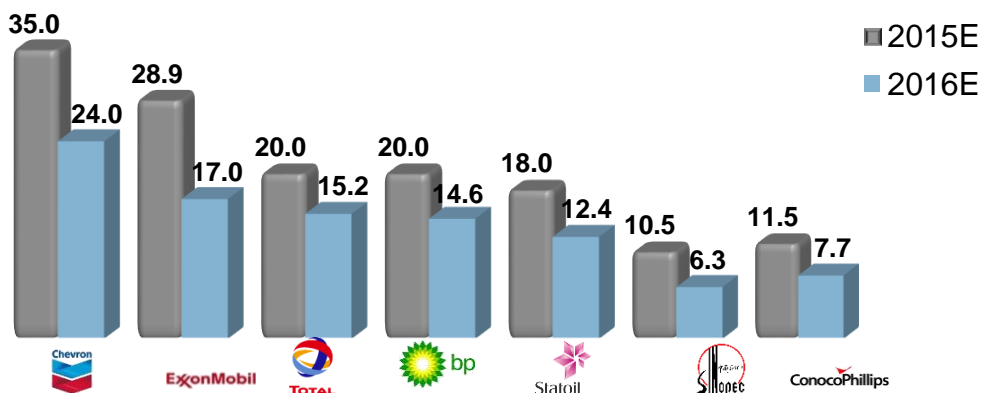


Brent Crude Oil Outlook (USD / Barrel)



Source: FactSet website, ended on February, 2016.

Predicted CAPEX of Major Upstream Enterprises (USD Billion)



Source: website of the companies, ended on March, 2016.

2015 Financial Information of Major Oilfield Service Companies

◆ SCHLUMBERGER

Net Profit: 2.1 billion USD
(↓ 63%)

◆ HALLIBURTON

Net Profit : -0.67 billion USD

◆ BAKER HUGHES

Net Profit : -1.97 billion USD

◆ WEATHERFORD

Net Profit : -1.99 billion USD

◆ COSL

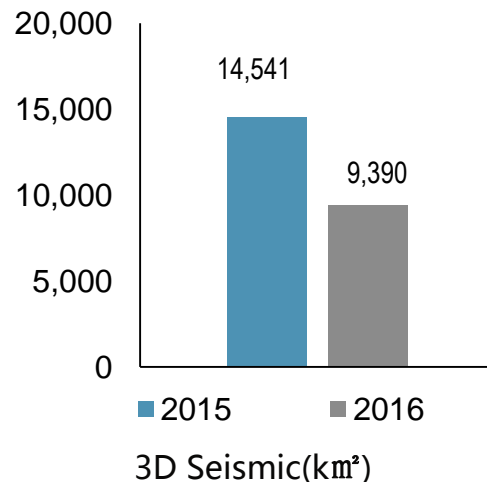
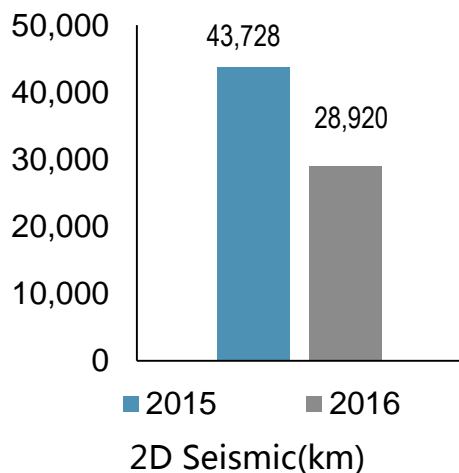
Net Profit : 1.07 billion
(↓ 85.7%)

Source: website of the companies, ended on March, 2016.

