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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 2017

FINANCIAL HIGHLIGHTS

1. Revenue was RMB17,379.4 million
2. Profit from operations was RMB1,427.5 million
3. Profit for the year was RMB71.2 million
4. Basic earnings per share were RMB0.69 cent
5. Total assets were RMB73,857.3 million
6. Total equity was RMB34,677.8 million

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	*5*	**17,436,414**	15,152,185
Sales surtaxes		**(56,981)**	(66,640)
Revenue, net of sales surtaxes		**17,379,433**	15,085,545
Other revenues	*5*	**323,054**	153,207
		17,702,487	15,238,752
Depreciation of property, plant and equipment and amortisation of intangible assets		**(4,468,117)**	(4,520,118)
Employee compensation costs	*6*	**(4,001,622)**	(3,890,143)
Repair and maintenance costs		**(363,777)**	(500,093)
Consumption of supplies, materials, fuel, services and others		**(3,064,065)**	(4,116,437)
Subcontracting expenses		**(2,362,721)**	(2,364,588)
Operating lease expenses	*6*	**(594,245)**	(1,206,111)
Other operating expenses		**(1,415,482)**	(2,865,175)
Impairment of goodwill	*11*	**–**	(3,455,378)
Impairment of property, plant and equipment	*10*	**(4,942)**	(3,688,408)
Total operating expenses		**(16,274,971)**	(26,606,451)
PROFIT/(LOSS) FROM OPERATIONS		**1,427,516**	(11,367,699)
Exchange (loss)/gain, net		**(388,094)**	268,710
Finance costs		**(1,100,941)**	(1,047,667)
Interest income		**99,575**	130,519
Investment income	*6*	**187,545**	191,933
Share of profits of joint ventures, net of tax		**106,867**	16,849
PROFIT/(LOSS) BEFORE TAX	*6*	**332,468**	(11,807,355)
Income tax (expense)/credit	*7*	**(261,257)**	347,899
PROFIT/(LOSS) FOR THE YEAR		**71,211**	(11,459,456)
Attributable to:			
Owners of the Company		**33,067**	(11,456,186)
Non-controlling interests		**38,144**	(3,270)
		71,211	(11,459,456)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	*9*	**0.69 cent**	(240.09) cents

Details of the dividends paid or proposed for the year are disclosed in note 8 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	**71,211**	(11,459,456)
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plan	**(6,845)**	46,836
Income tax relating to items that will not be reclassified subsequently to profit or loss	**1,684**	(11,709)
	(5,161)	35,127
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(401,614)**	259,691
Net fair value loss on available-for-sale investments	**(42,246)**	(64,778)
Share of exchange differences of joint ventures	**(8,559)**	11,848
Income tax relating to items that may be reclassified subsequently to profit or loss	**6,352**	9,717
	(446,067)	216,478
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF INCOME TAX	**(451,228)**	251,605
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**(380,017)**	(11,207,851)
Attributable to:		
Owners of the Company	**(412,935)**	(11,210,542)
Non-controlling interests	**32,918**	2,691
	(380,017)	(11,207,851)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**31 December 2017** *RMB'000*	31 December 2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**52,599,471**	57,457,239
Goodwill	*11*	**–**	–
Other intangible assets		**419,294**	427,027
MultiClient library	*12*	**22,821**	–
Investments in joint ventures		**582,702**	600,364
Available-for-sale investments		**–**	–
Other non-current assets		**326,766**	439,121
Deferred tax assets	*18*	**70,800**	68,514
Total non-current assets		**54,021,854**	58,992,265
CURRENT ASSETS			
Inventories		**1,148,507**	1,157,617
Prepayments, deposits and other receivables	*13*	**460,401**	442,960
Accounts receivable	*14*	**6,218,549**	4,795,964
Notes receivable	*15*	**85,533**	1,844,306
Other current assets		**2,843,392**	7,216,070
Pledged deposits	*16*	**41,092**	23,806
Time deposits with maturity of over three months	*16*	**28,870**	–
Cash and cash equivalents	*16*	**9,009,074**	6,071,069
Total current assets		**19,835,418**	21,551,792
CURRENT LIABILITIES			
Trade and other payables	*17*	**8,062,653**	9,304,300
Salary and bonus payables		**830,873**	776,939
Tax payable		**121,630**	101,124
Loan from a related party	*19*	**2,286,970**	693,700
Interest-bearing bank borrowings	*20*	**563,380**	5,296,469
Other current liabilities		**177,180**	543,649
Total current liabilities		**12,042,686**	16,716,181

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NET CURRENT ASSETS		**7,792,732**	4,835,611
TOTAL ASSETS LESS CURRENT LIABILITIES		**61,814,586**	63,827,876
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*18*	**322,858**	234,456
Provisions	*21*	–	14,505
Interest-bearing bank borrowings	*20*	**1,409,175**	2,057,206
Long term bonds	*22*	**24,495,769**	25,279,744
Deferred revenue	*23*	**888,146**	936,804
Employee benefit liabilities		**20,857**	8,783
Total non-current liabilities		**27,136,805**	28,531,498
Net assets		**34,677,781**	35,296,378
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*24*	**4,771,592**	4,771,592
Reserves		**29,783,261**	30,434,776
		34,554,853	35,206,368
Non-controlling interests		**122,928**	90,010
Total equity		**34,677,781**	35,296,378

1. GENERAL

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 No.1581, Haichuan Road, Tanggu Ocean Hi-tech Zone, Binhai Hi-tech Development 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

Except as described below, 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.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specially, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Consistent with the transition provision of the amendments, the Group has not disclosed comparative information for the prior year. The application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to HKAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

2.2 *New and revised HKFRSs in issue but not yet effective*

The Group has not early applied the following new and revised 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]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[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 9	*Prepayment Features with Negative Compensation*[2]
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 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

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 2021

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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 which are relevant to the Group are:

- 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 financial assets are measured at their fair value at 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipated the following potential impact on initial application of HKFRS 9.

Classification and measurement:

- Loan and receivables carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

- Financial instruments classified as available-for-sale investment carried at fair value: these are held within a business model whose objective is not solely receiving payments of principal and interest on the principal outstanding or selling the financial instruments in open market. Accordingly, the Group will measure these instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, revaluation reserve of RMB110,000 related to these available-for-sale investment will be transferred to retained profits at 1 January 2018.

- All other financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under HKAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

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 Group recognises revenue substantially from day rate contracts, as and when services have been rendered. The Directors have specifically considered HKFRS 15's guidance on contract modifications arising from variation orders, variable considerations, and allocating the transaction price to the identified performance obligations on a relative stand-alone selling price basis. The Directors have assessed that revenue from services rendered should be recognised over time as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. The Directors are also of the view that the method currently used to measure the progress towards satisfactory completion of these performance obligations will continue to be appropriate under HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognized in opening balance of retained profits at 1 January 2018.

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. Upon application of 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 by the Group.

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 2017, the Group has non-cancellable operating lease commitments of RMB1,723,151,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

Based on the definition of lease payments under HKFRS 16, refundable rental deposits paid by the Group are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. As at 31 December 2017, such refundable rental deposits paid is not material, as a result, the Directors do not anticipate that adjusting such deposits to amortised cost will have a material impact on the carrying amount of such deposits.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT EVENT IN THE YEAR

On 4 March 2016, COSL Drilling Europe AS ("CDE"), the wholly-owned subsidiary of the Group, received notification from Statoil Petroleum AS ("Statoil") for requesting the termination and suspension of the service contracts of COSLInnovator and COSLPromoter, respectively. CDE was also asked to take the necessary actions in order to fulfil certain requirements of the service contract of COSLPromoter. The original remaining contract periods for COSLInnovator and COSLPromoter are 56 months and 61 months respectively based on the date the Group received the notification. Statoil is not going to pay any compensation to the Group in respect of the above termination and suspension of service contracts in accordance with the relevant agreements.

Taking into account the contractual arrangements with Statoil and status of the respective drilling rigs, the Group is of the view that the grounds for demanding termination and suspension of the above service contracts by Statoil are invalid. The service contract of COSLPromoter with Statoil was resumed from 18 March 2016 after further negotiation between CDE and Statoil.

In accordance with the investigation report published by Petroleum Safety Authority Norway in July 2016, no non-conformity was found in the structure and design of COSLInnovator and COSLPromoter based on the prevailing regulations governing construction of rigs in Norway.

On 14 December 2016, COSL Offshore Management AS ("COM"), the wholly-owned subsidiary of CDE, as a plaintiff filed a statement of claim (the "Claim") against Statoil. COM has claimed that Statoil's termination of the service contract of COSLInnovator was unlawful and had claimed that this contract should be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover the Group's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. During the current year, certain written pleadings have been submitted by COM to the court. As at the date of approval of these consolidated financial statements, the court hearing of the first instance of the Claim has been completed, while the court ruling has not yet finalized.

