ANTON 安東

2015 Interim Results

2015/08/26

东方智慧 全球分享

Oriental wisdom , Global sharing

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Agenda

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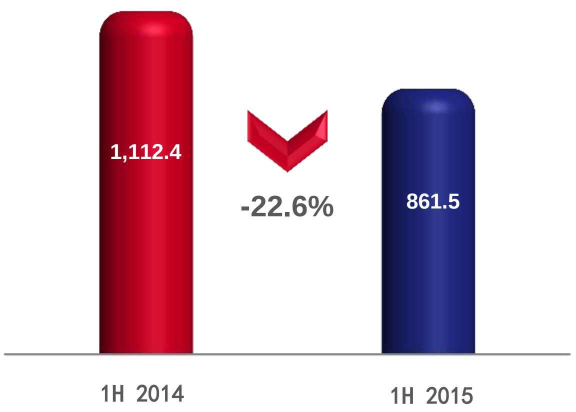
- **2015 Interim Results Summary**
- **Operating & Financial Review**
- **Outlook**
- **Q&A**

2015 Interim Results Summary

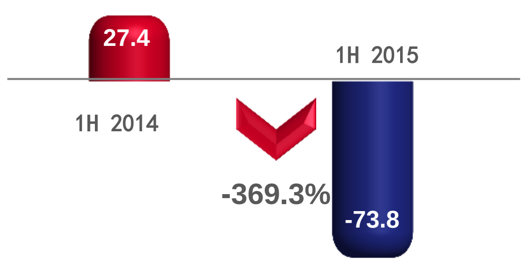
Revenue

RMB million



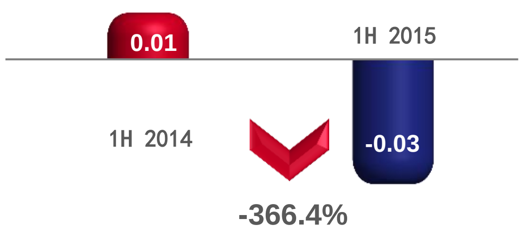
Profit Attributable to the Equity Holders of the Company

RMB million



EPS

RMB Dollar



2015 Interim Results Summary – vs. 2H 2014

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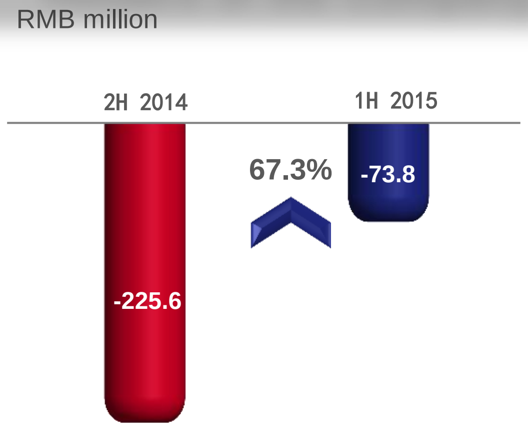
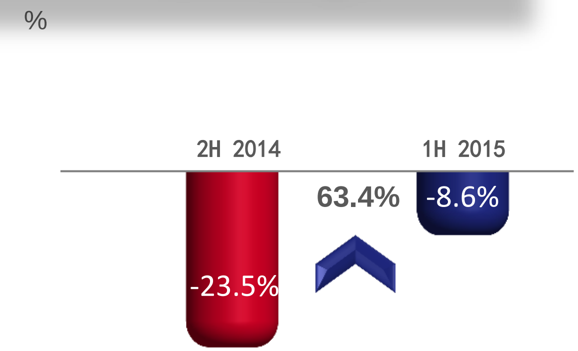
Profit Attributable to the Equity Holders of the Company



Profit Margin



- Through the Group's comprehensive cost controls, profit decline was reversed and loss narrowed compared with 2H 2014.

Business Highlights

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1. Downward pricing pressure increased, revenue declined year on year and profit margin dropped amid rising competition due to oil companies cutting capital expenditure.

2. Extensive market network helped. Domestically, unconventional project orders and overseas project orders increased substantially; ample order backlog was achieved.

3. Business line mix covering the entire oil & gas development lifecycle was formed. Oil production and workover cluster as a year-round, stable business targeting oil companies in the production stage became the Group’s major revenue contributor.

4. Implemented all-round workforce optimization and downsizing programs. As at 30 June 2015, the Group’s staff size shrank by 25%. Overhead savings are estimated at RMB186 million for 2015. Group-wide cost controls showed initial results.

5. Collected record-high trade receivables of RMB1,000 million; committed liquidity was reduced substantially; operating cash flow was much better than that of 1H 2014.

