



Comprehensively Deepen Corporate Reforms to Boost Steady and Sound Growth

Since the 18th CPC National Congress, CNPC has implemented comprehensively the decisions of the CPC Central Committee and the State Council on deepening the reforms of state-owned enterprises and the oil and gas systems. With a strong commitment to building an integrated international energy corporation, CNPC strictly followed the strategy-guided, market-oriented and CPC-led principle to deepen corporate reforms in launching a range of fundamental and guiding reform programs highlighting problem-orientation, top design, targeted measures and coordinated efforts. With a good momentum focusing on important aspects, these reform programs have been pushed forward actively and steadily and shown good results in improving modern enterprise systems, optimizing management models, promoting supply-side structural reforms and developing a mixed-ownership economy.

Overall framework for the group-level reform set up. The leading body and supporting mechanisms for corporate reforms were set up. We held 23 leading group meetings for comprehensively deepening reforms and meetings of the corporate CPC committee and the Board of Directors to discuss key issues and launch more than 160 reform tasks and measures. The company released the guidance for comprehensively deepening reforms and the “13th Five-Year” Reform Plan, specifying the goals, tasks and supporting measures of reform. Reform programs and guidelines for key areas such as corporate governance, marketization, employment and compensation, R&D, asset restructuring, mixed ownership, mining community services and CPC party building systems, etc. were implemented. The company’s top-level reform framework, together with the roadmap and action plans, was formed.

Corporate governance structure and control mode kept optimizing. Board procedures and CPC party building requirements were incorporated into the company’s articles of association, highlighting CPC’s leadership in all aspects of corporate governance. In accordance with the instructions of the CPC Central Committee and the State Council on ownership reform in state-owned enterprises, China National Petroleum Corporation was reorganized into a limited liability company wholly owned by the state, with its 151 subsidiaries undergoing the ownership transformation accordingly. Functions and management processes for the corporate hierarchy of “Headquarters – Business Segments – Regional Companies” were clearly defined and the streamlining of headquarters functions and organizational structure was completed. Necessary adjustments were made on the management systems for overseas operations, natural gas and pipelines, international cooperation, equipment manufacturing and engineering services to realize differentiated control, centralized decision-making and hierarchical delegation of power.

Structural adjustment and business restructuring furthered. The central government's guidelines on the supply-side structural reform were implemented. The company's resources allocation and operations were optimized by adjusting investment portfolio, business structure and product mix, reducing high-cost capacity and shutting down inefficient facilities. The company's engineering service and financial service arms were successfully restructured, leading to the public listing of China Petroleum Engineering Co., Ltd. (CPEC) and CNPC Capital Co., Ltd., marking a great move for CNPC's mixed-ownership reform. The company pushed ahead with the restructuring of its oilfield services sector steadily focusing on geophysical prospecting and well logging, in a bid to become a leading energy service provider in the international market. As part of the national oil and gas system reform, pipeline operation and natural gas sales were separated to enable fair access to pipelines. Mergers of Kunlun Energy and Kunlun Gas, and of China Huayou Group Corporation and Beijing Huayou Service Corporation were completed. The company worked with local governments and various forms of capital to set up 50 joint ventures and cooperation projects in exploration and production, refining and chemicals, as well as oil products marketing, etc. Equity transfer of West-East Gas Pipelines (I, II and III) and the Central Asia-China Gas Pipeline were completed. The milestone goals set by SASAC for overhauling loss-making enterprises, tackling "zombies" and financially stressed enterprises, as well as reducing legal-person hierarchy and the number of legal-entity enterprises were achieved. Disposal of hotels was largely completed and 82% of services on water, electricity and heat supply as well as property management was separated and handed over.

Market-based reforms and operational mechanisms made progress.

We improved the price pass-through mechanisms from upstream to downstream, incentives for market-based operation, and internal and external market link-up etc.. Management of "one account book" covering both production and operation was optimized and the coordination among business segments was strengthened to maximize overall efficiency. The company further streamlined administration in delegating approval power to lower levels on 95 items in four batches. The pilot program for promoting management autonomy was implemented in 12 subsidiaries. The "Five-Autonomy" reform was launched in five equipment manufacturing companies. All these efforts have stimulated enthusiasm in grassroots units. Cadre selection and appointment procedures were improved and performance-based remuneration practice was pushed forward further. Pilot program for payroll budgeting was launched. A flexible mechanism for recruitment, appointment and remuneration took shape. Pilot plans and measures for integrated reform, project management, technical position ranking and R&D incentives were carried out in R&D institutes to keep our scientists and engineers motivated. Innovative practices of optimizing organizational structure, improving operating mechanisms and streamlining business processes were encouraged across the company.

CPC party governance systems improved. Under the *Guidance on Comprehensively Implementing Strict Governance over the Party in Strengthening Party Building*, the accountability system for party building and the party affairs management body were strengthened. CPC secretaries were held responsible for reviewing party building reports. The party building framework led by the company's CPC committee came into shape, as efforts were stepped up in overseeing party building activities, streamlining party decision-making procedures, improving party building assessment systems, and creating the platform for party building research, communication and information sharing. The company's anti-corruption system was reinforced, comprising regional discipline inspection and supervision centers; discipline inspections led by the secretary of Discipline Inspection Commission; on-site discipline inspection teams; and joint monitoring programs combining discipline inspection and supervision, legal affairs, auditing and internal controls, etc. to enable comprehensive inspection and monitoring within the party. An anti-corruption landslide was achieved, resulting from a strong commitment to discipline and rules as well as the fight against political "smog".

The year 2018 marks a milestone for CNPC to push ahead with reforms.

The general idea of deepening reforms is to implement the decisions of the 19th CPC National Congress, follow Xi Jinping's thought on socialism with Chinese characteristics for a new era, implement the central government's reform schemes and requirements for deepening the supply-side structural reform, and adhere to the direction of the reform of socialist market economy. Under the goal of "improving modern enterprise system and pushing forward the modernization of corporate governance and control capabilities", a steady, targeted and problem-solving approach should be adopted to boost corporate value and development quality through "debottlenecking, rejuvenating, improving quality and efficiency, as well as reinforcing party building". Reforms on management systems, employment and remuneration systems, mining community services and party building systems will be pushed forward comprehensively. Reforms on market-based mechanisms, differentiated control, process streamlining and mixed ownership will be deepened continuously. The company will look into a range of issues such as business structure optimization, transformation and upgrading, regional coordination, integration of warehousing, transportation and logistics resources, and innovative mechanisms for unconventional resources and new energy business. To embrace the 40th anniversary of the Reform and Opening-up, we will boost in-depth and company-wide changes in quality, efficiency and driving force so as to inject new vitality into the company's sound growth.