4. 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 profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, exchange (losses)/gains 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 2017	**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	**6,691,328**	**6,565,968**	**2,437,812**	**1,684,325**	**17,379,433**
Sales surtaxes	**16,319**	**25,965**	**8,958**	**5,739**	**56,981**
Sales to external customers, before net of sales surtaxes	**6,707,647**	**6,591,933**	**2,446,770**	**1,690,064**	**17,436,414**
Intersegment sales	**77,055**	**82,582**	**103,995**	**4,549**	**268,181**
Segment revenue	**6,784,702**	**6,674,515**	**2,550,765**	**1,694,613**	**17,704,595**
Elimination	**(77,055)**	**(82,582)**	**(103,995)**	**(4,549)**	**(268,181)**
Group revenue	**6,707,647**	**6,591,933**	**2,446,770**	**1,690,064**	**17,436,414**
Segment results	**(32,881)**	**1,363,763**	**294,490**	**(90,989)**	**1,534,383**
Reconciliation:					
Exchange loss, net					**(388,094)**
Finance costs					**(1,100,941)**
Interest income					**99,575**
Investment income					**187,545**
Profit before tax					**332,468**
Income tax expenses					**261,257**

Year ended 31 December 2017	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical and surveying services *RMB'000*	Total *RMB'000*
As at 31 December 2017					
Segment assets	**44,623,711**	**6,433,251**	**8,216,236**	**4,216,864**	**63,490,062**
Unallocated assets					**10,367,210**
Total assets					**73,857,272**
Segment liabilities	**4,177,708**	**3,344,323**	**1,130,745**	**958,914**	**9,611,690**
Unallocated liabilities					**29,567,801**
Total liabilities					**39,179,491**
Other segment information:					
Capital expenditure	**1,074,604**	**651,888**	**466,160**	**105,761**	**2,298,413**
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,693,942**	**601,338**	**607,959**	**564,878**	**4,468,117**
Impairment of accounts receivable	**86,521**	**(12,916)**	**(2,895)**	**(2,000)**	**68,710**
Impairment of other receivables	**5,730**	**5,630**	**2,089**	**1,443**	**14,892**
Reversal of impairment of inventories	**(198)**	**(194)**	**(72)**	**(50)**	**(514)**
Impairment of property, plant and equipment	**–**	**–**	**4,942**	**–**	**4,942**
Share of (losses)/profits of joint ventures	**(5,657)**	**96,439**	**–**	**16,085**	**106,867**
Investments in joint ventures	**–**	**443,775**	**–**	**138,927**	**582,702**

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

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 2017 and 2016.

Year ended/as at 31 December 2017	**Domestic**	**International**		**Total**
		North sea	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue:				
Sales to external customers	**13,113,826**	**1,033,859**	**3,288,729**	**17,436,414**
Less: Sales surtaxes	**(56,981)**	**–**	**–**	**(56,981)**
Sales to external customers, net of sales surtaxes	**13,056,845**	**1,033,859**	**3,288,729**	**17,379,433**
Non-current assets:	**31,025,187**	**9,734,108**	**12,609,057**	**53,368,352**

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

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 75% (2016: 69%) of the total sales of the Group for the year ended 31 December 2017.

5. 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:

	2017 *RMB'000*	2016 *RMB'000*
Revenue:		
Rendering of services (a)	**17,436,414**	15,152,185
Other revenues:		
Insurance claims received	**28,842**	55,419
Government grants (b)	**147,359**	62,297
Compensation income on late delivery of assets (c)	**100,222**	–
Others	**46,631**	35,491
Total other revenues	**323,054**	153,207

(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 RMB94,356,000 for the year (2016: RMB17,329,000) (note 23).

(c) Due to late delivery of certain vessels from supplier, operation capacity of marine support segment was behind original budget. Actual incremental costs were incurred as extra vessels were chartered by the Group in order to meet the working requirement of customers. The supplier reimbursed the Group of those actual incremental costs incurred which was accounted for as compensation income on late delivery of assets in other revenues.

6. PROFIT/(LOSS) BEFORE TAX

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

	2017 *RMB'000*	2016 *RMB'000*
Employee compensation costs (including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**2,837,961**	2,695,518
Social security costs	**761,707**	781,015
Retirement benefits and pensions	**401,954**	413,610
	4,001,622	3,890,143
Auditor's remuneration	**15,927**	17,478

	Notes	2017	2016
		RMB'000	*RMB'000*
Loss on disposal of plant and equipment, net		**30,113**	54,785
Lease payments under operating leases in respect of land and buildings, berths and equipment		**594,245**	1,206,111
Provision for impairment of accounts receivable	*14*	**68,710**	1,140,853
Provision for impairment of other receivables	*13*	**14,892**	1,971
Reversal of impairment of inventories		**(514)**	(13,895)
Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments		**187,545**	191,933
Cost of inventories recognised as an expense		**1,512,619**	2,434,678
Research and development costs, included in:		**450,513**	391,589
Depreciation of property, plant and equipment		**106,604**	91,250
Employee compensation costs		**200,949**	136,704
Consumption of supplies, materials, fuel, services and others		**142,960**	163,635

7. 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 and was re-certified as an HNTE in October 2017, which is effective for the period from 2017 to 2019. According to the HNTE certificate, the CIT rate was to be 15% for the period from 2017 to 2019. 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 2017 (2016: 15%).

The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (2016: 25%). The Group's activities in Australia are subject to income tax of 30% (2016: 30%) based on its taxable profit generated. The Group's activities in Mexico are subject to income tax of 30% (2016: 30%). The Group's activities in Norway are subject to corporate income tax of 24% (2016: 25%). The Group's activities in the United Kingdom are subject to income tax of 19% (2016: 20%). The Group's activities in Iraq are subject to withholding tax based on 7% (2016: 7%) of revenue generated in Iraq. The Group's activities in Singapore are subject to income tax of 17% (2016: 17%). The Group's activities in the United States are subject to income tax of 34% (2016: 34%). The Group's activities in United Arab Emirates are not subject to any income tax. The Group's activities in Canada are subject to the net federal corporate income tax of 15% (2016: 15%) and provincial income tax ranging from 11% to 16% (2016: 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% (2016: 24%). The Group's activities in Saudi Arabia are subject to income tax of 20% (2016: 20%). The Group's taxes pertaining to drilling activities in Oman are subject to income tax of 15% (2016: 12%). The income tax of the Group's activities in the Gabonese Republic commencing in the current year is borne by the customer.

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

	2017	2016
	RMB'000	*RMB'000*
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**81,333**	67,216
Deferred	**(27,583)**	(125,469)
PRC corporate income taxes:		
Current	**132,143**	8,361
Deferred	**121,742**	(292,137)
Over provision in prior years	**(46,378)**	(5,870)
Total tax charge/(credit) for the year	**261,257**	(347,899)

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

	2017		2016	
	RMB'000	**%**	*RMB'000*	*%*
Profit/(loss) before tax	**332,468**		(11,807,355)	
Tax at the statutory tax rate of 25% (2016: 25%)	**83,117**	**25.0**	(2,951,839)	25.0
Tax effect as an HNTE	**(170,097)**	**(51.2)**	194,266	(1.6)
Tax effect of income not subject to tax	**(14,919)**	**(4.5)**	–	–
Tax effect of share of profit of joint ventures	**(26,717)**	**(8.0)**	(4,212)	0.1
Tax effect of expense not deductible for tax	**37,768**	**11.3**	39,605	(0.3)
Tax effect of impairment of goodwill	**–**	**–**	863,844	(7.3)
Tax benefit for qualifying research and development expenses	**(60,319)**	**(18.1)**	(48,547)	0.4
Effect of non-deductible expenses and different tax rates for overseas subsidiaries	**402,961**	**121.2**	1,025,458	(8.7)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(58,315)**	**(17.5)**	(5,432)	0.1
Tax effect of tax losses and deductible temporary differences unrecognised	**5,980**	**1.8**	469,113	(4.1)
Translation adjustment (a)	**79,210**	**23.8**	46,437	(0.4)
Over provision in respect of prior years	**(46,378)**	**(13.9)**	(5,870)	0.1
Others	**28,966**	**8.7**	29,278	(0.4)
Total tax charge/(credit) at the Group's effective tax rate	**261,257**	**78.6**	(347,899)	2.9

(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 RMB24,375,000 (2016: RMB9,581,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

8. DIVIDENDS

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.06 per ordinary share (2016: RMB0.05 per ordinary share)	**286,296**	238,580

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%.

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

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

	2017	2016
	RMB'000	*RMB'000*
Earnings/(loss)		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	**33,067**	(11,456,186)

	2017	2016
Number of shares		
Number of ordinary shares for the purpose of basic earnings/(loss) per share	**4,771,592,000**	4,771,592,000

No diluted earnings/(loss) per share is presented for the years ended 31 December 2017 and 2016 as the Group had no dilutive potential ordinary shares in issue during those years.

