



ANTON 安東

2017 Interim Results Announcement

2017.8.28



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Agenda

1  **2017 Interim Results Summary**

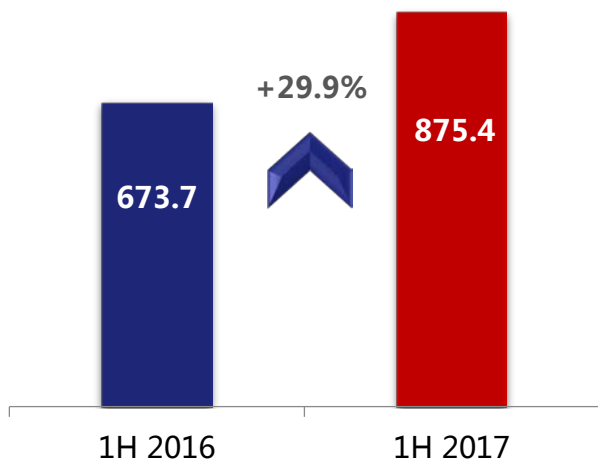
2  2H 2017 Outlook & Three-year Strategy Update

3  Q&A

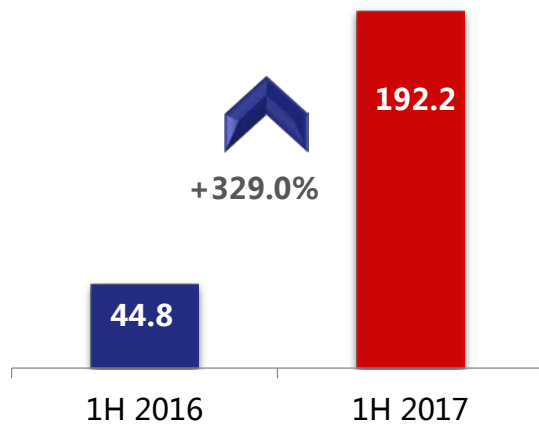
2017 Interim Results Summary

(RMB million)

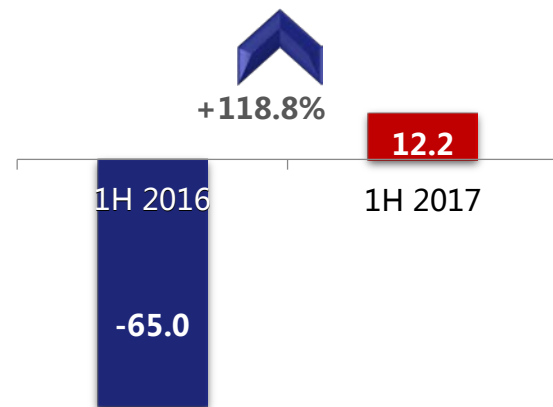
Revenue



Operating Profit



Profit Attributable to Owners of the Company





Business Highlights

- 1** Market and industry recovery; Major customers' Capex increased
- 2** All projects fully operated; Order execution speeded-up; Utilization rate improved; Revenue increased
- 3** Optimized business structure. Improved GP Margin. Results turned-around
- 4** Working capital turnover was improved, however, the net cash outflow was increased in order to support business recovery
- 5** Deleted the put option obligation of the Iraqi transaction. The consideration was reclassified as equity instead of liability. The payment will be received by the end of this month
- 6** Capital was secured as short-term borrowings were settled and renewed



