COSL

中海油田服务股份有限公司
China Oilfield Services Limited

(Incorporated in the People's Republic of China as a joint stock limited liability company)

(Stock Code: 2883)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

1. Revenue was RMB18,426.1 million.

2. Profit from operations was RMB4,982.8 million.

3. Profit of the year was RMB4,039.5 million

4. Earnings per share were RMB89.86 cents

5. Total assets were RMB64,851.1 million

6. Shareholders' interest was RMB28,459.2 million

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
REVENUE	4	**18,426,133**	17,560,985
Other revenues	4	**112,710**	88,633
		18,538,843	17,649,618
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(3,069,595)**	(3,122,338)
Employee compensation costs	5	**(3,311,579)**	(2,938,103)
Repair and maintenance costs	5	**(538,646)**	(437,722)
Consumption of supplies, materials, fuel, services and others		**(3,447,908)**	(3,277,048)
Subcontracting expenses		**(1,514,062)**	(1,143,711)
Operating lease expenses	5	**(433,126)**	(379,690)
Other operating expenses		**(1,009,239)**	(936,679)
Other selling, general and administrative expenses		**(156,118)**	(41,860)
Impairment of property, plant and equipment	5	**(75,796)**	(172,401)
Total operating expenses		**(13,556,069)**	(12,449,552)
PROFIT FROM OPERATIONS		**4,982,774**	5,200,066
Financial income/(expenses)			
Exchange gains, net		**60,521**	87,584
Finance costs		**(469,743)**	(674,152)
Interest income		**63,804**	76,900
Financial expenses, net		**(345,418)**	(509,668)
Share of profits of jointly-controlled entities		**174,273**	143,839
PROFIT BEFORE TAX	5	**4,811,629**	4,834,237
Income tax expense	6	**(772,094)**	(706,239)
PROFIT FOR THE YEAR		**4,039,535**	4,127,998
Attributable to:			
Owners of the parent		**4,039,277**	4,128,494
Non-controlling interests		**258**	(496)
		4,039,535	4,127,998
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**89.86 cents**	91.84 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**4,039,535**	4,127,998
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(361,148)**	(215,199)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(361,148)**	(215,199)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,678,387**	3,912,799
Attributable to:		
Owners of the parent	**3,678,146**	3,913,317
Non-controlling interests	**241**	(518)
	3,678,387	3,912,799

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**46,285,323**	46,371,109
Goodwill	10	**4,245,207**	4,462,018
Other intangible assets		**371,656**	407,897
Investments in jointly-controlled entities		**444,767**	487,785
Available-for-sale investments		**–**	100
Defined benefit assets		**174**	6,265
Other non-current assets		**53,342**	28,120
Total non-current assets		**51,400,469**	51,763,294
CURRENT ASSETS			
Inventories		**894,553**	815,540
Prepayments, deposits and other receivables		**796,295**	388,791
Accounts receivable	11	**3,980,041**	3,460,752
Notes receivable	12	**1,219,384**	693,191
Other current assets		**21,310**	41,127
Pledged deposits		**10,805**	87,533
Time deposits with original maturity over three months		**882,126**	400,000
Cash and cash equivalents	13	**5,646,159**	5,847,164
Total current assets		**13,450,673**	11,734,098
CURRENT LIABILITIES			
Trade and other payables	14	**4,530,740**	4,435,823
Salary and bonus payables		**807,337**	781,375
Tax payable		**61,553**	124,028
Interest-bearing bank borrowings	15	**1,626,325**	650,721
Current portion of long term bonds	16	**–**	573,729
Other current liabilities		**79,197**	76,074
Total current liabilities		**7,105,152**	6,641,750
NET CURRENT ASSETS		**6,345,521**	5,092,348
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,745,990**	56,855,642

	Note	**31 December 2011** *RMB'000*	31 December 2010 *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,817,000**	1,716,052
Interest-bearing bank borrowings	*15*	**24,983,768**	27,090,539
Long term bonds	*16*	**1,500,000**	1,500,000
Deferred revenue		**986,068**	922,523
Other non-current liabilities		**–**	36,603
Total non-current liabilities		**29,286,836**	31,265,717
Net assets		**28,459,154**	25,589,925
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*17*	**4,495,320**	4,495,320
Reserves		**23,154,087**	20,285,099
Proposed final dividend		**809,158**	809,158
		28,458,565	25,589,577
Non-controlling interests		**589**	348
Total equity		**28,459,154**	25,589,925

1. CORPORATE INFORMATION

China Oilfield Services Limited (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin, the PRC. As part of the reorganisation (the "Reorganisation") of China National Offshore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

During the year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical and surveying services.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is CNOOC, which is a state-owned enterprise ("SOE") incorporated in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related party disclosures*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) Improvements to HKFRSs 2010

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, and the sale of well chemical materials and well workovers;

(c) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products and the transportation of methanol or other petrochemical products; and

(d) the geophysical and surveying services segment is engaged in the provision of offshore seismic data collection, marine surveying and data processing services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, and exchange gains/(losses) are excluded from such measurement.

Segment assets exclude certain cash and cash equivalents (funds managed by the corporate treasury), prepayments, pledged deposits, time deposits with original maturity over three months and other receivables as these assets are managed on a group basis.

Segment liabilities exclude certain other payables, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury) as these liabilities are managed on a group basis.

Funds managed by the COSL Norwegian AS group treasury were included in the drilling services segment. As such, the related cash and cash equivalents, interest-bearing bank borrowings and long term bonds were included in the drilling services segment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Year ended 31 December 2011				
	Drilling services	Well services	Marine support and transportation services	Geophysical and surveying services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	**9,514,660**	**3,950,350**	**2,533,772**	**2,427,351**	**18,426,133**
Intersegment sales	**1,958,421**	**940,246**	**399,796**	**376,685**	**3,675,148**
	11,473,081	**4,890,596**	**2,933,568**	**2,804,036**	**22,101,281**
Reconciliation:					
Elimination of intersegment sales					**(3,675,148)**
Revenue					**18,426,133**
Segment results	**3,431,367**	**590,280**	**517,602**	**617,798**	**5,157,047**
Reconciliation:					
Exchange gains, net					**60,521**
Finance costs					**(469,743)**
Interest income					**63,804**
Profit before tax					**4,811,629**
Segment assets	**70,388,183**	**3,735,359**	**4,911,878**	**3,988,722**	**83,024,142**
Reconciliation:					
Elimination of intersegment assets					**(24,536,312)**
Unallocated assets					**6,363,312**
Total assets					**64,851,142**
Segment liabilities	**28,461,966**	**1,625,337**	**888,450**	**869,678**	**31,845,431**
Reconciliation:					
Elimination of intersegment liabilities					**(24,536,312)**
Unallocated liabilities					**29,082,869**
Total liabilities					**36,391,988**
Other segment information:					
Capital expenditure	**2,605,033**	**452,893**	**292,502**	**946,898**	**4,297,326**
Depreciation of property, plant and equipment and amortisation of intangible assets	**1,941,785**	**540,122**	**304,814**	**282,874**	**3,069,595**
Provision for impairment of accounts receivable	**37,821**	**520**	**333**	**320**	**38,994**
Provision for impairment of other receivables	**(1,080)**	**(453)**	**(290)**	**(279)**	**(2,102)**
Provision for impairment of inventories	**267**	**112**	**72**	**69**	**520**
Provision for impairment of property, plant and equipment	**71,200**	**–**	**4,596**	**–**	**75,796**
Share of profits of jointly-controlled entities	**1,889**	**141,596**	**(728)**	**31,516**	**174,273**
Investments in jointly-controlled entities*	**(54,100)**	**322,795**	**22,554**	**99,418**	**390,667**

* The investments in jointly-controlled entities included investments in Premium Drilling AS ("Premium Drilling") and Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater") which were classified as other current liabilities amounting to RMB54.1 million in total.

	Year ended 31 December 2010				
	Drilling services	Well services	Marine support and transportation services	Geophysical and surveying services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	9,327,014	4,326,967	2,346,021	1,560,983	17,560,985
Intersegment sales	776,234	433,702	158,389	82,753	1,451,078
	10,103,248	4,760,669	2,504,410	1,643,736	19,012,063
Reconciliation:					
Elimination of intersegment sales					(1,451,078)
Revenue					17,560,985
Segment results	3,591,213	864,601	522,835	365,256	5,343,905
Reconciliation:					
Exchange losses, net					87,584
Finance costs					(674,152)
Interest income					76,900
Profit before tax					4,834,237
Segment assets	68,434,240	4,507,059	5,442,414	3,110,591	81,494,304
Reconciliation:					
Elimination of intersegment assets					(23,618,177)
Unallocated assets					5,621,265
Total assets					63,497,392
Segment liabilities	28,586,258	1,598,582	680,612	783,236	31,648,688
Reconciliation:					
Elimination of intersegment liabilities					(23,618,177)
Unallocated liabilities					29,876,956
Total liabilities					37,907,467
Other segment information:					
Capital expenditure	3,328,131	295,062	1,016,092	837,174	5,476,459
Depreciation of property, plant and equipment and amortisation of intangible assets	2,053,539	475,877	328,215	264,707	3,122,338
Provision for impairment of accounts receivable	188,742	1,884	1,023	684	192,333
Provision for impairment of other receivables	(133)	(63)	34,462	(23)	34,243
Provision for impairment of inventories	334	155	84	56	629
Provision for Impairment of available-for-sale investment	18,291	–	–	–	18,291
Provision for impairment of property, plant and equipment	145,699	–	26,702	–	172,401
Share of profits of jointly-controlled entities	85,896	50,706	(18,758)	25,995	143,839
Investments in jointly-controlled entities*	(54,907)	320,659	86,111	81,015	432,878

* The investments in jointly-controlled entities included investments in Premium Drilling and Atlantis Deepwater which were classified as other current liabilities and other non-current liabilities amounting to RMB18.3 million and RMB36.6 million, respectively.