10. PROPERTY, PLANT AND EQUIPMENT

31 December 2017	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 2016 and at 1 January 2017							
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
Carrying amount							
At 1 January 2017	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239
Additions	43,579	58,875	351,511	1,317	476	1,762,134	2,217,892
Depreciation provided during the year	(918,218)	(2,095,054)	(1,347,533)	(7,719)	(40,966)	–	(4,409,490)
Disposals/write-offs	(1,060,410)	(2,569)	(14,651)	(2,542)	–	–	(1,080,172)
Transfers from/(to) construction in progress ("CIP")	1,694,630	339,736	618,483	98	–	(2,652,947)	–
Impairment provided	(4,942)	–	–	–	–	–	(4,942)
Exchange realignment	(36,922)	(1,440,819)	(63,844)	–	(19,291)	(20,180)	(1,581,056)
At 31 December 2017	9,408,756	32,855,253	4,631,555	20,297	860,620	4,822,990	52,599,471
At 31 December 2017							
Cost	15,566,508	59,321,937	16,568,599	115,458	948,399	4,822,990	97,343,891
Accumulated depreciation and impairment	(6,157,752)	(26,466,684)	(11,937,044)	(95,161)	(87,779)	–	(44,744,420)
Carrying amount	9,408,756	32,855,253	4,631,555	20,297	860,620	4,822,990	52,599,471

31 December 2016	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 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

Included in the current year's additions was an amount of approximately RMB12,590,000 (2016: RMB14,753,000) in respect of interest capitalised in property, plant and equipment, with a capitalisation rate of 4.27% (2016: 4.86%) per annum.

Impairment of property, plant and equipment

During the year ended 31 December 2017, due to slower-than-expected recovery of global oilfield services market and oil price, both the services prices and utilisation rates of the Group's drilling rigs and vessels were not resumed to the normal healthy level with reasonably good profit margin. The Directors carried out the review of the recoverable amounts of the Group's plant and machinery as there were impairment indicators of these assets during the year. 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 RMB4,942,000 which has been recognised in profit or loss for the year ended 31December 2017. The impairment losses have been classified under the marine support services segment.

During the year ended 31 December 2016, impairment loss of RMB3,688,408,000 was recognised which was classified under drilling services segment based on the review of recoverable amounts of the Group's plant and machinery.

The recoverable amount of the relevant asset, which was identified as a cash generating unit within the respective services segments, has 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% (2016: 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.

11. 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").

	2017 ***RMB'000***
COST	
At 1 January	**4,673,777**
Exchange realignment	**(271,385)**
At 31 December	**4,402,392**
IMPAIRMENT	
At 1 January	**4,673,777**
Exchange realignment	**(271,385)**
At 31 December	**4,402,392**
CARRYING VALUE	
At 31 December	**–**

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 4, 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. The entire goodwill was fully impaired as to 31 December 2016 based on the impairment assessment review made by the management of the Company.

12. MULTICLIENT LIBRARY

	2017
	RMB'000
Carrying amount at 1 January 2017	–
Development cost capitalized in the year	**23,649**
Exchange realignment	**(828)**
At 31 December 2017	**22,821**
At 31 December 2017	
Cost	**22,821**
Accumulated amortisation	–
Carrying amount	**22,821**

During the current year, the Group entered into cooperation agreements with Spectrum Geo Inc to invest in certain multi-client data projects. These agreements are accounted for as joint operations where the parties have joint control over the projects and have rights to the assets and liabilities of the investment. Costs directly incurred in acquiring, processing and completing multi-client data projects are capitalized to the MultiClient library.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Prepayments	**58,705**	57,234
Deposits	**87,492**	73,233
Other receivables	**344,794**	328,293
	490,991	458,760
Less: Provision for impairment of other receivables	**(30,590)**	(15,800)
	460,401	442,960

An analysis of other receivables is as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Prepaid tax	**144,578**	115,295
Reimbursable advance to suppliers	**27,527**	78,041
Dividend receivable	**32,000**	62,000
Interest receivable	**18,141**	6,924
Advance to employees	**9,654**	9,991
Other advance	**13,044**	10,425
Insurance claim receivables	**47,174**	11,266
Others	**52,676**	34,351
	344,794	328,293

14. 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 1 year 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 2017 *RMB'000*	31 December 2016 *RMB'000*
Outstanding balances aged:		
Within six months	**5,719,339**	4,226,057
Six months to one year	**185,095**	280,809
One to two years	**235,209**	80,571
Two to three years	**78,906**	208,527
	6,218,549	4,795,964

Included in the Group's accounts receivable balance are debtors with a carrying amount of approximately RMB323,697,000 (2016: RMB569,907,000) 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 further provision for impairment is necessary in respect of these balances which are considered fully recoverable after taking into consideration of the customer's credit quality, historical behavior of payments and prevailing market conditions. The Group does not hold any collateral or other credit enhancements over these past-due balances.

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

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Outstanding balances aged:		
Six months to one year	**9,582**	280,809
One to two years	**235,209**	80,571
Two to three years	**78,906**	208,527
	323,697	569,907

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:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**2,079,877**	881,530
Impairment losses recognised	**234,285**	1,162,447
Impairment losses reversed (note)	**(165,575)**	(21,594)
Impairment losses written-off	**(132)**	(16)
Exchange realignment	**(111,751)**	57,510
At 31 December	**2,036,704**	2,079,877

Note: During the current year, included therein was impairment loss amounting to RMB119,555,000 previously provided due to significant dispute with the respective customer, which was reversed as the Group received full settlement from a counterparty in accordance with the arbitration settlement result released during the current year.

15. NOTES RECEIVABLE

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Trade acceptances	**82,986**	1,839,346
Bank acceptances	**2,547**	4,960
	85,533	1,844,306

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

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

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Cash and balances with banks	**3,049,199**	2,682,547
Deposits with CNOOC Finance Corporation Ltd.	**1,497,422**	1,801,400
Time deposits at banks	**4,532,415**	1,610,928
Cash and balances with banks and financial institutions	**9,079,036**	6,094,875
Less:		
Pledged deposits-current	**(41,092)**	(23,806)
Time deposits with maturity of over three months	**(28,870)**	–
Cash and cash equivalents	**9,009,074**	6,071,069

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 RMB5,333,699,000 (2016: RMB3,635,694,000). 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.

17. 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 2017	31 December 2016
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within one year	**6,610,215**	8,172,037
One to two years	**228,751**	135,473
Two to three years	**76,451**	87,928
Over three years	**82,469**	66,433
	6,997,886	8,461,871

18. 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 2017	31 December 2016
	RMB'000	*RMB'000*
Deferred tax assets	**70,800**	68,514
Deferred tax liabilities	**(322,858)**	(234,456)
	(252,058)	(165,942)

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

	Balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Exchange realignment	Balance at 31 December 2016 and 1 January 2017	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Exchange realignment**	**Balance at 31 December 2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Deferred tax assets:									
Provision for staff bonus	108,687	(18,653)	–	–	90,034	**(1,270)**	**–**	**(1)**	**88,763**
Impairment of assets	54,504	21,969	–	–	76,473	**(19,775)**	**–**	**–**	**56,698**
Accrued liabilities	9,273	(2,477)	–	–	6,796	**23,968**	**–**	**–**	**30,764**
Provision for onerous contracts	–	53,409	–	–	53,409	**(50,042)**	**–**	**–**	**3,367**
Deductible tax loss	30,918	230,362	–	3,202	264,482	**(193,128)**	**–**	**(3,817)**	**67,537**
Others	10,848	(1,346)	–	616	10,118	**(6,013)**	**–**	**(367)**	**3,738**
	214,230	283,264	–	3,818	501,312	**(246,260)**	**–**	**(4,185)**	**250,867**
Deferred tax liabilities:									
Accelerated depreciation of property, plant and equipment	690,667	(74,713)	–	5,622	621,576	**(136,593)**	**–**	**(4,093)**	**480,890**
Fair value adjustment arising from acquisition of a subsidiary	82,367	(56,484)	–	3,121	29,004	**(15,039)**	**–**	**(1,200)**	**12,765**
Fair value change in available for sale investment	16,069	–	(9,717)	–	6,352	**–**	**(6,352)**	**–**	**–**
Others	12,736	(3,145)	–	731	10,322	**(469)**	**–**	**(583)**	**9,270**
	801,839	(134,342)	(9,717)	9,474	667,254	**(152,101)**	**(6,352)**	**(5,876)**	**502,925**
	587,609	(417,606)	(9,717)	5,656	165,942	**94,159**	**(6,352)**	**(1,691)**	**252,058**

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 RMB783,791,000 (31 December 2016: RMB804,817,000). 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 2017, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB95,987,000 (2016: RMB28,342,000). 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 2017, accumulated unrecognised tax losses arising in the Group of approximately RMB8,550,219,000 (2016: RMB8,429,917,000) 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 2017	31 December 2016
	RMB'000	*RMB'000*
31 December 2020	**89,469**	94,984
31 December 2021	**150,712**	160,003
31 December 2022	**3,601**	–
31 December 2035	**10,420**	11,062
31 December 2036	**10,422**	11,064
31 December 2037	**9,110**	–
	273,734	277,113

At 31 December 2017, the Group had tax losses arising in Norway of RMB8,276,485,000 (2016: RMB8,152,804,000) 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 2017, the Group has deductible temporary differences of RMB1,617,918,000 (2016: RMB1,719,266,000). 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.