Market & Industry Recovery; Major Customers' Capex Increased

BRENT Oil Price

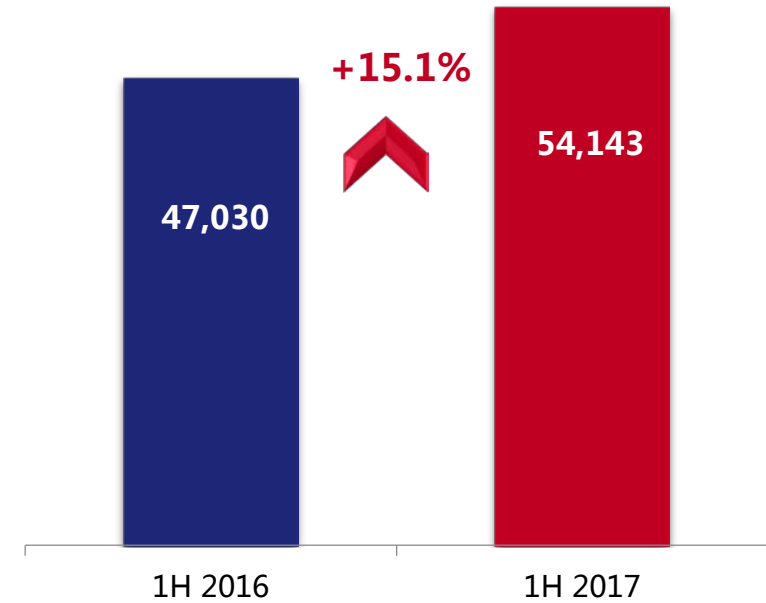


SOURCE: TRADINGECONOMICS.COM | OTC

Major Customers' Capex

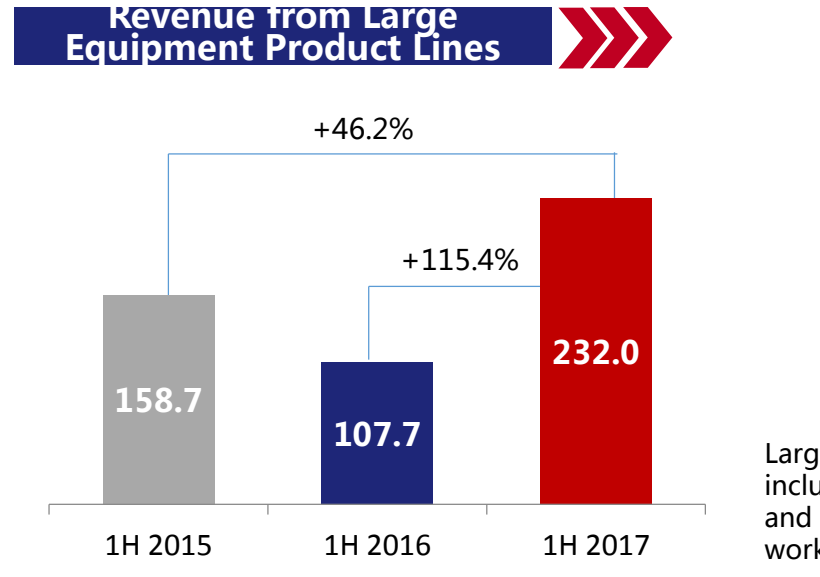
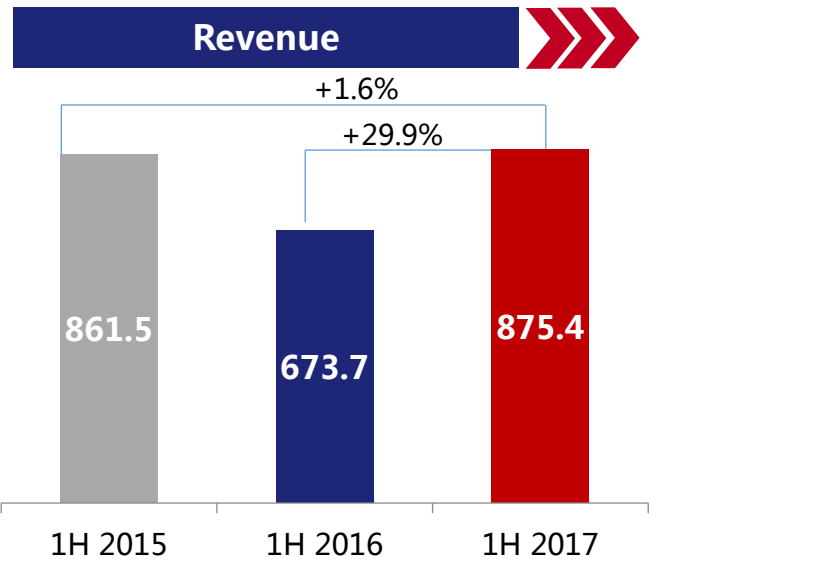


