ANTON 安東

2014 Annual Results

15/03/26

东方智慧 全球分享

Oriental wisdom , Global sharing

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Agenda

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- 2014 Annual Results Summary
- Operating & Financial Review
- Outlook
- Q&A

2014 Annual Results Summary

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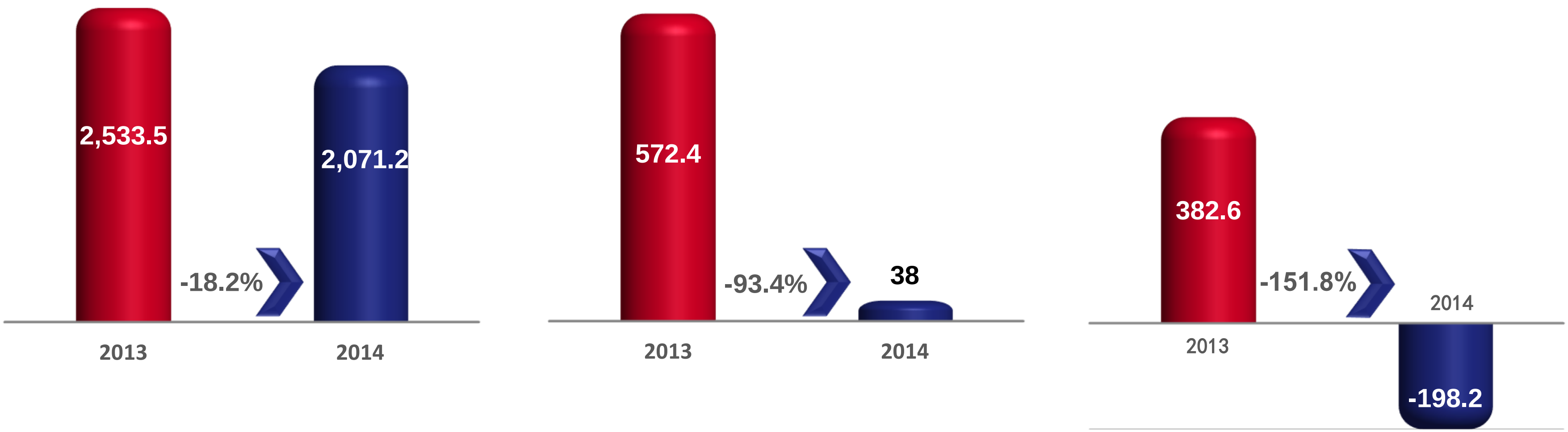
Revenue	Operating Profit	Profit Attributable to Equity Holders of the Company
RMB million	RMB million	RMB million



- 2014 Revenue totaled RMB2,071.2 million, down 18.2% yoy
- Operating profit reached RMB38.0 million, down 93.4% yoy
- Profit attributable to equity holders of the Company amounted to RMB-198.2 million, down 151.8% yoy
- EPS at RMB -0.0902

Business Highlights

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1. Revenue declined notably. AR turnover days increased; occurred net loss in 2014 due to lower margin caused by lower revenue and higher downward pricing pressure, as well as the increased costs from preparations for long-term development

2. Continued to improve the comprehensive market coverage; domestic business struggled due to combined impact from industry readjustment and plummeting oil prices, yet overseas business saw revenue increase as it moved beyond "follow-up" strategy

3. A portfolio of product lines covering the entire process of oil & gas field development was created preliminarily; equipment service operated soundly and steadily and secured sizable orders for 2015; Production service and oilfield waste management services stocked up capacity, technology and orders to prepare for growth in 2015

4. Controlled overall labor costs by optimizing and readjustment of human resources; transferred employees from product lines with lower workload to new product lines to optimize staff distribution; enforced rigorous cost controls with some initial payoff

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Domestic Market Faced Difficulties
Hotspot Markets Remained Overseas

