



## Message from the Chairman

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2018 marks the beginning year to implement the initiatives put forth by the 19th CPC National Congress, the 40th anniversary of China's Reform and Opening-up and the 20th anniversary of CNPC's corporate restructuring. Thanks to the concerted efforts of our board of directors, management team and employees and following new development concepts and a prudent approach to business growth, the company has achieved better-than-expected results by stabilizing growth, deepening reform, addressing weaknesses and boosting efficiency to provide a more solid foundation for the development of CNPC as an integrated international energy corporation.

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**Maintaining a focus on value creation with E&P, refining and petrochemical operations achieving quality enhancement and efficiency growth.** Following the instructions of Chinese President Xi Jinping on boosting E&P activities, action plans have been launched to achieve fruitful results. The full-year additions to proven oil and gas in place exceeded 1 billion tons of oil equivalent and the crude oil production remained above 100 million tons. Refining upgrades made headway steadily. Construction works started at Guangdong Petrochemical. The revamp project for Russian crude processing became operational at Liaoyang Petrochemical. A nationwide upgrade to National VI-compliant fuels completed; and sales of high-value products maintained double-digit growth. Refined product sales increased steadily as a result of efforts targeting market expansion and more sales through oil guns to improve profit. New progress was made in consolidating the distribution network. Our service capabilities and competences continued to improve.

**Pushing ahead with energy transition with natural gas and LNG business leading a shift to low-carbon development.** CNPC is committed to implementing and promoting energy transition towards a low-carbon and sustainable future, with a focus on natural gas as a strategic and value-generating business. In 2018, we achieved significant growth in natural gas production and sales, guaranteeing stable gas supply in the domestic market and helping reshape the nation's energy mix. Meanwhile, we impelled the full gas value chain development and global operation, expanded natural gas imports, and facilitated the high-efficiency utilization of natural gas and LNG in power generation and transportation.

**Vigorously implementing Belt and Road Initiative with international cooperation making new headway.** Focusing on new project development along the Belt and Road, and leveraging international platforms such as the SCO Qingdao Summit and FOCAC Beijing Summit, a series of agreements on strategic cooperation and major projects were signed. Our overseas projects were pushed forward steadily, with positive progress made in the "Offshore Project" (Abu Dhabi), Libra Project (Brazil) and Yamal LNG Project (Russia), etc. and new highs achieved in overseas oil and gas equity production. International trade continued to grow in terms of trade volume and profit. Our international operation competence was enhanced, with an optimized overseas asset portfolio and international and professional systems on technology, management and talent.

**Deepening corporate reforms with momentum for business growth further unleashed.** Based on global vision and strategic thinking, the company has developed the guideline for high-quality growth with a prudent approach, together with ongoing measures for cost reduction and efficiency improvement, to boost asset efficiency and secure a leading position in China's oil and gas industry in terms of earnings. Our corporate governance structures and internal controls continued to

improve while reforms in key areas moving forward steadily. Remarkable progress was made in the business restructuring of natural gas marketing system, market-oriented mechanisms as well as labor, personnel and compensation systems. Focusing on national and corporate key projects, our R&D efforts led to 12 important achievements by leveraging the ever-improving R&D platform. In particular, "Exploration theory & technology for conglomerate reservoir in sags and the discovery of the giant Mahu Oilfield" won the first prize of the State Science and Technology Progress Award. Our IT capabilities have been seamlessly integrated with day-to-day operations and significant progress was made in digital oilfield, intelligent refinery and intelligent pipeline.

**Highlighting HSE performance with major risks being prevented and mitigated.**

The company continued to push ahead with safe production and green development to ensure steady and controlled HSE performance and eliminate major HSE accidents. HSE assessment and safety monitoring in key areas are implemented across the organization with an emphasis on cutting greenhouse gas emissions. All emission reduction requirements for key pollutants have been met. The productivity-linked remuneration mechanism was improved, so was the workplace condition, pushing employees' sense of gain, happiness and security to a higher level. Law-based corporate governance and compliance management were pushed forward. Effective measures and accountability mechanisms were strengthened and no major risk event occurred throughout the year. Increased control over investment risks was in place to curb investment in non-productive facilities and non-core business activities. Debt and funding risks were closely monitored to keep the company's financial conditions stable and healthy.

**Building up soft power with brand image maintaining industry-leading.**

Training programs were implemented around Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era. In addition, we continued to strengthen our management team and the competence of the party at the grass-roots level was greatly enhanced. In line with the general principles for party building in the new era, a rigorous approach to party self-governance was adopted organization-wide. Ongoing rectification measures were put in place to crack down corruption and create a healthy political ecosystem. Adopting a long-term, consistent approach to building corporate image, the company has always actively involved in targeted poverty alleviation and socio-economic development efforts as a responsible corporate citizen. The company was awarded official partner of the Beijing Olympic and Paralympic Winter Games. As a CSR Special Contribution Award winner, the company enjoys a commendable corporate image, with its brand value ranking the second in the global oil and gas industry.

CNPC has made great progress on all fronts after years of assiduous efforts. Under the strong leadership of CPC, the company is experiencing a profound shift across the organization and opening up a new chapter of robust growth. On behalf of the company's board of directors and management team, I would like to express my heartfelt thanks to your support to CNPC's development.

2019 marks the 70th anniversary of the founding of the People's Republic of China. It is a critical year for CNPC to achieve the objectives of the 13th Five-Year Plan. Guided by Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, we will seize strategic opportunities and firmly follow the general guidelines for steady and robust growth and the overall requirements for consolidating achievements, strengthening vitality, enhancing competence, as well as providing an enabling environment for business development. Focusing on building a world-leading enterprise, we will strengthen our core business, boost opening-up and cooperation, push ahead with reform and innovation to lay a solid foundation for the development of CNPC as an integrated international energy corporation.

Chairman