RMB million



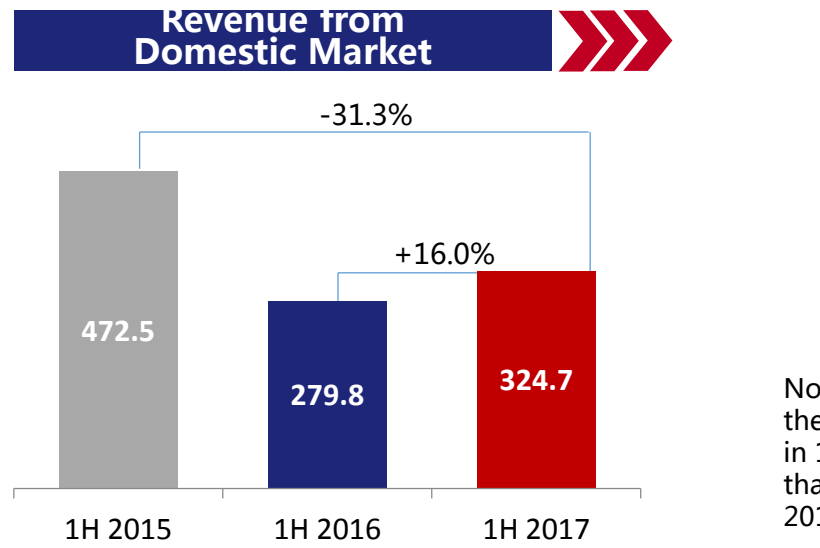
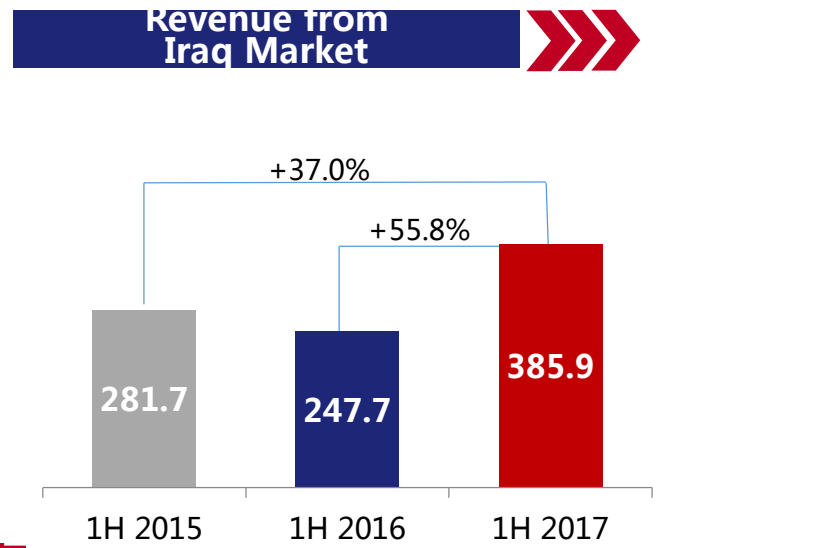


Project Fully Operated; Order Execution Speeded-up; Utilization Rate Improved; Revenue Increased



(RMB million)

Large Equipment Product Lines include drilling services, fracturing and pumping services and workover services.



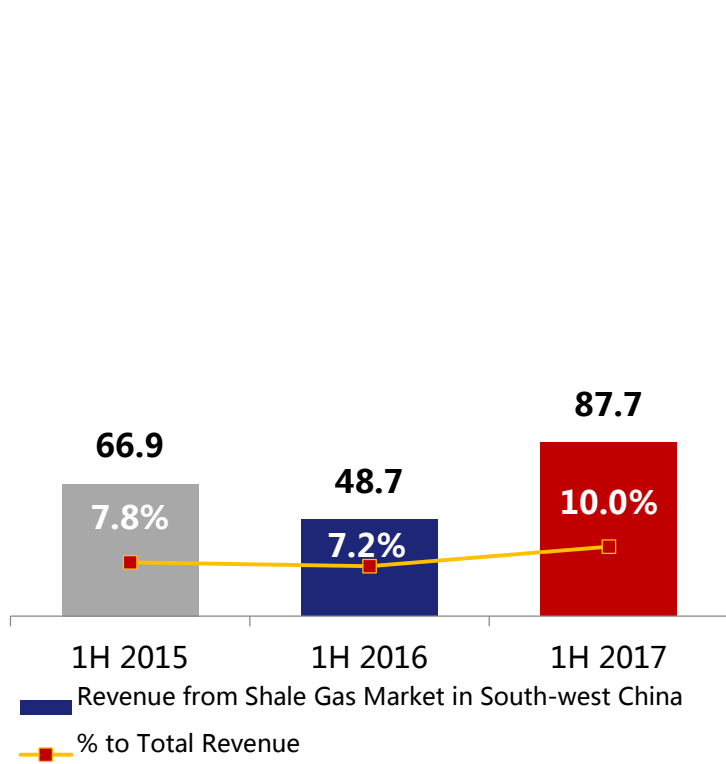
Note: Percentages represent the growth rate of the revenue in 1H 2017 as compared with that in corresponding period of 2015 and 2016.



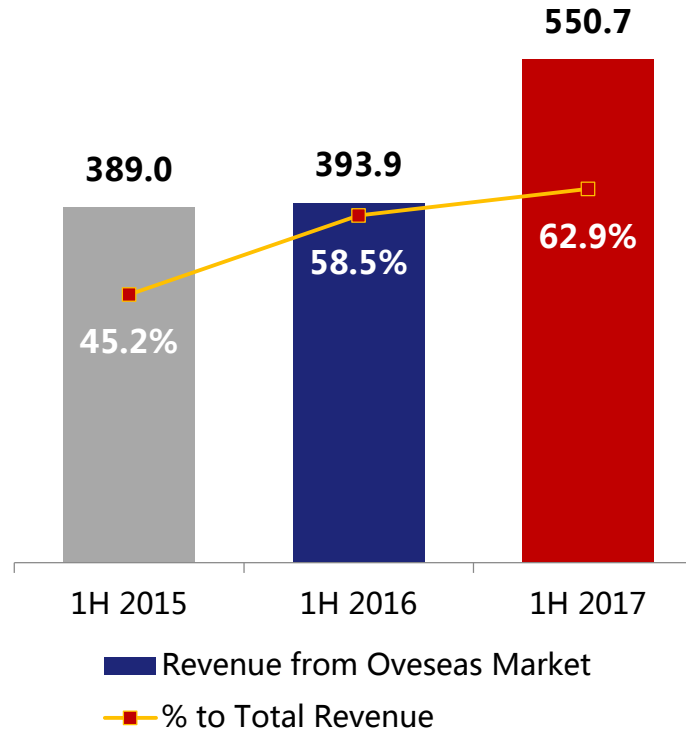
Optimized Business Structure; Improved GP Margin; Results Turned-around

