Sinopec Oilfield Service Corporation

(a joint stock limited company established in the People's Republic of China)

(Stock code: 1033)

Announcement on the Reply to the Letter of Inquiry after Review on the 2016 Annual Report of the Company by Shanghai Stock Exchange

The board of directors of the Company and all members of the Board warrant that there are no false representations, misleading statements and material omissions in this announcement, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

This announcement is made by Sinopec Oilfield Service Corporation (the "Company") pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On 28 April 2017, the Company received the "Inquiry Letter Regarding Post-vetting Comments on the 2016 Annual Report of Sinopec Oilfield Service Corporation" (《關於對中石化石油工程技術服務股份有限公司 2016 年年度報告的事後審核問詢函》) (Shang Zheng Gong Han 【2017】No.0483) from the Shanghai Stock Exchange (hereafter referred to as the "SSE"). According to the requirements of the SSE, the Company has carefully verified the relevant inquiries on an individual basis and hereby replies as follows:

1. Operating results. According to the annual report, the Company's operating results experienced significant decrease since 2014. The net profit attributable to the parent company was RMB1,230 million in 2014, RMB24 million in 2015 and RMB -16,115 million in 2016. During the reporting period, although the operating revenue decreased by 28.9%, the total operating costs only decreased by 2.1%. Please give the reason for the unmatched proportion of cost to revenue. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

In 2016, the international crude oil price fell below US$30 per barrel and has maintained in a slump with the average price of the year recording the lowest level in 12 years, and the average spot price of North Sea Brent crude oil of the year was only US$43.6 per barrel. The operating revenue of the Company decreased by 28.9% year on year, which was due to that the low oil price has caused domestic and international oil companies to substantially cut their capital expenditure on upstream exploration and development in 2016, oilfield services industry has suffered substantial impact, and the Company's work volumes and service prices have declined with varying degrees.

The total operating cost was RMB58,960 million in 2016, representing a year-on-year decrease of 2.1%, of which the operating cost was RMB53,520 million, representing a year-on-year decrease of 1.9%, which was mainly due to that:

(1) The revenue decreased as a result of the decrease in service price. The service price of the Company in major markets decreased by 5%-15% year on year in 2016, resulting in the decrease in revenue, while the costs did not decreased accordingly.

(2) The Company had high fixed cost expenses. In 2016, the Company incurred depreciation of fixed assets and amortization of other non-current assets of RMB5,530 million, integrated service of RMB1,590 million, administration and operation expenses of RMB5,700 million, loan interest expenses of RMB480 million and impairment losses on assets of RMB750 million, all of which were not affected by the revenue change. The employees costs were RMB13,920 million, which were less affected by the revenue change.

(3) Sinopec Oil Engineering and Construction Corporation (hereafter referred to as "Engineering and Construction Corporation"), a wholly-owned subsidiary of the Company, experienced prolonged period, increased costs and compensation for variation lower than expectation in some construction projects, the result of which was the consolidated revenue of the Company remained unchanged while the costs

increased significantly.

(4) In 2016, the Company had high revenue contribution from regions such as Jiaoshiba Block, Ebei Daniudi, Southeast Region and western Sichuan where the complexity of construction works was high, which gave rise to high percentage of total variable costs including raw materials, fuel and power, predrilling operation, technological service and outsource costs.

2. Quarter results. According to the annual report, the operating revenue from the first quarter to the fourth quarter in 2016 was RMB8,511 million, RMB10,179 million, RMB9,092 million and RMB15,142 million respectively, and the net profit attributable to equity shareholders of the Company for the correspondent periods was RMB-1,685 million, RMB-2,824 million, RMB-4,349 million and RMB-7,257 million. Currently, the oil price has rebounded from US$27 per barrel at the beginning of 2016 to above US$50 per barrel at the end of the year, representing an increase of 111%.（1）Please explain and disclose the reasons for the significant difference of profit in each quarter in 2016 and the significant loss in the third and fourth quarter as well as the reasons for the deviation of operating results from the trend of oil price based on internatiohnal crude oil price, industry situation and operation of the Company in corresponding period.（2）Please make supplementary disclosure about reasons for the increase in loss along with the increase in revenue in each quarter and its impact on the profitability and the ability to continue operation. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

(1) In the first half of 2016, the international crude oil price fell below US$30 per barrel and has maintained in a slump. Despite the oil price got recovered subsequently, there was no apparent increase in the capital expenditure on upstream exploration and development of domestic and international oil companies, the oversupply in oilfield services industry remained unchanged, and the work volumes and service prices showed no remarkable improvement.

