



SSC

中石化石油工程技术服务有限公司

SINOPEC OILFIELD SERVICE CORPORATION

2014 Annual Results Presentation

March, 2015



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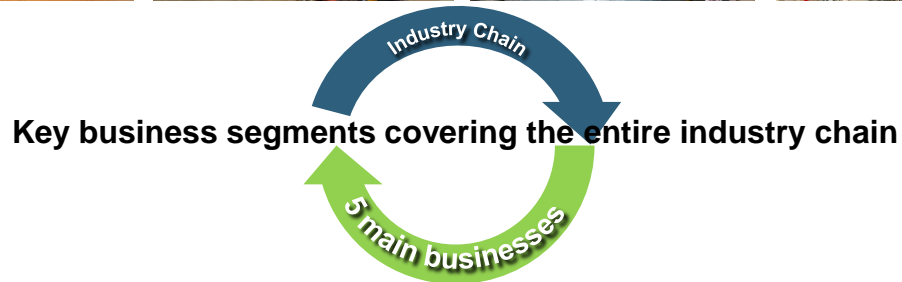
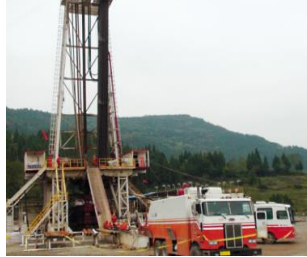
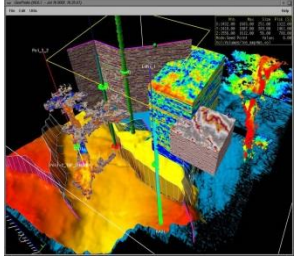


Section1.

Company overview



The largest integrated petroleum engineering and oilfield technical services company in China



Geophysics



Drilling engineering



Logging and mud logging



Special downhole operations



Engineering construction



Strategic vision : Become a world-class integrated oilfield engineering and technical services provider

Specialization

Market orientation

Featured services

High-end services

Globalization

From onshore

To offshore

From domestic

To overseas

From conventional

To unconventional

From discrete E&C services

To comprehensive EPC and PMC business model



Advanced equipment

- Geophysics: **98 sets** of 428XL seismic acquisition equipment, **25,500** full digital seismic 3C geophones, **three** offshore exploration ships
- Drilling: **more than 800** drilling rigs , of which **225** for more than 7,000 meters and **2** for 12,000 meters, **12** offshore drilling platforms
- Logging: **120 sets** of imaging logging system, **85 sets** of express logging platform, **550 sets** of comprehensive logging instrument
- Special downhole operation: **88 sets** of type-2000 fracturing truck, **96 sets** of type-2500 and 3000 fracturing truck, **186 sets** of workover rig higher than 750, **4** offshore platform



Rich Experiences

- **Fuling shale gas project:** The first successful commercial shale gas project outside North America
- **Pugang gas field project :** Largest marine facies mono-block high-sulphur gas field in China
- **Exploration and development project of multiple reservoirs in Shengli Oilfield :** The second largest oilfield in the PRC
- **Take oil field project:** 1.2 billion-ton large oil field
- **Yuanba gas field project:** Largest buried depth of reservoirs in China



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

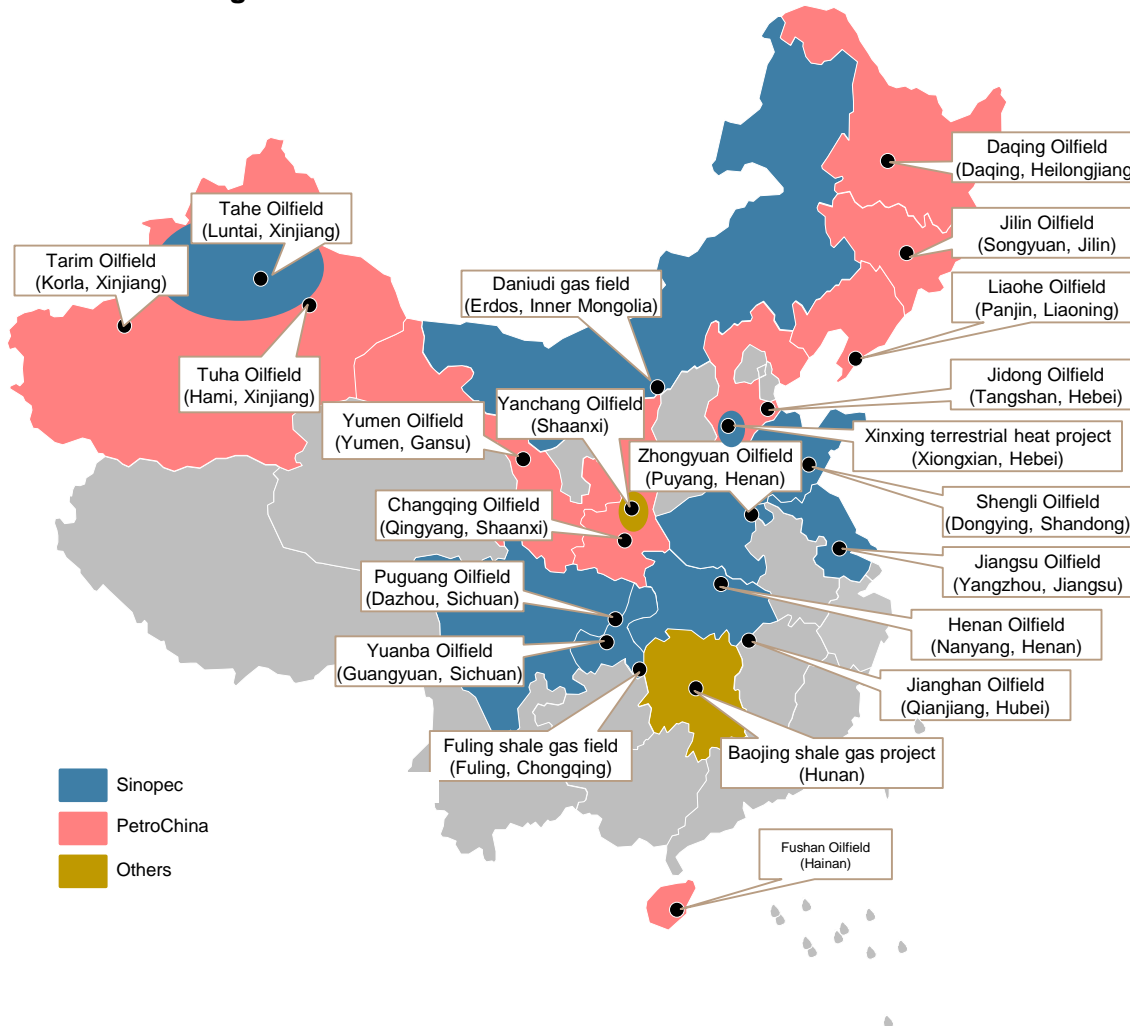
Strong R&D capabilities

- | | |
|--|---|
| <ul style="list-style-type: none"> • 2 academicians of the Chinese Academy of Sciences • 51 holders of professor-equivalent qualifications and more than 1,100 holders of senior qualifications • 4,300 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 |
|--|---|

Solid and growing client base supported by Sinopec Group



Supported by Sinopec Group, China's second largest oil and gas producer, and its massive oil and gas reserves and future output demands, the Company lay a solid foundation for its future income sources and sustainable growth.