Geographical information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical and surveying services in Mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Dubai, and certain countries in the Middle-East.

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations during the year were individually less than 10% of the Group's revenues (2010: Less than 10%), and approximately 71.9% (2010: 75.4%) of the Group's revenues were generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2011 and 2010.

	Year ended 31 December 2011		
	Mainland China	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue:			
Sales to external customers	**13,252,556**	**5,173,577**	**18,426,133**

	Year ended 31 December 2010		
	Mainland China	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue:			
Sales to external customers	13,248,896	4,312,089	17,560,985

A significant portion of the non-current assets is property, plant and equipment with high mobility which may have moved from Mainland China to foreign countries during the year and vice versa. As such, the necessary information is not available for the analysis of geographical information for non-current assets.

4. REVENUE AND OTHER REVENUES

Revenue, which is also the Group's turnover, mainly represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes.

An analysis of revenue and other revenues is as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Revenue:		
Rendering of services*	**18,238,631**	17,392,185
Gross rental income	**187,502**	168,800
Total revenue	**18,426,133**	17,560,985
Other revenues:		
Gain on disposal of equipment	**451**	8,227
Insurance claims received	**25,613**	30,378
Government grants	**81,609**	11,801
Others	**5,037**	38,227
Total other revenues	**112,710**	88,633

* Included in the amount recognised as revenue is deferred revenue of RMB145,439,000 (2010: RMB43,679,000).

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Auditors' remuneration:			
Audit		**17,069**	14,480
Non-audit		**5,329**	3,958
Employee compensation costs (including directors' remuneration):			
Wages, salaries and bonuses		**2,715,550**	2,485,019
Social security costs		**415,194**	293,716
Retirement benefits and pensions		**185,495**	157,678
Share appreciation rights		**(4,660)**	1,690
		3,311,579	2,938,103

The Group's profit before tax is arrived at after charging/(crediting) (continued):

		Group	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Depreciation of property, plant and equipment and amortisation of intangible assets		**3,069,595**	3,122,338
Loss on disposal of property, plant and equipment, net		**34,024**	25,643
Lease payments under operating leases in respect of land and buildings, berths and equipment		**433,126**	379,690
Impairment of property, plant and equipment	*9*	**75,796**	172,401
Impairment of accounts receivable, net	*11*	**38,994**	192,333
Impairment of other receivables, net		**(2,102)**	34,243
Impairment of inventories		**520**	629
Impairment of an available-for-sale investment		**–**	18,291
Repair and maintenance costs		**538,646**	437,722
Research and development costs, included in:		**334,120**	173,812
Depreciation of property, plant and equipment		**13,330**	11,890
Employee compensation costs		**35,399**	21,629
Consumption of supplies, materials, fuel, services and others		**277,438**	135,830
Other operating expenses		**7,953**	4,463

6. INCOME TAX

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for profits tax in Hong Kong as it does not have assessable profits currently sourced from Hong Kong.

The Corporate Income Tax Law of the PRC (the "CIT") effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% in China. The Company's statutory tax rate is 25%.

On 30 October 2008, the Company was certified as an High-New Technical Enterprise ("HNTE") by the Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and the Tianjin Local Taxation Bureau, which was effective for three years commencing 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from the Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2009. According to the approval, the corporate income tax rate was approved to be 15% for the years 2009 and 2010. The Company has applied to renew its HNTE certificate for three years commencing from 1 January 2011, and was re-certified as an HNTE on 8 October 2011, which is effective for three years commencing 1 January 2011. Consequently, management considers that it is appropriate to use the preferential rate of 15% to provide the income tax provision of the Company for the year ended 31 December 2011 (2010: 15%).

Certain overseas subsidiaries of the Group with a permanent establishment status in the PRC are subject to deemed income tax calculated at 3.75% (2010: 3.75%) of service income generated from drilling activities in the PRC. The Group's drilling activities in Indonesia are mainly subject to corporate income tax of 25% (2010: 25%) based on its taxable profit generated. The Group's drilling activities in Australia are subject to income tax of 30% (2010: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3.5% (2010: 3.5%) based on its gross service income generated from its drilling activities in Myanmar. The Group's drilling activities in Mexico are subject to the higher of the income tax rate of 30% and the business flat tax of 17.5% (2010: 30% and 17.5%, respectively). The Group's activities in Norway are mainly subject to corporate income tax of 28% (2010: 28%). The Group's taxes pertaining to drilling activities in Libya and Saudi Arabia are borne by the customers unless otherwise provided in the drilling contracts. The Group's drilling activities in the United Kingdom are subject to income tax of 28% (2010: Not applicable). The Group's drilling activities in Dubai are not subject to any income tax. The Group's taxes pertaining to Iran are borne by the customers. The Group's drilling activities in Iraq are subject to income tax of 35% (2010: Not applicable). The Group's taxes pertaining to drilling activities in Papua New Guinea are borne by the customers.

An analysis of the Group's provision for tax is as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**72,669**	75,703
Deferred	**(100,626)**	(124,524)
PRC corporate income taxes:		
Current	**540,016**	662,913
Deferred	**260,035**	92,147
Total tax charge for the year	**772,094**	706,239

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for Mainland China where the Company and its key jointly-controlled entities are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2011		2010	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**4,811,629**		4,834,237	
Tax at the statutory tax rate of 25% (2010: 25%)	**1,202,907**	**25.0**	1,208,559	25.0
Tax reduction as an HNTE	**(369,141)**	**(7.7)**	(373,874)	(7.7)
Income not subject to tax	**(43,251)**	**(0.9)**	(32,856)	(0.7)
Expense not deductible for tax	**31,146**	**0.6**	91,934	1.9
Tax benefit for qualifying research and development expense	**(28,422)**	**(0.6)**	(16,741)	(0.3)
Effect of different tax rates for overseas subsidiaries	**(186,040)**	**(3.9)**	(313,222)	(6.5)
Unrecognised tax losses	**259,644**	**5.4**	51,538	1.1
Deductible translation adjustment*	**(125,017)**	**(2.6)**	(61,393)	(1.3)
Adjustments in respect of current tax of previous periods	**(21,218)**	**(0.4)**	58,172	1.2
Others	**51,486**	**1.1**	94,122	1.9
Total tax charge at the Group's effective rate	**772,094**	**16.0**	706,239	14.6

* Deductible translation adjustment mainly represents the tax effect of differences arising from foreign exchange effects to Norwegian Kroner ("NOK"), which is the basis for taxation for some group subsidiaries. The translation adjustment mainly relates to the difference between the profit before tax denominated in NOK and that determined on the accounting basis of such group companies in US dollars, the functional currency.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB59,114,000 (2010: RMB66,586,000) is included in "Share of profits of jointly-controlled entities" in the consolidated income statement.

7. DIVIDENDS

	Group	
	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.18 per ordinary share (2010: RMB0.18 per ordinary share)	**809,158**	809,158

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company;

(iii) allocations to the discretionary common reserve if approved by the shareholders. The discretionary common reserve can be used to offset prior years' losses, if any, and can be capitalised as the Company's share capital.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the accounting principles generally accepted in the PRC and financial regulations in the PRC and (ii) the net profit determined in accordance with Hong Kong Financial Reporting Standards.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately RMB4,039,277,000 (2010: RMB4,128,494,000), and the weighted average number of ordinary shares of 4,495,320,000 (2010: 4,495,320,000) in issue during the year.

Basic and dilutive earnings per share were the same for the year ended 31 December 2011 and 2010 as the Group had no potentially dilutive ordinary shares in issue during those years.