The net profit attributable to the equity shareholder of the Company from the first to the fourth quarter in 2016 was RMB-1,685 million, RMB-2,824 million, RMB-4,349 million and RMB-7,257 million, respectively. The significant losses incurred in the third and fourth quarter. The profit in each quarter mainly depended on the actual circumstance of revenue and costs. The price decrease moderately since a number of contracts signed in prior years were performed in the first and second quarter. The loss increased because the new contracts signed in 2016 with sharp price decrease were mainly performed in the third and fourth quarter. Meanwhile, the loss further increased during the fourth quarter because the performance-based wages were paid at the year end, expenses such as research fund and repair expense increased significantly during the fourth quarter, the provision for bad debt of account receivable increased at year end, and losses were recognized as a result of prolonged period, increased costs and compensation for variation lower than expectation in some construction projects.

(2) Along with the rebounding international oil price in 2017, oil companies increased their capital expenditure on upstream exploration and development. The capital expenditure on upstream exploration and development of China Petroleum & Chemical Corporation (hereinafter referred to as "Sinopec"), the largest customer of the Company, is planned to be RMB50,500 million, increased by RMB18,300 as compared with the actual capital expenditure of RMB32,200 million in last year. It will also be the same case with other oil companies that receive our services in the long term. During the first quarter of 2017, the Company recorded a year-on-year increase in operating revenue, a year-on-year decrease in losses and narrowed gap of cash flow generated from operating activities. At the beginning of 2017, the Company was granted loan facilities of RMB10,500 million and equivalent of US$1,700 million by Sinopec. The management of the Company believes that the operating conditions of the Company will be gradually improved and its ability to continue operation will be steadily enhanced.

3. Inventory. According to the annual report, the opening balance of inventory was approximately RMB14,800 million and its closing balance was approximately RMB9,300 million, representing a decrease of 33%. Please make a supplementary disclosure about the reasons for the significant decrease in inventory balance.

Reply:

The Company had closing balance of inventory of RMB9,360 million，representing a decrease of RMB5,440 million as compared with RMB14,800 million at the beginning of the year, which was mainly due to the decrease of RMB4,920 million in amounts due from customers for contract work and the decrease of RMB490 million in raw material inventory. The specific circumstances were as follows:

(1) The inventory of construction work decreased as a result of the effect of the decrease in work volumes of the Company in 2016 and the decrease in the number of new started projects for the year.

(2) In order to reduce capital stress, the Company made greater efforts in clearing inventory and collecting receivables by introducing measures on specific reward and punishment and establishing the system of listed

supervision, which achieved a good result.

(3) In 2016, the Company further enhanced the management on purchase and storage of materials, and strengthened the work of inventory balance and storage of materials at suppliers, thus reduced the physical inventory.

4. Accounts receivable. According to the annual report, the original value of accounts receivable at the end of the year was approximately RMB25,100 million, representing a decrease of approximately 10% as compared with that at the beginning of the year, and the provision for bad debts was RMB1,200 million, representing an increase of approximately 100% as compared with that at the beginning of the year. Please make supplementary disclosure about the reasons for the decrease in the original value of accounts receivable and significant increase in the provision for bad debts, the basis for the provision for bad debts and the reasonableness thereof. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

(1) The Company's policy on provision for bad and doubtful debts is set out in Note III(12) to the financial information in the Annual Report. Individually significant accounts receivable should be tested for impairment separately. The provision for bad and doubtful debts shall be made based on the difference between the present value of future cash flows and their carrying amount. Remaining receivables are categorized into aging group and related party group according to the credit risk combination and are tested for impairment separately.