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Decline in Domestic;
Stable Growth in Overseas

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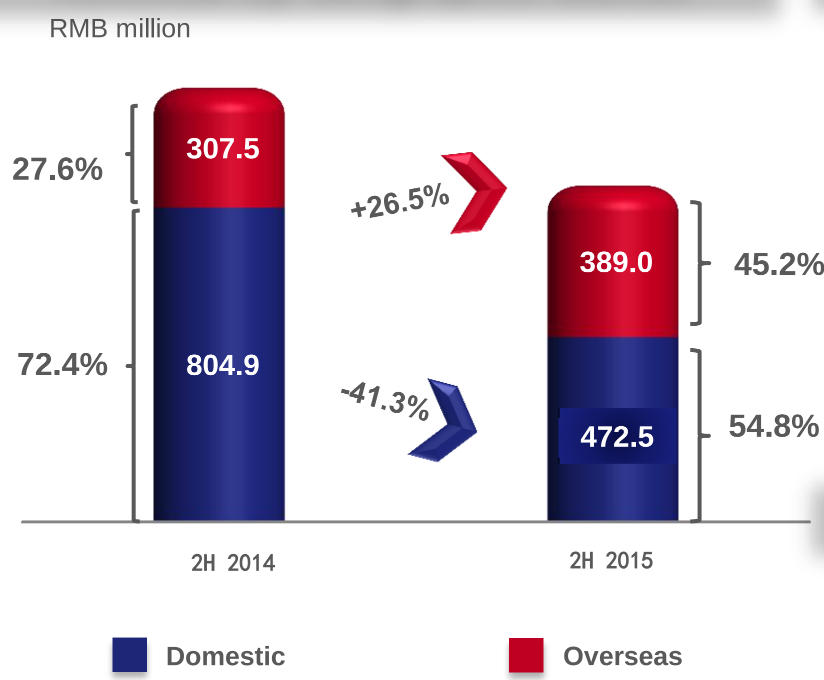
Revenue by Geographic Market



Domestic

- **Northwest:** investment slowed in the Tarim Basin and revenue dropped
- **Erdos:** oil companies extended preparation time and progress dragged due to the new environmental law
- **Southwest:** shale gas development quickened; penetrated the market with unconventional technologies and reaped higher revenues

Overseas

- **Iraq:** customers kept production stable; moved beyond "follow-up"; pursued meaningful cooperation with IOCs; new projects increased; revenue grew steadily year on year
- **Americas:** proprietary and signature sand control and well completion tools gained scale and contributed to steady revenue increase

Won Orders Continuously;
Business Started Recovering

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In 1H 2015, the Group won orders continuously and business recovered. RMB1.28 billion worth of new orders added in 1H2015

Highlights included:

- Tight oil and gas project
- Shale gas and CBM project
- Business outsourcing as part of SOE reform
- IOC projects in Iraq
- New projects of Chinese investors in Africa

Business line configuration covering entire oil & gas development lifecycle took shape; oil production module optimized revenue mix

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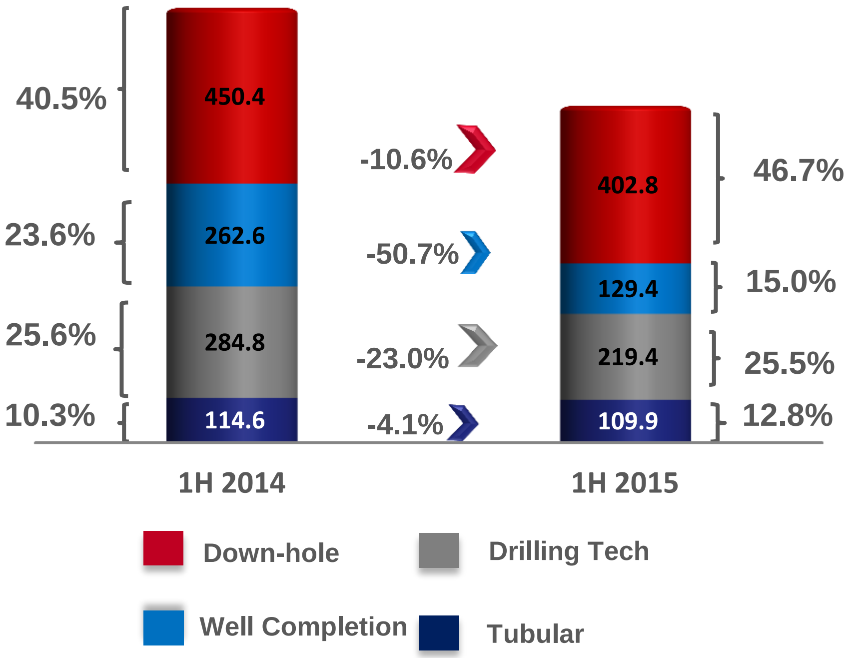
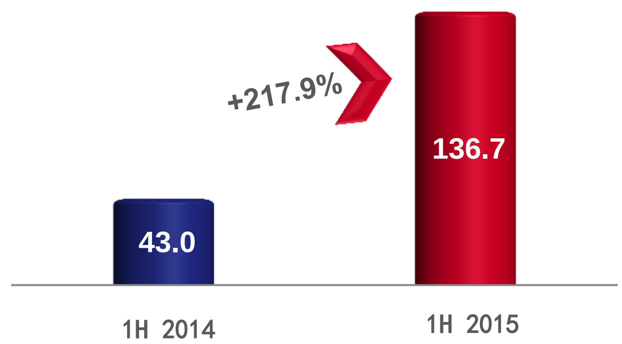
Revenue by Cluster