19. LOAN FROM A RELATED PARTY

	Contractual interest rate (%) per annum	**31 December 2017** *RMB'000*	31 December 2016 *RMB'000*
Loan from a related party–unsecured	LIBOR+0.5%	**2,286,970**	693,700

During the current year, the Group borrowed new loans with carrying amount of US$250,000,000 (equivalent to approximately RMB1,722,884,000) (2016: US$100,000,000 (equivalent to approximately RMB693,700,000)) from a fellow subsidiary, which is repayable on demand and carries effective interest rate of LIBOR+0.5% per annum (2016: LIBOR+0.5% per annum). The proceeds were used to financing CNA's daily operations.

20. INTEREST-BEARING BANK BORROWINGS

Current:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Current portion of long term bank loans	**563,380**	5,296,469
	563,380	5,296,469

Non-current:

	Contractual interest rate (%) per annum	Year of maturity	**31 December 2017** *RMB'000*	31 December 2016 *RMB'000*
Export-Import Bank of China-unsecured (a)	LIBOR+1.70%	2020	**1,644,695**	2,324,634
Bank of China-unsecured (b)	LIBOR+1.38%	2017	–	1,798,323
Bank of China-unsecured (c)	LIBOR+0.90%	2017	–	1,664,880
Industrial and Commercial Bank of China-unsecured (c)	LIBOR+0.90%	2017	–	1,248,660
CDB Development Fund (as defined below)-unsecured (d)	1.08%	2035	**231,424**	223,909
CDB Development Fund-unsecured (d)	1.08%	2033	**96,436**	93,269
			1,972,555	7,353,675
Less: Current portion of long term bank loans			**(563,380)**	(5,296,469)
			1,409,175	2,057,206

(a) 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.

(b) 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 and the loan was repaid in full by the Group during the current year upon the repayment schedule.

(c) 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 and the loans were repaid in full by the Group during the current year upon the repayment schedule.

(d) 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 23).

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2017 was 2.58% per annum (2016: 2.51% per annum).

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
Bank borrowings repayable:		
Within one year	**563,380**	5,296,469
In the second year	**548,265**	565,434
In the third to fifth year, inclusive	**598,480**	1,212,752
Beyond five years	**262,430**	279,020
	1,972,555	7,353,675

21. PROVISIONS

	Provision for onerous contracts *RMB'000*
As at 1 January 2016	–
Provisions for the year	356,062
As at 31 December 2016	**356,062**
Decrease during the year	**(333,612)**
At 31 December 2017	**22,450**

The following is the analysis of the provision for onerous contracts for financial reporting purposes:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Current portion	**22,450**	341,557
Non-current portion	**–**	14,505
Balance at end of the year	**22,450**	356,062

Due to slower-than-expected recovery of global oilfield services market and oil price, the provision represents the expected losses upon certain non-cancellable operating lease agreements in which the Group was obligated to execute.

The Group estimates the aforesaid expected losses being the present obligation of the unavoidable costs less the economic benefits expected to be received under those non-cancellable operating lease agreements of certain drilling rigs. The expected economic benefits are estimated based on the existing services contract of the aforesaid drilling rigs by reference to contracted day rate, expected utilization rate while unavoidable costs are estimated based on lease payments and cost level that the Group is obligated to make under those non-cancellable operating lease agreements.

22. LONG TERM BONDS

	Year of maturity	**31 December 2017** *RMB'000*	31 December 2016 *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	**1,998,678**	1,997,744
(Type II of the First Tranche Issue as defined below) (b)	2026	**2,996,465**	2,996,045
(Type I of the Second Tranche Issue as defined below) (b)	2019	**2,098,268**	2,097,323
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,896,998**	2,896,216
Senior unsecured USD bonds (c)	2022	**6,503,770**	6,897,106
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,255,473**	3,449,024
Second Drawdown Note (d)	2025	**3,246,117**	3,446,286
		24,495,769	25,279,744

(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 (2016: 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.

23. 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 2016	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
Additions	**–**	**81,633**	**14,693**	**150,523**	**–**	**–**	**–**	**246,849**
Credited to profit or loss	**(80,845)**	**(127,526)**	**(23,386)**	**(70,970)**	**–**	**(54,532)**	**(10,682)**	**(367,941)**
Exchange realignment	**(16,863)**	**(5,548)**	**–**	**–**	**–**	**(11,499)**	**–**	**(33,910)**
At 31 December 2017	**239,010**	**68,160**	**190,476**	**106,091**	**–**	**162,270**	**122,139**	**888,146**

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Current portion	–	106,344
Non-current portion	**888,146**	936,804
Balance at end of the year	**888,146**	1,043,148

24. ISSUED CAPITAL

	31 December 2017 RMB'000	31 December 2016 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

2017 INDUSTRY REVIEW

In 2017, the oil price increased gradually and it maintained above US$60 per barrel at the end of the year. Throughout the year, the average oil price has hovering around at the level of US$55 per barrel. During the reporting period, the oilfield services market was still in a rebalancing process, yet the entire operating environment has improved steadily as compared with 2016. The oilfield services industry continued to adopt certain measures for reducing service and management costs and undergo mergers and acquisitions as well as reorganization which resulted in changes in competitiveness among the industry. According to the data of Spears, an institution for the industry information, the size of the global offshore drilling market dropped 29.2% to US$27.04 billion in 2017 as compared to 2016. The top ten drilling contractors took up 53.6% of the global market share. The size of the geophysical prospecting market shrunk to US$6.83 billion in 2017, with a year-on-year decrease of 6.9%. The top ten geophysical prospecting service providers occupied 83.0% 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 2017, the Group operated and managed a total of 43 drilling rigs (of which 32 are jackup drilling rigs, and 11 are semi-submersible drilling rigs), 3 accommodation rigs and 5 module rigs.

In 2017, revenue from drilling services amounted to RMB6,691.3 million, representing an increase of 3.0% as compared with RMB6,498.5 million of 2016.

The market environment was still challenging in 2017. The Group, on one hand, placed refined management on first priority, explored opportunities for cost reduction and efficiency enhancement, promoted vertical development for equipment, strengthened its professional management of maintenance, encouraged using domestic equipment, broke the monopoly of foreign technologies and reduced the maintenance fees effectively; and on the other hand, it also acted proactively to further consolidate the domestic market and explore overseas markets, improved service quality, advocated the concept of win-win cooperation and valued-add servicing which gained recognition from customers and enhanced its core competitiveness, so as to increase the utilization rate of equipment. Our drilling of "HYSY936" excelled its strong competitors and won the bid of offshore drilling service in Mexico, which further increased the Group's market shares there. "COSLHunter" broke the single well's operation time record among other operators for several times, which helped reinforce the image of the Group. "HYSY937" performed well in the Indonesian operation project in Southeast Asia and further increased the Group's market share in the Indonesian market leveraging its satisfying performance. In Far East region, "Nanhai 8" commenced highly-difficult operation and its success not only enabled China to become the third country having the capability to carry drilling in such region, but its early completion of operation also laid a sound foundation for the Company to introduce other businesses into the market.

At the end of 2017, we had 22 drilling rigs operating in the coastal area of China, 5 rigs operating overseas such as in Norway (North Sea), Mexico and Indonesia, 16 were on standby.

In 2017, our drilling rigs operated for 8,997 days, representing an increase of 627 days as compared with 2016. The calendar day utilization rate of the rigs reached to 57.2%, which is 5.4 percentage points up as compared to last year.