SSC has established a rapidly-growing independent third-party client base covering well-known oil and gas companies and government customers both in China and abroad

- Servicing a number of energy companies in China



中国石化



1905
延长石油
YANCHANG PETROLEUM



中国神华
CHINA SHENHUA



中国华电
CHD



中国华能
CHINA HUANENG

- The Company provides services to many well-known oil companies abroad



TOTAL



شركة نفط الكويت
Kuwait Oil Company
إحدى شركات مؤسسة النفط الكويتية
A Subsidiary of Kuwait Petroleum Corporation



Agip



REPSOL
YPF



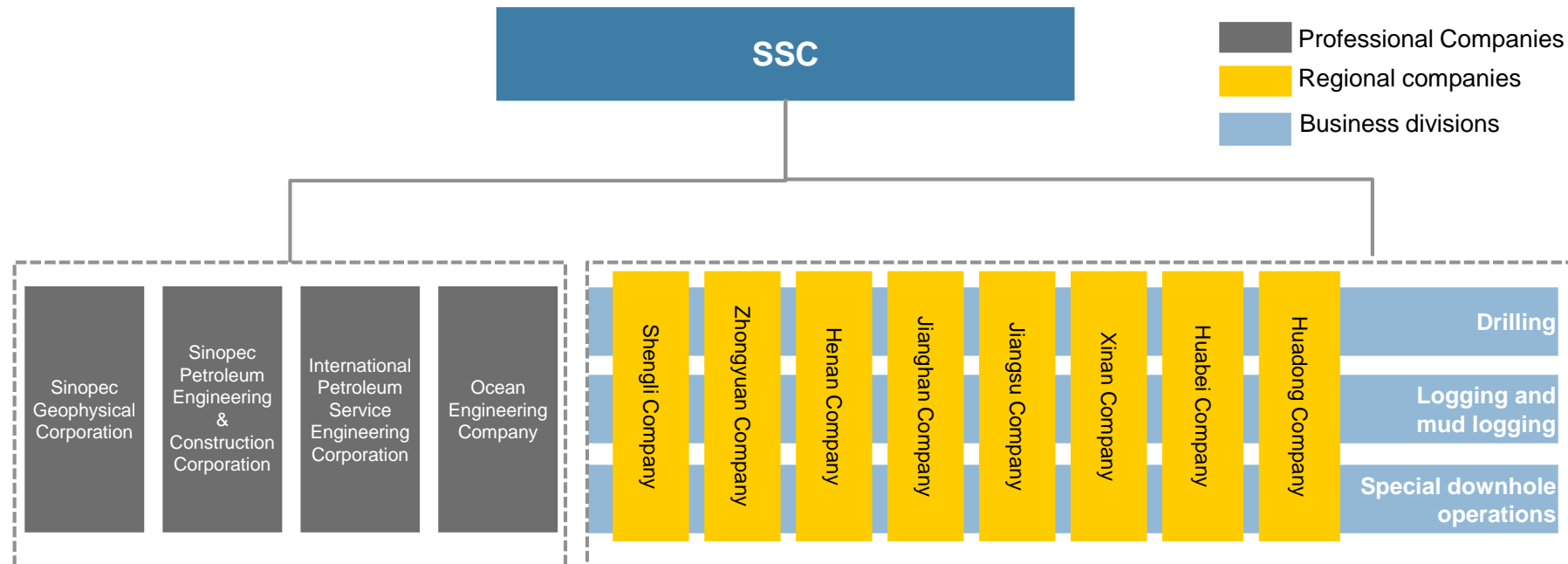
Ministère des
Ressources en Eau



أرامكو السعودية
Saudi Aramco



BR
PETROBRAS



1. **Implement matrix management system to optimize the operating efficiency. By utilizing business divisions as the platform, we intend to improve the efficiency of resource allocation and create synergies to further lower the cost and improve our profitability**
2. **Through restructuring and integration, SSC will streamline the work force, exit inefficient businesses, divest non-core businesses and prominent main businesses, to further enhance SSC's core competitiveness**
3. **SSC will actively return the Company's profits to the shareholders, specifying a cash dividend payout ratio of no less than 40% in the articles of association**
4. **SSC will also adopt an equity incentive scheme to let shareholders and the management share both risks and gains**

2014 was a significant year for SSC, as SSC was successfully listed through restructuring and became a A+H listed company

In the context of sharp declines of international oil prices and decrease of work volume in 2014, the Company actively explored the market, adjusted business structure, optimized resources, highlighted high-end services and strengthened the management, which helped us achieved a good operating performance

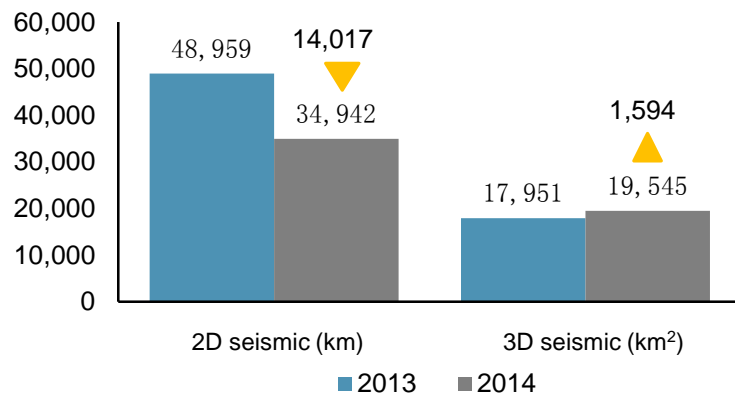
In 2015, the global economy is expected to recover slowly and China is entering into the "new normal" era. Global oil prices, after the sharp declines in 2H2014, may remain volatile at low levels, and are unlikely to recover to its previous levels in short term. As a result, domestic and foreign oil companies have lowered their E&P capital expenditures, which posts big challenge for us. The Company will focus on market, service and earnings, fully leverage its advantages in full industry chain business and integrated service, to further explore the market, optimize business structure, deepen reforms, explore potentials, enhance quality and efficiency and achieve good results amid the challenged environment