RMB million



Oil production module yoy revenue growth

RMB million



- Oil production module as a stable and fast-growing business targeting oil companies in the production stage took up a sizable share of the Group's revenue. Oil production module's share of Group revenue was 16.0% in 1H 2015, a big jump from 4.0% in 1H 2014.
- Its stable income streams helped optimize the Group's revenue mix.

Cost Control Showed Initial Results

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Overheads

- Downsizing and more rigorous performance review and disqualification; overhead caps; faster internal mobility; staff mix optimization; as at 30 June 2015, staff size shrank by 25%; overhead savings of RMB186 million estimated for 2015.

Materials

- Used more proprietary tools and materials in production operation, reduced procurement
- Tougher purchasing negotiations to lower procurement costs

Working Capital Management

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	1H 2015	1H 2014	Change
Trade receivables turnover days	274	223	51
Inventory turnover days	232	149	83
Trade payables turnover days	200	163	37
Cash flow from operating activities (RMB million)	-32.5	-433.6	401.1

In the challenging domestic market environment, the Group intensified collection of receivables, reinforced cost control, committed liquidity dropped significantly; operating cash flow improved markedly compared with 1H 2014.

Capital Supplementary

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Cash Flow	As at 30 June, cash and cash equivalents amount to RMB 265.1 million, not include the restricted bank deposits RMB 160.4 million due to overseas market increase, term deposits with initial terms of over three months RMB 9.0 million. Hence, the actual capital at end of the period is RMB 434.5million
Bank Credit	As at 30 June, bank credit line is RMB 1,020.0 million, about RMB 563.6 million haven't been used. The Group expects to add RMB 500.0 million bank credit in the 2H. Besides, further finance leasing, accounts receivable factoring is under preparation, can add at least RMB 300.0 million liquid capital if need
Trade Receivable	Intensified collection of receivables. In 1H 2015, collected record-high RMB 1.0 billion in trade receivables. As at 30 June, Trade and notes receivables is RMB 1,342.9 million, the Group expects to collect about 1,100.0 million at the end of 2015

Currently，the Group's operating capital need is at about RMB 120.0 million per month，the capital condition can fully cover the Group's daily operation and debt payment

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Market Outlook

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Short-term

- International oil prices will remain low and competition fierce
- Demand for unconventional energy development in China will likely persist
- Oil companies' demand for oil and gas production is showing signs of recovery. Such recovery will likely happen sooner in overseas markets than in domestic

Long-term

- Natural gas development will speed up domestically, SOE reform will present new opportunities
- In global market, Chinese companies with comparative advantage will quickly displace international oilfield service companies
- China's "Belt and Road" Initiative will open up new opportunities in Central Asia and Africa

Business Priorities for 2H 2015

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1. To aim for bigger market share; capture hotspot opportunities both at home and abroad; achieve full coverage of markets where Chinese companies enjoy comparative advantage; continue to add orders

2. To push for quick execution of jobs; achieve annual revenue target

3. To continue promoting oil production service; optimize business mix; fully harness existing capacity across business lines