Operation details of jack-up and semi-submersible drilling rigs of the Group in 2017 are as follows:

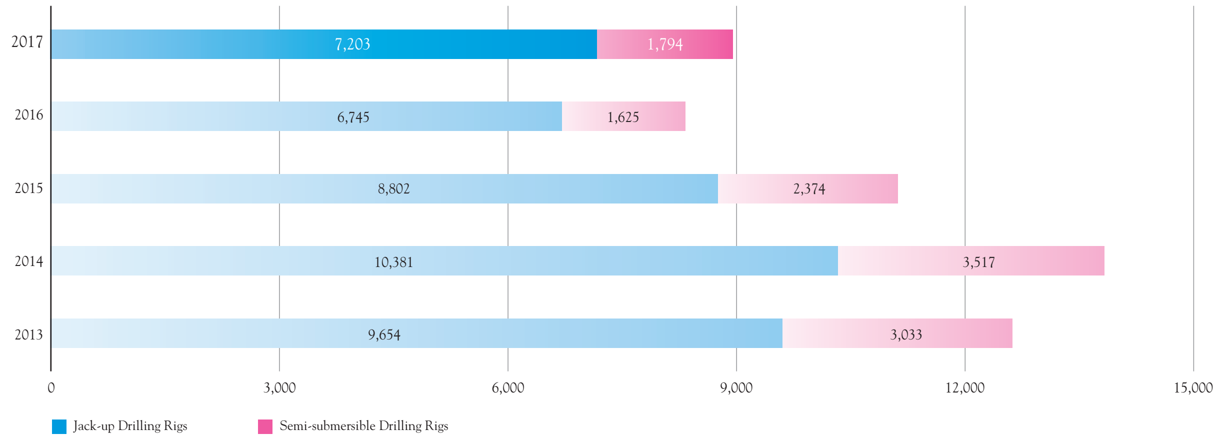
	2017	**2016**	**Change**	**Percentage change**
Operating days (day)	8,997	8,370	627	7.5%
Jack-up drilling rigs	7,203	6,745	458	6.8%
Semi-submersible drilling rigs	1,794	1,625	169	10.4%
Available day utilization rate	59.6%	55.5%	Up 4.1 percentage points	
Jack-up drilling rigs	62.9%	58.2%	Up 4.7 percentage points	
Semi-submersible drilling rigs	49.1%	46.4%	Up 2.7 percentage points	
Calendar day utilization rate	57.2%	51.8%	Up 5.4 percentage points	
Jack-up drilling rigs	61.4%	55.6%	Up 5.8 percentage points	
Semi-submersible drilling rigs	44.7%	40.4%	Up 4.3 percentage points	

As at 31 December 2017, our jack-up drilling rigs operated for 7,203 days, representing an increase of 458 days as compared with 2016; our semi-submersible drilling rigs operated for 1,794 days, representing an increase of 169 days as compared with 2016. This was mainly due to the decrease in standby and maintenance days, which resulted in the increase in operation days.

Three accommodation rigs operated for 378 days, representing a decrease of 27 days as compared with last year. Utilization rate of the calendar day decreased by 19.3 percentage points to 36.0% due to the increase in maintenance and standby days.

Five module rigs operated in the Gulf of Mexico for 466 days, representing a decrease of 152 days over last year. Utilization rate of the calendar day decreased by 8.3 percentage points to 25.5% due to the increase in standby days.

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



In 2017, the average day income of the drilling rigs of the Group slightly increased as compared with 2016, details as follows:

Average day income (ten thousand US$/day)	**2017**	**2016**	**Change**	**Percentage change**
Jack-up drilling rigs	7.1	6.8	0.3	4.4%
Semi-submersible drilling rigs	20.4	18.5	1.9	10.3%
Drilling rigs sub-total	9.8	9.4	0.4	4.3%
Accommodation rigs	3.5	6.8	(3.3)	(48.5%)
Group average	9.5	9.2	0.3	3.3%

Note: (1) Average day income = Revenue/operating days

(2) USD/RMB exchange rate was 1: 6.5342 on 29 December 2017 and 1: 6.9370 on 30 December 2016, 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 2017, revenue from the well service segment increased by 17.9% from RMB5,568.4 million of 2016 to RMB6,566.0 million.

In 2017, the Group improved its working standard comprehensively and enhanced its ability of business services while accelerating the research and development of high-end technologies and continuously promoted serialization and industrialization of its technical products. Through enhancing operation capacity by its self-research and development of technical equipment, the new ultrasonic imaging logging tool developed by the Group completed its initial operation. Also, the Group's large-diameter rotating borehole apparatus completed its first offshore operation, passing the capacity test of sampling techniques used in pebble grave and loose formation, and its performance reached the international advanced level. The Group achieved breakthroughs in the industrial application of the "Snake" LWD system products-with large scale application of the products, the Rotary steering tools provided access to vertical sloping and facilitated an upgrade of vertical drilling technology while the drilling bit measuring equipment passed the drilling test. The proportion of using self-owned equipment increased as compared with last year and further reduced the operating costs. As for drilling and completion fluid and cementing, the pilot test of the Group's self-developed primary isolated liquid agent was successful, which marked an improvement of the cementing isolation technology, laying a solid foundation of internationalization of the Group's self-developed products and enriching the Group's theroectical and practical experience. As for well completion, the Group's self-developed DRA airtight spiral complex loading technology also passed the test, which was an important breakthrough in airtight techniques of well completion, and broke the price monopoly of the airtight spiral processing technology. It was significant move for the Group in expanding its domestic and foreign airtight tools markets.

In addition to improving its technological research and development, the oilfield services segment gained a rich harvest in the international market in 2017. In Southeast Asia, the Group made breakthroughs in drilling geothermal wells as it was awarded the first hot-well logging service contract, and won several bids for logging cable, LWD and cementing services. The Group made another breakthrough in the Far East region as it completed its high-end nuclear magnetic operation and successfully passed the technical test of an oil company in the Far East 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, firefighting, 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 2017, the Group implemented stringent and more refined management in marine support services segment, enhanced its operation capacity, improved the service efficiency of self-owned vessels and explored new domestic markets and sought for "growth points" in all directions in the market, and market share reached highest point among recent years. In addition, it actively expanded the international market and increased its brand value, breaking multiple records and built a sterling brand reputation in North America. Also, it won a long term cooperative contract for 4 pontoons in the Indonesian market, which was another breakthrough achieved in overseas market.

In 2017, revenue of marine support services business grow by 25.1% to RMB2,437.8 million from RMB1,948.5 million in 2016. Due to the influence of the market, the chartered vessels operated 8,094 days in total in 2017, increased by 285 days compared to last year, generating revenue of RMB473.3 million, up by RMB51.5 million from the last year.

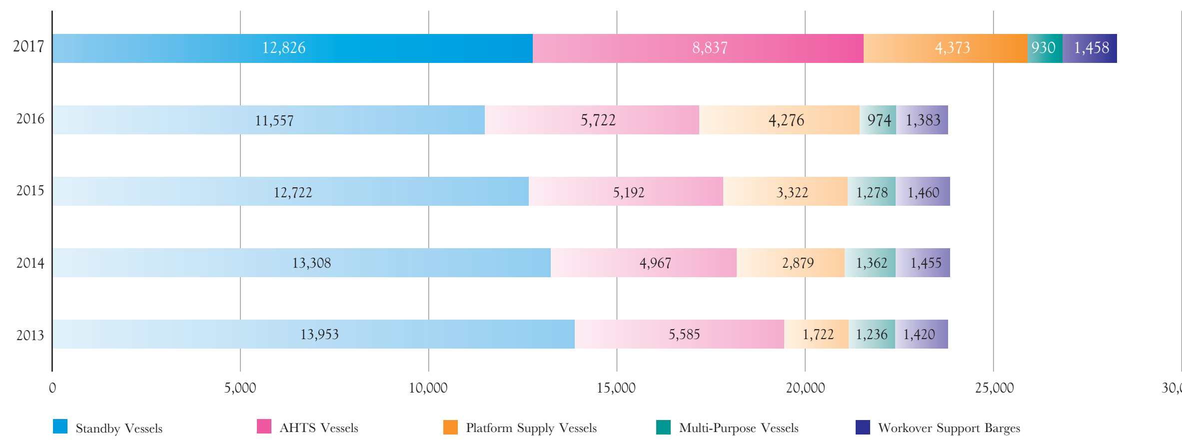
The calendar day utilization rate of self-owned utility vessels was 86.7% in 2017, representing an increase of 8.0 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 28,424 days in 2017, representing an increase of 4,512 days as compared with last year. Details are as follows:

Operating days (day)	**2017**	**2016**	**Change**	**Percentage change**
Standby vessels	12,826	11,557	1,269	11.0%
AHTS vessels	8,837	5,722	3,115	54.4%
Platform supply vessels	4,373	4,276	97	2.3%
Multi-purpose vessels	930	974	(44)	(4.5%)
Workover support barges	1,458	1,383	75	5.4%
Total	28,424	23,912	4,512	18.9%

In 2017, the total transportation volume of oil tankers of the Group amounted to 1,416,000 tonnes, representing an increase of 2.0% from 1,388,000 tonnes as compared with last year.

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 2017, the Group owns 5 towing streamer seismic vessels, 1 professional source vessel, 2 undersea cable team, 5 integrated marine surveying 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.

In 2017, revenue of geophysical and surveying services segment grew to RMB1,684.3 million, representing an increase of 57.4% compared with RMB1,070.1 million of 2016, of which, the surveying services recorded revenue of RMB460.1 million, representing an increase of 153.9% as compared with RMB181.2 million over last year.