(RMB million)

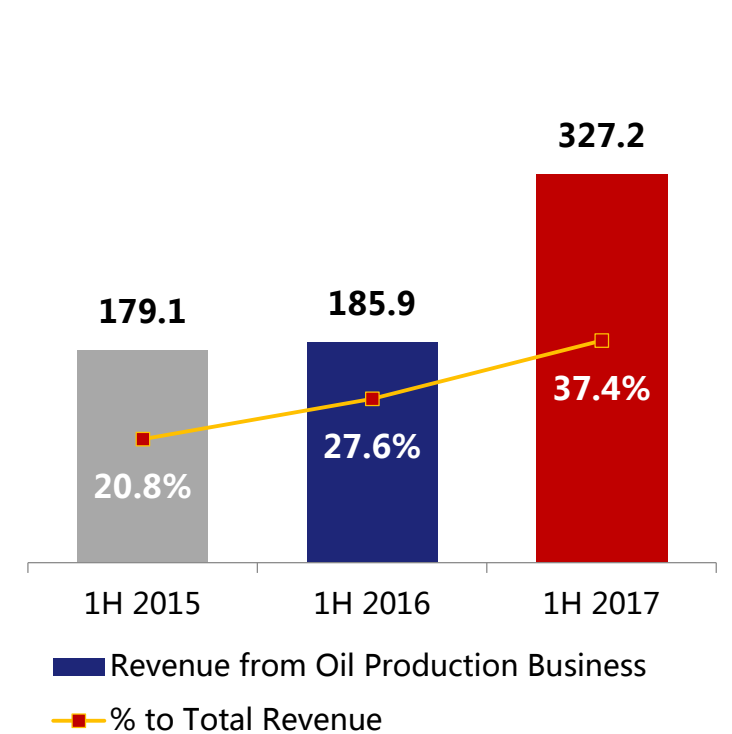
Shale Gas Market in South-west China



Overseas Market



Oil Production business





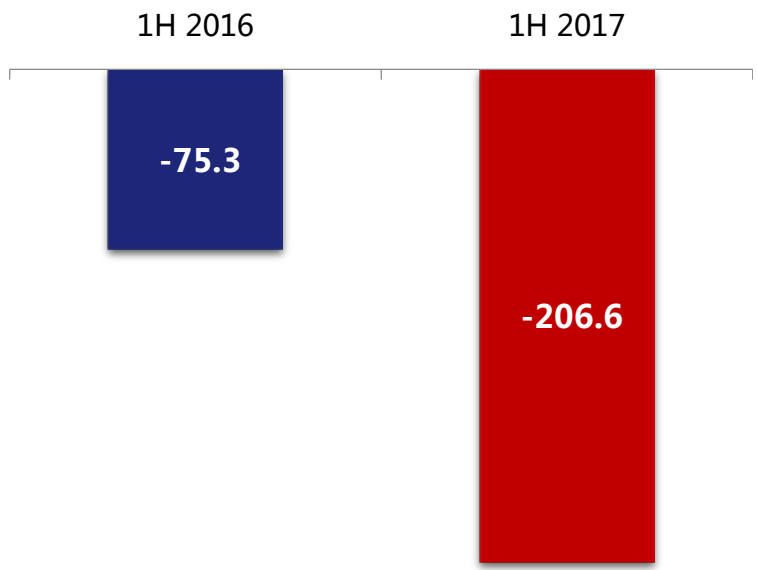
Improved Working Capital Turnover; Enhanced Operation Efficiency

	1H 2016	1H 2017	Change
Average Accounts Receivable Turnover Days	309	258	-51
Average Inventory Turnover Days	292	245	-47
Average Accounts Payable Turnover Days	144	139	-5
Major Working Capital Turnover Days	457	364	-93