(2) The carrying amount of the Company's accounts receivable at the beginning of 2016 was RMB27,700 million, and its carrying amount at the end of year was RMB25,080 million, representing a decrease of approximately 10% as compared with that at the beginning of the year, of which accounts receivable due from related parties decreased by 18.8% from RMB18,080 million at the beginning of the year to RMB14,680 million at the end of the year and that due from non-related parties increased by 8.1% from RMB9,620 million at the beginning of the year to RMB10,400 million at the end of the year.

(3) According to the Company's policy on provision for bad and doubtful debts, the movement on balance of the Company's provision for bad and doubtful debts in 2016 was as follows:

(Expressed in RMB thousand)

	31 December 2016	31 December 2015	Increase Amount
Related party group	-	-	-
Aging group	1,007,225	553,593	453,632
Provision made separately	169,948	24,198	145,750
Total	1,177,173	577,791	599,382

(4) Reasons for the movement on provision for bad and doubtful debts. The provision for bad and doubtful debts made on the basis of specific identification increased by RMB150 million than that at the end of last year, representing single accounts receivable that was significant and whose provision for bad and doubtful debts was made on the basis of negotiated deferred payment terms and discounted at the interest rate of borrowings with the same term. The provision for bad and doubtful debts made on the basis of aging group increased by RMB450 million as compared with that at the end of last year, which was mainly due to the increase in accounts receivable over one year than that at the end of last year as a result of payment delay of customers because of their capital stress, of which accounts receivable aging from 1 year to 2 years increased by RMB620 million for which the provision for bad and doubtful debts increased by RMB180 million, that aging from 2 years to 3 years increased by RMB220 million for which the provision for bad and doubtful debts increased by RMB130 million, and that aging over 3 years increased by RMB140 million for which the provision for bad and doubtful debts increased by RMB140 million.

5. Carrying forward of costs from principal business. According to the annual report, the gross profit margin of the Company's principal business was positive during the last year while it was negative during this year. Please explain the time-point of carrying forward the costs from principal business and whether its accounting treatment complied with accounting standards based on business mode of various principal businesses and the time-point of recognition of operating revenue. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

(1) Business mode

The Company is mainly engaged in provision of oilfield service, such as geophysics, drilling, logging and mud logging, downhole operations, for exploration and production of onshore and offshore oil and natural gas, and provision of engineering construction services such as contracting domestic and overseas petroleum, natural gas, chemical, bridge, road, housing construction, water resources and hydropower.

There are differences between the domestic and overseas contracting model and servicing model of the Company. For the oilfield technical services provided in the domestic market, the Company provides engineering technical service and typically charges fees pursuant to the unit price for workload agreed with the owners in the contracts and on the basis of workload actually settled. Geophysics and drilling services are generally settled on the basis of individual contract or single well, while technical services like logging and mud logging and downhole operations are settled mainly pursuant to the framework agreement and on the basis of workload actually completed. The overseas contracting model mainly adopts a daily-rate basis and charges fees according to the benchmark for daily rates stipulated in the contract and the working days in the working area. The construction business are generally settled at fixed aggregate contract price or fixed unit price. The main contracting model of construction business includes EPC general contract, engineering/construction general contract and professional subcontract.

(2) Time-point at which operating revenue is recognized and costs are carried forward

① the Company's drilling construction business, geophysical exploration business and engineering construction business are conducted according to construction contracts. Where the outcome of a construction contract can be estimated reliably at the balance sheet date, revenue and expenses associated are recognized using the percentage of completion method. Where the outcome of a construction contract cannot be estimated reliably, it should be treated distinctively: if contract costs can be recovered, then the contract revenue is recognized according to the actual contract costs that can be recovered, the contract costs are identified as expenses in the current period; otherwise, contract costs are identified as expenses and revenue shall not be recognized. If incurred costs of construction contracts do not exceed the contract amount or revenue recognized according to the contract amount and percentage of completion, and estimated cost incurred can be compensated, it's perceived that contract costs can be recovered.

