

Interview with the Regional Head



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President of CNPC America Ltd.

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2013 marks the 20th year of CNPC's presence in Latin America. What are your views on the fruitful oil and gas cooperation between CNPC and host countries over the past 20 years?

Latin America is the first region CNPC entered for international oil and gas operation. In 1993, we won the tender to develop Block 7 of Peru's Talara Oilfield. This was the first time a Chinese oil company developed an overseas oilfield by participating in international tenders. In 1995, we obtained the right to develop Block 6 of the same oilfield. The Block 6/7 project in Talara Oilfield marked CNPC's first overseas venture and blazed a trail for Chinese oil companies to explore the international market and participate in overseas oilfield development. In addition, the project allowed CNPC to accumulate experience and foster talents for its future international operations. As a team member at the very beginning, I worked in Peru for six years in charge of geological research. Talara is a marginal oilfield with a development history of more than 100 years. For CNPC, the key to rejuvenating this almost abandoned field was how to apply our sophisticated theories and proven expertise in exploring and developing complex domestic fault-block oilfields in Peru. Fortunately, the project was successful, thanks to our team's painstaking and innovative work. We drilled the deepest oil-producing well, No.13209 in Talara, and a number of

high-yield wells such as No.13218, with a daily output of more than 1,000 barrels. Re-perforating made well No.4226 able to produce at a daily rate of more than 3,000 barrels, the highest yield by reservoir stimulation in Talara's history. Many high-yield oil wells were also successfully drilled in Block 7. In addition, we took measures to restore the shutdown wells and further tapped their oil-producing potential. As a result, the field's oil output grew from 1,600 barrels per day when we took over to more than 7,000 barrels per day, resulting in healthy returns and making it CNPC's first overseas project to realize a return on its investment. Moreover, the project increased local employment and generated considerable tax revenue for the Peruvian government. Our success at Block 6/7 in Talara greatly inspired Peru's oil industry, boosting our confidence and establishing a good corporate image for CNPC.

In retrospect, we can attribute our success in Latin America to the fact that we have always adhered to the principle of "*mutually beneficial cooperation for common development*", to work with host countries in a sincere, lawful, and responsible manner, in compliance with international standards. We introduced China's

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proven technologies and provided comprehensive and integrated solutions for oilfield development and EOR. At Talara's Block 6/7 in Peru, we identified new high-yield pay zones and significantly boosted oil production. At the Caracoles and Intercampo Oilfields in Venezuela, in addition to unlocking the potential of old oil wells, we drilled a series of high-yield wells by making ingenious and innovative use of new techniques such as horizontal drilling and electrical submersible pumping systems, thereby successfully increasing the project's daily oil production from 4,900 barrels to 40,000 barrels, an impressive eight-fold jump. CNPC's early projects in Latin America not only achieved remarkable results, but also helped the company establish relationships based on mutual trust with the governments, oil sector and relevant companies of the host countries, which earned up great praise and recognition, laying a solid foundation for winning the bids as well as the smooth operation of the Andes project in Ecuador, Block 1AB/8 project in Peru, and the MPE3 project and Block Junin 4 project in Venezuela.

Over the past 20 years, CNPC has been steadily expanding its cooperation scale in Latin America, with

both oil reserves and production in the cooperation zones greatly increased, laying a substantial foundation for the sustainable growth of the company's oil and gas operations in the region. In the meantime, the upstream boom has energetically driven the company's business in oilfield services, export of petroleum materials and equipment, and oil trading continue to grow in both scale and scope, making CNPC an influential comprehensive service provider in Latin America, with our integrated operations brought into full play.

As a responsible investor, we pay close attention to the demands of all stakeholders in the host countries, and always do our best to help local communities. Over the years, we have worked with our partners to invest extensively in public welfare projects, engage in poverty alleviation and disaster relief efforts, and care for vulnerable groups. We abide by local laws, respect local culture and customs, and attach great importance to environmental protection where we operate. In our joint ventures, we promote cultural diversity and multicultural integration, care for the well-being of our employees, and steadfastly implement the concept of win-win development with our Latin American partners.

In recent years, some Latin American host countries have adjusted their energy policies, how has CNPC America adapted to the changes in the investment environment in order to achieve sustainable development?

Since 2006, some Latin American countries have initiated a new round of nationalization in the oil and gas sector. In response to the changing operating environment, we have endeavored to gain a profound understanding of the new policies by communicating with relevant government departments, in order to better prepare ourselves for the shifting role and explore new corporate management mechanisms with our partners. In Venezuela, for example, we set up a senior steering committee, a board of directors of the joint venture, and a professional committee in conjunction with PDVSA, to participate in the management of the joint venture. The Chinese employees give full play to their technical and managerial expertise and maintain active communication with local staff to help solve operational and technical problems. Our contributions and efforts have effectively facilitated the operation of the joint venture and won full approval from the Venezuelan side.

After the restructuring of the Venezuelan project, the joint venture adopted Spanish as its working language.

In order to ensure smooth and efficient communication between the Chinese and Venezuelan sides of the joint venture, we have constantly reinforced the training of our Chinese staff in language and business skills. Those competent in communication, coordination and business operation are selected to work at the joint venture, not only facilitating the development of the joint venture, but also serving as a bridge between the Chinese team, the joint venture and the major shareholders. Efforts are also made to drive home the point that only through cooperation can we achieve win-win outcomes. As a Chinese saying goes, "A full and great river makes a full creek", which indicates that only if the joint venture develops, can the shareholders benefit from it. In addition, we attach great importance to employee localization. In our Andes project in Ecuador and the Block 6/7 project in Peru, local employees account for more than 90% of the total staff. By promoting multicultural integration, we pursue common development in a harmonious way.

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How does CNPC America manage to maintain its excellent HSE record?

As we know, Latin America is a mature market for oil and gas investments. However, most of the oil and gas fields in the region are located in places where the natural environment is relatively vulnerable, especially in rainforest areas. Petroleum extraction may exert a negative impact on the local flora, fauna and indigenous people. The governments of host countries and the local people impose stringent requirements on the environmental friendliness of oil operations, with harsh punishments meted out to violators of relevant laws and regulations. Since the day we entered Latin America, we have been paying close attention to our HSE work. By integrating the HSE laws and regulations of host countries, international standards, and CNPC's HSE concept and practices, we continuously improve our HSE system and enhance our HSE culture, with impressive performance being achieved.

Thanks to the concerted efforts of all our staff, we have maintained an excellent HSE record in the local oil and gas operations, without any major accident reported for 19 consecutive years. The MPE3 project in Venezuela set the record for 20 million man-hours with no personal safety accident or environmental pollution accident. In Ecuador, we strive to build a "harmonious oil zone" in the Andes project, and reached permanent peace agreements with the local southern and northern communities respectively. Our efforts won the "Exemplar Company" award from the local government as well as the "Best Foreign Company in HSE and Community Undertakings" award from Ecuador's Ministry of Energy and Mining and the Ministry of National Defense. Our projects in Peru actively launch "Green Development" and "Green Community" activities, which are highly commended by the Peruvian government and local communities. CNPC's oilfield service companies have also received many rewards from the local governments and NOCs, such as the title of "Green Drilling Crew" and awards for safe and quality operation.

The excellent HSE record is attributed to our adherence to CNPC's "green development" philosophy and safety culture, strict enforcement of HSE regulations and local requirements, and continuous HSE training and education. Taking into account the specific HSE laws, regulations and requirements of the countries we operate in, we keep intensifying our HSE management to implement an accountability system for safety and environmental protection and standardize our production and operating procedures. In CNPC operated projects, our HSE efforts are mainly focused on safety inspection and monitoring and environmental protection during oil and gas production and well drilling; whereas for non-CNPC operated projects, efforts are mainly made to check the implementation of HSE measures. To nip any danger in the bud, we emphasize the monitoring and control of key HSE links, and carry out inspections on a regular basis to spot hidden risks. Corrective measures are formulated to ensure all hidden risks are dealt with in a timely manner.

Employees' health is one of our top concerns. We actively implement healthcare programs for employees, such as strengthening relevant measures in a targeted manner to prevent tropical infectious diseases from threatening our employees' health and always making timely treatment available. Vaccinations are regularly provided to employees against diseases including yellow fever, and information on local infectious diseases and preventive measures is released periodically.

How does CNPC America fulfill its corporate social responsibility? What is your focus in public welfare activities? Have these activities earned CNPC the understanding and recognition of local communities?

In our international operations, CNPC always upholds the mission of “Caring for energy, Caring for you” and adheres to the principle of “mutually beneficial cooperation for common development”. We actively engage in public welfare undertakings in host countries, and take the initiative to boost the local economy and benefit local people. Since 1993, CNPC has been conducting public welfare programs in Latin America in a wide range of areas, including funding for education, poverty alleviation, agriculture, healthcare, public facilities, culture and sports, and environmental protection. In 2010, Venezuela was hit by the worst flood in 50 years, with nearly 130,000 people seriously affected. CNPC promptly donated USD 300,000 to the Venezuelan government for flood relief. Temir Porras, Vice Foreign Minister of Venezuela, said that the donation reflected the bond between the two countries and the two NOCs. Employees of the Junin 4 project have donated stationery to impoverished local students for many years. The joint ventures of the MPE3 project, the Zumano project and the Caracoles and Intercampo project in Venezuela have actively participated in the country’s housing program, building nearly 100 dwellings in five municipal areas from 2011 to 2012, benefiting more than 10,000 local people. In the past few years, the Zumano project has continuously donated clothing, electrical appliances and other materials to local schools to improve the students’ learning and living conditions. In 2007, the cassava processing plant, in which the Caracoles and Intercampo project invested USD 240,000,

became Venezuela’s third largest one in terms of production. The project company was praised by the local government and PDVSA as “a role model in HSE and public welfare undertakings”.

Our Andes project in Ecuador is located in a tropical rain forest, which is home to some indigenous people lacking necessary infrastructure. Since our takeover in 2006, the project company and its partners have launched a series of assistance programs for local communities, including helping to build community hospitals and schools, providing medical assistance and educational training. These programs have greatly facilitated the harmonious relationship between the company and local communities, and brought both economic and social benefits.

In Peru, the Block 6/7 project company has offered assistance in building a number of schools, and also helped some local schools by renovating or constructing classrooms and computer rooms, hiring teachers, donating books and stationery, providing scholarships, and purchasing desks and chairs. The Block 1AB/8 project company has entered into an agreement with the Loreto provincial government to build a demonstration school in the rain forest region and provide teaching programs, to ensure that all local children over five years old have access to education. In addition, it provided financial aid to students from impoverished indigenous families.

In 2011, our project company in Costa Rica participated in charity events organized by the Diplomats’ Spouses Association, making donations to local people.

Over the years, our dedication to public welfare undertakings in host countries in Latin America has facilitated local social development and promoted harmonious coexistence between the oil zones and local communities, winning us widespread recognition and praise from local stakeholders, as well as a favorable environment for the smooth operation of CNPC’s overseas oil and gas cooperation projects.