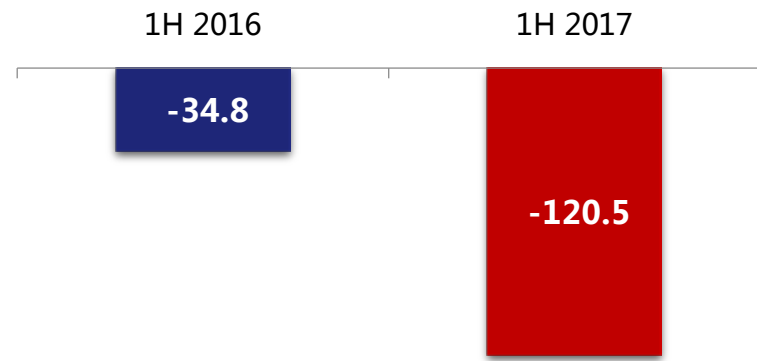
Increased Net Cash Outflow to Support Business Recovery

Operating Cash Flow



Investing Cash Flow

(RMB million)



- Increased net cash outflow to support business recovery. It mainly used for projects' performance guarantee, discount payment to supplier and partial prepayment

- Mainly for previous years payables. Less than 10.0 million was incremental capex



Deleted the put option obligation of the Iraqi transaction. The consideration was reclassified as equity instead of liability. The payment will be received by the end of this month

Accounting Treatment of the Consideration 

Debt : Long-term Payable **RMB 715.5M**

Credit : Capital Reserve **RMB 715.5M**



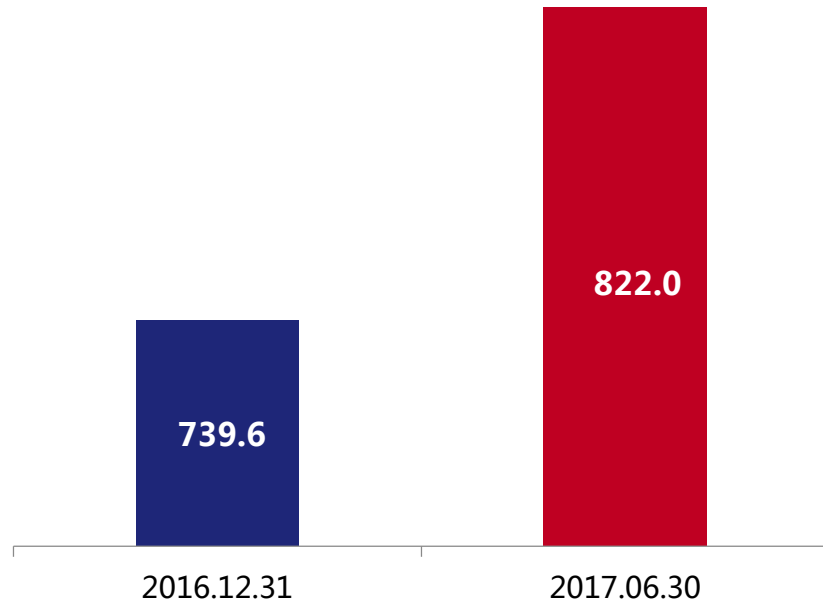
- Based on the mutual confidence in cooperation and the market prospects in Iraq, The Group and China Oil HBP agreed to delete the put option obligation stated in the shareholders' agreement. As such, liabilities of about RMB715.5 million reclassified as equity. The debt- to-total-assets ratio decreased
- China Oil HBP claimed that the last installment of the consideration which is equivalent to approx. 343.0 million has obtained approval for foreign exchange quota at the Bank of China, and is going through internal procedures of the bank. The Group will receive the consideration in equivalent amount of US dollars before 31 August 2017



Capital was Secured as Short-term Borrowings were Settled and Renewed

Short-term Borrowings

(RMB million)



- As of to date, the capital was secured as all short-term borrowings were settled and renewed
- The new loan periods were renewed to May – August 2018



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2  **2H 2017 Outlook & Three-year Strategy**

3  Q&A



Outlook for 2H2017

-  **Full-on internationalization, more opportunities in global emerging markets, numerous large-scale projects are underway**
-  **Full-on commencement of operation of the abundant order backlog, speed up execution of orders, revenue will have rapid growth**
-  **The Group will strengthen working capital management with cash as king**



Full-on internationalization, more opportunities on global emerging markets, numerous large-scale projects are underway



Iraqi Markets



- Crude oil production is increasing, it is expected daily production increase to 5 million barrels at the end of this year
- investment increased in each oilfield, investment project in new wells are entering to tendering gradually
- Taking part in bidding of large-scale projects of numerous international oil companies, strengthening on cooperation scale with existing international oil company clients

Markets along "Belt and Road"



- Clients in Ethiopia market has satisfactory outcome in natural gas production, it is expected service demands to increase on 2H
- Clients in Kazakhstan and Albania markets will focus on the commencement of main business in 2H
- Higher demand in old oilfield production increasing in Pakistan