If the total estimated costs exceed contract revenue, the Company recognizes estimated loss for the current period.

The percentage of completion of an engineering construction contract is determined according to (a) the proportion of completed construction value to the total contract value or (b) the proportion of accumulated actual contract costs to the total estimated costs. And the percentage of completion of a geophysics or drilling engineering contract is determined according to surveys of the work performed.

② Services other than drilling construction business, geophysical exploration business and engineering construction business, where the outcome of a transaction involving the provision of services can be estimated reliably, at the balance sheet date, revenue associated with the transaction is recognized using the percentage of completion method and operating costs are also recognized accordingly. Revenue and operating costs associated with daily rate contract are recognized when the services are provided, other service income and operating costs are recognized in the accounting period when the services are provided and relevant receivables are settled. The stage of completion of a transaction involving the provision of services is determined according to the proportion of services performed to the total services to be performed or the proportion of service costs incurred to the total estimated costs.

If the outcome of a transaction involving the provision of services cannot be estimated reliably, the revenue of provision of services is recognized at the service cost incurred and estimated to be compensated, and the service cost incurred is recognized in profit or loss for the current period. If the service cost incurred is estimated not to obtain compensation, revenue is not recognized.

③ The business volume of each segment during 2016 recorded a significant decline, and the proportion of the Company's fixed expenses increased. If the expenses incurred by the construction team during stand-by, such as employee compensation, depreciation and amortization, and equipment maintenance expenses, cannot be covered by revenue earned in the future, they are included in the current profit and loss directly.

④ Accounting policies on recognizing revenue and cost of the Company is consistent with those of previous years, and there was no change on accounting policies in 2016.

⑤Under the circumstance in which both business volume and service price of each segment of the Company declined, the normal construction projects' profit margin has been narrowed significantly. Meanwhile, due to low operating rate which resulted in the increased expense incurred by the construction team during the period of stand-by, gross margin of its principal business changed from positive to negative during the year.

The aforesaid accounting complies with relevant requirements under the Accounting Standards for Business Enterprises.

6. Employee remuneration. According to the Annual Report, in 2016, the Company kept deepening structural adjustment and cutting down crews with low efficiency or excessive capacity. By the end of 2016, the Company cut down 135 professional crews, a decrease of 6.4% compared with the year end of 2015, the team number of which was 2,113. While the movement of employee remuneration by industry in other principal businesses of the Company was insignificant during the reporting period, the employee remuneration in drilling service amounted to RMB6,837 million, a year-on-year increase of 70.7%. Please explain and disclose the reasons of the increase in employee remuneration in drilling service while the Company was cutting down professional crews. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

In the disclosure of 2015 annual report, due to staff's mistake, the employee remuneration for drilling services business only included employee remuneration directly attributable to the exploration and production well drilling, which was RMB4,010 million, but excluded employee benefits attributable to other services such as manufacturing costs, predrilling engineering and tubulars services, which was RMB3,930 million. The overall employee remuneration for drilling services business in 2015 was RMB7,940 million. On the same disclosure basis, the overall employee remuneration for drilling services business in 2016 decreased by 13.9% as compared with that in 2015.

Disclosure of employee remuneration for drilling services business doesn't belong to disclosure content of financial reports. The problem is not omission or mistake of financial reports, therefore it doesn't belong to accounting errors.

7. Losses of the major subsidiaries. According to the Annual Report, in 2016, the net loss of Sinopec Oil Engineering and Construction Corporation, one of the Company's major shareholding companies, was RMB 4,950 million, increasing a further loss of RMB4,510 million compared to last year. The main reasons were: 1) Affected by the continuous decline of overall investment and the fierce market competition, the operating revenue of Sinopec Oil Engineering and Construction Corporation continued to decrease in 2016. The operating revenue in 2016 was RMB12,830 million, decreased by 16.6% compared with the previous year of RMB15,380 million. 2) Since construction period was prolonged, project costs were increased, and compensation for variation were lower than expectation, Sinopec Oil Engineering and Construction Corporation suffered a loss of RMB 3,000 million. Projects with relatively large losses included Saudi Arabia

