COSL

中海油田服務股份有限公司
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 2016

FINANCIAL HIGHLIGHTS

1. Revenue was RMB15,085.5 million

2. Profit from operations was RMB -11,367.7 million

3. Profit for the year was RMB -11,459.5 million

4. Basic earnings per share were RMB -2.40

5. Total assets were RMB80,544.1 million

6. Total equity was RMB35,296.4 million

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4	**15,152,185**	23,653,980
Sales surtaxes		**(66,640)**	(479,732)
Revenue, net of sales surtaxes		**15,085,545**	23,174,248
Other revenues	4	**153,207**	242,495
		15,238,752	23,416,743
Depreciation of property, plant and equipment and amortisation of intangible assets		**(4,520,118)**	(4,213,421)
Employee compensation costs	5	**(3,890,143)**	(3,792,454)
Repair and maintenance costs		**(500,093)**	(799,297)
Consumption of supplies, materials, fuel, services and others		**(4,116,437)**	(4,569,260)
Subcontracting expenses		**(2,364,588)**	(3,474,789)
Operating lease expenses	5	**(1,206,111)**	(1,547,610)
Other operating expenses		**(2,865,175)**	(2,185,096)
Impairment of goodwill	10	**(3,455,378)**	(923,154)
Impairment of property, plant and equipment	9	**(3,688,408)**	(280,116)
Total operating expenses		**(26,606,451)**	(21,785,197)
(LOSS)/PROFIT FROM OPERATIONS		**(11,367,699)**	1,631,546
Exchange gain, net		**268,710**	87,726
Finance costs		**(1,047,667)**	(700,259)
Interest income		**130,519**	105,248
Investment income	5	**191,933**	102,345
Share of profits of joint ventures, net of tax		**16,849**	169,748
(LOSS)/PROFIT BEFORE TAX	5	**(11,807,355)**	1,396,354
Income tax credit/(expense)	6	**347,899**	(287,648)
(LOSS)/PROFIT FOR THE YEAR		**(11,459,456)**	1,108,706
Attributable to:			
Owners of the Company		**(11,456,186)**	1,073,907
Non-controlling interests		**(3,270)**	34,799
		(11,459,456)	1,108,706
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	8	**(240.09) cents**	22.51 cents

Details of the dividends paid or proposed for the year are disclosed in note 7 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR	**(11,459,456)**	1,108,706
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plan	**46,836**	33,988
Income tax relating to items that will not be reclassified subsequently to profit or loss	**(11,709)**	(8,497)
	35,127	25,491
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**259,691**	604,262
Net fair value (loss)/gain on available-for-sale investments	**(64,778)**	61,089
Share of other comprehensive income of joint ventures	**11,848**	6,550
Income tax relating to items that may be reclassified subsequently to profit or loss	**9,717**	(9,163)
	216,478	662,738
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	**251,605**	688,229
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	**(11,207,851)**	1,796,935
Attributable to:		
Owners of the Company	**(11,210,542)**	1,759,108
Non-controlling interests	**2,691**	37,827
	(11,207,851)	1,796,935

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**57,457,239**	60,388,044
Goodwill	*10*	**–**	3,394,504
Other intangible assets		**427,027**	469,605
Investments in joint ventures		**600,364**	681,314
Available-for-sale investments		**–**	–
Other non-current assets		**439,121**	1,150,440
Deferred tax assets	*16*	**68,514**	39,707
Total non-current assets		**58,992,265**	66,123,614
CURRENT ASSETS			
Inventories		**1,157,617**	1,328,250
Prepayments, deposits and other receivables	*11*	**442,960**	496,384
Accounts receivable	*12*	**4,795,964**	6,652,732
Notes receivable	*13*	**1,844,306**	1,906,542
Other current assets		**7,216,070**	4,211,964
Pledged deposits	*14*	**23,806**	31,607
Time deposits with maturity of over three months	*14*	**–**	200,000
Cash and cash equivalents	*14*	**6,071,069**	12,573,958
Total current assets		**21,551,792**	27,401,437
CURRENT LIABILITIES			
Trade and other payables	*15*	**9,304,300**	8,081,048
Salary and bonus payables		**776,939**	985,252
Tax payable		**101,124**	111,320
Loan from a related party	*17*	**693,700**	–
Interest-bearing bank borrowings	*18*	**5,296,469**	11,451,529
Other current liabilities		**543,649**	429,418
Total current liabilities		**16,716,181**	21,058,567

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NET CURRENT ASSETS		**4,835,611**	6,342,870
TOTAL ASSETS LESS CURRENT LIABILITIES		**63,827,876**	72,466,484
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*16*	**234,456**	627,316
Provisions		**14,505**	–
Interest-bearing bank borrowings	*18*	**2,057,206**	9,482,555
Long term bonds	*19*	**25,279,744**	14,390,824
Deferred revenue	*20*	**936,804**	1,070,670
Employee benefit liabilities		**8,783**	66,449
Total non-current liabilities		**28,531,498**	25,637,814
Net assets		**35,296,378**	46,828,670
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*21*	**4,771,592**	4,771,592
Reserves		**30,434,776**	41,969,786
		35,206,368	46,741,378
Non-controlling interests		**90,010**	87,292
Total equity		**35,296,378**	46,828,670

1. GENERAL 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, Binhai New District, Tianjin, the PRC. As part of 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.

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 services, and geophysical and surveying services.

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 *Amendments to HKFRSs that are mandatorily effective for the current year*

The Group has applied for the first time in the current year the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2012-2014 Cycle*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS27	*Equity Method in Separate Financial Statements*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	*Investment Entities: Applying the Consolidation Exception*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.2 New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 7	*Disclosure Initiative*[4]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

Except as described below, the Directors anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the Group's financial performance and positions.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale debt investments will be measured as fair value through profit or loss. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may not have a material impact on the revenue recognition and the consolidated financial statements of the Group in the future, but may result in additional disclosures on the subject matter.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurment of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payment in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,968,225,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and these are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purposes of making strategic decisions. The Group has four reportable and 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 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;

(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 result, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except that interest income, finance costs, exchange gains/(losses) and investment income are excluded from such measurement.

All assets are allocated to reportable segments other than certain cash and cash equivalents (funds managed by the corporate treasury), pledged deposits, time deposits with maturity of over three months, certain other receivables, certain other current assets and deferred tax assets as these assets are managed on a group basis.

All liabilities are allocated to reportable segments other than certain other payables, loan from a related party, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury), tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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

Year ended 31 December 2016	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical and surveying services *RMB'000*	Total *RMB'000*
REVENUE:					
Sales to external customers, net of sales surtaxes	**6,498,556**	**5,568,370**	**1,948,535**	**1,070,084**	**15,085,545**
Sales surtaxes	**21,156**	**25,567**	**16,047**	**3,870**	**66,640**
Sales to external customers, before net of sales surtaxes	**6,519,712**	**5,593,937**	**1,964,582**	**1,073,954**	**15,152,185**
Intersegment sales	**71,298**	**28,024**	**68,338**	**5,510**	**173,170**
Segment revenue	**6,591,010**	**5,621,961**	**2,032,920**	**1,079,464**	**15,325,355**
Elimination	**(71,298)**	**(28,024)**	**(68,338)**	**(5,510)**	**(173,170)**
Group revenue	**6,519,712**	**5,593,937**	**1,964,582**	**1,073,954**	**15,152,185**
Segment results	**(10,079,886)**	**(384,557)**	**(327,374)**	**(559,033)**	**(11,350,850)**
Reconciliation:					
Exchange gain, net					**268,710**
Finance costs					**(1,047,667)**
Interest income					**130,519**
Investment income					**191,933**
Loss before tax					**(11,807,355)**
Income tax credit					**(347,899)**
As at 31 December 2016					
Segment assets	**47,910,193**	**6,985,272**	**8,425,194**	**5,707,762**	**69,028,421**
Unallocated assets					**11,515,636**
Total assets					**80,544,057**
Segment liabilities	**4,792,788**	**4,008,658**	**1,381,543**	**1,009,145**	**11,192,134**
Unallocated liabilities					**34,055,545**
Total liabilities					**45,247,679**
Other segment information:					
Capital expenditure	**2,167,772**	**298,405**	**771,921**	**250,727**	**3,488,825**
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,777,080**	**674,398**	**540,802**	**527,838**	**4,520,118**
Impairment of accounts receivable	**1,122,226**	**13,138**	**3,549**	**1,940**	**1,140,853**
Impairment of goodwill	**3,455,378**	**–**	**–**	**–**	**3,455,378**
Impairment of other receivables	**848**	**728**	**255**	**140**	**1,971**
Reversal of impairment of inventories	**(5,978)**	**(5,130)**	**(1,802)**	**(985)**	**(13,895)**
Impairment of property, plant and equipment	**3,688,408**	**–**	**–**	**–**	**3,688,408**
Share of (losses)/profits of joint ventures	**(3,752)**	**37,545**	**–**	**(16,944)**	**16,849**
Investments in joint ventures	**–**	**436,651**	**–**	**163,713**	**600,364**

Year ended 31 December 2015	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical and surveying services *RMB'000*	Total *RMB'000*
REVENUE:					
Sales to external customers, net of sales surtaxes	12,039,525	6,913,187	2,703,409	1,518,127	23,174,248
Sales surtaxes	189,570	170,729	65,156	54,277	479,732
Sales to external customers, before net of sales surtaxes	12,229,095	7,083,916	2,768,565	1,572,404	23,653,980
Intersegment sales	88,307	201,831	83,707	9,861	383,706
Segment revenue	12,317,402	7,285,747	2,852,272	1,582,265	24,037,686
Elimination	(88,307)	(201,831)	(83,707)	(9,861)	(383,706)
Group revenue	12,229,095	7,083,916	2,768,565	1,572,404	23,653,980
Segment results	966,798	513,634	314,209	6,653	1,801,294
Reconciliation:					
Exchange gain, net					87,726
Finance costs					(700,259)
Interest income					105,248
Investment income					102,345
Profit before tax					1,396,354
Income tax expense					287,648
As at 31 December 2015					
Segment assets	56,032,445	7,822,223	8,315,831	6,309,795	78,480,294
Unallocated assets					15,044,757
Total assets					93,525,051
Segment liabilities	5,211,937	2,814,233	1,449,270	904,648	10,380,088
Unallocated liabilities					36,316,293
Total liabilities					46,696,381
Other segment information:					
Capital expenditure	3,973,601	705,055	1,543,821	1,644,036	7,866,513
Depreciation of property, plant and equipment and amortisation of intangible assets	2,614,886	691,086	515,177	392,272	4,213,421
Impairment of accounts receivable	548,311	7,376	1,981	1,125	558,793
Impairment of goodwill	923,154	–	–	–	923,154
Impairment of other receivables	1,312	760	297	168	2,537
Impairment of inventories	4,049	2,346	917	521	7,833
Impairment of property, plant and equipment	280,116	–	–	–	280,116
Share of (losses)/profits of joint ventures	(5,789)	120,049	(3,129)	58,617	169,748
Investments in joint ventures	–	481,280	–	200,034	681,314

Geographical information

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

In determining the Group's geographical information, revenue is presented below based on the location of operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

The following table presents revenue and non-current assets (excluding goodwill, investments in joint ventures, financial instruments and deferred tax assets) information for the Group's geographical areas for the years ended 31 December 2016 and 2015.

