



## Message from the Chairman

Year 2016 was an extraordinary and unforgettable one featured by slow recovery of the world economy, profound adjustments in the global energy industry, volatile oil and gas prices at low level, and an ongoing oversupply in the market.

Facing the severe situation and challenges, CNPC kept focusing on oil and gas operations, and adjusted production strategies for stabilizing growth, restructuring business, shoring up weakness, improving profitability and controlling risks. We spared no efforts in cutting cost and increasing efficiency and survived the cold winter of low oil price. We secured a good start of the 13th Five-Year Plan Period by maintaining overall profit and positive free cash flow.

**Sound growth in core business:** Focusing on core business of oil and gas, our domestic oil and gas reserves maintained a peak growth, refining and petrochemical earnings hit record high, oil products sales continued to increase, natural gas and pipeline business raised sales volume with steady profit, and overseas operation performance grew against unfavorable situation. Meanwhile, we further enhanced our market competitiveness in oilfield services, engineering construction, equipment manufacturing, international trade and financial services, with our sustainability continued to build up.

**Optimized production organization:** A market-oriented and efficiency-focused approach was adopted to optimize production organization and facilitate the overall balance in production, transportation, marketing, storage and trading. We maintained smooth and steady production by taking the initiative in holding back high-cost crude output, shutting down marginal wells and blocks, allocating feedstock to high-performing refining and petrochemical facilities, reducing diesel-gasoline ratio, and optimizing market allocation between domestic gas and imported gas.

**Improved operation and management:** Against the winter time of the industry, we took special actions to improve quality and boost efficiency. A mechanism linking investment decision-making with cash flow and profit was set up. When making investment, we gave priority to core business and debottlenecking projects, guided funds into market expansion and profit

generation efforts, implemented life-cycle cost control across the whole value chain, and took effective measures for non-performing subsidiaries. With all those endeavors, we successfully reduced costs and expenses.

**Generated vitality by reform and innovation:** We vigorously promoted reform and innovation in key areas and processes, released guidelines for deepening reform in an overall way, improved corporate governance, optimized functional positioning and organization structure at headquarters, pushed forward business restructuring and listing, made more efforts on implementing performance-based remuneration, deepened reform on subsidiary empowerment, reformed natural gas marketing management, tackled key problems in technological R&D, and further integrated IT with business operation. These efforts helped us successfully improve efficiency and profit.

**Controlled HSE risks:** Practicing green development concept of safety, low carbon and resource conservation, we continued to promote the building of HSE standard with a focus on safety surveillance in key areas. We set up a mechanism on environmental risk control, strengthened measures on pollution prevention, greenhouse gas emissions and renovation of energy efficiency technologies, facilitated the building of eco-friendly production sites and green communities, and realized harmony between the business and the nature.

**Rebuilt corporate image:** With strong commitment to regulatory compliance and corporate social responsibilities, we made great efforts in rebuilding corporate image. We received growing understanding, recognition and support from the society which resulted in improvement of our reputation and influence. CNPC was one of the Top 10 SOE Brands, the Top 20 Listed Companies with Best Practices in Corporate Supervision, and the International EAP Quality Award winners.

The past year saw CNPC withstanding many severe challenges and achieving hard-won victories. On behalf of the Board of Directors and the top management, I would like to express my heartfelt thanks for your help and support!

The world goes on in a never-ending process of the new replacing the old. Year 2017 is very important to CNPC for implementing the 13th Five-Year Plan and pushing forward reform and innovation. Despite continued challenges and pressure, there are favorable and positives factors as well. Looking ahead, we see more opportunities than challenges. We will maintain a prudent and proactive approach to business development and vigorously implement our strategies of resources, market, internationalization and innovation. We will further our efforts in internal reform and structural adjustment, and promote innovation-driven growth with improved quality and efficiency. Targeting at being an integrated international energy corporation, enriched by the "petroleum spirit", CNPC is committed to achieving steady growth, with great corporate image and HSE performance, and make greater contributions to China's socio-economic development.

Chairman