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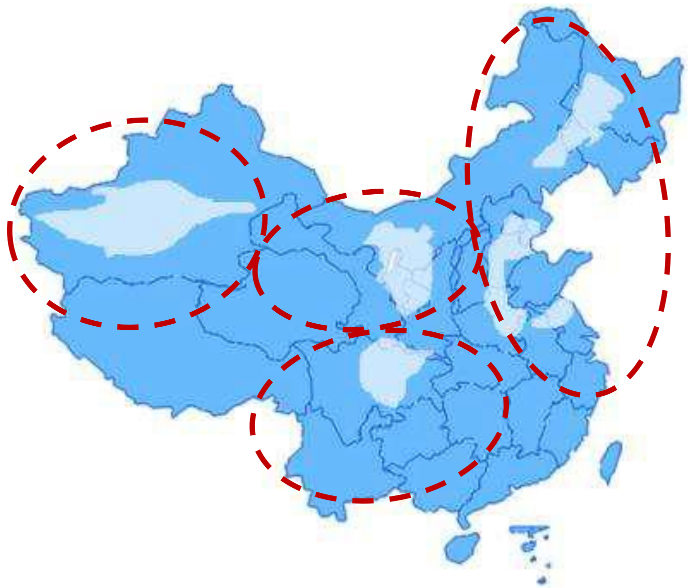

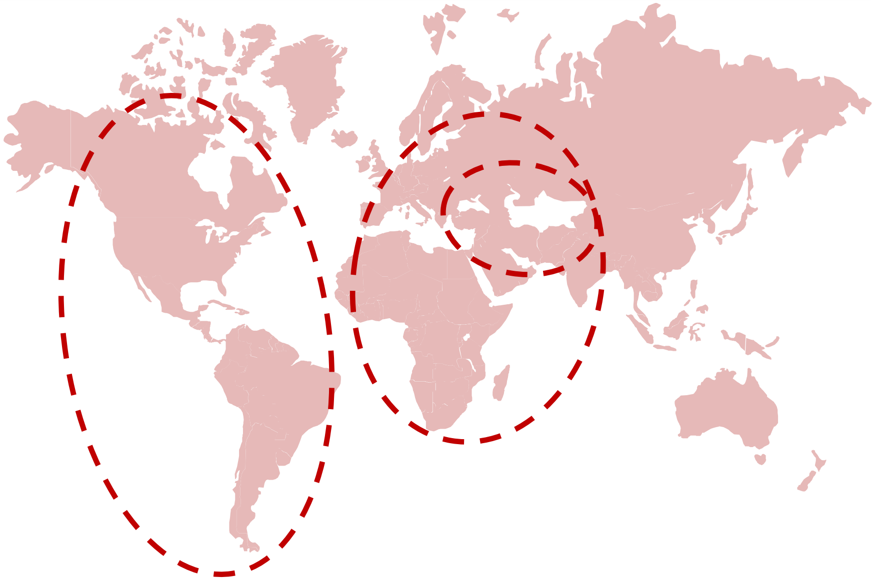

Domestic

- Domestic O&G industry readjustment coupled with sliding oil prices forced customers to cut CAPEX, market protectionism picked up and competition intensified on oilfield technical services.
- Domestic oil companies implemented market-based reforms, some markets fully opened up with increased public tender opportunities; also, the demand to deploy new technologies on old oilfields began to increase

Overseas

- Global oil prices fell precipitously in 2H 2014, leaving the industry in a dire situation.
- CAPEX was only mildly affected in some hotspot markets (e.g. Iraq).