Section 2. **Operations in 2014**

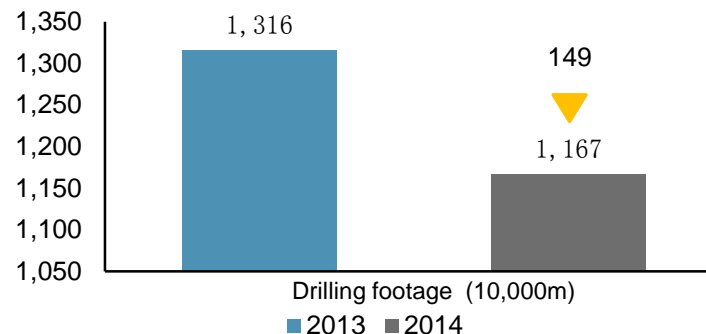


Completed work in major five segments

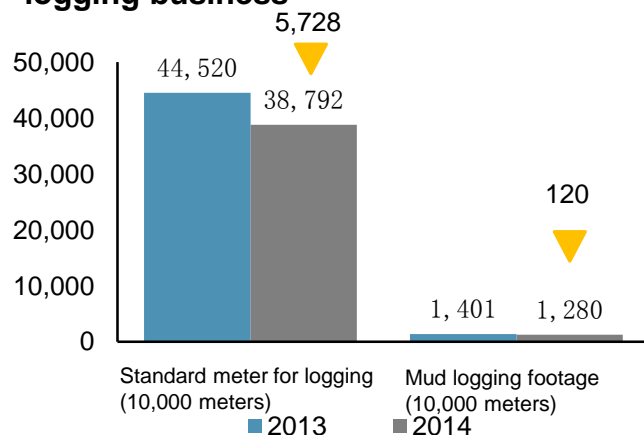
Completed geophysical business



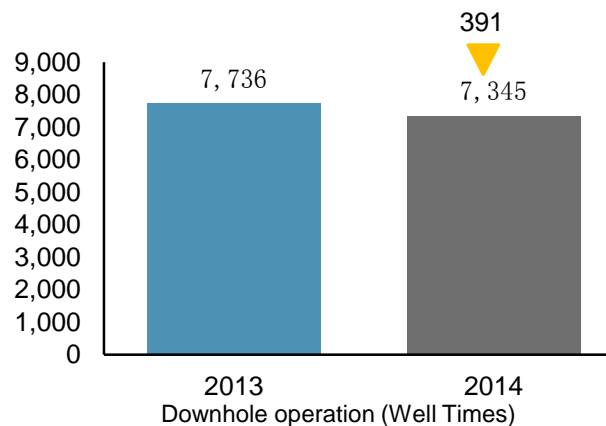
Completed Drilling engineering business



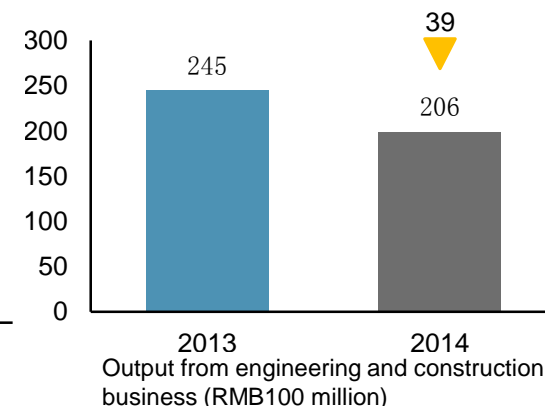
Completed logging & mud logging business



Completed special downhole operation



Output of engineering construction business



With good quality of service, accurate market positioning and cost advantages, SSC has built a diversified international market for its services and a diverse overseas customer base, providing oil services to a number of state oil companies and well-know multinational companies in the oil industry, which has led to a rapid increase in brand awareness of the Company. In 2014, the Company's new overseas contract value amounted to USD3.05 billion, contract value completed reached USD2.48 billion

Major countries and regions served by the Company



- The Company has established five key regional markets, i.e. Middle East, Africa, the Americas, Central Asia and Mongolia, South Asia and Southeast Asia
- Providing 42 drilling rigs to Kuwait Oil Company and 51 rigs to Saudi Aramco, making SSC the largest onshore drilling contractor for both Kuwait Oil Company and Saudi Aramco
- Signed a series of high-tech, high value-added business with various overseas oil companies including the USDD75.52 million contract sign with Nigerian Petroleum Development Company on Nov 2014 and USD52 million contract sign with Petrobangla on Dec 2014
- A major breakthrough in the geophysical business, with more than USD350 million new contracts signed with Petroecuador , Sonatrach and other companies

Integrated Reservoir Services

Following the execution of a 30-year risk-incentive integrated reservoir services contract with Pemex, Mexico's state oil company, the Company successfully signed a 15-year I-L-Y integrated oilfield services contract with Petroecuador, Ecuador's state oil company

Facilitating management of reservoir for property owners; risks under control

Enabling further cost reduction for property owners

Oilfield service companies create synergetic effects



Obtaining better earnings



- Fuling project is the first successful commercial shale gas project outside North America

Edge-cutting technologies

- Mature construction technologies for horizontal shale gas wells of longer than 2,000m and staged fracturing of more than 20 sections
- Application of multistage perforating technology to horizontal wells
- Complex reservoir and unconventional reservoir logging technology
- key technologies including integrated geological steering technology

High-end services

- Providing comprehensive engineering services including drilling, fracturing and testing. In 2014, we started drilling operation for 154 shale gas wells, among which 110 were completed drilling, and fractured 64 wells with 1,115 stages, generating RMB8 billion of revenue
- Rich experience in the process technology, construction, quality control, safety management among others

Outstanding results

- Earnings from single wells enhanced significantly due to improved technologies, optimized management and large-scale development
- Expenses fell due to the adoption of in-house developed equipment in drilling and staged fracturing

Strengthen internal coordination, resource sharing and cost management

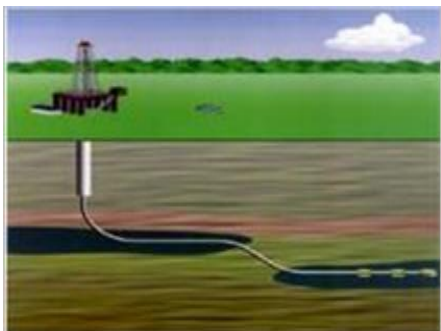
- Strengthened management, put in place responsibilities, linked compensation with performance, improved internal control process, strengthened risk control and management and explored internal potential to ensure a stable earnings growth despite less work volume
- Saved RMB108 million interest expenses in 2014 due to centralized management of funds, establishment of a capital pool and enhanced capital efficiency
- Established a normal working model featuring large equipment exchange, leasing, replacement and transfer; integrating professional equipment, unifying deployment, which help saving equipment CAPEX RMB450 million in 2014. Centralized geophysical prospecting equipment management, saving rent spending RMB189 million per year
- Changed team structure by various ways including market coordination and project portfolio optimization; compressed 152 teams and enhanced the overall operation efficiency

Further facilitated internal restructuring, reduced costs, improved efficiency and enhanced the Company's overall profitability and business operations



Advanced technology

- Fine seismic exploration, complex oil and gas reservoir exploration technology in complex area
- Drilling and completion technology of deep well, ultra deep well and horizontal well
- Complex reservoir interpretation and evaluation technology
- Multistage fracturing matching technology of horizontal well
- Testing technology of high temperature, high pressure and high acid oil and gas reservoirs
- Construction technology of large diameter and long distance pipeline in special terrain



Numerous national patents

- Applied 489 patents and obtained 389 patents from domestic and overseas markets in 2014. Owns 1016 patents, of which 29 geophysical, 704 well construction and 283 engineering construction