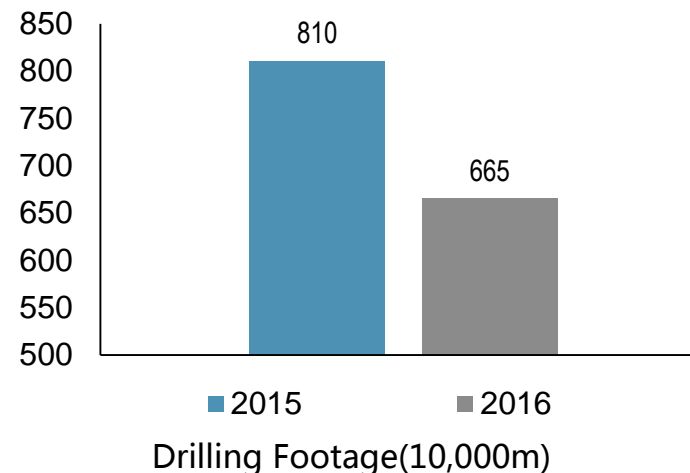
Low Oil Price Period

Challenges to Oil Companies & Oilfield Service Companies

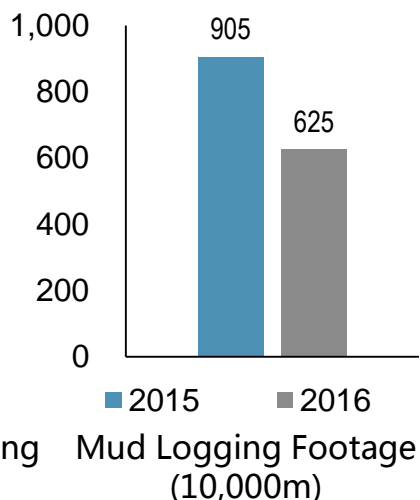
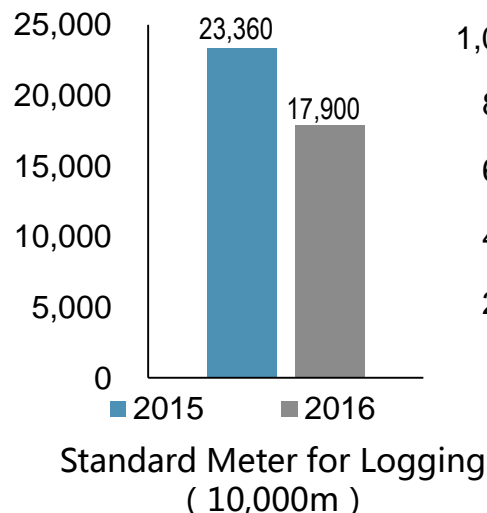
Geophysics



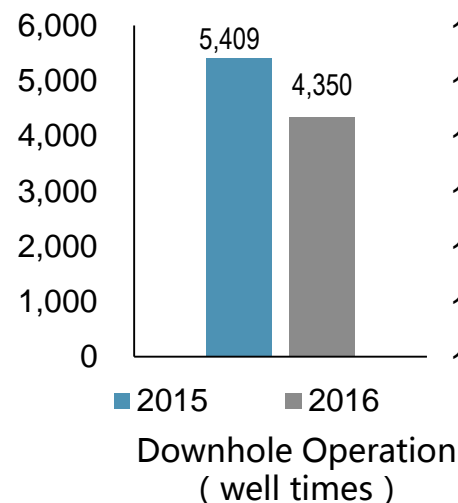
Drilling



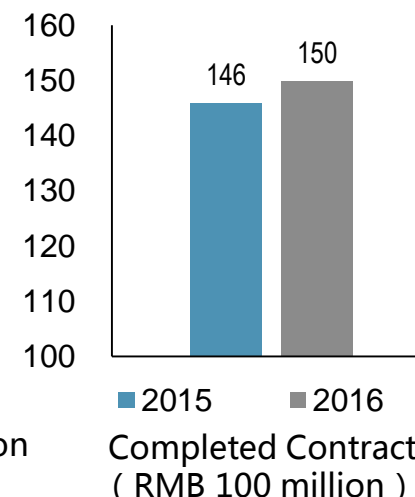
Logging & Mud Logging



Downhole Operation



Engineering Construction



- ✓ Base on mature markets to expand peripheral ones, and set up overall market layout
- ✓ Optimize resources allocation, coordinate operations, integrate technologies and reduce cost
- ✓ Leverage the whole industry chain, promote contract mode like lump-sum, EPC and block management

Domestic Market

- Focus on Fuling Shale Gas Phase II project of 5bcm and Ebei natural gas capacity construction
- Follow up the development in Weisi block in Beibu Gulf
- Consolidate crews and develop domestic emerging oil & gas service business
- Promote “well-factory” mode and provide whole industry chain service to Yanchang Group
- Develop unconventional markets such as Shenhua, Huaneng, Huadian, BEIHC.
- Explore oilfield energy conservation and environmental protection, geographical mapping and pipeline MRO business

Overseas Market

- Wellbore: advance integration projects in the Middle East, Central Asia and Africa
- Geophysics: consolidate mature markets in North Africa, West Africa, Middle East, South America, South-Southeast Asia. Expand key markets in Algeria, Myanmar, 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 disposal project of abandoned platform in North Sea

Reform

- Restructure and consolidate Huabei and Huadong regional companies as pilot projects in advancing restructuring and consolidation of regional companies.
- Integrate subordinated units of regional and specialized companies, whose departments and headcounts will be cut by over 25% after streamlining management.
- Another 100 crews are expected to be reduced in 2016, cultivate effective and professional crews.

Restructuring

- **Business** : Refine primary business;
 - Divest low-end and non-core businesses with low efficiency.
 - Expand geographic info mapping business, energy conservation business, pipeline MRO.
- **Assets** : Enhance assets efficiency, classify assets with low-efficiency, propose turn-around solutions.
 - Strengthen equipment management, revitalize asset inventories.
 - Seek quality M&A opportunities.
- **Employment** : Increase labor efficiency and allocate redundant employees with multiple channels.

Transformation

- **Conventional business** : advance integration of drilling fluid R&D and production; logging, well-control, direction and mud-logging; R&D and service in fracturing & test, comprehensive service.
- **Geographic Mapping** : participate in the middle and long term national survey and mapping plan; brand building
- **Conservation and environmental protection business**: realize specialization and integration; generate new growth engines

Cost Reduction Target of 2016

RMB : 100 Million

Items	Annual Target
Operation Expense	2.0
Labor Cost	5.0
Procurement Cost	2.5
Renting & Maintenance	1.0
Outsourcing Expenditure	2.1
Financial Expense	0.4
Total	13

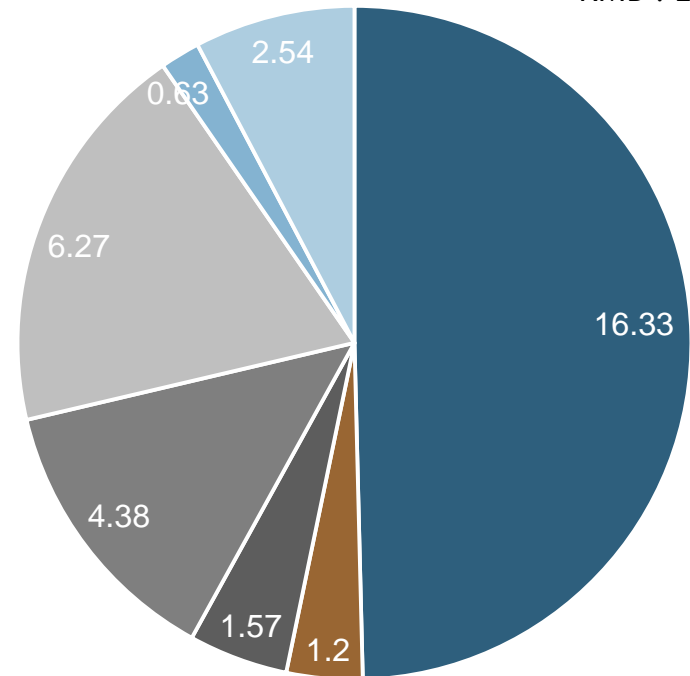
Headcount Reduction Target of 2016

- Expected headcount reduction is 13,000.
- Enhance employment and remuneration management.

Capital Expenditure of 2016

Expected CAPEX of 2016 is 3.45 billion Yuan

RMB : 100 Million



- Drilling
- Logging&Mud Logging
- Offshore
- Others
- Geophysics
- Downhole
- E&C

- **R&D mechanism consisting of “One Body, Two Layers, Three Teams, and Four Platforms”**

- One Body : corporate level integral management , planning and coordination.
- Two Layers: SINOPEC RI of Petroleum Engineering, RI of Geophysics;
subordinated RI units and engineering technology centers
- Three Teams: basic research team, technical development team and technical service team
- Four Platforms: geophysics, wellbore, E&C, petroleum equipment



- **R&D Centers Construction**

- Initiate Shengli R&D Center, Zhongyuan R&D Center , Oil and Gas Test Tech Center. Prepare for the Acid Oil and Gas Field Tech Center.
- Speed up building Sinopec ME R&D Center, advance high-end business such as oil & gas well drilling, cementing, mudding, downhole tools service, etc.
- Strengthen cooperation with renowned enterprises and research institutes to enhance R&D capacity.



- **Key Topics**

- Seisway Seismic Acquisition Software Update
- Broad Band High Speed Seismic Detector Development
- Long Horizontal Wellbore Drilling Tech for Deep Shale Gas
- Deep and Ultra-Deep Drilling Efficiency Enhancement
- LWD and Well-Control System Upgrade
- Drilling Fluid in High Temperature



Stock Option Incentive Scheme



Scope

- ✓ Directors, senior management and core tech staff.
- ✓ First batch covers 495 employees, accounting for 0.63% of total.

Quantity

- ✓ First batch stock option is no more than 50.85 million shares, accounting for 0.36% of the total shares.

Source

- ✓ A Share Private Placement

Performance Index

- ✓ EBITDA/Average Equity (EOE)、Gross Profit Growth Rate and Economic Value Addition (EVA)

Exercise Price

- ✓ 5.63 Yuan per share

Schedule

- ✓ After 2 years vesting period, when all conditions satisfied, qualified staff could exercise the right in the successive three year with percentage of 30%, 30% and 40% respectively.

We must confront the depressed oil price,
combat against the severe cold to survive,
and grow even stronger.





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