Domestic Business Declined
Overseas Business Grew Steadily

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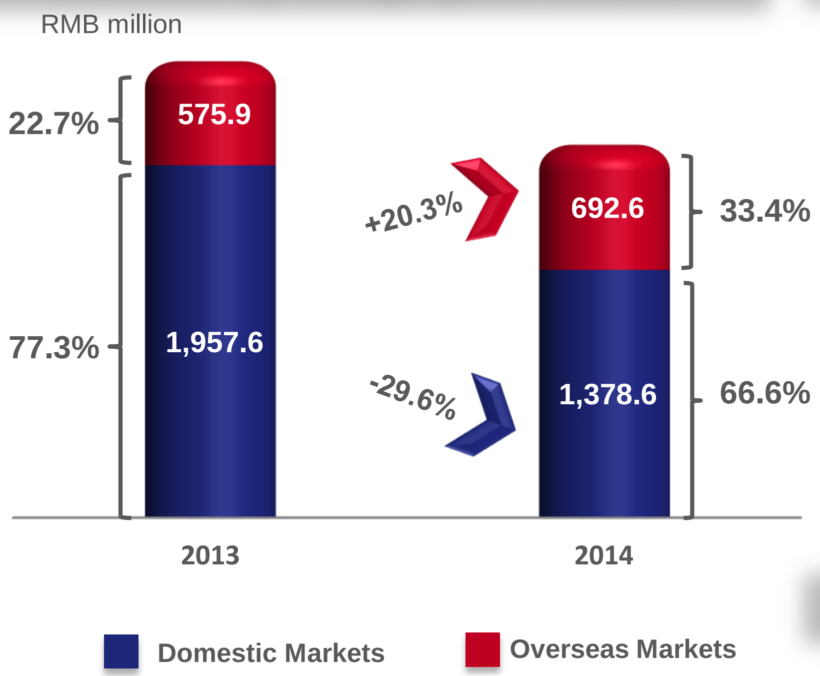
Revenue by Geographic Market



Domestic Markets

- **Northwest - Tarim Basin:** Investment slowed down, some existing businesses shrank; waste management and workover services were launched
- **North - Erdos Basin:** Revenue slid, particularly on open-hole multistage fracturing, but market gradually opened up, equipment service received year-long orders and new customers were engaged
- **Southwest - Sichuan Basin:** Investment in conventional resources dropped significantly; shale gas regular service dominated by state-owned players; entered shale gas market with waste management business
- **Others:** breakthrough on reservoir production management integrated service, and workover service in new market in Northwest

Overseas Markets

- Moved beyond "follow-up" strategy; accelerated the engagement with NOC and IOC customers
- **Iraq:** Stressed by fiscal pressure, customers continued to increase production; moved beyond "follow-up" strategy, continued to receive new orders; meaningful progress on cooperation with IOCs
- **Americas:** Maintained healthy growth; signature sand and water control service expanded further in Canada; directional drilling won a 3-yr contract in Colombia

Product Line Improvements Supported Cluster Growth

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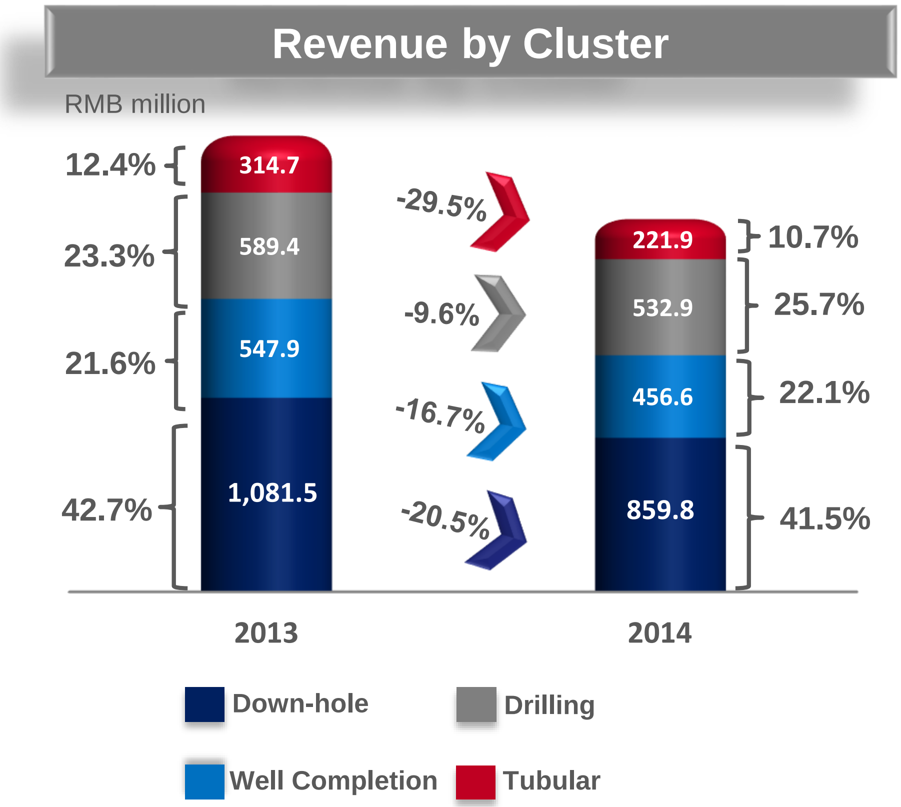