Year ended/as at 31 December 2016	**Domestic**	**International**		**Total**
		North sea	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue:				
Sales to external customers	**10,333,405**	**1,389,241**	**3,429,539**	**15,152,185**
Less: Sales surtaxes	**(66,640)**	**–**	**–**	**(66,640)**
Sales to external customers, net of sales surtaxes	**10,266,765**	**1,389,241**	**3,429,539**	**15,085,545**
Non-current assets:	**33,992,796**	**10,629,910**	**13,700,681**	**58,323,387**

Year ended/as at 31 December 2015	Domestic	International		Total
		North sea	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales to external customers	15,954,214	3,161,998	4,537,768	23,653,980
Less: Sales surtaxes	(479,732)	–	–	(479,732)
Sales to external customers, net of sales surtaxes	15,474,482	3,161,998	4,537,768	23,174,248
Non-current assets:	35,611,585	11,566,382	14,830,122	62,008,089

Information about a major customer

Revenue from transactions with a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which are known to be under common control of CNOOC Limited, accounted for 69% (2015: 66%) of the total sales of the Group for the year ended 31 December 2016.

4. REVENUE AND OTHER REVENUES

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

An analysis of revenue and other revenues is as follows:

	2016	2015
	RMB'000	*RMB'000*
Revenue:		
Rendering of services (a)	**15,152,185**	23,653,980
Other revenues:		
Insurance claims received	**55,419**	119,213
Government grants (b)	**62,297**	112,836
Others	**35,491**	10,446
Total other revenues	**153,207**	242,495

(a) Before 1 May 2016, certain of the Group's revenues were subject to business tax levied at 3%. Pursuant to the Cai Shui [2016] No.36 "Notice on Tax Policy Concerning Nationwide Implementation of VAT Pilot Program" jointly issued by the Ministry of Finance of the PRC and the State Administration of Taxation of the PRC, starting from 1 May 2016, the Group's revenue generated from Mainland China is subject to value-added tax.

(b) Including release of deferred revenue of RMB17,329,000 for the year (2015: RMB44,501,000) (note 20).

5. (LOSS)/PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Employee compensation costs		
(including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**2,695,518**	2,825,364
Social security costs	**781,015**	525,477
Retirement benefits and pensions	**413,610**	441,613
	3,890,143	3,792,454
Auditor's remuneration	**17,478**	17,919

	Notes	2016 RMB'000	2015 RMB'000
Loss on disposal of plant and equipment, net		**54,785**	33,581
Lease payments under operating leases in respect of land and buildings, berths and equipment		**1,206,111**	1,547,610
Provision for impairment of accounts receivable	*12*	**1,140,853**	558,793
Provision for impairment of other receivables	*11*	**1,971**	2,537
(Reversal of)/provision for impairment of inventories		**(13,895)**	7,833
Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments		**191,933**	102,345
Cost of inventories recognised as an expense		**2,434,678**	2,667,899
Research and development costs, included in:		**391,589**	635,743
Depreciation of property, plant and equipment		**91,250**	79,154
Employee compensation costs		**136,704**	127,056
Consumption of supplies, materials, fuel, services and others		**163,635**	429,533

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 income 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 Mainland China. The Company's statutory tax rate is 25%.

The Company has applied to renew its High-New Technical Enterprise ("HNTE") certificate for three years commencing from 1 October 2014, and was re-certified as an HNTE in October 2014, which is effective for three years commencing from 1 October 2014. The Company obtained the final approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of Tianjin State Administration of Taxation in January 2015. According to the approval, the CIT rate was approved to be 15% for the period from October 2014 to September 2017. Therefore, 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 2016 (2015: 15%).

The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (2015: 25%). The Group's activities in Australia are subject to income tax of 30% (2015: 30%) based on its taxable profit generated. The Group's activities in Mexico are subject to income tax of 30% (2015: 30%). The Group's activities in Norway are subject to corporate income tax of 25% (2015: 27%). The Group's activities in the United Kingdom are subject to income tax of 20% (2015: 21%). The Group's activities in Qatar are subject to income tax of 10% (2015: 10%). The Group's activities in Iraq are subject to withholding tax based on 7% (2015: 7%) of revenue generated in Iraq. The Group's activities in Singapore are subject to income tax of 17% (2015: 17%). The Group's activities in the United States are subject to income tax of 34% (2015: 34%). The Group's activities in United Arab Emirates are not subject to any income tax. The Group's activities in Denmark are subject to income tax of 22% (2015: 24.5%). The Group's activities in Canada are subject to the net federal corporate income tax of 15% (2015: 15%) and provincial income tax ranging from 10% to 16% (2015: 10% to 16%), depending on the province and the size of the business. The Group's activities in Malaysia are subject to income tax of 24% (2015: 25%). The Group's activities in New Zealand are subject to withholding tax based on 15% (2015: 15%) of revenue generated in New Zealand. The Group's activities in Saudi Arabia commencing in the current year are subject to income tax of 20%. The Group's taxes pertaining to drilling activities in Oman are borne by the customer.

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

	2016	2015
	RMB'000	*RMB'000*
Hong Kong profits tax	–	–
Overseas income taxes:		
Current	**67,216**	206,125
Deferred	**(125,469)**	(223,908)
PRC corporate income taxes:		
Current	**8,361**	340,019
Deferred	**(292,137)**	47,820
Over provision in prior year	**(5,870)**	(82,408)
Total tax (credit)/charge for the year	**(347,899)**	287,648

A reconciliation of the income tax (credit)/expense applicable to (loss)/profit before tax at the statutory rate for Mainland China, where the Company and its key joint ventures are domiciled, to the tax (credit)/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:

	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
(Loss)/profit before tax	**(11,807,355)**		1,396,354	
Tax at the statutory tax rate of 25% (2015: 25%)	**(2,951,839)**	**25.0**	349,088	25.0
Tax effect as an HNTE	**194,266**	**(1.6)**	(224,101)	(16.0)
Tax effect of income not subject to tax	**(4,212)**	**0.1**	(55,719)	(4.0)
Tax effect of expense not deductible for tax	**39,605**	**(0.3)**	28,992	2.1
Tax effect of impairment of goodwill	**863,844**	**(7.3)**	230,788	16.5
Tax benefit for qualifying research and development expenses	**(48,547)**	**0.4**	(62,982)	(4.5)
Effect of non-deductible expenses/(non-taxable profit) and different tax rates for overseas subsidiaries	**1,025,458**	**(8.7)**	114,172	8.2
Tax effect of tax losses and deductible temporary differences unrecognised	**469,113**	**(4.1)**	340,579	24.4
Translation adjustment (a)	**46,437**	**(0.4)**	(415,496)	(29.8)
Others	**17,976**	**(0.2)**	(17,673)	(1.3)
Total tax (credit)/charge at the Group's effective tax rate	**(347,899)**	**2.9**	287,648	20.6

(a) The translation adjustment mainly relates to the tax effect of difference between the profit before tax determined on the tax basis in Norwegian Krone and that determined on the accounting basis of some group companies in Norway in US dollars, the functional currency of these companies.

The share of tax attributable to joint ventures amounting to approximately RMB9,581,000 (2015: RMB60,655,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

7. DIVIDENDS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Proposed final dividend – RMB0.05 per ordinary share (2015: RMB0.068 per ordinary share)	**238,580**	324,468

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. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share attributable to owners of the Company is based on the following data:

	2016	2015
	RMB'000	*RMB'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of basic (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company)	**(11,456,186)**	1,073,907

	2016	2015
Number of shares		
Number of ordinary shares for the purpose of basic (loss)/earnings per share	**4,771,592,000**	4,771,592,000

No diluted (loss)/earnings per share is presented for the years ended 31 December 2016 and 2015 as the Group had no dilutive potential ordinary shares in issue during those years.