Domestic Markets

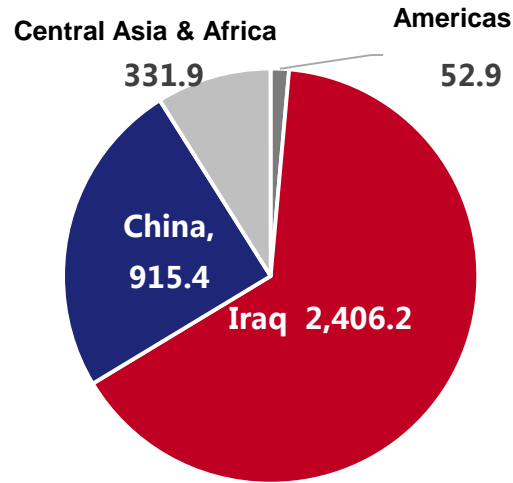


- Development in Southwest shale gas market will speed up. In view of the insufficient service available in the market, client is urgently arranging drilling rigs, fracturing and directional drilling equipment, posing urgent needs on huge amount of services
- Workload is expected to increase significantly, service price will rise
- The Group has tendered numerous large-scale projects, equipment utilization rate in this region will surge

Full-on commencement of operation of the abundant order backlog, speed up execution of orders, revenue will have rapid growth

Abundant Order Backlog

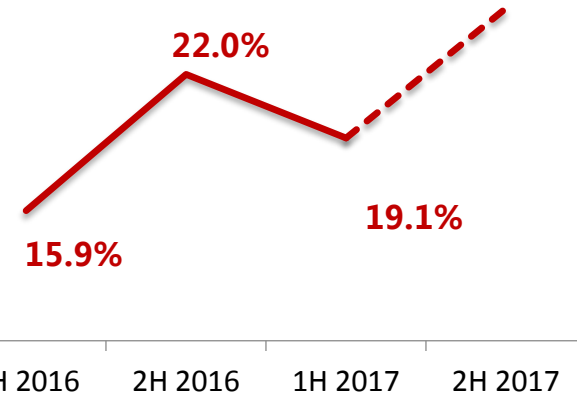
(RMB Million)



As of 2017.6.30

Order backlog amount:
RMB3,706.4 million

Improvement of Orders Converting Ratio



Orders Converting Ratio = $\frac{\text{Period Revenue}}{\text{Orders at Beginning of Period} + \text{New orders}}$

1 , Projects commenced on 1H, will fully execute in 2H

- Iraq integrated drilling project
- Iraq well completion and workover integrated project
- Iraq production operation management project
- Kazakhstan integrated drilling project
- Erdos drilling rig integrated project

2 , Main projects to be commenced on 2H

- Iraq cementing technology service project
- Iraq fracturing service
- Iraq water well workover integration project
- Iraq well completion tools service project
- Kazakhstan fracturing service
- Southwest integrated shale gas service project



Strengthen working capital management with Cash as King

Strive for positive cash flow from operating activities

- Continue to increase effort in collecting accounts receivable
- Strengthen strategic supplier management, arrange reasonable payment
- Strength co-operation with oversea banks, reduce capital usage for performance guarantee in oversea projects

Stringent control on investment cash flow

- Payment to previous year's payable to equipment suppliers only, no significant incremental capital expenditure