- **Drilling Technology:** Revenue on drilling fluid service fell significantly; actively promote partnerships on reservoir production management and integrated general contracting service; take the opportunity to prepare for waste management service capability
- **Well Completion:** Well completion integration service gained on the back of technology and cost advantage of proprietary well completion tools and sand and water control business; decrease of gravel packing revenue lead to lower revenue of the completion cluster
- **Down-hole Operation:** open-hole multistage fracturing business took a big fall; pressure pumping service gained, but utilization rate missed target; workover service made a major breakthrough and captured opportunities to lay down a solid foundation for 2015
- **Tubular Services:** Customer spending decreased, utilization rate of drilling rigs lead to lower revenue

Integrated Service Model

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- In 2014, reservoir production management model achieved breakthrough, started offering general contracting solutions for the tight oil project in the Subei Basin and the shale gas project in Hubei from reservoir to drilling and well completion
- Already in possession of a product line portfolio covering the entire process of oil and gas development; will continue to promote integrated services model by combining reservoir and engineering

Controlled Overall Labor Costs by Optimizing and Rightsizing and Improved Human Resources Structure

- Enforced more rigorous performance review and disqualification schemes; strictly eliminated employees who failed performance review, controlled overall human resources cost

- Expedited internal transfers; reassigned employees from product lines with less workload to emerging product lines secured by order backlogs and in need of manpower such as production service and oilfield waste management service; optimized the staff mix

Working Capital Management

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- As a result of the harsh market environment and customers' shift of operating strategy, the Group saw a significant increase of its capital turnover days.

	2014	2013	Change
Trade receivables turnover days	228	150	78
Inventory turnover days	158	131	27
Trade payables turnover days	153	157	-4

The Group took positive steps to prevent the further deterioration of capital turnover days. As at 31 Dec. 2014, the Group had approximately RMB 840.1 million cash on hand.

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Domestic Market Outlook

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Short-term

- Domestic market environment remains challenging and competition remains fierce. As domestic environmental requirements tighten, oil companies may spend more time on preparations to meet environmental measures, causing project delay
- The gradual opening up of domestic oilfield technical services will generate more public tenders. Development of unconventional oil and gas resources such as natural gas will present opportunities.

Long-term

- Oilfield services market will open up gradually as China moves forward on energy reform. Domestic demand for natural gas will increase further. Huge demand still existed in local oilfield technical services market.
- As the market opens up, oilfield technical services companies with comparative brand advantages are likely to win more orders. As customers attach more value to cost control and efficiency gains, companies with comparative cost and technological advantages and an integrated services model will be preferred partners.

Overseas Market Outlook

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Short-term

- Oil companies announced deep cuts in their CAPEX budgets for 2015. The Americas market was among the worst hit.
- Iraq market needs higher production because of lower fiscal income, but downward pricing pressure and project delay risk still exist

Long-term

- Continued production gains in Iraq will translate into greater customer demand for oilfield technical services. The oil and gas reform in Mexico also presents potential opportunities.
- The pressure from customers to cut costs will work in favor of domestic oilfield technical services companies with comparative brand strengths and cost advantages.

Product Line Outlook

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Drilling

- Land drilling service received a year-long order domestically, and continues to explore overseas markets
- Intensify efforts on oilfield waste management service and prepare for long-term development
- Improved value chain with new rotary steerable directional drilling tools
- Combine reservoir capabilities with engineering expertise and promote integrated reservoir engineering solutions

Completion

- Signature sand and water control products and services win bigger opportunities in overseas markets
- Continue to promote proprietary well completion tools and start to yield competitiveness gains

Down-hole

- Additional coiled tubing equipment service capacity and higher utilization of pressure pumping equipment
- Production service targeting customers' OPEX grows steadily
- Promote wide adoption of multistage fracturing techniques, which oil oilfields show growing demand in, in domestic oilfields
- Accelerate oilfield chemicals business

Tubular

- Testing and evaluation service gains scale to meet customers' safety needs

Fully promote integrated service model, and satisfy customers' four major demands of optimization, stimulation, cost reduction and safety and environmental friendliness on the back of a portfolio of product lines covering the entire process of oil and gas development

Strategic Resources Alignment

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Capital

- Actively look for new financing channels to lower cost of capital; intensify AR collection efforts, reduce working capital requirements; work with financial institutions; restructure trade receivables
- Has reached an initial intent with a bank regarding the refinancing of MTNs due to mature in May 2015

Talent

- Intensify efforts to optimize and rightsize its workforce; optimize staff mix through internal transfer and redeployment
- Continue to introduce leading talents of the industry

Service Capacity

- Strictly control CAPEX
- Expected CAPEX for 2015 is approximately RMB400 million, mainly for execution of investment projects in progress

Outlook

- In 2015, the Group will promote cost control, decrease raw material, labor cost, sales cost dramatically

- Compared to competitors, the Group has a full coverage of product lines covering the entire process of oil and gas production. Will continue to implement the full-coverage strategy of products and markets, and on the back of comparative advantages on cost, technology and brand and the integrated services model, the Group is building up strengths so as to prevail in a market recovery.

RESPOND SWIFTLY TO CHALLENGES, PROMOTE COST CONTROL, AND PLAY TO OWN ADVANTAGES, KEEP MARKET SHARES, OPEN NEW MARKETS, AND BE FULLY PREPARED FOR INCOMING OPPORTUNITIES.

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Appendices

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Appendix 1: Consolidated Income Statement

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For the year ended 31 December (RMB million)	2014	2013
Revenue	2,071.2	2,533.5
Cost of Sales	(1,425.8)	(1,411.0)
Gross Profit	645.4	1,122.5
Other gains, net	(1.8)	20.0
Selling expenses	(190.9)	(173.1)
Administrative expenses	(361.2)	(299.8)
Research and development expenses	(37.6)	(64.4)
Sales tax and surcharges	(16.0)	(32.8)
Operating Profit	38.0	572.4
Finance costs, net	(178.5)	(72.7)
Share of loss of a jointly controlled entity	(19.1)	(9.7)
Profit before Income Tax	(159.6)	490.0
Income tax expenses	(31.3)	(86.8)
Profit for the Year	(190.8)	403.1
Profit attributable to equity holders of the Company	(198.2)	382.6
Non-controlling interests	7.4	20.6

Appendix 2: Balance Sheet

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RMB million	31 Dec. 2014	31 Dec. 2013
Property, plant and equipment	2,293.4	1,601.7
Land use rights	61.0	22.0
Intangible assets	392.4	375.5
Investment in a jointly controlled entity	5.0	16.8
Other non-current assets	88.6	60.0
Deferred income tax assets	57.3	25.0
Inventories	709.7	540.7
Trade and notes receivables	1,588.2	1,332.3
Prepayments and other receivables	455.5	191.3
Restricted bank deposits	72.3	32.4
Term deposits with an initial term of no less than 3 months	8.0	-
Cash and cash equivalents	759.8	1,770.2
Total Assets	6,491.2	5,967.9
Capital and reserves attributable to equity holders of the Company	2,053.9	2,282.7
Non-controlling interests	94.9	92.6
Total Equity	2,148.8	2,375.3
Non-current liabilities	1,700.5	1,984.3
Current liabilities	2,641.9	1,608.3
Total Liabilities	4,342.4	3,592.6
Total Equity and Liabilities	6,491.2	5,967.9

Appendix 3: Cash Flow Statement

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As at 31 December (RMB million)	2014	2013
Net cash generated from operating activities	(619.9)	378.5
Net cash generated from investing activities	(575.6)	(808.7)
Net cash generated from financing activities	193.1	1,694.8
Net increase (decrease) in cash and cash equivalents	(1,002.5)	1,264.6
Cash and cash equivalents, at beginning of the year	1,770.2	523.4
Currency translation loss on cash and cash equivalents	(7.9)	(17.9)
Cash and cash equivalents, at end of the year	759.8	1,770.2