Yanbu-to-Medina Water Pipeline Project and Saudi Arabia Agriculture Pipeline Project, with corresponding losses of RMB1,140 million and RMB 760 million respectively. (1) Please make a supplementary explanation and disclose the specific reasons of the losses of Saudi Arabia Yanbu-to-Medina Water Pipeline Project and Saudi Arabia Agriculture Pipeline Project.(2) Please explain and disclose the basis, time-point, decision-making procedures and relevant information disclosure regarding the recognition of the above losses in accounting. Please ask the auditor to give opinions.

Reply:

(1) The specific reasons of the losses on the two projects of Engineering and Construction Corporation in Saudi Arabia are set forth below:

① Saudi Arabia Yanbu-to-Medina Water Pipeline Project. The project is located between Yanbu and Medina in Saudi Arabia. The project was originally scheduled to be completed in December 2016. In 2016, the owner agreed to postpone it to 31 July 2018.

As the preliminary design received upon signing the contract was significantly different from the detailed design received upon commencing construction, the geological conditions were more complex than expected, the standards for materials and equipment procurement and the requirements for construction were higher than expected, the owners requested more changes to the route during the construction process, the actual workload was significantly more than expected. In 2016, the construction progressed to the pilgrimage area, construction was limited and efficiency was reduced. Meanwhile, the project was progressed into the steep mountain and stone-intensive areas, the construction was far more complex than expected. The large resource investments, low efficiency, slow progress, and the extended duration leaded to the significant increase of the costs.To meet the schedule and ensure that the main line of the main station commence operation by 31 December 2016, the Company began to increase human, material and financial resources investment in the second quarter of 2016, leading to a substantial increase in costs.

In respect of the significant increase of the total estimated contract costs resulting from the changes above, the Company has submitted variation and compensation claim to the property owners according to the contract, and the property owners have established a special working group to negotiate relevant claim and compensation issues. However, affected by the low oil price, the owner cut the cost materially., which added great difficulty to the negotiations of compensation claims for the variations. In 2016, the owner only approved small amount of the claims, and the remaining has little chance to be approved by the owner.

②Saudi Arabia Agriculture Pipeline Project. The project is located between Khobar and Hasaa in Saudi Arabia. The project was scheduled to be completed in May 2016. In 2016, the owner agreed to postpone it to 30 June 2017.

In 2016, the construction of the project entered into an operating area that difficulties were concentrated, such as along with many high-voltage electric cables and fiber optic cables, passing through pipe corridors, urban construction, and high groundwater level. The property owners requested more route changes during construction processes, the construction workload and difficulties were much more difficult than expected. The large resource investments, low efficiency, slow progress, and the extended duration leaded to the significant increase of the costs. In addition, due to the big discrepancy between the preliminary design and the actual construction as well as the more complex expectation of underground obstacles, the actual construction workload increased significantly than expected.

In respect of the significant increase of the total estimated contract costs resulting from the changes above, the Company has submitted variation and compensation claim to the property owners according to the contract, and the property owners have established a special working group to negotiate relevant claim and compensation issues. However, affected by the low oil price, the owner cut the cost materially. The claims were not approved by the owner and has little chance to be approved in the future.

(2) The basis, time-point, decision-making procedures and relevant information disclosure regarding the recognition of the above losses in accounting

① Saudi Arabia Yanbu-to-Medina Water Pipeline Project.

a. Changes in the total estimated contract revenue and the total estimated contract costs

Total initial contract value of the project is USD428 million. At 31 December 2015, the total estimated contract revenue was USD428 million and the total estimated costs was USD455 million; In 2016, with the completion of detailed design drawings, the work load for project variation was basically fixed, the construction entered into difficult-centralized area, the construction difficulty and workload increased significantly than originally expected, the project period prolonged and more construction measures were used to meet the deadline for the project. Affected by these above factors, the total estimated contract costs increased significantly in 2016. As at 31 December 2016, the total estimated contract revenue was USD471 million and the total estimated costs was USD662 million.