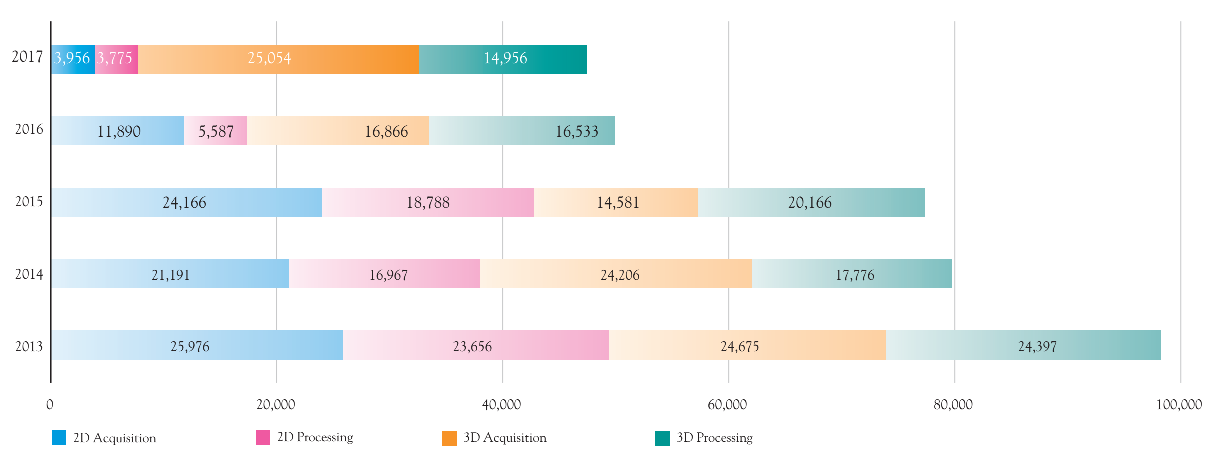
In 2017, the Group continued to enhance its operation capacity of geophysical and surveying services and develop innovative operation model, and actively explored the domestic and international markets to capture cooperation opportunities with overseas parties through improving its management. The domestic block seismic data collection cooperation project of the Group completed the entire operation through processing and collection integrated services, which increased its market share in China's 3D seismic data collection market. "HYSY720" achieved a breakthrough in 12-streamer seismic vessels at shallow water region in Far East, which further strengthened the capacity of the operation fleet, expanded the operation area and consolidated the Group's position in the international market. After winning the bid of the first overseas onshore data processing inversion contract in Pakistan, the Group was awarded another overseas onshore data processing inversion contract, its first engagement in seismic data processing over the frozen ground in North America. Moreover, the Group was also awarded an integrated 3D acquisition contract in Myanmar, which marked the beginning for further exploration of potential customers and projects.

In 2017, as affected by the industry environment, the operation volume of other business segments decreased except for the significant increase in the operation volume of 3D acquisition of the Group.

The details of operation volume are as follows:

Businesses	**2017**	**2016**	**Change**	**Percentage change**
2D acquisition (km)	3,956	11,890	(7,934)	(66.7%)
2D processing (km)	3,775	5,587	(1,812)	(32.4%)
3D acquisition (km^2)	25,054	16,866	8,188	48.5%
of which: submarine cable (km^2)	844	700	144	20.6%
3D processing (km^2)	14,956	16,533	(1,577)	(9.5%)

THE OPERATING VOLUME OF GEOPHYSICAL SERVICE FLEET IN RECENT YEARS (KM/KM²)



Major Subsidiaries

COSL Norwegian AS ("CNA"), COSL Chemicals (Tianjin), Ltd., COSL America, Inc., COSL Singapore Limited, China Oilfield Services (BVI) Limited are major subsidiaries of the Group engaged in drilling and well services relevant operations.

As at 31 December 2017, the total assets of CNA amounted to RMB13,421.2 million and equity was RMB32.5 million. CNA realized revenue of RMB1,133.6 million in 2017, representing a decrease of RMB770.5 million or 40.5% as compared with last year. The major reason of revenue reduction was that operation volume decreased. Revenue from principal operations amounted to RMB1,133.6 million and operating profit amounted to RMB-478.9 million. The net profit amounted to RMB-463.8 million, representing a decrease in loss of RMB5,027.7 million as compared with last year. The reason of decrease in loss was that the Group had recognized impairment loss of assets and goodwill during 2016, while there was no such matter in this year, and the Group strengthened its cost control.

As at 31 December 2017, the total assets of COSL Singapore Limited amounted to RMB26,004.1 million and equity was RMB3,457.4 million. COSL Singapore Limited realized revenue of RMB1,677.5 million in 2017, representing a decrease of RMB43.6 million or 2.5% as compared with last year. Revenue from principal operations amounted to RMB1,564.6 million and operating profit amounted to RMB-1,314.5 million. The net profit amounted to RMB-1,351.6 million, representing a decrease in loss of RMB1,642.3 million as compared with last year. Thereinto, COSL PROSPECTOR PTE. LTD., COSL DRILLING STRIKE PTE. LTD. are major subsidiaries of COSL Singapore Limited.

As at 31 December 2017, the total assets of COSL PROSPECTOR PTE. LTD. amounted to RMB8,798.1 million and equity was RMB-1,419.8 million. The Company determined to provide continued financial support for COSL PROSPECTOR PTE. LTD. in order to make sure it will be able to continue as a going concern. COSL PROSPECTOR PTE. LTD. realized revenue of RMB136.2 million in 2017, representing an increase of RMB136.2 million or 100.0% as compared with last year. The net profit amounted to RMB-866.4 million, representing a decrease in loss of RMB222.0 million as compared with last year. The reason of decrease in loss of profit was the Group had recognized impairment loss of assets during 2016, while there was no such matter in this year. Meanwhile, the Group strengthened its cost control.

As at 31 December 2017, the total assets of COSL DRILLING STRIKE PTE. LTD. amounted to RMB4,716.0 million and equity was RMB-1,172.9 million. The Company determined to provide financial support for COSL DRILLING STRIKE PTE. LTD. in order to make sure it will be able to continue as a going concern. COSL DRILLING STRIKE PTE. LTD. realized revenue of RMB425.1 million in 2017, representing a decrease of RMB134.5 million or 24.0% as compared with last year, which was mainly due to the service price falling. The net profit amounted to RMB-548.2 million. Due to the Group had recognized impairment loss of assets during 2016, while there was no such matter in this year; meanwhile, the Group strengthened its cost control. Influenced by the reasons mentioned above, the result led to a decrease in loss of RMB738.1 million as compared with last year.

As at 31 December 2017, the total assets of COSL Chemicals (Tianjin), Ltd. amounted to RMB417.8 million and equity was RMB243.5 million. COSL Chemicals (Tianjin), Ltd. realized revenue of

RMB379.4 million in 2017, representing a decrease of RMB26.3 million or 6.5% as compared with last year. Revenue from principal operations amounted to RMB378.8 million and operating profit amounted to RMB41.1 million. The net profit amounted to RMB36.2 million, representing a decrease of RMB11.4 million as compared with last year.

As at 31 December 2017, the total assets of COSL America, Inc. amounted to RMB811.7 million and equity was RMB-56.2 million. The Company determined to provide continued financial support for COSL America, Inc. in order to make sure it will be able to continue as a going concern. COSL America, Inc. realized revenue of RMB549.9 million in 2017, representing a decrease of RMB67.8 million or 11.0% as compared with last year. Revenue from principal operations amounted to RMB549.9 million and operating profit amounted to RMB-45.7 million. The net profit amounted to RMB-43.0 million, representing a decrease in loss of RMB16.7 million as compared with last year.

As at 31 December 2017, the total assets of China Oilfield Services (BVI) Limited amounted to RMB1,887.1 million and equity was RMB141.3 million. China Oilfield Services (BVI) Limited realized revenue of RMB1,135.5 million in 2017, representing an increase of RMB113.9 million or 11.1% as compared with last year. Revenue from principal operations amounted to RMB1,132.6 million and operating profit amounted to RMB95.2 million. The net profit amounted to RMB67.6 million, representing an increase of RMB204.7 million as compared with last year.

FINANCIAL REVIEW

1. Analysis on Consolidated Statement of Profit or Loss

1.1 Revenue

For the year of 2017, revenue of the Group amounted to RMB17,379.4 million, representing an increase of RMB2,293.9 million or 15.2% as compared with last year. The detailed analysis is set out below:

Analysis by business segment

Unit: RMB million

Business segments	2017	2016	Change	Percentage change
Drilling services	6,691.3	6,498.5	192.8	3.0%
Well services	6,566.0	5,568.4	997.6	17.9%
Marine support services	2,437.8	1,948.5	489.3	25.1%
Geophysical and surveying services	1,684.3	1,070.1	614.2	57.4%
Total	17,379.4	15,085.5	2,293.9	15.2%

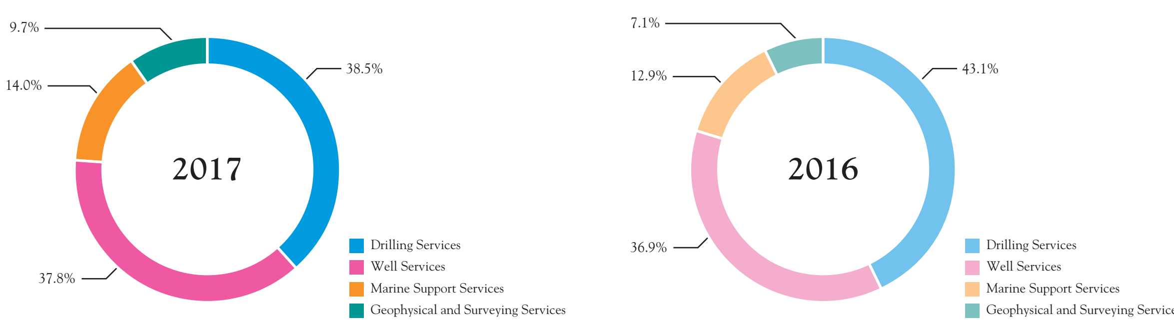
- Revenue generated from drilling services increased by 3.0% as compared with last year. The main reason was that operation days of drilling rigs increased.

- Revenue of well services increased by 17.9% as compared with last year, which was mainly due to the increase in service price and operation volume.

- Revenue from marine support services increased by 25.1% as compared with last year, which was mainly due to the fact that the operation days increased by 4,512 days and the service price also increased.

- Revenue from geophysical and surveying services increased by 57.4% as compared with last year, which was mainly due to the significant increase in operation volume of 3D Acquisition and surveying services.

REVENUE ANALYSIS – BY BUSINESS



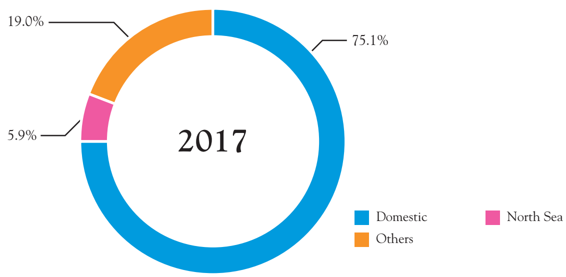
Analysis by operation area

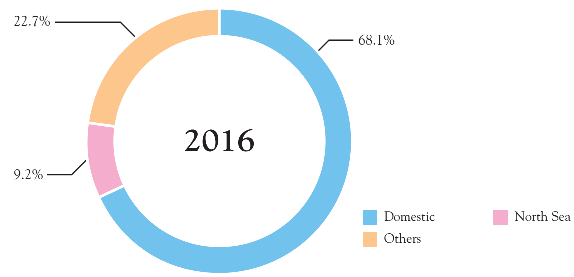
Unit: RMB million

Region	2017	2016	Change	Percentage change
Offshore China	13,056.8	10,266.8	2,790.0	27.2%
North Sea	1,033.9	1,389.2	(355.3)	(25.6%)
Other	3,288.7	3,429.5	(140.8)	(4.1%)
Total	17,379.4	15,085.5	2,293.9	15.2%

In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 75.1% of the Group's total income. In 2017, the Group's international business recorded revenue of RMB4,322.6 million (compared with RMB4,818.7 million over last year), accounting for 24.9% of the Group's revenue for the year, representing a decrease of 7.0 percentage points. Among which, North Sea recorded an annual revenue of RMB1,033.9 million, representing 5.9% of the Group's revenue for the year.

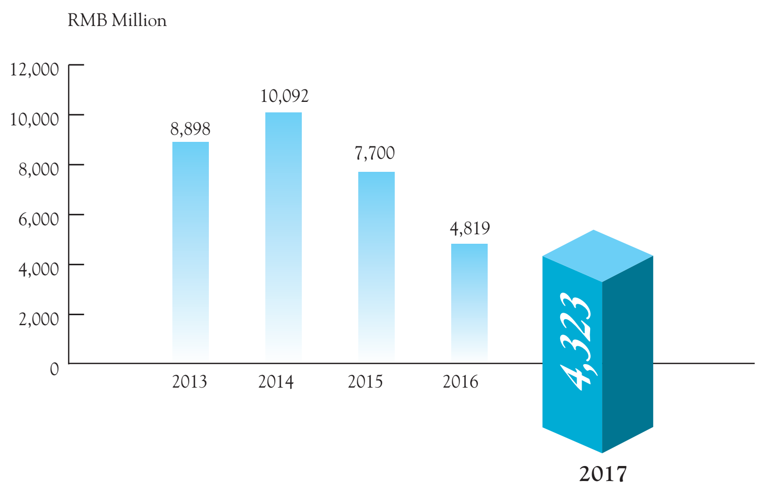
OPERATION AREA





The Latest Five Years' Revenue from International Business

International Revenue



1.2 Operating expenses

For the year 2017, operating expenses of the Group amounted to RMB16,275.0 million, representing a decrease of RMB10,331.5 million or 38.8% compared with RMB26,606.5 million for last year.

The table below shows the operating expenses for the Group in 2017 and 2016:

Unit: RMB million

	2017	2016	Change	Percentage change
Depreciation of property, plant and equipment and amortization of intangible assets	4,468.1	4,520.1	(52.0)	(1.2%)
Employee compensation costs	4,001.6	3,890.1	111.5	2.9%
Repair and maintenance costs	363.8	500.1	(136.3)	(27.3%)
Consumption of supplies, materials, fuel, services and others	3,064.1	4,116.4	(1,052.3)	(25.6%)
Subcontracting expenses	2,362.7	2,364.6	(1.9)	(0.1%)
Operating lease expenses	594.2	1,206.1	(611.9)	(50.7%)
Other operating expenses	1,415.6	2,865.3	(1,449.7)	(50.6%)
Impairment of goodwill	–	3,455.4	(3,455.4)	(100.0%)
Impairment of property, plant and equipment	4.9	3,688.4	(3,683.5)	(99.9%)
Total operating expenses	16,275.0	26,606.5	(10,331.5)	(38.8%)

Depreciation of property, plant and equipment and amortization of intangible assets decreased by RMB52.0 million for the year.

Due to a detailed management of the Group and cost control from the source, repair and maintenance cost, consumption of supplies, materials, fuels, services and others and operating lease expenses decreased significantly in 2017.

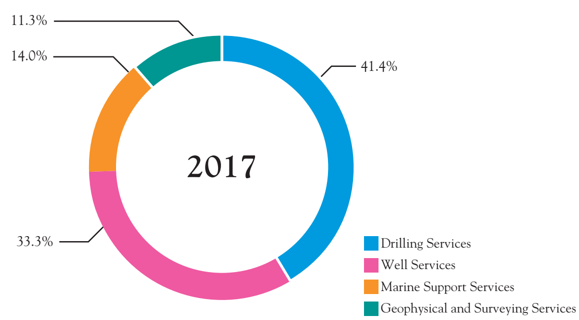
Other operating expenses decreased by RMB1,449.7 million as compared with last year, which was mainly due to the reversal of impairment loss of accounts receivable during the year. In addition, significant provision made on accounts receivable and provision for onerous contracts for last year resulted in a relatively larger amount of other operating expenses for last year.

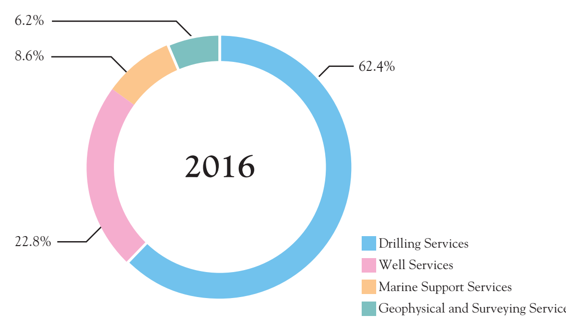
The operating expenses for each segment are shown in the table below:

Unit: RMB million

Business segments	**2017**	**2016**	**Change**	**Percentage change**
Drilling services	6,734.4	16,602.0	(9,867.6)	(59.4%)
Well services	5,418.1	6,062.4	(644.3)	(10.6%)
Marine support services	2,275.3	2,285.7	(10.4)	(0.5%)
Geophysical and surveying services	1,847.2	1,656.4	190.8	11.5%
Total	16,275.0	26,606.5	(10,331.5)	(38.8%)

ANALYSIS OF OPERATING EXPENSES – BY BUSINESS SEGMENTS





1.3 Profit from operations

For the year 2017, the Group's profit from operations amounted to RMB1,427.5 million, representing an increase of RMB12,795.2 million as compared with profit from operations of RMB-11,367.7 million of last year.