9. PROPERTY, PLANT AND EQUIPMENT

Group

	31 December 2011						
	Tankers and vessels *RMB'000*	**Drilling rigs** *RMB'000*	**Machinery and equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Buildings** *RMB'000*	**Construction in progress *** *RMB'000*	**Total** *RMB'000*
At 31 December 2010 and at 1 January 2011							
Cost	8,642,379	31,147,110	9,229,326	69,090	65,124	15,360,505	64,513,534
Accumulated depreciation and impairment	(4,052,879)	(8,460,314)	(4,633,096)	(47,042)	(8,671)	(940,423)	(18,142,425)
Net carrying amount	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109
At 1 January 2011, net of accumulated depreciation and impairment	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109
Additions	19,532	76,414	395,053	3,908	577	3,791,517	4,287,001
Depreciation provided during the year	(403,713)	(1,454,300)	(1,145,961)	(10,317)	(3,243)	–	(3,017,534)
Disposals/write-offs	(17,645)	(5,795)	(29,851)	(102)	–	–	(53,393)
Transfers from/(to) construction in progress ("CIP")	944,001	5,258,589	606,587	11,823	575	(6,821,575)	–
CIP transfers to intangible assets	–	–	–	–	–	(9,845)	(9,845)
Impairment	(4,596)	(71,200)	–	–	–	–	(75,796)
Exchange realignment	(78,285)	(639,375)	(10,634)	–	–	(487,925)	(1,216,219)
At 31 December 2011, net of accumulated depreciation and impairment	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323
At 31 December 2011							
Cost	9,394,825	35,678,125	10,108,958	84,528	66,276	11,786,982	67,119,694
Accumulated depreciation and impairment	(4,346,031)	(9,826,996)	(5,697,534)	(57,168)	(11,914)	(894,728)	(20,834,371)
Net carrying amount	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323

Group

	31 December 2010						
	Tankers and vessels *RMB'000*	Drilling rigs *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Buildings *RMB'000*	Construction in progress * *RMB'000*	Total *RMB'000*
At 31 December 2009 and at 1 January 2010:							
Cost	8,608,113	28,129,569	8,474,399	77,860	70,439	14,966,585	60,326,965
Accumulated depreciation and impairment	(3,783,064)	(7,086,915)	(3,496,221)	(46,615)	(8,224)	(819,384)	(15,240,423)
Net carrying amount	4,825,049	21,042,654	4,978,178	31,245	62,215	14,147,201	45,086,542
At 1 January 2010, net of accumulated depreciation and impairment	4,825,049	21,042,654	4,978,178	31,245	62,215	14,147,201	45,086,542
Additions	–	87,934	156,673	1,793	80	5,221,730	5,468,210
Depreciation provided during the year	(374,123)	(1,434,938)	(1,258,681)	(10,008)	(3,459)	–	(3,081,209)
Disposals/write-offs	(6,857)	(85,146)	(54,642)	(975)	(2,383)	–	(150,003)
Transfers from/(to) CIP	173,478	3,569,996	780,599	–	–	(4,524,073)	–
CIP transfers to intangible assets	–	–	–	–	–	(15,753)	(15,753)
Impairment	(26,702)	–	–	–	–	(145,699)	(172,401)
Exchange realignment	(1,345)	(493,704)	(5,897)	(7)	–	(263,324)	(764,277)
At 31 December 2010, net of accumulated depreciation and impairment	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109
At 31 December 2010							
Cost	8,642,379	31,147,110	9,229,326	69,090	65,124	15,360,505	64,513,534
Accumulated depreciation and impairment	(4,052,879)	(8,460,314)	(4,633,096)	(47,042)	(8,671)	(940,423)	(18,142,425)
Net carrying amount	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109

As at 31 December 2011, the gross carrying amount of fully depreciated property, plant and equipment that is still in use was approximately RMB7,434,605,000 (2010: RMB7,084,831,000).

Included in the current year's additions was an amount of approximately RMB85,479,000 (2010: RMB91,856,000) in respect of interest capitalised in property, plant and equipment, with a capitalisation rate of 0.95% (2010: 0.88%).

Impairment of property, plant and equipment

An impairment provision of approximately RMB71,200,000 was recognised in 2011 to reduce the carrying amount of certain land drilling equipment in Libya, as a direct result of the civil unrest there.

In addition, an impairment loss of approximately RMB4,596,000 was also recognised in 2011 to reduce the carrying amount of a vessel, arising from the deterioration of the vessel's condition.

* On 14 January 2012, HYSY682, a deep water Anchor Handling Tug Supply ("AHTS") vessel of the Group being constructed by a shipyard included in the construction in progress as at 31 December 2011 and 2010, was grounded at the wharf of the shipyard as a result of a leak of the vessel. The losses or damages caused by the above incident have not been determined yet.

10. GOODWILL

Goodwill was generated in the acquisition of COSL Drilling Europe AS in 2008.

Group	**2011** *RMB'000*
Cost at 1 January 2011, net of accumulated impairment	**4,462,018**
Exchange realignment	**(216,811)**
Cost and net carrying value at 31 December 2011	**4,245,207**
Cost	**4,462,018**
Exchange realignment	**(216,811)**
Net carrying amount	**4,245,207**

Group	2010 *RMB'000*
Cost at 1 January 2010, net of accumulated impairment	4,600,473
Exchange realignment	(138,455)
Cost and net carrying value at 31 December 2010	4,462,018
Cost	4,600,473
Exchange realignment	(138,455)
Net carrying amount	4,462,018

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to a group of the drilling services cash-generating units, which is reportable in the "drilling services" segment as disclosed in note 3, for impairment testing.

The recoverable amount of the group of the drilling services cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 9.5% (2010: 9.5%).

Key assumptions were used in the value in use calculation of the group of the drilling services cash-generating units as of 31 December 2011 and 2010. The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

Discount rates – The discount rates used are before tax and reflect specific risks relating to cash generating unit.

The values assigned to the key assumptions which include the rig utilisation rate, day rate and projected expenses are consistent with external information sources and historical trends.

11. ACCOUNTS RECEIVABLE

The general credit terms of the Group range from 30 to 45 days upon the issuance of invoices. The Group's accounts receivable relate to a large number of diversified customers. Other than the accounts receivable related to CNOOC and its subsidiaries, excluding CNOOC Limited Group (the "CNOOC Group") and the CNOOC Limited Group as disclosed below, there was no significant concentration of credit risk of the Group's accounts receivable during the reporting period. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. All accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within one year	**4,182,218**	3,692,000
One to two years	**84,582**	21,100
Two to three years	**1,747**	21,209
Over three years	**24,655**	7,923
	4,293,202	3,742,232
Less: Provision for impairment of accounts receivable	**(313,161)**	(281,480)
	3,980,041	3,460,752

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**281,480**	92,191
Impairment losses recognised (note 5)	**49,282**	196,443
Impairment losses reversed (note 5)	**(10,288)**	(4,110)
Exchange realignment	**(7,313)**	(3,044)
At 31 December	**313,161**	281,480

Included in the above provision for impairment of accounts receivable are a provision for individually impaired accounts receivable of RMB32,947,000 (2010: RMB176,654,000) with a carrying amount before provision of RMB909,857,000 (2010: RMB325,490,000) and a provision for accounts receivable collectively, which share similar credit risk characteristics, of RMB16,335,000 (2010: RMB19,789,000) with a carrying amount before provision of RMB48,545,000 (2010: RMB50,232,000).

As at 31 December 2011 and 2010, the Group did not have any significant accounts receivable past due but not impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

12. NOTES RECEIVABLE

	Group	
	31 December	31 December
	2011	2010
	RMB'000	*RMB'000*
Trade acceptances	**1,217,384**	691,574
Bank acceptances	**2,000**	1,617
	1,219,384	693,191

Notes receivable are non-interest bearing and have an average term of 30 days.

13. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS

	Group	
	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Cash and balances with banks	**1,770,986**	3,375,452
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**1,073,852**	1,259,245
Time deposits at banks	**3,694,252**	1,700,000
Cash and balances with banks and financial institutions	**6,539,090**	6,334,697
Less:		
Pledged deposits – current	**(10,805)**	(87,533)
Time deposit with original maturity over three months	**(882,126)**	(400,000)
Cash and cash equivalents	**5,646,159**	5,847,164

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB 3,121,464,000 (2010: RMB3,555,179,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2011, included in the time deposits at banks of the Group were non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB882,126,000 (2010: RMB400,000,000).

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

14. TRADE AND OTHER PAYABLES

An ageing analysis of the trade and other payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within one year	**4,351,926**	4,173,676
One to two years	**79,990**	138,652
Two to three years	**34,673**	33,448
Over three years	**64,151**	90,047
	4,530,740	4,435,823

Trade and other payables are non-interest-bearing. Trade and other payables are normally settled on terms ranging from one month to two years.

15. INTEREST-BEARING BANK BORROWINGS

Group

Current:

	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Current portion of long term bank loans	**1,626,325**	650,721

Non-current:

	Contractual interest rate	**Year of maturity**	**31 December 2011**	31 December 2010
	(%)		***RMB'000***	*RMB'000*
Export-Import Bank of China-unsecured (a)	i	2013	–	344,000
Export-Import Bank of China-unsecured (b)	ii	2017	–	312,000
Export-Import Bank of China-unsecured (c)	LIBOR+170pts	2020	**4,710,921**	5,219,623
Export-Import Bank of China-unsecured (d)	iii	2015	–	450,000
Bank of China-unsecured (e)	LIBOR+138pts	2017	**13,077,912**	11,105,952
Bank of China-unsecured (f)	LIBOR+90pts	2017	**5,040,720**	5,298,160
Industrial and Commercial Bank of China-unsecured (f)	LIBOR+90pts	2017	**3,780,540**	3,973,620
Entrusted loan-unsecured (g)	iv	2012	–	1,000,000
Bank loan-secured (h)	3.20%	2011	–	37,905
			26,610,093	27,741,260
Less: Current portion of long term bank loans			**(1,626,325)**	(650,721)
			24,983,768	27,090,539

i Market interest rate of a similar loan type quoted by the People's Bank of China.

ii 4.86% for the first quarter and thereafter the market interest rate of a similar loan type quoted by the People's Bank of China.

iii 3.51% for the first quarter and thereafter the market interest rate of a similar loan type quoted by the People's Bank of China.

iv Floating interest rate, with a commission of 0.15% of the entrusted loan.

(a) The Group borrowed a RMB denominated bank loan for the purpose of financing the construction of certain modular drilling rigs. The borrowing is to be repaid from 30 June 2008 to 30 June 2013 by instalments as follows: RMB200 million on every 30 June from 2008 to 2011, RMB100 million on 30 June 2012, and RMB44 million on 30 June 2013. The Group repaid all the outstanding balances during the first half of the year.

(b) The Group borrowed a RMB400 million loan for the purpose of financing the construction of boats for the workover operation in Indonesia. The borrowing should be repaid from 19 November 2009 to 19 November 2017 by instalments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017. The Group repaid all the outstanding balances during the first half of the year.

(c) The Group borrowed a US$800 million loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011, with instalments amounting to US$42.1 million bi-annually.

(d) The Group borrowed a RMB450 million loan with repayment started on 7 April 2011, and instalments amounting to RMB90 million annually. The Group repaid all the outstanding balances during the first half of the year.

(e) The Group borrowed US$1,680 million to replace CDE's loans and bond. The repayment will start on 14 May 2012 over 11 instalments, to be paid bi-annually.

(f) The Group borrowed US$800 million from Bank of China and US$600 million from Industrial and Commercial Bank of China in May 2009 to replace CDE's syndicated bank loan, which will be repaid on 24 May 2017 and 21 May 2017, respectively.

(g) The Group obtained entrusted loan facilities from CNOOC Finance Co., Ltd., entrusted by CNOOC, amounting to RMB 1 billion, which will expire on 29 June 2012. The Group repaid the outstanding balance during the first half of the year.

(h) The loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, COSLPower (formerly known as WilPower). In return, the loan carries a fixed interest rate of 3.2%. The loan is to be repaid in semi-annual instalments beginning six months after the loan drawdown date. Proceeds of the loan were deposited in an account with the agent bank, which serve as a security for the loan and are classified as pledged time deposits in the consolidated statement of financial position. The Group repaid the outstanding balance during the year, and the pledged time deposits were released in the current year.

	Group	
	31 December 2011	31 December 2010
	RMB'000	*RMB'000*
Bank borrowings repayable:		
Within one year	**1,626,325**	650,721
In the second year	**1,545,176**	2,712,806
In the third to fifth years, inclusive	**14,741,082**	9,258,165
Beyond five years	**8,697,510**	15,119,568
	26,610,093	27,741,260

There were no assets pledged for any of the above bank borrowings as at 31 December 2011 (2010: RMB38 million).

16. LONG TERM BONDS

Group

	Year of maturity	31 December 2011 RMB'000	31 December 2010 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
Second security priority USD bonds (b)	2011	**–**	573,729
		1,500,000	2,073,729
Less: Current portion of long term bonds		**–**	(573,729)
		1,500,000	1,500,000

(a) On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100.00 per bond, amounting to RMB1,500 million. The bonds carry interest at a fixed coupon rate of 4.48% per annum, which is payable annually in arrears on 14 May, and the redemption or maturity date is 14 May 2022.

(b) COSL Drilling Semi AS (formerly known as "Offrig Drilling ASA") issued the bonds in April 2006, with a book value of US$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The company incurred debt issuance costs of US$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the bonds. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity. In April 2011, the bonds matured and had been redeemed. The mortgage in the construction contracts relating to semi-submersible rigs was released accordingly.

17. ISSUED CAPITAL

	Group	
	31 December 2011 ***RMB'000***	31 December 2010 *RMB'000*
Registered, issued and fully paid:		
2,460,468,000 state legal person shares of RMB1.00 each	**2,460,468**	2,460,468
1,534,852,000 H shares of RMB1.00 each	**1,534,852**	1,534,852
500,000,000 A shares of RMB1.00 each	**500,000**	500,000
	4,495,320	4,495,320

There were no movements in the Company's issued ordinary share capital during the year.

The Company does not have any share option scheme but has a share appreciation rights plan for senior officers.

18. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 14 January 2012, HYSY682, a deep water AHTS vessel of the Company being constructed by Wuchang Shipbuilding Industry Company Ltd. (the "Shipyard") at a contract cost of approximately RMB740 million, was grounded at Nantong Wharf of the Shipyard as a result of a leak of the vessel (the "Incident").

The Company has taken full insurance on HYSY682 and the claim procedures relating to the Incident have been initiated by the Company in accordance with the insurance contract. In addition, the Shipyard should be responsible for keeping the vessel safe and be liable for the relevant losses or damages prior to its delivery in accordance with the construction contract signed by the Company and the Shipyard. At 31 December 2011, the construction cost of HYSY682 recognised in the property, plant and equipment account was approximately RMB642 million. As at the approval date of the consolidated financial statements, the losses or damages caused by the Incident and the relevant reclaimable amount have not been determined yet.

MANAGEMENT DISCUSSION AND ANALYSIS

The financial data in the following discussion and analysis are extracted from the Group's audited financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

INDUSTRY REVIEW

In 2011, the uncertainty in the world's economies and the political turmoil in the Middle East and North Africa led to instability and uncertainty in the global economy and slowdown in its recovery. However, in the industry of oil and gas, driven by economic recovery, investment in survey and development by oil companies world-wide totaled over US$500.0 billion, an increase of 12% compared with 2010. In the circumstances, demand for oilfield equipment and services rose and the companies in this industry maintained an overall optimistic trend. According to Spears, the income of global oilfield service market reached US$313.1 billion in 2011, increased by 18% compared with last year. According to ODS statistics, demand for drilling rigs increased compared with 2010, and the utilization rate of jack-up rigs reached 74.2% over 2011, increased by 1.6% compared with 2010, and that of deep-water drilling rigs reached 94.4%, increased by 0.9% compared with 2010. With expanding investment in offshore oil and gas exploration by oil and gas companies, geophysical and surveying services market expanded in 2011 and demand of geophysical equipment thereof surged.

BUSINESS REVIEW

Drilling Services Segment

COSL is the major supplier of China offshore drilling services, and is also an important participant of the international drilling services. The Group mainly provides services such as drilling, module rigs, land drilling rigs and drilling rigs management. At the end of 2011, the Group operated and managed a total of 33 drilling rigs (of which 27 are jack-up drilling rigs, and 6 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 8 land drilling rigs.

In 2011, competition was still intense in the drilling services market. COSL continued to solidify its position in the domestic drilling services market, and at the same time kept expanding its overseas markets. During the year, the Group mobilized 2 jack-up drilling rigs respectively to the Indonesian and Mexican markets and won the second contract renewal for the 4 module rigs operating at Mexico Bay, while successfully renewed a service contract with ConocoPhillips Skandinavia AS in relation to an offshore accommodation rig-COSLRigmar for a term of 12 months. 2 jack-up drilling rigs and a deep-water semi-submersible drilling rig, COSLPioneer, delivered at the end of October last year, commenced operation in the first quarter and third quarter of this year respectively. In addition, 2 jack-up drilling rigs and a deep-water semi-submersible drilling rig, COSLInnovator, were successfully delivered in May and October this year respectively, and the two jack-up drilling rigs commenced operation in the third quarter of this year. In the current year, the Group also started the construction of a deep-water semi-submersible drilling rig, COSLProspector, which can drill in water depths of up to 1,500 metres. Driven by the commencement of new operation equipment, the operating days of the Group's drilling rigs in 2011 was 9,870 days, representing an increase of 934 days compared with last year. During the year, the Group's drilling service operation achieved revenue of RMB9,514.6 million, representing an increase of 2.0% compared with RMB9,327.0 million of last year.

At the end of 2011, the Group had 13 drilling rigs operating in Bohai of China, 5 in South China Sea, 1 in East China Sea, 12 in overseas countries such as Indonesia, Australia and Norway etc.. In addition, there were 2 drilling rigs in pre-operation stage. 2 accommodation rigs were providing services to customers in the North Sea. 4 module rigs were working in Mexican waters, 5 land drilling rigs originally working in Libya suspended operation due to the civil war within that country, and 3 land drilling rigs were in preparation for overseas operation.

2011 operation details of the Group's jack-up and semi-submersible drilling rigs are as follows:

	2011	2010	**Increase/ (Decrease)**	**Percentage change**
Operating days (day)	**9,870**	8,936	**934**	**10.5%**
Jack-up drilling rigs	**8,692**	7,933	**759**	**9.6%**
Semi-submersible drilling rigs	**1,178**	1,003	**175**	**17.4%**
Available day utilization rate	**96.5%**	99.5%	**down 3.0 bps**	
Jack-up drilling rigs	**96.0%**	99.5%	**down 3.5 bps**	
Semi-submersible drilling rigs	**100.0%**	100.0%	–	
Calendar day utilization rate	**93.7%**	94.6%	**down 0.9 bps**	
Jack-up drilling rigs	**93.4%**	94.9%	**down 1.5 bps**	
Semi-submersible drilling rigs	**95.5%**	91.6%	**up 3.9 bps**	

The main reasons for the increase of 759 days in operating days of jack-up drilling rigs were as follows. Firstly, HYSY936 and HYSY937 which commenced operation last year fully operated and increased operating days by 73 days during the year. Secondly, HYSY921 and HYSY922 which were delivered at the end of last year formally began operation in March 2011 and increased operating days by 612 days. Thirdly, newly delivered HYSY923 and HYSY924 which commenced operation this year increased operating days by 297 days. In the meantime, 2 jack-up drilling rigs, COSLSeeker and COSLConfidence, operated 330 days less due to the Group operation rearrangement, but the operating days of other jack-up drilling rigs increased by 107 days due to the decrease in the number of days of repair and maintenance.

The operating days of semi-submersible drilling rigs increased by 175 days compared with last year mainly due to COSLPioneer which commenced operation this year operating 125 days, and the operating days of other semi-submersible drilling rigs increasing by 50 days due to the decrease in the number of days of repair and maintenance.

Affected by the above factors, the calendar day utilization rate of the Group's drilling rigs was 93.7 %, representing a decrease of 0.9 bps as compared with last year.

The 2 accommodation rigs continued to operate for 730 days in the North Sea in 2011, with both their available day utilization rate and calendar day utilization rate reaching 100.0%.

The 4 module rigs working in Mexican Bay were upgraded and modified during the year to provide better service to the clients, and operated for 1,064 days during the year with a calendar day utilization rate of 72.9 %. Among the 8 land drilling rigs, 2 were delivered at the end of the year and were in pre-operation preparation together with 1 original land drilling rig. 6 original land drilling rigs of the Group operated for a total of 444 days, representing a decrease of 1,683 days compared with last year. This was mainly due to the turbulence in Libya which led to the suspension of operation of 5 land drilling rigs of the Group since the end of February this year. Under this impact, the calendar day utilization rate of land drilling rigs decreased to 20.3%.

Driven by the semi-submersible drilling rig, COSLPioneer, the average daily income of the drilling rigs of the Group for 2011 increased compared with last year, and the details are as follows:

Average daily income (ten thousand US$/day)	**2011**	2010	**Increase/ (Decrease)**	**Percentage change**
Jack-up drilling rigs	**10.7**	11.3	**(0.6)**	**(5.3%)**
of which: CDE	**11.7**	12.9	**(1.2)**	**(9.3%)**
Semi-submersible drilling rigs	**26.1**	19.4	**6.7**	**34.5%**
Accommodation rigs	**21.5**	22.1	**(0.6)**	**(2.7%)**
Group average	**13.2**	12.9	**0.3**	**2.3%**

Note: (1) Average daily income equals to the average day rate as set out in the Group's annual report for previous years.

(2) RMB/US$ exchange rate was 1 : 6.3009 on 31 December 2011 and 1 : 6.6227 on 31 December 2010, respectively.

(3) If effect of changes in exchange rate between US$ and RMB in 2011 be considered, the average day income of drilling rigs in 2011 decreased by 0.8% as compared with previous year.

Well Services Segment

The Group possesses over 30 years of experiences in offshore well services operation and over 20 years of experiences in onshore well services operation. Also, the Group is the main provider of China offshore well services together with the provision of onshore well services. The Group's major clients for well services include oil and gas companies in China (such as CNOOC Limited and Petrochina etc) and oil and gas multinationals (such as BP, Shell, ConocoPhillips and Chevron etc.). Through

continuous input in technology research and development, advanced technological facilities and an excellent management team, the Group provide comprehensive professional well services to clients, including (but not limited to) logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.

In 2011, the operation volume of the well services segment decreased due to market impact and the oil spill incident at the Penglai 19-3 oilfield, resulting in a revenue of RMB3,950.4 million, a decrease of RMB376.6 million or 8.7% compared with RMB4,327.0 million for last year.

Although the domestic market was exposed to huge pressure, the Group remained committed to consolidate its overseas markets. The Group successfully renewed the Papua New Guinea project and the 1-year cementing service contract for three sets of cementing equipment with Philippine Energy Development Corporation (EDC). Moreover, the Group also completed the first optimization of onshore oilfield production in East Java Island, Indonesia, which laid a foundation for the Group's expansion in the oilfield production optimization business in Indonesia. In the meantime, the Group proactively pressed ahead with the application of high-end cable logging equipment into the market, including self-developed ERCT stratum tester, EXDT cross-dipole array acoustic logger, nuclear magnetic resonance and well wall rotating corer. In addition, the Group also made progress in new energy field. Following successful exploring the logging services to coalbed methane projects of Sino Gas & Energy last year, the Group continually obtained projects from China CBM, Far East Energy and Asia Pacific Oil Company.

Focusing on enhancing the Group's science and technology research and development capabilities has always been a key part of the business of well service. The Group's self-developed well completion tools successfully passed the high-temperature and high-pressure tests. The self-developed cement slurry for deep-water cementing successfully passed the on-site deep-water test, symbolizing that the Group possessed the initial ability to carry out deep-water cementing. The Group has successfully implemented the first coiled tubing water-jet cutting operation in China, marking the first step in the new technology of coiled tubing operation. The self-developed Enhanced Reservoir Characteristic Tester (ERCT), appearing in the major national science and technology achievements exhibition of "eleventh five-year plan", was the first set of modular strata testing instrument within the country, which made China one of few countries which own this technology. In addition, the Group successfully developed COTAS rotation directional drilling system and the theoretical prototype for 3-D induction logger. Progress was also made in the research and development of the new generation of ELIS surface logging system.

Marine Support and Transportation Services Segment

The Group possesses and operates the largest and most comprehensive offshore utility transportation fleet in China. As of 31 December 2011, the Group owned an aggregate of 75 utility vessels of various types, 3 oil tankers and 5 chemical carriers, which were mainly operating in offshore China. The offshore utility vessels provide services for offshore oil and natural gas fields exploration, development and production, and are responsible for supplies, cargoes and crew transportation and standby services at sea, and provide moving and positioning services for drilling platforms, towing and anchoring services for offshore vessels. The oil tankers are used for transporting crude oil, refined oil and gas product. The chemical carriers are used for carrying chemical products such as methanol.

As the number of vessels in the marine support and transportation services market increased, the Group's marine support and transportation services segment faced increasingly intense market competition. While guaranteeing safe operation, the Group has effectively integrated external resources and made full use of its competitive edge in management. On one hand, the Group consolidated its market share in China, maintaining a leading position in the industry in China and a high calendar day utilization rate of 94.6%. On the other hand, the Group sought opportunities to develop the deep-water field. As for new equipment, the Group purchased a high-powered utility vessel – HYSY 683 from Singapore at the end of the year. The addition of this vessel will enhance the competitiveness of the Group's marine support and transportation services.

The operation of the Group-owned utility vessels in 2011 was as follows:

Operating days (day)	**2011**	2010	**Increase/ (Decrease)**	**Percentage change**
Standby vessels	**15,491**	16,466	**(975)**	**(5.9%)**
AHTS vessels	**5,682**	6,225	**(543)**	**(8.7%)**
Platform supply vessels	**1,764**	1,733	**31**	**1.8%**
Multi-purpose vessels	**1,352**	1,239	**113**	**9.1%**
Workover support barges	**1,361**	1,106	**255**	**23.1%**
Total	**25,650**	26,769	**(1,119)**	**(4.2%)**

The operating days of Group self-owned vessels decreased by 1,119 days compared with last year, which was mainly due to the retirement and scrapping of 6 vessels in 2010, and there was 1 vessel scrapped this year, which resulted in the decrease of operating days by 1,136 days, while the 4 workover support barges increased operating days by 255 days. The operating days of other vessels decreased by a total of 238 days due to repair and maintenance.

The total transportation volume of oil tankers and chemical carriers remained basically stable, of which, the transportation volume of oil tankers was 1,938 thousand tonnes, representing a decrease of 4.4% compared with 2,028 thousand tonnes of last year, and the transportation volume of chemical carriers was 1,858 thousand tonnes, representing an increase of 4.4% compared with 1,779 thousand tonnes of last year.

Through reasonable redeployment of external resources, the marine support and transportation services segment achieved a revenue of RMB2,533.8 million in 2011, increased by RMB187.8 million or 8.0% compared with RMB2,346.0 million of last year.

Geophysical and Surveying Segment

The Group is a major supplier of China offshore geophysical and surveying services. At the same time the Group also provides services in other offshore regions, including South and North America, the Middle East, Africa and Europe. The Group's geophysical and surveying services are divided into two

main categories: geophysical and surveying services. At present, the Group owns 8 seismic vessels and 5 integrated marine surveying vessels.

In 2011, due to the commencement of operation of new equipment and increase in operation volume, the revenue of the geophysical and surveying services segment of the Group reached a historical high record of RMB2,427.3 million, with an increase of RMB866.3 million compared with RMB1,561.0 million of last year, representing an increase of 55.5%.

Geophysical services

In 2011, the domestic geophysical services market started to recover. Through reasonable arrangements of its resources, the Group deployed vessels such as HYSY719 and Nanhai502 to carry out seismic data collection in overseas at the beginning of the year when it was winter period and not suitable for operation in China. In the meantime, a significant breakthrough was made in the Myanmar market by obtaining a contract for 3D seismic data collection services at offshore Myanmar from PTT Public Company Limited. Driven by the good overall market condition and the successful delivery and operation commencement of China's first 12-streamer deep-water geophysical vessel, HYSY720, the Group's geophysical services operated at its full capacity.

The details of operation volume for the data collection and data processing businesses of the Group for 2011 are as follows:

Services	**2011**	2010	**Increase/ (Decrease)**	**Percentage change**
2D collection (km)	**27,808**	24,469	**3,339**	**13.6%**
2D processing (km)	**22,132**	14,846	**7,286**	**49.1%**
3D collection (km^2)	**23,174**	13,008	**10,166**	**78.2%**
of which: submarine cable (km^2)	**719**	405	**314**	**77.5%**
3D processing (km^2)	**9,972**	7,983	**1,989**	**24.9%**

Both the data collection and data processing businesses of the Group in 2011 recorded growth in varying degrees. The operation volume of 2D collection services increased by 3,339 km compared with last year, mainly because two 2D geophysical collection vessels, which underwent repair and maintenance at the beginning of last year, commenced operation at the beginning of this year and maintained full operation throughout the year, leading to an increase of 8,273 km in operation volume compared with last year. In addition, due to the business need, the Group surrendered an external vessel, which reduced the operation volume by 5,010 km. The operation volume of 3D collection services increased by 10,166 km2 compared with last year, mainly because the 12-streamer geophysical vessel newly commenced operation, HYSY720, brought 6,840 km2 of operation volume, and the operation volume of the Group's new submarine cable collection business added last year increased by 314 km2 for the year. Through reasonable market operation, HYSY718 and HYSY719 seized the golden window for operations and increased their operation efficiency based on good working conditions, resulting in an increase in operation volume by 2,463 km2. In respect of data processing services, with the recovery of the market, both 2D data processing and 3D data processing businesses recorded an increase in their respective operation volume.

Surveying Services

In 2011, the Group's deep-water survey vessel, HYSY708, was successfully delivered at the end of the year. The vessel is one of a series of large deep-water vessels that the Group invested and built for the exploration and development of deep-water oil and gas resources. The addition of HYSY708 marks a significant step for the Group to move towards deep-water survey, and will further enhance the Group's competitiveness in deep-water business.

In 2011, as a result of full operation, the surveying services of the Group recorded a revenue of RMB 423.6 million, representing an increase of 36.5% compared with RMB310.3 million in last year.

Overseas Business

In 2011, affected by an excess supply of large equipment, market competition for oilfield services remained intense. Facing the adverse market conditions, the Group adhered to implementing its internationalization strategy while consolidating its dominant position in offshore China, and achieved good development in markets overseas. In 2011, the Group's overseas revenue reached another historical high record of RMB5,173.5 million, accounting for 28.1% of the Group's total revenue in 2011, representing an increase of RMB861.4 million or 20.0% compared with RMB4,312.1 million of last year.

In 2011, as for the drilling services segment, the Group mobilized 2 jack-up drilling rigs respectively to the Indonesia and Mexico markets and won the second contract renewal for the 4 module rigs operating at Mexico Bay, while successfully renewed a service contract with ConocoPhillips Skandinavia AS in relation to an offshore accommodation rig, namely COSLRigmar, for a term of 12 months. A semi-submersible drilling rig, COSLPioneer, commenced operation in the North Sea in the second half of this year. The operation of this drilling rig marked a new phrase of the operation of semi-submersible drilling rig of COSL Drilling Europe AS, a wholly-owned subsidiary of the Group. A full-year contract for NH6 project in Australia achieved seamless links for the rig, ensuring its operation volume in 2012. During the year, the Group provided customer with turnkey services of drilling an exploratory well in Cambodia, which is the first overseas offshore well turnkey project of the Group. As for geophysical and surveying services segment, besides providing services to customers in Papua New Guinea and Indonesia, the Group achieved a significant breakthrough in the Myanmar market by obtaining a contract for 3D seismic data collection services at offshore Myanmar from PTT Public Company Limited. As for well services segment, the Group won the bid for services contract in Iraq, pursuant to which the Group would provide the customer with a number of professional technical services, including cementing, mud, logging, directional drilling, perforating, oilfield production optimization etc. In addition, the Group continued to execute the contract of logging project in the United Arab Emirates, and renewed the contract of hot well and cementing in Papua New Guinea.

Significant Subsidiaries

COSL Norwegian AS ("CNA") is a significant subsidiary of the Group and is engaged in drilling services. COSL Drilling Europe AS ("CDE") is a major subsidiary of CNA. As of 31 December 2011, CNA had total assets of RMB32,334.6 million, shareholders' equity of RMB6,654.7 million; a revenue in 2011 of RMB3,352.0 million and the profit for the year of RMB299.8 million.

FINANCIAL REVIEW

1. Analysis on Consolidated Income Statement

1.1 Revenue

In 2011, the Group's revenue for the year reached RMB18,426.1 million, representing an increase of RMB865.1 million or 4.9% compared with RMB17,561.0 million for last year. It was mainly due to operation of the new equipment, for example, 2 jack-up drilling rigs, a deep-water semi-submersible drilling rig, COSLPioneer, and a 12-streamer geophysical vessel, HYSY720, as well as the recovery in domestic geophysical and surveying services industry.

The following table presents revenue derived from each segment:

Unit: RMB million

Business segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	**9,514.6**	9,327.0	**187.6**	**2.0%**
Well services	**3,950.4**	4,327.0	**(376.6)**	**(8.7%)**
Marine support and transportation services	**2,533.8**	2,346.0	**187.8**	**8.0%**
Geophysical and surveying services	**2,427.3**	1,561.0	**866.3**	**55.5%**
Total	**18,426.1**	17,561.0	**865.1**	**4.9%**

1.2 Operating expenses

In 2011, operating expenses of the Group amounted to RMB13,556.1 million, representing an increase of RMB1,106.5 million or 8.9% compared with RMB12,449.6 million for last year.

The table below shows the breakdown of operating expenses for the Group in 2011 and 2010:

Unit: RMB million

	2011	2010	**Increase/ (Decrease)**	**Percentage change**
Depreciation of property, plant and equipment and amortisation of intangible assets	**3,069.6**	3,122.3	**(52.7)**	**(1.7%)**
Employee compensation costs	**3,311.6**	2,938.1	**373.5**	**12.7%**
Repair and maintenance costs	**538.7**	437.7	**101.0**	**23.1%**
Consumption of supplies, materials, fuel, services and others	**3,447.9**	3,277.0	**170.9**	**5.2%**
Subcontracting expenses	**1,514.1**	1,143.7	**370.4**	**32.4%**
Operating lease expenses	**433.1**	379.7	**53.4**	**14.1%**
Other operating expenses	**1,009.2**	936.8	**72.4**	**7.7%**
Other selling, general and administrative expenses	**156.1**	41.9	**114.2**	**272.6%**
Impairment of property, plant and equipment	**75.8**	172.4	**(96.6)**	**(56.0%)**
Total operating expenses	**13,556.1**	12,449.6	**1,106.5**	**8.9%**

Employee compensation costs increased by RMB373.5 million or 12.7%, which was mainly due to the rapid growth in overseas business resulting in the increase in foreign employees' salary costs, while other factors included the increase in the number of the Company's employees and the appropriate increase in their remuneration.

Repair and maintenance costs increased by RMB101.0 million or 23.1%, which was mainly due to the maintenance cost of a semi-submersible drilling rig newly put into operation in the course of its preparation and operation during the year.

Consumption of supplies, materials, fuel, services and others increased by RMB170.9 million or 5.2%, which was due to the increase in the consumption of materials as a result of the growth of operation volume of the Group's drilling services and geophysical and surveying services with the commencement of operation of the newly-built drilling rigs and geophysical vessels.

Subcontracting expenses increased by RMB370.4 million or 32.4%, which was mainly due to the increase in subcontracting volume as a result of the business expansion of the Group.

Other operating expenses increased by RMB72.4 million or 7.7%, which was mainly due to the fact that the Group reversed the over accrued compensation provisions of last year as a result of the resolved contingencies, resulting in a lower other operating expenditure for 2010. In the meantime, the provision for impairment of accounts receivable, other receivables and inventory decreased compared with last year.

Other selling, general and administrative expenses increased by RMB114.2 million or 272.6%, which was mainly due to the fact that with the settlement of litigation in 2010, the Group reversed the over accrued provision based on the final settlement, resulting in a lower selling, general and administrative expense for 2010.

Impairment of property, plant and equipment of the Group decreased by RMB96.6 million or 56.0%. This was primarily attributable to the fact that based on the market price of drilling package and vessel condition, the Group recognized an asset impairment provisions in aggregated of RMB172.4 million for the drilling package under construction and an oilfield utility vessel last year, while in this year, affected by the turbulence in Libya, the Group provided impairment provision of RMB71.2 million for Libya land drilling rigs, and impairment provision of RMB4.6 million for an oilfield utility vessel according to the vessel condition.

The operating expenses for each segment are as shown in the table below:

Unit: RMB million

Business segment	**2011**	2010	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**6,105.8**	5,830.9	**274.9**	**4.7%**
Well services	**3,541.3**	3,560.4	**(19.1)**	**(0.5%)**
Marine support and transportation services	**2,044.7**	1,817.4	**227.3**	**12.5%**
Geophysical and surveying services	**1,864.3**	1,240.9	**623.4**	**50.2%**
Total	**13,556.1**	12,449.6	**1,106.5**	**8.9%**

1.3 Profit from operations

In 2011, the profit from operations of the Group amounted to RMB4,982.8 million, representing a decrease of RMB217.3 million or 4.2% compared with RMB5,200.1 million of last year. This was primary attributable to the increase in employee compensation costs, repair and maintenance costs, consumption of materials and subcontracting expenses in this year as a result of the operation of some new equipment and the needs of business development.

The profit from operations for each segment is shown in the table below:

Unit: RMB million

Business segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	**3,429.5**	3,505.3	**(75.8)**	**(2.2%)**
Well services	**448.7**	813.9	**(365.2)**	**(44.9%)**
Marine support and transportation services	**518.3**	541.6	**(23.3)**	**(4.3%)**
Geophysical and surveying services	**586.3**	339.3	**247.0**	**72.8%**
Total	**4,982.8**	5,200.1	**(217.3)**	**(4.2%)**

1.4 Financial expenses, net

In 2011, the financial expenses of the Group was RMB345.4 million, representing a decrease of RMB164.3 million or 32.2% compared with RMB509.7 million of last year, which was mainly due to curtailment in the Group's debt size and debt optimising, which reduced the finance cost by RMB204.5 million. In addition, the interest income for the year decreased by RMB13.1 million as compared with last year, and the net exchange gains for the year decreased by RMB27.1 million as a result of fluctuations in foreign exchange rate.

1.5 Share of profits of jointly-controlled entities

In 2011, the Group's share of profits of jointly-controlled entities amounted to RMB174.3 million, representing an increase of RMB30.5 million or 21.2% compared with RMB143.8 million of last year. This was primarily attributable to the fact that a jointly-controlled entity, Eastern Marine Service Ltd., had incurred significant loss in 2010, but had returned a slight profit in 2011, which resulted in the increase of the Group's share of its net profit by RMB57.6 million compared with last year. The share of net profit of the rest jointly-controlled entities decreased by RMB27.1 million as compared with last year.

1.6 Profit before tax

The profit before tax attained by the Group was RMB4,811.6 million in 2011, representing a decrease of RMB22.6 million or 0.5 % compared with RMB4,834.2 million of last year.

1.7 Income tax expense

The income tax expense in 2011 was RMB772.1 million, representing an increase of RMB65.9 million or 9.3% compared with RMB 706.2 million in 2010, which is due to the increase in effective tax rate.

1.8 Profit for the year

In 2011, the profit of the Group for the year was RMB4,039.5 million, representing a decrease of RMB88.5 million or 2.1% compared with RMB4,128.0 million of last year.

1.9 Basic earnings per share

In 2011, the Group's basic earnings per share were approximately RMB89.86 cents, representing a decrease of approximately RMB1.98 cents or 2.2% compared with approximately RMB91.84 cents of last year.

1.10 Dividend

For 2011, the Board proposed a final dividend of RMB18 cents per share, totaling RMB809.2 million.

2. Analysis on Consolidated Statement of Financial Position

As of 31 December 2011, the total assets of the Group amounted to RMB64,851.1 million, representing an increase of RMB1,353.7 million or 2.1% compared with RMB63,497.4 million at the end of 2010. The total liabilities amounted to RMB36,391.9 million, representing a decrease of RMB1,515.6 million or 4.0% compared with RMB37,907.5 million at the end of 2010. The shareholders' equity amounted to RMB28,459.2 million, representing an increase of RMB2,869.3 million or 11.2% compared with RMB25,589.9 million at the end of 2010.

The analysis of reasons for significant changes in the amount of accounts on the consolidated statement of financial position is as follows:

2.1 Other non-current assets

As of 31 December 2011, other non-current assets of the Group amounted to RMB53.3 million, representing an increase of RMB25.2 million or 89.7 % compared with RMB28.1 million at the beginning of the year. The increase was mainly due to the increase in the deferred mobilization cost incurred by drilling rigs.

2.2 Property, plant and equipment

As of 31 December 2011, the property, plant and equipment of the Group amounted to RMB46,285.3 million, representing a decrease of RMB85.8 million or 0.2% compared with RMB46,371.1 million at the beginning of the year. The decrease was mainly due to purchase of new equipment of RMB4,287.0 million; provision for depreciation of RMB3,017.5 million; retirement and disposal of assets decreased by RMB53.4 million; and provision for asset impairment and construction-in-progress transfered to intangible assets of RMB85.7 million in the year. In addition, property, plant and equipment held by the Group's overseas subsidiaries decreased by RMB1,216.2 million due to changes in exchange rate.

2.3 Prepayments, deposits and other receivables

As of 31 December 2011, the prepayments, deposits and other receivables of the Group amounted to RMB796.3 million, representing an increase of RMB407.5 million or 104.8% compared with RMB388.8 million at the beginning of the year. The increase was mainly due to the prepayments of progress payment of RMB397.5 million for the construction of deep-water semi-submersible drilling rig, COSLProspector.

2.4 Notes receivable

The Group's notes receivable mainly comprises of notes receivable due from CNOOC Limited. As of 31 December 2011, the notes receivable of the Group amounted to RMB1,219.4 million, representing an increase of RMB526.2 million or 75.9% compared with RMB693.2 million at the beginning of the year. The increase was mainly due to increase in revenue derived from operation for CNOOC Limited. Notes receivable amounting to RMB693.2 million at the beginning of the year has been received in cash in current year.

2.5 Accounts receivable

As of 31 December 2011, the Group's accounts receivable amounted to RMB3,980.0 million, increased by RMB519.2 million or 15.0% compared with RMB3,460.8 million at the beginning of the year, which was mainly due to expansion in the Group's revenue scale of existing clients and the increase in number of clients in domestic and overseas.

2.6 Pledged deposits

As of 31 December 2011, the pledged deposits of the Group amounted to RMB10.8 million, representing a decrease of RMB76.7 million or 87.7 % compared with RMB87.5 million at the beginning of the year. The decrease was due to the release of part of the pledged deposits which were due during the year.

2.7 Time deposits with original maturity over three months

As of 31 December 2011, time deposits with original maturity over three months of the Group amounted to RMB882.1 million, representing an increase of RMB482.1 million or 120.5% compared with RMB400.0 million at the beginning of the year. The increase was mainly due to a new time deposits with original maturity over three months amounting to US$140.0 million (equivalent to approximately RMB882.1 million), and time deposits with maturity over three months at the end of 2010 has become due and been released at the end of 2011.

2.8 Other current assets

As of 31 December 2011, other current assets of the Group amounted to RMB21.3 million, representing a decrease of RMB19.8 million or 48.2% compared with RMB41.1 million at the beginning of the year. The decrease was mainly due to the normal amortization of deferred mobilization cost as the drilling operation carried out.

2.9 Tax payable

As of 31 December 2011, the tax payable of the Group amounted to RMB61.6 million, representing a decrease of RMB62.4 million or 50.3% compared with RMB124.0 million at the beginning of the year, which was mainly due to increase in pre-paid domestic income tax for the first three quarters of the year.

2.10 Interest-bearing bank borrowings (current portion)

As of 31 December 2011, the current portion of interest-bearing bank borrowings of the Group amounted to RMB1,626.3 million, representing an increase of RMB975.6 million or 149.9% compared with RMB650.7 million at the beginning of the year. The increase was mainly due to the long-term borrowings amounting to approximately RMB1,626.3 million of the Group would due within one year, and were reclassified to this item. The borrowings amounting to RMB650.7 million at the beginning of the year were repaid during the year.

2.11 Current portion of long term bonds

As of 31 December 2011, the Group had no the current portion of long term bonds, while there was RMB573.7 million at the beginning of the year. It was mainly due to the redemption of the bond due amounting to RMB573.7 million by the Group during the year.

2.12 Interest-bearing bank borrowings

As of 31 December 2011, the interest-bearing bank borrowings of the Group amounted to RMB24,983.8 million, representing a decrease of RMB2,106.7 million or 7.8% compared with RMB27,090.5 million at the beginning of the year. The decrease was mainly due to new borrowings amounting to approximately RMB2,558.3 million, and repayment for borrowings amounting to approximately RMB2,041.0 million in advance. A long-term borrowing of RMB1,626.3 million will be due within one year and was re-classified as current portion of interest-bearing bank borrowings. Moreover, borrowings decreased by RMB997.7 million due to changes in exchange rate.

2.13 Other non-current liabilities

As of 31 December 2011, the Group had no other non-current liabilities, while there was RMB36.6 million at the beginning of the year. The balance at the beginning of the year was the share of negative interest of a joint-controlled entity, Atlantis Deepwater Orient Ltd., ("ADOL"), which was recognised as other non-current liabilities. As ADOL is going to be lignidated in the near future, the Group reclassified the share of its negative interest into other current liabilities in 2011.

2.14 Non-controlling interests

As of 31 December 2011, non-controlling interests of the Group amounted to RMB0.6 million, representing an increase of RMB0.3 million or 100.0% compared with RMB0.3 million at the beginning of the year. The increase was mainly due to the increase in the profit of PT.SAMUDAR TIMUR SANTOSA, a non-wholly owned subsidiary of the Group, which increased its equity attributable to the owners.

3. Analysis on Consolidated Statement of Cash Flows

As of 31 December 2011, the Group's cash and cash equivalents amounted to RMB5,646.2 million, representing a decrease of RMB201.0 million compared with RMB5,847.2 million at the beginning of 2011, which was mainly due to the net cash inflows from operating activities of RMB6,348.9 million, net cash outflows from investing activities of RMB4,654.0 million, net cash outflows from financing activities of RMB1,736.6 million and the negative impact of foreign exchange fluctuations of RMB159.3 million.

3.1 Cash flows from operating activities

During 2011, net cash inflows from operating activities of the Group reached to RMB6,348.9 million, of which RMB18,024.1 million was received from the sales of goods and rendering of services, while RMB6,264.1 million was paid for the purchase of goods and receipt of services, RMB3,266.5 million was paid to or for employees, and RMB1,392.8 million was used to pay for various taxes. Cash outflows related to other operating activities amounted to RMB751.8 million.

3.2 Cash flows from investing activities

During 2011, net cash outflows used in investing activities of the Group amounted to RMB4,654.0 million, of which RMB4,596.0 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the year, and RMB888.2 million was paid for obtaining other investments. In addition, cash received from investment recovery amounting to RMB482.8 million, and from investment income and interest income amounting to RMB178.1 million and RMB63.8 million, respectively. RMB19.4 million and RMB25.4 million were received from disposal of fixed assets and other long-term assets, and insurance compensation related to fixed assets, respectively. Cash received from other investing activities amounted to RMB60.7 million.

3.3 Cash flows from financing activities

During 2011, net cash outflows used in financing activities amounted to RMB1,736.6 million, of which RMB2,973.1 million was paid for repayment of bank borrowings and current portion of long term bonds, RMB805.3 million was paid for dividends, and RMB516.5 million was paid for interest, while RMB2,558.3 million was received from new bank borrowings during the year.

3.4 Cash and cash equivalents

In 2011, cash and cash equivalent decreased by RMB159.3 million due to the impact of foreign exchange fluctuations.

4. Capital expenditure

In 2011, the capital expenditure of the Group amounted to RMB4,297.3 million, representing a decrease of RMB1,179.2 million or 21.5% compared with RMB5,476.5 million of last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business Segment	**2011**	2010	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**2,605.0**	3,328.1	**(723.1)**	**(21.7%)**
Well services	**452.9**	295.1	**157.8**	**53.5%**
Marine support and transportation services	**292.5**	1,016.1	**(723.6)**	**(71.2%)**
Geophysical and surveying services	**946.9**	837.2	**109.7**	**13.1%**
Total	**4,297.3**	5,476.5	**(1,179.2)**	**(21.5%)**

The capital expenditure of the drilling services segment was mainly used for the construction of 2 200-feet jack-up drilling rigs and 2 semi-submersible drilling rigs. The capital expenditure of the well services segment was mainly used for the construction and purchase of various well services equipment. The capital expenditure of the marine support and transportation services segment was mainly used for the construction of two deep-water AHTS vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of one 12-streamer geophysical vessel and one deep-water surveying vessel.

5. Charges on assets

As of 31 December 2011, the Group had no charges on assets.

6. Employees

As of 31 December 2011, the Group had 9,852 employees on service. Since November 2006, the Company has implemented share appreciation rights plan to 7 senior management members. The Company has basically formed a layout with marketization as its body and constructed a reasonable structure.

7. Contingency Liabilities

(a) In 2009 and 2010, certain subsidiaries of CDE received notifications from the Norwegian tax authorities requesting information on the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. If the valuation basis and the fair value indicated by the tax authorities are adopted, the tax liability relating to the transfers could increase substantially for those companies. The respective subsidiaries have submitted the response letters and assessment report to the Norwegian tax authorities regarding the above notifications and requirements on 30 June 2010, 19 January 2011 and 7 June 2011, respectively. In the second half of 2011, the Group has continued communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies, and no conclusions have been made as at the approval date of the consolidated financial statements. Considering the uncertainties relating to the final outcome of both the final assessment amount and the timing of the cash outflows, if any, the directors have not made any provision for any amount arising from the above-mentioned tax contingencies in the consolidated financial statements.

(b) In 2010, the Company received an inspection notice from Tianjin Xin Gang Customs of the People's Republic of China ("Tianjin Customs") to inspect the Company's customs duties related to the imports and exports for the past three years. As at the approval date of the consolidated financial statements, no conclusion has been received from Tianjin Customs. Considering the uncertainties relating to the final outcome of both the final assessment amount and the timing of the cash outflows, if any, the directors have not made any provision for any amount arising from the above-mentioned contingency in the consolidated financial statements.

2012 OUTLOOK

In 2012, the growth of the world economy will still remain low. IMF predicted that the annual average growth rate of the world economy in 2012 will be approximately 4.5% with a growth rate of 2.5% for developed economies and 6.5% for the economies of emerging economies and developing countries. The China government expects that the gross domestic product will grow by 7.5%. However, the European debt crisis is unresolved, and there are still occurrences of political turbulence in regions. The external environment of the economic development in the future will become increasingly complex, unstable and uncertain.

According to the report of Barclays Capital, the expenditures in exploration and development projects by the world's oil and gas companies will amount to US$598.0 billion in 2012, representing an increase of 10% over 2011. China's off shore exploration and development will remain active, and it is expected that the capital expenditures of the Company's major customers in 2012 will reach US$9.3 – 11.0 billion, representing an increase over approximately 30% from 2011. The number of wells planned to be explored is 114, or 10.7% more than that in 2011.

In 2012, for domestic market, on top of the existing workload, the Company will grasp the demand for its new business to secure high utilization rate of its large equipment and maintain its leading position in the market of its segments; for international market, in addition to optimization of equipment, allocation of human resources and management system, the Company will accelerate development of its international business and actively seek profitable projects to expand its existing market; at the same time, it will proactively develop new market and new business to boost its international revenue. Deep water operation will centre around HYSY981 to enhance the Company's deep water drilling capability and services of logging and cementing to well prepare for the exploration and development of deep water in South China Sea. Furthermore, the Company will positively take part in China's unconventional energy business by increasing its deployment of equipment and technology and spread its coalbed methane service with a view to further development.

In the coming year, the Company will continue to strengthen its QHSE management, in particular the safety management in deep water operation. We will summarize and improve relevant management and safety systems; systematically study future investment direction of the Company's equipment and technology and map out the time thereof to ensure a sustainable growth; constantly improve infrastructure and supporting facilities for technological research and development to provide better physical foundation for the work; further optimise and press ahead with the Company's cost control and enhance management; we will continue to improve levels of risk management and internal control, so as to procure stable development of the Company.

OTHER INFORMATION

Audit Committee

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the internal control and financial reporting matters. The annual results of the Group for the year ended 31 December 2011 have been reviewed by the audit committee. The preliminary announcement has been based on the Group's financial statements for the year ended 31 December 2011 which have been agreed with the auditors.

Corporate Governance Practices

Throughout the 12 months ended 31 December 2011, the Company has complied with the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules.

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies

Upon specific enquiry to all directors by the Company, the directors have confirmed that they have, throughout the year ended 31 December 2011, complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Purchase, Disposal and Redemption of our Listed Securities

Neither the Company nor its subsidiaries have purchased, disposed of or redeemed any of the Company's listed securities during the year ended 31 December 2011.

DISCLOSURE OF INFORMATION ON THE HKSE'S WEBSITE

A copy of this announcement will be found on the Company's website (www.cosl.com.cn) and the Stock Exchange's website (www.hkexnews.hk). The full annual report will be mailed to the shareholders of the Company and made available on the websites of the Company and the Stock Exchange in due course.

By order of the Board
China Oilfield Services Limited
Yang Haijiang
Company Secretary

20 March 2012

As at the date of this announcement, the executive directors of the Company are Messrs. Li Yong and Li Feilong; the non-executive directors of the Company are Messrs. Liu Jian (Chairman) and Wu Mengfei; and the independent non-executive directors of the Company are Messrs. Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng.