COSL

CHINA OILFIELD SERVICES LIMITED

(SHARE CODE A-share : 601808 ; H-share : 2883)

ANNUAL REPORT 2012

COMPANY PROFILE

COMPANY OVERVIEW

China Oilfield Services Limited (the "Company", the "Group" or "COSL"), listed on Hong Kong Stock Exchange and Shanghai Stock Exchange (HK stock code: 2883; Shanghai stock code: 601808), is the leading integrated oilfield services provider in the off-shore China market. Its services cover each phase of off-shore oil and gas exploration, development and production.

COMPANY BUSINESS

Its four core business segments are geophysical and surveying services, drilling services, well services, marine support and transportation services. COSL not only provides services of single operations for the customers, but also offers integrated package and turnkey services; COSL's business activities are conducted not only in off-shore China, but also in South East Asia, Middle East, Europe, Australia, North and South America and Africa. During the course of business, the Company is committed to minimizing the impact to the environment and to sustainable development, so as to achieve a win-win situation for shareholders, clients, and staff and business partners.

BUSINESS PERFORMANCE

In 2012, the Company maintained a strong operation and financial performance with increase in operation profits over 2011. Besides, COSL performed well in a more extensive operation aspect, including social and environment aspect, with performance fulfilling our targets. Details are set out in the financial report and Social Responsibility Report.

STRATEGIC TARGET

COSL aims at becoming an international first-class oilfield services company, insists on sustainable operation model and creates short-term to long-term economic, social and environmental value for stakeholders.

CORPORATE GOVERNANCE

The governance structure requirements of COSL not only includes those set out in the Corporate Governance Code, The Company Ordinance and The Articles of Association, but also our more stricter and self-established standards prepared by the Company.

PROSPECT

The sea is an important reserve for oil and gas resources. The global off-shore oil and gas exploration, development and production remain active. The Company has laid a solid foundation in the markets in onshore China, South East Asia, North Sea, Middle East, Gulf of Mexico, Australia and other regions, which provides a sturdy platform for continuous business development.

Challenges and risks we are exposing to vary with regions, mostly related to the nature of the oilfield service industry, including uncertain political and legal position as well as the risks coming from deep-water and overseas operation. However, by virtue of the considerable experience in off-shore oilfield services, the knowledge of China's off-shore markets, initially established international market layout and growing business reputation, together with the strict risk management strategy, COSL is confident of grasping market opportunities to coping with future business challenges to reward our shareholders with continuous and stable growth.

BUSINESS OVERVIEW

DOMESTIC BUSINESS

Maintaining the market leader position in off-shore oilfield service and providing geophysical and surveying services, drilling services, well services and marine support and transportation services. Revenue sourced from China in 2012 amounted to RMB15.22 billion, representing 68.9% of total revenue of the Group.

INTERNATIONAL BUSINESS

In 2012, the international business of the Company kept growing and it has been rooted in four major regional overseas markets. Revenue sourced from the overseas market in 2012 amounted to RMB6.88 billion, representing 31.1% of total revenue of the Group.

Asia-pacific region: including Indonesia, Myanmar, Philippines, Papua New Guinea, Cambodia, Pakistan, Thailand, Singapore and Australia

Businesses involve geophysical services, drilling, well completion, logging, directional drilling, cementing well, drilling fluids and well work-over services

Middle East region: including Iran, Iraq and United Arab Emirates

Businesses involve drilling, logging, directional drilling, cementing well, drilling fluids, well completion and well work-over services

America region: including Mexico and USA

Business involve drilling services

Europe region: including Norway and UK

Businesses involve drilling services and accommodation rig.

CONTENT

13 February

The Company obtained High-Tech Enterprises Certificates jointly awarded by four bureaus in Tianjin, representing that the Company officially passed the review of a high-tech enterprise.

16 February

Li Yong, the CEO and President of the Company, was invited to attend contract signing ceremony with the Asia-pacific regional director of BP in Jakarta, Indonesia for the service of drilling platform, COSLBoss, between BP Berau and PT. COSL INDO.

10 April

Deep water survey vessel, HYSY708, successfully conducted installation of sub-sea wellhead at 202 meters underwater, symbolizing the first 3000-meter deep water survey vessel in China has come into production.

6 May

Liu Jian, the Chairman of the Company, had a meeting with the group led by Lim Jock Seng, the second minister of Foreign Affairs and Trade Ministry of Brunei.

9 May

HYSY981, the sixth generation deep-water semi-submersible drilling rig, successfully started drilling, symbolizing the start of "First Year of Deep Water Operation" of COSL.

May

Among all the 29 rigs, COSLPioneer rated top and was named "rigs of the month of May" in the integrated review by Statoil, a Norwegian national petroleum company.

3 July

The construction of COSLProspector（"兴旺号"）, the fourth deep-water semi-submersible drilling rig invested and built by the Company, started in Yantai.

3 July

The Company signed official contract with a Canadian client, for the sale of a set of two ERMIs (Extended Range Micro-resistivity Imager) (Electronic Imager) and 20 sets of supplementary equipment. It was the first sale of the Company's Electronic Imager to the North America region.

21 August

The fleet of HYSY720, a 12-streamer geophysical vessel, realized daily production volume of 100.845 thousand meter cube in Baiyun joint geophysical area in South China Sea, which was the highest single daily production volume of deep water geophysical services in China.

6 September (New York Time)
COSL Finance (BVI) Limited, a wholly-owned subsidiary of the Company, successfully issued 3.25% USD foreign bond of USD1 billion for a term of 10 years at an issue price of 99.341% of principal amount.

1 September
The fifth CNOOC COSL HOPE School in Qunying Town, Lingshui County, sponsored by the Company came into operation.

September
The Company was included as a constituent stock of Hang Seng (China A) Corporate Sustainability Benchmark Index and was authorized to use the related icon of the index for corporate promotion.

20 September
The Company was granted a Certificate of Invention Patent for "A Rack and Its Design for the Locking Device Used on Off-shore Jack-up Drilling Rigs" from the State Intellectual Property Office. Such patent represents the R&D result of the Company on the locking device of the legs of jack-up drilling rigs and breaks the technical monopolization by foreign companies, which is the first domestic production for such system.

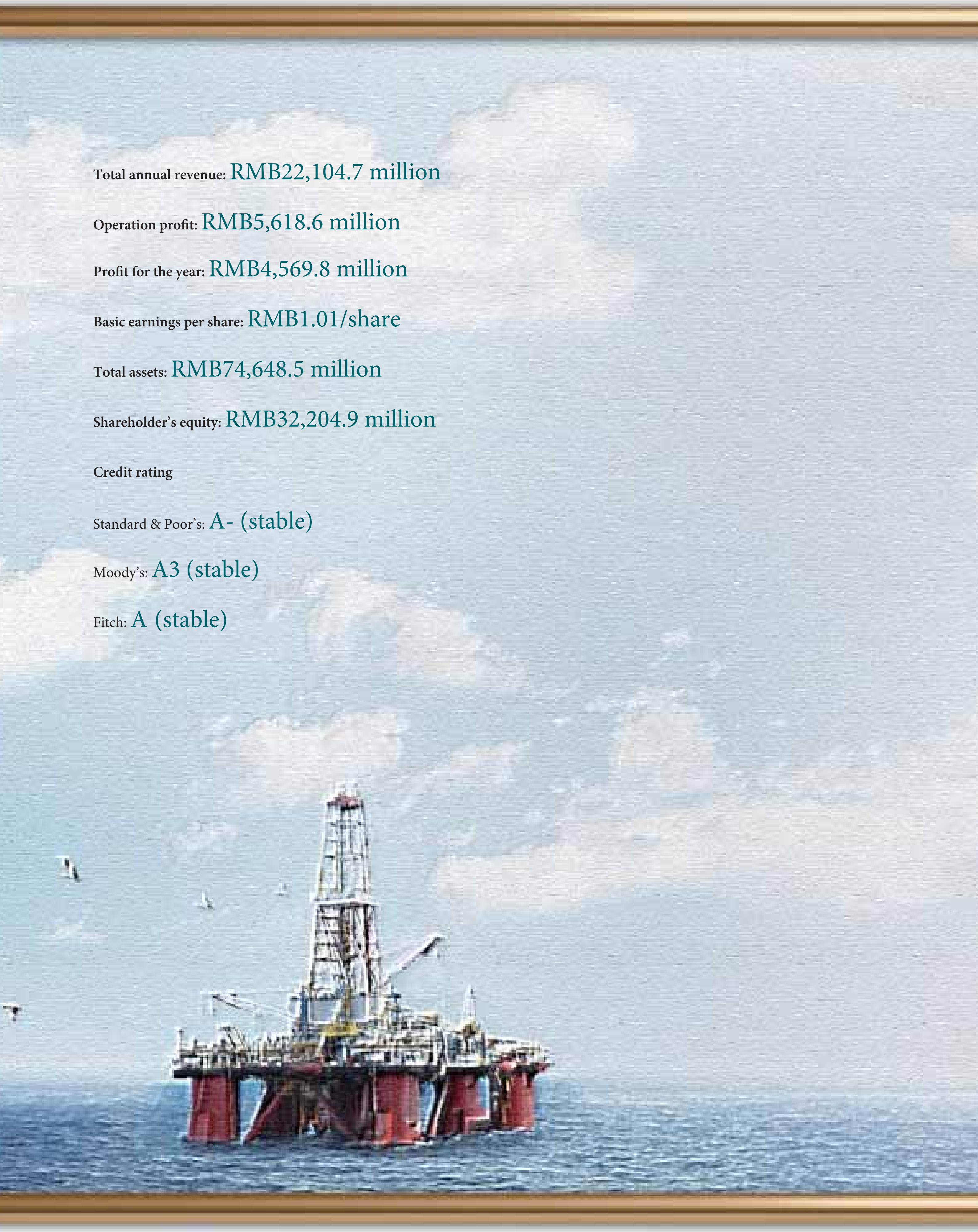
24 October
The Company successfully provided drilling fluids services to its first high-temperature and high-pressure well in the Dongfang Oilfield, symbolizing that the mud business of the Company has got access to the high-temperature and high-pressure drilling fluids services market in South China Sea.

26 November
The coalbed methane project in Shanxi Province, successfully connected the first coalbed methane "U"-shaped horizontal well, SX021-5H, with a vertical well, SX021-5V, with one-off connection, symbolizing that the directional drilling services in coalbed methane exploration of the Company has reached domestically advanced standard.

November
The Company was firstly selected as the Most Innovative Enterprises in China 2012 by Fortune.

1 December
The Company completed the first overseas EMRT operation in AGCS-24 well in Missan oilfield, Iraq.

5 December
The upgrading and modification of "Nanhai No. 8", a semi-submersible drilling rig acquired by the Company was completed and joined the deep-water drilling fleet of COSL.



Total annual revenue: RMB22,104.7 million

Operation profit: RMB5,618.6 million

Profit for the year: RMB4,569.8 million

Basic earnings per share: RMB1.01/share

Total assets: RMB74,648.5 million

Shareholder's equity: RMB32,204.9 million

Credit rating

Standard & Poor's: A- (stable)

Moody's: A3 (stable)

Fitch: A (stable)

	2012	2011	Increase/ Decrease %
Annual revenue			
Domestic operation income	15,225.3	13,252.6	14.9
International operation income	6,879.4	5,173.5	33.0
Total	22,104.7	18,426.1	20.0
Operation expenditure	16,660.1	13,556.1	22.9
Operation profit	5,618.6	4,982.8	12.8
Profit before tax	5,436.8	4,811.6	13.0
Income tax	867.0	772.1	12.3
Profit for the year	4,569.8	4,039.5	13.1
Basic earnings per share	1.01	0.90	12.2
Basic earnings per share (diluted)	1.01	0.90	12.2
Net asset per share	7.2	6.3	14.3
Ratio			
Return on equity (%)	15.1	14.9	
Return on asset (%)	6.6	6.3	
Gearing ratio (%)	56.9	56.1	
Interest cover (%)	9.5	9.7	
Price/Earnings	15.8	13.6	
Dividend yield (%)	1.9	1.5	
Dividend payout ratio (%)	30.6	20.0	

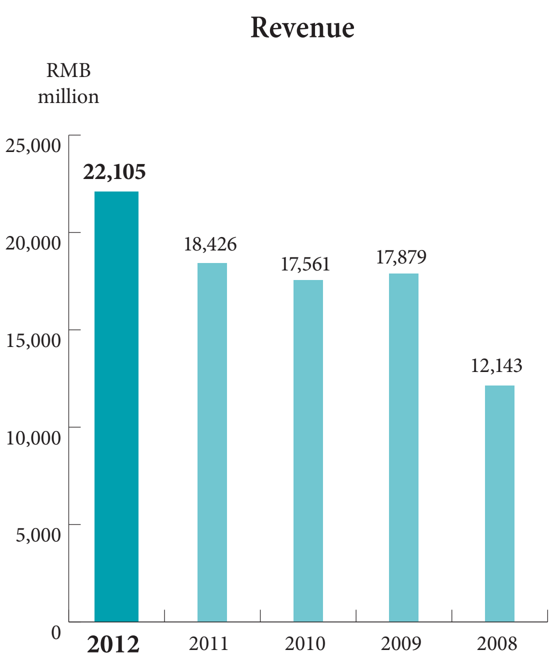
Notes:

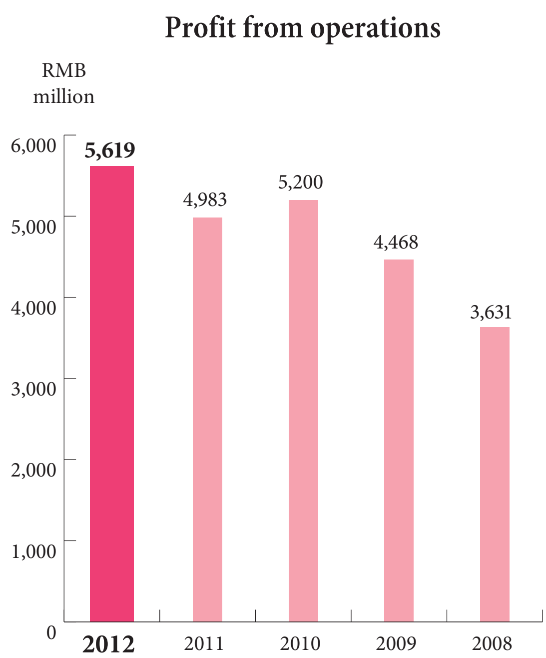
1. *Return on equity = Total earnings/Average shareholders' funds*
2. *Return on asset = Total earning/Average assets*
3. *Gearing ratio = Total liabilities/total assets*
4. *Interest cover = Profit before income tax and interest/(Interest charges + capitalised interest)*
5. *Price/Earnings = Closing share price on the last trading day of the year/Earnings per share*
6. *Dividend yield = Dividends per share/Closing share price on the last trading day of the year*

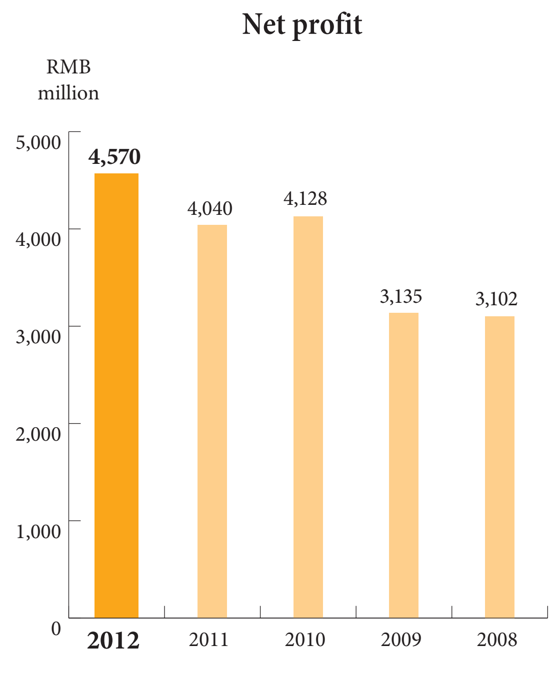
FIVE-YEAR FINANCIAL POSITION REVIEW

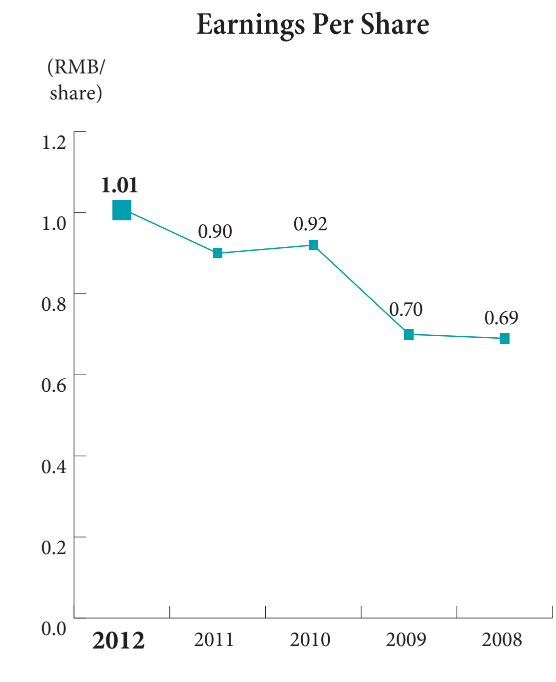
Unit: million yuan   Currency: RMB

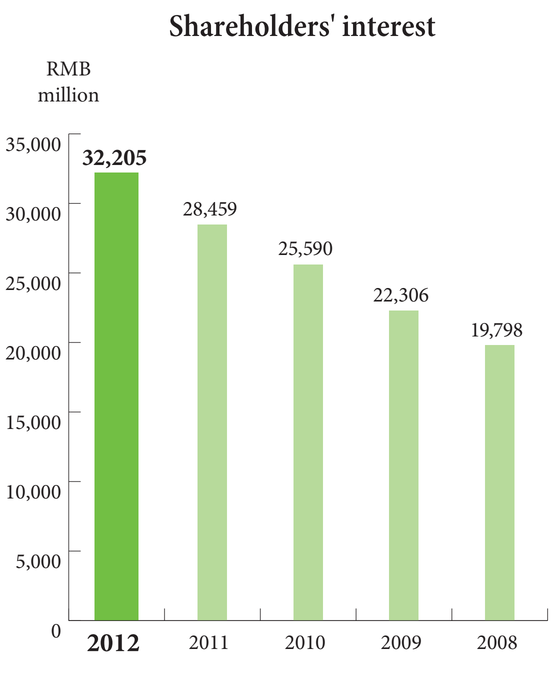
Major financial data and indicators	2012	2011	Increase/ decrease over the same period last year (%)	2010	2009	2008
Revenue	22,104.7	18,426.1	20.0%	17,561.0	17,878.7	12,142.9
Profit from operations	5,618.6	4,982.8	12.8%	5,200.1	4,468.1	3,630.5
Net profit	4,569.8	4,039.5	13.1%	4,128.0	3,135.3	3,102.2
Earnings per share (RMB/share)	1.01	0.90	12.2%	0.92	0.70	0.69
	As at the end of 2012	As at the end of 2011	Increase/ decrease over the end of the same period last year (%)	As at the end of 2010	As at the end of 2009	As at the end of 2008
Shareholders' interest	32,204.9	28,459.2	13.2%	25,589.9	22,305.6	19,797.8
Total assets	74,648.5	64,851.1	15.1%	63,497.4	60,776.5	56,200.9

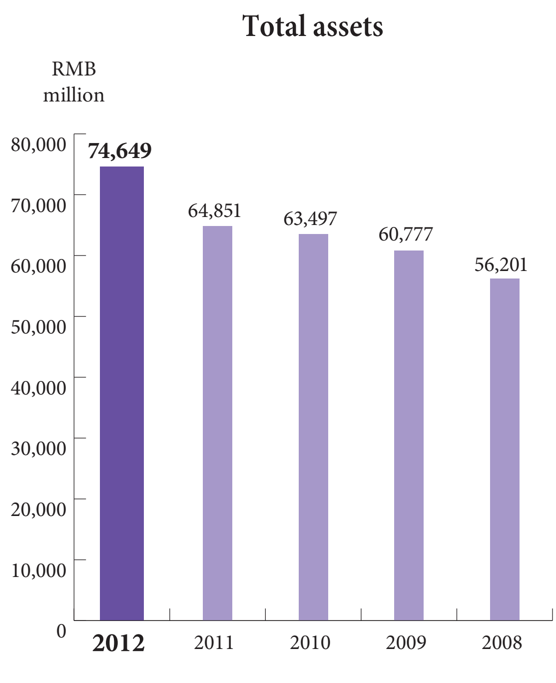





Net profit
RMB million
5,000
4,000
3,000
2,000
1,000
0
4,570
4,040
4,128
3,135
3,102
2012
2011
2010
2009
2008


Earnings Per Share
(RMB/ share)
1.2
1.0
0.8
0.6
0.4
0.2
0.0
1.01
0.90
0.92
0.70
0.69
2012
2011
2010
2009
2008


Shareholders' interest
RMB million
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
32,205
28,459
25,590
22,306
19,798
2012
2011
2010
2009
2008


Total assets
RMB million
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
74,649
64,851
63,497
60,777
56,201
2012
2011
2010
2009
2008

2012 was the tenth anniversary of the Company's listing on the Hong Kong Stock Exchange. After a decade of continuous efforts, the Company has thrived to grow in a changing market, which laid a solid foundation for its sustainable development in the future.

Liu Jian *Chairman*

In 2012, the Company actively adapted to the change in macro-economy and industry trend, grasped the market opportunities and aggressively developed domestic and foreign markets. The Company kept consolidating its leading position in China off-shore well services market while expanding our reach in the international market. Also, we kept a high utilizing rate of large equipment, together with a stable growth in operation result. Corporate governance and performance in social responsibility was improved.

BUSINESS PERFORMANCE

2012 was an important year for the development of the Company, which was the tenth year since we entered into the capital market. With the collaborative endeavour of the Board, the management and the entire staff of the Company, the Company realized revenue of RMB22.1 billion, representing an increase of 20.0% over last year. Profit after tax amounted to RMB4.57 billion, representing an increase of 13.1% over last year. Basic earnings per share amounted to RMB1.01. The Company recommended to distribute RMB0.31 per share as the final dividend for 2012, representing an increase of 72% compared with 2011, such dividend proposal will be submitted for the approval at the Annual General Meeting to be held in May 2013.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board always leads and supervises our corporate governance in a responsible and efficient manner. During the year, we, at the regular Board meetings, discussed the issue of foreign bonds, equipment construction and connected transactions in detail and made recommendation towards certain issues such as internal risk controls and amendments to the Articles of Association. Each director fully applied their expertise and contributed to the development of the Company in different aspects, continuously optimizing our corporate governance. During the period, Mr. Li Yong's, executive director of the Company, Mr. Tsui Yiu Wa's, independent non-executive director of the Company, and my terms of office expired and we were reelected as directors of the Company at the annual general meeting of the Company convened on 5 June. We would like to express our gratitude to shareholders for their trust and support.

Benefited by the excellent performance in corporate governance and social responsibility and improved sustainable development, the Company was well recognized in the capital market: it was included into SSE Corporate Governance Index; A share of the Company was selected as constituent stocks of SSE Corporate Governance Index and SSE 180 Corporate Governance Index; it was included into Hang Seng (China A) Corporate Sustainability Benchmark Index and was authorized to use the trademark of such index; and it was included into FTSE China A50 Index as well.

SOCIAL RESPONSIBILITY

The Company kept improving and optimizing safety at work and environmental protection, rationalized management procedure, management responsibility and focused on reviewing daily work and procedure in order to carry out safety at work and environmental protection, thus effectively reduced energy consumption for an output value per RMB ten thousand in production and achieved annual target with exceeding amount.

It is the Company's principle to actively perform its social responsibility. In 2012, the Company finished construction of 12 Hope Schools in Yunnan and Hainan. In September, there was a magnitude 5.7 earthquake in Yunnan. The building structure of Taiping Primary School and Shumuke Primary School in Luozehe Town, Yiliang Province, both of which were sponsored by the Company, remained stable and all teachers and students were safe under the earthquake. The Company was named on "The Fourth (2012) List of the Top 100 China Corporate Social Responsibility Outstanding Enterprises" and awarded "China Corporate Social Responsibility Outstanding Enterprise Award" at the annual meeting on social responsibility of Chinese enterprises. Also, we were awarded a 20-year special contribution award for the Project Hope in Hainan Province.

THE BOARD'S MAJOR CONCERNS IN 2013

In 2013, the Board will focus on continuously improving the competitiveness of the Company in management innovation and technological innovation, by which lays a solid foundation for the long-term and sustainable development of the Company. The Board will review the development strategy of the Company, grasped opportunities especially for the investment in large equipment and accelerate the improvement in operation. In addition, the Board will enhance the overall deep-water operation of the Company. 2012 was the initial year the Company engaged in deep-water operation, during which, especially, the commencement of operation of deep-water drilling rigs, HYSY981, helped us gain valuable experience. Based on our experience, the Company will strengthen its technique and staff training, build up and prepare a management team and equipment for deep-water operation with world-class competitive strength. Besides, the Company will continue to monitor the operation risks of the Company, especially the risks related to safe production and overseas business development. The Company will pay much attention to the taxation risks of foreign business. We have prudently reviewed the tax issue of a Norwegian subsidiary and implemented circumspect responsive measures. Currently, we are still communicating with the competent authorities and we will strive to settle the issue in a fair and resonable way.

At last, I would like to express my gratitude to our management and staff for their relentless dedication to the development of the Company, members of the Board and Supervisor Committee for their contribution on the Company's decision making and supervision and shareholders and friends for their support and help.

Liu Jian
Chairman

22 March 2013

Dear shareholders,

2012 was an inspiring year. In spite of the intricacies of global economic situation and a slowdown in the growth of the domestic economy, with the guidance of the Board, the management and all staff members have made some new achievements in all aspects of work. Here, I would like to share the operating results of COSL in the past year with you.

Overall growth in the four segments

Though the competition of oilfield services market in off-shore China was more intensified in 2012, the Company's position in the domestic market remained stable. Four segments comprising of drilling services, well services, marine support and transportation services and geophysical and surveying services have operated with security and efficiency. Drilling rig contract signing rate recorded approximately 100%; the market share of geophysical and surveying cable 3D collection business in the domestic market was 100%;

In 2012, we should be proud of our operating performance and business progress. But we are well aware of that, we still have to face lots of challenges to build COSL into an oilfield services company with international competitiveness.

Li Yong *President and Chief Executive Officer*

the marine support and transportation services segment and the well services segment still maintained its leading position in the offshore China market. The main income sources of the Company were still derived from the domestic market, where revenue amounted to RMB15.22 billion, representing 68.9% of the Group's total revenue in 2012 and an increase of 14.9% as compared with 2011. The international market share continued to be expanded in 2012, not only in respect of drilling services and geophysical and surveying services and the types and scale of well services as well. Those income contributions amounted to RMB6.88 billion, representing 31.1% of total revenue of the Group in 2012 and an increase of 33.0% over the same period of last year.

Especially worth mentioning is the great success in our market development in 2012. We have achieved full operation of large equipment, recorded significant increase in four segments, including drilling services segment, well services segment, marine support and transportation services segment and geophysical and surveying services segment, and our revenue reached another historical record high of RMB22.10 billion, representing an increase of 20.0% as compared with last year; net profit was RMB4.57 billion, representing an increase of 13.1% as compared with last year. The revenue of drilling services segment of the Company reached RMB11.25 billion, representing an increase of 18.3% over last year; the revenue of well services segment amounted to RMB4.86 billion, representing an increase of 23.0% compared to last year; the revenue of marine support and transportation services segment was RMB2.94 billion, representing an increase of 16.2% as compared with last year; the revenue of geophysical and surveying services segment reached RMB3.05 billion, representing an increase of 25.7% compared with the same period of last year. These achievements were attributed to opportunities brought by the positive trend in the oilfield technology services industry on the one hand and highly effective work of all staff members of the Company on the other hand.

Continually improving capability in deep-water operation

2012 was the first year of the Company's deep-water operation. Symbolized by the commencement of its operation of the sixth generation of deep-water drilling rig "HYSY 981", the Company has taken an important step in deep-water capability development. The rig has provided drilling services over different water depth for a maximum operating water depth of 2,400 meters, to the customers, CNOOC and Husky, consecutively in 2012 and won the customers' recognition for its sound performance. Driven by the deep-water drilling services, the oilfield deep-water logging technology services has also been applied to the deep-water field. Other deep-water equipment of the Company have operated with excellent performance. The deep-water surveying vessel "HYSY 708" not only commenced deep-water surveying operation, but also implemented recirculation and installation operation of single vessel deep-water gas tree, establishing a new mode of installation of deep-water gas tree in its industry, and generated considerable operation value for the customers. HYSY720, a 12-streamer geophysical vessel, completed its 3D seismic collection operation in the South China Sea smoothly, which made proud achievements for its breaking the operation records of various international famous geophysical services companies for many times. In addition, the Company started to build a 5,000 feet semi-submersible drilling rig COSLProspector for the sea condition of the North Sea and the arctic regions. I believe that, with accumulated experience of deep-water operation and acquired deep-water equipment technology, the deep-water operation competitiveness of the Company will continuously improved.

While propelling large equipment construction projects, the Company is improving equipment capability through acquisition and leasing. To satisfy the increasing demand of exploration and development operation in the South China Sea, the Company purchased a second-handed semi-submersible drilling rig, called Nanhai 8 in September. It took only more than two months to complete the thorough repair and equipment allocation of the rig, delivered for operation on 5 December, which fully reflects the operational efficiency of the Group over large equipment. Moreover, the Company has leased a semisubmersible drilling rig, South China Sea No.7 ("南海七号") which will be put into operation in South China Sea in the first half of 2013 after repair.

Successful implementation of financing projects

In the second half of 2012, the three international credit rating agencies (i.e. Moody's, Standard & Poor and Fitch) granted our Company the A3(stable) , A-(stable) and A (stable) rating for the first time, such that our credit rating are now in the same range of international first-class oilfield service companies. Thereafter, the Company successfully issued US$ one billion of foreign currency debentures for a term of ten years through our subsidiary overseas. The nominal rate of the current bonds is 3.25%. The successful implementation of the financing project guarantees our low-cost funding for the follow-up development of the Company.

International business expansion continues

In 2012, the Company continued to optimize the layout of the international market, strengthened the operation risk management, and continuously promoted the construction of overseas business talents and management system. 169 employees attended the international talents and overseas study training during the year. Moreover, the Company formulated an International Business Management Manual, which provides an effective guarantee for the rapid and healthy development of international business. Based on the practical situation of each business, the Company actively developed the international market, resulting in the increasing expansion of the type of services in the international market. At present, the Company has basically formed an international market layout with the four regions, namely Southeast Asia, the Middle East, the Americas and North Sea as the core.

In the Southeast Asia market, while expanding the established market, the Company also increased its reach in the Thailand market. "COSLBoss" won the bid for BP Berau drilling service project, and officially signed a contract on 16 February 2012, which showed the drilling rigs service of the Company has gained recognition of more and more large and international oil company, and also reflected the safety management system of the Company reached international maturity, and accumulated experience for further expanding the international market in the future. Under the circumstances that the aging drilling vessels have been continuously reorganized, the thirty-year old vessel of "Bohai 8" won the Husky contract in Indonesia, which illustrated the high standard of the equipment management of the Company on the one hand, and customers' recognition for the Company's reputation on the other hand. The Company operated a total of 4 drilling rigs in Indonesia in 2012. In addition, several business scales such as workover integration, workover support barge, cementing, slurry, logging, perforating remained steady and rising and customers were up to 20. By virtue of its largest business, largest number of customers and largest number of operating projects, Indonesia has become the top overseas market. After the geophysical vessel, "HYSY 719" completed the 3-D seismic acquisition project of PTTEP in Burma's Andaman Bay with high quality and efficiency in the winter of 2011 to 2012, thus the international reputation and competitiveness of data collection business of the Company has been enhanced. "HYSY 718, 719, 720" won tenders for projects in Pakistan, Thailand and Burma successively.

In the Middle East market, on the basis of the original business scale, the Company obtained good performance in the operation of logging, cementing and acidizing of Iraq land drilling rigs and well service segment.

In the Mexican market, after the jack-up drilling rig, "COSLConfidence" obtained long-term contract and four module rigs' contract renewal in 2011, "HYSY 936" got the drilling operation service contract of PEMEX for a term of 4 years in 2012 and the contract of the Company newly-built 3000HP module rig was settled.

In the North Sea market, a semi-submersible drilling rig, "COSLPioneer" operated by COSL Drilling Europe AS ("CDE") gained customer's recognition by its excellent operation quality and efficiency. In May 2012, it ranked first in the comprehensive performance evaluation of 29 rigs of the North Sea of Statoil ASA, and rated as "rigs of the month of May" and won the honor for the Company. The operation contracts of the two accommodation rigs, namely, "COSLRival" and "COSLRigmar" have been renewed successfully; the semi-submersible drilling rigs, "COSLInnovator" and "COSLPromoter" reached Norway successively during the year, among which, "COSLInnovator" commenced to operate at the end of the year, and "COSLPromoter" will also begin to operate in the first half of 2013. The operation of these high-end equipment in the North Sea will lay the foundation for the growth of the revenue of CDE in 2013.

Continuous Progress in Scientific Research

Technical progress is the driving force of the development of the Company. In 2012, the effect of the completion of scientific research project and transformation of achievements of the Company is remarkable, and the number of patents granted improved significantly, reaching a total of 114 patents during the year. During the period, the Company was once again been certified as a High-New Technical Enterprise by the Tianjin Municipal Government, which played a positive role in promoting technological advancement of the Company.

In terms of the commercialization of scientific and technological achievements, the ELIS logging system of the Company has fully entered into off-shore self-supporting exploratory well service, and completed the overseas operation in Indonesia and Iraq; the electric imaging instrument was exported to Canada; the self-owned technical equipment rate of cable logging was up to 80%; spud driving and pulling technology of well location has been successfully applied in 17 domestic rigs and 10 overseas rigs, with accuracy and safety reaching 100%; application of the multiple thermal fluid for off-shore viscous oil recovery technology continued in Bohai.

For key scientific research projects, after years of effort, the self-developed high-precision seismic collection technology "Sea Bright" system finally succeeded in its experiment. The drilling and logging system and rotation directional drilling system successfully carried out on-site trail operation, and effectiveness and operability evaluation were completed, making an important step to popularization and application. The prototype of the Electron Magnetic Resonance Logs Tools (EMRT) completed its off-shore multiwell operation, stepping into the stage of industrialization and production and application. The Company self-developed deep-water drilling fluids and cement slurries system, succeeded in deeper-water test. Besides, the Yanjiao Science Park combining research and development, testing, calibration and manufacturing of cable logging and drilling and logging system has been put into use in September. The drilling test base in Xinjiang has also formally been put into use in September. The construction work of the research and development industrial base in Tianjin is also advancing.

Improvement in QHSE continues

In the current year, according to the practical situation of production and operation, especially based on deep-water drilling rig operation of "HYSY 981", we established QHSE management system for deep-water operation. Furthermore, we also strengthened the assessment of potential risk and established protective measures, which effectively prevented and reduced the occurrence of accidents. In addition, the Company carried out exchange of QHSE management experience with front-line team leaders, and developed safety management and construction standards for teams and groups. Meanwhile, the Company prepared and completed the overseas emergency management regulations, and further enhanced the emergency management level. The Company has targeted to carry out the emergency exercise for radioactive sources loss and chemical carriers joint rehearsals both on board and on land, enhancing our emergency response capabilities. The QHSE management of the company has been generally stable, the recordable event probability is 0.24 during the period, and no accident above the level happened.

In 2013, the continuous release of the newly-built drilling rigs in international drilling market and demand on high-end equipment will result in larger price spread between low-end equipment and high-end equipment, the price of old jack-up drilling rigs arranged in Bohai by the Company will slightly decline. However, with the successive operation of the semi-submersible drilling rigs of the Company, the daily rate of the overall drilling rigs of the Company will increase structurally. In the meantime, with the arrival of a new round of inflation caused by the increase in liquidity, the oilfield service industry will face the pressure of high cost. How to control cost and keep good profit margin are issues that the Company will be confronted with in 2013. In addition, the addition of other domestic oilfield service providers will intensify competition, and pose certain challenges to the Company.

Although there are a lot of difficulties, I am still full of confidence for the year of 2013. The excellent performance of such equipment as "COSLPioneer", "HYSY 708" and "HYSY 720" in 2012 brings driving force for the establishment of international brand of the Company and the further expansion of the business of 2013. The large-scale equipment, "COSLInnovator"and "COSLPromoter"will become the main contributor to the international business of the Company in 2013. The joining of "Nanhai 8" and "Nanhai-7" will not only further meet the needs of China's off-shore market, but also bring contribution to the revenue growth of the Company. In 2013, we will allocate resources in both the international and domestic markets to meet the requirements of the markets and ensure the high utilization rate of large-scale equipment. At the same time, with the operation of "HYSY 981" and "Nanhai 8" in the South China Sea, the Company's well service segment will enter into deep-water market, and the Company's deep-water operation capability will be further enhanced. In 2013, we will continue to provide shareholders with sustained and stable returns.

Li Yong
President and Chief Executive Officer

22 March 2013

Drilling **Services**

Being a major drilling service provider in off-shore China, as well as an important international drilling participant, we are capable of providing drilling services of up to 10,000 ft water depth and drilling depth of 30,000 ft.

2012 Drilling Services Revenue amounting to

RMB11,251.6 Million

Water depth can be reached up to

10,000 ft

Oil well drilling depth can be reached up to

30,000 ft

INDUSTRY REVIEW

In 2012, under the influence of various complicated factors, including the Europe and US economic environment, monetary policies around the world, energy demand of emerging countries, the production capacity deployment in OPEC and the political environment of the Middle East, oil prices moved in a V-shaped trend in the first three quarters and remained fluctuating at high level in the fourth quarter. According to the statistics of IEA, the average prices of Brent Crude Futures and WTI Crude Futures were US$110 and US$92/barrel, which were essentially at the same level as last year. According to the report of Barclays, under the backdrop and influence of economic recovery, remaining high oil price and the increase in demand for oil and natural gas of developing countries, investment in survey and development by oil companies world-wide totaled over US$600.0 billion in 2012, an increase of 11% compared with last year, which led to continuous market expansion in oilfield services. According to the latest statistics data of Spears, the income of global oilfield service market reached US$359.3 billion in 2012, increased by 10% compared with last year. According to IHS statistics, the utilization rate of jack-up rigs reached 81.3% over 2012, increased by 7.1% compared with 2011, and that of semi-submersible drilling rigs (including deep-water drilling rigs) reached 89.8%, increased by 1.6% compared with 2011. Geophysics companies entered into a new growing cycle in 2012 following a downturn period from 2009-2011. According to the statistics of Spear, the global geophysical service market amounted to US$15.4 billion, an increase of 8% compared with last year. In 2012, the onshore survey and development activities in China remained active and off-shore drilling market was broadly the same as 2011. Given the increasing customer demand on deep water drilling, market for deep water exploration and development was apparently extending, particularly the demand for 3D operation in geophysical service market. Well services segment fully recovered and recorded a growth while marine support and transportation services market experienced the largest increase.

BUSINESS REVIEW

Drilling Services Segment

COSL is the major supplier of China off-shore drilling services, and is also 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 2012, the Group operated and managed a total of 35 drilling rigs (of which 27 are jack-up drilling rigs, and 8 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 8 land drilling equipment.

The drilling service business has been the core business of the Group. In 2012, relying on new production capacity and the efficient operation of the previous equipment, the annual revenue of the drilling service business exceeded RMB10 billion and reached RMB11,251.6 million, representing an increase of 18.3% compared to RMB9,514.6 million of the same period last year.

In 2012, although the drilling services business still faced intense market competition, COSL created good economic efficiency for the entire business segment during the year through the new addition of equipment and the efficient allocation of resources.

For production capacity, the sixth generation of deep-water semi-submersible drilling rig, HYSY981, designed and built by China, formally commenced drilling in the first half of 2012, which marked that the “deep-water strategy” of the Group had taken a substantive step; it also marked the comprehensive opening of “the year for deep-water” of the Group. In order to continuously satisfy market demand, the Group newly purchased a second-hand semi-submersible drilling rig, NH8, which operated in South China Sea at the end of the year. The drilling rig is in sound production and operation condition, which further promotes the ability of deep-water drilling service of the Group. In addition, another semi-submersible drilling rig, COSLInnovator, invested and built by the Group, prepared to operate in the sea area of Norway in the fourth quarter of 2012 to execute the operation contract for Statoil for a term of 8 years. Another semi-submersible drilling rig, COSLPromoter, had arrived in Norway for adaptive transformation in the second half of 2012 and had obtained AOC certificate from the Petroleum Safety Authority of Norway. Meanwhile, in order to continue to ensure the driving force for the drilling services of the Group, the fourth semi-submersible drilling rig, COSLProspector, invested and built by the Group, formally commenced construction in Yantai, China. When it leaves the factory, COSLProspector will be able to meet the requirements of Petroleum Safety Authority (PSA) and NORSOK, and obtain the certification issued by Det Norske Veritas (DNV). It will be delivered in the second half of 2014.

In terms of market, the Group grasped domestic market, implemented different market strategies for different regions, and effectively ensured its leading position in China's off-shore drilling service market. In the meantime, the Group deployed HYSY936 to carry on long-term operation in Mexico. In addition, the two other jack-up rigs won drilling contracts for operation in Indonesia.

At the end of 2012, the Group had 11 drilling rigs operating in Bohai of China, 8 in South China Sea, 1 in East China Sea, 13 in overseas countries such as Indonesia, Australia, Norway and Mexico etc.. In addition, there was 1 drilling rig under repair and another 1 was in pre-operation stage. 2 accommodation rigs were providing services to customers in the North Sea. On top of that, 4 module rigs were working in Mexican waters, 3 land drilling rigs services were conducted in Iraq and 5 land drilling rigs services had suspended operation due to the civil war in Libya.

In 2012, the number of operating days of the Group's drilling rigs amounted to 10,956 days, representing an increase of 1,086 days, and the calendar day utilization rate reached 93.2%, representing a slight decrease of 0.5 basic point compared with last year.

2012 operation details of the Group's jack-up and semi-submersible drilling rigs are as follows:

	2012	2011	Increase/ (Decrease)	Percentage change
Operating days (day)	**10,956**	**9,870**	**1,086**	**11.0%**
Jack-up drilling rigs	9,244	8,692	552	6.3%
Semi-submersible drilling rigs	1,712	1,178	534	45.3%
Available day utilization rate	**100.0%**	**96.5%**	**up 3.5 bps**	
Jack-up drilling rigs	100.0%	96.0%	up 4.0 bps	
Semi-submersible drilling rigs	100.0%	100.0%	–	
Calendar day utilization rate	**93.2%**	**93.7%**	**down 0.5 bps**	
Jack-up drilling rigs	93.5%	93.4%	up 0.1 bps	
Semi-submersible drilling rigs	91.6%	95.5%	down 3.9 bps	

The reasons for the increase by 552 days in operating days contributed by jack-up drilling rigs as compared with last year were an increase of 363 operating days as a result of full operation of COSLConfidence and COSLSeeker, and an increase of 555 operating days by four 200-feet drilling rigs, a decrease of 302 days for BH8 and HYSY936 due to their preparation for overseas operations, a decrease of 95 days in operating days contributed by COSLBoss due to repair and maintenance and an increase of a total of 31 operating days contributed by other drilling rigs.

The operating days of semi-submersible drilling rigs increased by 534 days compared with last year was due to an increase of 348 operating days contributed by three new drilling rigs (an increase of 309 days for HYSY981, an increase of 23 days for NH8 and an increase of 16 days for COSLInnovator), an increase of 212 operating days as a result of COSLPioneer's full operation, a decrease of 49 days in operating days contributed by NH2 due to repair and maintenance and an increase of a total of 23 days in operating days contributed by other drilling rigs.

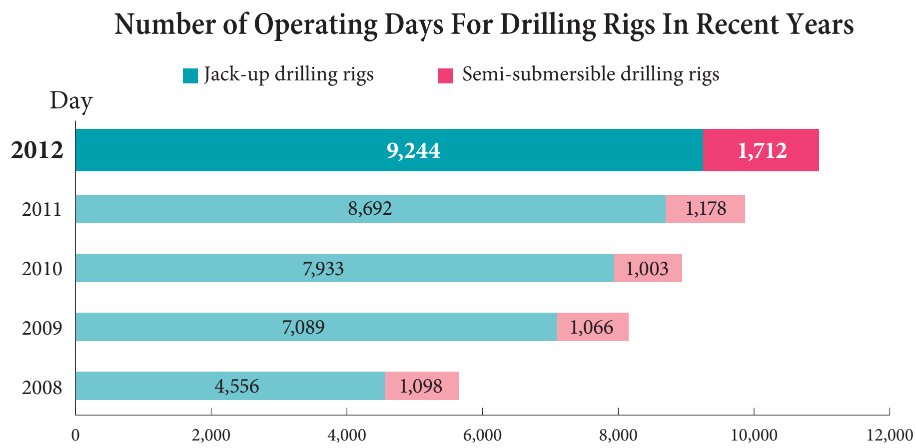
Due to the increased repair and maintenance for drilling rigs during the period, the calendar day utilization rate of the Group's drilling rigs in 2012 was 93.2%, representing a decrease of 0.5 basic point as compared with last year.

The two accommodation rigs continued to operate in the North Sea for 732 days, with available day utilization rate and calendar day utilization rate both reached 100.0%.

Following the upgrade and modification last year, 4 module rigs working in the Mexican Bay operated for 1,456 days during the year, representing an increase of 392 days compared with last year, and a calendar day utilization rate of 99.5%, representing an increase of 26.6 basic points compared with last year

Well **Services**

Being the largest and most competent all rounded well services provider in off-shore China, COSL can fulfill a chain of well services performances.



With the addition of new semi-submersible drilling rigs, the average day income of the drilling rigs of the Group in 2012 increased when compared with last year, with details as follows:

Average day income* (ten thousand US$/day)	2012	2011	Increase/ (Decrease)	Percentage change
Jack-up drilling rigs	10.8	10.7	0.1	0.9%
Semi-submersible drilling rigs	29.8	26.1	3.7	14.2%
Drilling rigs sub-total	14.7	12.7	2.0	15.7%
Accommodation rigs	20.9	21.5	(0.6)	(2.8%)
Group average	15.1	13.2	1.9	14.4%

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

(2) US$/RMBexchange rate was 1 : 6.2855 on 31 December 2012 and 1 : 6.3009 on 31 December 2011, respectively.

Well Services Segment

The Group possesses over 30 years of experiences in off-shore well services operation and over 20 years of experiences in onshore well services operation. Also, the Group is the main provider of China off-shore well services together with the provision of onshore well services. The Group's major clients for well services include oil and gas companies in China (such as CNOOC Limited and Petrochina etc) and oil and gas multinationals (such as BP, Shell, ConocoPhillips and Chevron etc.). Through continuous input in technology research and development, advanced technological facilities and an excellent management team, the Group provide comprehensive professional well services to clients, including (but not limited to) logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.

The Group's well services segment had insisted on a market-focused strategy and the combination of research and development with application in recent years for the strengthening of technological innovation and enhancing of ability of technical service. In 2012, the effect of scientific research and development achievements transformation of the Group was apparent. ELIS, a self-developed logging system, has fully entered into marine self-support exploratory well service, and completed the overseas operation in Indonesia and Iraq; the electric imaging logging instrument was exported to Canada; the ownership rate of the cable logging equipment continued to increase. The SPOTE drilling and logging system and COTAS rotation directional drilling system completed on-site test and were successfully mounted. Besides, actual tests were carried out for the function and technical indicators of two major systems, which met the design requirements and achieved an important milestone result. The Electron Magnetic Resonance Logs Tools (EMRT) completed its off-shore operation for the first time, stepping into the stage of industrialization. The self-developed cement fluids system for deep-water cementing of "frequency conversion constant flow" and cement fluids system for deep-water cementing of "low temperature early strength for oil cement", "low hydration heat" filled the gaps of slurry and cementing technology in deep-water area.

The Group made good progress in unconventional oil and gas (such as coalbed methane gas, shale gas) development service market in 2012. The Group successfully completed the first cable logging operation of shale gas project in Anhui, and conducted the first fracturing operation for Sinopec and achieved complete success.

The operation volume of such line of business as logging, directional drilling and well workover of well service segment increased through market development, while the complex well condition of cementing and fluids resulted in higher fees, revenue of this whole segment in 2012 reached RMB4,857.9 million, compared to RMB3,950.4 million of same period of last year, representing an increase of RMB907.5 million or 23.0%.

Marine Support and Transportation Services Segment

The Group possesses and operates the largest and most comprehensive off-shore utility transportation fleet in China. As of 31 December 2012, the Group owned an aggregate of 72 utility vessels of various types, 3 oil tankers and 5 chemical carriers, which were mainly operating in off-shore China. The off-shore utility vessels provide services for off-shore oil and natural gas fields exploration, development and production, and are responsible for supplies, cargoes and crew transportation and standby services at sea, and provide moving and positioning services for drilling rigs, towing and anchoring services for off-shore vessels. The oil tankers are used for transporting crude oil, refined oil and gas product. The chemical carriers are used for carrying chemical products such as methanol.

With the increasingly intense competition of the utility vessels in off-shore China in 2012, the Group is facing great market pressure. By grasping the operation safety, constantly improving the safety management system, the Group strived to provide safe and high quality ship service for customers. In 2012, marine support and transportation services segment made great efforts to give full play to ship service business's advantage to consolidate and develop its market, and actively chartered external vessels and reasonably allocated resources. The chartered vessels operated for a total of 11,524 days for the year, generating revenue of RMB861.4 million. In addition, four workover support barges operating in the sea area of Indonesia operated safety throughout the year, which generated revenue of RMB134.0 million. During 2012, calendar day utilization rate of self-owned vessels was 91.7%, decreased by 2.9 bps compared to the same period last year due to repair and maintenance.

The operation of the Group-owned utility vessels in 2012 was as follows:

Operating days (day)	2012	2011	Increase/ (Decrease)	Percentage change
Standby vessels	14,084	15,491	(1,407)	(9.1%)
AHTS vessels	5,574	5,682	(108)	(1.9%)
Platform supply vessels	1,756	1,764	(8)	(0.5%)
Multi-purpose vessels	1,401	1,352	49	3.6%
Workover support barges	1,380	1,361	19	1.4%
Total	24,195	25,650	(1,455)	(5.7%)

The operating days of self-owned vessels decreased by 1,455 days compared with last year, mainly because 1) there were 2 standby vessels scrapped and another 2 vessels were upgraded to geophysical and surveying vessels, which resulted in a decrease of operating days of 1,407 days compared with last year. 2) As for AHTS vessels, although the addition of HYSY683 brought operating days of 335 days, the NH205 being scrapped and the repair and maintenance of some vessels resulted in the overall operation volume decreased by 108 days as compared with last year. 3) Other three kinds of vessels in aggregate increased the operating days of 60 days.

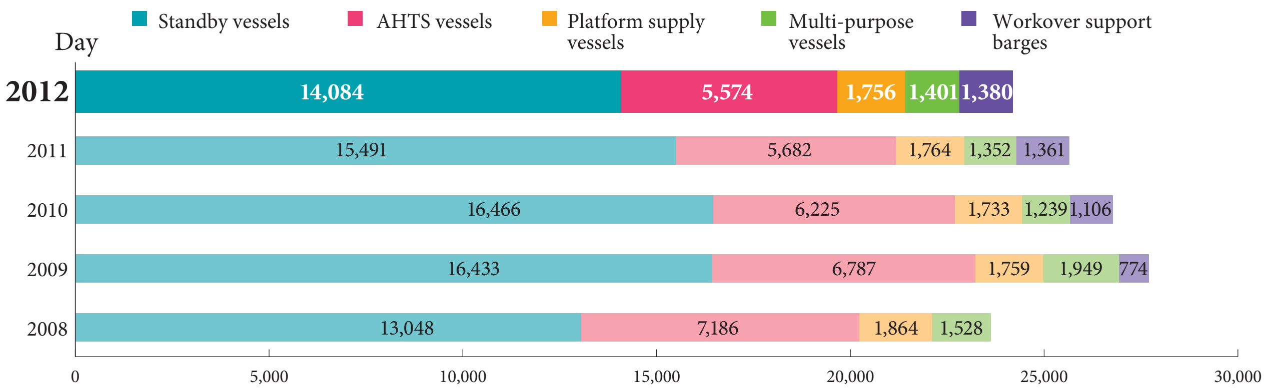
Marine Support and **Transportation Services**

Owning and operating the largest and most comprehensive off-shore utility fleet in China and currently has 72 utility vessels, 3 oil tankers and 5 chemical carriers.

The total transportation volume of oil tankers and chemical carriers was stable with increase, of which, the transportation volume of oil tankers was 2,017 thousand tonnes, representing an increase of 4.1% compared with 1,938 thousand tonnes of the same period of last year. The transportation volume of chemical carriers was 2,302 thousand tonnes, representing an increase of 23.9% compared with 1,858 thousand tonnes of the same period last year.

In 2012, through the redeployment of external resources, marine support and transportation services business realized revenue of RMB2,945.2 million for the year, representing an increase of RMB411.4 million or 16.2% compared with RMB2,533.8 million of the same period last year.

Number of Operating Days for Self-owned Utility Vessels In Recent Years



Geophysical and Surveying Segment

The Group is a major supplier for China off-shore geophysical and surveying services. At the same time the Group also provides services in other off-shore regions, including South and North America, the Middle East, Africa and Europe. The Group's geophysical and surveying services are divided into two main categories: geophysical services and surveying services. At present, the Group owns 9 seismic vessels and 7 integrated marine surveying vessels.

In 2012, through meticulous organization and detailed arrangement, active exploration of the market driven by the operation of new equipment and reasonable redeployment of vessels, the revenue of the geophysical and surveying services segment of the Group reached a historical high record of RMB3,050.0 million, with an increase of RMB622.7 million compared with RMB2,427.3 million of last year, representing an increase of 25.7%.

Geophysical Services

In 2012, the geophysical services' operation was full and the market developing was rewarding. The 3D seismic collection of a 12-streamer deep-water geophysical vessel, HYSY720, exceeded 10,000 km^2 for the year, creating a new record for geophysical vessels operating in Chinese waters. Through active communication with clients, the Group obtained the 3D joint collection contract with a collection area of 6,150.4 km^2 of single collection in the South China Sea, and this is the first joint collection operation with several clients in the history of the Group's geophysical services. At the same time HYSY720, HYSY718 and HYSY719 won biddings for overseas projects in Myanmar, Pakistan and Thailand in winter, effectively avoiding the time window of winter, when the operation conditions are not favourable in China.

The details of operation volume for the data collection and data processing businesses of the Group for 2012 are as follows:

Services	2012	2011	Increase/ (Decrease)	Percentage change
2D collection (km)	17,894	27,808	(9,914)	(35.7%)
2D processing (km)	23,600	22,132	1,468	6.6%
3D collection (km^2)	29,498	23,174	6,324	27.3%
of which: submarine cable (km^2)	1,297	719	578	80.4%
3D processing (km^2)	16,000	9,972	6,028	60.4%

In 2012, the Group's 3D collection and processing business increased remarkably, of which, the 3D collection operation increased by 6,324 km^2 over the same period last year mainly because a 12-streamer geophysical vessel, HYSY720, commenced operation in 2011, which brought another 4,175 km^2 operation volume; HYSY719 won overseas winter projects and increased operation efficiency by 1,708 km^2; due to the addition of a new submarine cable team, the submarine cable collection business increased by 578 km^2 and there were a total decrease of 137 km^2 by other vessels. Benefited from the full operation of the 3D collection business and the winning of overseas data processing contracts, 3D processing business increased substantially and reached 16,000 km^2 for the year.

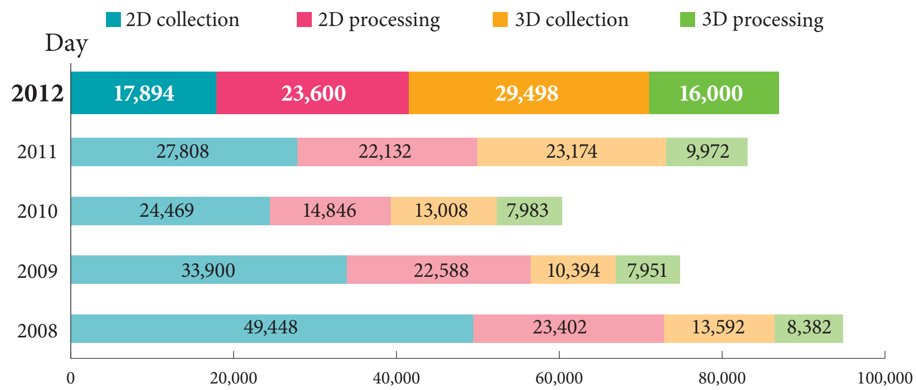
Operation volume for the 2D collection services decreased by 35.7% compared to the same period last year because BH517, originally a 2D collection vessel, was modified into a submarine cable vessel. 2D data processing business increased slightly over the same period last year.

Surveying Services

In 2012, the Group's HYSY708, a deep-water surveying vessel, commenced operation which contributed greatly to the enhancement of the Group's capability in deep-water service. The Group won a contract worth over RMB100 million which was the biggest single contract so far for the surveying service segment.

In 2012, as a result of full operation, the surveying services of the Group recorded a revenue of RMB606.8 million, representing an increase of RMB183.2 million or 43.2% compared with RMB423.6 million last year.

The Operating Volume of Geophysical Service Fleet In Recent Years



Geophysical and **Surveying Services**

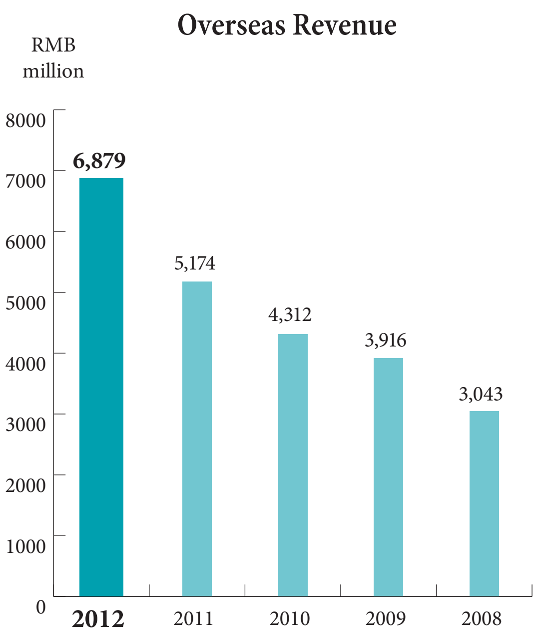
Being a major provider of geophysical and surveying services in off-shore China, as well as an important participant in the global geophysical and surveying market, COSL currently own 9 seismic vessels and 7 integrated marine surveying vessels.

Overseas Business

In 2012, the Group continued to unswervingly implement the internationalisation strategy, kept optimising overseas market layout based on safe and quality operation, strengthened operational risks control, with overseas business achieving new breakthrough once again. As the international business volume expanded, the operating revenue reached RMB6,879.4 million, accounting for 31.1% of the operating revenue of the Group for the year, representing an increase of RMB1,705.9 million or 33.0% compared with RMB5,173.5 million of the same period of last year.

In 2012, leveraging on the quality service, the Group successfully developed markets in the North Sea, South-East Asia and Mexico. Following COSLPioneer's operation receiving recognition from clients, another semi-submersible drilling rig, COSLInnovator, started to carry out an eight-year contract with Statoil in the fourth quarter of the year. COSLPromoter, the sister vessel of COSLInnovator, received AOC certificate issued by the Norway Petroleum Safety Authority. COSLBoss and BH8 won overseas contracts from Indonesia, and HYSY936 won long-term service contracts from PetroleosMexicanos. HYSY921's drilling operation for the turnkey services were well completed, accumulating experience for the Group for the international off-shore turnkey services. NH6 continued to focus on the Australia market and provide drilling services to clients.

In addition, geophysical vessels, HYSY718, HYSY719 and HYSY720 won overseas projects in Pakistan, Thailand and Myanmar. Oil base fluid services made a breakthrough in the South-East Asia market. At the same time, well services made significant progress symbolized by "successfully drilling salt-gypsum layer and performing acidizing operation efficiently" in Iraq.



Note: The overseas revenue for 2009 deducted the deferred gains of RMB1,073.1 million recognised for the year.

MAJOR SUBSIDIARY

COSL Norwegian AS ("CNA") is a major subsidiary of the Group which engaged in drilling operations. COSL Drilling Europe AS ("CDE") is a major subsidiary of CNA. For the year ended 31 December 2012, the total assets of CNA amounted to RMB38,912.6 million and shareholders' equity amounted to RMB6,798.0 million. In 2012, CNA realised operating income of RMB4,035.1 million and the net profit amounted to RMB159.3 million. Please refer to the "Investments in subsidiaries" of note 17 to the financial report of this year's annual report for other information about the subsidiary.

FINANCIAL REVIEW

1. Analysis on Consolidated Income Statement

1.1 Revenue

In 2012, the Group's operating revenue reached another high record of RMB22,104.7 million, representing an increase of RMB3,678.6 million or 20.0% compared with last year, mainly driven by the operation of new equipment and the increase in business volume of each of the business segments. The details are analyzed below:

Analysis by business segment

Unit: RMB million

Business segment	2012	2011	Increase/ (Decrease)	Percentage change
Drilling services	11,251.6	9,514.6	1,737.0	18.3%
Well services	4,857.9	3,950.4	907.5	23.0%
Marine support and transportation services	2,945.2	2,533.8	411.4	16.2%
Geophysical and surveying services	3,050.0	2,427.3	622.7	25.7%
Total	22,104.7	18,426.1	3,678.6	20.0%

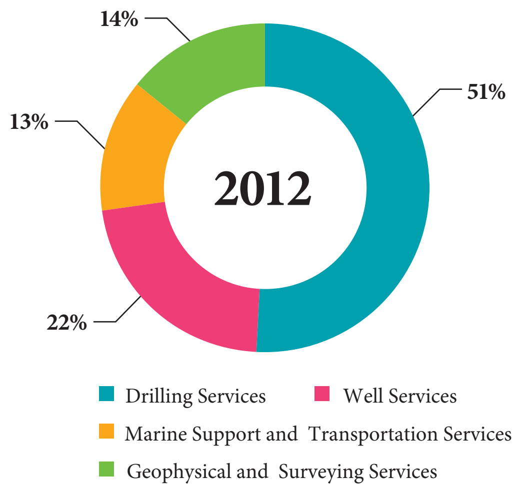
- Drilling services business was the main contributor for the Group's income increase in 2012 and generated revenue of RMB11,251.6 million for the year, representing an increase of RMB1,737.0 million over the same period of last year. The main reasons was 1) increased operation volume from the addition of new high-end equipment and deep water equipment as well as the relatively higher day income during the year, which, to a certain extent, was contributable to the increase in operation income; and 2) the highly efficient operation of original equipment.

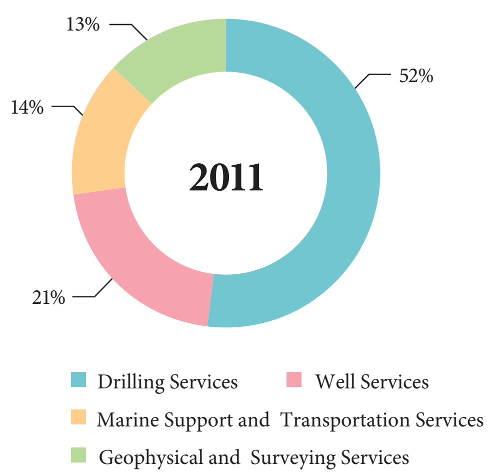
- Driven by market development, the well services operation volume increased in 2012, which drove the income increase of RMB907.5 million.

- Based on Chinese off-shore market, the marine support and transportation services segment not only stabilized domestic market share, but also recorded an annual income increase by RMB411.4 million over the same period last year by rationally utilizing external resource.

- Income from geophysical and surveying services increased by RMB622.7 million, mainly due to the commencement of operation of new equipment (deep-water survey vessel HYSY708) and the efficient operation of large geophysical vessels HYSY719 and HYSY720, and combined with good market expansion and operation.

Revenue Analysis——By Business





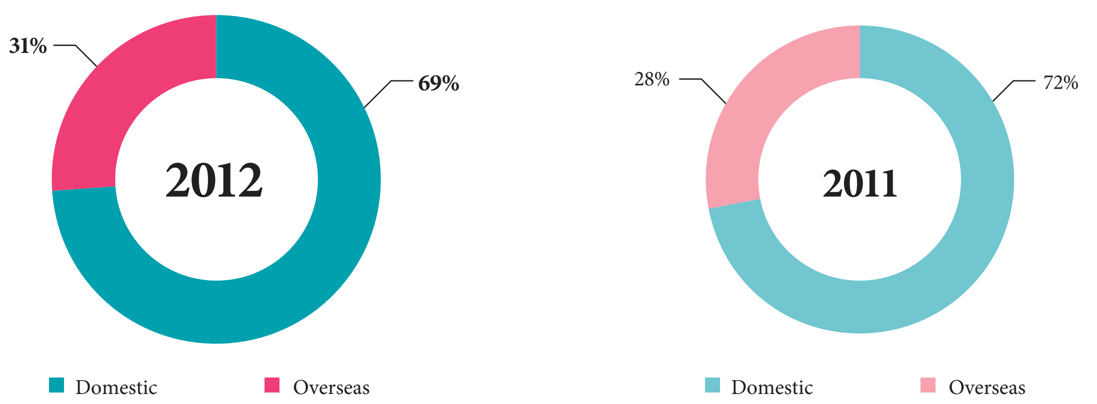
Analysis by operation area

Unit: RMB million

Region	2012	2011	Increase/ (Decrease)	Percentage change
Domestic	15,225.3	13,252.6	1,972.7	14.9%
Overseas	6,879.4	5,173.5	1,705.9	33.0%
Total	22,104.7	18,426.1	3,678.6	20.0%

In terms of operation area, the Group's main revenue still came from Chinese waters. In 2012, revenue from domestic market reached RMB15,225.3 million, representing an increase of 14.9% over the same period last year. In addition, the Group's overseas business made new breakthrough again by adhering to internationalization strategy, optimizing overseas market layout and strengthening risk control of operation. In 2012, revenue from the overseas operation reached RMB6,879.4 million, accounting for 31.1% of the turnover for the year, representing an increase of RMB1,705.9 million or 33.0% as compared to RMB5,173.5 million of the same period last year.

Revenue Analysis——By Region



1.2 Operating expenses

In 2012, operating expenses of the Group amounted to RMB16,660.1 million, representing an increase of RMB3,104.0 million or 22.9% compared with RMB13,556.1 million for last year.

The table below shows the breakdown of operating expenses for the Group in 2012 and 2011:

Unit: RMB million

	2012	2011	Increase/ (Decrease)	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets	3,173.5	3,069.6	103.9	3.4%
Employee compensation costs	3,671.4	3,311.6	359.8	10.9%
Repair and maintenance costs	793.9	538.7	255.2	47.4%
Consumption of supplies, materials, fuel, services and others	4,071.7	3,447.9	623.8	18.1%
Subcontracting expenses	2,825.5	1,514.1	1,311.4	86.6%
Operating lease expenses	709.6	433.1	276.5	63.8%
Other operating expenses	1,133.1	1,009.2	123.9	12.3%
Other selling, general and administrative expenses	185.0	156.1	28.9	18.5%
Impairment of property, plant and equipment	96.4	75.8	20.6	27.2%
Total operating expenses	16,660.1	13,556.1	3,104.0	22.9%

Employee compensation costs increased as compared with last year, which was mainly due to the operation of new equipment of the Group, expansion in overseas business and the increase in the number of the employees and the increase in their remuneration in 2012.

Repair and maintenance costs increased compared with last year, which was mainly due to the increase in the number of repair days for services such as drilling services during the year.

Consumption of supplies, materials, fuel, services and others increased compared with last year, mainly due to higher operation volume as a result of the operation of new equipment and the operations efficiency of the original equipment together with the business development of the Group.

Sub-contracting expenses increased compared with last year, mainly due to the launch of chartering business by the four business segments, so as to stabilize market and diversify revenue sources.

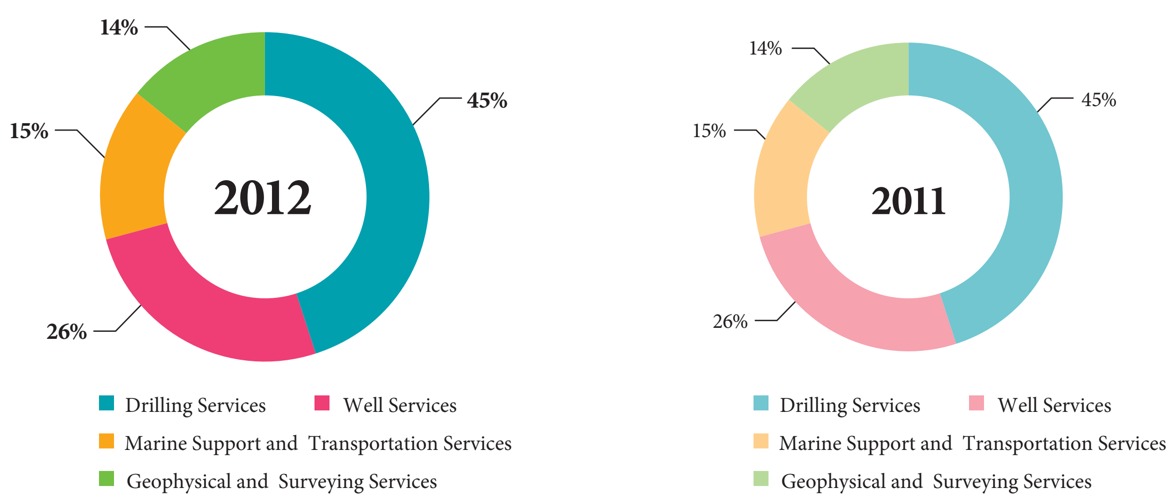
Impairment of property, plant and equipment increased as compared with last year, primarily attributable to an additional asset impairment provisions of RMB77.4 million for the Libya land drilling rigs and the provision for impairment losses of RMB19.0 million for a well services equipment. An asset impairment provision of RMB71.2 million for the related Libya land drilling rigs was recognized and an asset impairment provision of RMB4.6 million for an oilfield utility vessel was recognized last year.

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

Unit: RMB million

Business segment	2012	2011	Increase/ (Decrease)	Percentage change
Drilling services	7,572.5	6,105.8	1,466.7	24.0%
Well services	4,407.7	3,541.3	866.4	24.5%
Marine support and transportation services	2,413.7	2,044.7	369.0	18.0%
Geophysical and surveying services	2,266.2	1,864.3	401.9	21.6%
Total	16,660.1	13,556.1	3,104.0	22.9%

Analysis of Operating Expenses——By Business



1.3 Profit from operations

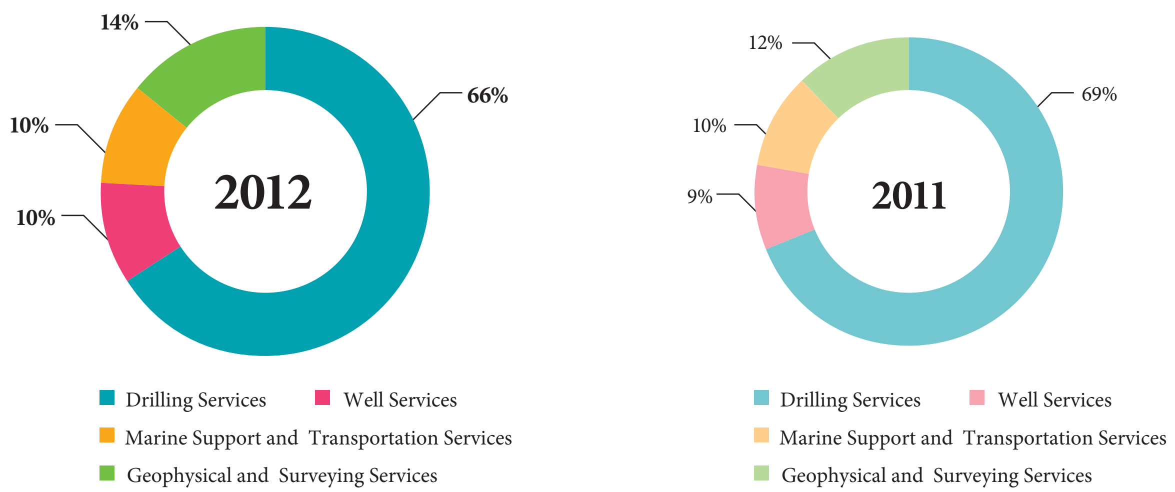
In 2012, the profit from operations of the Group amounted to RMB5,618.6 million, representing an increase of RMB635.8 million or 12.8% compared with RMB4,982.8 million of the same period of last year. This was primary attributable to the Group strengthened cost management and effectively controlled the increase in cost as the revenue expanded with the development of the business.

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

Unit: RMB million

Business segment	2012	2011	Increase/ (Decrease)	Percentage change
Drilling services	3,714.0	3,429.5	284.5	8.3%
Well services	562.1	448.7	113.4	25.3%
Marine support and transportation services	547.1	518.3	28.8	5.6%
Geophysical and surveying services	795.4	586.3	209.1	35.7%
Total	5,618.6	4,982.8	635.8	12.8%

Analysis of Profit from Operations——By Business



1.4 Financial expenses, net

Unit: RMB million

	2012	2011	Increase/ (Decrease)	Percentage change	Reasons
Exchange gains and losses, net	42.0	(60.5)	102.5	–	Fluctuations in foreign exchange rate.
Finance cost	512.7	469.7	43.0	9.2%	The Group issued long-term bond of US$1 billion in September this year.
Interest income	(127.5)	(63.8)	(63.7)	99.8%	Increase in cash.
Financial expenses, net	427.2	345.4	81.8	23.7%	

1.5 Share of profits of jointly-controlled entities

In 2012, the Group's share of profits of jointly-controlled entities amounted to RMB243.2 million, representing an increase of RMB68.9 million or 39.5% compared with RMB174.3 million of last year. This was primarily attributable to an increase in gains for the period in jointly-controlled entities, namely China France Bohai Geoservices Co., Ltd. and COSL-Expro Testing Services (Tianjin), of RMB26.9 million and RMB26.0 million, respectively, while that in other jointly-controlled entities in aggregate increased by RMB16.0 million as compared with last year in total.

1.6 Profit before tax

The profit before tax attained by the Group was RMB5,436.8 million in 2012, representing an increase of RMB625.2 million or 13.0% compared with RMB4,811.6 million of last year.

1.7 Income tax expense

The income tax expense in 2012 was RMB867.0 million, representing an increase of RMB94.9 million or 12.3% compared with RMB772.1 million in 2011, which is due to the increase in the taxable profits led by the business development of the Group.

1.8 Profit for the year

In 2012, the after-tax profit of the Group was RMB4,569.8 million, representing an increase of RMB530.3 million or 13.1% compared with RMB4,039.5 million of the same period last year.

1.9 Basic earnings per share

For 2012, the Group's basic earnings per share were approximately RMB1.01, representing an increase of approximately RMB0.11 or 12.2% compared with approximately RMB0.90 of last year.

1.10 Dividend

For 2012, the Board of the Company proposed a final dividend of RMB31 cents per share, totaling RMB1,393.5 million.

2. Analysis on Consolidated Statement of Financial Position

As of 31 December 2012, the total assets of the Group amounted to RMB74,648.5 million, representing an increase of RMB9,797.4 million or 15.1% compared with RMB64,851.1 million at the end of 2011. The total liabilities amounted to RMB42,443.6 million, representing an increase of RMB6,051.7 million or 16.6% compared with RMB36,391.9 million at the end of 2011. Shareholders' equity amounted to RMB32,204.9 million, representing an increase of RMB3,745.7 million or 13.2% compared with RMB28,459.2 million at the end of 2011.

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

	2012	2011	Increase/ (Decrease)	Percentage change	Reasons
Employee benefit assets	14.9	0.2	14.7	7,350.0%	The fixed income assets of the pension scheme established for the employees by CDE, a subsidiary, increased by RMB14.7 million.
Other non-current assets	219.7	53.3	166.4	312.2%	The increase of the non-current portion of the mobilization fee of drilling platform.
Notes receivable	619.9	1,219.4	(599.5)	(49.2%)	Notes receivable balance at the beginning of the year has been received in cash in 2012, and the balance at the end of the current year is the new notes receivable for the current year.
Pledged deposits	30.8	10.8	20.0	185.2%	More bank guarantee business resulted in the increase in bank deposits.
Cash and cash equivalents	9,814.9	5,646.2	4,168.7	73.8%	The issuance of bond of US$1 billion for the year resulted in the increase in cash and cash equivalents and time deposits with original maturity over three months.
Time deposits with original maturity over three months	3,954.2	882.1	3,072.1	348.3%	
Other current assets	2,059.0	21.3	2,037.7	9,566.7%	Invested in monetary fund products and bank wealth management products amounted to RMB2,002.2 million during the year.
Tax payable	266.7	61.6	205.1	333.0%	According to the latest negotiation with Norwegian tax authorities and the estimation of the Company, the Group has provided approximately NOK170 million (approximately RMB190 million) for corporate income tax.
Long-term bonds	7,717.9	1,500.0	6,217.9	414.5%	The Group issued US$1 billion long-term bond in September 2012.

3. Analysis of consolidated statement of cash flows

At the beginning of 2012, the Group held cash and cash equivalents of RMB5,646.2 million, the net cash inflows from operating activities of RMB8,738.8 million, net cash outflows from investing activities of RMB8,415.4 million, net cash inflows from financing activities of RMB3,932.9 million and the impact of foreign exchange fluctuations resulted in a decrease of cash of RMB87.6 million. As at 31 December 2012, the Group's cash and cash equivalents amounted to RMB9,814.9 million,

3.1 Cash flows from operating activities

As of 31 December 2012, net cash inflows from operating activities of the Group reached RMB8,738.8 million, representing an increase of 37.6% compared with the same period of last year. This was mainly attributable to the increase in operating revenue resulting from the business development and market expansion of the Group.

3.2 Cash flows from investing activities

As of 31 December 2012, net cash outflows used in investing activities of the Group amounted to RMB8,415.4 million, which was mainly attributable to the Group's investment in currency fund products and banking and financial products.

3.3 Cash flows from financing activities

As of 31 December 2012, net cash inflows from financing activities amounted to RMB3,932.9 million, compared with a net cash outflow of RMB1,736.6 million of the same period of last year. This was mainly attributable to the receipt of RMB6,216.0 million by issuance of US$1 billion bond while repaying debts, dividends and interest.

3.4 The impact of foreign exchange fluctuations on cash during the year was the decrease in cash for RMB87.6 million.

4. Capital expenditure analysis

In 2012, the capital expenditure of the Group amounted to RMB4,190.1 million, representing a decrease of RMB107.2 million or 2.5% compared with RMB4,297.3 million of the same period last year.

Th e capital expenditure of each business segment is as follows:

Unit: RMB million

Business Segment	2012	2011	Increase/ (Decrease)	Percentage change
Drilling services	3,295.6	2,605.0	690.6	26.5%
Well services	574.7	452.9	121.8	26.9%
Marine support and transportation services	54.8	292.5	(237.7)	(81.3%)
Geophysical and surveying services	265.0	946.9	(681.9)	(72.0%)
Total	4,190.1	4,297.3	(107.2)	(2.5%)

The capital expenditure of the drilling services segment was mainly used for the construction and purchase 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 and transportation services segment was mainly used for oilfield utility vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the modification of two integrated marine surveying vessels.

5. Analysis on liquidity risk, interest rate risk and foreign exchange rate risk

Please see Note 40 to the financial statements of this annual report for related information.

6. Capital structure, capital resources and capital management policy

Please see Notes 29, 30 and 40 to the financial statements of this annual report for related information.

7. Charges on assets

Please see Notes 25 to the financial statement of this annual report for related information.

8. Employees

As of 31 December 2012, the Group had 12,991 employees on service. Since November 2006, the Company has implemented share appreciation rights plan to 7 senior management members. The Company has basically formed a layout with marketization as its body and constructed a reasonable structure. Please see relevant parts in the sections of "Social Responsibility Report" and "Directors, Supervisors, Senior Management & Employees" of this annual report for more information on employees and human resources.

9. Contingent liabilities

Please see Note 37 to the financial statements of this annual report for related information.

BUSINESS OUTLOOK:

As for the international market in 2013, the US economy may be encumbered by the reduction deficit plan and European debt crisis may return, which results in considerable uncertainty as to the recovery of global economy. According to IMF's expectation, the global economic growth rate for the year 2013 is 3.6%, representing an increase of 0.3% as compared to last year.

According to Barclays, the exploration and development cost for oil in 2013 is expected to be approximately US$650 billion, representing an increase of approximately 8%. It is expected that the market for international off-shore drilling activities will keep expanding in 2013 at a slower pace. According to the anticipation of IHS, there will be approximately 4,470 off-shore wells in 2013, representing an increase of approximately 8%. The market scale of international off-shore drilling contracting and service will exceed US$50 billion, representing an increase of 6%-9%. Given the longer exploration cycle of domestic and overseas oilfields and the year-on-year increase in the volume of deep-water exploration and operation, corporation, whose business focus on increase in operation volume and high-end and mid-end technological equipment and oilfield service, will enjoy the advantage from this long-term increase trend.

As for the domestic market, according to the data disclosed by CNOOC Limited, our major client, the targeted compound annual growth rate for its production volume is between 6%-10% from 2011 to 2015. In 2013, it is planned to drill about 140 exploratory wells and to collect approximately 15,400 km of 2D seismic data and approximately 24,800 km 3D seismic data, involving expected capital expenditure of US$12-14 billion of which exploration, development and production of capitalized investment account for approximately 19%, 70% and 11% respectively. Thus, it is expected that the market for domestic off-shore oilfield service will be stabilized at a higher level.

To conclude, the growing and expanding domestic oilfield market provides room for the Company's development. The Company will seize the opportunity to achieve a stable growth and to create higher value for its shareholders.

1. Corporate Governance Report 2012

As a domestic and foreign listed company, the Company has reviewed the compliance with the Corporate Governance Code (hereafter referred to as "the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the regulatory documents on listed companies issued by China Securities Regulatory Commission. Upon the review, the Board is of the view that the corporate governance of the Company has generally met the requirements set out in the Code and the regulations during the reporting period.

Outstanding corporate governance is important for the sustainable development of the Company. It is the responsibility of the Board to keep improving corporate governance. The Board is of the view that improvement and highlights in corporate governance in 2012 are mainly reflected in the following aspects:

1. We further improved the control of the Board over the Company. In accordance with the latest requirements of the Code, the Company started to provide the Board with monthly operation reports from May 2012 to ensure the Board continuously monitors the daily operation of the Company.

2. We further improved risk management. In addition to the annual review of the Company's risk management report, the Board also regularly reviewed the quarterly risk management reports provided by the management of the Company. During the year, the Board discussed major risks of the Company in detail at each regular Board meeting, including the risks involving in certain overseas operations and foreign taxes.

3. We properly dealt with major events and disclosed relevant information in respect of such decision making. During the period under review, the Company prudentially discussed and studied the contingent and major events and promptly decided to make information disclosure. For instance, at the early 2012, a vessel under construction leaked in the hold which led to the grounding of the vessel due to the mistake of construction party. The incident was promptly reported to the Board which was of the view that the construction party should take the whole responsibility and as the Company taken out full insurance on such vessel, it was expected that the Company would not have any apparent and direct damage. However, taking into the consideration that there was rumor around the market, the Board decided to publish an announcement in respect of the incident to avoid the share price from fluctuating to the greatest extent as a result of rumor. Another example is that the Company promptly made an announcement to disclose the information obtained on the material developments of the payment of an overdue tax by a foreign subsidiary and related information to protect investors' interests following a careful review.

4. We decided a benchmark performance period of directors. During the period under report, the Board discussed the benchmark performance period of non-executive directors as a reference to the appraisal of performance of directors and selection of non-executive directors. After discussion, the Board is of the view that the performance period of non-executive directors should be not less than 25 days every year.

In 2012, the Company won several awards in corporate governance:

In June 2012, the Company was selected as constituent stocks of SSE Corporate Governance Index and SSE 180 Corporate Governance Index. In September 2012, the stock of the Company was included in the Hang Seng (China A) Corporate Sustainability Benchmark Index (composed of 29 listing A shares of companies with excellent performance in environmental, social and corporate governance aspect after an independent appraisal) and the Company was authorized by Hang Seng Indexes Company Limited to use the trademark of such index for the purpose of corporate promotion.

I. Director's Involvement in Securities Transactions

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2012, the provisions of the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 of the Listing Rules were observed. The Company currently has adopted a code of conduct for securities transactions by directors that exceed the provisions set out in the Model Code (such as stricter regulations regarding disclosure compared to the Model Code). Upon specific inquiries, all directors have confirmed that they were in strict compliance with the provisions of the Model Code. In addition, directors, supervisors and senior management of the Company confirmed that during the 12 months ended 31 December 2012, they complied with the Management Rules with regard to the Holding of and Changes in Company Shares by Directors, Supervisors and Senior Management of Listed Companies of the China Security Regulatory Commission.

II. Performance of the Board of Directors

(a) Composition of the Board of Directors

The composition of the Board of Directors during the year and on the date of this report is as follows:

Chairman:	Liu Jian
Executive directors:	Li Yong and Li Feilong
Non-executive director:	Wu Mengfei
Independent non-executive directors:	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng

(b) The Roles of the Board of Directors and the Management

The Articles of Association of the Company clearly define the duties and functions of the Board of Directors and the Management. The division of functions is consistent with those disclosed in the Corporate Governance Report 2011 (for details, please search our website for Articles of Association of the Company or Annual Report 2011).

The duty and authority of the Board in the Articles of Association of the Company is consistent with those disclosed in the Corporate Governance Report 2011 (for details, please search our website for Articles of Association of the Company or Annual Report 2011).

Besides, the Company has a specified system to divide responsibilities between the Board and the management towards investment decisions: all equity investment shall be approved by the Board (approval from shareholders is required if such investment exceeds certain amount); other capital investment under RMB100 million may be approved by the management.

(c) Board Meetings

The Board of Directors convened five regular meetings during the year. Please see Table I of this Report for details of meeting attendance of directors. For other ad hoc items not within the regular Board Meeting's agenda and require approval from the Board, the Chairman may serve the Board's proposed resolutions in written form to the members of the Board in accordance with related requirements of the Articles of Association, and the items will become valid resolutions upon signing by the number of directors which meets the quorum as stated in the Articles of Association. Besides, to create more opportunities for the independent non-executive directors to express their views and make recommendation in respect of the Company's affairs, Chairman should have several meetings with independent non-executive directors in the absence of executive directors every year so as to listen to the advice of independent directors in respect of the corporate governance and management (this practice has adopted the provision of Recommended Best Practices in A.2.7 of the Code). In the year of 2012, 5 meetings were held in such regard. The Board is of the view that meeting proceedings and resolutions of the Board complied with requirements of laws, regulations and the Articles of Association, which ensured prudent discussion by directors before decision on material items, and performance of integrity and due diligence and act in the interests of the Company and shareholders as a whole by directors in the related decision making process. Please see Table II for detailed resolutions adopted by the Board in the year of 2012.

(d) Performance of Independent Directors

The Board currently has three independent directors, all of them have rich professional experience in the fields of finance, law and macro policy, and are very familiar with the operation of board of directors and duties of independent directors of listed companies. During the reporting period, the independent directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the evaluation of major acquisitions, the review and examination of medium and long term incentive plans for the management, among which, please see section 7 of this Corporate Governance Report for details of related reviews of financial reports and the internal control system, as well as sections 5 and 6 of this report for other relevant work. During the reporting period, independent directors also reviewed continuing connected transactions of the Company during the year, and confirmed that such transactions are being conducted in the ordinary course of business of the Company, fair and reasonable and within the limits approved by the shareholders' in general meetings. Three independent non-executive directors were present at the Annual General Meeting of the Company. Please see Table I for details of Board meetings and professional committee meeting attendance of independent directors.

During the reporting period, independent directors of the Company did not have any objection to resolutions of the Board for the year or any other items (other than resolutions of the Board) of the Company.

(e) Particulars of General Meeting convened by the Board during the reporting period were set out in section XIII "Summary of General Meetings" of this Corporate Governance Report. In the opinion of the Board, the Company complied with all requirements of resolution of the General Meeting during the reporting period; and reviewed implementation condition of General Meeting by the Company, and considered there was no problem occurred in the implementation of resolution of General Meeting.

(f) Other matters

During the reporting period, the number and qualifications of independent non-executive directors of the Company were in compliance with Rules 3.10 (1) and (2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the independence of the current independent non-executive directors of the Company is in compliance with the requirement set out in the Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

III. Chairman and Chief Executive Officer

The functions of the Chairman and the Chief Executive Officer of the Company are clearly defined and such positions are at present separately held by two persons, i.e., Mr. Liu Jian as Chairman and Mr. Li Yong as the Chief Executive Officer.

IV. Terms of office of non-executive directors

The term of office of Liu Jian is from 5 June 2012 to the time when the 2015 Annual General Meeting is convened. The term of office of Wu Mengfei is from 28 May 2010 to the time when the 2013 Annual General Meeting is convened. The term of office of Tsui Yiu Wa is from 5 June 2012 to the time when the 2015 Annual General Meeting is convened. The terms of office of Chen Quansheng and Fong Wo, Felix are from 28 May 2010 to the time when the 2013 Annual General Meeting is convened.

V. Directors' Remuneration

(I) The composition and functions of the Remuneration Committee

1. The Remuneration Committee of the Company consists of four members, all of them are non-executive directors, namely Wu Mengfei, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng. Three of them are independent non-executive directors. Fong Wo, Felix acts as Chairman.

2. The functions of this committee are to formulate the standard for assessing the performance of directors, supervisors and senior management and to conduct such assessment, formulate and review the remuneration policy and scheme for directors, supervisors, and the senior management. The committee studies and discusses the above matters and makes recommendations to the Board, and the Board reserves the final decision in respect of the above matters (please refer to documents of relevant Rules of Procedure under the section Corporate Governance on the Company's website).

(II) The work of the Remuneration Committee during the year

During the reporting period, the committee held one meeting (please see Table I for meeting summaries), reviewing the performance assessing result of the management of the Company for the year 2011 and exercise arrangement of share appreciation rights scheme; as well as performance accessing indicators for the senior management of the Company in 2012.

VI. The Nomination of Directors

(I) The composition and functions of the Nomination Committee

1. The Nomination Committee of the Company consists of three members, namely Li Yong (executive director), Fong Wo, Felix and Chen Quansheng (both independent non-executive directors), and Chen Quansheng acts as Chairman.

2. Major functions of the committee are to select and recommend candidates for directors and senior management of the Company and to recommend the standards and procedures for selecting such candidates (please refer to documents of relevant Rules of Procedure under the section Corporate Governance on the Company's website).

(II) The work of the Nomination Committee during the year

During the period under review, the Nomination Committee held one meeting and made recommendation to the Board in respect to the nomination of reappointment and selection conditions of directors.

VII. The Audit Committee

(I) The composition and functions of the Audit Committee

1. The Audit Committee consists of three members, namely Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng, all of them are independent non-executive directors, and Tsui Yiu Wa acts as the Chairman.

2. The functions of this committee are to review the accounting policy, financial condition and financial reporting procedures of the Company; to review the internal control structure; to recommend and engage external auditing company; and to be primarily responsible for the communication, supervision and review of the internal and external audits of the Company (please refer to documents of relevant Rules of Procedure under the section Corporate Governance on the Company's website).

(II) The work of the Audit Committee during the year

During the reporting period, the Audit Committee held four meetings (please see Table I for meeting summaries). The major work of the Audit Committee for the year are as follows:

1. Reviewed the financial reports of the annual operating results of 2011, the first quarterly operating results of 2012, the interim operating results of 2012 and the third quarterly operating results of 2012 of the Company. During the review process, the members performed sufficient and necessary communication with the Company's auditors and the management of the Company, including the approval of annual external audit plan, and fulfilled its duties in ensuring the Company's compliance with regulations, the completeness and accuracy of the operating results disclosed by the Company.

2. Reviewed the internal control system of the Company. During the reporting period, the committee reviewed the assessment report on effectiveness of internal control of the Company, including the 2011 Self-appraisal Report on Internal Control of the Company, and issued opinions regarding the optimization of internal control system to the Board of Directors and management.

3. During the reporting period, the committee discussed the deployment of accounting and finance staff of the Company, acknowledged the deployment of finance staff of the Company and recommended that it was necessary for the Company to improve the quality of its finance staff and level of internationalization.

4. With re-appointment of the auditors, the committee considered Ernst & Young and Ernst & Young Hua Ming LLP serving as the Company's external auditors appropriate and make recommendation in respect of the re-appointment of the auditors.

VIII. Training for Directors

In 2012, through the face to face and written guidance of the Board Secretary, all members of the Board studied the amendments to the Listing Rules of the Hong Kong Stock Exchange in March and the legal requirements of criminal liability of insider trading in December, including Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Specific Application of the Law in Handling Criminal Cases of Insider Trading and Divulgement of Insider Information (coming into effect on 1 June 2012). In addition, one independent director (Chen Quansheng) attended an education fair for avoiding insider trading held by CSRC in Tianjin in November.

IX. Board Secretary

Yang Haijiang, the Board Secretary (and the Company Secretary) was appointed by the Board in April 2010, biography of whom was set out in the section "The Board and Senior Management" in the 2012 Annual Report. Board Secretary of the Company reports to the Chairman and Chief Executive Officer and makes recommendation to the Board in respect of corporate governance. For the year 2012, the Board Secretary has confirmed that he has taken not less than 15-hour relevant and professional training.

X. Protection on the Shareholders' Interests

In respect of the protection on the shareholders' interests, shareholders of the Company may obtain relevant information in accordance with the requirements under the Articles of Association, including the personal information of the directors, supervisors and senior management of the Company, share capital of the Company, minutes of general meetings, Board resolutions, resolutions of Supervisor Committee and financial reports at the Company's website at www.cosl.com.cn. The Company provides its contacts in regular reports and on the Company's website to facilitate smooth communication with shareholders of the Company. Also, the Company makes a clear explanation for the procedures of calling an extraordinary general meeting or a class meeting by shareholders and the making of enquiries to the Board on the Company's website at www.cosl.com.cn.

XI. The Remuneration of Auditors

In 2012, the Company re-appointed Ernst & Young Hua Ming LLP and Ernst & Young as auditors of the Company and the fees for the audit and non-audit work provided to the Company during the reporting period were as follows:

The audit fees totaled RMB18.3 million for audit/review of the annual and interim financial statements in 2012 and professional fee for bond issuance, of which RMB16.90 million for annual and interim audit and RMB1.40 million for bond issuance professional service, respectively. The non-audit fees of taxation and advisory services, etc. which totaled RMB5.265 million, included RMB4.835 million for taxation advisory and compliance service; RMB374,000 for advisory service for transfer pricing, and RMB56,000 for other assurance service.

XII.Responsibilities Undertaken

The Board of Directors acknowledges its responsibilities of preparing the account of the Company and the auditors have also explained their reporting responsibilities in the financial reports; the Board of Directors undertakes the responsibilities for the effectiveness of internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reporting period, and concluded that there were no material weaknesses in the internal controls of the Company and its subsidiaries; the Board of Directors undertakes herewith that, unless otherwise stated in this report, there are no major events and circumstances of uncertainty which may affect the operation of the Company as a going concern.

Table I: Board Meetings & Professional Committee Meetings

Meeting	Time	Place	Attendant	Moderator	Notes
First Meeting of Board of Directors	20 March 2012	Shenzhen	Liu Jian, Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Second Meeting of Board of Directors	26 April 2012	Shenzhen	Liu Jian, Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Third Meeting of Board of Directors	21 August 2012	Shenzhen	Liu Jian, Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa and Fong Wo	Liu Jian	Three supervisors attended as a nonvoting delegate
Fourth Meeting of Board of Directors	25 October 2012	Chongqing	Liu Jian, Wu Mengfei, Li Yong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Fifth Meeting of Board of Directors	6 December 2012	Guangzhou	Liu Jian, Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
First Meeting of Audit Committee	19 March 2012	Shenzhen	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	Two supervisors attended as a nonvoting delegate
Second Meeting of Audit Committee	26 April 2012	Shenzhen	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	Three supervisors attended as a nonvoting delegate
Third Meeting of Audit Committee	20 August 2012	Shenzhen	Tsui Yiu Wa and Fong Wo, Felix	Tsui Yiu Wa	Two supervisors attended as a nonvoting delegate
Fourth Meeting of Audit Committee	24 October 2012	Chongqing	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	One supervisor attended as a nonvoting delegate
First Meeting of Remuneration Committee	19 March 2012	Shenzhen	Fong Wo, Felix, Tsui Yiu Wa, Chen Quansheng and Wu Mengfei	Fong Wo	
First Meeting of Nomination Committee	19 March 2012	Shenzhen	Li Yong, Fong Wo, Felix and Chen Quansheng	Li Yong	

Table II: Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors 20 March 2012	1. 2011 Financial Report of the Company 2. Dividend distribution proposal of the Company for the year 2011 3. Result disclosure of the Company for the year 2011 4. Proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2011 5. Proposal for further issue of 20% H share under the mandate of general meeting 6. Relevant resolutions of Remuneration Committee 7. Relevant resolutions of Nomination Committee 8. Proposal for convening annual general meeting 9. Proposal for the Social Responsibility Report of the Company for the year 2011 10. Proposal for 2011 Self-appraisal Repot on Internal Control 11. Proposal for certain investment projects 12. Proposal for a connected transaction 13. Hearing the report of risk analysis and responsive measures of the Company for the year 2012
Second Meeting of Board of Directors 26 April 2012	1. 2012 First Quarterly Report 2. Approving the resolution about certain basic systems of the Company 3. Proposal for issue of debt securities overseas 4. Hearing the report of investment projects
Third Meeting of Board of Directors 21 August 2012	2012 Interim Result of the Company
Fourth Meeting of Board of Directors 25 October 2012	1. 2012 Third Quarterly Report of the Company 2. Hearing the report of amendment to the Articles of Association 3. Hearing the report of two investment projects
Fifth Meeting of Board of Directors 6 December 2012	Proposal for financial budget for the year 2013 and annual amount of banks facility of the Company

Meeting	Matters considered
Resolutions approved by fax in 2012	COSL BOD (2012) No. 1 Approval of liquidation of a joint venture (20 January) COSL BOD (2012) No. 17 Approval of the adjustment to the budget of the construction project of a drilling rigs (27 June) COSL BOD (2012) No. 18 Approval of extend the scope of guarantee of joint guarantee obligation for subsidiaries (2 July) COSL BOD (2012) No. 19 Approval of establishment of a SPV in BVI (11 July) COSL BOD (2012) No. 20 Approval of an equipment investment project (13 August) COSL BOD (2012) No. 23 Approval of three investment projects of fixed assets (17 October) COSL BOD (2012) No. 24 Approval of the construction project of a drilling rig (12 November) COSL BOD (2012) No. 28 Approval of an equity investment project (31 December) COSL BOD (2012) No. 29 Approval of an equity investment project (31 December) COSL BOD (2012) No. 30 Approval of a capital investment project (31 December)

XIII. Summary of the General Meeting

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which Resolutions were published	Disclosure date of
Annual general meeting 2011	5 June 2012	As ordinary resolutions: 1. The audited financial statements and the auditor's report for the year ended 31 December 2011 were approved; 2. The profit distribution and allocation of dividends for 2011 was approved; 3. The Report of Directors for the year ended 31 December 2011 was approved; 4. The Supervisory Committee Report for the year ended 31 December 2011 was approved; 5. The re-appointment of Ernst & Young Hua Ming and Ernst & Young as the A Share and H Share auditors for 2012 respectively was approved and the Board was authorised to determine their remunerations;	The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 12 shareholders in attendance either in person or by proxy at the AGM, representing 3,197,932,863 shares or 71.14% of the voting shares. The aforesaid resolutions were approved by way of on-site voting by poll. Except Wu Mengfei and Chen Quansheng, both of whom are non-executive directors, all other directors of the Company attended the Annual General Meeting.	www.sse.com.cn	6 June 2012

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which Resolutions were published	Disclosure date of
		6. The election of certain Directors of the Board; 7. The election of independent Supervisor; 8. The performance assessment reports of the SAR Plan for the senior management was approved; 9. The guarantee to be provided by COSL to its overseas subsidiaries. As special resolutions: 1. The overseas bonds issued by overseas subsidiary of COSL; 2. To grant to the Baord a mandate to issue further H shares representing up to 20% of the aggregate amount of the H shares in issue during the relevant period. This mandate will be valid in the twelve months upon the date of passing of the resolution at the Annual General Meeting;			

In 2012, the Company adhered to the corporate concept of "ALWAYS DO BETTER", tried its utmost to provide first-class oilfield services for the energy companies, pushed forward the building up a resources saving and environmental friendly enterprise, insisted on the harmonious development between the enterprise and the society and have actively supported and participated in charitable activities as well as actively performed its social responsibilities.

1. CORPORATE GOVERNANCE AND STAKEHOLDERS

The Company is committed to the enhancement of the quality and the effectiveness of the development and the maximisation of the Company value, and makes great efforts to return the results of the development to the stakeholders. The Company pursues the maximisation of the common interest of the Company and the Stakeholders, realizes win-win cooperation and harmonious development and promotes the synchronous increase of the Company value and the social value.

1.1 Internal audit and monitoring and supervision

In 2012, we regarded the project management, procurement management and cost management as the focus of each auditing project while integrating significant matters decision, significant cadres nomination, significant projects arrangement and the use of large capital and the relevant requirements of regulatory compliant operation into the auditing work, and completed 20 auditing projects.

1.2 Construction of internal control and overall risk management

1) In 2012, the Company optimised and improved the 13 internal control systems of the Company, in combination with the actual situation of the production, the management and the governance. It completed the revision of 99 systems at the Company level all the year round, including the compilation and issuing of 11 basic systems, e. g. human resources management system, etc., the completion of the *International Business Management Manual (Version A)* and the *Measures for the Management of the Internal Control Assessment,* etc. As required by the *Basic Standards for Enterprise Internal Control*, the *Assessment Guideline* and other relevant laws and regulations, the Company conducted a test and assessment for the design and operation of the internal control in 2012 according to the plan. The test result showed that, during the reporting period, the Company had established the internal control system for all the business and items involved in the assessment, which had been implemented effectively without any material defects, achieving the objectives of the Company's internal control.

2) A management system of "normalized overall risk management" was established to integrate "risk identification, evaluation, alert, control and supervision" into all aspects of our daily production and operation: ① We standardized the content of quarterly risk report, tried to improve the quality of the report, improved the methods of risks identification and assessment; ② pushed forward our subsidiaries to effectively integrate the operation analysis meetings with the risks assessment meetings, so as to enhance the level of risk management.

Major Risks Exposed

- Strategic Risk
- Financial Risk
- Operational Risk
- Legal Risk
- Market Risk

1. 3 Incorruptible practice and preventing abuse of power

1) The Company pushed forward the construction of the punishing and prevention system, promoted honesty and prevented abuse of power. We also insisted on the integrity risk prevention and control and strengthened the monitoring of the key fields, posts and processes.

(Figure: The Company's intranet website about warning education)

2) Since the company established the complaints handling system in 2006, specially-assigned person-times have been responsible for handling complaints and seriously investigated into and punished the violations of laws and disciplines. The Company strictly implemented the Management Measures for Complaints Handling and Appeals and accomplished the processing of complaints handling. In 2012, there was no corruption case such as bribery, extortion, fraud, money laundering etc, occurred.

(Figure: 3rd Quarterly reporting meeting for the audit and supervisory)

1. 4 Operational practices

1.4.1 Management of the supply chain

The Company currently has 2,396 suppliers in total, including 198 overseas (including Hong Kong, Taiwan and Macau) suppliers and 2,198 domestic suppliers. The domestic regions where more than 100 suppliers are based include the following cities or province: 351 suppliers are based in Beijing, 429 suppliers in Tianjin, 314 suppliers in Guangdong and 134 suppliers in Shanghai.

The Company implemented the policy of "controlling the total number and rating classification for management". The Company divided the suppliers into three categories, namely, material suppliers, engineering suppliers and service suppliers. In combination with the actual situation of the business progress, each business unit was assigned with the responsibility for governing the suppliers. In 2012, 1, 950 suppliers were involved in the implementation of the practices.

The new suppliers received all-around review before being qualified, including the inspection of their basic profile, financial state, quality and other assurance system, industry achievements, qualifications and certificates, bad records, etc. In order to promote the improvement of the overall quality of the suppliers, the Company organized appraisal and review on an annual basis for all suppliers, stressing their performance of the agreement, the effectiveness of the registration document, their observation of specifications, standards and quality system authentication, their qualifications and certificates on health, safety and environmental protection, etc.

(Figure: Training of suppliers for certification)

(Figure: Assessment table of suppliers in 2012)

1.4.2 Product liability

1) In 2012, the Company maintained a good result in terms of quality control in each segment. We obtained outstanding scores in customers' satisfaction, operation hour and pass rate of products. There was no accident and complaint about quality.

(Figure: Excellent Service and Valuable Contribution Award for the year 2012)

(Figure: Awarded Certificate of Appreciation for its Excellent Contracts' Service in 2012)


HCML

(Figure: Appreciation Letter from Husky to Oildfield Technical Services Division)

2) The practices in connection with the maintenance and protection of the intellectual property rights are as follows.

The leading trademark of the Company, COSL, has been registered for all categories in domestic Trademark Office and for major categories in important foreign countries (regions) where the Company developed business.

The Company paid attention to the protection of the intellectual property rights, protected the achievements of independent innovation in the form of patents, software copyrights and technical secrets, and avoided infringement of other's intellectual property rights.

In 2012, the Company vigorously expedited its independent innovation and made a breakthrough in some key technologies. All the year round, the Company applied for 146 patents and obtained the license of 114 patents.

(Figure: Meetings on information of science and technology)

3) Quality verification process and the products recycling procedure

The Company established products quality verification and management procedure, specification or regulation such as *Products Monitoring and Quality Measurement Procedures, Specifications for Rejected Products Management, Standards for Process Inspection of Inaccessible Spots*, etc. Also the Company strictly followed the procedures to control the quality verification and recycle process in the production and the operation.

1.5 Stakeholders

The Company paid attention to communication and idea exchange with the stakeholders. Through an open and transparent communication system, the Company integrated the suggestions and requirements of the stakeholders into the establishment and implementation of the Company policies, strategies and plans, so as to actively establish a cooperative and win-win relationship with mutual trust and benefit. The Company rewarded the stakeholders with the results of development to achieve the harmonious development between environmental protection and social progress.

Details of and communications between key stakeholders are as follows:

Stakeholders	Concerns	Ways of communications	Key measures
Government	legal operation, safety and environmental protection, taxation	updating on laws and regulations, inspection, visits, reports and statements	compliance with laws and regulations, improvement of internal management, conscious of tax payment, strengthened information communications and exchange
Shareholders	interest of shareholders, information disclosure, corporate governance	regular reports, general meetings and daily communications, information disclosure	assurance on quality in information disclosure maintenance of close communications, compliance disclosures
Employees and labour union	career development, protection of interests, health and safety	training, staff representatives meetings, communications and exchange	strengthened staff training, staff congress, health checks, increased information communications and exchange
Partners and subcontractors	mutual benefit cooperative relationship	negotiation of business, cooperation in projects, information exchange	tender meetings, adherence to win-win concept, business exchange and sharing of information resources
Charity and non-governmental organisations	social welfare, environmental protection	active participation in charity, information disclosure, participation in meetings and activities	support in disaster areas and helping the poor, donation to schools, energy saving and emission reduction, increased information communications and exchange

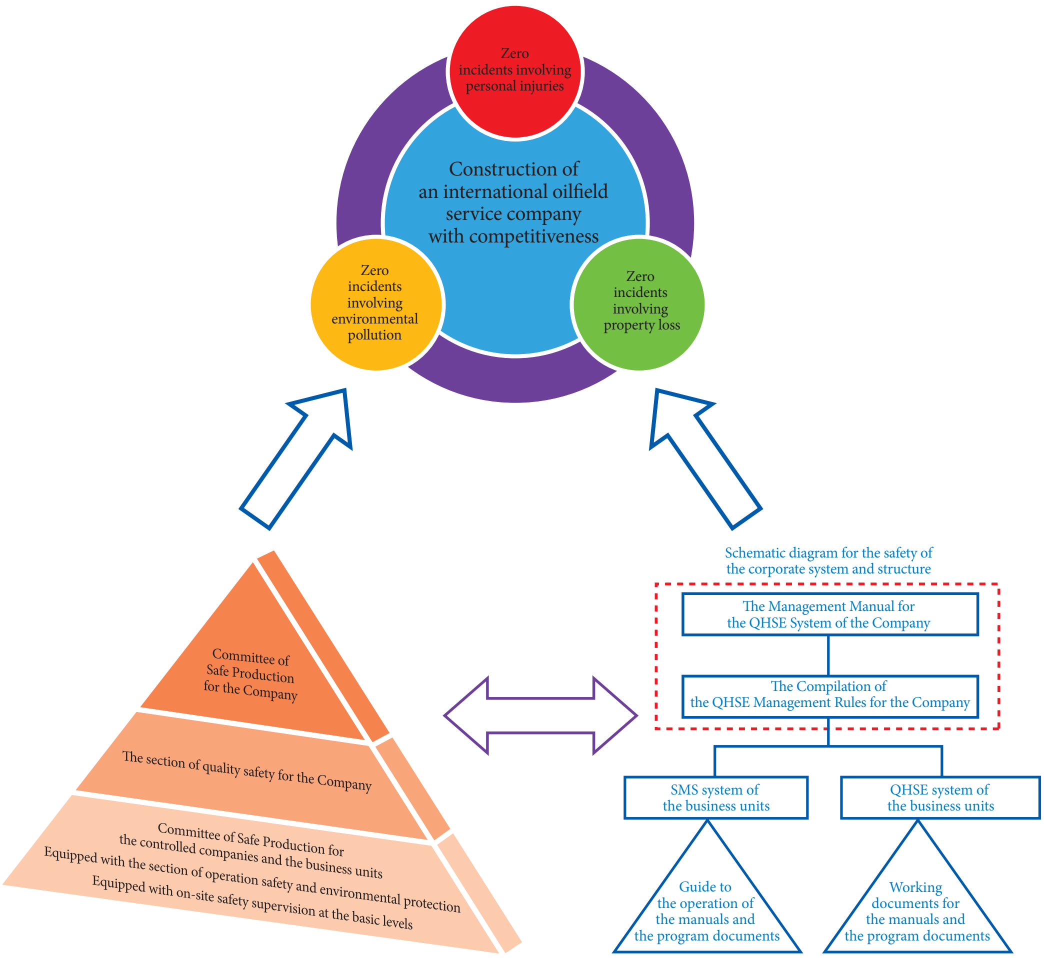
2 SAFETY OPERATION

In 2012, the Company adhered to the guiding principle of "safety and prevention first, people foremost and treasuring the life, credit first and guaranteeing the quality, and respecting the nature and protecting the environment" and realized safe operation through continuous improvement and effective implementation of the SMS/QHSE system, the launch of standardization activities for safe production, the further construction of safe management of the teams and groups, etc.

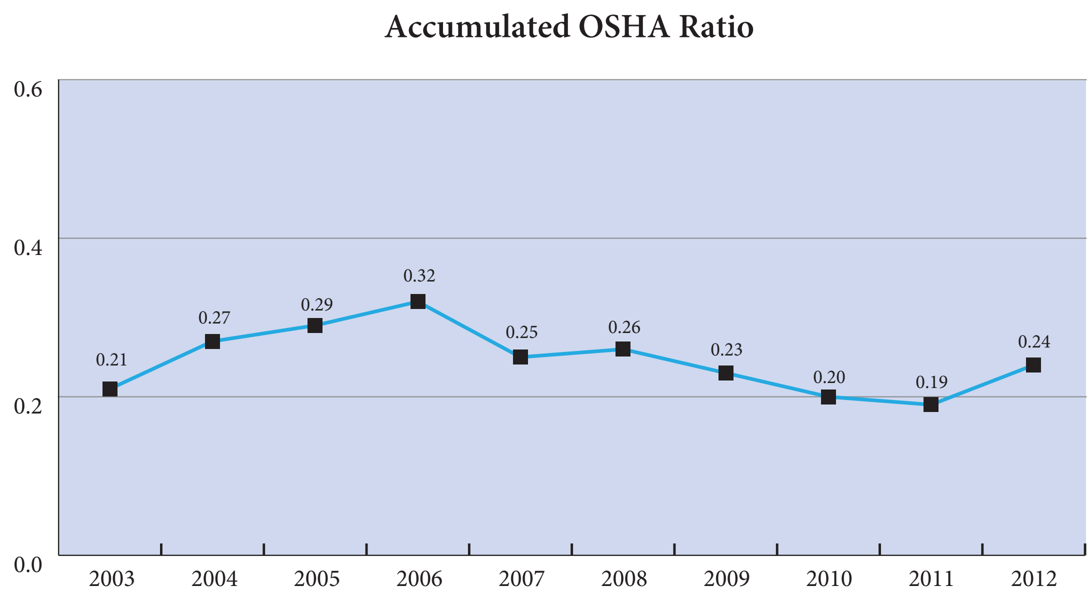
2.1 Safe Production

2.1.1 Organization and system construction

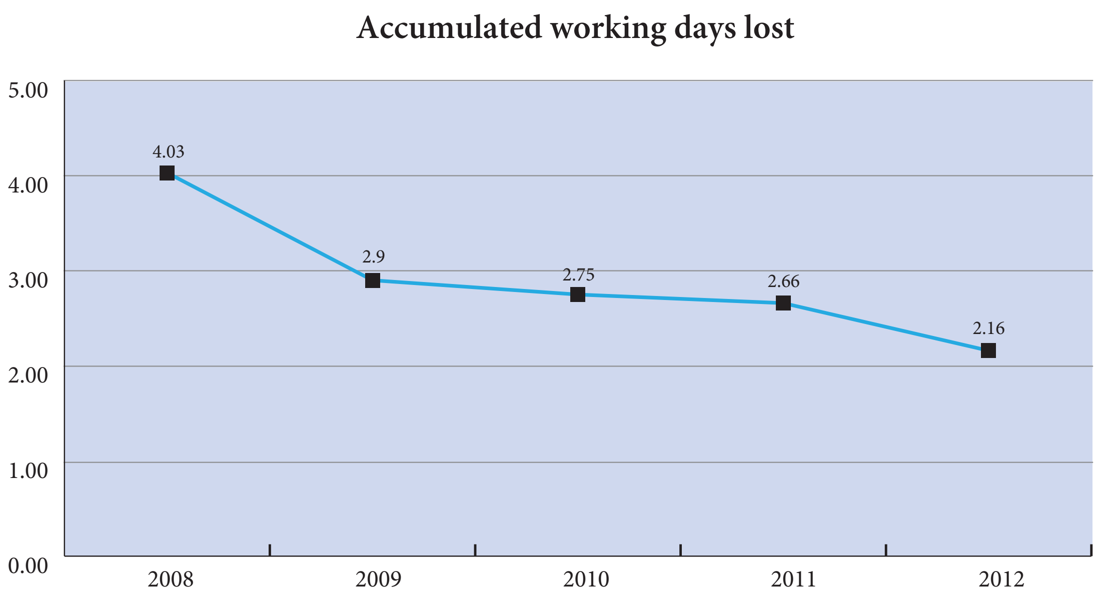
The Company adopted SMS/QHSE system as the measure for safe management, which ensured the realization of safe management.



Safety performance:



(Figure: Accumulated OSHA Ratio for 2003-2012)



(Figure: Accumulated working days lost for 2008-2012)

2.1.2 Intrinsic safety

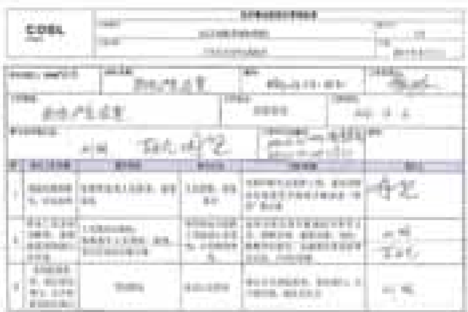
Oilfield service falls in the range of high-risk industry. By means of continuous enhancement of the overall safety consciousness, the launch of safety trainings, the stressing on the site safety management and the governance of potential safety hazard, the Company pursuited to construct an enterprise with intrinsic safety.

STOP CARD (SAFETY, TRAINING, OBSERVATION, PROGRAMME)

- 糾正不安全行為
- 肯定安全行為

In the on-site safe management, the Company applied three safety management tools, namely, the Safe Training Observation Program (STOP, BOC), the Job Safety Analysis (JSA) and the Safety Suggest Report (SSR).

作业安全分析（JSA: JOB SAFETY ANALYSIS）:。識別潛在的危害並評估風險、制定風險控制措施，並落實到人實施。



SSR (SAFETY SUGGEST REPORT)，員工對工作中發現的隱患及時提出整改建議的管理工具。

2.1.3 The target-hitting task for the standardization of the Company's safe production

The Company set up the leading group and the implementation group for the standard-meeting task for the standardization of the Company's safe production. Each section made a benchmarking self-assessment in reference to the specifications of the standardization of the safe production in the oil industry.

2.1.4 Management and control system for troubleshooting the major hazard installations and the hidden perils

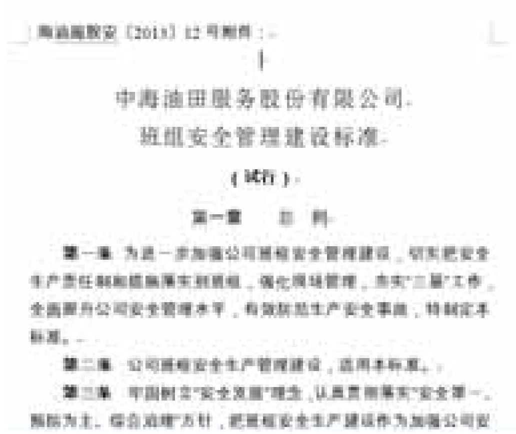
By implementing "the management and control system for troubleshooting the major hazard installations and the hidden perils", the Company realized the real-time monitoring of the major hazard installations and the hidden perils.

(Figure: The Management and Control System for Trouble Shooting the Major Hazard Installations and the Hidden Perils)

2.1.5 Construction of the team and group safety

The Company attached importance to the construction of the teams and groups safety, formulated the *Standards for the Management and Construction of the Team and Group Safety* and organized training for team and group leaders at regular intervals, achieving remarkable effects.

(Figure: Training for team and group leaders)



中海油田服务股份有限公司
班组安全管理建设标准
（试行）
第一章 总则

(Figure: *The Standards for the Management and Construction of the Team and Group Safety*)

2.1.6 Release of safety cautions

The Company released safety cautions on the typical accidents and dangerous cases, which showed prominent effectiveness.

2.1.7 Strengthening of emergency drill and improvement of strain capacity

In 2012, the Company and its affiliated units conducted 9,715 emergency drills, including ship-and-shore joint exercises and on-site exercise covering the platforms, ships and shore, in which there were 447 comprehensive drills and 9,268 special drills.

(Figure: Fire drill)

(Figure: Life-saving drill)

2.2 Environmental protection

2.2.1 Strengthening the environmental protection

The Company strictly abided by international covenants, laws and regulations to establish itself as a "resource saving" and "environmental friendly" enterprise and to minimize the damage to the environment.

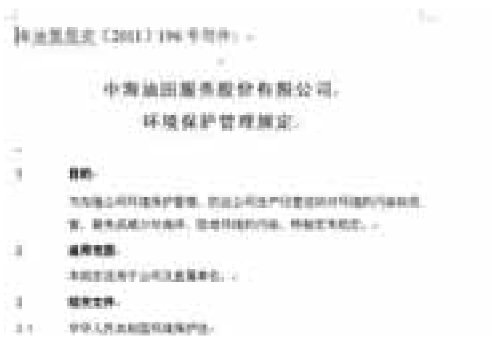
1) Distinguishing and assessment of environmental factors

监 测 报 告

(Figure: *Environmental monitoring report*)

2) Improvement of the prevention system for environmental risks

The Company formulated relevant procedures aiming at the distinguished environmental risks, which were covered by the SMS/QHSE system.



中海油田服务股份有限公司
环境保护管理规定

(Figure: Management Regulations for the Environmental Protection of COSL)

3) Stressing on the recycling of pollutants

The Company designated service suppliers with proper qualifications to responsible for the separate collection and disposal of such pollutants as garbage, oily water, etc.


中华人民共和国海事局
CHINA MARITIME SAFETY ADMINISTRATION
船舶污染物接收处理证明
CERTIFICATE OF DISPOSAL OF POLLUTANTS FROM SHIPS

(Figure: Certificate for Receiving and Disposal of Ship Pollutants with Waste Oil)

(Figure: Certificate for Receiving Ship Garbage)

2.2.2 Emissions

The Company followed the guiding principle of "respecting the nature and protecting the environment" for energy saving and environmental protection and actively took various effective measures for environmental protection and energy saving.

1) Types of emissions and the data

Types of emissions	Unit	Emission load
Up-to-standard emission load of oily sewage	m^3	1,291.05
Emission load of smashed food garbage to ocean	ton	324.71
Up-to-standard emission load of slurry	ton	98,165.7

2) Total emission load of greenhouse gases

The main sources of the greenhouse gases generated in the production and the operation activities of the company include the emissions due to the fuel combustion of diesel engines, gasoline engines and boilers, containing no emission of methane, oxygen fluorocarbon, and perfluorocarbon and sulfur hexafluoride.

In 2012, the Company generated 777,307 ton carbon dioxide in total in the production and the operation activities.

3) 787.6 ton harmful wastes were generated in total (recycled).

4) 116,239.3 ton harmless wastes were generated in total.

5) Methods for wastes disposal, measures for reduction of emission load and generation and the results achieved

a) Recycling treatment applies to the solid waste, oil-base mud and oily sewage within the areas prohibiting discharge.

b) Discharge standard is reached within the area allowable for discharge by processing with corresponding equipment and faciliate.

c) The generation of various types of emissions was reduced by adopting new technology, using new technologies and products, simplifying the packaging, etc to improve the process management of operation.

d) In 2012, the Company reduced emission of 28,643 ton carbon dioxide.

2.2.3 Energy use

1) In 2012, the total energy consumption of the Company is as follows:

Types of energy	Unit	Consumption
Electricity	ten thousand kWh	1,426.42
Gasoline	ton	831.26
Diesel	ton	242,084.26
Fuel oil	ton	7,251.20
Nature gas	m^3	235,777.00

2) In 2012, the energy consumption density of the Company is as follows:

Project description	Energy consumption density (tons of coal equivalent/RMB ten thousand)
Energy consumption for an output value of RMB ten thousand	0.2267

3) Acquisition of water source

The water source is provided by onshore base and some off-shore facilities are equipped with seawater desalination devices.

2.3 Green and low carbon

We carried out sustainable development concepts of "cleanliness, green, low carbon and circular economy", incorporating energy-saving and emission reduction in every process of the production and operation and trying to enhance the operational efficiency, 12,311 tons of coal equivalent was saved during the year and the energy consumption of major operation units reduced by 1% over last year.

2.3.1 Dynamic combination of energy saving and emission reduction with the operational organization, quality and safety

The Company dynamically combined energy consumption control with the operational effectiveness, safety and quality control and took specific control measures for different operational modes and energy consumption features.

** Tons of Coal Equivalent: The unit of measurement for the various energy caloritic value using the equivalent thermal value of coal. 1 kg of coal equivalent equal to 7,000 kilocalorie (29,307.6 kilojoules)*

2.3.2 Application and dissemination of new technologies and facilities for energy saving and emission reduction

The Company adopted such technological energy saving measures as optimization of ship types, preference to facilities with less energy consumption, electric propulsion, etc.

(Figure: The emission of the waste gas generated by the power equipment meet the requirement of the international conventions)

2.3.3 Implementation of energy saving assessment system for the fixed assets investment projects

The Company established the compilation standard for the section (chapter) on energy saving in running fixed assets investment projects, provided the further regulation of the compilation and the review of the section or chapter on energy saving for fixed assets investment projects, and thus realized the source control for energy saving and emission reduction.

3 EMPLOYEES AND THE COMPANY

We always follow the "Human based" ideology to focus human resources management as one of our core duties for social responsibility, protect employees' rights, so as to promote their holistic development and enhance the value of both the Company and our employees. We strive to establish a safe, harmonious, friendly and equal working environment, develop effective communication channels, protect labors' interests and improve relationship with them by creating equal working opportunity, paying respect and designing career path, so as to train up experienced staff alongside with development of the Company.

3.1 Employee rights protection

We strictly abided by the relevant laws and regulations of the PRC to protect the legitimate rights of employees. The Company abided by the principle of "being equal, negotiable and voluntary" and signed Labour contract with the employees pursuant to law. The Labour unions have been established for protecting labours' interests.

3.2 Employee development

We continued to improve our personnel training and promotion system and paid attention to the needs of employees in different stages of development to achieve a harmonious win-win situation for their growth and our development.

1) We actively established an equal competition work environment and provided clear career development path for our employees. We have established standards in examination and promotion, which will motivate staff to continuously improve their technologies, skills and comprehensive abilities, and lay a solid foundation for staff to realise their value.

2) We established performance management system. Through the implementation of the performance plan, performance evaluation and performance improvement, the potential of staff was fully played, the efficiency, innovation and job competence of staff were enhanced and the results of performance evaluation have become an important basis for career development planning in staff promotion, incentives and training.

3.3 Employee training and education

The Company establishes a system of training objectives which is led by our five-year training planning and guided by our annual roll-over training.

1) In 2012, the Company continued to optimize in-plant education, construction of base operation team and four-level training mechanism from strategic reserve and top-level management talents. Also, the Company commenced training activities corresponding to the needs of management, technology, skill and construction of internationalized talent team. In the whole year, the company developed 13 top-level management persons, 42 persons for strategic reserve, 334 team and group leaders at the basic level and more than 120 instructors and dispatched 17 excellent young employees to study aboard.

2) We established a special organisation to organise, guide and assist in the technical assessments for the employees in the operational category, and in 2012, the Company efficiently finished the accreditation of 2,894 persons.

3) We carried out roll-over trainings by level and type for staff. The Company improved the employees' working skills through various trainings, including theoretical training, consolidating exercise, on-site practice, etc.

4) We optimiszed programmes of the "training class for strategic backup employees " to train them all-rounded talents of operation and management.

(Figure: Respirator wearing training)

5) Through selecting excellent team leaders, we organised the self-development of standard training courses on a collective basis for a company-wide promotion and application, so as to bring the excellent front-line management ideology to every front-line staff and improve the overall quality of our staff. By numbers of trainees and study hours, in 2012, the Company organized operation and management personnel trainings, involving 3,065 participants, 71.3 hours for each participant on average; The professional and technical personnel training involved 16,138 participants, 82.6 hours for each participant on average; Operational training involved 27,318 participants, 47.9 hours for each participant on average.

3.4 People-oriented and caring staff

Occupational safety and health reflects our ideology of "People-oriented and life-cherishing".

We organized routine physical examination for onshore employees and health certificate examination for off-shore employees; As for the employees in contact with dangerous factors of occupational diseases, we organized occupational health checks for them. The management system of health records was perfected.

We formulated the detection and assessment plan for dangerous factors of occupational diseases in workplace and commenced the detection and assessment of dangerous factors of occupational diseases in workplace.

3.5 Working environment

3.5.1 Work environment

1) Classification of employees according to types of employment, age and region

Classification of employees according to the types of employment

Type	Total of employees	Contract system	Other
Number of people	12,991	9,865	3,126

Classification of employees according to their age

Total	20 years old and below	21-30 years old	31-40 years old	41-50 years old	51-60 years old	61 years old and above
12,991	12	5,653	3,316	2,534	1,470	6

Classification of employees according to their regions

Total	Domestic	Overseas
12,991	11,599	1,392

2) Classification of employees according to age and region for turnover rate

Classification of employees according to age for turnover rate (domestic)

Age	30 years old or below	31-40 years old	41-50 years old	51 years old or above
Turnover	193	54	36	9
Ratio	3.41%	1.63%	1.42%	0.61%

Classification of employees according to regions for turnover rate (domestic)

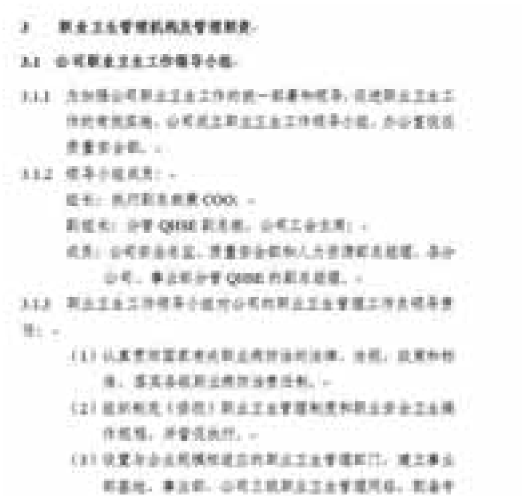
Region	Turnover	Ratio
Domestic	499	4.11%
Overseas	51	6%

3.5.2 Health and Safety

Measures for occupational health and safety precautions adopted by the Company and the corresponding implementation and supervision methods are as follows:

1) Construction of the organization for occupational health management

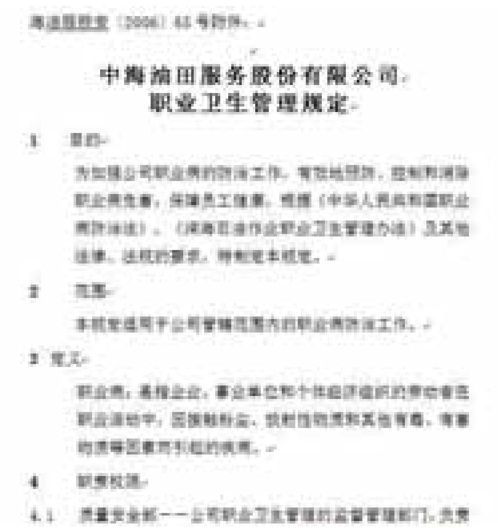
The company established the organization for occupational health management.



(Figure: Organization for occupational health management)

2) Construction of the system for occupational health management Occupational

The company formulated the *Regulations on Occupational Health Management* and the *Rules for Implementation of the Occupational Health Management*, etc.



中海油田服务股份有限公司
职业卫生管理规定

中海油田服务股份有限公司文件

关于印发《COSL 职业卫生
管理实施细则》的通知

3) Detecting and assessment of the occupational disease hazards at the workplace

The Company made the plan for detecting and assessment at the beginning of the year, entrusted the institution of occupational health service to detect and assess the occupational disease hazards at the workplace.

(Figure: Detecting of the occupational disease hazards at the production site)

4) Occupational health monitoring

We provided comprehensive occupational health check to prevent and mitigate occupational diseases.

(Figure: Pre-post, in-service and off-post occupational health examination)

5) Establishment of archives

The company established the *Archives on Occupational Health* and the *Archives on the Monitoring of Employees' Health*.

(Figure: Information system for the Archives on Personal Health)

6) Occupational health education and training

The company conducted trainings on occupational health management.

(Figure: Staff training)

7) Provision of protective equipment

The company provided staff exposed to various occupational disease hazards with personal protective equipment to prevent any accidents or injuries due to personal exposure.

(Figure: Measuring board for accumulated radiation)

3.5.3 Labour standard

The Company adhered to the principle of equal treatment to employees with different nationalities, races, genders, religions and cultural background. The female employees enjoy the equal rights with the male employees, and the employment of child labour is strictly forbidden. The Company resists forced labour in all forms and implements the policy of paid vacation.

4 SOCIAL CONTRIBUTION AND CHARITY

In 2012, while we achieved sustainable and healthy development, we strived to give back to society and stakeholders and actively participated in charity works.

4.1 Serving the community

In recent years, the Company has been providing aid for two Hope Schools in Hebei province. Meanwhile, it also donated RMB12 million for the construction of 12 CNOOC "COSL Hope Schools" in Yunnan province and Hainan province.

(Figure: Set up specialized incentive fund for excellent teachers and students from CNOOC COSL Hope Schools)

(Figure: Handover ceremony for seven CNOOC COSL Hope Schools funded by the Company in Yunnan)

In September, 2012, the fifth aided CNOOC COSL Hope School in Hainan province was put into use at Qunying village, Lingshui County. In October, the completion and handover ceremony for seven CNOOC COSL Hope Schools in Yunnan province was held. In 2012, the Company completed the construction of 12 Hope Schools in Yunnan province and Hainan province.

(Figure: Handover ceremony for seven CNOOC COSL Hope Schools funded by the Company in Yunnan)

While vigorously pushing forward the Hope School construction, the Company endeavored to improve the teaching level and stimulate the teachers' energy. In August, the Company organized training and communication activities in its place of business for 17 excellent teachers from 12 CNOOC COSL Hope Schools in Yunnan province and Hainan province. In October, the Company set up the specialized incentive fund for excellent teachers and students from CNOOC COSL Hope Schools. The incentive fund was voluntarily devoted by the staff of COSL, amounting to RMB551,176. 5. At the same time, the Company provided support to and helped manage the Hope Schools in Mancheng and Luanping. It gave away recreation and sports facilities to the schools and granted reward to the excellent teachers.

(Figure: Training activities at the Company for 17 excellent teachers from 12 CNOOC COSL Hope Schools)

(Figure: Employees participated in the fund-raising activity for the specialized incentive fund for excellent teachers and students)

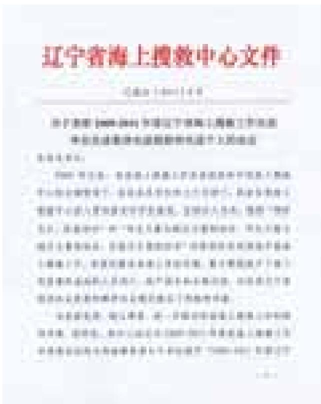
In 2012, the Company recruited 230 fresh graduates from universities, colleges and special secondary schools and 265 employees with professional experiences. It did not only select qualified persons for the enterprise, but it also succeeded in providing solution to the problem of social employment to some extent. Meanwhile, the Company continued its donation for education by setting up scholarships and subsidies in colleges and universities, funding social institutions, etc.

4.2 Marine rescue

In 2012, 31 vessels participated in 22 off-shore rescues and successfully saved 14 vessels in distress and 42 people's lives.

(Figure: Zhanjiang operating company was awarded as the advanced off-shore search and rescue unit.)

(Figure: Binhai 262 succeeded in saving 17 persons in distress, including women and children.)


辽宁省海上搜救中心文件

(Figure: Binhai 242 and HYSY 604 were awarded the honour of
"excellent performance in off-shore search and rescure by Liaoning province".)

4.3 Settle All Kinds of Problems

4.3.1 Social support

In addition to the vigorous propulsion of the Hope School construction and the participation in social assistance, COSL takes social support in various forms as one of the important approaches for fulfillment of the social responsibility.

1) In June, the Company friendly sponsored and supported the Eighth Sports Meeting of Tangshan city with RMB100,000.

2) In November, the Company donated RMB200,000 to the kindergartens and the vocational education centre of Nyima County, Tibet, for improvement of the local educational condition.

3) The Company established volunteer service organizations such as Guo Mingyi's Caring Team, etc., and actively participated in the volunteer service activities such as intellectual poverty alleviation, community service, letters to the children of peasant labourers, etc. The Company also played a role in the Poverty Alleviation Day, CNOOC Plan for Aiding a Hundred Families, etc., donated more than RMB700,000 in various donation activities and brought new vitality to the social commonweal undertakings.

4.3.2 Disaster relief and comfort

On 7 September 2012, the Magnitude 5. 7 earthquake occurred at the border region of Yiliang County, Zhaotong City, Yunnan Province and Weining Yi, Hui and Miao autonomous County, Bijie City, Guizhou Province. The company got in touch with the Seven COSL Hope Schools of the earthquake area in Yunnan at the first time, including Taiping Hope School, Shumuke Hope School, etc. located in Luozehe Town of Yiliang County, the centre of the earthquake source. The teaching buildings, comprehensive buildings, students' dorms and other mail buildings showed great stability of structures. 2,338 students and 94 teachers were safe and sound. The nearby villages successively gathered in the schools for refuge. The company leaders went to Taiping Hope School and Shumuke Hope School located in Luozehe Town of Yiliang County, the centre of the earthquake source, to comfort the refugees and sent the comforting fund of RMB40,000 in total.

(Figure: COSL was granted the award of 20 Years' Contribution to the Hope Projects in Hainan.)

In 2012, COSL was honored the title of "Excellent Enterprise for Social Responsibility", and was granted the award of 20 Years' Special Contribution to the Hope Projects in Hainan.

5 OVERSEAS SOCIAL RESPONSIBILITY

In the implementation of international strategy, the Company is committed to establishing an image of a responsible company in the mind of the international public.

1) The Company complies with the cultures, laws, regulations and standards of the business country.

2) The Company respects the stakeholders' rights and interests, and tries hard to pursue the harmonious win-win with the stakeholders in the business country.

3) The Company follows the governing regulations on environmental protection, reduces the impact of the work on the natural environment to the greatest extent and protects the ecological environment of the business region (such a putting a seepage – proofing cloth under mud pool to avoid polluting the soil).

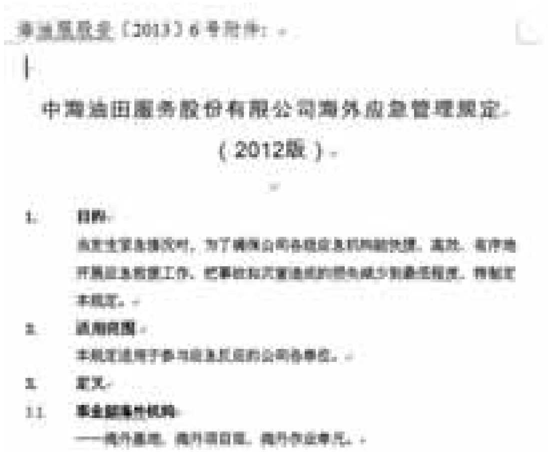
4) The Company increases the rate of local employees. The Company attaches importance to the localization and diversification of employees, sticks to the policy of "being equal, free and anti-discrimination in employment", respects the employees' religions and customs, provides opportunities for the employment, training and development for the local people, and actively fulfils its responsibilities as an employer.

(Figure: Hang Seng Corporate Sustainability certificate)

5) The Company established the safe management system for overseas personnel

The safe management system for overseas personnel has been put into operation, by which the overseas units of the Company can report the information about the overseas personnel on line and learn the relevant information in time.

6) The Company established the regulations on overseas emergency management to make timely assessment for various local risks and establish the contingency plan.



中海油田服务股份有限公司海外应急管理规定

（2012版）

1. 目的

2. 适用范围

3. 定义

(Figure: Regulations on overseas emergency management)

(Figure: The 50 Most Active Service and Trading Companies)

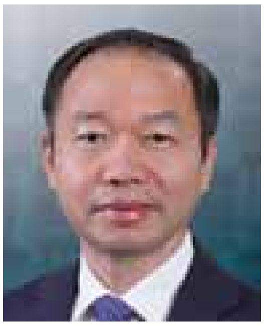
6 PROSPECT FOR 2013

As an oilfield service company bearing strong social responsibility, the Company will focus on the improvement of work standard, promote the construction of the corporate culture, and push forward the objective of "more professional and more superior" in 2013. Also, the Company will focus more on technological advancement, green and low carbon and stakeholder engagement. In addition, aiming at improving our safety standard, we tend to clean sweep of potential hazard, establish a long-term and efficient system, enhance the environmental protection governance over material project, critical operation and important progress in order to improve our response to emergency. Besides, we will accelerate the application of advanced energy-saving and emission-reducing technology, strive to build up a resources-saving and environmental-friendly enterprise and boost the comprehensive competitiveness and sustainable development ability so as to make a greater contribution to the economic and social development.

1. CHANGE IN SHAREHOLDING AND REMUNERATIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position	Sex	Age	Commencement and expiry of term	Number of shareholding at the beginning of the year	Number of shareholding at the end of the year	Reason of change	Total Remunerations received from the Company during reporting period (10,000 Yuan) (before tax)	Total Remunerations received from the shareholders' company during reporting period (10,000 Yuan)
Liu Jian	Chairman, non-executive director	Male	54	2012.6.5~2015.6.4	–	–	N/A	–	–
Li Yong	Executive director, CEO and president	Male	49	2012.6.5~2015.6.4	–	–	N/A	76.01	–
Li Feilong	Executive director, Executive vice president and CFO	Male	48	2010.12.22~2013.12.21	50,000 H shares	50,000 H shares	N/A	69.52	–
Wu Mengfei	Non-executive director	Male	57	2010.5.28~2013.5.27	–	–	N/A	–	–
Tsui Yiu Wa	Independent non-executive director	Male	63	2012.6.5~2015.6.4	–	–	N/A	40.00	–
Fong Wo, Felix	Independent non-executive director	Male	62	2010.5.28~2013.5.27	–	–	N/A	40.00	–
Chen Quansheng	Independent non-executive director	Male	62	2010.5.28~2013.5.27	–	–	N/A	40.00	–
An Xuefen	Chairman of Supervisory Committee	Female	58	2010.5.28~2013.5.27	–	–	N/A	–	63.20
Zi Shilong	Employee Supervisor and Assistant to president	Male	41	2010.7.26~2013.7.25	–	–	N/A	53.04	–
Wang Zhile	Independent Supervisor	Male	64	2012.6.5~2015.6.4	–	–	N/A	8.00	–
Dong Weiliang	Executive Vice President & Chief Legal Officer	Male	55	2007.6~	–	–	N/A	80.38	–
Xu Xiongfei	Vice president and chairman of Labour Committee	Male	51	2007.6~	–	–	N/A	63.17	–
Yu Zhanhai	Vice president	Male	58	2007.8~	–	–	N/A	68.35	–
Cao Shujie	Vice president	Male	48	2010.3~	–	–	N/A	59.11	–
Yang Haijiang	Secretary of the board	Male	43	2010.4~	–	–	N/A	48.88	–
Total	/	/	/	/	50,000 H shares	50,000 H shares	/	646.46	63.20

Board of Directors:



Mr. Liu Jian Chinese, male, born in 1958, Chairman and a Non-Executive Director of COSL. He graduated from Huazhong University of Science and Technology with a Bachelor of Science degree and received his MBA degree from Tianjin University in 2000. Mr. Liu is a senior engineer. Mr. Liu first joined CNOOC in 1982 and has over 31 years of experience in the oil and gas industry. He served as the manager of CNOOC Bohai Corporation Oil Production Company, a subsidiary of CNOOC, the Deputy General Manager of the Tianjin Branch of CNOOC China Limited, the General Manager of the Zhanjiang Branch of CNOOC China Limited, the Senior Vice President and General Manager of the Development and Production Department of CNOOC Limited, the director of CNOOC China Limited, CNOOC International Limited and CNOOC Southeast Asia Limited. Since October 2005, he became the executive vice president of CNOOC Limited and was primarily responsible for the off-shore oilfield development and production of CNOOC Limited. Mr. Liu has been appointed as the Chief Executive Officer of COSL with effect from March 2009. In June 2009, Mr. Liu was appointed as Vice-Chairman of COSL. In May 2010, Mr. Liu was appointed as Deputy General Manager of CNOOC. He was also appointed as Chairman of COSL and Off-shore Oil Engineering Co., Ltd in August and December 2010 respectively.

Mr. Li Yong Chinese, male, born in 1963, Executive Director, Chief Executive Officer and the President of COSL. He raduated from Southwest Petroleum Institute with a Bachelor in Petroleum Engineering in 1984. Mr. Li obtained a master degree in Oil Economics from the Scuola E Mattei of Italy in 1989 and an MBA from Peking University in 2001. Since July 2012, Mr. Li has been the party secretary of COSL. Since August 2010 Mr. Li as been the Executive Director, Chief Executive Offi cer and President of COSL. From April 2009 to August 2010, he served as Executive Director and President of COSL. From May 2006 to April 2009, he served as Executive Director, Executive Vice President and Chief Operating Officer of COSL. From October 2005 to May 2006, Mr. Li was Executive Vice President and Chief Operating Officer of COSL. From 2003 to 2005, Mr. Li served as Deputy General Manager of CNOOC (China) Ltd. – Tianjin Branch. He was Director of Drilling and Completion Well of CNOOC Ltd from 1999 to 2003. Between 1993 and 1999, Mr. Li was Head of Comprehensive Technology Division and Head of Well Testing Division of Exploration Department of CNOOC. Mr. Li joined CNOOC in 1984 and had served in various positions, including Assistant Engineer and Engineer at China Off-shore Oil Exploration Project Planning Company, CNOOC Operational Department, and has worked in the oil and natural gas industry for over 29 years.

Mr. Li Feilong Chinese, male, born in 1964, Executive Director, Executive Vice President and CFO of COSL. He graduated from China University of Petroleum in 1986 with a Bachelor Degree in Management Engineering, and joined CNOOC in the same year. From 1986 to 1992, he served as an economist and senior analyst in the Planning Department of CNOOC. From 1993 to 1997, he served as senior auditor and audit manager in the Audit Department. From February to September 1998, he received a staff training from a petroleum company of the United States. From 1999 to 2001, Mr. Li served as head of the Accounting/Finance/Taxation Team of IPO Office and the Finance Manager of Hong Kong Office of CNOOC Ltd. From 2001 to 2003, he served as Assistant Controller of CNOOC Ltd and has been Controller since 2004. He has also been the director of CNOOC Southeast Asia Ltd, a subsidiary of CNOOC Ltd. and the director of CNOOC Insurance Company, a subsidiary of CNOOC. From 2007 to November 2011, Mr. Li was a member of Financial Accounting Standards Advisory Council by the Trustees of the Financial Accounting Foundation. In 2010, he was appointed as a member of the International Financial Reporting Standards Interpretations Committee by the Trustees of International Financial Reporting Standards Foundation. Mr. Li was appointed as the Executive Vice President and CFO of the Company on 16 September 2010 and Executive Director of the Company on 22 December 2010.

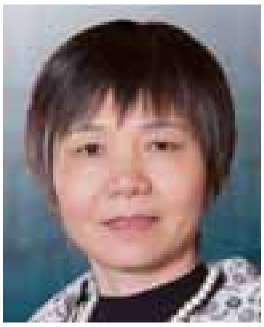
Mr. Wu Mengfei Chinese, male, born in 1955, a Non-Executive Director of COSL. He received a bachelor degree and a aster degree from East China Petroleum Institute, and an MBA from Massachusetts Institute of Technology in the United States. He is also a Sloan Fellow of such institute. Mr. Wu served as Deputy Manager of Financial Planning Department and General Manager of the Funds Planning Department of CNOOC from 1993 to September 1999. From September 1999 to June 2002, Mr. Wu was Chief Financial Officer and Senior Vice President of CNOOC Ltd. Mr. Wu was Executive Vice President and Chief Financial Officer of COSL between July 2002 and March 2006. From May 2004 to March 2006, he was an Executive Director of COSL. Mr. Wu is CFO of CNOOC and a Non-Executive Director of COSL from April 2006. Mr. Wu is Chairman of China Blue Chemical Ltd., Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd., CNOOC Investment Co., Ltd., CNOOC Finance Corporation Ltd. and Zhonghai Trust Co., Ltd.

Mr. Tsui Yiu Wa China (Hong Kong) by nationality, male, born in 1949, an Independent Non-Executive Director of COSL. He has more than 33 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a master of engineering degree in industrial engineering. He completed the program for senior managers in government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui served at various international companies, including Arthur Andersen & Co and Swire Bottlers Limited, and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was the general manager (finance, technology & human resources), an assistant director (licensing) and the general manager (human resources) of the SFC from 1989 to 1993. Mr. Tsui joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became the chief executive from 1997 to July 2000. From 2001 to 2004, he was chairman of the Hong Kong Securities Institute. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. Mr. Tsui is an independent non-executive director of Ageas Insurance Company (Asia) Ltd, Ageas Asia Holding Limited and Industrial and Commercial Bank of China (Asia) Limited. He is also currently an independent non-executive director of a number of listed companies in Hong Kong, Shanghai, the Philippines and NASDAQ, the United States, namely China Chengtong Development Group Ltd., COSCO International Holdings Ltd., China Power International Development Ltd., Melco PBL Entertainment (Macau) Limited, Pacific Online Limited, Summit Ascent Holdings Limited, ATA Inc. and Manchester International Holdings Unlimited Corporation.

Mr. Fong Wo, Felix JP, China (Hong Kong) by nationality, born in 1950, an Independent Non-Executive Director of COSL. He is a founder of Arculli Fong & Ng and a lawyer consultant of King & Wood Mallesons. Mr. Fong gained a first class honours and department chairman honours engineering degree in Canada in 1974, and received a doctor degree in Law at Osgoode Hall Law School in Toronto in 1978. Mr. Fong is qualified to practice as a solicitor in England and Wales since 1986 and was admitted as a solicitor of the Supreme Court of Hong Kong in 1987. In 1992, Mr. Fong was appointed as one of the China-Appointed Attesting Officers in Hong Kong. In 2005, Mr. Fong was appointed as a Justice of the Peace by the Government of Hong Kong, and was awarded as a Bronze Bauhinia Star by the government of Hong Kong in 2009. He served at various times on the Advisory Council on Food and Environmental Hygiene, Film Development Council, Town Planning Board, Liquor Licensing Board, Broadcasting Authority, and Betting and Lotteries Commission as a member and a chairman. He is also a member of the (9th and 10th) Guangdong Provincial Committee of Chinese People's Political Consultative Conference, and the director of China Overseas Friendship Association. Mr. Fong is an independent non-executive director of Kingway Brewery Holdings Limited (Stock Code: 00124), SPG Land (Holdings) Limited (Stock Code: 00337), Evergreen International Holdings Limited (Stock Code: 00238) and China Investment Development Limited (formerly known as Temujin International Investments Limited) (Stock Code: 00204), and was a non-executive director of Cinda International Holdings Limited (Stock Code: 00111) between May 2000 and December 2008. (The above 5 companies are Listed on the Main Board of the Stock Exchange).

Mr. Chen Quansheng Chinese, male, born in 1950, a counselor of the State Council of PRC. Mr. Chen graduated from the Beijing Institute of Economics in 1982 with a Bachelor degree in Labour Economics. He has worked, among others, at the State Council staff education management committee, the National Economic Commission, State Planning Commission, the State Economic Restructuring Commission, the State Council Production Committee, the State Council Production Office, the State Council Economic and Trade Office, Economic and Trade Commission, State Council Research engaged in macro-economic policy research and enterprise reform and management. He is also an executive member of the council of the China Enterprise Confederation, the China Entrepreneurs Association, China Enterprise Group Improvement Association and the Chinese Enterprises Investment Association.

Boards of Supervisors:



Ms. An Xuefen Chinese, female, born in 1954, Chairman of Supervisory Committee of COSL, member of Communist party, a senior administrative officer. Ms. An graduated from the Tianjin Radio & TV University in Administrative Management. From June 1992 to March 2002, Ms. An was the union president of CNOOC Bohai Corporation, and was the deputy party secretary of CNOOC (China) Limited Tianjin Branch and secretary of the disciplinary committee and acting union president between March 2002 and April 2003. Between April 2003 and July 2005, Ms. An was the Vice President, Deputy Party Secretary, secretary of the disciplinary committee and acting union president of CNOOC (China) Tianjin Branch. From July 2005 to September 2006, Ms. An was the party secretary of CNOOC Bohai Corporation, and from September 2006 to November 2009, was the party secretary and secretary of the disciplinary of CNOOC Bohai Corporation. Since February 2010, Ms. An has been the Chairman of Supervisory Committee of Off-shore Oil Engineering Co., Ltd.

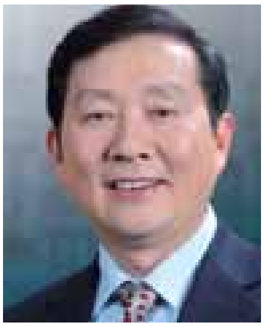
Mr. Zi Shilong Chinese, male, born in 1971, an Employee Supervisor of COSL. He obtained a bachelor's degree in oil engineering from the University of Petroleum (East China) and a master's degree in oil corporation management from the training institute of ENI S.p.A. in Italy. Mr. Zi was appointed as an Employee Supervisor of COSL in July 2010. Since July 2012, Mr. Zi has been the Assistant to president of COSL. From February 2010 to July 2012, he was the general manager of the Human Resources Department of COSL. Between March 2006 and January 2010, Mr. Zi was the general manager of the Indonesian company of COSL. He has been the deputy general manager of the Production Optimization Division of COSL from December 2005 to March 2006. Between November 2002 and December 2005, he was the general manager of the cementing service center of the Oilfi eld Technical Services Division of COSL. From January to November 2002, he was the manager of the Cementing Division of COSL. Between August and December 2001, he was the deputy manager of the cementing company of Petrotech Services, CNOOC. He was the project manager of the Project Division of Petrotech Services, CNOOC from July 2000 to July 2001. He studied at the training institute of ENI S.p.A. in Italy from July 1999 to July 2000 and was an engineer of the cementing company of Petrotech Services, CNOOC from July 1994 to July 1999. He has been working in the petroleum and natural gas industry for over 19 years.

Mr. Wang Zhile Chinese, male, born in 1948, an Independent Supervisor of COSL, a master degree holder and a research fellow. From 1982 to 1992, Mr. Wang had taught at Renmin University of China as lecturer and associate professor consecutively for programmes such as German Modernisation, Swiss Modernisation, Modern History of Science and Technology and Modern World History. He studied German and European Economic History, Business History and Modernisation History at Bielefeld University, Germany, Deutsches Museum and University of Bern, Switzerland, from 1985 to 1988. From 1992 to 2008, he had been a researcher (professor) and supervisor of the multinational enterprise research centre at International Trade and Economic Cooperation Research School of MOFTEC. He was also a committee member of State Industrial Policy Advisory Commission, Vice Chairman of Foreign Investment Committee of Investment Association of China and Contract Research Fellow of China Society of Economic Reform. He was granted Certificate for Specialist with Outstanding Contribution to the State by the State Council and is entitled to special government allowance. Since 2008, he has been a research fellow at Research Institute of the Ministry of Commerce, Head of Beijing New-century Academy on Transnational Corporations and a research fellow at China Center of International Economic Exchanges and Expert member of Principle 10 of United Nations Global Compact Organization. Since June 2009, he has been an Independent Supervisor of COSL.

BIOGRAPHIES OF COMPANY'S SENIOR MANAGEMENT

Mr. Li Yong

Please refer to Biographies of Directors.



Mr. Dong Weiliang Chinese, male, was born in 1957, Executive Vice President and Legal Advisor of COSL, Bachelor in Petroleum Geology of Geological Department. Mr. Dong has been Executive Vice President and Legal Advisor of COSL since September 2011, and Executive Vice President and Chief Technical Officer of COSL from June 2007 to September 2011. He served as General Manager of Technology Development Department of CNOOC between July 2003 and June 2007. He subsequently held the position of CNOOC Research Center Director from May 2001 to July 2003. Between April 1999 and May 2001, Mr. Dong was Deputy General Manager at CNOOC China Limited – Zhanjiang Branch Company Limited. Mr. Dong had held a number of positions in China Off-shore Oil Nanhai West Corporation, including Chief Geologist from September 1996 to April 1999, President of Research Institute of Exploration and Development Science from May 1994 to September 1996, Vice President of Research Institute of Exploration and Development Science from May 1993 to May 1994, Assistant and Group Leader in Research Institute from 1982 to 1993. Mr. Dong has over 31 years of working experience in the oil and natural gas industry.

Mr. Li Feilong

Please refer to Biographies of Directors.

Mr. Xu Xiongfei Chinese, male, was born in 1961, Vice President of COSL, EMBA, CSERM. He is Vice President of the Company since June 2007. He has been serving as Chairman of Labour Committee of COSL since October 2005. From September 2002 to October 2005, Mr. Xu was General Manager of Human Resources Department of COSL. From December 2001 to September 2002, he served as General Manager of Human Resources Department of COSL before the Company was restructured into a limited liability entity. He served as Party Committee Secretary and Discipline Committee Secretary of China Off-shore Oil Northern Drilling Company between October 2000 and December 2001. From 1995 to 2000, Mr. Xu was Director of Party Offi ce and Vice-Chairman of Labour Union at China Off-shore Oil Northern Drilling Company. He had held a number of positions in Bohai Oil Corporation, including Secretary and Deputy Director of Administration Office from 1993 to 1995, Party branch secretary of Bohai Platform No. 12 from 1991 to 1993, between 1977 and 1991, driller, mechanic, electrician and secretary in Team 32220 at Drilling Department, Bohai platform No. 8, and Party Committee Office. Mr. Xu has over 36 years of experience in the oil and natural gas industry.

Mr. Yu Zhanhai Chinese, male, was born in 1954, Vice President of COSL, Bachelor in Geophysics. He is a Vice President of COSL since August 2007. He was General Manager of Geophysical and Surveying Services Division of COSL from September 2002 to August 2007. Between January and September 2002, he served as General Manager of Geophysical and Surveying Services Department of COSL before the Company was restructured into a limited liability entity. Mr. Yu was Deputy General Manager of China Off-shore Oil Geophysical Corporation from January 1994 to December 2001. He also held various positions in Bohai Oil Geophysics Company, including Manager from September 1993 to January 1994 and Deputy Manager from November 1992 to August 1993. Between 1982 and 1992, Mr. Yu had held various positions in Geophysical Fleet of CNOOC, including technician, assistant engineer, engineer, manager of the fleet and department head of operation department. From 1979 to 1982, he worked in the geophysical service fleet of Off-shore Oil Exploration Bureau. Mr. Yu has over 34 years of experience in the oil and natural gas industry.

Mr. Cao Shujie Chinese, male, born in 1964, Vice President of COSL. He graduated from the East China Petroleum Institute in 1987 and received his MBA and EMBA degree from Tianjin University and China Europe International Business School respectively. Mr. Cao was appointed as Vice President of COSL in March 2010. Between April 2006 and March 2010, he was the general manager of the Drilling Division of COSL. From November 2001 to April 2006, he was the deputy general manager of the Drilling Division of COSL. He has been the drilling team leader, deputy superintendent, platform deputy manager and platform manager in Bohai Oil Corporation and China Off-shore Oil Northern Drilling Company during the period from July 1987 to November 2001. Mr. Cao has around 26 years of experience in the oil and natural gas industry.

Mr. Yang Haijiang Chinese, male, born in 1969, board secretary of COSL. He holds a bachelor degree in English from the China People's Liberation Army International Relations College in 1991 and is qualified as a lawyer in the PRC since 2003. In 2008, Mr. Yang obtained the qualification of corporate secretary issued by the Shanghai Stock Exchange. Mr. Yang joined COSL in 1998 after his retirement from the People's Liberation Army with the rank of Captain, and has since May 2003 been appointed an In-house Legal Counsel of the Secretarial Office and Legal Affair Department of the Company, Manager in charge of Corporate Governance and Securities, Representative on Securities Matters responsible for handling legal related matters of the board of directors, the board of supervisors and shareholders of the Company. In April 2010, Mr. Yang was appointed as board secretary of the Company.

II. WORK POSITIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING REPORTING PERIOD

1. WORK POSITIONS IN THE COMPANY OF SHAREHOLDERS

Name	Name of the Company	Position of Shareholder	Commencement of term	Termination of term
Liu Jian	China National Off-shore Oil Corporation	Vice General Manager	May 2010	Until now
Wu Mengfei	China National Off-shore Oil Corporation	Chief Accountant	April 2006	Until now

2. Work Positions in Other Units

Name	Name of other units	Position of Shareholder	Commencement of term	Termination of term
Tsui Yiu Wa	Ageas Insurance Ltd, etc. Company (Asia)	Independent Non-Executive Director	2007	Until now
Fong Wo, Felix	Kingway BreweryHoldings Limited, etc.	Independent Non-Executive Director	2007	Until now
Chen Quansheng	Counselors' Office of the State Council	Counselor of the State Council	2008	Until now

III. REMUNERATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and Senior Management	Remunerations of Directors and Supervisors are subject to shareholders' approval at general meetings. Remunerations of Senior Management are determined by the board of directors.
Reference for determining remunerations of Directors, Supervisors and Senior Management	Depends mainly on the duties and responsibilities of the Directors, Supervisors and Senior Management, and the results of the Company.
The remuneration payable to Directors, Supervisors and Senior Management	RMB7,096,600
Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period	RMB7,096,600

IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, there was no change in Directors, Supervisors and Senior Management.

V. THE CORE TECHNICAL TEAM OR KEY TECHNICAL PERSONNEL OF THE COMPANY

The core competitiveness of the Company relies upon a number of years of experience and thorough system, rather than individual key technical personnel. The Company has no individual key technical personnel that will have significant impact on the core competitiveness of the Company.

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

1. Employees

Number of existing employees of the Company	12,148
Number of existing employees of major subsidiaries	843
Total number of existing employees	12,991
Number of retired employees the expenses need to be borne by the Company	0

** The number of existing employees included employees which entered into employment contract with third parties but worked within COSL*

Professional compositions

Professional type	*Number of employees*
Management post	2,633
Technical post	5,074
Operational post	5,284
Total	12,991

Educational level

Educational Level	*Number of employees*
Master degree and above	516
Undergraduate	4,960
College	3,297
Secondary	1,042
Technical college	693
Senior secondary and below	2,483
Total	12,991

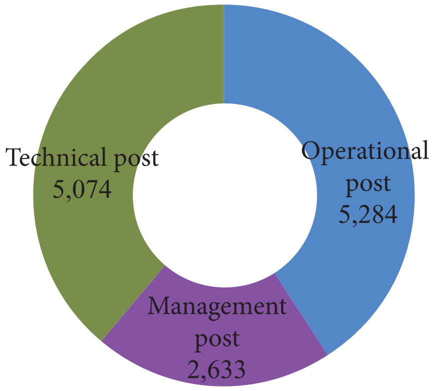
2. REMUNERATION POLICIES

The Group adopts an incentive approach to enable an efficient human resources management. Different incentive schemes based on different kinds of professionals were used and the Company has established an appropriate appraisal system to create a fair competition environment, to maximize the development opportunities for quality employees. Besides, the Company also provided various benefits, including provisions of social insurance, to employees.

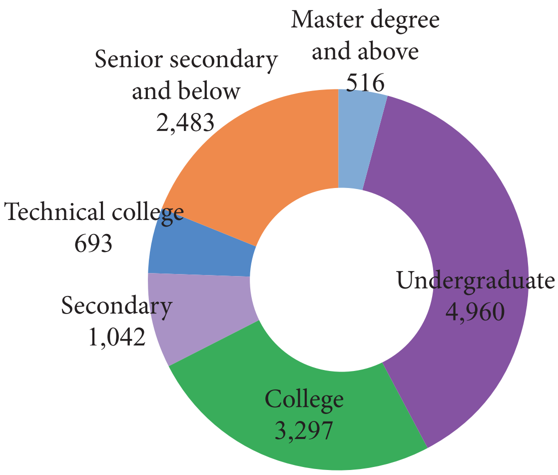
3. Training Plan

Centered around the development guidelines of the Company, our training and development work established a system of training objectives which is led by our five-year training planning and guided by our annual roll-over training, focuses on the work needs of our staff and serves the development strategy of the Company.

4. Chart of professional compositions



5. Chart of educational level



The directors present the report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31 December 2012.

DIRECTOR'S WORK

The particulars of work of the Directors of the Company and their professional committees during the year are set out in the Corporate Governance Section of this annual report.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of off-shore oilfield services including drilling services, well services, marine support and transportation services and geophysical and surveying services. The principal activities of the subsidiaries comprise investment holding, sale of logging equipment, leasing of geophysical vessels, provision of drilling fluids services and provision of drilling and work over services. There were no significant changes in the nature of the Group's principal activities during the year. The review of the operating result of the Company during the reporting period and the future development outlook of the Company is set out in the Management Discussion & Analysis section of this annual report.

RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards for the year ended 31 December 2012 and the statement of financial position of the Company and the Group at that date are set out in the financial statements of this annual report on pages 114 to 119.

The Directors recommend the payment of a final dividend of RMB31 cents (tax inclusive) per ordinary share in respect of the year to shareholders who are entitled to dividends. This recommendation has been incorporated as proposed cash dividends within the retained earnings section of the consolidated statement of financial position. The total dividend amounts to approximately RMB1,393,549,200. Further details of this accounting treatment are set out in the Note 12 to financial statements of this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2012 are set out in Note 17 to the financial statements of this annual report.

GEARING RATIO

The details of gearing ratio of the Group as at 31 December 2012 is set out in Note 40 of the notes to the financial report in this annual report.

REMUNERATION POLICIES

The Group adopts an incentive approach to enable an efficient human resources management. Different incentive schemes based on different kinds of professionals were used and the Company has established an appropriate appraisal system to create a fair competition environment, to maximize the development opportunities for quality employees. Besides, the Company also provided various benefits, including provisions of social insurance, to employees.

SHARE CAPITAL

The Company's share capital has no change during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Company Law of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, redeemed or sold any of its listing securities during this year.

DEBT

Details of the issuance of debts by the Company during the reporting period are set out in Note 30 of the notes to financial statements in this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, and the assets and liabilities of the Group for the last five years in accordance with HKFRSs is set out below:

Unit: RMB'000

	2012	2011	2010	2009	2008
Revenue	22,104,699	18,426,133	17,560,985	17,878,654	12,142,944
Other revenues	174,043	112,710	88,633	95,099	48,671
	22,278,742	18,538,843	17,649,618	17,973,753	12,191,615
Depreciation of property, plant and equipment and amortisation of intangible assets	(3,173,463)	(3,069,595)	(3,122,338)	(2,865,166)	(1,563,534)
Employee compensation costs	(3,671,357)	(3,311,579)	(2,938,103)	(2,669,618)	(2,106,497)
Repair and maintenance costs	(793,854)	(538,646)	(437,722)	(609,441)	(420,257)
Consumption of supplies, materials, fuel, services and others	(4,071,683)	(3,447,908)	(3,277,048)	(3,610,001)	(2,720,083)
Subcontracting expenses	(2,825,522)	(1,514,062)	(1,143,711)	(884,384)	(542,226)
Operating lease expenses	(709,645)	(433,126)	(379,690)	(589,118)	(356,136)
Other operating expenses	(1,133,153)	(1,009,239)	(936,679)	(1,076,167)	(693,870)
Other selling, general and administrative expenses	(185,028)	(156,118)	(41,860)	(381,870)	(158,523)
Impairment of property, plant and equipments	(96,420)	(75,796)	(172,401)	(819,889)	–
Total operating expenses	(16,660,125)	(13,556,069)	(12,449,552)	(13,505,654)	(8,561,126)
Profit from operations	5,618,617	4,982,774	5,200,066	4,468,099	3,630,489
Financial income/(expenses)					
Exchange gains/(losses), net	(41,913)	60,521	87,584	(92,686)	(91,358)
Interest costs	(512,718)	(469,743)	(674,152)	(786,430)	(638,985)
Interest income	127,460	63,804	76,900	60,352	191,433
Financial income/(expenses), net	(427,171)	(345,418)	(509,668)	(818,764)	(538,910)
Investment Income	2,169	–	–	–	–
Share of profits of jointly-controlled entities	243,193	174,273	143,839	110,264	215,707
Profit before tax	5,436,808	4,811,629	4,834,237	3,759,599	3,307,286
Income tax expense	(867,038)	(772,094)	(706,239)	(624,282)	(205,045)
Profit for the year	4,569,770	4,039,535	4,127,998	3,135,317	3,102,241

Assets and liabilities

Unit: RMB'000

	2012	2011	2010	2009	2008
Total assets	74,648,528	64,851,142	63,497,392	60,776,518	56,200,901
Total liabilities	42,443,614	36,391,988	37,907,467	38,470,913	36,403,057

PROPERTY, PLANT AND EQUIPMENT

The details of the movements in property, plant and equipment of the Company and the Group are set out in Note 14 of the notes to the financial statements in this annual report.

DIVIDEND

The Company's dividend policy is: Dividend shall be determined by the Board of Directors of the Company according to overall financial condition of the Company, which includes but not limited to factors such as income and profits, capital requirements and surplus and plans for the Company. After satisfying the Company's normal operation and sustaining development, dividend to be distributed in any particular year shall not be less than 20% of the total net profit for such year and the definite dividend shall be proposed at a General Meeting for final approval.

The formulation and implementation of the Company's dividend policy are in compliance with the Articles of Association and the resolution of the General Meeting. The distribution plan and proportion are accurate and clear; and the related decision-making procedures and mechanism are thorough and complied. During the process of formulating and implementing the dividend policy, Independent Directors have been fully performed and properly played their role. They have fully taken into consideration the minority shareholders' opinions; and the legal rights of minority shareholders have been fully protected.

The Group achieved a total net profit of RMB4,569,770,000 in 2012, of which RMB4,559,354,000 of net profit was attributable to equity holders of the parent, together with RMB13,563,327,000 of undistributed profit at the beginning of the year, and after deduction of RMB437,819,000 for provision of statutory reserve, the Group had an undistributed profit of RMB17,684,862,000 as at the end of 2012. Based on 4,495,320,000 shares, being the total number of shares of the Group in issue as at the end of 2012, the Group proposed a cash dividend of RMB3.1 (tax inclusive) per 10 shares, with a total cash dividend of RMB1,393,549,000, and an undistributed profit of RMB16,291,313,000 to be distributed in following years. Such distribution is subject to the review and approval of the 2012 Annual General Meeting of the Company.

Dividend of the Group in the previous three years:

Dividend year	Cash dividend per 10 shares (tax inclusive)	Cash dividend (tax inclusive)	Net profit attributable to equity holders of the consolidated statement of the dividend year of the company	Percentage of net profit attributable to equity holders of the consolidated statement of the company (%)
2012	3.1	1,393,549,200	4,559,353,730	31
2011	1.8	809,157,600	4,039,277,109	20
2010	1.8	809,157,600	4,128,494,256	20

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB561,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 83% of the total sales for the year and sales to the largest customer included therein accounted for approximately 63%. Purchases from the Group's five largest suppliers accounted for approximately 21% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 5% of the total purchases for the year.

The Group has provided certain oilfield services to and obtained certain services from the companies with the same ultimate holding company of the Company, details of which are set out in the section "Connected Transactions" below. Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

ASSETS MEASURED AT FAIR VALUE

The majority of the assets of the Group were valued at historical cost, except for available-for-sale investments which have been measured at fair value. Internal control and review procedures have been taken by our audit and supervisory department on works of finance department. For details of fair value changes in available-for-sale investments of the Company and the Group during the reporting period, please see Note 19 to the financial statements of this annual report.

OUTLOOK OF THE COMPANY

For details, please see the outlook of the Company set out in the Management Discussion and Analysis.

CHARGE ON ASSETS

As at 31 December 2012, the Group had no material charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had contingent liabilities as set out in Note 37 to the financial statements of this annual report.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company as at 31 December 2012 were:

Executive directors:	**Independent non-Executive directors:**	**Supervisors:**
Li Yong	Tsui Yiu Wa	An Xuefen
Li Feilong	Fong Wo, Felix	Zi Shilong *(Employee supervisor)*
	Chen Quansheng	Wang Zhile *(Independent supervisor)*

Non-executive directors:
Liu Jian
Wu Mengfei

Pursuant to the Articles of Association of the Company, upon election, all directors and supervisors shall serve a term of three years, and may be reelected upon the expiry of such term.

Pursuant to the Rule 3.13 of the Listing Rules of HKSE, the Company had received annual confirmations of independence from Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng, and as at the date of this report, still considers them to be independent.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out in "Directors, Supervisors, Senior Management and Employees" of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the independent non-executive directors and independent supervisors is required to enter into a service contract with the Company for a term of three years, renewable upon re-election. Details of the directors remunerations for the year 2012 are set out "Directors, Supervisors, Senior Management and Employees" of the annual report.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The remuneration of Directors and Supervisors are proposed by the Company's board of directors with reference to the duties and responsibilities of the Directors and are subject to shareholder' approval at general meetings after consideration of the remuneration committee's recommendation, and the performance and results of the Group.

The remuneration committee had no objection to the remuneration of Directors, Supervisors and Senior Management disclosed in the Annual Report.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SIGNIFICANT CONTRACTS

The Company has entered into several agreements with CNOOC Limited, a related company, and other companies within China Natural Off-shore Oil Corporation, other than CNOOC Limited, for the provision of oilfield services by the Company to CNOOC Limited and CNOOC Group, and for the provision of various services by CNOOC Group to the Company. Further details of the transactions undertaken in connection with these contracts during the year are included in Note 38 of the Annual Report.

Save as disclosed, no significant contract in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the controlling Shareholder of the Company had a material interest, whether directly or indirectly, subsisted at year end or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of interested shares (shares)	Approximate percentage of the interests (H) in COSL (%)
Li Feilong	Beneficial Owner	50,000	0.003%

Save as disclosed above, as at 31 December 2012, none of the Directors, or chief executives of the Company or their respective associates had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and HKSE pursuant to the Model Code.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive and supervisors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2012, other than the Directors or the chief executive of the Company as disclosed above, none of others has interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and HKSE.

Name of shareholder	Shares held	Number of shares interest (share)	Approximate percentage of the interests (H) in COSL (%)
JPMorgan Chase & Co.	Interest in controlled corporation	230,767,954(L)	15.04(L)
		80,000(S)	0.01(S)
		66,104,416(P)	4.31(P)
Commonwealth Bank of Australia	Interest in controlled corporation	214,566,000(L)	13.98(L)
Blackrock, Inc.	Interest in controlled corporation	105,980,922(L)	6.90(L)
		19,590,764(S)	1.27(S)

Notes:

(a) "L" means long position.

(b) "S" means short position.

(c) "P" means lending pool.

Save as disclosed above, the directors are not aware of any other person who had an interest in the shares of the Company which would fall to be disclosed to the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Under the Listing Rules, connected transactions of the Company must be fully disclosed and are subject to the independent shareholders' approval, if the transaction is over a certain amount. The Company has applied to HKSC at the time of listing on the Stock Exchange of Hong Kong Limited (the "HKSE") for a waiver from strict compliance with the reporting, announcement and independent shareholders' approval requirements in respect of the continuing connected transactions of the Company and the HKSE has granted a waiver in respect of such requirements for a period of three years, subject to re-compliance with the requirements of the Listing Rules upon expiry. In 2010, the Company renewed connected transactions expired at the end of the year.

On 5 November 2010, the Company and CNOOC entered into a new integrated services framework agreement in respect of the continuing connected transactions between the Company and CNOOC and its subsidiaries from 1 January 2011 to 31 December 2013. The resolution in respect of the continuing connected transactions in three years' period from 1 January 2011 to 31 December 2013 was approved by the independent shareholders of the Company at the extraordinary general meeting held on 22 December 2010.

For the year ended 31 December 2012, the Group had the following connected transactions:

	2012 RMB'000	2011 RMB'000
A. Included in revenue (not including operating tax)		
Revenue earned from provision of services to the following related parties:		
a. CNOOC Limited		
Provision of drilling services	6,047,316	4,582,718
Provision of well services	3,733,610	3,064,540
Provision of marine support and transportation services	2,169,885	1,870,576
Provision of geophysical and surveying services	2,396,153	1,832,832
	14,346,964	11,350,666
b. The CNOOC Group		
Provision of drilling services	77,109	152,569
Provision of well services	36,214	60,691
Provision of marine support and transportation services	436,563	271,288
Provision of geophysical and surveying services	291,261	140,126
	841,147	624,674
B. Included in operating expenses		
Services provided by CNOOC Group and the Group's jointly-controlled entities:		
– Labour services	42,275	29,365
– Materials, utilities and other ancillary services	754,273	712,221
– Transportation services	48,497	15,793
– Leasing of offices, warehouses and berths	106,719	94,061
– Leasing of equipment	246,093	–
– Repair and maintenance services	6,120	4,503
– Management services	48,886	41,438
	1,252,863	897,381
C. Included in interest income/expenses:		
CNOOC Finance Co., Ltd.		
Interest income	18,293	14,122
Interest expenses	–	1,448
D. Loans drawn down during the year		
CNOOC Finance Co., Ltd.	–	1,000,000
E. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	1,097,835	1,073,852
F. Construction of 200 feet drilling rigs		
Off-shore Oil Engineering Co., Ltd.	–	159,782

The independent shareholders of the Company have approved the connected transactions set out in (a) and (b) above on 22 December 2010. For item (C) above, the transaction was qualified as "De minimis transaction" as defined in the Listing Rules and for item (D), the transaction was qualified as "exempt financial assistance" as defined in the Listing Rules. For item (E), the transaction was exempted from the independent shareholders' approval requirement which was approved by Independent Directors on 26 August 2010. For item (F), independent shareholders have granted their approval to the Company in regarding to such connected transaction on 13 February 2009.

The independent non-executive directors have reviewed the above transactions and have confirmed that:

(1) the transactions were entered into between the Group and the connected persons or their respective associates (where applicable) in the ordinary and usual course of its business;
(2) the transactions were entered into on normal commercial terms, or where there is no available comparison, on terms no less favourable than those available from or to independent third parties;
(3) the transactions were entered into in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable to the independent shareholders as a whole;
(4) for items (A) and (B) above, the transactions were entered into with the annual aggregate value within the relevant annual cap of each category as approved by the independent shareholders.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public at the date of this report.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Any material subsequent events occurred from 1 January 2013 to the date of approval of the financial statements are set out in Note 41 to the financial statements of this annual report.

AUDIT COMMITTEE

Before the field work of the auditors, the audit committee of the Group reviewed the annual audit plan submitted by the auditors, and approved the annual audit plan and work schedule formulated by the auditors and confirmed effective communications with the auditors before and after such field work and suggested related opinion with regard to related work.

The final results of the Group have been reviewed by the audit committee of the Board which consists of three independent nonexecutive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, internal control and financial reporting matters including the review of audited 2012 annual results with the management.

BUSINESS PLAN

We strive to achieve a year-on-year revenue growth not less than 10% in 2013. It is expected that total operation cost (excluding asset impairment) and financial cost will increase to a larger extent. Profit margin will be stabilized and it is planned that capital expenditure will be RMB4 billion to RMB5 billion.

To accomplish the target of 2013, the Company will keep reinforcing QHSE management to ensure the operation safety within the country and overseas; focus on enhancement of construction management in order to make the equipment commencing operation as fast as possible with an aim to ensure the long-term and sustainable development of the Company. Also, the Company will invest more in technological development and research and actively advance the industrialization of technological result to drive the development of the Company. Finally, we will continue to deepen the overall risk management to maintain a stable development of the Company.

The above business plan is formulated by the Company based on the existing operation situation and market and it should not be construed as earning forecast or actual commitment of the directors. Whether the Company can achieve the expected performance mainly depends on market and economic situations. Investors should be reminded of the risks involved.

CORPORATE GOVERNANCE CODE AND MODEL CODE FOR SECURITIES TRANSACTIONS

For the year under review, compliance with the Corporate Governance Code by the Company is set out in "Corporate Governance" of this annual report. Upon specific enquiry to each and every director by the Company, the Board of Directors confirms that all members of the Board, for the year under review, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

AUDITORS

The financial statements prepared in accordance with HKFRSs have been audited by Ernst & Young. Ernst & Young retire and a resolution for appointing Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company will be proposed at the forthcoming annual general meeting.

EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

In 2012, the Company continuously work on the registration management of insiders, the Company currently has reported to the Shanghai Stock Exchange the filing of persons who have knowledge of insider information in the daily work of the Company. In addition, according to the latest requirements of the regulatory authorities, the Company has included the filing of external related parties who are aware of the undisclosed information of the Company.