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

Unit: RMB million

Business segments	**2017**	**2016**	**Change**
Drilling services	(27.2)	(10,076.1)	10,048.9
Well services	1,267.3	(422.1)	1,689.4
Marine support services	294.5	(327.4)	621.9
Geophysical and surveying services	(107.1)	(542.1)	435.0
Total	1,427.5	(11,367.7)	12,795.2

1.4 Financial expenses, net

Unit: RMB million

	2017	2016	Change	Percentage change
Exchange loss/(gain), net	388.1	(268.7)	656.8	(244.4%)
Finance costs	1,100.9	1,047.6	53.3	5.1%
Interest income	(99.6)	(130.5)	30.9	(23.7%)
Financial expenses, net	1,389.4	648.4	741.0	114.3%

The exchange loss increased by RMB656.8 million as affected by the change of exchange rates.

1.5 Share of profits of joint ventures, net of tax

For the year 2017, the Group's share of profits of joint ventures amounted to RMB106.9 million, representing an increase of RMB90.1 million as compared with RMB16.8 million of 2016. This was mainly attributable to the increase in gains of joint ventures.

1.6 Profit before tax

The profit before tax generated by the Group was RMB332.5 million in 2017, representing an increase of RMB12,139.9 million as compared with the profit before tax of RMB-11,807.4 million for the last year.

1.7 Income tax

The income tax expense of the Group in 2017 was RMB261.3 million, representing an increase of RMB609.2 million as compared with the income tax credit of RMB347.9 million of 2016, which was mainly due to the reversal of the deferred tax assets recognised in respect of the deductible loss in relation to prior year, which resulted in an increase in income tax expense.

1.8 Profit for the year

For the year 2017, profit of the Group was RMB71.2 million, representing an increase of RMB11,530.7 million as compared with the profit for the year of RMB-11,459.5 million for the last year.

1.9 Basic earnings per share

For the year 2017, the Group's basic earnings per share were approximately RMB0.69 cent, representing an increase of approximately RMB240.78 cents as compared with the basic earnings per share of approximately RMB-240.09 cents for the last year.

1.10 Dividend

For the year 2017, the Board of the Company proposed a final dividend of RMB0.06 per share (tax inclusive), totaling RMB286.3 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2018.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing final dividends to them. For H shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed to be shares held by non-resident enterprise shareholder(s). On the basis, enterprise income tax shall be withheld from dividends payable to such shareholder(s).

2. Analysis on Consolidated Statement of Financial Position

As at 31 December 2017, the total assets of the Group amounted to RMB73,857.3 million, representing a decrease of RMB6,686.8 million or 8.3% as compared with RMB80,544.1 million at the end of 2016. The total liabilities amounted to RMB39,179.5 million, representing a decrease of RMB6,068.2 million or 13.4% as compared with RMB45,247.7 million at the end of 2016. Total equity amounted to RMB34,677.8 million, representing a decrease of RMB618.6 million or 1.8% as compared with RMB35,296.4 million by the end of 2016.

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	2017	2016	Change	Percentage change	Reasons
Assets					
1 Other non-current assets	326.8	439.1	(112.3)	(25.6%)	The prepayments for the construction of drilling rigs, marine vessels and geophysical vessels were transferred to construction in progress.
2 Notes receivable	85.5	1,844.3	(1,758.8)	(95.4%)	Cash was received due to the maturity of the notes receivable.
3 Other current assets	2,843.4	7,216.1	(4,372.7)	(60.6%)	The liquidity funds, treasury bond related investments and corporate wealth management products acquired by the Group were disposed or due.
4 Time deposits with maturity of over three months	28.9	–	28.9	100.0%	The time deposits with maturity of over three months held by the Group at the end of 2017 increased.
5 Cash and cash equivalents	9,009.1	6,071.1	2,938.0	48.4%	The business performance has improved as compared with last year.
6 MultiClient library	22.8	–	22.8	100.0%	Due to the development of MultiClient library project in the geophysical and surveying services business for the year.
Liabilities					
1 Loans from a related party	2,287.0	693.7	1,593.3	229.7%	A new borrowing of US$250 million during the year.
2 Interest-bearing bank borrowings (current)	563.4	5,296.5	(4,733.1)	(89.4%)	Repayment of the bank borrowings which were due within the year.
3 Interest-bearing bank borrowings (non-current)	1,409.2	2,057.2	(648.0)	(31.5%)	Loan repayment and the long-term borrowings which were due within one year reclassified to current portion.

Items		2017	2016	Change	Percentage change	Reasons
4	Other current liabilities	177.2	543.6	(366.4)	(67.4%)	The utilization of the provision for onerous contracts within one year.
5	Deferred tax liabilities	322.9	234.5	88.4	37.7%	The reversal of deferred tax assets recognized in prior year in relation to the deductible tax loss made last year.
6	Provision	–	14.5	(14.5)	(100.0%)	The reclassification of the provision for onerous contracts.
7	Employee benefit liabilities	20.9	8.8	12.1	137.5%	The re-measurement of defined benefit plan for pension.

3. Analysis of consolidated statement of cash flows

At the beginning of 2017, the Group held cash and cash equivalents of RMB6,071.1 million, during 2017, the net cash inflows from operating activities amounted to RMB5,474.5 million; net cash inflows from investing activities amounted to RMB2,577.9 million; net cash outflows from financing activities amounted to RMB4,880.2 million and the impact of foreign exchange fluctuations resulted in a decrease in cash of RMB234.2 million. At 31 December 2017, the Group's cash and cash equivalents amounted to RMB9,009.1 million.

3.1 Cash flows from operating activities

For the year ended 31 December 2017, net cash inflows from operating activities of the Group amounted to RMB5,474.5 million, representing an increase of 99.8% as compared with last year. This was mainly attributed to an increase in revenue as a result of the increasing workload.

3.2 Cash flows from investing activities

For the year ended 31 December 2017, net cash inflows generated from investing activities of the Group amounted to RMB2,577.9 million, representing an increase of RMB7,256.3 million as compared with last year, which was mainly attributable to the increase of RMB1,023.0 million in the cash outflows of the acquisition of property, plant and equipment as compared with last year, the increase of RMB7,447.0 million in the net inflows of disposal and acquisition of available-for-sale investments as compared with last year, the increase of RMB228.9 million in the net outflows of deposit and withdrawal of time deposits with maturity of over three months, and the total increase of cash inflows of RMB1,061.2 million in other investment activities.

3.3 Cash flows from financing activities

For the year ended 31 December 2017, net cash outflows from financing activities of the Group amounted to RMB4,880.2 million, representing a decrease of outflows of RMB41.3 million as compared with last year. This was mainly attributable to the decrease of cash paid for repayment of loans by RMB9,090.1 million as compared with last year, the decrease of cash received from issuance of bonds by RMB10,000.0 million as compared with last year and the total increase of cash inflows of RMB951.2 million in other financing activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was a decrease in cash of RMB234.2 million.

4. Capital expenditure

In 2017, the capital expenditure of the Group amounted to RMB2,298.4 million, representing a decrease of RMB1,190.4 million or 34.1% as compared with last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2017	2016	Change	Percentage change
Drilling services	1,074.6	2,167.8	(1,093.2)	(50.4%)
Well services	651.9	298.4	353.5	118.5%
Marine support services	466.2	771.9	(305.7)	(39.6%)
Geophysical and surveying services	105.7	250.7	(145.0)	(57.8%)
Total	2,298.4	3,488.8	(1,190.4)	(34.1%)

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.

BUSINESS PLAN

The recent oil price has rebounded from the low level in the previous two years, and the overall exploration and development expenditure of the oil and gas industry has increased, which facilitate the slow recovery of the oilfield services market and improve the workload of various sectors of the Company in varying degrees. However, due to the uncertainties over the subsequent trend of oil price, and that the oversupply in the oilfield services industry has not been radically improved, the Company is still under the competitive pressure in the oilfield services industry. The Company will closely monitor and track the changes in the investment of domestic and overseas clients and the market demand, and continue to promote its market development as well as industrialization and seriation of technology, striving to achieve its target of "dual 50%" for the medium term.

2018 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 increase by 10% from US$382.0 billion in 2017 to US$422.0 billion in 2018; with an increase of 5.0% in the offshore exploration and development expenditure it will acheive a resuming growth of 6.0% to US$172.6 billion in 2018.

In general, the oilfield services industry will still face with greater operating pressure in spite of the gradual recovery trend of capital expenditure of global oil and gas companies and the increasingly active tendering activities in oilfield services in 2018.

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 2017 has been reviewed by the audit committee.

Corporate Governance Code

During the 12 months ended 31 December 2017, the Company has fully complied with the 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 2017, 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 2017.

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 2017, 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.

On 6 March 2016 and 20 March 2016, the Company disclosed "Status of Two Drilling Contracts" and "Further Status of Two Drilling Contracts" respectively. 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 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). As at the date of this announcement, the Court hearing of the first instance of the Claim has been completed, while the Court ruling has not yet finalized.

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
Jiang Ping
Company Secretary

27 March 2018

As at the date of this announcement, the executive directors of the Company are Messrs. Qi Meisheng and Liu Yifeng; the non-executive directors of the Company are Messrs. Lv Bo (Chairman) and Meng Jun; and the independent non-executive directors of the Company are Messrs. Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert.