



Report of the President

In 2016, despite complex and challenging circumstances resulting from low oil prices, the company made great efforts to cut costs and increase profits by optimizing production management, adjusting resource allocation and improving operational mechanisms. Our production and management were on a smooth and controlled track, with overall performance better than expected. We registered a full-year turnover of RMB 1,871.9 billion and a total profit of RMB 50.7 billion, marking a good start to the 13th Five-Year Plan period.

Domestic E&P met target and loss-making controlled

Our preliminary prospecting and fine exploration in China's major petroliferous basins and favorable zones led to 22 significant discoveries, with six 100 million ton and five 100bcm uncompartimentalized oil and gas blocks identified. In particular, the multilayer 3D exploration of lithologic reservoirs in Changqing resulted in 370 million tons of newly added proven reserves. Twelve major discoveries were made in exploring new zones/areas, including 91.54 million tons of controlled + predicted reserves in place at Mahu sag in Xinjiang, two gas-bearing structures with newly added predicted reserves of up to 130bcm at Keshen tectonic belt in Tarim, a dolomite buried hill reservoir at Makit slope in southwestern Tarim, and high-yield oil and gas flow from buried hill reservoirs at Langfang-Gu'an sag in Bohai Bay Basin. In 2016, 649.29 million tons of oil in place and 541.9 billion cubic meters of gas in place were added, exceeding 1 billion tons of oil equivalent in total for the tenth consecutive year.

Our domestic development activities kept improving management through measures like fine reservoir description, precision water-flooding, restoration of selected dormant wells, and field testing of chemical flooding and gas flooding techniques. A number of capacity expansion projects were underway, and the Changning-Weiyuan national shale gas demonstration block in Sichuan was completed. We continued to

optimize E&P programs and production mix, promote standardized design for surface engineering and EPC drilling services, strengthen downhole operation management, streamline management tiers and reduce workforce, achieving a drop in both lifting cost and all-in cost per barrel. Our domestic fields produced 105.45 million tons of crude and 98.1 billion cubic meters of gas throughout the year.

Refining & chemicals achieved historical high

With efforts in production optimization, we allocated resources to high-performing facilities, increased utilization ratio of refining-petrochemical complexes and enhanced the production of ethylene fed by light hydrocarbons and diesel distillate. In 2016, we processed 147.09 million tons of crude, and produced 99.32 million tons of refined products and 5.59 million tons of ethylene in China, with 16 key technical and financial indicators improved compared with the previous year. In particular, fuel and electricity consumption of ethylene units was reduced by 17.6 kgoe/ton. The product mix continued to improve, leading to a decline in the diesel-gasoline ratio by 0.24 and a continuous increase in the output of high-efficiency refined products and profitable chemicals. All major construction projects were making headway. A total of 23 upgrading projects for National V gasoline and diesel fuels were completed as planned. Yunnan Petrochemical was getting ready for operation. The marketing strategy for chemical products saw a shift to e-commerce resulting in sales of 26.80 million tons, an increase of 6% year-on-year.

Refining product marketing enhanced profitability

We coordinated marketing both for domestic and overseas markets to increase exports. Sales incentives were implemented focusing on gasoline, kerosene and diesel fuels. The upgrading and conversion to National V oil products was carried forward. Full-year oil products sales in China and for

Implementing strategies of resources, market, internationalization and innovation, CNPC focused on core business of oil and gas and achieved steady growth through ongoing efforts to stabilize production, restructure business portfolio, shore up weakness, improve profitability and control risks.

exports reached 113.03 million tons and 11.23 million tons respectively. Integrated marketing of oil products, prepaid fuel cards, non-fuel products and lubricants were stepped up. Retail service was upgraded through "Internet + Marketing". Marketing costs were significantly reduced by expanding distribution network, improving under-performing service stations (with low sales and low profits), and optimizing logistics, transportation and resource allocation.

Natural gas and pipelines increased supply

In view of market demand and seasonal changes, adjustments were made on domestic gas production to optimize gas import volume and LNG delivery schedule under long-term contracts to ensure reliable and stable gas supply. We ensured that branch lines were fed with gas and new customers were connected as planned. Resources were allocated to high-profit markets and high-end customers. In particular, the Bohai Rim and the Yangtze River Delta region, etc. absorbed 70.1% of the total supply. In 2016, we sold 131.5 billion cubic meters of natural gas in the domestic market, up 7.2% year-on-year. We improved the layout of pipeline network in that the eastern section of the Third West-East Gas Pipeline was put into operation and that new projects construction were commenced such as the Second Russia-China Crude Pipeline and the Fourth Shaanxi-Beijing Gas Pipeline. Meanwhile, substantial steps were taken on the system reform of natural gas marketing and pipeline operations, as evidenced by the incorporation of PetroChina Natural Gas Marketing Company and PetroChina Pipeline Company, completing the integration of end-user business. These efforts laid a solid foundation for enhancing our gas marketing capability.

Overseas operations maintained steady growth

Our overseas E&P efforts focused on major projects, seeing significant progress in risk exploration at the Right Bank of Amu Darya in Turkmenistan and Block 6 in Sudan. A number of high-quality, readily producible discoveries were made by progressive exploration in Chad and Ecuador. Newly added recoverable equity reserves amounted to 43.44 million tons of oil and gas equivalent for the full year. We produced 76.01 million tons of equity oil, an increase of 5.5% year-on-year, through optimizing

development programs, adjusting production dynamics, boosting productivity and enhancing oil recovery. The North Azadegan project in Iran came on stream and began cost recovery. Progress was made in international oil and gas cooperation with partnership agreements or MOUs signed with countries including Russia, Saudi Arabia, Mozambique, Algeria, Peru and Venezuela.

Service business further expanded market

The size of our oilfield services crew was reduced but competitive edge sharpened with lower operating costs and higher service quality. Maintaining a strong presence in the domestic market, our engineering construction business saw new breakthroughs in the high-end international market, winning the bids for Shell's Basrah Gas Plant renovation project in Iraq and the Ras Tanura Pipeline project of Saudi Aramco, etc. Our equipment manufacturing subsidiaries continued to promote international cooperation on capacity building, strengthened life-cycle management, extended to new service areas and increased steel pipe exports. On international trading business, we increased oil and gas imports, signed more processing trade contracts, sold more equity oil from Iran and Iraq, and expanded the efficient international market. The full-year trading volume stood at 450 million tons worth USD 141.2 billion. Our financial services provided strong support to oil and gas operations and made headway in market exploration and product innovation. We sped up the separation of utilities (water, electricity and heating) and property management services from our logistics services and made substantial progress.

Technological innovation and IT application supported core business

The company continued to encourage technological innovation and IT application in supporting core business development. We pushed ahead major scientific and technological projects, and launched 36 projects and 16 demonstration projects listed in the 13th Five-Year Plan. Our R&D efforts resulted in a number of achievements, ensuring continuous and steady growth of proven reserves and oil recovery in our major oilfields, facilitating the upgrading of oil products and the adjustment of product mix, as well as enhancing the competitiveness of oilfield services, engineering

construction and equipment manufacturing sectors. Information technologies were further integrated into production and management activities, with ERP system and Internet of Things covering more business. In addition, the cloudization of 40 application systems including service station management was completed.

Corporate reform saw positive results

New progress was made in reform of key businesses and procedures, as evidenced by optimizing functions of departments at headquarters, improving management system of specialized companies, separating oil and gas pipeline operation from natural gas marketing, closing equity transaction of CNPC Trans-Asia Gas Pipeline Company Limited, and listing the newly formed China Petroleum Engineering & Construction Corp. (CPEC) and CNPC Capital Company Limited. Additionally, new reform initiatives targeting at R&D system and business autonomy expansion in selected subsidiaries were implemented smoothly, and the reform of unlisted business and logistics services kept deepening.

HSE performance improved

Our HSE performance was improved comprehensively with implementation of the newly amended *Safety Production Law* and *Environmental Protection Law*. Efforts were made in the prevention and control of hidden risks, with zero reporting of major safety and

environmental pollution accidents throughout the year. A quantitative review of the HSE system was conducted to reinforce risk control and boost emergency response capabilities, ensuring our production process in a safe and controlled way. We strengthened measures to reduce greenhouse gas emissions and implemented real-time monitoring of environmental risks, meeting the target for pollutant discharge and emission reduction. We pilot-tested energy management system and promoted energy-saving technologies, resulting in further improvement of energy efficiency.

In 2017, we will strive for a healthy, steady and harmonious growth and meet all business objectives with strong confidence, while bearing in mind the bottom line of positive profit and free cash flow. Targeting at efficiency improvement with light asset, we will continuously take the market-oriented approach, deepen benchmarking and fine management, optimize resource allocation and production, and make more efforts in HSE as well as energy conservation and emission reduction.

President