b. During the process of implementing the project, in accordance with internal control system, in 2016, based on the actual facts of extension of project durations and variation on workload that increased the project cost, project management department calculated the total estimated project revenue and total cost, and focused on discussing and verifying the projects with cost increase and the claims amounts that the owner had already approved. The Engineering and Construction Corporation organized specific meetings for discussion to consider, examine and approve the total estimated revenue and total costs.

c. According to the examined and approved total estimated contract revenue and the total estimated costs, the Engineering and Construction Corporation settled with owner and calculated the percentage of completion based on the actually completed work, and recognised operating income and operating costs, and the excess amount of the total estimated contract costs over total estimated contract revenue for the project was included in profit or loss for the current period.

As of 31 December 2015, the accumulated recognized contract revenue was RMB1,996 million and the recognized operating cost was RMB2,172 million, the contract loss was RMB176 million (equivalent to USD27 million), plus the fees such as interest expenses and exchange losses/(gains) incurred during the period, the accumulated recognized total losses equivalent to RMB301 million. In 2016, the recognized contract revenue was RMB485 million and the recognized operating costs was RMB1,565 million in 2016, the recognized contract loss was RMB1,080 million (equivalent to USD164 million), plus the fees such as interest expenses and exchange losses/gains incurred during the year of 2016, the accumulated recognized total losses for 2016 was RMB1,140 million.

② Saudi Arabia Agriculture Pipeline Project.

a. Changes in the total estimated contract revenue and the total estimated contract costs

Contract value of the project is 740 million SAR (equivalent to USD197.3 million). At 31 December 2015, the total estimated contract revenue was USD195 million, and the total estimated cost was USD 210 million. In 2016, the project entered into the most difficult construction sections. As the increase in workload and cost resulting from variation of design, construction permits, geological conditions and other reasons was basically fixed, the total estimated contract cost for 2016 increased significantly as compared to the total estimated contract cost before 2015. As at 31 December 2016, the total estimated contract revenue was USD195 million and the total estimated cost was USD316 million. The construction costs incurred in 2016 was RMB870 million, representing a significant increase over the previous year and accounting for 43% of the total adjusted estimated cost.

b. During the process of implementing the project, in accordance with internal control system, in 2016, based on the actual facts of extension of project durations and variation on workload that increased the project cost, the project department calculated the total estimated project revenue and total cost, and focused on discussing and verifying the projects with cost increase. The Engineering and Construction Corporation organized specific meetings for discussion to consider, examine and approve the total estimated revenue and total costs.

c. According to the examined and approved total estimated contract revenue and the total estimated costs, the operating revenue and operating cost are recognized according to the work progress by the construction company, the excess amount of the total estimated contract costs over total estimated contract revenue was included in profit or loss for the current period.

As of 31 December 2015, according to the work progress, the accumulated recognized operating revenue was RMB902 million and the accumulated recognized operating cost was RMB973 million. With inclusion of estimated contract loss of RMB24 million, the total loss was RMB95 million (equivalent to USD15 million). With inclusion of fees such as interest expenses and exchange losses/ (gains) incurred during the period, the total accumulated recognized contract loss was RMB119 million. In 2016, according to the work progress, the recognized operating revenue was RMB299 million and the recognized operating cost was RMB979 million. With inclusion of estimated contract loss of RMB12 million, the total loss was RMB692 million (equivalent to USD106 million). With inclusion of fees such as interest expenses and exchange losses/ (gains) incurred during the period, the total recognized contract loss was RMB760 million.

In January 2017, the Company disclosed in the announcement on estimated loss for the annual results of the Company for the year 2016 about some project losses of its Engineering and Construction Corporation, and made further disclosure in its 2016 Annual Report.

8. Losses of the major subsidiaries. According to the Annual Report, Sinopec Shengli Oil Engineering Company Limited and Sinopec Zhongyuan Oil Engineering Company Limited, both of which being the Company's shareholding companies, recorded a loss of RMB3,861 million and a loss of RMB3,374 million in 2016, respectively. Please supplement and disclose the specific reasons of the losses of the abovementioned two companies, and advise whether there are projects with significant losses. Please provide opinions from the certified public accountant for annual audit of the Company.

Reply:

In 2016, Sinopec Shengli Oil Engineering Company Limited ("Shengli Engineering") and Sinopec Zhongyuan Oil Engineering Company Limited ("Zhongyuan Engineering") (both are the primary controlling subsidiaries of the Company), record losses of RMB3,861 million and RMB3,374 million, respectively.

The reasons for loss are as follows:

(1) The decrease in workload resulted in the decrease in revenue. Affected by the low level of crude oil price, major customers substantially cut down their upstream capital expenditures in exploration and exploitation. For example, the capital expenditure on upstream exploration and development of the major customer Sinopec decreased by 41.1% from RMB54.7 billion in 2015 to RMB32.2 billion in 2016. The capital expenditure on upstream exploration and development of CNPC decreased by 17.5% from RMB157.8 billion in 2015 to RMB130.3 billion in 2016, resulting a significant decrease in the workload of Shengli Engineering and Zhongyuan Engineering.

The completed drilling footage of drilling service, the primary business of Shengli Engineering, decreased from 2,660 kilometers in 2015 to 1,650 kilometers in 2016, representing a decrease of 37.8%.The completed drilling footage of drilling service, the primary business of Zhongyuan Engineering, decreased from 1,800 kilometers in 2015 to 1,510 kilometers in 2016, representing a decrease of 16.4%. The drilling footage for domestic non-related parties decreased by 43.4% as compared to last year.

(2)The decrease in the price of oilfield service resulted in the decrease in revenue. The international crude oil price continued to run at low level in 2016, and the domestic and foreign oil companies kept on cutting down the capital expenditure for oilfield exploration and development and production, which intensified the competition in oilfield service industry. In order to lower the cost, oil companies lowered the price of petroleum engineering technical service. For maintaining the market shares, oilfield service companies also lowered their prices during the bidding process. Especially, the business of Zhongyuan Engineering mainly comes from the areas outside Zhongyuan Oilfield, accounting more than 95% and has higher external reliance, which tenders the competition more intensified. In order to keep the market shares, it reduced the bidding and settlement price as an exchange for market, resulting in the further decrease in gross profit.

(3) The fixed cost was relatively high, and the decreased revenue cannot cover the cost expenses, which led to losses. Shengli Engineering and Zhongyuan Engineering own 70% of the total company drilling construction team and total workers are about 50,000 people. The changes on revenue will have no impact on fixed costs such as depreciation and amortization of fixed assets, corporate operating fees, interest expenses and comprehensive services fees, while it will have less impact on the staff costs. In 2016, the fixed expenses of Shengli Engineering in 2016 was approximately RMB6,400 million, and the fixed expenses of Zhongyuan Engineering in 2016 was approximately RMB5,100 million.

(4) In 2016, the assets impairment of Shengli Engineering for the current period was RMB230 million, and the assets impairment of Zhongyuan Engineering for the

current period was RMB50 million.

Affected by the combination of above factors, Shengli Engineering achieved operating income of RMB8,110 million in 2016, representing a decrease of 34.5% and losses of RMB3,861 million; Zhongyuan Engineering achieved operating income of RMB6,810 million in 2016, representing a decrease of 23.6% and losses of RMB3,374 million. There is no project that records great losses for both Shengli Engineering and Zhongyuan Engineering.

Notice is hereby given.

By Order of the Board

Mr. Li Honghai
Company Secretary

Beijing, PRC, 8 May 2017

As at the date of this announcement, the Board of Directors comprises Mr. Jiao Fangzheng+, Mr. Sun Qingde#, Mr. Zhou Shiliang#, Mr. Li Lianwu+, Zhang Hong+, Ms. Jiang Bo, Mr. Zhang Huaqiao* and Mr. Pan Ying*.*

" + " Non-Executive Director
" # " Executive Director
*" * " Independent Non-Executive Director*