

Message from the President



China National Petroleum Corporation (CNPC) is China's largest oil and gas producer and supplier. In 2006, while pursuing our strategic goals of increasing resources, expanding markets and seeking a greater international role, we continued to grow in a scientific way and worked harder to boost our core competence, achieving new records in both production and profitability.

Domestic oil and gas exploration led to fruitful discoveries. Newly-proven oil and natural gas reserves reached over 600 million metric tons and 300 billion cubic meters respectively, with oil reserve replacement ratio exceeding 1.0 for three consecutive years. CNPC produced 106.64 million metric tons of crude oil, up 0.7% year-on-year, while natural gas production reached 44.2 billion cubic meters, an increase of over 20% for the second consecutive year. Our refining production remained efficient and stable, and oil and gas sales rose exponentially. By maintaining the utilization rate of our major units at 95.9% through 2006, 115.87 million metric tons of crude oil was processed and 73.39 million metric tons of refined products were brought to the market. CNPC also produced 13.61 million metric tons of chemicals. As a result, a more reliable supply was secured in the domestic market.

Meanwhile, CNPC's international business grew steadily both in terms of scope and scale, which witnessed strong upward trends in

oil and gas investment, engineering and technical services and the international oil and gas trade. With the rapid growth of oil and gas production in countries such as Sudan, Kazakhstan, Venezuela and Ecuador, our overseas oil and gas equivalent production exceeded 59.14 million metric tons, up 51.5% from last year. The first section of the Kazakhstan-China Oil Pipeline was put into operation. CNPC and Rosneft established joint ventures for upstream operations in Russia and downstream businesses in China, ranging from oil and gas exploration to refining and marketing. We delivered engineering and technical services in 48 countries, where seven major markets have emerged. On the strength of innovative development models, our international oil and gas trade grew to 94.49 million metric tons.

With the priority on core business demands, CNPC has made significant advances in major technologies and equipment manufacturing backed by enhanced R&D, and a focus on key bottleneck technologies and technical innovation. The company's technical innovation has powerfully sustained the continued growth of its domestic business and the rapid growth of its international business.

Safety, environment and people are CNPC's top priorities in all its operations. Great progress has been made in safe operation and



environmental protection, with our HSE management system being enhanced and constantly improving compliance with relevant standards and procedures. In response to the strategy of safe and clean development, we launched the Safety and Environmental Protection Year campaign in order to address the root causes of pollution and accidents. The corporation continued to grow in a safer and more environmentally sound way as we worked hard to increase the efficiency of energy, water and land use and make the best of our resources. Resource development and resource saving therefore were integrated in a systematic way. Through 2006, 1.5 million tons of coal equivalent and 70 million cubic meters of water were saved; COD of major pollutants and oil-related waste discharge were reduced by 5.4% and 4.6% respectively compared with 2005.

CNPC, as a large state-owned group, remains dedicated to social progress by involving itself in the promotion of local economic development and public welfare such as poverty alleviation, disaster relief, donations to education and community improvement. In 2006, we spared no efforts to aid those hit by natural disasters such as the typhoon and floods in Guangdong, Hunan, Guangxi, Fujian, Zhejiang and Jiangxi, and the unprecedented drought in Sichuan and Chongqing. We are therefore very proud that we played our part in the effort to build a harmonious society.

In 2007, CNPC will continue to pursue scientific development and harmony in order to achieve systematic combination of its economic, political and social responsibilities, to ensure safe and clean operation and to maintain a reliable supply of oil and gas and a steady growth in profitability. We will always uphold our mission of "Caring for Energy, Caring for You", safeguard national energy security and strive hard to meet the socioeconomic demand for oil and gas.

Jiang Jiemin, President