9. PROPERTY, PLANT AND EQUIPMENT

31 December 2016	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 2015 and at 1 January 2016							
Cost	13,117,494	55,595,648	14,905,429	116,226	329,223	9,771,063	93,835,083
Accumulated depreciation and impairment	(5,314,492)	(18,688,155)	(9,330,517)	(80,662)	(33,213)	–	(33,447,039)
Carrying amount	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044
Carrying amount							
At 1 January 2016	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044
Additions	11,833	86,824	458,456	2,176	–	2,902,873	3,462,162
Depreciation provided during the year	(783,419)	(2,141,331)	(1,511,661)	(8,851)	(14,117)	–	(4,459,379)
Disposals/write-offs	(42,841)	(10,534)	(33,816)	(28)	–	–	(87,219)
Transfers from/(to) construction in progress ("CIP")	2,701,871	3,128,081	519,421	282	618,330	(6,967,985)	–
Impairment provided	–	(3,688,408)	–	–	–	–	(3,688,408)
Exchange realignment	593	1,712,959	80,277	–	20,178	28,032	1,842,039
At 31 December 2016	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239
At 31 December 2016							
Cost	15,347,674	61,391,744	15,827,718	118,392	968,722	5,733,983	99,388,233
Accumulated depreciation and impairment	(5,656,635)	(25,396,660)	(10,740,129)	(89,249)	(48,321)	–	(41,930,994)
Carrying amount	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239

31 December 2015	Tankers and vessels	Drilling rigs	Machinery and equipment	Motor vehicles	Buildings	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014 and at 1 January 2015							
Cost	11,633,754	48,883,546	13,343,021	109,915	70,597	10,492,239	84,533,072
Accumulated depreciation and impairment	(5,158,792)	(15,697,310)	(8,105,427)	(75,710)	(23,141)	(134,618)	(29,194,998)
Carrying amount	6,474,962	33,186,236	5,237,594	34,205	47,456	10,357,621	55,338,074
Carrying amount							
At 1 January 2015	6,474,962	33,186,236	5,237,594	34,205	47,456	10,357,621	55,338,074
Additions	–	200,161	761,791	21	–	6,767,029	7,729,002
Depreciation provided during the year	(617,943)	(2,151,337)	(1,367,151)	(9,264)	(10,518)	–	(4,156,213)
Disposals/write-offs	(46,731)	(22,185)	(22,727)	(425)	(93)	–	(92,161)
Transfers from/(to) construction in progress ("CIP")	1,983,088	4,334,223	881,524	11,027	248,767	(7,458,629)	–
Impairment provided	–	(280,116)	–	–	–	–	(280,116)
Exchange realignment	9,626	1,640,511	83,881	–	10,398	105,042	1,849,458
At 31 December 2015	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044
At 31 December 2015							
Cost	13,117,494	55,595,648	14,905,429	116,226	329,223	9,771,063	93,835,083
Accumulated depreciation and impairment	(5,314,492)	(18,688,155)	(9,330,517)	(80,662)	(33,213)	–	(33,447,039)
Carrying amount	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044

Included in the current year's additions was an amount of approximately RMB14,753,000 (2015: RMB17,337,000) in respect of interest capitalised in property, plant and equipment, with a capitalisation rate of 4.86% (2015: 1.37%) per annum.

Impairment of property, plant and equipment

During the year ended 31 December 2016, due to the continued deterioration of global oilfield services market and recent low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the services prices and utilization rates of the plant and machinery decreased. The Directors carried out the review of the recoverable amounts of the Group's plant and machinery. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical and surveying services segment. The review led to the recognition of an impairment loss of RMB3,688,408,000 (2015: RMB280,116,000), which has been recognised in profit or loss for the year ended 31 December 2016. The impairment losses have been classified under the drilling services segment. The recoverable amounts of the relevant assets, each of which was identified as a cash-generating unit within the drilling services segment, have been determined based on the higher of fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived at on the basis of valuation carried out by an independent property agent. The fair value of relevant assets are determined based on a variety of valuation methods, including income approach and market approach, and the reasonableness of the assumptions and range of estimates indicated by those valuation methods were also considered by the Group. The income approach is by reference to the projected discounted cash flows over the remaining economic life of relevant assets. The market approach is by reference to the value that would be received from selling the asset in an orderly transaction between market participants at the measurement date. The above estimates of fair value required to use significant unobservable inputs representative of a level 3 fair value measurement, including historical contracted sales prices for similar assets, nonbinding quotes from brokers and/or indicative bids, estimated utilization rates, service prices, cost level and capital requirements.

In assessing value in use, the estimated future cash flows are discounted to their present value. The cash flow projection was based on financial budgets covering a five-year period approved by senior management. The cash flow beyond the five-year period is estimated based on the market trend and by reference to the relevant market trend report. The discount rate applied to the cash flow projection is 8% (2015: 8%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Other key assumptions for the value in use calculations reflect management's judgments and expectation regarding the past performance of the relevant assets, as well as future industry conditions and operations, including estimated utilization rates, day rates, cost level and capital requirements.

10. GOODWILL

Goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into COSL Norwegian AS by merger during the year ended 31 December 2016 (collectively referred to as the "CNA").

	2016	2015
	RMB'000	*RMB'000*
COST		
At 1 January	**4,375,038**	4,122,652
Exchange realignment	**298,739**	252,386
At 31 December	**4,673,777**	4,375,038
IMPAIRMENT		
At 1 January	**980,534**	–
Impairment loss recognised in the year	**3,455,378**	923,154
Exchange realignment	**237,865**	57,380
At 31 December	**4,673,777**	980,534
CARRYING VALUE		
At 31 December	**–**	3,394,504

Impairment testing of goodwill

Goodwill generated through the above business combination has been allocated to a group of the drilling services cash-generating units under the drilling services segment as disclosed in note 3, for impairment testing.

During the year ended 31 December 2016, due to the continued deterioration of global oilfield services market and recent low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the services prices and utilization rates of the plant and machinery decreased. Based on the impairment assessment review, an impairment loss of goodwill of approximately RMB3,455,378,000 (2015: RMB923,154,000) was recognised in profit or loss for the year ended 31 December 2016.

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. Details of the key assumptions used to measure the recoverable amount of such group of units are set out in note 9.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Prepayments	**57,234**	83,920
Deposits	**73,233**	84,854
Other receivables	**328,293**	341,439
	458,760	510,213
Less: Provision for impairment of other receivables	**(15,800)**	(13,829)
	442,960	496,384

An analysis of other receivables is as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Prepaid tax	**115,295**	73,996
Reimbursable advance to suppliers	**78,041**	139,524
Dividend receivable	**62,000**	44,000
Interest receivable	**6,924**	18,826
Advance to employees	**9,991**	7,029
Other advance	**10,425**	13,113
Insurance claim receivables	**11,266**	3,326
Others	**34,351**	41,625
	328,293	341,439

12. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of 30 to 45 days to its trade customers in Mainland China and no more than 6 months to its trade customers with good trading history in overseas. 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 the CNOOC Limited Group (the "CNOOC Group"), and the CNOOC Limited Group, 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, net of provision for impairment, as at the end of the reporting period, based on the invoice date, is as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Outstanding balances aged:		
Within six months	**4,226,057**	5,634,523
Six months to one year	**280,809**	267,240
One to two years	**80,571**	599,953
Two to three years	**208,527**	151,016
	4,795,964	6,652,732

Included in the Group's accounts receivable balance are debtors with a carrying amount of approximately RMB569,907,000 (2015: RMB1,018,209,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on past experience, the Directors 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.

Aging of accounts receivable which are past due but not impaired:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Outstanding balances aged:		
Six months to one year	**280,809**	267,240
One to two years	**80,571**	599,953
Two to three years	**208,527**	151,016
	569,907	1,018,209

The Group has provided fully for all receivables aged over three years because historical experience shows that those receivables are generally not recoverable.

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

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**881,530**	294,067
Impairment losses recognised	**1,162,447**	564,656
Impairment losses reversed	**(21,594)**	(5,863)
Impairment losses written-off	**(16)**	–
Exchange realignment	**57,510**	28,670
At 31 December	**2,079,877**	881,530

13. NOTES RECEIVABLE

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Trade acceptances	**1,839,346**	1,879,836
Bank acceptances	**4,960**	26,706
	1,844,306	1,906,542

All the notes receivable are of trading nature and will be due within one year from the date of issuance, in which the trade acceptances are normally settled within 180 days from the date of issuance.

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

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Cash and balances with banks	**2,682,547**	7,297,742
Deposits with CNOOC Finance Corporation Ltd.	**1,801,400**	1,506,039
Time deposits at banks	**1,610,928**	4,001,784
Cash and balances with banks and financial institutions	**6,094,875**	12,805,565
Less:		
Pledged deposits-current	**(23,806)**	(31,607)
Time deposits with maturity of over three months	**–**	(200,000)
Cash and cash equivalents	**6,071,069**	12,573,958

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 RMB3,635,694,000 (2015: RMB3,397,319,000). 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.

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

15. TRADE AND OTHER PAYABLES

The aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Outstanding balances aged:		
Within one year	**8,172,037**	6,745,877
One to two years	**135,473**	191,053
Two to three years	**87,928**	45,426
Over three years	**66,433**	43,540
	8,461,871	7,025,896

16. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Deferred tax assets	**68,514**	39,707
Deferred tax liabilities	**(234,456)**	(627,316)
	(165,942)	(587,609)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Balance at 1 January 2015 RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Exchange realignment RMB'000	Balance at 31 December 2015 and 1 January 2016 RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Exchange realignment RMB'000	Balance at 31 December 2016 RMB'000
Deferred tax assets:									
Provision for staff bonus	186,532	(77,845)	–	–	108,687	**(18,653)**	**–**	**–**	**90,034**
Impairment of assets	71,320	(16,816)	–	–	54,504	**21,969**	**–**	**–**	**76,473**
Accrued liabilities	–	9,273	–	–	9,273	**(2,477)**	**–**	**–**	**6,796**
Provision for onerous contracts	–	–	–	–	–	**53,409**	**–**	**–**	**53,409**
Deductible tax loss	11,181	18,274	–	1,463	30,918	**230,362**	**–**	**3,202**	**264,482**
Others	2,176	8,299	–	373	10,848	**(1,346)**	**–**	**616**	**10,118**
	271,209	(58,815)	–	1,836	214,230	**283,264**	**–**	**3,818**	**501,312**
Deferred tax liabilities:									
Accelerated depreciation of property, plant and equipment	747,601	(63,683)	–	6,749	690,667	**(74,713)**	**–**	**5,622**	**621,576**
Fair value adjustment arising from acquisition of a subsidiary	257,545	(183,147)	–	7,969	82,367	**(56,484)**	**–**	**3,121**	**29,004**
Fair value change in available for sale investment	6,906	–	9,163	–	16,069	**–**	**(9,717)**	**–**	**6,352**
Others	284	11,927	–	525	12,736	**(3,145)**	**–**	**731**	**10,322**
	1,012,336	(234,903)	9,163	15,243	801,839	**(134,342)**	**(9,717)**	**9,474**	**667,254**
	741,127	(176,088)	9,163	13,407	587,609	**(417,606)**	**(9,717)**	**5,656**	**165,942**

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of Group's joint ventures for which deferred tax liabilities have not been recognised was RMB804,817,000 (31 December 2015: RMB1,013,919,000). No liability has been recognised in respect of these differences as the investment company and those joint ventures are all located in the PRC and the applicable tax rate of those joint ventures was the same as or higher than the applicable tax rate of the investment company.