4. To continue exercising rigorous cost control; rein in capital expenditure; maintain robust cash flow

Ample order backlog and quick execution of jobs to realize revenue target

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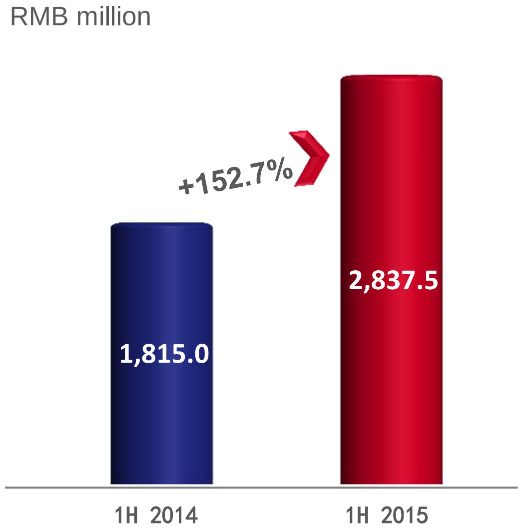

Note: as at the date of this announcement, the Group's order backlog was RMB2.84 billion;

USD140 million new order from an international company in Iraq

Drilling Technology

- All drills will commence engineering work
- Mud and well cementing services will initiate engineering jobs overseas
- Domestically, waste management service will progress steadily

Well Completion

- Signature sand and water control products and services will aim for full delivery in overseas markets

Down-hole Operation

- Fracturing operations will quicken in the Erdos and Sichuan basins
- Acidizing service will fully recover overseas

Oil Production

- Production operation management service will move ahead in solid steps overseas
- Workover service will operate under normal conditions domestically.

Tubular Services

- Inspection and evaluation service will operate as usual

Strategic Resources Alignment

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Cost

- To intensify staff evaluation; build lean and productive workforce; further improve staff mix
- To further strengthen controls on raw material costs and administrative expenses

Capital

- To intensify efforts to collect trade receivables, reduce liquidity need and maintain robust cash flow
- To tighten operational management aimed towards settlement to shorten capital turnover and enforce more rigorous project fund management

Capacity

- To encourage technology development in various business lines; impose strict capital expenditure discipline; no major capex plan for 2H 2015

Recognizing the challenging outlook, the Group will tighten cost control and increase capacity utilization. We will leverage comparative advantages to seize market shares, grow revenue and brace up for full recovery.

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Appendices

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Appendix 1: Consolidated Income Statement

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6 months ended 30 June (RMB million)	2015	2014
Revenue	861.5	1,112.4
Cost of sales	(625.0)	(691.2)
Gross Profit	236.5	421.2
Other gains, net	13.8	2.9
Selling expenses	(72.0)	(82.9)
Administrative expenses	(129.1)	(137.7)
Research and development expenses	(9.2)	(22.8)
Sales tax and surcharges	(7.6)	(11.6)
Operating Profit	32.4	169.0
Finance costs, net	(95.1)	(88.8)
Share of loss of a jointly controlled entity	(1.0)	(5.1)
Profit before Income Tax	(63.7)	75.1
Income tax expenses	(12.4)	(43.1)
Profit for the Year	(76.1)	32.1
Profit attributable to equity holders of the Company	(73.8)	27.4
Non-controlling interests	(2.3)	4.7

Appendix 2: Balance Sheet

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RMB million	As at 30 June 2015	As at 30 June 2014
Property, plant and equipment	2,364.8	2,293.5
Land use rights	60.3	61.0
Intangible assets	404.6	392.4
Investment in joint ventures	4.0	5.0
Other non-current assets	60.4	88.6
Deferred income tax assets	62.2	57.3
Inventories	901.0	709.7
Trade and notes receivables	1,342.9	1,588.2
Prepayments and other receivables	442.8	418.3
Restricted bank deposits	160.4	72.3
Term deposits with initial terms of over three months	9.0	8.0
Cash and cash equivalents	265.1	759.8
Total Assets	**6,181.5**	**6,491.2**
Capital and reserves attributable to equity holders of the Company	2,001.4	2,053.9
Non-controlling interests	81.3	94.9
Total Equity	2,082.7	2,148.8
Non-current liabilities	1,691.3	1,700.5
Current liabilities	2,407.5	2,641.9
Total Liabilities	4,098.8	4,342.4
Total Equity and Liabilities	**6,181.5**	**6,491.2**

Appendix 3: Cash Flow Statement

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For the 6 months ended 30 Jun (RMB million)	2015	2014
Net cash used in operating activities	(32.4)	(433.6)
Net cash used in investing activities	(168.7)	(229.4)
Net cash (used in) / generated from financing activities	(296.7)	(59.0)
Net (used in) / decrease in cash and cash equivalents	(497.8)	(722.0)
Cash and cash equivalents, at beginning of the period	759.7	1,770.2
Exchange loss on cash and cash equivalents	3.2	(5.6)
Cash and cash equivalents at end of the period	265.1	1,042.5