The Company not only has great concern in formulating and implementing management system for insider information, but also put great importance in learning and publicizing the related laws and regulations. In 2012, the Company organized all persons who have knowledge of insider information within the Company to conduct the learning activity, by the two sets of judicial documents test paper of Tianjin Securities Regulatory Bureau regarding the learning of attacking the crimes of offending securities and futures, of the related regulations and self-assessment. By means of that special learning and answering function, all those who have knowledge of insider information within the Company have better understanding of the two judicial documents; and strengthen the sense of keeping confidentiality of insiders information and law-abiding.

No director or supervisor of the Company has traded the Company's securities in violation of rules in the reporting period. Furthermore, pursuant to requirements of Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies issued by China Securities Regulatory Commission, the Company conducted self-assessment on whether there have been share transaction during the reporting period, and the Board confirmed that there was no insider trading of the Company's securities in violation of rules in 2012.

ON BEHALF OF THE BOARD

Liu Jian
Chairman
22 March 2013

The Supervisory Committee of the Company for the year 2012 has diligently performed its responsibilities, supervised and examined the procedures for decision making, the operating situation according to the law and financial disclosure etc. for the Company, and provided necessary protection for the legal benefits of the shareholders, the Company and the staff in accordance with the requirements of the Company law of the People's Republic of China, Articles of Association and the Rules of Procedure for the Supervisory Committee of the Company.

In 2012, five Supervisory Committee's meetings were convened. In addition to attending the Board meetings of the Company, members of the Supervisory Committee also attended the important management meetings of the Company to keep abreast of the issues of our daily production and operating activities, so as to further improve our supervision and inspection on compliance and risk control form procedures to content.

During the reporting period, the operation of the Supervisory Committee and its opinions on our supervision and inspection are as follows:

1. CHANGES OF MEMBERS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, there was no change in the members of the Supervisory Committee. Ms. An Xuefen acts as the Chairman while Mr. Zi Shilong acts as Employee Supervisor. On 5 June 2012, Mr. Wang Zhile was elected to continue to act as Independent Supervisor at the annual general meeting.

2. OPERATION OF THE SUPERVISORY COMMITTEE

1) During the reporting period, 5 Supervisory Committee's meetings were convened. Each Supervisory Committee's meeting, at which procedures for calling the Board meeting as well as board resolutions were considered, was convened on the same date as each Board meeting and normally straight after the conclusion of the Board meeting which the supervisors also attended.

2) Members of the Supervisory Committee also attended meetings of the professional committees under the Board of Directors during the reporting period and listened to a specific report given by the management in respect of the financial results and internal control and the establishment and appraisal of the assessment standards on the management.

3) The Supervisory Committee had given its professional audit advice in respect of the 2011 Annual Report, the 2012 Interim Report, the 1st quarterly report and the 3rd quarterly report for the year 2012 in compliance with the regulatory requirements of the issue of A shares during the reporting period.

4) During the reporting period, the Supervisory Committee reviewed the effectiveness of internal control of the Company and made certain recommendation for improvement.

5) During the reporting period, supervisor An Xuefen, Zi Shilong and Wang Zhile attended 5 regular Board meetings. An Xuefen also attended 2011 Annual General Meeting held on 5 June 2012 as a supervisor.

3. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

(1) The Company's operating situation according to the law

After supervising and examining the establishment and operating situation of the Board of Directors of the Company and the senior management, and the management system of the Company, the Supervisory Committee of the Company is of the opinion that the procedures for calling the General Meeting and Board meetings and the relevant resolutions made during the reporting period were in compliance with the requirements of the laws, regulations and the Articles of Association. Directors and the senior management have not been found violating any laws, regulations or the Articles of Association when performing duties of the Company and have not been found behaving in such a way that would damage the interests of the Company and the shareholders.

(2) Financial situation of the Company

The Supervisors have supervised and examined the financial management system and financial situation of the Company by participating the Board meetings and the meetings of the Audit Committee under the Board of Directors and have reviewed relevant financial information of the Company during the examination process. After such examination, the Supervisory Committee is of the opinion that the Company is in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company is healthy and effective, the accounting methods are consistent while the financial statements are true and reliable. Ernst & Young and Ernst & Young Hua Ming LLP have audited the financial statements of the Company for year 2012 prepared in accordance with HKFRSs and CAS and have issued unqualified opinions on the financial statements. The Supervisory Committee considers the financial statements to be objective and fairly reflects the financial position and the results of operation of the Company.

(3) Related parties transactions

During the reporting period, all the related parties transactions entered between the Company and CNOOC and its subsidiaries had complied with all the relevant requirements of HKSE and the Shanghai Stock Exchange and those transactions were necessary for the production and operation of the Company and were at fair prices and in the interests of the Company and the shareholders as a whole.

(4) Management situation and internal control of the Company

The Supervisory Committee is of the opinion that during the reporting period, the Company has been under the effective management and control of the Board and the management. The Company has continuously improved its internal control systems to make it more reasonable and complete; and practically and effectively commence risk management to ensure regulated and steady operation. The Supervisor Committee is of the view that the Self-assessment Report for Internal Control of the Company is true, comprehensive and in line with the Company's practices.

(5) The performance of responsibilities of Directors and Senior Management

The Supervisory Committee is of the view that the Board of Directors, both collectively and individually, have earnestly performed their duties with integrity and diligence, and each Director has earnestly understood the situation of the Company and thoroughly discussed the Company's affairs before making decisions. Facing up to the complex internal and external environment, the management has earnestly performed their duties in terms of reference and implemented the resolutions of the Board in a scientific way; thus successfully accomplished the objectives set by the Board.

(6) Execution of the insiders information management system

During the reporting period, the Company further optimized its insider information management system and improved the protection of insider information. The Supervisor Committee did not recognize any inside trading prejudicing the interests of the Company and shareholders by directors, supervisors and senior management as well as related insiders.

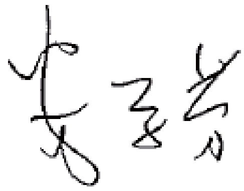
(7) **External guarantee**

Provision of guarantee by the Company in respect of bond issue and other financing and in favor of an overseas wholly-owned subsidiary and an actually controlled non-wholly-owned subsidiary of the Company is in accordance with the requirements under laws and regulations and the Articles of Association of the Company, which has been under necessary approval procedure and the Company has disclosed related information to comply with the requirements.

(8) **Other information**

Through the annual assessment on the management of the Company, the Supervisory Committee is of the opinion that the annual assessment on the management is conducted in strict compliance with procedures approved at the general meetings and by the management authority of the state-owned assets and the Supervisory Committee has no disagreement with the result of the assessment.

For and on behalf
Supervisory Committee



An Xuefen
Chairman of the Supervisory Committee
22 March 2013

I. SHARE APPRECIATION RIGHTS PLAN OF THE COMPANY AND ITS IMPACT

On 22 November 2006, the share appreciation rights plan for senior management of COSL (the "SAR Plan") was approved by the shareholders by the way of a resolution passed in the second Extraordinary General Meeting which is a middle to long term incentive programme for 7 senior management. The SAR Plan became effective on 22 November 2006 for ten years and the grant of the share appreciation rights was completed and became effective on 6 June 2007 when the targeted senior management agreed and signed individual performance contracts with the Company, with a grant price of HK$4.09. According to the plan, the targeted senior management's exercisable number of share appreciation rights was linked to their performance target to be reviewed comprehensively within two years from the effective date, so as to confirm the exercise ratio. The share appreciation rights have a vesting period of two years, and the senior management can exercise their rights in four equal batches in year 3, 4, 5 and 6 from the approval date of the SAR Plan.

The total exercisable gains as a result of exercising the SAR shall not exceed 10% of the Company's net profit for the year. The settlement in cash from exercising share appreciation rights must be processed by deposit into the related dedicated accounts, with no less than 20% of such cash payments shall only be withdrawn after qualified upon expiry of employment term with the Company.

The SAR Plan further provides that if the gain from exercising the share appreciation rights exceeds HK$0.99 per share in any one year, the excess gain should be calculated using the following percentage:

(1) between HK$0.99 and HK$1.50, at 50%;
(2) between HK$1.51 and HK$2.00, at 30%;
(3) between HK$2.01 and HK$3.00, at 20%; and
(4) HK$3.01 or above, at 15%.

As at 31 December 2012, the first tranche of SAR has forfeited in 2009, the second tranche of SAR has been approved and exercised and the third tranche of SAR exercising proposal has not been submitted for approval. Exercise gains of the second tranche of SAR, the third tranche of SAR and the fourth tranche of SAR are measured at HK$1.82, HK$2.27 and HK$2.43 per share respectively. The weighted average closing price of the second tranche of SAR for the day preceding the exercise was HK$9.11 per share.

As of 31 December 2012, the outstanding share appreciation rights is 1,173,075 shares (31 December 2011: 1,173,075 shares).

		Share			
Title	**Name**	**At 1 January 2012**	**Exercised**	**Forfeited**	**At 31 December 2012**
Former Non-executive Director	Yuan Guangyu*	–	–	–	–
President and CEO	Li Yong	352,150	–	–	352,150
Former Executive Vice President and CFO	Zhong Hua*	176,075	–	–	176,075
Former Executive Vice President, CSO and Board Secretary	Chen Weidong*	176,075	–	–	176,075
Former Senior Vice President	Li Xunke*	164,225	–	–	164,225
Former Employee Supervisor	Tang Daizhi*	–	–	–	–
Vice President	Xu Xiongfei	304,550	–	–	304,550
		1,173,075	–	–	1,173,075

Note:: Yuan Guangyu, Zhong Hua, Chen Weidong, Li Xunke and Tang Daizhi resigned due to work arrangements. According to the terms of the SAR Plan, the above incentive targets will be entitled to their benefits based on the vesting ratio of their serving time during the vesting period and performance target.*

Pursuant to the Performance Management Measures for the SAR Plan of COSL, the Remuneration Committee of the Board conducted a comprehensive assessment of the performance of incentive targets achieved in the period from 2006 to 2010. All of the incentive targets passed the assessment. During the reporting period, the Remuneration Committee of the Board conducted 2011 annual assessment of performance of incentive targets and again all of them passed the assessment. The above report of performance assessment for senior management of the Company was approved at shareholders' general meeting.

II. SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 38 to the financial statements of this annual report.

III. GUARANTEE

Unit: US10,000

External guarantees provided by the Company (excluding guarantee to controlled subsidiaries)

Guarantor	Relationship between guarantor and the Company	Guaranteed party	Amount of guarantee	Date of guarantee (Agreement execution date)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Whether fully fulfilled	Whether overdue	Overdue amount	Whether any counter guarantee available	Whether related party guarantee	Related party relationship
COSL	Headquarter	China France Bohai Geoservices Co., Ltd.	45	10 April 2010	10 April 2010	9 April 2013	Under joint and several liabilities	No	No	No	No	Yes	Jointly controlled entity
COSL	Headquarter	China Nanhai-Magcobar Mud Corporation Ltd.	480	10 May 2010	20 October 2010	9 May 2013 (pursuant to the contract, either of the parties can extend the term on an 1+1 year basis upon expiry)	Under joint and several liabilities	No	No	No	No	Yes	Jointly controlled entity

Total amount of guarantee occurred during the reporting period (excluding guarantee to controlled subsidiaries)	0
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to controlled subsidiaries)	525
Guarantee provided by the Company to its controlled subsidiaries	
Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period	109,209
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	105,127
Total guarantee provided by the Company (including guarantee to controlled subsidiaries)	
Total amount of guarantee (A+B)	105,652
Total amount of guarantee as a percentage of the Company's net assets (%)	20.6%
Including:	
Amount of guarantee provided to shareholders, the de facto controller and its related parties (C)	0
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D)	399
The excess of total amount of guarantee over 50% of the net assets (E)	0
Total amount of the above 3 guarantees (C+D+E)	399

Guarantee details:

(1) Guarantee provided by the Company to subsidiaries includes the guarantee in favor of bond issue by the Company of USD$1 billion.

(2) Subject parties with gearing ratio over 70% under debt guarantee are foreign wholly-owned subsidiary of the Company and non-wholly-owned foreign subsidiary actually controlled by the Company.

IV. ENGAGEMENT AND DISMISSAL OF AUDITORS OF THE COMPANY

Unit: RMB million

Change audit firm or not:	No
	Currently appointed
Name of domestic audit firm	Ernst & Young Hua Ming LLP
Life span of domestic audit firm auditing	6 years
Name of international audit firm	Ernst & Young
Life span of international audit firm auditing	11 years
Remuneration of domestic and international audit firm	23.6

V. OTHER SIGNIFICANT EVENTS

In 2009 and 2010, certain overseas subsidiaries received notifications from the Norwegian tax authorities requesting them to provide related data used for the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. The Group has been communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies following the "Announcement about the Update on the Tax Dispute with the Norwegian Tax Authority" disclosed on 18 December 2012. Although the Group has not received any written decision from the Norwegian tax authorities as at the approval date of the consolidated financial statements, based on the latest negotiations and the estimation made by the Group, a provision of approximately NOK170 million (RMB190 million) has been provided for the income tax in relation to the above issue.

ERNST & YOUNG

To the shareholders of China Oilfield Services Limited
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 114 to 186, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

22 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
REVENUE	4	**22,104,699**	18,426,133
Other revenues	4	**174,043**	112,710
		22,278,742	18,538,843
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(3,173,463)**	(3,069,595)
Employee compensation costs	5	**(3,671,357)**	(3,311,579)
Repair and maintenance costs	5	**(793,854)**	(538,646)
Consumption of supplies, materials, fuel, services and others		**(4,071,683)**	(3,447,908)
Subcontracting expenses		**(2,825,522)**	(1,514,062)
Operating lease expenses	5	**(709,645)**	(433,126)
Other operating expenses		**(1,133,153)**	(1,009,239)
Other selling, general and administrative expenses		**(185,028)**	(156,118)
Impairment of property, plant and equipment	5	**(96,420)**	(75,796)
Total operating expenses		**(16,660,125)**	(13,556,069)
PROFIT FROM OPERATIONS		**5,618,617**	4,982,774
Financial income/(expenses)			
Exchange (loss)/gains, net		**(41,913)**	60,521
Finance costs	6	**(512,718)**	(469,743)
Interest income		**127,460**	63,804
Financial expenses, net		**(427,171)**	(345,418)
Investment income	5	**2,169**	–
Share of profits of jointly-controlled entities	18	**243,193**	174,273
PROFIT BEFORE TAX	5	**5,436,808**	4,811,629
Income tax expense	10	**(867,038)**	(772,094)
PROFIT FOR THE YEAR		**4,569,770**	4,039,535
Attributable to:			
Owners of the parent	11	**4,559,354**	4,039,277
Non-controlling interests		**10,416**	258
		4,569,770	4,039,535
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**101.42 cents**	89.86 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR	**4,569,770**	4,039,535
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(14,852)**	(361,148)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(14,852)**	(361,148)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,554,918**	3,678,387
Attributable to:		
Owners of the parent	**4,544,503**	3,678,146
Non-controlling interests	**10,415**	241
	4,554,918	3,678,387

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**47,075,676**	46,285,323
Goodwill	15	**4,234,831**	4,245,207
Other intangible assets	16	**371,178**	371,656
Investments in jointly-controlled entities	18	**508,845**	444,767
Available-for-sale investments	19	**–**	–
Employee benefit assets	9	**14,864**	174
Other non-current assets	24	**219,690**	53,342
Total non-current assets		**52,425,084**	51,400,469
CURRENT ASSETS			
Inventories	20	**948,850**	894,553
Prepayments, deposits and other receivables	21	**650,588**	796,295
Accounts receivable	22	**4,145,236**	3,980,041
Notes receivable	23	**619,940**	1,219,384
Other current assets	24	**2,058,997**	21,310
Pledged deposits	25	**30,755**	10,805
Time deposits with original maturity over three months	25	**3,954,185**	882,126
Cash and cash equivalents	25	**9,814,893**	5,646,159
Total current assets		**22,223,444**	13,450,673
CURRENT LIABILITIES			
Trade and other payables	26	**5,021,791**	4,530,740
Salary and bonus payables		**914,435**	807,337
Tax payable		**266,693**	61,553
Interest-bearing bank borrowings	29	**1,659,906**	1,626,325
Other current liabilities	24	**60,219**	79,197
Total current liabilities		**7,923,044**	7,105,152
NET CURRENT ASSETS		**14,300,400**	6,345,521
TOTAL ASSETS LESS CURRENT LIABILITIES		**66,725,484**	57,745,990
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**1,688,281**	1,817,000
Interest-bearing bank borrowings	29	**23,992,139**	24,983,768
Long term bonds	30	**7,717,913**	1,500,000
Deferred revenue	31	**1,122,237**	986,068
Total non-current liabilities		**34,520,570**	29,286,836
Net assets		**32,204,914**	28,459,154
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**4,495,320**	4,495,320
Reserves	33(a)	**26,305,041**	23,154,087
Proposed final dividend	12	**1,393,549**	809,158
		32,193,910	28,458,565
Non-controlling interests		**11,004**	589
Total equity		**32,204,914**	28,459,154

Li Yong
Director

Li Feilong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the parent								
	Issued capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	4,495,320	8,074,565	1,687,453	(193,511)	10,716,592	809,158	25,589,577	348	25,589,925
Profit for the year	–	–	–	–	4,039,277	–	4,039,277	258	4,039,535
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	(361,131)	–	–	(361,131)	(17)	(361,148)
Total comprehensive income for the year	–	–	–	(361,131)	4,039,277	–	3,678,146	241	3,678,387
Final 2010 dividend declared	–	–	–	–	–	(809,158)	(809,158)	–	(809,158)
Proposed final 2011 dividend *(note 12)*	–	–	–	–	(809,158)	809,158	–	–	–
Transfer from retained profits	–	–	383,384	–	(383,384)	–	–	–	–
At 31 December 2011 and 1 January 2012	4,495,320	8,074,565*	2,070,837*	(554,642)*	13,563,327*	809,158	28,458,565	589	28,459,154
Profit for the year	**–**	**–**	**–**	**–**	**4,559,354**	**–**	**4,559,354**	**10,416**	**4,569,770**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(14,851)**	**–**	**–**	**(14,851)**	**(1)**	**(14,852)**
Total comprehensive income for the year	**–**	**–**	**–**	**(14,851)**	**4,559,354**	**–**	**4,544,503**	**10,415**	**4,554,918**
Final 2011 dividend declared	**–**	**–**	**–**	**–**	**–**	**(809,158)**	**(809,158)**	**–**	**(809,158)**
Proposed final 2012 dividend *(note 12)*	**–**	**–**	**–**	**–**	**(1,393,549)**	**1,393,549**	**–**	**–**	**–**
Transfer from retained profits	**–**	**–**	**437,819**	**–**	**(437,819)**	**–**	**–**	**–**	**–**
At 31 December 2012	**4,495,320**	**8,074,565***	**2,508,656***	**(569,493)***	**16,291,313**	**1,393,549**	**32,193,910**	**11,004**	**32,204,914**

* These reserve accounts comprise the consolidated reserves of approximately RMB26,305,041,000 (2011: RMB23,154,087,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	*36*	**9,529,493**	7,082,459
Taxes paid:			
Mainland China corporate income tax paid		**(698,166)**	(682,539)
Overseas income taxes paid		**(92,470)**	(51,081)
Net cash flows from operating activities		**8,738,857**	6,348,839
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,642,916)**	(4,595,994)
Purchase of available-for-sale and held-to-maturity investments		**(2,000,000)**	–
Proceeds from disposal of items of property, plant and equipment		**4,637**	19,368
Insurance compensation received		**28,058**	25,426
Proceeds from balances with jointly-controlled entities		**2,260**	60,740
Increase in time deposits with original maturity over three months		**(3,072,059)**	(482,126)
(Increase)/decrease in pledged deposits		**(19,950)**	76,728
Interest received		**106,571**	63,823
Dividends received from jointly-controlled entities		**177,973**	178,081
Net cash flows used in investing activities		**(8,415,426)**	(4,653,954)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**750,604**	2,558,310
Proceeds from issuance of unsecured bonds		**6,216,042**	–
Repayment of short term loans		**(1,667,952)**	(2,973,089)
Dividends paid		**(810,683)**	(805,256)
Interest paid		**(555,153)**	(516,570)
Net cash flows used in financing activities		**3,932,858**	(1,736,605)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,256,289**	(41,720)
Cash and cash equivalents at beginning of year		**5,646,159**	5,847,164
Effect of foreign exchange rate changes, net		**(87,555)**	(159,285)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,814,893**	5,646,159
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	*25*	**13,799,833**	6,539,090
Less: Pledged deposits with original maturity less than three months	*25*	**(30,755)**	(10,805)
Non-pledged time deposits at banks with original maturity over three months when acquired	*25*	**(3,954,185)**	(882,126)
Cash and cash equivalents as stated in the consolidated statement of cash flows	*25*	**9,814,893**	5,646,159

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**19,635,622**	19,776,768
Other intangible assets	*16*	**304,970**	294,153
Investments in subsidiaries	*17*	**7,303,799**	7,303,799
Investments in jointly-controlled entities	*18*	**133,829**	136,089
Available-for-sale investments	*19*	**–**	–
Other long term receivables	*17*	**22,951,721**	22,807,998
Total non-current assets		**50,329,941**	50,318,807
CURRENT ASSETS			
Inventories	*20*	**598,458**	611,713
Prepayments, deposits and other receivables	*21*	**530,215**	568,724
Accounts receivable	*22*	**3,582,157**	3,209,953
Notes receivable	*23*	**619,940**	1,219,384
Other current assets	*24*	**2,002,169**	–
Pledged deposits	*25*	**29,564**	10,805
Time deposits with original maturity more than three months	*25*	**2,068,535**	882,126
Cash and cash equivalents	*25*	**5,171,968**	4,650,084
Total current assets		**14,603,006**	11,152,789
CURRENT LIABILITIES			
Trade and other payables	*26*	**3,676,359**	3,176,968
Salary and bonus payables		**799,909**	749,246
Tax payable		**7,292**	1
Interest-bearing bank borrowings	*29*	**1,659,906**	1,626,325
Total current liabilities		**6,143,466**	5,552,540
NET CURRENT ASSETS		**8,459,540**	5,600,249
TOTAL ASSETS LESS CURRENT LIABILITIES		**58,789,481**	55,919,056
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*28*	**990,265**	718,071
Interest-bearing bank borrowings	*29*	**23,992,139**	24,983,768
Long term bonds	*30*	**1,500,000**	1,500,000
Deferred revenue	*31*	**288,963**	202,089
Total non-current liabilities		**26,771,367**	27,403,928
Net assets		**32,018,114**	28,515,128
EQUITY			
Issued capital	*32*	**4,495,320**	4,495,320
Reserves	*33*	**26,129,245**	23,210,650
Proposed final dividend	*12*	**1,393,549**	809,158
Total equity		**32,018,114**	28,515,128

Li Yong
Director

Li Feilong
Director

1. Corporate information

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

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

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

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

2.2 Changes in accounting policy and disclosures

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements –Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK (IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	*Amendments to a number of HKFRSs issued in June 2012*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclosure information about rights to self-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analysis performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Jointly ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 Summary of significant accounting policies (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person’s family and that person

- (i) has control or joint control over the Group;
- (ii) has a significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Tankers and vessels	10 to 20 years
Drilling rigs (including drilling rig components)	5 to 30 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 years
Buildings	20 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents drilling rigs, vessels and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The estimated useful lives of intangible assets are as follows:

Trademark	10 years
Prepaid land lease payments	50 years
Management system	10 years
Software	3 to 5 years
Contract value	Contract period

2.4 Summary of significant accounting policies (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid and lease payments land using rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group..

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories primarily consist of materials and supplies used for the repairs and maintenance of plant and equipment and daily operations. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The materials and supplies are capitalised to plant and equipment when used for renewals or betterments of plant and equipment or recognised as expenses when used for daily operations. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to stage of completion determined by surveys of work performed.

The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(a) total contract revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the contract will flow to the entity;

(c) both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and

(d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

2.4 Summary of significant accounting policies (continued)

Construction contracts (continued)

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and jointly-controlled entities, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Certain of the Group's drilling rigs are owned by the Company's wholly owned Bermuda (for tax purpose, domiciled in Singapore) and Singapore subsidiaries. Due to the changing demands of the off-shore drilling markets and the ability to redeploy the Group's off-shore units, such units will not reside in a location long enough to give rise to future tax consequences in that location. As a result, no deferred tax has been recognised in these circumstances. Should the Group's expectations change regarding the length of time an off-shore drilling unit will be used in a given location, and tax laws and regulations in the future operating jurisdictions, the Group would adjust deferred tax accordingly.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from day rate contracts, as and when services have been performed;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; income from turnkey contracts is recognised to the extent of costs incurred until the specific turnkey depth and other contract requirements are met. When the turnkey depth and contract requirements are met, revenue on turnkey contracts is recognised based on the percentage of completion. Provisions for future losses on turnkey contracts are recognised when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract;

(c) from time charters and bareboat charters accounted for as operating leases under HKAS 17 on the straight-line basis over the rental periods of such charters, as service is performed;

(d) reimbursables relating to purchases of supplies, equipment, personnel services and other services provided at the request of the Group's customers, with the related expense recorded as an operating expense. Income is recognised when the goods are delivered or services rendered;

(e) interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate;

(f) dividend income, when the shareholders' right to receive payment has been established; and

(g) investment income is arising from the Group's investment in money market fund and is recognised when the right to receive income has been established.

Share-based payments

The Company operates a share appreciation rights plan for its senior officers. The purpose of the share appreciation rights plan is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value change is charged to the income statement over the period until the finalisation of exercise gain (note 27). The liability is measured at the end of each reporting period and the settlement date with changes in fair value recognised in the income statement.

Other employee benefits

Pension scheme

The Group's employees in Mainland China are required to participate in a central pension plan operated by local municipal governments. The Group is required to contribute 19% to 22% of its payroll costs to the central pension plan. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension plan.

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined benefits plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund for its employees of COSL Drilling Europe AS, a wholly-owned subsidiary of the Company. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, an appropriate capitalisation rate will be applied to the expenditure on the individual assets.

Dividends

Final and/or interim dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates of exchange on the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income, relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about those assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful life and impairment of property, plant and equipment

The estimated useful life of property, plant and equipment is based on the actual useful life of property, plant and property with similar characteristics and functions. If the useful life of these property, plant and equipment is less than previously estimated, the Group will accelerate the related depreciation or dispose of idle or obsolete property, plant and equipment. This requires management to use past experience in estimating the appropriate useful life.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell. This requires management to make assumptions about the future cash flows and pre-tax discount rate and hence they are subject to uncertainty. In 2012, a provision for impairment of property, plant and equipment amounting to RMB96,420,000 (2011: RMB75,796,000) was recognised. Further details are given in note 14.

Provisions for doubtful debts and inventories obsolescence

The impairment of accounts receivable is determined by management based on available objective evidence, e.g., it becoming probable that a debtor will enter bankruptcy or is having significant financial difficulty. Based on the Group's accounting policy for inventories, management determines the provision for inventories obsolescence required by comparing the cost and net realisable value for obsolete or slow-moving items.

The impairment or provision amount is subject to management's assessment at each reporting date, and hence the provision amount is subject to uncertainty. At 31 December 2012, impairment losses of approximately RMB203,603,000 (2011: RMB313,161,000) have been recognised for accounts receivable and losses of approximately RMB17,446,000 (2011: RMB17,913,000) have been recognised for inventories. Further details are given in note 22 and note 20, respectively.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB4,234,831,000 (2011: RMB4,245,207,000). Further details are given in note 15.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2012, impairment losses of approximately RMB129,398,000 (2011: RMB129,715,000) have been recognised for available-for-sale investments. Further details are given in note 19.

2.5 Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to accumulated tax losses at 31 December 2012 were recognised (2011: Nil). Further details are contained in note 28 to the financial statements.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Management judgement is required to determine the applicable tax rates in the further periods, based on the various tax laws, regulations, treaties and level of operations in jurisdictions of operation, future tax planning strategies and the forecast made on the Company's continuing compliance with the High–New Technical Enterprise ("HNTE") criteria.

3. Operating segment information

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

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

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

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

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

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

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

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

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

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

3. Operating segment information (continued)

Year ended 31 December 2012	Drilling services RMB'000	Well services RMB'000	Marine support and transportation services RMB'000	Geophysical and surveying services RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	11,251 ,584	4,857,936	2,945,215	3,049,964	22,104,699
Intersegment sales	1,872,129	536,923	151,404	153,088	2,713,544
	13,123,713	5,394,859	3,096,619	3,203,052	24,818,243
Reconciliation:					
Elimination of intersegment sales					(2,713,544)
Revenue					22,104,699
Segment results	3,713,951	766,478	545,494	835,887	5,861,810
Reconciliation:					
Exchange loss, net					(41,913)
Finance costs					(512,718)
Interest income					127,460
Investment income					2,169
Profit before tax					5,436,808
Income tax					867,038
Segment assets	83,366,864	4,608,695	4,578,640	3,789,213	96,343,412
Reconciliation:					
Elimination of intersegment assets					(32,039,085)
Unallocated assets					10,344,201
Total assets					74,648,528
Segment liabilities	42,036,015	2,130,516	1,134,702	784,453	46,085,686
Reconciliation:					
Elimination of intersegment liabilities					(32,039,085)
Unallocated liabilities					28,397,013
Total liabilities					42,443,614
Other segment information:					
Capital expenditure	3,295 ,617	574,709	54,776	265,004	4,190 ,106
Depreciation of property, plant and equipment and amortisation of intangible assets	1,954,738	553,012	329,930	335,783	3,173,463
Provision for impairment of accounts receivable	14,007	(1,051)	(637)	(664)	11,655
Provision for impairment of other receivables	729	317	192	200	1,438
Provision for impairment of inventories	(237)	(103)	(62)	(65)	(467)
Provision for impairment of property, plant and equipment	77,420	19,000	–	–	96,420
Share of profits of jointly-controlled entities	–	204,330	(1,634)	40,497	243,193
Investments in jointly-controlled entities	–	370,773	20,872	117,200	508,845

3. Operating segment information (continued)

Year ended 31 December 2011	Drilling services RMB'000	Well services RMB'000	Marine support and transportation services RMB'000	Geophysical and surveying services RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	9,514,660	3,950,350	2,533,772	2,427,351	18,426,133
Intersegment sales	1,958,421	940,246	399,796	376,685	3,675,148
	11,473,081	4,890,596	2,933,568	2,804,036	22,101,281
Reconciliation:					
Elimination of intersegment sales					(3,675,148)
Revenue					18,426,133
Segment results	3,431,367	590,280	517,602	617,798	5,157,047
Reconciliation:					
Exchange gains, net					60,521
Finance costs					(469,743)
Interest income					63,804
Profit before tax					4,811,629
Income tax					772,094
Segment assets	70,388,183	3,735,359	4,911,878	3,988,722	83,024,142
Reconciliation:					
Elimination of intersegment assets					(24,536,312)
Unallocated assets					6,363,312
Total assets					64,851,142
Segment liabilities	28,461,966	1,625,337	888,450	869,678	31,845,431
Reconciliation:					
Elimination of intersegment liabilities					(24,536,312)
Unallocated liabilities					29,082,869
Total liabilities					36,391,988
Other segment information:					
Capital expenditure	2,605,033	452,893	292,502	946,898	4,297,326
Depreciation of property, plant and equipment and amortisation of intangible assets	1,941,785	540,122	304,814	282,874	3,069,595
Provision for impairment of accounts receivable	37,821	520	333	320	38,994
Provision for impairment of other receivables	(1,080)	(453)	(290)	(279)	(2,102)
Provision for impairment of inventories	267	112	72	69	520
Provision for impairment of property, plant and equipment	71,200	–	4,596	–	75,796
Share of profits of jointly-controlled entities	1,889	141,596	(728)	31,516	174,273
Investments in jointly-controlled entities (a)	(54,100)	322,795	22,554	99,418	390,667

(a) As at 31 December 2011, the investments in jointly-controlled entities included investments in Premium Drilling AS ("Premium Drilling") and Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater") which were classified as other current liabilities with an aggregated amount of RMB54.1 million.

3. Operating segment information (continued)

Geographical information

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

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations during the year were individually less than 10% of the Group's revenues (2011: Less than 10%), and approximately 68.9% (2011: 71.9%) of the Group's revenues were generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2012 and 2011.

Year ended 31 December 2012	**Mainland China RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue:			
Sales to external customers	**15,225,311**	**6,879,388**	**22,104,699**

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

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

Information about a major customer

Details of revenue generated from a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which is known to be under common control with CNOOC Limited, are provided in note 38.

4. Revenue and other revenues

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

An analysis of revenue and other revenues is as follows:

	Group 2012 RMB'000	2011 RMB'000
Revenue:		
Rendering of services (a)	**21,910,140**	18,238,631
Gross rental income	**194,559**	187,502
Total revenue	**22,104,699**	18,426,133
Other revenues:		
Gain on disposal of equipment	**3,862**	451
Insurance claims received	**28,059**	25,613
Government grants (a)	**133,775**	81,609
Others	**8,347**	5,037
Total other revenues	**174,043**	112,710

(a) Included in the amount recognised as revenue is deferred revenue of RMB201,417,000 (2011: RMB218,299,000) (note 31).

5. Profit before tax

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

	Group 2012 RMB'000	2011 RMB'000
Auditors' remuneration:		
Audit	**18,300**	17,069
Non-audit	**5,265**	5,329
Employee compensation costs (including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**2,892,129**	2,715,550
Social security costs	**484,855**	415,194
Retirement benefits and pensions	**294,373**	185,495
Share appreciation rights	**–**	(4,660)
	3,671,357	3,311,579

5. Profit before tax (continued)

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

		Group	
	Note	2012 RMB'000	2011 RMB'000
Depreciation of property, plant and equipment and amortisation of intangible assets	*14, 16*	**3,173,463**	3,069,595
Loss on disposal of property, plant and equipment, net		**49,366**	34,024
Lease payments under operating leases in respect of land and buildings, berths and equipment		**709,645**	433,126
Impairment of property, plant and equipment	*14*	**96,420**	75,796
Impairment of accounts receivable, net	*22*	**11,655**	38,994
Impairment of other receivables, net	*21*	**1,438**	(2,102)
Impairment of inventories	*20*	**(467)**	520
Repair and maintenance costs		**793,854**	538,646
Gain/(loss) on disposal of jointly-controlled entities		**24,440**	(93)
Investment income from available-for-sale		**2,169**	–
Research and development costs, included in:		**458,113**	334,120
Depreciation of property, plant and equipment		**50,659**	13,330
Employee compensation costs		**76,754**	35,399
Consumption of supplies, materials, fuel, services and others		**320,877**	277,438
Other operating expenses		**9,823**	7,953

6. Finance costs

An analysis of finance costs is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Interest on bank borrowings		
Wholly repayable within five years	**383,974**	23,874
Wholly repayable after five years	**109,539**	446,933
Interest on long term bonds	**134,628**	71,417
Total interests	**628,141**	542,224
Less: Interest capitalised *(note 14)*	**(123,059)**	(85,479)
	505,082	456,745
Other finance costs:		
Others	**7,636**	12,998
	512,718	469,743

7. Directors' and supervisors' remuneration

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Hong Kong Listing Rules ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**921**	849
Bonuses*	**910**	878
Share appreciation rights	**–**	(661)
Pension scheme contributions	**155**	143
	1,986	1,209
	3,266	2,489

* Certain directors and supervisors are entitled to bonus payments which are determined based on the duties and responsibilities of the directors and supervisors, as well as the results of the Group.

(a) Independent non-executive directors and supervisor

The fees paid/payable to independent non-executive directors and an independent supervisor during the year are as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Independent non-executive directors:		
Tsui Yiu Wa (i)	**400**	400
Fong Wo, Felix	**400**	400
Chen Quansheng	**400**	400
	1,200	1,200
Independent supervisor:		
Wang Zhile (i)	**80**	80
	1,280	1,280

There were no other emoluments payable to the independent non-executive directors and the independent supervisor during the year (2011: Nil).

Notes:

(i) Mr. Tsui Yiu Wa and Mr. Wang Zhile were re-elected as an independent non-executive director and an independent supervisor, respectively, with effect from 5 June 2012.

7. Directors' and supervisors' remuneration (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	Total RMB'000
2012					
Executive director and chief executive:					
Li Yong	**348**	**358**	**54**	**–**	**760**
Executive director:					
Li Feilong	**337**	**304**	**54**	**–**	**695**
Non-executive directors:					
Liu Jian	**–**	**–**	**–**	**–**	**–**
Wu Mengfei	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
Supervisors:					
An Xuefen	**–**	**–**	**–**	**–**	**–**
Zi Shilong	**236**	**248**	**47**	**–**	**531**
	236	**248**	**47**	**–**	**531**
Total	**921**	**910**	**155**	**–**	**1,986**
2011					
Executive director and chief executive:					
Li Yong	319	375	50	(661)	83
Executive director:					
Li Feilong	310	278	50	–	638
Non-executive directors:					
Liu Jian	–	–	–	–	–
Wu Mengfei	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
An Xuefen	–	–	–	–	–
Zi Shilong	220	225	43	–	488
	220	225	43	–	488
Total	849	878	143	(661)	1,209

7. Directors' and supervisors' remuneration (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive (continued)

In prior years, share appreciation rights were granted to certain executive directors in respect of their services to the Group, further details of which are disclosed in note 27 to the consolidated financial statements.

There was no arrangement under which a director or a supervisor or the chief executive waived or agreed to waive any remuneration during the year.

8. Five highest paid employees

The five highest paid employees during the year do not include any directors and the chief executive (2011: Nil), details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration for the year of the five (2011: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Basic salaries, allowances and benefits in kind	**14,363**	10,063
Bonuses	**10,098**	8,685
Pension scheme contributions	**277**	265
	24,738	19,013

The number of non-director, non-supervisor, and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
HK$3,000,001 to HK$3,500,000	**1**	2
HK$3,500,001 to HK$5,500,000	**2**	2
HK$5,500,001 to HK$7,500,000	**1**	–
HK$7,500,001 to HK$9,500,000	**–**	1
HK$9,500,001 to HK$11,500,000	**1**	–
	5	5

9. Pensions and defined benefit plan

All the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension at rates ranging from 19% to 22% of the employees' basic salaries. The related pension costs are expensed as incurred.

The employees of the Group as at the time of the Reorganisation were entitled to the supplementary pension benefits (the "Supplementary Pension Benefits") provided by CNOOC in addition to the benefits under the government-regulated pension fund described above. The Supplementary Pension Benefits were calculated based on factors including the number of years of service and salary level on the date of retirement of the employee. Following the Reorganisation, CNOOC agreed with the Group that the Supplementary Pension Benefits of the Group's existing employees attributed to the period prior to the Company's public listing in Hong Kong and the Supplementary Pension Benefits of the Group's retired employees will continue to be assumed by CNOOC. As the obligations under the Supplementary Pension Benefits have been fully assumed by CNOOC, the costs of such Supplementary Pension Benefits have not been recorded in the Group's financial statements for the year ended 31 December 2012 (2011: Nil).

9. Pensions and defined benefit plan (continued)

The expenses attributed to the PRC government-regulated pension scheme are as follows:

	Group 2012 RMB'000	2011 RMB'000
Contributions to the PRC government-regulated pension scheme	**202,489**	129,833

At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2011: Nil).

The Group also has a defined benefit plan with a life insurance company to provide pension benefits for certain employees in Norway. The benefit expense charged to the consolidated income statement for the year was RMB36,228,000 (2011: RMB25,642,000).

10. Income Tax

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

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

On 30 October 2008, the Company was certified as an HNTE by the Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and the Tianjin Local Taxation Bureau, which was effective for three years commencing 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from the Tianjin Off-shore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2009. According to the approval, the corporate income tax rate was approved to be 15% for the years 2009 and 2010. The Company had applied to renew its HNTE certificate for three years commencing from 1 January 2011, and was received as an HNTE certificate on February 2012, which is effective for three years commencing 1 January 2011. Consequently, management considers that it is appropriate to use the preferential rate of 15% to provide the income tax provision of the Company for the year ended 31 December 2012 (2011: 15%).

The Group's activities in Indonesia are subject to corporate income tax of 25% (2011: 25%) based on its taxable profit generated. The Group's drilling activities in Australia are subject to income tax of 30% (2011: 30%) based on its taxable profit generated. The Group's subsidiary in Mexico is subject to the higher of the income tax rate of 30% or the business flat tax of 17.5% (2011: 30% and 17.5%, respectively). The Group's activities in Norway are mainly subject to corporate income tax of 28% (2011: 28%). The Group's activities in the United Kingdom are subject to income tax of 28% (2011: 28%). The Group's activities in the Philippine are subject to income tax of 30% (2011: 30%). The Group's activities in Iraq are subject to income tax of 35% (2011: 35%).

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

	Group 2012 RMB'000	2011 RMB'000
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**379,635**	72,669
Deferred	**(399,457)**	(100,626)
PRC corporate income taxes:		
Current	**615,104**	540,016
Deferred	**271,756**	260,035
Total tax charge for the year	**867,038**	772,094

10. Income Tax (continued)

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

	2012		2011	
	RMB'000	%	RMB'000	%
Profit before tax	**5,436,808**		4,811,629	
Tax at the statutory tax rate of 25% (2011: 25%)	**1,359,202**	**25.0**	1,202,907	25.0
Tax reduction as an HNTE	**(390,755)**	**(7.2)**	(369,141)	(7.7)
Income not subject to tax	**(71,785)**	**(1.3)**	(43,251)	(0.9)
Expense not deductible for tax	**33,356**	**0.6**	31,146	0.6
Tax benefit for qualifying research and development expense	**(48,605)**	**(0.9)**	(28,422)	(0.6)
Effect of different tax rates for overseas subsidiaries	**(193,891)**	**(3.6)**	(186,040)	(3.9)
Effect on change in tax rates	**(290,791)**	**(5.3)**	–	–
Tax losses (utilised)/unrecognised tax losses	**(197,127)**	**(3.6)**	259,644	5.4
Deductible translation adjustment (a)	**420,180**	**7.7**	(125,017)	(2.6)
Adjustments in respect of current tax of previous year	**10,539**	**0.2**	(21,218)	(0.4)
Others (b)	**236,715**	**4.4**	51,486	1.1
Total tax charge at the Group's effective rate	**867,038**	**16.0**	772,094	16.0

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

(b) Included in others were provisions for taxes related to certain Norwegian subsidiaries. In 2009 and 2010, certain overseas subsidiaries received notifications from the Norwegian tax authorities challenging the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group. The Group has been communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies. Although the Group has not received any written decision from the Norwegian tax authorities as at the approval date of the consolidated financial statements, based on the latest negotiations and the estimation made by the Group, a provision of approximately NOK170 million (RMB190 million) has been provided in the consolidated financial statements.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB84,159,000 (2011: RMB59,114,000) is included in "Share of profits of jointly-controlled entities" in the consolidated income statement.

11. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of approximately RMB4,309,234,000 (2011: RMB3,814,365,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. Dividends

	Group and Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Proposed final dividend – RMB0.31 per ordinary share (2011: RMB0.18 per ordinary share)	**1,393,549**	809,158

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

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

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

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

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

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

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

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

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

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately RMB4,559,354,000 (2011: RMB4,039,277,000), and the weighted average number of ordinary shares of 4,495,320,000 (2011: 4,495,320,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. Property, plant and equipment

Group

31 December 2012	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress (note 1) RMB'000	Total RMB'000
At 31 December 2011 and at 1 January 2012							
Cost	9,394,825	35,678,125	10,108,958	84,528	66,276	11,786,982	67,119,694
Accumulated depreciation and impairment	(4,346,031)	(9,826,996)	(5,697,534)	(57,168)	(11,914)	(894,728)	(20,834,371)
Net carrying amount	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323
At 1 January 2012, net of accumulated depreciation and impairment	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323
Additions	1,300	257,944	510,055	4,493	237	3,386,100	4,160,129
Depreciation provided during the year	(472,893)	(1,578,701)	(1,065,124)	(10,195)	(3,604)	–	(3,130,517)
Disposals/write-offs	(39,418)	(8,102)	(35,952)	(71)	–	–	(83,543)
Transfers from/(to) construction in progress ("CIP")	1,596,182	4,748,450	882,203	4,875	55	(7,231,765)	–
CIP transfers to intangible assets	–	–	–	–	–	(12,629)	(12,629)
Impairment (a)	–	(77,420)	(19,000)	–	–	–	(96,420)
Impairment write-off (b)	29,888	–	–	–	–	–	29,888
Impairment transfer from CIP (c)	–	(408,558)	–	–	–	408,558	–
Exchange realignment	904	(66,306)	(1,647)	–	–	(9,506)	(76,555)
At 31 December 2012, net of accumulated depreciation and impairment	6,164,757	28,718,436	4,681,959	26,462	51,050	7,433,012	47,075,676
At 31 December 2012							
Cost	10,732,480	40,509,677	11,319 ,669	93,184	66,463	7,916,996	70,638,469
Accumulated depreciation and impairment	(4,567,723)	(11,791,241)	(6,637,710)	(66,722)	(15,413)	(483,984)	(23,562,793)
Net carrying amount	6,164,757	28,718,436	4,681,959	26,462	51,050	7,433,012	47,075,676

14. Property, plant and equipment (continued)

Group

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

As at 31 December 2012, the gross carrying amount of fully depreciated property, plant and equipment that is still in use was approximately RMB7,689,721,000 (2011: RMB7,434,605,000).

Included in the current year's additions was an amount of approximately RMB123,059,000 (2011: RMB85,479,000) in respect of interest capitalised in property, plant and equipment (note 6), with a capitalisation rate of 0.52% (2011: 0.95%).

Impairment of property, plant and equipment

(a) An impairment loss of approximately RMB77,420,000 was recognised in 2012 to reduce the carrying amount of certain land drilling equipment in Libya, as a direct result of the civil unrest there. The impairment loss has been classified under the segment of "Drilling services" in note 3 to the consolidated financial statements.

In addition, an impairment loss of approximately RMB19,000,000 was recognised in 2012 to reduce the carrying amount of certain oil field service related machinery and equipment due to the deterioration of the equipment's condition. The impairment loss has been classified under the segment of "Well services" in note 3 to the consolidated financial statements.

(b) A write-off of impairment of approximately RMB29,888,000 was also recognised in 2012, arising from the disposal of the related vessels.

(c) An impairment loss of US$65,000,000 (approximately RMB408,558,000) for COSLInnovator was recognised in June 2009 to reduce the carrying amount of certain semi-submersible rigs under construction, primarily arising from the adverse change in the economic environment since late 2008 and the delay in the delivery of the semi-submersible rigs under construction. Since construction of the related semi-submersible rigs was completed and they were transferred from construction in progress to the drilling rigs in 2012, the impairment loss was transferred accordingly.

14. Property, plant and equipment (continued)

Company

31 December 2012	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress (note 1) RMB'000	Total RMB'000
At 31 December 2011 and at 1 January 2012							
Cost	8,776,697	14,596,076	9,528,607	83,152	61,888	2,826,571	35,872,991
Accumulated depreciation and impairment	(4,198,037)	(6,368,009)	(5,463,574)	(55,955)	(10,648)	–	(16,096,223)
Net carrying amount	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768
At 1 January 2012, net of accumulated depreciation and impairment	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768
Additions	–	–	443,684	4,357	–	1,385,801	1,833,842
Depreciation provided during the year	(430,457)	(438,195)	(940,503)	(10,063)	(3,038)	–	(1,822,256)
CIP transfers to intangible assets	–	–	–	–	–	(12,629)	(12,629)
Disposals/write-offs	(7,923)	(326)	(35,363)	(71)	–	–	(43,683)
Transfers from/(to) CIP	1,523,643	720,734	674,418	4,875	–	(2,923,670)	–
Impairment	–	(77,420)	(19,000)	–	–	–	(96,420)
At 31 December 2012, net of accumulated depreciation and impairment	5,663,923	8,432,860	4,188,269	26,295	48,202	1,276,073	19,635,622
At 31 December 2012, net of accumulated depreciation and impairment							
Cost	10,105,895	15,262,301	10,469,483	91,672	61,888	1,276,073	37,267,312
Accumulated depreciation and impairment	(4,441,972)	(6,829,441)	(6,281,214)	(65,377)	(13,686)	–	(17,631,690)
Net carrying amount	5,663,923	8,432,860	4,188,269	26,295	48,202	1,276,073	19,635,622

14. Property, plant and equipment (continued)

Company

31 December 2011	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress (note 1) RMB'000	Total RMB'000
At 31 December 2010 and at 1 January 2011							
Cost	8,425,717	13,388,623	8,808,256	67,421	61,888	3,994,364	34,746,269
Accumulated depreciation and impairment	(3,991,436)	(5,859,803)	(4,461,555)	(45,855)	(7,610)	–	(14,366,259)
Net carrying amount	4,434,281	7,528,820	4,346,701	21,566	54,278	3,994,364	20,380,010
At 1 January 2011, net of accumulated depreciation and impairment	4,434,281	7,528,820	4,346,701	21,566	54,278	3,994,364	20,380,010
Additions	–	–	271,327	3,908	–	1,562,050	1,837,285
Depreciation provided during the year	(368,127)	(437,007)	(1,077,260)	(10,100)	(3,038)	–	(1,895,532)
CIP transfers to intangible assets	–	–	–	–	–	(9,845)	(9,845)
Disposals/write-offs	(431,495)	–	(32,455)	–	–	–	(463,950)
Transfers from/(to) CIP	944,001	1,207,454	556,720	11,823	–	(2,719,998)	–
Impairment	–	(71,200)	–	–	–	–	(71,200)
At 31 December 2011, net of accumulated depreciation and impairment	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768
At 31 December 2011, net of accumulated depreciation and impairment							
Cost	8,776,697	14,596,076	9,528,607	83,152	61,888	2,826,571	35,872,991
Accumulated depreciation and impairment	(4,198,037)	(6,368,009)	(5,463,574)	(55,955)	(10,648)	–	(16,096,223)
Net carrying amount	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768

Note 1: On 14 January 2012, HYSY682, a deep water Anchor Handling Tug Supply vessel of the Company being constructed by a shipyard included in the construction in progress as at 31 December 2012 and 2011, was grounded at the wharf of the shipyard as a result of a leak of the vessel. No impairment loss was recognised to HYSY682 for the year ended 31 December 2012 based on the impairment testing result.

15. Goodwill

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

Group	2012 RMB'000
Cost at 1 January 2012, net of accumulated impairment	**4,245,207**
Exchange realignment	**(10,376)**
Cost and net carrying value at 31 December 2012	**4,234,831**
Cost	**4,245,207**
Exchange realignment	**(10,376)**
Net carrying amount	**4,234,831**

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

Impairment testing of goodwill

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

The recoverable amount of the group of the drilling services cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 9.5% (2011: 9.5%).

Assumptions were used in the value in use calculation of the group of the drilling services cash-generating units as of 31 December 2012 and 2011. The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

16. Other intangible assets

Group

31 December 2012	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2012 net of accumulated amortisation	**408**	**245,170**	**125,236**	**842**	**371,656**
Additions	**–**	**–**	**29,977**	**–**	**29,977**
Transferred from CIP	**–**	**–**	**12,629**	**–**	**12,629**
Amortisation provided during the year	**(41)**	**(5,234)**	**(36,827)**	**(844)**	**(42,946)**
Exchange realignment	**–**	**–**	**(140)**	**2**	**(138)**
At 31 December 2012	**367**	**239,936**	**130,875**	**–**	**371,178**
At 31 December 2012:					
Cost	**411**	**261,468**	**295,587**	**113,114**	**670,580**
Accumulated amortisation	**(44)**	**(21,532)**	**(164,712)**	**(113,114)**	**(299,402)**
Net carrying amount	**367**	**239,936**	**130,875**	**–**	**371,178**

31 December 2011	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2011 net of accumulated amortisation	–	250,404	151,293	6,200	407,897
Additions	–	–	10,325	–	10,325
Transferred from CIP	411	–	9,434	–	9,845
Amortisation provided during the year	(3)	(5,234)	(41,641)	(5,183)	(52,061)
Exchange realignment	–	–	(4,175)	(175)	(4,350)
At 31 December 2011	408	245,170	125,236	842	371,656
At 31 December 2011:					
Cost	411	261,468	253,403	113,391	628,673
Accumulated amortisation	(3)	(16,298)	(128,167)	(112,549)	(257,017)
Net carrying amount	408	245,170	125,236	842	371,656

16. Other intangible assets (continued)

Company

31 December 2012	Trademark RMB'000	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2012, net of accumulated amortisation	**408**	**245,170**	**48,575**	**294,153**
Additions	**–**	**–**	**29,092**	**29,092**
Transferred from CIP	**–**	**–**	**12,629**	**12,629**
Amortisation provided during the year	**(41)**	**(5,234)**	**(25,629)**	**(30,904)**
At 31 December 2012	**367**	**239,936**	**64,667**	**304,970**
At 31 December 2012:				
Cost	**411**	**261,468**	**176,708**	**438,587**
Accumulated amortisation	**(44)**	**(21,532)**	**(112,041)**	**(133,617)**
Net carrying amount	**367**	**239,936**	**64,667**	**304,970**

31 December 2011	Trademark RMB'000	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2011, net of accumulated amortisation	–	250,404	58,286	308,690
Additions	–	–	8,465	8,465
Transferred from CIP	411	–	9,434	9,845
Amortisation provided during the year	(3)	(5,234)	(27,610)	(32,847)
At 31 December 2011	408	245,170	48,575	294,153
At 31 December 2011:				
Cost	411	261,468	135,122	397,001
Accumulated amortisation	(3)	(16,298)	(86,547)	(102,848)
Net carrying amount	408	245,170	48,575	294,153

17. Investments in subsidiaries

	Company 31 December 2012 RMB'000	31 December 2011 RMB'000
Unlisted shares, at cost	**7,303,799**	7,303,799

As at 31 December 2012, loans to subsidiaries included in other long term receivables of the Company of approximately RMB22,951,721,000 (2011: RMB22,807,998,000) are unsecured, have a floating interest rate of LIBOR plus 300 basis points, and are repayable within two years.

As at 31 December 2012, the amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,415,869,000 (2011: RMB1,189,566,000) and RMB100,944,000 (2011: RMB117,711,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the principal subsidiaries are as follows:

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
COSL America Inc.	United States of America 2 November 1994	US$100,000	100	–	Sale of logging equipment
China Oilfield Services (BVI) Limited	British Virgin Islands 19 March 2003	US$1	100	–	Investment holding
COSL (Labuan) Company Limited	Malaysia 11 April 2003	US$1	–	100	Provision of drilling services in Indonesia
China Oilfield Services Southeast Asia (BVI) Ltd.	British Virgin Islands 29 May 2003	US$1	–	100	Investment holding
COSL Chemicals (Tianjin), Ltd. (formerly known as Tianjin Jinlong Petro-Chemical Company Ltd.)	Tianjin, PRC 7 September 1993	RMB20,000,000	100	–	Provision of drilling fluids services
COSL (Australia) Pty Ltd.	Australia 11 January 2006	A$10,000	–	100	Provision of drilling services in Australia
COSL Hong Kong International Limited	Hong Kong 3 December 2007	HK$2,743,035,822	100	–	Investment holding
COSL Norwegian AS	Norway 23 June 2008	NOK1,541,328,656	–	100	Investment holding
COSL Drillings Europe As ("CDE")	Norway 21 January 2005	NOK1,494,415,487	–	100	Investment holding

17. Investments in subsidiaries (continued)

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
COSL Drilling Pan-Pacific Ltd.	Singapore 13 April 2009	US$1	–	100	Management of jack-up drilling rigs
COSL Drilling Pan-Pacific (Labuan) Ltd.	Malaysia 4 April 2009	US$1	–	100	Management of jack-up drilling rigs
PT Samudra Timur Santosa (a)	Indonesia 27 July 2010	US$250,000	–	49	Provision of marine support and transportation services
COSL Oil Tech (Singapore) Ltd.	Singapore 31 January 2011	US$1	–	100	Provision of marine support and transportation services
COSL Finance (BVI) Limited	British Virgin Islands 12 July 2012	US$100,000	–	100	Bond Issuance

(a) In the opinion of the directors, the Company has control over PT Samudra Timur Santosa's ("PT STS") financial and operating policies, and accordingly, the financial statements of PT STS have been incorporated into the Group's consolidated financial statements, and PT STS has been accounted for as a subsidiary.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Investments in jointly-controlled entities

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Unlisted investments, at cost	–	–	**129,330**	129,330
Share of net assets	**565,252**	499,063	–	–
Due from jointly-controlled entities	**4,609**	6,869	**4,609**	6,869
Due to jointly-controlled entities	**(61,016)**	(61,165)	**(110)**	(110)
	508,845	444,767	**133,829**	136,089

The amounts due from and due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

18. Investments in jointly-controlled entities (continued)

Particulars of the principal jointly-controlled entities are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
China France Bohai Geoservices Co., Ltd. ("China France")	US$ 6,650,000	Tianjin, PRC 30 November 1983	50	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar") (a)	RMB 4,640,000	Shenzhen, PRC 25 October 1984	60	60	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	US$ 2,000,000	Tianjin, PRC 14 April 1993	50	50	Provision of well completion services
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	US$ 2,000,000	Shenzhen, PRC 10 May 1984	50	50	Provision of logging services
China Off-shore Fugro Geo Solutions (Shenzhen) Company Ltd. ("China Off-shore Fugro")	US$ 1,720,790	Shenzhen, PRC 24 August 1983	50	50	Provision of geophysical and surveying services
Eastern Marine Services Ltd. ("Eastern Marine") (a)	HK$ 1,000,000	Hong Kong 10 March 2006	51	51	Marine transportation services
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	US$ 5,000,000	Tianjin, PRC 28 February 2007	50	50	Provision of well testing services

(a) In the opinion of the directors, the Company does not have control over the financial and operating policies of Magcobar and Eastern Marine, and accordingly, the financial statements of these companies have not been incorporated into the Group's consolidated financial statements since these companies have not been accounted for as subsidiaries. Magcobar and Eastern Marine have been dealt with in the Group's consolidated financial statements using the equity accounting method.

As at 31 December 2012, PT Tritunggal Sinergi Company Ltd was liquidated and the investment was written off by the Group.

(b) Premium Drilling AS, Premium Drilling Inc. and Premium Drilling (Cayman) Ltd., collectively known as Premium Drilling, were set up by CDE and Sinvest AS (formerly known as Sinvest ASA) in June 2005 to manage the operations of jack-up drilling rigs. As at 31 December 2012, Premium Drilling was liquidated and the investments were written off by the Group.

(c) As at 31 December 2012, Atlantis Deepwater was liquidated and the investment was written off by the Group.

All of the above investments in jointly-controlled entities are directly held by the Company except for Eastern Marine, which is indirectly held through China Oilfield Services (BVI) Limited.

18. Investments in jointly-controlled entities (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**541,183**	475,441
Non-current assets	**197,832**	190,640
Current liabilities	**(173,763)**	(310,927)
Non-current liabilities	**–**	(29,268)
Net assets*	**565,252**	325,886

	2012 RMB'000	2011 RMB'000
Share of the jointly-controlled entities' results:		
Revenue	**926,850**	832,743
Other revenues	**5**	603
Total expenses	**(599,503)**	(599,959)
Tax	**(84,159)**	(59,114)
Profit after tax	**243,193**	174,273

* In 2011, the share of the jointly-controlled entities' net assets includes the share of net liabilities of Premium Drilling and Atlantis Deepwater, amounting to approximately RMB89,269,000 and RMB37,053,000. As at 31 December 2012, both Premium Drilling and Atlantis Deepwater were liquidated and the investment was written off by the Group.

19. Available-for-sale investments

	Group and Company	
	2012 RMB'000	2011 RMB'000
Unlisted investment, at acquired cost (a)		
At 1 January	**–**	100
Disposals	**–**	(100)
At 31 December	**–**	–
Unlisted equity investment, at acquired cost (b)		
At 1 January, before provision for impairment	**129,715**	136,340
Exchange realignment for the year	**(317)**	(6,625)
At 31 December, before provision for impairment	**129,398**	129,715
Less: Provision for impairment	**(129,398)**	(129,715)
At 31 December, net carrying amount	**–**	–
Total net carrying amount at 31 December	**–**	–

(a) The unlisted equity investment is an investment in Atlantis Deepwater Technology Holding AS, which was disposed of in 2011.

(b) As at 31 December 2012 and 2011, the equity investment in an equity's security, Petrojack ASA was an unlisted investment, Petrojack ASA had withdrawn its listing from the stock market since March 2010. Full provision against the equity investment in Petrojack ASA had been made.

20. Inventories

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Gross inventories	**966,296**	912,466	**615,904**	629,626
Less: Provisions	**(17,446)**	(17,913)	**(17,446)**	(17,913)
	948,850	894,553	**598,458**	611,713

As at 31 December 2012 and 2011, the Group's and the Company's inventories consisted of materials and supplies.

21. Prepayments, deposits and other receivables

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Prepayments	**92,006**	472,012	**41,715**	40,653
Deposits	**98,344**	25,401	**32,403**	21,763
Other receivables	**466,652**	303,858	**462,511**	511,284
	657,002	801,271	**536,629**	573,700
Less: Provision for impairment of other receivables	**(6,414)**	(4,976)	**(6,414)**	(4,976)
	650,588	796,295	**530,215**	568,724

22. Accounts receivable

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

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

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Outstanding balances aged:				
Within one year	**4,187,222**	4,182,218	**3,639,450**	3,328,721
One to two years	**82,605**	84,582	**5,095**	30,995
Two to three years	**55,354**	1,747	**1,899**	1,747
Over three years	**23,658**	24,655	**1,062**	1,206
	4,348,839	4,293,202	**3,647,506**	3,362,669
Less: Provision for impairment of accounts receivable	**(203,603)**	(313,161)	**(65,349)**	(152,716)
	4,145,236	3,980,041	**3,582,157**	3,209,953

22. Accounts receivable (continued)

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

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**313,161**	281,480
Impairment losses recognised *(note 5)*	**40,021**	49,282
Impairment losses reversed *(note 5)*	**(28,366)**	(10,288)
Impairment losses written-off	**(120,034)**	–
Exchange realignment	**(1,179)**	(7,313)
At 31 December	**203,603**	313,161

Included in the above provision for impairment of accounts receivable are a provision for individually impaired accounts receivable of RMB37,686,000 (2011: RMB32,947,000) with a carrying amount before provision of RMB663,762,000 (2011: RMB909,857,000) and a provision for accounts receivable collectively, which share similar credit risk characteristics, of RMB2,335,000 (2011: RMB16,335,000) with an aggregate carrying amount before provision of RMB31,482,000 (2011: RMB48,545,000).

As at 31 December 2012, since Atlantis Deepwater was liquidated, and the investment was written off by the Group, the impairment losses of RMB120,034,000 (2011: Nil) was written off accordingly.

As at 31 December 2012 and 2011, the Group did not have any significant accounts receivable past due but not impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. Notes receivable

	Group and Company	
	31 December 2012	31 December 2011
	RMB'000	RMB'000
Trade acceptances	**616,740**	1,217,384
Bank acceptances	**3,200**	2,000
	619,940	1,219,384

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

24. Other current assets/liabilities and other non-current assets

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Assets classified as held-to-maturity (a)	**300,000**	–
Assets classified as available-for-sale (a)	**1,702,169**	–
Current portion of deferred expenses (b)	**56,828**	21,310
Other current assets	**2,058,997**	21,310
Share of net liabilities of jointly-controlled entities (note 18) (c)	–	(126,322)
Due to a jointly-controlled entity	–	(17,145)
Due from jointly-controlled entities	–	89,367
	–	(54,100)
Current portion of deferred revenue	**(60,219)**	(25,097)
Other current liabilities	**(60,219)**	(79,197)
Other non-current assets (b)	**219,690**	53,342

	Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Assets classified as held-to-maturity (a)	**300,000**	–
Assets classified as available-for-sale (a)	**1,702,169**	–
Other current assets	**2,002,169**	–

(a) Assets classified as held-to-maturity and available-for-sale represent the Group's investments in corporate wealth management products issued by banks in the PRC and liquidity funds. The corporate wealth management products included in held-to-maturity will be matured on 9 May 2013. The liquidity funds included in available-for-sale have no fixed maturity date and no coupon rate.

(b) Deferred expenses represent mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, which are amortised over the drilling contract periods. As at 31 December 2012 and 2011, the current portion of deferred expenses has been included in other current assets while the non-current portion of deferred expenses has been included in non-current assets.

(c) In 2011, the share of net liabilities of Premium Drilling and Atlantis Deepwater with amounts of RMB89,269,000 and RMB37,053,000, respectively, were recognised since management of the Company was of the opinion that the Group had obligations to meet the liabilities of Premium Drilling and Atlantis Deepwater. As at 31 December 2012, both the Premium Drilling and Atlantis Deepwater were liquidated and the investments were written off by the Group.

25. Cash and cash equivalents, pledged deposits and time deposits

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash and balances with banks	**4,674,399**	1,770,986	**50,283**	774,911
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**1,097,835**	1,073,852	**1,097,835**	1,073,852
Time deposits at banks	**8,027,599**	3,694,252	**6,121,949**	3,694,252
Cash and balances with banks and financial institutions	**13,799,833**	6,539,090	**7,270,067**	5,543,015
Less:				
Pledged deposits – current	**(30,755)**	(10,805)	**(29,564)**	(10,805)
Time deposit with original maturity over three months	**(3,954,185)**	(882,126)	**(2,068,535)**	(882,126)
Cash and cash equivalents	**9,814,893**	5,646,159	**5,171,968**	4,650,084

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 RMB5,044,943,000 (2011: RMB3,121,464,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2012, included in the time deposits at banks of the Group were non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB3,954,185,000 (2011: RMB882,126,000).

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

26. Trade and other payables

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

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Outstanding balances aged:				
Within one year	**4,862,798**	4,351,926	**3,548,123**	3,012,369
One to two years	**74,262**	79,990	**43,505**	65,775
Two to three years	**27,595**	34,673	**27,595**	34,673
Over three years	**57,136**	64,151	**57,136**	64,151
	5,021,791	4,530,740	**3,676,359**	3,176,968

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

27. Share appreciation rights plan

On 22 November 2006, the share appreciation rights plan for senior officers (the "SAR Plan") was approved by the shareholders in an extraordinary general meeting. A total of five million share appreciation rights with an exercise price of HK$4.09 per share were awarded under the SAR Plan to seven senior officers, including the chief executive officer (president), three executive vice presidents, and three other vice presidents. The share appreciation rights will become vested upon completion of a two year service period from the approval date, and the senior officers can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 22 November 2008), 4, 5 and 6 from the approval date of the SAR Plan. The share appreciation rights will be settled in cash. According to the SAR Plan, the exercise gain for excisable share appreciation rights will be determined by the difference between the average closing price of the shares on the HKSE as stated in the HKSE's quotation from the 30 days immediately preceding the date of its annual report to the last transaction date of that year, and the exercise price.

The SAR Plan further provides that if the exercise gain from exercising the share appreciation rights exceeds HK$0.99 per share in any one year, the excess gain should be calculated using the following percentages:

1) between HK$0.99 and HK$1.50, at 50%;
2) between HK$1.51 and HK$2.00, at 30%;
3) between HK$2.01 and HK$3.00, at 20%; and
4) HK$3.01 or above, at 15%.

As of 31 December 2012, the first batch of share appreciation rights has been forfeited in 2009, the second batch has been approved and exercised in 2011 and the third batch has not been submitted for approval. The exercise gains of the second, the third and the fourth batch of share appreciation rights were measured at HK$1.82, HK$2.27 and HK$2.43 per share, respectively. The weighted average closing price of the shares immediately before the date on which the second batch of share appreciation rights was exercised was HK$9.11 per share.

The fair value change is charged to the income statement over the period until the finalisation of the exercise gain. The liability is re-measured at the end of the reporting period and the settlement date with changes in fair value recognised in profit or loss. At 31 December 2012, the salary and bonus payable arising from the share appreciation rights was RMB1.4 million (2011: RMB1.4 million).

Details of movements in the share appreciation rights during the year are as follows:

	2012 Number of shares	2011 Number of shares
Outstanding at 1 January	**1,173,075**	3,503,663
Granted during the year	–	
Exercised during the year	–	(1,250,000)
Forfeited during the year	–	(1,080,588)
Outstanding at 31 December	**1,173,075**	1,173,075
Exercisable at 31 December	**1,173,075**	1,173,075

28. Deferred tax liabilities

The movements of deferred tax liabilities during the year are as follows:

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Balance at beginning of the year	**1,817,000**	1,716,052	**718,071**	458,036
Charged to income statement during the year *(note 10)*	**(127,701)**	159,409	**272,194**	260,035
Exchange realignment	**(1,018)**	(58,461)	**–**	–
Balance at end of the year	**1,688,281**	1,817,000	**990,265**	718,071

The principal components of the provision for deferred tax are as follows:

Group

	Balance at 1 January 2011 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2011 and 1 January 2012 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2012 RMB'000
Deferred tax assets:							
Provision for staff bonus	175,087	(64,679)	–	110,408	**7,452**	**–**	**117,860**
Provision for impairment of assets	–	44,138	–	44,138	**11,786**	**(10)**	**55,914**
Amortisation of intangible assets	–	439	–	439	**939**	**–**	**1,378**
Accrued liabilities	–	–	–	–	**15**	**–**	**15**
Others	38,642	(26,775)	(385)	11,482	**3,861**	**(41)**	**15,302**
	213,729	(46,877)	(385)	166,467	**24,053**	**(51)**	**190,469**
Deferred tax liabilities:							
Accelerated depreciation of property, plant and equipment	907,758	240,850	(13,645)	1,134,963	**259,757**	**(498)**	**1,394,222**
Revaluation surplus on Reorganisation	40,100	(34,085)	–	6,015	**(6,015)**	**–**	**–**
Fair value adjustment arising from acquisition of a subsidiary	981,304	(94,258)	(45,170)	841,876	**(356,920)**	**(531)**	**484,425**
Others	619	25	(31)	613	**(470)**	**(40)**	**103**
	1,929,781	112,532	(58,846)	1,983,467	**(103,648)**	**(1,069)**	**1,878,750**
Net deferred tax liabilities	1,716,052	159,409	(58,461)	1,817,000	**(127,701)**	**(1,018)**	**1,688,281**

28. Deferred tax liabilities (continued)

The principal components of the provision for deferred tax are as follows (continued):

Company

	Balance at 1 January 2011 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2011 and 1 January 2012 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2012 RMB'000
Deferred tax assets:					
Provision for staff bonus	175,087	(64,679)	110,408	**7,452**	**117,860**
Provision for impairment of assets	–	44,138	44,138	**9,249**	**53,387**
Amortisation of intangible assets	–	439	439	**939**	**1,378**
Others	33,572	(32,482)	1,090	**(80)**	**1,010**
	208,659	(52,584)	156,075	**17,560**	**173,635**
Deferred tax liabilities:					
Accelerated depreciation of property, plant and equipment	626,595	241,536	868,131	**295,769**	**1,163,900**
Revaluation surplus on Reorganisation	40,100	(34,085)	6,015	**(6,015)**	**–**
	666,695	207,451	874,146	**289,754**	**1,163,900**
Net deferred tax liabilities	458,036	260,035	718,071	**272,194**	**990,265**

At 31 December 2012, there was no significant unrecognised deferred tax liability (2011: Nil) for taxes that would be deducted from the unremitted earnings or cash of certain of the Group's subsidiaries or jointly-controlled entities should such amounts be remitted.

At 31 December 2012, accumulated tax losses arising in subsidiaries of the Company incorporated in Norway of approximately RMB3,266,204,000 (2012: RMB3,772,314,000) were 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 in near future.

29. Interest-bearing bank borrowings

Current:

	Group and Company 31 December 2012 RMB'000	31 December 2011 RMB'000
Current portion of long term bank loans	**1,659,906**	1,626,325

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2012 RMB'000	31 December 2011 RMB'000
Export-Import Bank of China – unsecured (a)	LIBOR+170pts	2020	**4,182,422**	4,710,921
Bank of China – unsecured (b)	LIBOR+138pts	2017	**13,109,908**	13,077,912
Bank of China – unsecured (c)	LIBOR+90pts	2017	**4,776,980**	5,040,720
Industrial and Commercial Bank of China – unsecured (c)	LIBOR+90pts	2017	**3,582,735**	3,780,540
			25,652,045	26,610,093
Less: Current portion of long term bank loans			**(1,659,906)**	(1,626,325)
			23,992,139	24,983,768

(a) The Group borrowed a US$800 million loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42.1 million bi-annually. The Group repaid US$84.2 million during the year.

(b) The Group entered into a US$2,200 million credit facility agreement with Bank of China on 30 April 2009, of which US$1,700 million was assigned to replace CDE's loans and bonds and US$500 million was assigned to finance CDE's daily operations. The repayment started on 14 May 2012 over 11 instalments bi-annually. During the year, the Group withdrew principal of US$119.5 million and repaid US$109.9 million respectively.

(c) The Group borrowed US$800 million from Bank of China and US$600 million from Industrial and Commercial Bank of China in May 2009 to replace CDE's syndicated bank loan. The repayments started on 25 May 2012 and 22 May 2012, respectively, over 11 instalments bi-annually. The Group repaid US$40.0 million and US$30.0 million, respectively during the year.

	Group and Company 31 December 2012 RMB'000	31 December 2011 RMB'000
Bank borrowings repayable:		
Within one year	**1,659,906**	1,626,325
In the second year	**3,856,068**	1,545,176
In the third to fifth years, inclusive	**18,547,725**	14,741,082
Beyond five years	**1,588,346**	8,697,510
	25,652,045	26,610,093

There were no assets pledged for any of the above bank borrowings as at 31 December 2012 (2011: Nil).

30. Long term bonds

Group

	Year of maturity	31 December 2012 RMB'000	31 December 2011 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
Senior unsecured USD bonds (b)	2022	**6,217,913**	–
		7,717,913	1,500,000

Company

	Year of maturity	31 December 2012 RMB'000	31 December 2011 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000

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

(b) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Group, issued 10-year senior unsecured bonds, with a USD$1,000 million principal amount. The bonds carry interest at a fixed coupon rate of 3.25% per annum, which is payable semi-annually in arrears on March 6 and September 6 of each year, and the redemption or maturity date is 6 September 2022.

31. Deferred revenue

	Group 2012 RMB'000	2011 RMB'000
Balance at beginning of the year	**986,068**	922,523
Additions	**337,584**	319,321
Credited to the consolidated income statement during the year	**(201,417)**	(218,299)
Decrease	**(326)**	–
Exchange realignment	**328**	(37,477)
Balance at end of the year	**1,122,237**	986,068

	Company 2012 RMB'000	2011 RMB'000
Balance at beginning of the year	**202,089**	207,354
Additions	**158,335**	67,585
Credited to the income statement during the year	**(71,135)**	(72,850)
Decrease	**(326)**	–
Balance at end of the year	**288,963**	202,089

31. Deferred revenue (continued)

Deferred revenue consists of the contract value generated in the process of the acquisition of CDE, the deferred mobilisation revenue and government grants. The deferred revenue generated from contract value and deferred mobilisation revenue are amortised according to the related drilling contract periods. The deferred revenue generated from government grants is recognised in the consolidated income statement according to the depreciation periods of the related assets and the periods in which the related costs incurred.

In 2012, government grants of RMB110,416,000 (2011: RMB68,134,000) were recognised as deferred revenue and will be credited in the consolidated income statement according to the depreciation periods of the related assets and the periods in which the related costs incurred. Meanwhile, part of mobilisation revenue of RMB227,167,000 (2011: RMB251,187,000) was recognised as deferred revenue and will be credited to the consolidated income statement according to the related contracts periods.

In 2012, government grants of RMB69,940,000 (2011: RMB72,860,000) and mobilisation revenue of RMB113,326,000 (2011: RMB110,946,000) were credited to other revenue and revenue, respectively. Also, included in the amount credited to the revenue during the year is RMB18,151,000 (2011: RMB34,493,000) arising from the amortisation of the contract value.

32. Issued capital

	31 December 2012 RMB'000	31 December 2011 RMB'000
Registered, issued and fully paid:		
2,460,468,000 state legal person shares of RMB1.00 each	**2,460,468**	2,460,468
1,534,852,000 H shares of RMB1.00 each	**1,534,852**	1,534,852
500,000,000 A shares of RMB1.00 each	**500,000**	500,000
	4,495,320	4,495,320

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

The Company does not have any share option scheme but has a share appreciation rights plan for senior officers (note 27).

33. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity of the financial statements.

(b) Company

	Note	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Cumulative translation reserve RMB'000	Total RMB'000
Balance at 1 January 2011		8,074,565	1,687,453	10,489,263	(18,149)	20,233,132
Total comprehensive income for the year		–	–	3,814,365	(27,689)	3,786,676
Proposed final 2011 dividend	*12*	–	–	(809,158)	–	(809,158)
Transfer from retained profits (i)		–	383,384	(383,384)	–	–
At 31 December 2011		8,074,565	2,070,837	13,111,086	(45,838)	23,210,650
Balance at 1 January 2012		**8,074,565**	**2,070,837**	**13,111,086**	**(45,838)**	**23,210,650**
Total comprehensive income for the year		**–**	**–**	**4,309,234**	**2,910**	**4,312,144**
Proposed final 2012 dividend	*12*	**–**	**–**	**(1,393,549)**	**–**	**(1,393,549)**
Transfer from retained profits (i)		**–**	**437,819**	**(437,819)**	**–**	**–**
At 31 December 2012		**8,074,565**	**2,508,656**	**15,588,952**	**(42,928)**	**26,129,245**

33. Reserves (continued)

Note:

(i) As detailed in note 12 to the consolidated financial statements, the Company is required to transfer a minimum percentage of after-tax profit, if any, to the statutory common reserve fund. The Company transferred 10% of after-tax profit under the PRC accounting principles to the statutory common reserve fund in 2012 and 2011.

As at 31 December 2012, in accordance with the PRC Company Law, an amount of approximately RMB8,075 million (2011: RMB8,075 million) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,509 million (2011: RMB2,071 million) standing to the credit of the Company's statutory reserve funds, as determined under the PRC accounting principles and financial regulations in the PRC, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB16,739 million (2011: RMB13,920 million) available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2012.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB17,337 million as at 31 December 2012 (2011: RMB14,205 million).

34. Operating lease arrangements

(a) Group and Company as lessee

The Group and the Company lease certain of their office properties and equipment under operating lease arrangements. Leases for properties and equipment are negotiated for terms ranging from one to five years.

At 31 December 2012 and 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within one year	**192,145**	226,974	**185,071**	153,708
In the second to fifth years, inclusive	**21,182**	21,680	**383**	197
After five years	**12,133**	16,094	**–**	–
	225,460	264,748	**185,454**	153,905

(b) Group as lessor

The Group has entered into a bareboat lease with a lease term of five years which expired in October 2012.

At 31 December 2012 and 2011, the Group had total future minimum lease receivables under a non-cancellable operating lease falling due as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within one year	**–**	161,835

35. Capital commitments

In addition to the operating lease commitments detailed in note 34(a) above, the Group and the Company had the following capital commitments, principally for the construction and purchases of property, plant and equipment at the end of the reporting period:

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Contracted, but not provided for	**1,973,891**	3,700,568	**914,997**	2,603,474
Authorised, but not contracted for	**10,529,513**	7,312,720	**10,529,513**	7,312,720
	12,503,404	11,013,288	**11,444,510**	9,916,194

At the end of the reporting period, the Group's and the Company's share of the jointly-controlled entities' own capital commitments were not significant.

36. Notes to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from operations

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,436,808**	4,811,629
Adjustments for:			
Finance costs	*6*	**505,082**	456,745
Interest income		**(127,460)**	(63,804)
Share of profits of jointly-controlled entities	*18*	**(243,193)**	(174,273)
Exchange loss/(gains), net		**41,913**	(60,521)
Loss on disposal of items of property, plant and equipment, net	*5*	**49,366**	34,024
Insurance compensation of property, plant and equipment		**(28,058)**	(25,613)
Depreciation of property, plant and equipment and amortisation of intangible assets	*5*	**3,173,463**	3,069,595
Impairment of accounts receivable and other receivables	*5*	**13,093**	36,892
Provision of inventories	*5*	**(467)**	520
Impairment of property, plant and equipment	*5*	**96,420**	75,796
		8,916,967	8,160,990
Increase in inventories		**(53,830)**	(79,533)
Increase in accounts receivable		**(204,903)**	(550,970)
Decrease/(increase) in notes receivable		**599,444**	(526,193)
Increase in prepayments, deposits and other receivables, net of receivables for property, plant and equipment		**(252,112)**	(6,484)
Increase in trade and other payables, net of payables for purchases of property, plant and equipment		**311,130**	13,262
Increase in salary and bonus payables		**76,628**	7,842
Increase in deferred revenue		**136,169**	63,545
Cash generated from operations		**9,529,493**	7,082,459

37. Contingency

In 2009 and 2010, certain subsidiaries of CDE received notifications from the Norwegian tax authorities challenging the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. The Group has been communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies. Although the Group has not received any written decision from the Norwegian tax authorities as at the approval date of the consolidated financial statements, based on the latest negotiations and the estimation made by the Group, a provision of approximately NOK170 million (RMB190 million) has been provided in the consolidated financial statements. Further details have been disclosed in note 10 to these consolidated financial statements.

38. Related party transactions

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is an SOE subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities and other SOEs.

(A) Related party transactions and outstanding balances with related parties

The Group has extensive transactions and relationships with the members of CNOOC. The transactions were made on terms agreed among the parties.

In addition to the transactions and balances detailed elsewhere in these financial statements, the following is a summary of significant transactions carried out between the Group and (i) the CNOOC Limited Group; (ii) the CNOOC Group; and (iii) the Group's jointly-controlled entities.

a. Included in revenue – gross revenue earned from provision of services to the following related parties

		Group	
		2012	2011
		RMB'000	RMB'000
i	CNOOC Limited Group		
	– Provision of drilling services	**6,047,316**	4,582,718
	– Provision of well services	**3,733,610**	3,064,540
	– Provision of marine support and transportation services	**2,169,885**	1,870,576
	– Provision of geophysical and surveying services	**2,396,153**	1,832,832
		14,346,964	11,350,666
ii	CNOOC Group		
	– Provision of drilling services	**77,109**	152,569
	– Provision of well services	**36,214**	60,691
	– Provision of marine support and transportation services	**436,563**	271,288
	– Provision of geophysical and surveying services	**291,261**	140,126
		841,147	624,674
iii	Jointly-controlled entities		
	– Provision of drilling services	**2,710**	2,329
	– Provision of well services	**16,475**	18,091
	– Provision of marine support and transportation services	**–**	
	– Provision of geophysical and surveying services	**3,064**	2,568
		22,249	22,988

38. Related party transactions (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

b. Included in operating expenses

	Group 2012 RMB'000	2011 RMB'000
Services provided by CNOOC Group and the Group's jointly-controlled entities:		
– Labour services	**42,275**	29,365
– Materials, utilities and other ancillary services	**754,273**	712,221
– Transportation services	**48,497**	15,793
– Leasing of offices, warehouses and berths	**106,719**	94,061
– Leasing of equipment	**246,093**	–
– Repair and maintenance services	**6,120**	4,503
– Management services	**48,886**	41,438
	1,252,863	897,381

c. Construction progress billing

	Group 2012 RMB'000	2011 RMB'000
Drilling rigs construction service provided by CNOOC Group	**–**	159,782

d. Included in interest income/expenses

CNOOC Finance (a subsidiary of CNOOC)	Group 2012 RMB'000	2011 RMB'000
Interest income	**18,293**	14,122
Interest expenses	**–**	1,448

e. Loan repayment during the year

	Group 2012 RMB'000	2011 RMB'000
CNOOC Finance	**–**	1,000,000

f. Trade receivable factoring without recourse

	Group 2012 RMB'000	2011 RMB'000
CNOOC Finance	**499,134**	–

38. Related party transactions (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

g. Deposits

	Group 31 December 2012 RMB'000	31 December 2011 RMB'000
Deposits placed with CNOOC Finance as at the end of the reporting period	**1,097,835**	1,073,852

Except for item a(iii) in note 38(A) above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

h. Commitments with related parties

(a) Operating lease commitments
The Group has the following significant operating lease commitments with related parties principally for properties and equipment, which have been included in note 34:

	Group 31 December 2012 RMB'000	31 December 2011 RMB'000
Within one year	**169,507**	87,646
In the second to fifth years, inclusive	**–**	–
After five years	**–**	–
	169,507	87,646

(b) Capital commitments
The Group has no capital commitments with related parties as of 31 December 2012 and 2011.

In addition, the Group has the following significant commitments with other SOEs in the PRC principally for the construction and purchases of property, plant and equipment, which are not included in the above:

	Group 31 December 2012 RMB'000	31 December 2011 RMB'000
Contracted, but not provided for	**809,934**	1,039,187
Authorised, but not contracted for	**–**	–
	809,934	1,039,187

38. Related party transactions (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

i. Outstanding balances with related parties

Accounts receivable

Included in accounts receivable are amounts due from related parties which arose from the ordinary course of business and are repayable on similar credit terms to those offered to independent third party customers.

	Group	
	31 December 2012 RMB'000	**31 December 2011 RMB'000**
Due from the ultimate holding company	**–**	11,598
Due from CNOOC Limited Group	**1,992,717**	1,998,198
Due from other CNOOC Group companies	**148,764**	66,228
Due from jointly-controlled entities	**1,508**	139,898
	2,142,989	2,215,922
Less: Provision for impairment of accounts receivable	**–**	(120,034)
	2,142,989	2,095,888

Prepayments, deposits and other receivables

	Group	
	31 December 2012 RMB'000	**31 December 2011 RMB'000**
Due from CNOOC Limited Group	**1,185**	5,213
Due from other CNOOC Group companies	**865**	9,598
	2,050	14,811
Less: Provision for impairment of other receivables	**(500)**	(500)
	1,550	14,311

Included in investments in jointly-controlled entities

	Group	
	31 December 2012 RMB'000	**31 December 2011 RMB'000**
Due from jointly-controlled entities	**4,609**	6,869
Due to jointly-controlled entities	**61,016**	61,165

38. Related party transactions (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

i. Outstanding balances with related parties (continued)

Notes receivable

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Due from CNOOC Limited Group	**616,740**	1,217,384

Included in trade and other payables

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Due to the ultimate holding company	**116,337**	3,248
Due to CNOOC Limited Group	**1,577**	14,451
Due to other CNOOC Group companies	**495,987**	587,903
Due to jointly-controlled entities	**146,532**	22,029
	760,433	627,631

Included in other current liabilities

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Due from joint-controlled entities	–	120,583
Less: Provision for impairment of due from joint-controlled entities	–	(31,216)
	–	89,367
Due to a joint-controlled entity	–	17,145

The Company and the above related parties are within the CNOOC Group and are under common control by the same ultimate holding company.

The balances with related parties at 31 December 2012 included in prepayments, deposits and other receivables, investments in jointly-controlled entities, trade and other payables, and other current liabilities of the Group are unsecured and interest-free, and have no fixed terms of repayment.

In connection with the Reorganisation, the Company entered into several agreements with the CNOOC Group which govern the employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements. During the year, all pension scheme payments relating to the Supplementary Pension Benefits of approximately RMB0.5 million (2011: RMB0.6 million) were borne by CNOOC (note 9).

Prior to the Reorganisation, the Group occupied certain properties owned by CNOOC at nil consideration. The Company entered into various property lease agreements in September 2002 with the CNOOC Group to lease the aforesaid properties together with other properties for a term of one year. These leases have been renewed annually.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the usual course of business.

38. Related party transactions (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

j. Transactions with other SOEs in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services of vessels and drilling rigs, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, other than the CNOOC Group, in the normal course of business at terms comparable to those with other non-SOEs. The sales of goods and rendering of services to these SOEs are individually not significant. The individually significant construction services provided by the SOE vendor is from a subsidiary controlled by an SOE, namely China International Marine Containers (Group) Co., Ltd. ("CIMC"), in relation to the construction of the Group's semi-submersible rigs. For the year ended 31 December 2012, the Group has recorded in the additions to its property, plant and equipment for the purchases of construction services of three semi-submersible rigs, with an aggregate amount of RMB401 million (2011: RMB996 million). On 1 December 2011, the Group entered into a construction contract with the subsidiary of CIMC for the construction of the fourth semi-submersible rig amounting to RMB810 million (2011:RMB1,039 million), which was included in the commitments in item 'h' in note 38(A) above.

In addition, the Group has certain of its cash and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2012, as summarised below:

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Cash and cash equivalents	**4,463,803**	1,377,524
Time deposits with financial institutions	**5,483,414**	1,016,018
	9,947,217	2,393,542
Long-term bank loans *(note 29)*	**23,992,139**	24,983,768
Current portion of long-term bank loans *(note 29)*	**1,659,906**	1,626,325
	25,652,045	26,610,093

Deposit interest rates and loan interest rates are at the market rates.

(B) Compensation of key management personnel of the Group

	31 December 2012 RMB'000	31 December 2011 RMB'000
Short-term employee benefits	**4,781**	4,336
Post-employment benefits	**403**	379
Share appreciation rights	**–**	(1,213)
Total compensation paid to key management personnel	**5,184**	3,502

Further details of directors' and the chief executive's emoluments are included in note 7 to the consolidated financial statements.

39. Financial instruments

(a) Financial instruments by category

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

Financial assets

	Group						
	31 December 2012				31 December 2011		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Held-to-maturity investments RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Due from jointly-controlled entities *(note 18)*	**4,609**	**–**	**–**	**4,609**	6,869	–	6,869
Available-for-sale investments *(note 19)*	**–**	**–**	**–**	**–**	–	–	–
Financial assets included in deposits and other receivables *(note 21)*	**558,582**	**–**	**–**	**558,582**	324,283	–	324,283
Accounts receivable *(note 22)*	**4,145,236**	**–**	**–**	**4,145,236**	3,980,041	–	3,980,041
Notes receivable *(note 23)*	**619,940**	**–**	**–**	**619,940**	1,219,384	–	1,219,384
Pledged deposits *(note 25)*	**30,755**	**–**	**–**	**30,755**	10,805	–	10,805
Time deposits with original maturity over three months *(note 25)*	**3,954,185**	**–**	**–**	**3,954,185**	882,126	–	882,126
Cash and cash equivalents *(note 25)*	**9,814,893**	**–**	**–**	**9,814,893**	5,646,159	–	5,646,159
Financial assets included in other current assets *(note 24)*	**–**	**1,702,169**	**300,000**	**2,002,169**	–	–	–
Total	**19,128,200**	**1,702,169**	**300,000**	**21,130,369**	12,069,667	–	12,069,667

Financial liabilities

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**4,769,445**	4,355,176
Due to a jointly-controlled entity *(note 24)*	**–**	17,145
Interest-bearing bank borrowings-current portion *(note 29)*	**1,659,906**	1,626,325
Subtotal	**6,429,351**	5,998,646
Non-current		
Due to jointly-controlled entities *(note 18)*	**61,016**	61,165
Interest-bearing bank borrowings *(note 29)*	**23,992,139**	24,983,768
Long term bonds *(note 30)*	**7,717,913**	1,500,000
Subtotal	**31,771,068**	26,544,933
Total	**38,200,419**	32,543,579

39. Financial instruments (continued)

(a) Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments of the Company as the end of the reporting period are as follows:

Financial assets

	Company						
	31 December 2012				31 December 2011		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Held-to-maturity investments RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Due from jointly-controlled entities *(note 18)*	4,609	–	–	4,609	6,869	–	6,869
Available-for-sale investments *(note 19)*	–	–	–	–	–	–	–
Financial assets included in deposits and other receivables *(note 21)*	488,500	–	–	488,500	528,071	–	528,071
Accounts receivable *(note 22)*	3,582,157	–	–	3,582,157	3,209,953	–	3,209,953
Notes receivable *(note 23)*	619,940	–	–	619,940	1,219,384	–	1,219,384
Pledged deposits *(note 25)*	29,564	–	–	29,564	10,805	–	10,805
Time deposits with original maturity over three months *(note 25)*	2,068,535	–	–	2,068,535	882,126	–	882,126
Cash and cash equivalents *(note 25)*	5,171,968	–	–	5,171,968	4,650,084	–	4,650,084
Financial assets included in other current assets *(note 24)*	–	1,702,169	300,000	2,002,169	–	–	–
Total	11,965,273	1,702,169	300,000	13,967,442	10,507,292	–	10,507,292

Financial liabilities

	Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**3,547,745**	3,043,699
Interest-bearing bank borrowings-current portion *(note 29)*	**1,659,906**	1,626,325
Subtotal	**5,207,651**	4,670,024
Non-current		
Due to jointly-controlled entities *(note 18)*	**110**	110
Interest-bearing bank borrowings *(note 29)*	**23,992,139**	24,983,768
Long term bonds *(note 30)*	**1,500,000**	1,500,000
Subtotal	**25,492,249**	26,483,878
Total	**30,699,900**	31,153,902

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Financial assets				
Due from jointly-controlled entities *(note 18)*	**4,609**	6,869	**4,609**	6,869
Available-for-sale investments *(note 19)*	**–**	–	**–**	–
Financial assets included in deposits and other receivables *(note 21)*	**558,582**	324,283	**558,582**	324,283
Accounts receivable *(note 22)*	**4,145,236**	3,980,041	**4,145,236**	3,980,041
Notes receivable *(note 23)*	**619,940**	1,219,384	**619,940**	1,219,384
Pledged deposits *(note 25)*	**30,755**	10,805	**30,755**	10,805
Time deposits with original maturity over three months *(note 25)*	**3,954,185**	882,126	**3,954,185**	882,126
Cash and cash equivalents *(note 25)*	**9,814,893**	5,646,159	**9,814,893**	5,646,159
Financial assets included in other current assets	**2,002,169**	–	**2,007,203**	–
Total	**21,130,369**	12,069,667	**21,135,403**	12,069,667
Financial liabilities				
Current				
Financial liabilities included in trade and other payables	**4,769,445**	4,355,176	**4,769,445**	4,355,176
Due to a jointly-controlled entity *(note 24)*	**–**	17,145	**–**	17,145
Interest-bearing bank and other borrowings-current portion *(note 29)*	**1,659,906**	1,626,325	**1,659,906**	1,626,325
Subtotal	**6,429,351**	5,998,646	**6,429,351**	5,998,646
Non-current				
Due to jointly-controlled entities *(note 18)*	**61,016**	61,165	**61,016**	61,165
Interest-bearing bank and other borrowings *(note 29)*	**23,992,139**	24,983,768	**23,992,139**	24,983,768
Long term bonds *(note 30)*	**7,717,913**	1,500,000	**7,648,716**	1,415,159
Subtotal	**31,771,068**	26,544,933	**31,701,871**	26,460,092
Total	**38,200,419**	32,543,579	**38,131,222**	32,458,738

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy (continued)

Company

	Carrying amounts		Fair values	
	31 December 2012 RMB'000	31 December 2011 RMB'000	31 December 2012 RMB'000	31 December 2011 RMB'000
Financial assets				
Due from jointly-controlled entities *(note 18)*	**4,609**	6,869	**4,609**	6,869
Available-for-sale investments *(note 19)*	**–**	–	**–**	–
Financial assets included in deposits and other receivables *(note 21)*	**488,500**	528,071	**488,500**	528,071
Accounts receivable *(note 22)*	**3,582,157**	3,209,953	**3,582,157**	3,209,953
Notes receivable *(note 23)*	**619,940**	1,219,384	**619,940**	1,219,384
Pledged deposits *(note 25)*	**29,564**	10,805	**29,564**	10,805
Time deposits with original maturity over three months *(note 25)*	**2,068,535**	882,126	**2,068,535**	882,126
Cash and cash equivalents *(note 25)*	**5,171,968**	4,650,084	**5,171,968**	4,650,084
Financial assets included in other current assets	**2,002,169**	–	**2,007,203**	–
Total	**13,967,442**	10,507,292	**13,972,476**	10,507,292
Financial liabilities				
Current				
Financial liabilities included in trade and other payables	**3,547,745**	3,043,699	**3,547,745**	3,043,699
Interest-bearing bank and other borrowings-current portion *(note 29)*	**1,659,906**	1,626,325	**1,659,906**	1,626,325
Subtotal	**5,207,651**	4,670,024	**5,207,651**	4,670,024
Non-current				
Due to jointly-controlled entities *(note 18)*	**110**	110	**110**	110
Interest-bearing bank borrowings *(note 29)*	**23,992,139**	24,983,768	**23,992,139**	24,983,768
Long term bonds *(note 30)*	**1,500,000**	1,500,000	**1,415,511**	1,415,159
Subtotal	**25,492,249**	26,483,878	**25,407,760**	26,399,037
Total	**30,699,900**	31,153,902	**30,615,411**	31,069,061

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, time deposits with original maturity over three months, accounts receivable, notes receivable, trade and other payables, the current portion of interest-bearing bank borrowings and bonds, financial assets included in deposits and other receivables, and amounts due from/to jointly-controlled entities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of the interest-bearing bank borrowings with floating interest rates approximated to the carrying amount as at 31 December 2012.

The fair values of long term bonds are based on quoted market prices.

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy (continued)

Fair value hierarchy

The Group and the Company use the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Fair value measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Fair value measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data

Assets measured at fair value:

The Group and the Company

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments – unlisted	**1,202,169**	**–**	**500,000**	**1,702,169**

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments – unlisted	–	–	–	–

The movements in fair value measurements in Level 3 during the year are as follows:

	2012 RMB'000	2011 RMB'000
Available-for-sale investments – unlisted		
At 1 January	–	100
Purchases	**500,000**	–
Disposals	–	(100)
At 31 December	**500,000**	–

During the year, the Group and the Company had no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2012 and 2011.

40. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise short term bank borrowings, long term bank borrowings, cash and short term deposits and available-for-sale investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currency is defined as the functional currency of the Company and some subsidiaries. The RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has no significant transactional currency exposures as there are no significant sales or purchases by operating units in currencies other than the units' functional currency. As such, the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard. However, the Company is exposed to foreign currency risk as the Company had obtained debts denominated in US dollars.

Management has assessed the Group's exposure to foreign currency risk (due to changes in the fair values of monetary assets and liabilities) by using a sensitivity analysis on the change in the foreign exchange rates of the US dollar, from which the Group's foreign currency risk has arisen as at 31 December 2012 and 2011. Based on management's assessment at 31 December 2012, a change in depreciation of US dollars by 5% would lead to an increase in the Group's net profit by 1.22% (2011: An increase by 1.00%) and a decrease in equity by 1.04% (2011: A decrease by 1.14%). Conversely, a change in appreciation of US dollars by 5% would lead to a decrease in the Group's net profit by 1.22% (2011: A decrease by 1.00%) and an increase in equity by 1.04% (2011: An increase by 1.14%). The foreign currency exchange rate sensitivity in net profit in 2012 compared with 2011 is attributable to an increase in foreign currency denominated debts.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2012, most of the Group's interest-bearing bank borrowings bore interest at floating rates.

Based on management's assessment, at 31 December 2012, if interest rates at that date had been 50 basis points lower with all other variables held constant, net profit for the year would have been RMB108 million (2011: RMB113 million) higher, arising mainly as a result of lower interest expense on floating rate bank borrowings. If the interest rate had been 50 basis points higher with all other variables held constant, net profit for the year would have been RMB108 million (2011: RMB113 million) lower arising mainly as a result of higher interest expense on floating rate bank borrowings.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and available-for-sale investments, arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages this credit risk by only dealing with reputable financial institutions.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are analysed by customer/counterparty, by geographical region and by industry sector.

No other financial assets carry a significant exposure to credit risk.

40. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations. In addition, bank facilities have been put in place for contingency purposes.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 8% of the Group's debts would mature in less than one year as at 31 December 2012 (2011: 7%) based on the carrying value of interest-bearing bank and other borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

Group

	31 December 2012					
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	**2,125,657**	**4,290,369**	**19,372,243**	**1,659,515**	**27,447,784**
Long term bonds	–	**271,479**	**271,479**	**814,436**	**9,034,883**	**10,392,277**
Financial liabilities included in trade and other payables	–	**4,769,445**	–	–	–	**4,769,445**
	–	**7,166,581**	**4,561,848**	**20,186,679**	**10,694,398**	**42,609,506**

Group

	31 December 2011					
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	2,131,111	2,017,864	15,853,289	8,939,378	28,941,642
Long term bonds	–	67,200	67,200	201,600	1,903,200	2,239,200
Financial liabilities included in trade and other payables	–	4,355,176	–	–	–	4,355,176
	–	6,553,487	2,085,064	16,054,889	10,842,578	35,536,018

40. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

Company

	31 December 2012					
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	**2,125,657**	**4,290,369**	**19,372,243**	**1,659,515**	**27,447,784**
Long term bonds	–	**67,200**	**67,200**	**201,600**	**1,793,471**	**2,129,471**
Financial liabilities included in trade and other payables	–	**3,547,745**	–	–	–	**3,547,745**
	–	**5,740,602**	**4,357,569**	**19,573,843**	**3,452,986**	**33,125,000**

Company

	31 December 2011					
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	2,131,111	2,017,864	15,853,289	8,939,378	28,941,642
Long term bonds	–	67,200	67,200	201,600	1,903,200	2,239,200
Financial liabilities included in trade and other payables	–	3,043,699	–	–	–	3,043,699
	–	5,242,010	2,085,064	16,054,889	10,842,578	34,224,541

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

40. Financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, long term bonds, an amount due to the ultimate holding company and other CNOOC Group companies, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to equity holders of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	31 December 2012 RMB'000	**31 December 2011 RMB'000**
Interest-bearing bank borrowings *(note 29)*	**25,652,045**	26,610,093
Trade and other payables *(note 26)*	**5,021,791**	4,530,740
Long term bonds *(note 30)*	**7,717,913**	1,500,000
Less: Cash and cash equivalents and time deposit with original maturity over three months *(note 25)*	**(13,769,078)**	(6,528,285)
Net debt	**24,622,671**	26,112,548
Equity attributable to equity holders of the parent	**32,193,910**	28,458,565
Non-controlling interests	**11,004**	589
Total capital	**32,204,914**	28,459,154
Capital and net debt	**56,827,585**	54,571,702
Gearing ratio	**43%**	48%

41. Events subsequent to the reporting period

As of the approval date of these consolidated financial statements, there was no subsequent event after the balance sheet date that needs to be disclosed or adjusted.

42. Comparative amounts

Certain comparative figures have been reclassified to conform with the current year's presentation.

43. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2013.

Legal name
中海油田服务股份有限公司

English Name
China Oilfield Services Limited

Short Name
COSL

Authorised Representative
Mr. Li Yong

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3-1516 Hebei Road, Haiyang New
and Hi-Tech Development Zone,
Tanggu, Tianjin

The registration date
26 September 2002

Changed registration date
4 March 2008

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Newspapers for disclosure of information
China Securities Journal
Shanghai Securities News
Securities Times
Website designated by CSRC on which
the Company's annual report is posted:
www.sse.com.cn

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H Share:
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A Share:
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Clearing Corporation Limited
Shanghai Branch
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Lujiazui Road, Shanghai

Place where this annual report is available
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Kaiheng Tower
2 Chaoyangmen Inner Street
Dong Cheng District, Beijing

Place of Listing of Shares, Stock Name and Stock Code
Place of Listing of H Share
Hong Kong Exchanges and
Clearing Limited
Stock Code of H Share: 2883

Place of Listing of A Share
Shanghai Stock Exchange
Stock Name of A Share: COSL
Stock Code of A Share: 601808

Business license registration number of corporate legal person:
1000001003612

Tax Registration Number
12011871092921X

Corporate Business Number
71092921X

Name and Office Address of the Company's Auditor
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Dongcheng District,
Beijing

International: Ernst & Young
Address: 22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

DOCUMENTS FOR INSPECTION

1. **Financial statements signed and sealed by authorised representative, person in charge of auditing and person in-charge of audit firm.**

2. **Original copy of auditors' report (PRC) with seals of audit firm and signed by certified public accountants.**

3. **Original copy of auditors' report (Hong Kong) signed by certified public accountants.**

4. **Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.**

China Oilfield Services Limited

Liu Jian
Chairman
22 March 2013

2D	Seismic data collected in two dimensional form, by utilizing a single sound source and one or more collection points; typically 2D is used to map geographical structures for initial analysis
3D	Seismic data collected in three-dimensional form, by utilizing two sound sources and two or more collection points; typically 3D is used to acquire refined seismic data and to raise the probability of successful exploration well drilling
AWO	Awilco Off-shore ASA, known as COSL Drilling Europe AS after mergers and acquisitions, "CDE"
COSL	China Oilfield Services Limited
CDE	COSL Drilling Europe AS
CDPL	COSL Drilling Pan-Pacific Ltd
DNV	Det Norske Veritas
ELIS	Enhanced Logging Imaging System
LWD	Logging-while-drilling
MWD	Measuring-while-drilling
PD	Premium Drilling AS
Crude oil	Crudeoil, including condensate and natural gas liquids
Day rate	Fixed daily fee charged with respect to the services provided by a drilling rig or off-shore support vessel
Directional drilling	Intentional drilling of a well at a non-vertical or deviated angle, in order to improve reach or exposure to petroleum reservoirs; such drilling is especially common for off-shore wells, given the multiple number of wells which may be drilled from a single production platform
E&P	Exploration and production
ERSC	ELIS Rotary Sidewall Coring Tool
FCT	Formation Characteristic Tool
FET	Formation Evaluation Tool
Field	A specified area within a block, which is designated under a PSC for development and production
HTHP	High-temperature and high pressure downwell conditions, which typically includes temperatures greater than 200 degrees Celsius and 10,000 psi; HTHP conditions make drilling more difficult
Jack-up rigs	Jack-up rigs are so named because they are self-elevating—with three or four movable legs that can be extended ("jacked") above or below the drilling deck, or hull. Jack-ups are towed to the drill site with the hull, which is actually a water-tight barge that floats on the water's surface, lowered to the water level, and the legs extended above the hull. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor (or onto the sea floor with mat supported jack-ups). This anchors the rig and holds the drilling deck well above the waves
Semi-submersibles	Semi-submersibles do not rest on the sea floor as jackup rigs. Instead, the working deck sits atop giant pontoons and hollow columns. These afloat above the water when the rig moves. At the drill site, the crew pumps seawater into the pontoons and columns to partially submerge the rig, hence the name semisubmersible. With much of its bulk below the water's surface, the semi-submersible becomes a stable platform for drilling, moving only slightly with wind and currents. Like jack-ups, most semi-submersibles are towed to the drill site. Because of their exceptional stability, "semis" are well suited for drilling in rough waters. Semisubmersibles can drill in water as deep as 10,000 feet Drillships are specially built seagoing vessels that also drill in water as deep as 10,000 feet Drilling equipment is installed on the deck, with the derrick normally placed in the middle of the ship. The well is drilled through an opening (called a "moon pool") that extends to the water's surface below the derrick
LWD	Logging-while-drilling; advanced logging tools which are attached near the drill bit string and measure the location of the drill bit and nature of adjacent geological structures, typically during the directional drilling process
MWD	Measuring-while-drilling; advanced tools which measure the pitch and orientation of the drill bit and other factors such as weight on the bit and rotary speed of the bit, typically during the directional drilling process
OPEC	Organization of the Petroleum Exporting Countries
PSC	A production sharing contract off-shore China
PSC partners	Foreign parties to PSCs
QHSE	Quality, health, safety environment
Seismic data	Data recorded in either two dimensional (2D) or three dimensional (3D) form from sound wave reflections off of subsurface geology. This data is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves
SMS	Safety management system
ISMC	International Safety Management Code
DOC	Document of Compliance
Streamers	Clear flexible tubing containing numerous hydrophones used for marine seismic surveys; streamers are owed behind seismic vessels at controlled shallow water depths to collect seismic data
Well completion	Services and installation of equipment that are necessary to prepare a well for production, including casing and well treatment, such as acidizing and fracing
Well workover	Any work on a completed well designed to maintain, restore or improve production from a currently producing petroleum reservoir, this may include replacement of casing and well treatment, such as sand control, fracing, acidizing
bbl	A barrel, which is equivalent to approximately 158,988 liters or 0.134 tons of oil (at a API gravity of 33 degrees)
Kw	Kilowatts used to measure off-shore supply vessel engine power capacity, which is equivalent to 1,36 horsepower

CHINA OILFIELD SERVICES LIMITED

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