At 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB28,342,000 (2015: RMB1,628,456,000). No liability have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2016, accumulated tax losses arising in the Group of approximately RMB8,429,917,000 (2015: RMB7,487,902,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

The unrecognised income tax losses which have fixed expiry date, will be expired in the following years:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
31 December 2020	**94,984**	88,913
31 December 2021	**160,003**	–
31 December 2035	**11,062**	10,355
31 December 2036	**11,064**	–
	277,113	99,268

At 31 December 2016, the Group had tax losses arising in Norway of RMB8,152,804,000 (2015: RMB7,388,634,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2016, the Group has deductible temporary differences of RMB1,719,266,000 (2015: RMB177,153,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

17. LOAN FROM A RELATED PARTY

	Contractual interest rate (%) per annum	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
Loan from a related party – unsecured	LIBOR+50bps	**693,700**	–

During the year, the Group borrowed a US$100,000,000 loan from a fellow subsidiary, which is repayable on demand, for the purpose of financing CNA's daily operations.

18. INTEREST-BEARING BANK BORROWINGS

Current:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Short term bank loan-guaranteed (a)	**–**	3,896,160
Current portion of long term bank loans	**5,296,469**	7,555,369
	5,296,469	11,451,529

Non-current:

	Contractual interest rate (%) per annum	Year of maturity	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
Export-Import Bank of China – unsecured (b)	LIBOR+170bps	2020	**2,324,634**	2,716,102
Bank of China – unsecured (c)	LIBOR+138bps	2017	**1,798,323**	8,560,202
Bank of China – unsecured (d)	LIBOR+90bps	2017	**1,664,880**	3,116,928
Industrial and Commercial Bank of China – unsecured (d)	LIBOR+90bps	2017	**1,248,660**	2,337,696
CDB Development Fund (as defined below) – unsecured (e)	1.08%	2035	**223,909**	216,745
CDB Development Fund – unsecured (e)	1.08%	2033	**93,269**	90,251
			7,353,675	17,037,924
Less: Current portion of long term bank loans			**(5,296,469)**	(7,555,369)
			2,057,206	9,482,555

(a) The Group borrowed a US$600,000,000 short term loan from Hongkong and Shanghai Banking Corporation Limited in May 2015 for the purpose of financing CNA's daily operations. The loan was guaranteed by CNOOC, bearing interest at rates ranging from LIBOR+0.375% to LIBOR+0.675% per annum and was fully repaid during the year ended 31 December 2016.

(b) The Group borrowed a US$800,000,000 loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42,100,000 bi-annually.

(c) The Group entered into a US$2,200,000,000 credit facility agreement with Bank of China on 30 April 2009, of which US$1,700,000,000 was assigned to replace CNA's loans and bonds and US$500,000,000 was assigned to finance CNA's daily operations. The repayment started on 14 May 2012 over 11 instalments bi-annually.

(d) The Group borrowed US$800,000,000 from Bank of China and US$600,000,000 from Industrial and Commercial Bank of China in May 2009 to replace CNA's syndicated bank loan. The repayments started on 25 May 2012 and 22 May 2012, respectively, over 11 instalments bi-annually.

(e) The Group borrowed RMB320,000,000 and RMB130,000,000 loans from China Development Bank Development Fund Co., Ltd. ("CDB Development Fund"), a wholly owned subsidiary of China Development Bank, in December 2015 for the purpose of funding the acquisition of properties, plant and equipment. China Development Bank is a state-owned bank. The repayments will start in December 2018 over 36 and 32 instalments bi-annually, respectively. These loans bear interest at 1.08% per annum which is below prevailing market interest rate. The fair value of the loans measured at prevailing market interest rate of 4.9% per annum at initial recognition was approximately RMB306,995,000. The difference of RMB143,005,000 between the proceeds of the loans received and the fair value of the loans is treated as government grant and recognised in deferred revenue (note 20).

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2016 was 2.51% per annum (2015: 1.66% per annum).

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Bank borrowings repayable:		
Within one year	**5,296,469**	11,451,529
In the second year	**458,420**	7,398,079
In the third to fifth year, inclusive	**1,241,186**	1,700,476
Beyond five years	**357,600**	384,000
	7,353,675	20,934,084

19. LONG TERM BONDS

	Year of maturity	**31 December 2016** *RMB'000*	31 December 2015 *RMB'000*
Corporate bonds (a)	2022	**1,500,000**	1,500,000
2016 Corporate Bonds			
(Type I of the First Tranche Issue as defined below) (b)	2019	**1,997,744**	–
(Type II of the First Tranche Issue as defined below) (b)	2026	**2,996,045**	–
(Type I of the Second Tranche Issue as defined below) (b)	2019	**2,097,323**	–
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,896,216**	–
Senior unsecured USD bonds (c)	2022	**6,897,106**	6,442,611
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,451,522**	3,226,724
Second Drawdown Note (d)	2025	**3,443,788**	3,221,489
		25,279,744	14,390,824

(a) On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100 per bond, amounting to RMB1,500,000,000. The bonds carry effective interest rate of 4.48% per annum (2015: 4.48% per annum), and the redemption or maturity date is 14 May 2022.

(b) On 26 May 2016, the Group issued its first tranche (the "First Tranche Issue") of domestic corporate bonds ("2016 Corporate Bonds") with an aggregate amount of RMB5,000,000,000. The First Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,000,000,000 (the "Type I of the First Tranche Issue") carries effective interest rate of 3.19% per annum and the maturity date is 27 May 2019. The second type of bonds with a principal amount of RMB3,000,000,000 (the "Type II of the First Tranche Issue") carries effective interest rate of 4.12% per annum and the maturity date is 27 May 2026.

On 21 October 2016, the Group issued its second tranche (the "Second Tranche Issue") of 2016 Corporate Bonds with an aggregate amount of RMB5,000,000,000. The Second Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,100,000,000 (the "Type I of the Second Tranche Issue") and is repayable on 24 October 2021. The Group has the right to unadjust or adjust the coupon rate for the fourth and fifth year at the end of the third year on 24 October 2019 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type I of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date. The effective interest rate of the Type I of the Second Tranche Issue is 3.13% per annum. The second type of bonds with a principal amount of RMB2,900,000,000 (the "Type II of the Second Tranche Issue") is repayable on 24 October 2023. The Group has the right to unadjust or adjust the coupon rate for the sixth and seventh year at the end of the fifth year on 24 October 2021 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type II of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. The effective interest rate of the Type II of the Second Tranche Issue is 3.38% per annum.

(c) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Group, issued 10-year senior unsecured bonds, with a US$1,000,000,000 principal amount. The redemption or maturity date is 6 September 2022. The effective interest rate of the senior unsecured bonds was 3.38% per annum.

(d) On 20 July 2015, COSL Singapore Capital Ltd., a wholly-owned subsidiary of the Company, established the Euro medium term note programme (the "EMTN Programme"). Under the EMTN Programme, COSL Singapore Capital Ltd. may issue drawdown notes in tranches up to an aggregate principal amount of US$3,500,000,000.

On 30 July 2015, COSL Singapore Capital Ltd. issued the first tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "First Drawdown Note"). The effective interest rate was 3.61% per annum after taking into consideration of initial transaction costs. The principal of the First Drawdown Note will be repaid on 30 July 2020. On 30 July 2015, COSL Singapore Capital Ltd. issued the second tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "Second Drawdown Note"). The effective interest rate was 4.58% per annum after taking into consideration of initial transaction costs. The principal of the Second Drawdown Note will be repaid on 30 July 2025.

20. DEFERRED REVENUE

Deferred revenue consists of the contract value generated in the process of the acquisition of CNA, the deferred mobilisation revenue, government grants, subsidies received from customers related to acquisition of machinery for provision of drilling services (the "Subsidies"), the compensation fee from customer in respect of the cancellation of service contract and the difference between proceeds received from loans at a below-market rate granted by CDB Development Fund and the fair value of the loans at initial recognition based on the prevailing market interest rate (the "Others"). The deferred revenue generated from contract value, deferred mobilisation revenue and the Subsidies are amortised according to the related drilling contract periods and are credited to revenues of the Group. The deferred revenue generated from the compensation fee arising from the cancellation of service contract are amortised over the remaining service contract period and are credited to revenue of the Group. The deferred revenue generated from government grants and the Others are recognised according to the depreciable periods of the related assets and the periods in which the related costs incurred, respectively, and are credited to other revenue of the Group.

	Contract value	**Mobilisation revenue**	**Government grant related to assets**	**Government grant related to income**	**Compensation fee**	**Subsidies**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	443,717	190,842	216,165	16,164	–	322,008	–	1,188,896
Additions	–	18,997	13,479	22,208	567,285	2,716	143,005	767,690
Credited to profit or loss	(74,578)	(71,983)	(22,441)	(22,060)	(264,047)	(75,196)	–	(530,305)
Exchange realignment	23,901	9,611	–	–	23,668	16,627	–	73,807
At 31 December 2015	393,040	147,467	207,203	16,312	326,906	266,155	143,005	1,500,088
Additions	**–**	**20,584**	**7,500**	**12,021**	**–**	**–**	**–**	**40,105**
Credited to profit or loss	**(79,539)**	**(57,044)**	**(15,534)**	**(1,795)**	**(334,412)**	**(53,651)**	**(10,184)**	**(552,159)**
Exchange realignment	**23,217**	**8,594**	**–**	**–**	**7,506**	**15,797**	**–**	**55,114**
At 31 December 2016	**336,718**	**119,601**	**199,169**	**26,538**	**–**	**228,301**	**132,821**	**1,043,148**

The following is the analysis of the deferred revenue balances for financial reporting purposes:

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Current portion	**106,344**	429,418
Non-current portion	**936,804**	1,070,670
Balance at end of the year	**1,043,148**	1,500,088

21. ISSUED CAPITAL

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Registered, issued and fully paid:		
H shares of RMB1.00 each	**1,811,124**	1,811,124
A shares of RMB1.00 each	**2,960,468**	2,960,468
	4,771,592	4,771,592

MANAGEMENT DISCUSSION AND ANALYSIS

2016 INDUSTRY REVIEW

The international oil price fluctuated and climbed up slowly after falling below US$30 per barrel in the first quarter of 2016. During the period, the global companies relating to the oil and gas industry were continuously faced with challenges in the business environment.

A number of counter measures were adopted by the industry for the stagnated market conditions. In addition to the regular measures of cost reduction, mergers and acquisitions within the well services segment continued. However, the competition overview of the industry had no substantial changes. According to the data of Spears, an institution for the industry information, the size of the global offshore drilling market dropped 28% to US$39.6 billion in 2016 as compared to 2015. The top ten drilling contractors took up 54.3% of the global market share. The size of the geophysical prospecting market shrunk to US$7.27 billion in 2016, with a year-on-year decrease of 35%. The top ten geophysical prospecting service providers occupied 83.3% of the global geophysical prospecting market share.

Drilling Services Segment

COSL is the major supplier of China offshore drilling services and an important participant in international drilling services. the Group mainly provides services such as drilling, module rigs, land drilling rigs and drilling rigs management. At the end of 2016, the Group operated and managed a total of 44 drilling rigs (of which 33 are jack-up drilling rigs, and 11 are semi-submersible drilling rigs), 2 accommodation rigs and 5 module rigs.

In 2016, revenue from drilling services amounted to RMB6,498.5 million, representing a decrease of 46.0% as compared with RMB12,039.5 million of 2015.

Under such challenging situation, the Group continued its market expansion, strengthened its marketing efforts in overseas markets, strongly encouraged quality improvement and efficiency enhancement for accelerating the stable development of the international business. With the procurement of two years long term contracts, "COSLSuperior" and "COSLCraft" won the bid in Middle East region; "Nanhai 8" and "Nanhai 9" operated in the Far East region; Group gained the binding contract of offshore rigs and marine support business in America region worthy tens of millions dollars, which made the marine support business of the Group to be introduced to the Gulf of Mexico so as to extend the service industry chain of the Group.

By the end of 2016, we had 18 drilling rigs operating in the China Sea, 5 rigs operating overseas such as in Norway (North Sea), Mexico and Indonesia, 17 were standby and 4 were being maintained in the shipyard.

In 2016, our drilling rigs operated for 8,370 days, representing a decrease of 2,806 days as compared with 2015. The calendar day utilization rate of the rigs reached 51.8%, 18.9 percentage points down compared to last year.

Operation details of jack-up and semi-submersible drilling rigs of the Group in 2016 are as follows:

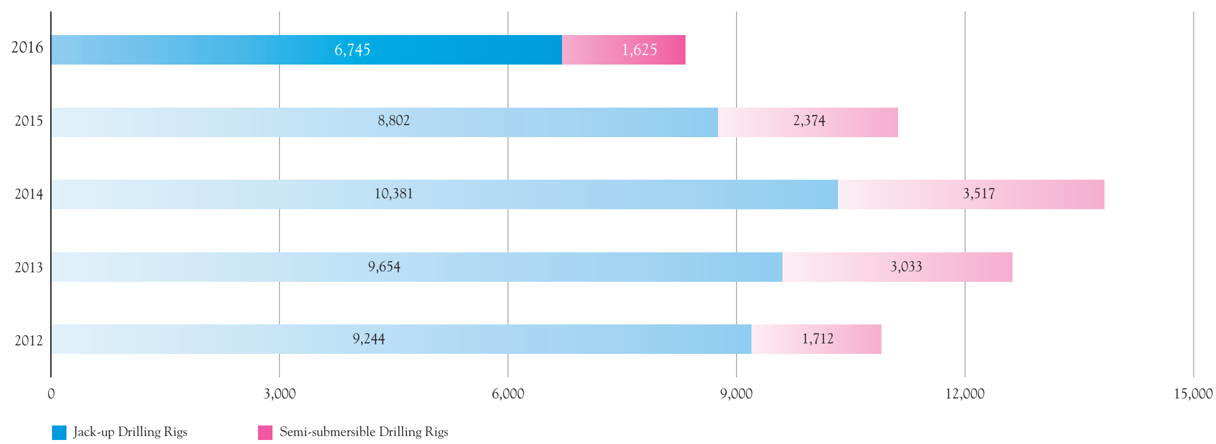
	2016	**2015**	**Change**	**Percentage change**
Operating days (day)	8,370	11,176	(2,806)	(25.1%)
Jack-up drilling rigs	6,745	8,802	(2,057)	(23.4%)
Semi-submersible drilling rigs	1,625	2,374	(749)	(31.6%)
Available day utilization rate	55.5%	72.8%	Down 17.3 percentage points	
Jack-up drilling rigs	58.2%	75.9%	Down 17.7 percentage points	
Semi-submersible drilling rigs	46.4%	63.1%	Down 16.7 percentage points	
Calendar day utilization rate	51.8%	70.7%	Down 18.9 percentage points	
Jack-up drilling rigs	55.6%	73.7%	Down 18.1 percentage points	
Semi-submersible drilling rigs	40.4%	61.5%	Down 21.1 percentage points	

As at 31 December 2016, our jack-up drilling rigs operated for 6,745 days, representing a decrease of 2,057 days as compared with 2015. Main causes of decreasing are as follows: ① increasing in standby days during the period as affected by the industry environment; ② decreasing in operation volume due to the surrender of drilling rigs. Semi-submersible drilling rigs operated for 1,625 days, representing a decrease of 749 days as compared with 2015. Main causes of decreasing are as follows: ① increasing in standby days during the period as affected by the industry environment; ② decreasing in operation volume due to the termination of operation of "COSLInnovator" in 2016.

Two accommodation rigs operated in the North Sea for 405 days, representing a decrease of 205 days compared with the same period last year. Utilization rate of the calendar day decreased by 28.3 percentage points to 55.3%, due to increased maintenance and standby days.

Five module rigs operated in the Gulf of Mexico for 618 days, representing a decrease of 876 days over the same period last year. Utilization rate of the calendar day decreased by 48.1 percentage points to 33.8% due to increased standby days.

NUMBER OF OPERATING DAYS FOR DRILLING RIGS IN RECENT YEARS (DAY)



In 2016, the average day income of the drilling rigs of the Group decreased slightly compared with the same period of 2015 due to the decrease in service price, details as follows:

Average day income (ten thousand US$/day)	**2016**	**2015**	**Change**	**Percentage Change**
Jack-up drilling rigs	6.8	9.4	(2.6)	(27.7%)
Semi-submersible drilling rigs	18.5	29.6	(11.1)	(37.5%)
Drilling rigs sub-total	9.4	13.6	(4.2)	(30.9%)
Accommodation rigs	6.8	21.4	(14.6)	(68.2%)
Group average	9.2	14.0	(4.8)	(34.3%)

Note: (1) Average day income = Revenue/operating days.
(2) USD/RMB exchange rate was 1: 6.9370 on 30 December 2016 and 1: 6.4936 on 31 December 2015, respectively.

Well Services Segment

The Group is the main provider of China offshore well services together with the provision of onshore well services. Through the continuous input in technology research and development, advanced technological facilities and an excellent management team, the Group provides comprehensive professional well services, including but not limited to logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, stimulation etc.

In 2016, revenue from the well service segment decreased by 19.5% from RMB6,913.2 million of the same period of 2015 to RMB5,568.4 million.

In 2016, the Group insisted on steadily promoting the research and development of technologies. For drilling and logging, we enhanced the operational capacity through self-developed technologies and equipment. With the scale commissioning of technologies including rotary steerable drilling and logging, the application and promotion within the country could be increased. The successful completion of fracking assessment in the first operation of the self-developed 3D Acoustic Logging Tool in Bohai showed good performance. Such technology is important for identifying subtle reservoir, which enables us to expand the market of high-end wireline logging services of the Company. For drilling & completion fluids and cementing, we developed 30 core products so as to steadily enhance the onsite operational capacity of high temperature, high pressure and ultra-deep water operation. For well completion tools, we developed, designed and produced about more than 100 key tools to further improve the tools series.

Well services made various achievements in the international market in 2016 while enhancing the research and development ability of technologies. In Southeast Asia region, we consecutively procured operation contracts of drilling and completion fluid from various clients and contracts including cementing and stimulation services from Pertamina. We also entered into an integrated technical services contract. In Middle East region, we were awarded directional drilling services contracts and successfully entered to the high-end directional drilling market in Middle East. We were also awarded the work-over and stimulation services contract of Missan Oil Fields in Iraq. In Far East region, the trial operation of the most advanced EFDT in China which is self-developed by the Company was completed, and the RSS and LWD tools of the Company will then be put into operation in same region.

Marine Support Services Segment

The Group owns and operates the largest offshore operation fleet with the most comprehensive functions in China offshore. It operates and manages over 130 vessels including AHTS vessels, platform supply vessels and oilfield standby vessels. The Group can provide comprehensive support and services, including anchor handling for different water level, towing of drilling rigs/engineering barges, offshore transportation, standby, fire fighting, rescue, oil spill assisting, for offshore oil and gas exploration, development, construction and oil/gas field production, which can fulfill different needs of clients.

In 2016, the resources allocation of the marine support services business was adjusted so as to enhance the service efficiency of self-owned vessels and actively expand the international market at the same time. The new vessel, "HYSY685" gains a great feedback of operation in Far East region, which establishes a good foundation for expanding market. In 2016, revenue of marine support services business fell by 27.9% to RMB1,948.5 million from RMB2,703.4 million in 2015. Due to the influence of the market, the chartered vessels operated 7,809 days in total in 2016, decreased by 5,480 days compared to last year, generating revenue of RMB421.8 million, down by RMB516.7 million from the last year.

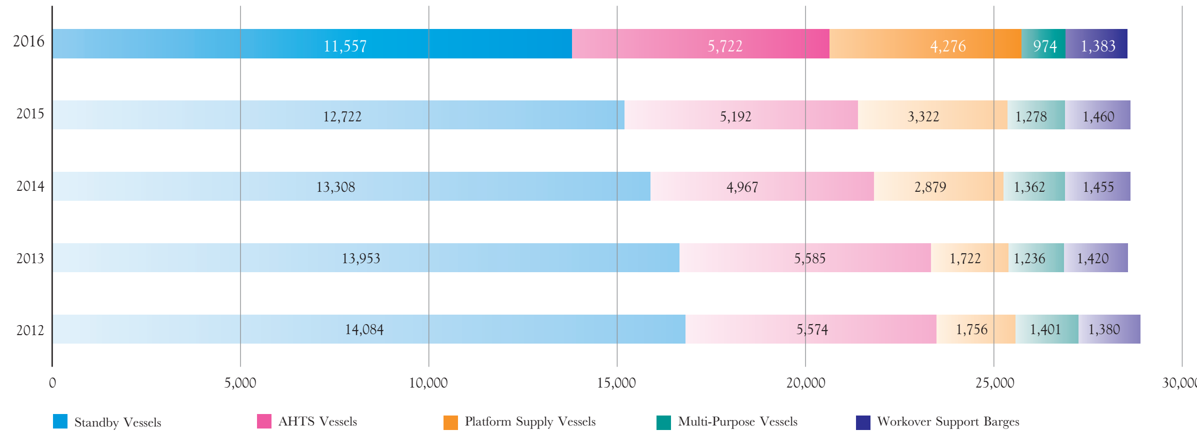
The calendar day utilization rate of self-owned utility vessels was 78.7% in 2016, representing a decrease of 8.5 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 23,912 days in 2016, representing a decrease of 62 days as compared with last year. Details are as follows:

Operating days (day)	**2016**	**2015**	**Change**	**Percentage change**
Standby vessels	11,557	12,722	(1,165)	(9.2%)
AHTS vessels	5,722	5,192	530	10.2%
Platform supply vessels	4,276	3,322	954	28.7%
Multi-purpose vessels	974	1,278	(304)	(23.8%)
Workover support barges	1,383	1,460	(77)	(5.3%)
Total	23,912	23,974	(62)	(0.3%)

In 2016, the total transportation volume of oil tankers of the Group amounted to 1,388,000 tonnes, representing a decrease of 19.5% from 1,725,000 tonnes over the same period of 2015.

NUMBER OF OPERATINGS DAYS FOR SELF-OWNED UTILITY VESSELS IN RECENT YEARS (DAY)



Geophysical and Surveying Services Segment

The Group is a major supplier for China offshore geophysical and surveying services and a solid competitor and a provider of effective and high quality service in the global geophysical and surveying market. At the end of 2016, the Group owns 6 towing streamer seismic vessels, 1 professional source vessel, 1 undersea cable team and 4 integrated marine surveying vessels, 2 underwater engineering vessels and 2 support vessels for operation in deep water. Services for clients include but not limited to providing integrated services of wide azimuth, broadband, high density and multi-component seismic acquisition, processing and interpretation by undersea cable, and also integrated offshore surveying services, offshore pipeline inspection and underwater light structure installation services.

In 2016, revenue of geophysical and surveying services segment dropped to RMB1,070.1 million, representing a decrease by 29.5% compared with RMB1,518.1 million for the same period of 2015, of which, the surveying services recorded revenue of RMB181.2 million, representing a decrease of 38.4% as compared with RMB294.1 million over the same period of 2015.

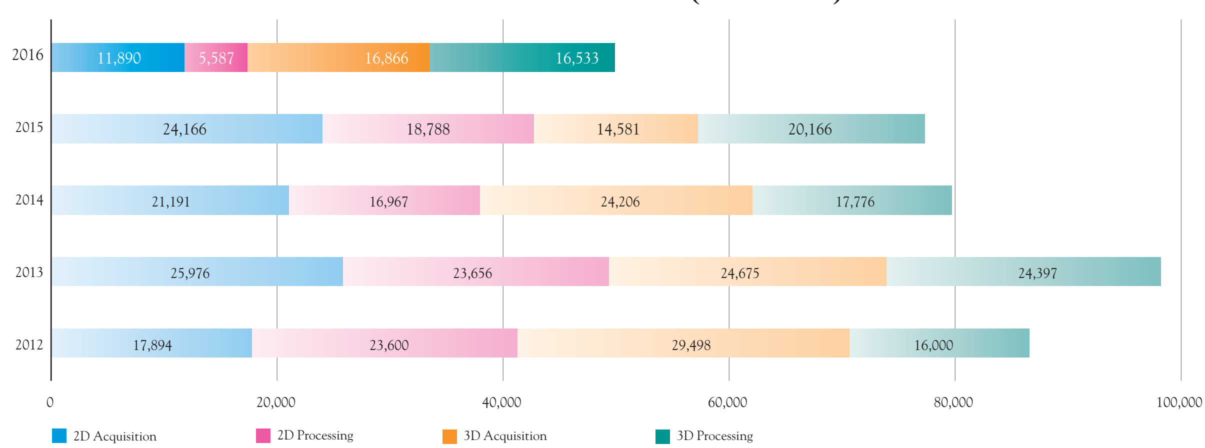
In 2016, geophysical and surveying services segment had remarkable achievements in the expansion of the international market. “HYSY720” completed two 3D seismic acquisition contracts in Barents Sea successfully. Its safe, high quality and efficient operation performance and data quality gained the recognition of customers. In addition, the Group achieved positive results in five regions including Middle East, the Far East and Africa: “HYSY751” and “HYSY770” conducted operation in Middle East region; “HYSY718” conducted operation in the Far East region; vessels including “HYSY771” and “HYSY720” conducted operation in Africa region.

In 2016, as affected by the industry environment, the operation volume of other business segments decreased except for the increase in the operation volume of 3D acquisition of the Group.

The details of operation volume are as follows:

Businesses	2016	2015	Change	Percentage change
2D acquisition (km)	11,890	24,166	(12,276)	(50.8%)
2D processing (km)	5,587	18,788	(13,201)	(70.3%)
3D acquisition (km^2)	16,866	14,581	2,285	15.7%
of which: submarine cable (km^2)	700	300	400	133.3%
3D processing (km^2)	16,533	20,166	(3,633)	(18.0%)

THE OPERATING VOLUME OF GEOPHYSICAL SERVICE FLEET IN RECENT YEARS (KM/KM^2)



Major Subsidiary

COSL Norwegian AS ("CNA") is a major subsidiary engaged in drilling operations of the Group. COSL Holding AS is a major subsidiary of CNA, which merged into CNA in 2016. By 31 December 2016, the total assets of CNA amounted to RMB18,390.5 million and equity amounted to RMB516.7 million. Affected by the changes of the external market, revenue of CNA in 2016 amounted to RMB1,904.1 million, representing a decrease of RMB1,810.0 million or 48.7% as compared with RMB3,714.1 million in the same period in 2015.The net profit amounted to RMB -5,491.5 million while a net profit of RMB -2,387.7 million was recorded in the same period in 2015, which was mainly affected by market environment.

FINANCIAL REVIEW

1. Analysis on Consolidated Statement of Profit or Loss

1.1 Revenue

For the year 2016, revenue of the Group amounted to RMB15,085.5 million, representing a decrease of RMB8,088.7 million or 34.9% as compared with last year. The detailed analysis is set out below:

Analysis by business segment

Unit: RMB million

Business segments	**2016**	**2015**	**Change**	**Percentage change**
Drilling services	6,498.5	12,039.5	(5,541.0)	(46.0%)
Well services	5,568.4	6,913.2	(1,344.8)	(19.5%)
Marine support services	1,948.5	2,703.4	(754.9)	(27.9%)
Geophysical and surveying services	1,070.1	1,518.1	(448.0)	(29.5%)
Total	15,085.5	23,174.2	(8,088.7)	(34.9%)

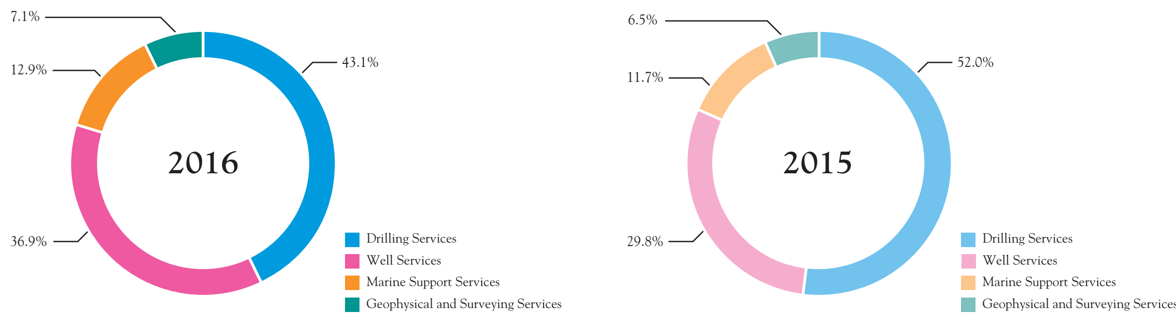
- Revenue generated from drilling services decreased by 46.0% over the same period last year. The main reasons include: ① Operation days of drilling rigs decreased by 2,806 days as compared with the same period last year. ② Service price of drilling rigs dropped.

- Revenue of well services decreased by 19.5% over the same period last year, which was mainly due to the decrease in service price and operation volume.

- Revenue from marine support services decreased by 27.9% as compared with the same period last year, which was mainly due to the operation days decreased by 5,542 days and the decrease in service price at the same time.

- Revenue from geophysical and surveying services decreased by 29.5% as compared with the same period last year, which was mainly due to the decrease in operation volume and price of most of the operation lines.