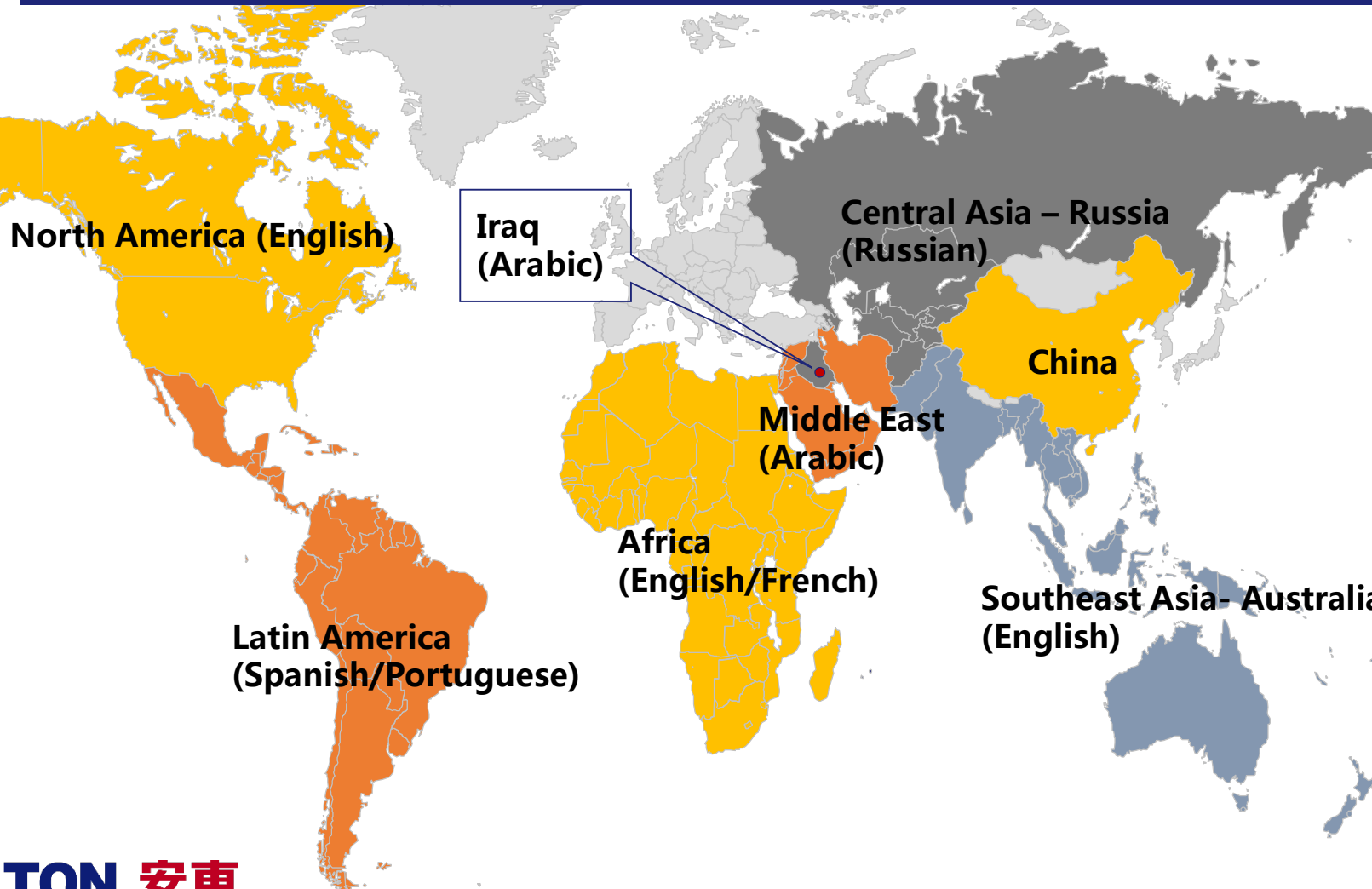
Maintain financing cash flow stability

- Strengthen domestic borrowings management, maintain borrowings scale, increase bank credit appropriately when necessary for business



Strategic Plan for Next Three Years

Goal: To be the most competitive cost-reducing and production-increasing integrated technology service company in the global emerging markets of oil and gas development industry



1 , Consolidate China market and overseas market expansion along “Belt and Road” of Chinese customers

2 , Maintain market speedy growth momentum, grasp existing clients in Iraq market

3 , Under strategic guidance of the “Belt and Road” , broaden horizon and eyes on global, increase the coverage of emerging market



Strategic Plan for Next Three Years

1

The Group will stick with an asset-light model of resource integration, and refine its service model of production-increasing and cost reducing integrated services

2

Enhance internationalized business ability and establishment of QHSE (Quality, Health, Safety, Environment)

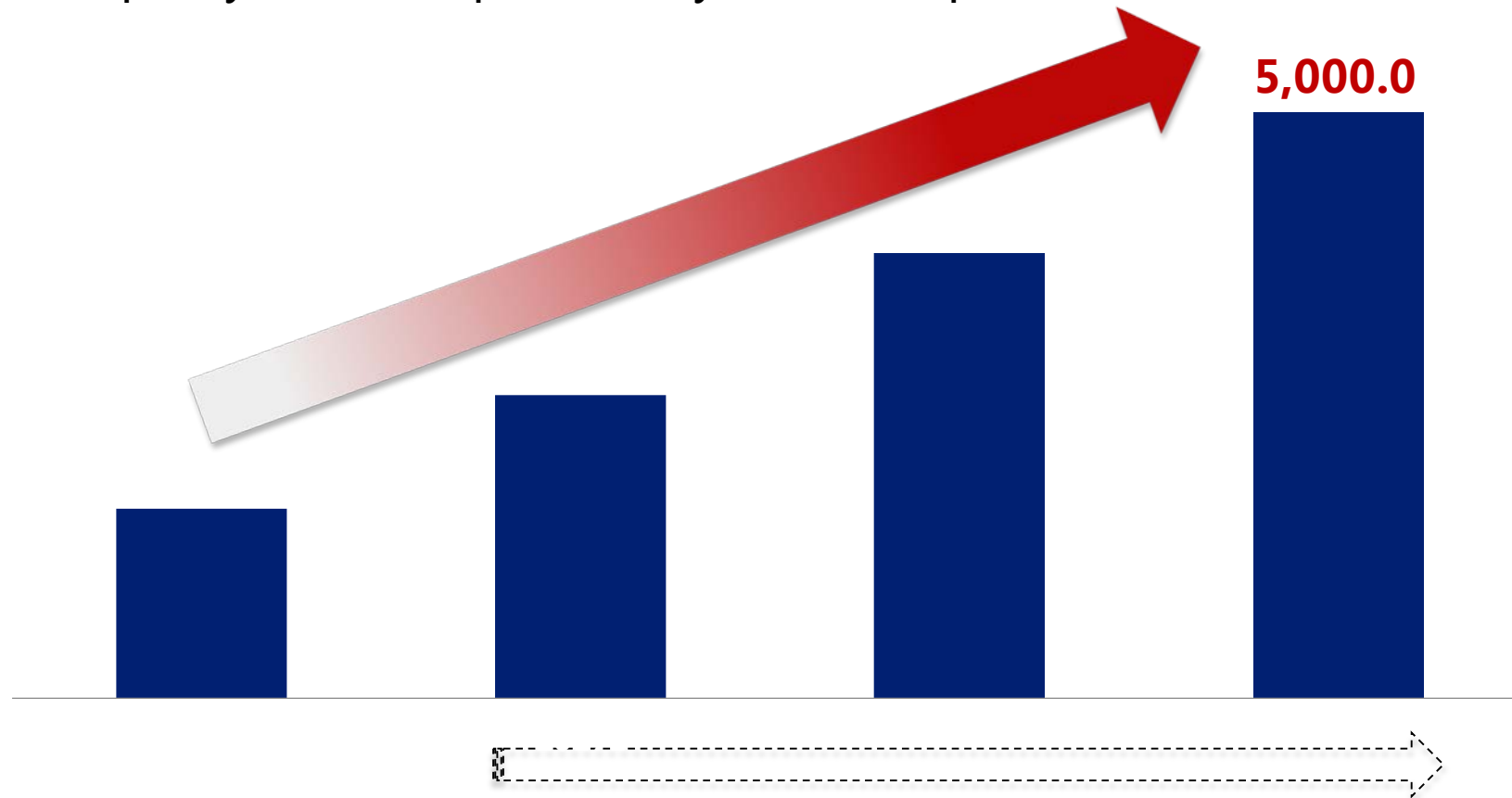
3

To build an internationalized and high quality oilfield exploration technology professional team



Business back on High Growth Track

- With revenue growth and successful turnaround in 1H, we believe we are back to high speed growth track in 2017
- In coming years, we will stick to asset-light strategy, aiming to realize the revenue target of over RMB5 billion with existing capacity, while heightening focus on business quality, strive for profitability, to realize positive cash flow!



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Appendix 1: Consolidated Income Statement

As at 30 June (RMB million)	2017	2016
Revenue	875.4	673.7
Cost of Sales	(546.7)	(499.6)
Gross Profit	328.7	174.1
Other gains, net	3.0	65.5
Selling expenses	(57.6)	(49.9)
Administrative expenses	(69.4)	(123.6)
Research and development expenses	(9.0)	(17.2)
Sales tax and surcharges	(3.5)	(4.0)
Operating Profit	192.2	44.8
Finance costs, net	(117.9)	(83.1)
Share of loss of an associate	(0.7)	-
Profit before Income Tax	73.5	(38.3)
Income tax expenses	(28.6)	(27.0)
Profit for the Year	45.0	(65.3)
Profit attributable to owners of the Company	12.2	(65.0)
Non-controlling interests	32.8	(0.2)

Appendix 2: Balance Sheet

RMB million	As at 30 June 2017	As at 31 December 2016
Property, plant and equipment	2,361.1	2,272.2
Prepaid lease payments	77.9	46.9
Intangible assets	171.2	173.2
Investment in an associate	3.3	3.6
Prepayments and other receivables	104.7	103.9
Other non-current assets	2.0	62.0
Deferred income tax assets	54.7	52.3
Inventories	705.4	781.2
Prepaid lease payments	1.9	1.1
Trade and notes receivables	1,444.2	1,298.0
Prepayments and other receivables	959.4	725.3
Restricted bank deposits	483.2	381.3
Term deposits with an initial term of over three months	5.0	11.0
Cash and cash equivalents	336.4	507.3
Total Assets	6,952.5	6,661.3
Equity attributable to owners of the Company	2,493.6	1,544.9
Non-controlling interests	491.0	432.0
Total equity	2,984.6	1,976.9
Non-current liabilities	1,740.9	2,504.2
Current liabilities	2,227.0	2,180.2
Total liabilities	3,967.9	4,684.4
Total equity and liabilities	6,952.5	6,661.3



Appendix 3: Cash Flow Statement

As at 30 June (RMB million)	2017	2016
Net cash used in operating activities	(206.6)	(75.3)
Net cash used in investing activities	(120.5)	(34.8)
Net cash from / (used in) financing activities	151.0	(145.5)
Net decrease in cash and cash equivalents	(176.0)	(255.6)
Cash and cash equivalents, at beginning of the period	507.3	458.2
Exchange gain on cash and cash equivalents	5.2	4.4
Cash and cash equivalents, at end of the period	336.4	207.0