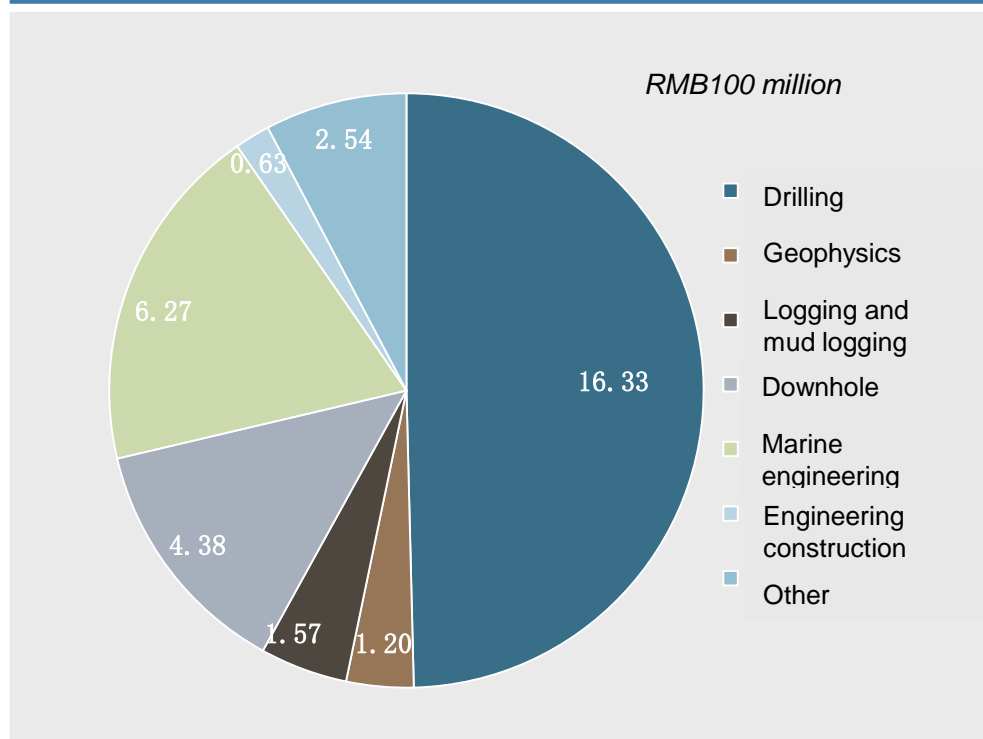
Highlighting the role of the science and technology, and increase scientific and technological research efforts, Various technical applications helped improve operation

- Fuling shale gas project integration technology decreased the average completion period from 100 to 56 days
- Improved ultra-deep drilling speed technology, capable of designing and operating ultra-deep wells of more than 8000 meters or horizontal wells with vertical depth of more than 7000 meters
- The new logging data transmission system (RTMS) helped the information of drilling, logging, well logging, testing to be collected, transferred, integrated and released

The oilfield service company's total CAPEX reached RMB3.97 billion, including RMB3.29 billion non-installed equipment investments



Capital expenditure for non-installed equipment in 2014

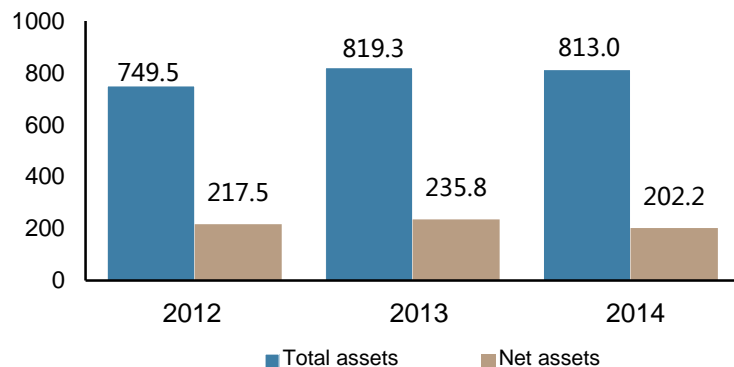


Section 3. **Financials in 2014**



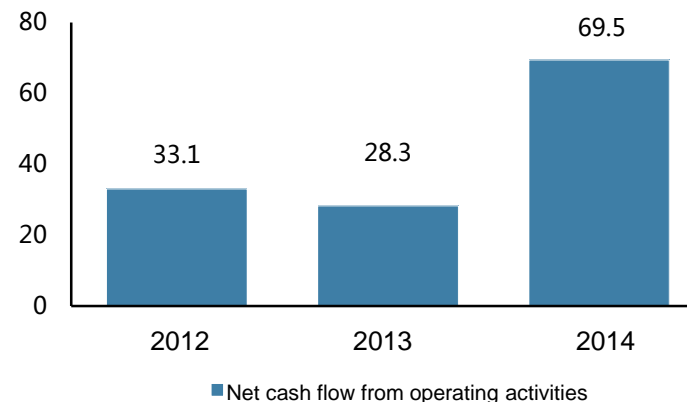
Total assets and net assets

RMB100 million



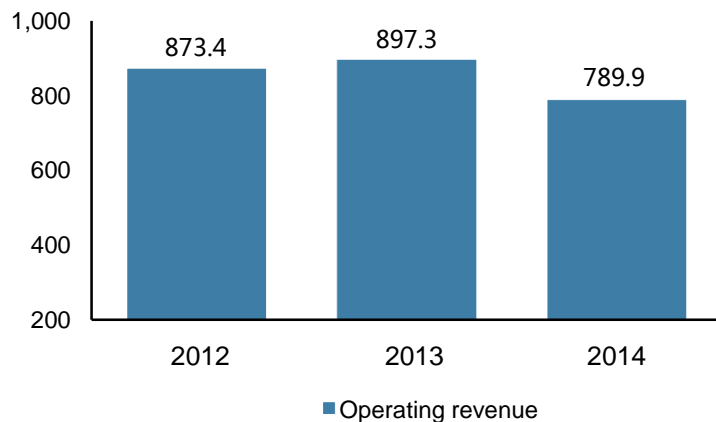
Operating cash flow

RMB100 million



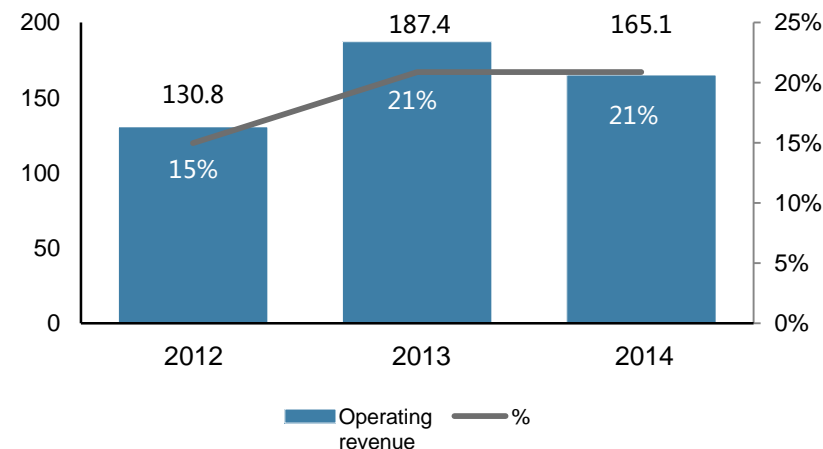
Operating revenue

RMB100 million



Revenue growth from overseas business

RMB100 million



Revenue and gross profit of 5 major business segments

RMB100 million

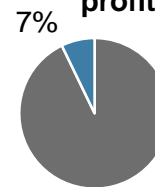
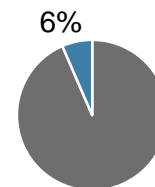
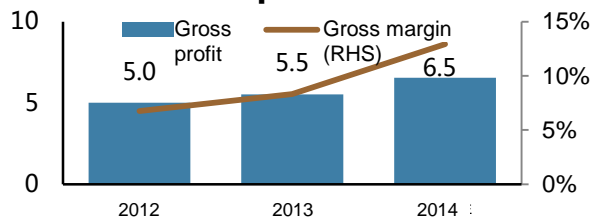
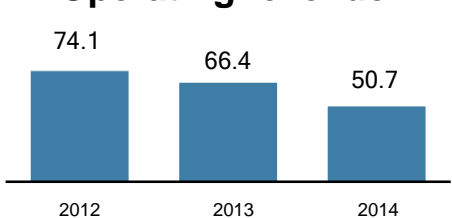
Operating revenue

Gross profit

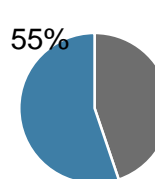
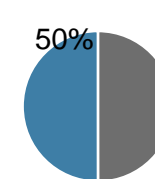
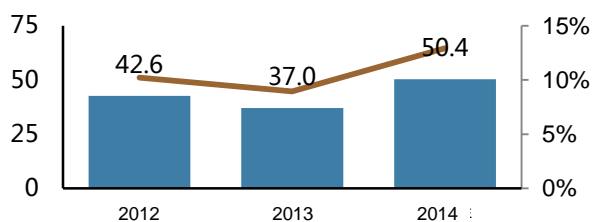
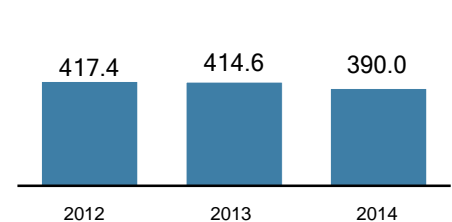
% of revenue

% of gross profit

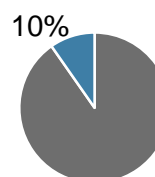
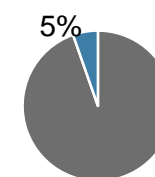
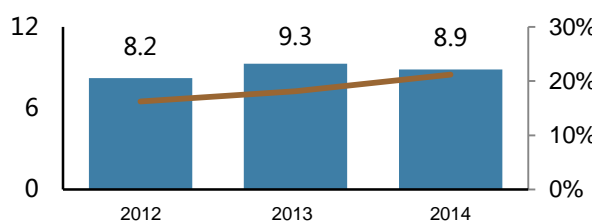
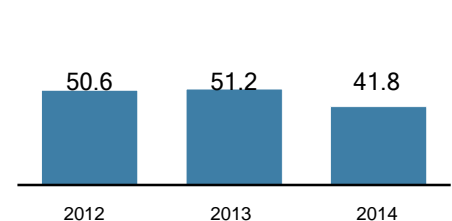
Geophysics



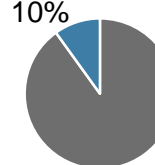
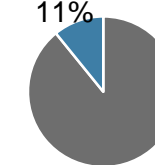
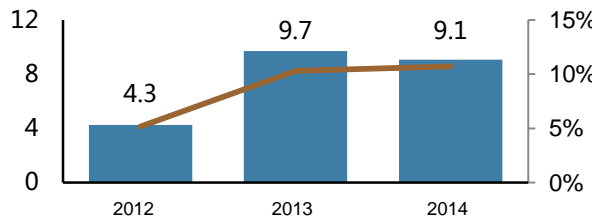
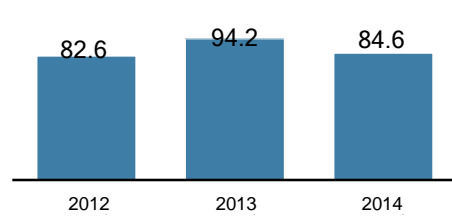
Drilling engineering



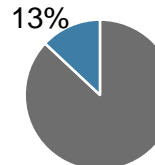
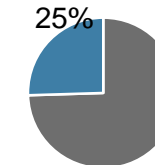
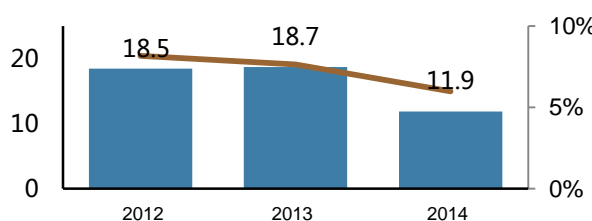
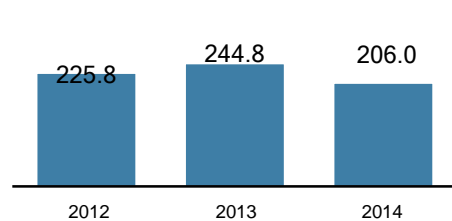
Logging and mud logging



Special downhole operations



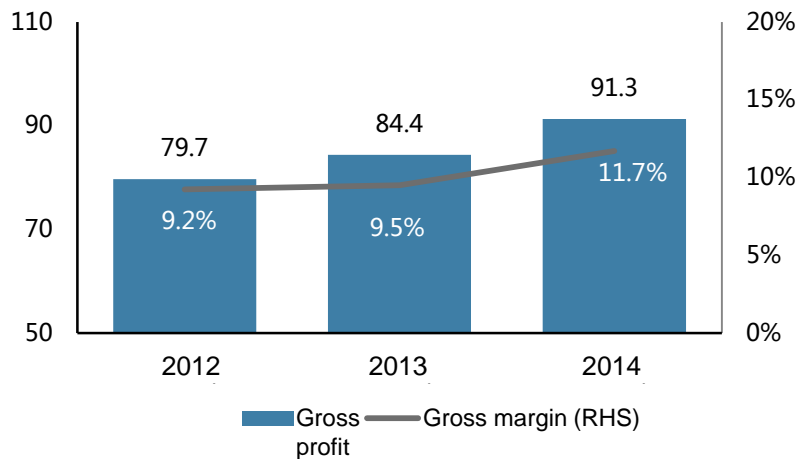
Engineering construction



Note: % based on 2014 data

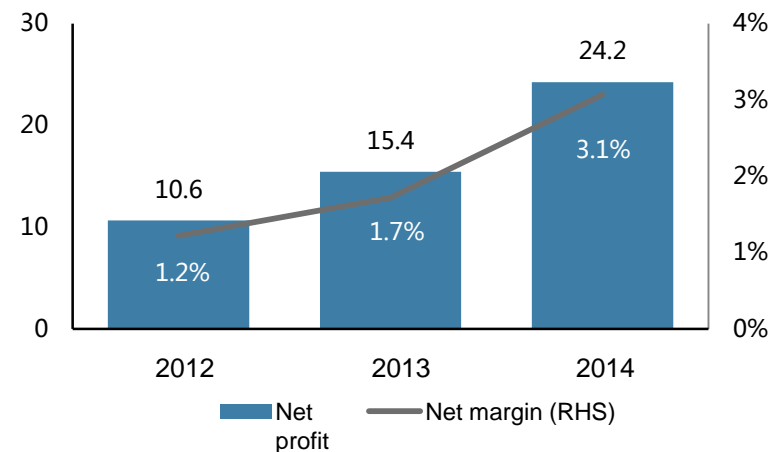
Gross profit

RMB100 million

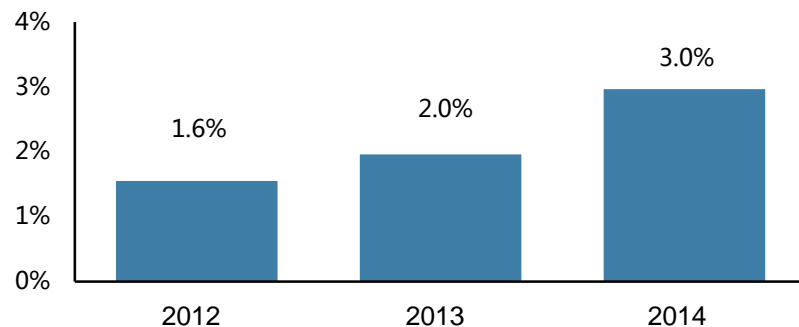


Net income

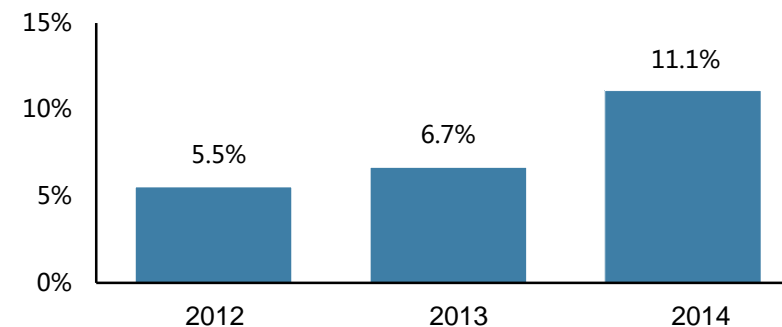
RMB100 million



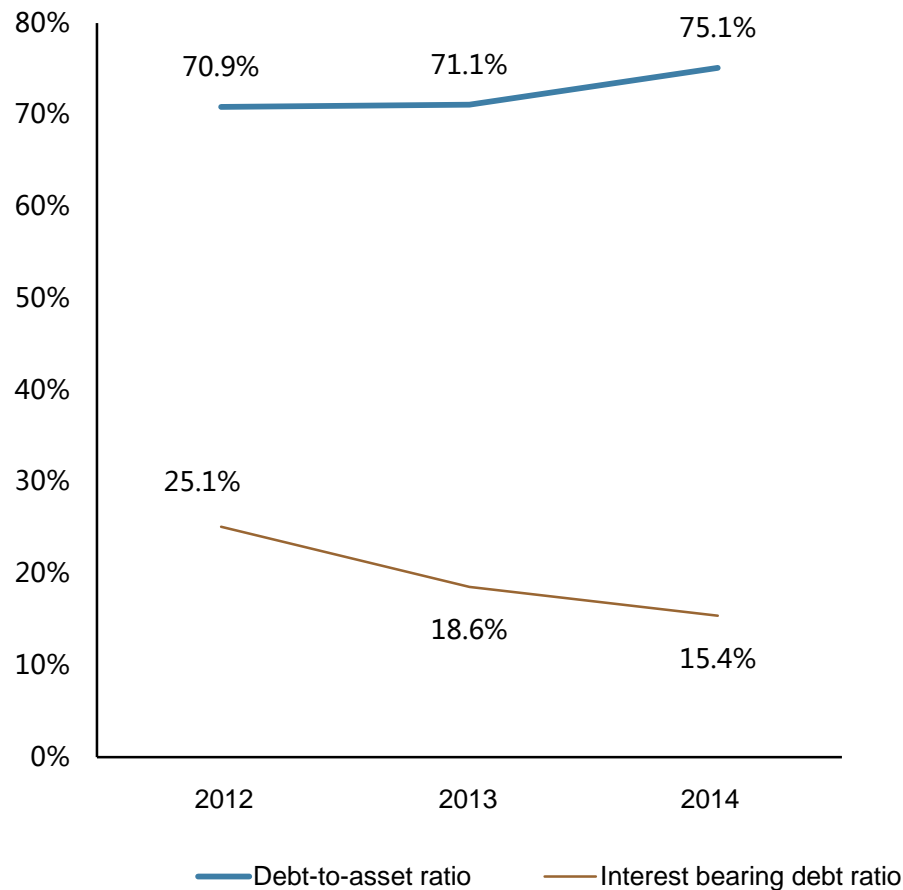
ROA



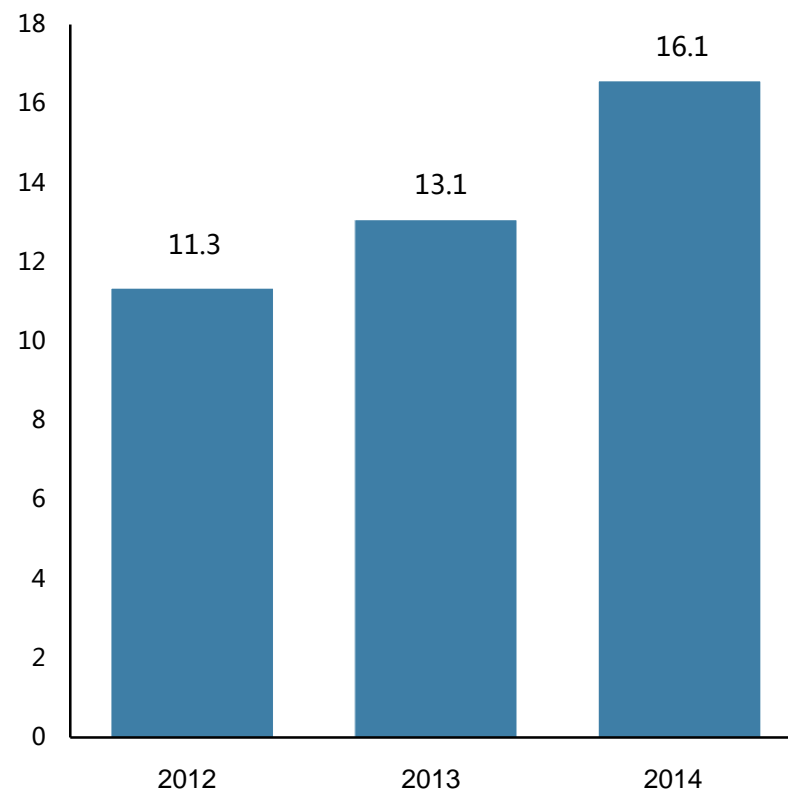
ROE



Structural condition of Assets and liabilities



EBITDA interest coverage ratio



Offering type and size	RMB common stock (A-shares), with offering size of <u>c.RMB6 billion</u>
Offering method and targets	Offering to 7 designated investors including Darry Asset Management, Beixin Ruifeng Fund, Hua An Fund, Beijing Harvest Yuanhe Investment Center, Donghai Fund, Nanjing Ruisen Investment Management, Caitong Fund
Offering price	<u>RMB4.50 per share</u>
Lock-up period	<u>12 months</u>
Use of proceeds	Proceeds will be used to the procurement of <u>professional equipment</u> (including high-end equipment for overseas business, marine engineering equipment, shale gas equipment and pipeline construction equipment) and <u>replenish working capital</u>

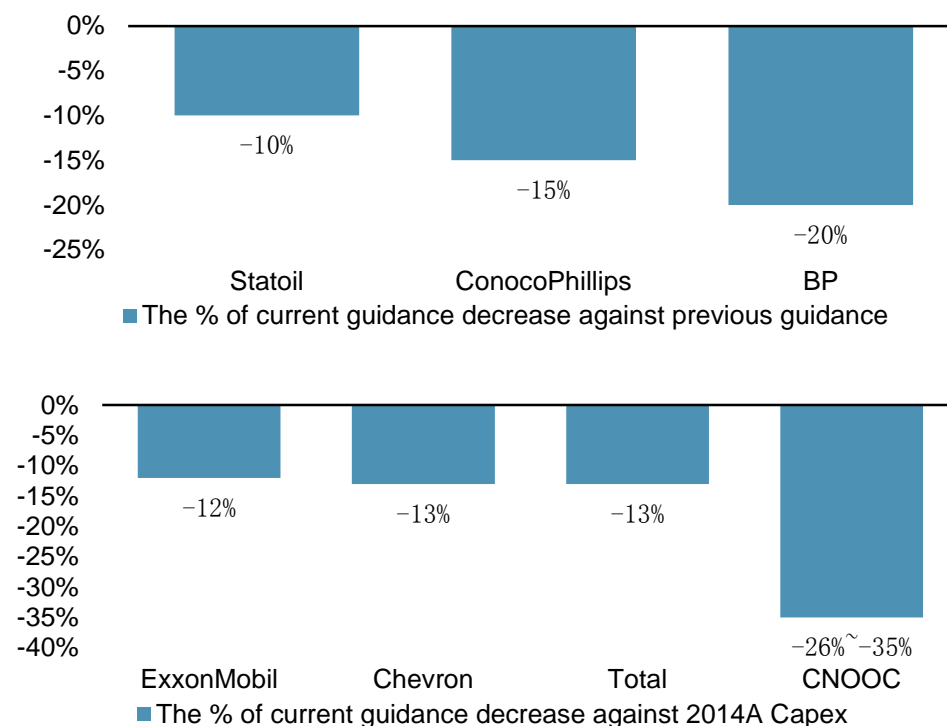
Section 4. **2015 outlook**



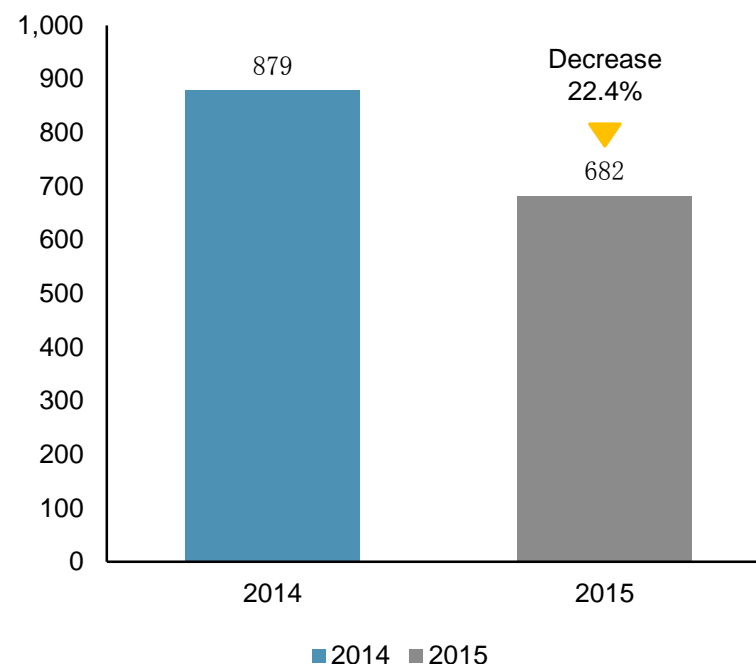
Capital expenditure of international oil companies affected by market environment

International oil companies have cut 2015 capital expenditures due to significant crude oil price declines in 2H2014. Sinopec expects the exploration and development capital expenditure to be RMB68.2 billion in 2015, down 22.4% Y-O-Y. Oil service companies are expected to meet serious challenges

The exploration and development capex forecast¹ of international oil companies (upstream investment)



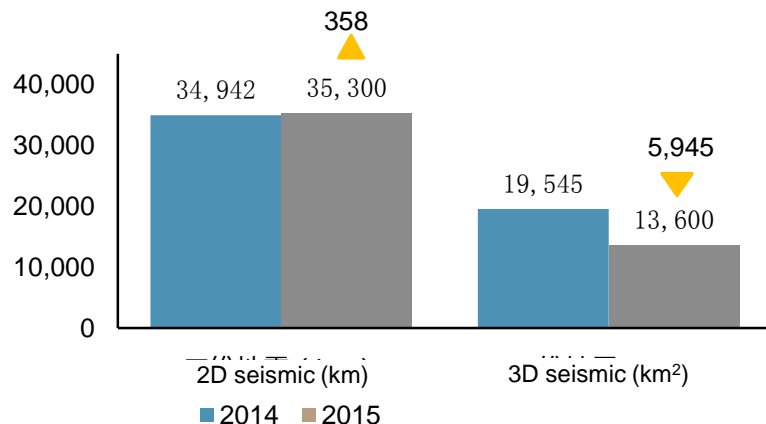
Sinopec's exploration and development capex forecast (RMB100 million)



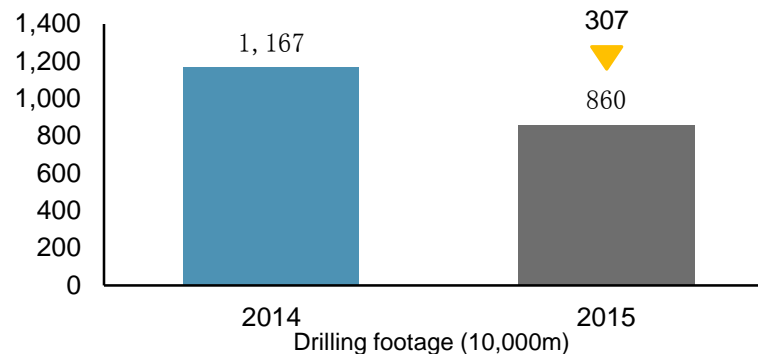
Source: FactSet as of Jan 30, 2015

Note:1 Forecast of the exploration and development capex as of Jan 30, 2015 vs. previous guidance or capital expenditure as 2014

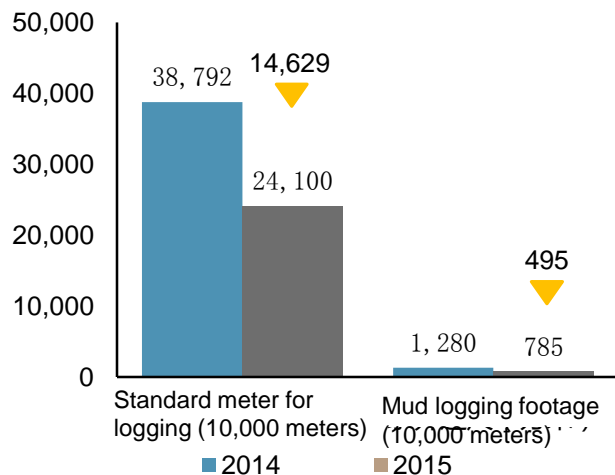
Completed geophysics business



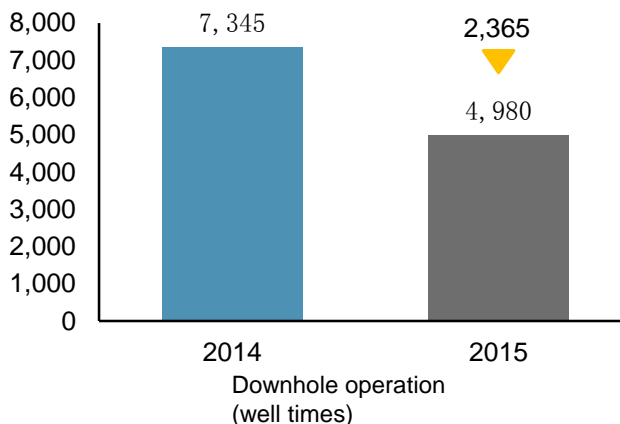
Completed drilling engineering business



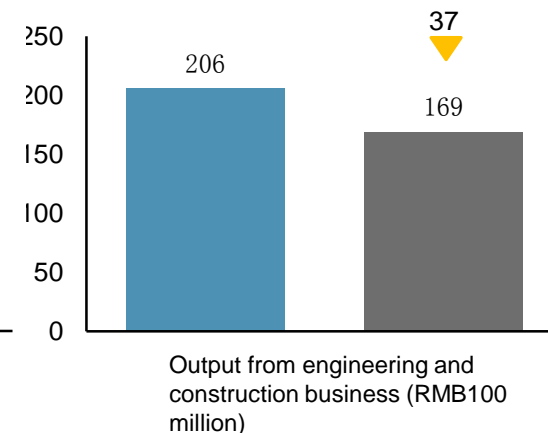
Completed logging and mud logging business



Completed special downhole operations



Industrial output of engineering construction business



Strengthen domestic traditional markets

Inside Sinopec

- Continue to provide high-quality and efficient services to Sinopec's internal businesses
- Leveraging its sophisticated experience and excellent technologies to enhance its market share among Sinopec's internal businesses

Outside Sinopec

- Maintain solid business relationships with traditional players including PetroChina, CNOOC and Yanchang Petroleum
- We have 17 frilling teams and 4 cementing teams wined PCOC project in 2015



Enhance development of unconventional markets

- Strengthen the development of unconventional business and enhance the exploration of domestic unconventional resources including shale gas, geothermal and coal gas
- The 1st phase of the Fuling shale gas project has 5 billion m³ of capacity, with investment totaling RMB21.5 billion and 253 wells to be drilled; the 2nd phase (2016-2017) is expected to add another 5 billion m³ of production capacity
- China has introduced various policies on air, soil and water imbalance issues, which push up the growth of oilfield environmental protection business

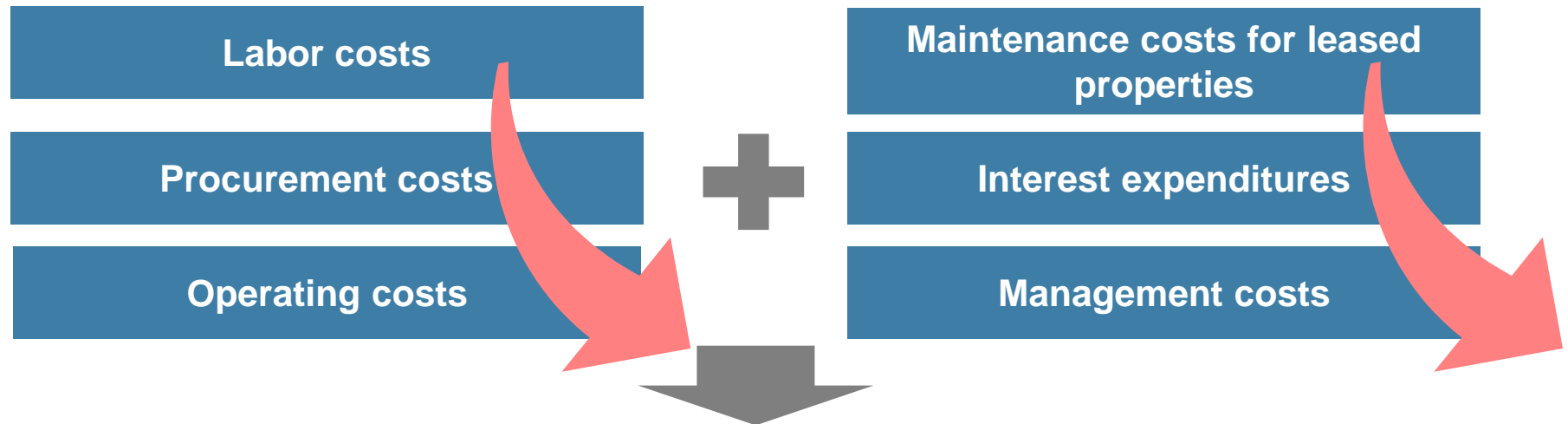


Further explore overseas markets

- Broaden cooperation scope, expand the Middle East market, explore South America, Africa, central Asia and Mongolia, South and Southeast Asia markets, in order to steadily increase overseas market shares
- Continue to develop the higher-margin integrated reservoir services
- 2015 new contracts are expected at USD2.4 billion, and contract value to be completed is expected at USD2.3 billion

Deepening reform, adjusting business structure and improve efficiency by fully exploring potentials

The Company expects to cut costs and expenditures by further conducting internal restructuring efforts, downsizing staff while improving efficiency



Specific measures

1. Merger of regional companies: 2 regional companies in Henan province were merged, so did another 2 in Jiangsu province
2. Business transformation: transforming part of the geophysical business to geographic information services business; transforming part of the engineering construction business to environmental protection business
3. Staff efficiency: staff-downsizing; reduce seasonal employment; dispose non-core business
4. Strengthen the A/R collection and reduce the engineering inventory to improve capital usage efficiency
5. Resources sharing: reduce capital costs by adjusting equipment, sharing the resources of auxiliary production, logistics and management

- **Leveraging the Company's technology advantages in the field of high temperature, high pressure, high sulfur content gas and shale gas, and transforming the technologies into productivity**
- **Further stimulate innovation efforts within the Company; target key demands in exploration and development business; increase scientific and technological innovation; and enhance core competitiveness**

2015 key technologies to be developed

- Geophysical technologies used in western piedmont areas
- Integrated petroleum project integrated technologies used in the Fuling shale gas demonstration project
- Research and application of advanced drilling, monitoring and control system
- SINOLOG900 network logging imaging system
- Technology platform development for borehole data utilization
- Horizontal well fracturing technology
- Key technologies in the construction of Guangdong-Zhejiang pipelines for the transportation of coal-to-gas
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- **In 2015, the Company expects to invest a total of RMB4.51 billion in such projects as high-end business development, marine engineering construction equipment, construction of key laboratories, safety and environmental protection projects.**

In the context of global oil prices downturn, 2015 will be a challenging year for oil companies and oilfield service companies

SSC will adhere to the five principles of "professional, market-oriented, characteristic, high-end and globalization" and leverage its full industry chain advantages to strengthen its position in Chinese petroleum chemical market and explore overseas markets.

Meanwhile, the Company will deepen reforms to unleash more potentials, improve the anti-risk ability, develop in difficult times and maximize shareholders' interests





SSC

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