REVENUE ANALYSIS – BY BUSINESS



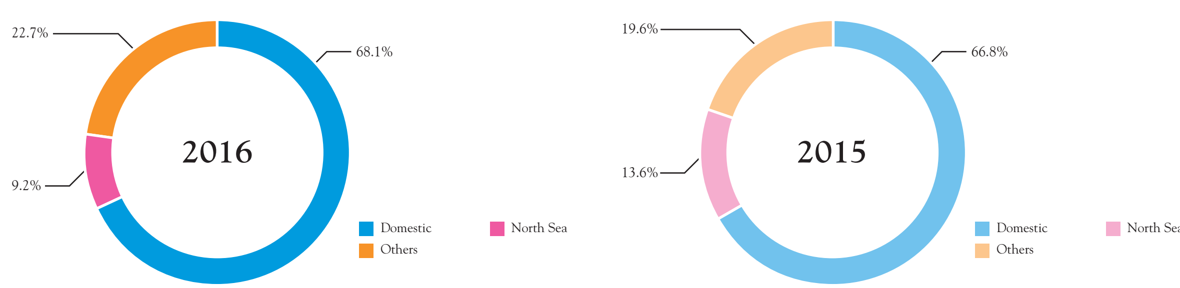
Analysis by operation area

Unit: RMB million

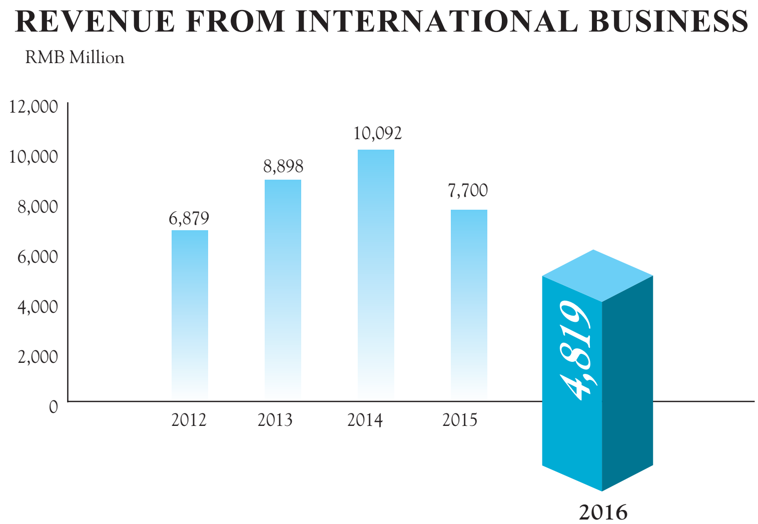
Region	2016	2015	Change	Percentage change
Domestic	10,266.8	15,474.4	(5,207.6)	(33.7%)
International	4,818.7	7,699.8	(2,881.1)	(37.4%)
Of which:				
North Sea	1,389.2	3,162.0	(1,772.8)	(56.1%)
Other	3,429.5	4,537.8	(1,108.3)	(24.4%)
Total	15,085.5	23,174.2	(8,088.7)	(34.9%)

In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 68.1% of the Group's total income. In 2016, the Group's international business recorded revenue of RMB4,818.7 million (compared with RMB7,699.8 million over the same period of 2015), accounting for 31.9% of the Group's revenue for the year, representing a decrease of 1.3 percentage points. Among which, North Sea recorded an annual revenue of RMB1,389.2 million, representing 9.2% of the Group's revenue for the year.

OPERATION AREA



The latest five years' revenue from international business



1.2 Operating expenses

For the year 2016, operating expenses of the Group amounted to RMB26,606.5 million, representing an increase of RMB4,821.3 million, increased by 22.1% compared with RMB21,785.2 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the operating expenses of the Group amounted to RMB18,333.7 million, representing a decrease of RMB1,679.1 million as compared with RMB20,012.8 million for the same period of 2015.

The table below shows the operating expenses for the Group in 2016 and 2015:

Unit: RMB million

	2016	2015	Change	Percentage change
Depreciation of property, plant and equipment and amortization of intangible assets	4,520.1	4,213.4	306.7	7.3%
Employee compensation costs	3,890.1	3,792.5	97.6	2.6%
Repair and maintenance costs	500.1	799.3	(299.2)	(37.4%)
Consumption of supplies, materials, fuel, services and others	4,116.4	4,569.3	(452.9)	(9.9%)
Subcontracting expenses	2,364.6	3,474.8	(1,110.2)	(32.0%)
Operating lease expenses	1,206.1	1,547.6	(341.5)	(22.1%)
Other operating expenses	2,865.3	2,185.0	680.3	31.1%
Impairment of goodwill	3,455.4	923.2	2,532.2	274.3%
Impairment of property, plant and equipment	3,688.4	280.1	3,408.3	1,216.8%
Total operating expenses	26,606.5	21,785.2	4,821.3	22.1%

Increasing of equipment led to an increase in depreciation of property, plant and equipment and amortization of intangible assets of RMB306.7 million.

Due to a decrease in operation volume, detailed management of the Group and cost control from the source, repair and maintenance cost, subcontracting expenses and operating lease expenses decreased more significantly in 2016.

Other operating expenses increased by RMB680.3 million as compared with the same period in 2015, which was mainly due to the provision for impairment of accounts receivable increased by RMB582.1 million during the year.

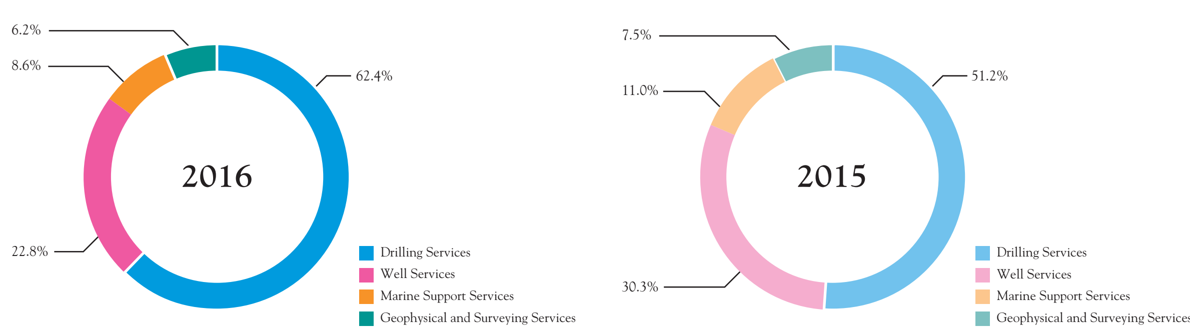
Concerned of the downturn of global oilfield services market, provision of RMB3,455.4 million was made for impairment of goodwill for the year, representing an increase of RMB2,532.2 million as compared with the same period of last year. The provision for impairment of property, plant and equipment was RMB3,688.4 million, representing an increase of RMB3,408.3 million as compared with the same period last year.

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

Unit: RMB million

Business segments	**2016**	**2015**	**Change**	**Percentage change**
Drilling services	16,602.0	11,153.7	5,448.3	48.8%
Well services	6,062.4	6,602.7	(540.3)	(8.2%)
Marine support services	2,285.7	2,393.5	(107.8)	(4.5%)
Geophysical and surveying services	1,656.4	1,635.3	21.1	1.3%
Total	26,606.5	21,785.2	4,821.3	22.1%

ANALYSIS OF OPERATING EXPENSES – BY BUSINESS



1.3 Profit from operations

For the year 2016, the Group's profit from operations amounted to RMB -11,367.7 million, representing a decrease of RMB12,999.2 million or 796.8% as compared with profit from operations of RMB1,631.5 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the profit from operations of the Group amounted to RMB -3,095.0 million, representing a decrease of RMB6,499.0 million as compared with RMB3,404.0 million for the same period of 2015.

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

Unit: RMB million

Business segments	**2016**	**2015**	**Change**	**Percentage change**
Drilling services	(10,076.1)	972.6	(11,048.7)	(1,136.0%)
Well services	(422.1)	393.6	(815.7)	(207.2%)
Marine support services	(327.4)	317.3	(644.7)	(203.2%)
Geophysical and surveying services	(542.1)	(52.0)	(490.1)	942.5%
Total	(11,367.7)	1,631.5	(12,999.2)	(796.8%)

1.4 Financial expenses, net

Unit: RMB million

	2016	**2015**	**Change**	**Percentage change**
Exchange gain, net	(268.7)	(87.7)	(181.0)	206.4%
Finance costs	1,047.6	700.3	347.3	49.6%
Interest income	(130.5)	(105.3)	(25.2)	23.9%
Financial expenses, net	648.4	507.3	141.1	27.8%

The increase in financial expenses for the year was mainly attributable to the increase in interest expenses due to issuance of RMB10 billion long term notes. The exchange gains increased by RMB181.0 million as affected by the change of exchange rates.

1.5 Investment income

For the year 2016, the Group's investment income amounted to RMB191.9 million, representing an increase of RMB89.6 million or 87.6% as compared with RMB102.3 million over the same period of 2015, which was mainly attributable to the increase in investment income from the Group's corporate wealth management products, liquidity funds and treasury bond related investments.

1.6 Share of profits of joint ventures, net of tax

For the year 2016, the Group's share of profits of joint ventures amounted to RMB16.8 million, representing a decrease of RMB152.9 million or 90.1% as compared with RMB169.7 million of 2015. This was mainly attributable to the decrease in gains of joint ventures as affected by the market situation.

1.7 Profit before tax

The profit before tax attained by the Group was RMB -11,807.4 million in 2016, representing a decrease of RMB13,203.8 million or 945.6% as compared with the profit before tax of RMB1,396.4 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the profit before tax of the Group amounted to RMB -3,534.6 million, representing a decrease of RMB6,703.4 million as compared with RMB3,168.8 million for the same period of 2015.

1.8 Income tax

The income tax credit of the Group in 2016 was RMB347.9 million, representing a decrease of RMB635.5 million or 221.0%, as compared with the income tax expense of RMB287.6 million for the same period of 2015, which was mainly due to the decreasing of profit before tax and the increase of deferred tax benefit caused by the recognition of deferred tax assets in respect of the deductible loss for the year.

1.9 Profit for the year

For the year 2016, profit of the Group was RMB -11,459.5 million, representing a decrease of RMB12,568.2 million or 1,133.6% as compared with the profit for the year of RMB1,108.7 million for the same period of 2015.

1.10 Basic earnings per share

For the year 2016, the Group's basic earnings per share were approximately RMB -2.40, representing a decrease of approximately RMB2.63 or 1,143.5% as compared with the basic earnings per share of approximately RMB0.23 for the same period of 2015.

1.11 Dividend

For the year 2016, the Board of the Company proposed a final dividend of RMB0.05 per share (tax inclusive), totaling RMB238.6 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2017.

2. Analysis on Consolidated Statement of Financial Position

As of 31 December 2016, the total assets of the Group amounted to RMB80,544.1 million, representing a decrease of RMB12,981.0 million or 13.9% as compared with RMB93,525.1 million at the end of 2015. The total liabilities amounted to RMB45,247.7 million, representing a decrease of RMB1,448.7 million or 3.1% as compared with RMB46,696.4 million at the end of 2015. Total equity amounted to RMB35,296.4 million, representing a decrease of RMB11,532.3 million or 24.6% as compared with RMB46,828.7 million by the end of 2015.

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

Unit: RMB million

Items		2016	2015	Change	Percentage change	Reasons
Assets						
1	Property, plant and equipment	57,457.2	60,388.0	(2,930.8)	(4.9%)	It was mainly attributable to the provision of RMB3,688.4 million for impairment of fixed assets during the year.
2	Goodwill	0.0	3,394.5	(3,394.5)	(100.0%)	Given the continuously weak global oilfield service industry and further deteriorated market conditions, provision was made for impairment of goodwill.
3	Other non-current assets	439.1	1,150.4	(711.3)	(61.8%)	It was mainly attributable to the prepayments for the construction of drilling rigs, marine vessels and geophysical vessels transferred to property, plant and equipment.
4	Deferred tax assets	68.5	39.7	28.8	72.5%	The increase in the deductible temporary differences caused by the losses of overseas subsidiaries.
5	Other current assets	7,216.1	4,212.0	3,004.1	71.3%	It was mainly attributable to the increase in the amount of the corporate wealth management products and treasury bond related investments.
6	Time deposits with maturity of over three months	0.0	200.0	(200.0)	(100.0%)	The time deposits held by the Group at the end of 2015 with maturity of over three months were due during the current year.
7	Cash and cash equivalents	6,071.1	12,574.0	(6,502.9)	(51.7%)	The proceeds of the issuance of the corporate bonds of RMB10 billion and repayment of the debts, interest and dividend of RMB15,574.5 million by the Group.

Items	2016	2015	Change	Percentage change	Reasons
Liabilities					
1 Interest-bearing bank borrowings (current)	5,296.5	11,451.5	(6,155.0)	(53.7%)	Repayment of borrowings.
2 Loans from a related party	693.7	0.0	693.7	100.0%	A new borrowing of US$100.0 million during the year.
3 Interest-bearing bank borrowings (non-current)	2,057.2	9,482.6	(7,425.4)	(78.3%)	It was mainly attributable to loan repayment and the long-term borrowing to be re-classified and due within one year.
4 Long term bonds	25,279.7	14,390.8	10,888.9	75.7%	RMB10 billion corporate bonds were newly issued in this year.
5 Employee benefit liabilities	8.8	66.4	(57.6)	(86.7%)	The liabilities of defined benefit plan for pension of the subsidiary in Norway decreased.
6 Deferred tax liabilities	234.5	627.3	(392.8)	(62.6%)	The Company's recognition of deferred tax assets of deductible loss and provision for onerous contracts led to the decrease of deferred tax liabilities, which was presented on a net basis.

3. Analysis of consolidated statement of cash flows

At the beginning of 2016, the Group held cash and cash equivalents of RMB12,574.0 million, in 2016, the net cash inflows from operating activities amounted to RMB2,740.6 million; net cash outflows from investing activities amounted to RMB4,678.4 million; net cash outflows from financing activities amounted to RMB4,921.5 million and the impact of foreign exchange fluctuations resulted in an increase in cash of RMB356.4 million. By 31 December 2016, the Group's cash and cash equivalents amounted to RMB6,071.1 million.

3.1 Cash flows from operating activities

For the year ended 31 December 2016, net cash inflows from operating activities of the Group amounted to RMB2,740.6 million, representing a decrease of 58.2% as compared with the same period of 2015. This was mainly attributed to a decrease in revenue as affected by the market.

3.2 Cash flows from investing activities

For the year ended 31 December 2016, net cash outflows generated from investing activities of the Group amounted to RMB4,678.4 million, representing an increase of RMB1,362.2 million or 41.1% as compared with the same period in 2015, which was mainly attributable to the decrease of RMB3,052.4 million in the cash outflows of the acquisition of property, plant and equipment and other intangible assets as compared with the same period of 2015, the increase of RMB4,052.4 million in the net outflows of acquisition and disposal of available-for-sale investments (mainly included liquidity funds, corporate wealth management products and treasury bond related investments acquired by the Group) as compared with the net inflow at the same period of 2015, the decrease of RMB908.0 million in the net inflows of deposit and withdrawal of time deposits with maturity of over three months, and the total decrease of cash outflows of RMB545.8 million in other investment activities.

3.3 Cash flows from financing activities

For the year ended 31 December 2016, net cash outflows from financing activities of the Group amounted to RMB4,921.5 million, representing an increase of outflows of RMB8,353.3 million as compared with the inflows of the same period of 2015. This was mainly attributable to the increase of cash of RMB3,917.5 million received from issuance of bonds as compared with the same period of 2015, the decrease of cash of RMB3,449.8 million received from procurement of loans from banks and related parties as compared with the same period of 2015, the increase of cash of RMB10,478.9 million paid for repayment of loans as compared with the same period of 2015 and the total decrease of cash outflows of RMB1,657.9 million in other fund raising activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was an increase in cash of RMB356.4 million.

4. Capital expenditure

In 2016, the capital expenditure of the Group amounted to RMB3,488.8 million, representing a decrease of RMB4,377.7 million or 55.6% as compared with the same period last year

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2016	2015	Change	Percentage change
Drilling services	2,167.8	3,973.6	(1,805.8)	(45.4%)
Well services	298.4	705.1	(406.7)	(57.7%)
Marine support services	771.9	1,543.8	(771.9)	(50.0%)
Geophysical and surveying services	250.7	1,644.0	(1,393.3)	(84.8%)
Total	3,488.8	7,866.5	(4,377.7)	(55.6%)

The capital expenditure of the drilling services segment was mainly used for the construction of 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 services segment was mainly used for the construction of utility vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of geophysical vessel and integrated surveying vessels.

5. Charge on assets

As of 31 December 2016, the Group had no large-scale charges against its assets.

6. Employee

As of 31 December 2016, the Group had 14,927 employees on service. The Company has basically formed an employment structure in term of marketization and put in place a reasonable remuneration structure.

BUSINESS PLAN

Starting from the beginning of 2017, the international crude oil price would be higher in 2017 than that of the beginning of 2016, which can bring oilfield services industry to gradual recover. However, with a modest recovery in the exploration and development spending in the world in 2017, it is expected that the industry situation is still severe during the year.

In the context of gradual increase in the oil price, the Company expects that its work volumes of business segments and service prices of its partial business will increase with varying degrees in 2017. The Company will further enhance its QHSE management level, to ensure safety production; while effectively maintaining the domestic market, develop overseas markets and strive to achieve better operating results in 2017.

The above business plan is based on the current operations of the Company and current market conditions, which does not constitute the Company's profit forecast and substantive commitments of the directors. As for whether the Company will achieve the Company's expected performance in 2017, which would mainly depend on market and economy, investors are advised to pay attention to the investment risk.

2017 BUSINESS OUTLOOK

According to the estimated data of IHS, an institution for international information services, it is estimated that the investment in upstream exploration and development around the world decreased by 26.8% in 2016 as compared with the same period of last year, with an increase of 8.4% to US$399 billion in 2017; the offshore exploration and development expenditure decreased by 26.1% in 2016 as compared with the same period of last year, with a continuous drop of 4.9% in 2017 and resuming growth of 6.9% to US$124 billion in 2018.

In general, the oilfield services industry will still face with greater operating pressure in spite of the halting downward trend of capital expenditure of global oil and gas companies and the increasingly active tendering activities in oilfield services in 2017.

OTHER INFORMATION

Audit Committee

The audit committee comprises 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 risk management, internal control and financial reporting matters. The annual results of the Group for the year ended 31 December 2016 has been reviewed by the audit committee.

Corporate Governance Code

During the 12 months ended 31 December 2016, the Company has fully complied with the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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, during the 12 months ended 31 December 2016, strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 2016.

Other Matters

On 20 March 2012, the Company disclosed in its announcement a connected transaction in relation to the transfer of land to CNOOC Infrastructure Management Co., Ltd. As at 31 December 2016, the Company is now actively undertaking relevant communication and coordination in respect of the transfer and the transfer procedures of such land transaction were not yet completed.

In December 2016, COSL Offshore Management AS ("COM", a subsidiary of the Company) as a plaintiff filed a Statement of Claim (the "Claim") against Statoil (Statoil Petroleum AS, hereinafter "Statoil") with Oslo District Court of Norway (the "Court") through WIKBORG, REIN & CO. ADVOKATFIRMA DA, an international law firm based in Norway, as litigation agent. COM has claimed that Statoil's termination of the contract in respect of the drilling rig of COSLInnovator was unlawful and has claimed the contract to be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover COM's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

In January 2017, COM, a subsidiary of the Company as a plaintiff filed a Statement of Claim (the "Claim") against Statoil with the Court through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent. COM is of the view that Statoil shall pay the Claim for cost reimbursement and rate reductions happened in the period of year 2016 in amount up to the equivalence of US$15,238,596 incurred as a consequence of the drilling rig of COSLPromoter's compliance with requirements of Statoil. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

DISCLOSURE OF INFORMATION ON THE HKEX'S WEBSITE

This announcement will be published on the Company's website (www.cosl.com.cn) and the Stock Exchange's website (www.hkex.com.hk). The full annual report will be mailed to the shareholders of the Company and published on the websites of the Company and the Stock Exchange of Hong Kong Limited in due course.

By order of the Board
China Oilfield Services Limited
Wang Baojun
Company Secretary

21 March 2017

As at the date of this announcement, the executive directors of the Company are Messrs. Qi Meisheng, Dong Weiliang and Li Feilong; the non-executive directors of the Company are Messrs. Lv Bo (Chairman) and Xie Weizhi; and the independent non-executive directors of the Company are Messrs. Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert.