Report of the President

> Against a backdrop of complexities and uncertainties in the business landscape and based on a prudent approach to growth, the company achieved better-than-expected operating results in 2018, with a comprehensive rally in operating indicators, by optimizing oil and gas operations, deepening reform and innovation, cutting cost and improving efficiency. The company reported RMB 2,739.0 billion in total revenue from operations and RMB 110.6 billion in total profit for the year.

We made remarkable achievements in all business sectors in 2018:

Strengthened E&P efforts boosted both reserves and production. Under the Growth Acceleration Program, the company developed a series of plans for maintaining annual crude production above 100 million tons and expanding natural gas operation. Measures were taken to speed up key on-going projects and facilitate internal concession swaps. Our exploration efforts led to major reserve additions, including risk prospecting breakthroughs in the Tarim, Junggar and Sichuan basins and new headway in unconventional resource exploration. The full-year additions to proven oil and gas in place were 633.16 million tons and 584.6 billion cubic meters respectively. The company produced 101.02 million tons of crude oil for the full year, thanks to heightened measures for improving production management at mature fields and boosting capacity at new projects. The company's full-year gas output surged to an all-time high of 109.4 billion cubic meters, with the shale gas output increased by 41.2%, as a result of capacity expansion in key gas producing areas, such as shale gas blocks in Southwest Oilfield. Our joint E&P projects in China with foreign partners produced more than 10 million tons of oil equivalent for the first time. With an emphasis on both output and profit, we developed and implemented a three-year action plan aimed at reducing all-in cost of crude oil production, deliberated investment decisions and optimized production portfolio, achieving a drop in both operating cost per unit and all-in cost per barrel, as well as a significant increase in operational benefit.

Improved production and benchmarking management stabilized earnings of our refining & chemical sector at high levels. The company optimized resource allocation and category-specific earning estimation in line with market demand and facility features, and ensured high utilization rate of integrated refining-petrochemical complexes and high-performing refining facilities. We processed 162.36 million tons of crude, and produced 112.91 million tons of refined products throughout the year, up 6.5% and 9.1% year-on-year respectively. The upgrading of products portfolio resulted in an increase of 2.38 million tons in jet fuel output and a reduced diesel-gasoline ratio of 1.19, down by 0.09. Our ethylene units were running at high utilization rate with a full-year output of 5.57 million tons, thanks to increased ratio of light hydrocarbon and LPG from oilfields and more flexible feedstock allocation among refineries. We launched 81 new brands of chemical products in responding to market demand and sold 29.01 million tons throughout the year. Upgrading and expansion projects at Liaoyang Petrochemical (Russian crude processing) and Huabei Petrochemical (refining) were completed and became operational. The refining-chemical integrated project at Guangdong Petrochemical was launched. All in all, our refining & chemical sector saw 14 technical and economic indicators better than a year earlier.

Reinforced marketing activities pushed oil product sales growing steadily. Against the backdrop of oversupply and cutthroat competition in the domestic market, our marketing efforts were focused on market expansion, nozzle throughput and profit. Meanwhile, a coordinated approach to production, transportation and distribution and a refined approach to marketing have been adopted to boost distribution, direct sales and retailing. The company's full-year oil product sales totaled 117.36 million tons, up 2.8% from a year earlier. In particular, there was a 20.9% increase in jet fuel sales and a recovery in diesel sales after six years of decline. The nationwide upgrade to National VI-compliant gasoline and diesel has been completed on time to provide the market with cleaner fuels. Our point-of-sale network continued to expand with a steady ramping-up in retail capabilities. Retail was prioritized. An integrated approach to marketing was adopted for oil products, fuel cards, non-fuel business and lubricants, to ensure double-digit growth in non-fuel sales income and profit, the biggest share of the domestic asphalt market and a 14.3% increase in lubricant sales.

Enhanced market deliverability and project capability resulted in both increased natural gas sales and revenue. The company continued to improve its natural gas distribution system, consolidate resources from home and abroad under well-managed gas contracts, and better arrange its transportation and distribution capacities to ensure adequate supply in the domestic market. We sold 172.4 billion cubic meters of natural gas for the full year, up 13.6% year-on-year, by optimizing our marketing strategies, tapping into high-end and end-use markets and expanding direct sales to key customers. We actively participated in online bidding transactions and promoted the formation of market-based pricing mechanism. A number of key projects proceeded steadily, with 24 pipeline connectivity projects going on stream, the Russia-China Gas Pipeline (Eastern Route) gathering pace, the Fujian-Guangdong branch of the Third West-East Gas Pipeline under construction, the expansions of Tangshan and Jiangsu LNG and the LNG terminal construction in Shenzhen pushing ahead as planned, and the Qinzhou-Nanning-Liuzhou, Fushun-Jinzhou and Yunnan refined products pipelines being operational. Leveraging centralized scheduling, our crude pipelines delivery hit a new historical high and the pipeline gas import exceeded 50 billion cubic meters.

Enhanced new venture development and reserve/output boosting measures saw robust growth in earnings of our overseas operations. The company has been actively engaged in international cooperation. The Abu Dhabi Offshore Project has been successfully delivered. The contract on Peroba deepwater project in Brazil was signed. Major progress was achieved in project extensions in Kazakhstan. Focusing on large-scale readily producible reserves, our offshore exploration efforts led to major discoveries in Libra in Brazil and deepwater biogas project in Myanmar; onshore prospecting made new breakthroughs in the Bongor Basin, Chad and the Yamal Project, Russia. The newly added recoverable reserves amounted to 97.90 million tons of oil equivalent for the full year. Our overseas projects were running smoothly and reported a full-year equity production of 98.18 million tons of oil equivalent, up 10.2% year-on-year. Headways were made in the construction of key projects, as evidenced by the Halfaya Phase III in Iraq and the EGR project at the Saman-Depe Gas Field in Turkmenistan, and the first LNG shipment from Yamal to China. Focusing on resources and markets both at home and abroad, our international trading business actively organized oil imports and sales of share oil from overseas projects and expanded high-end export markets for oil products. In 2018, our trading volume totaled 480 million tons.

Improved service competence and market competitiveness resulted in better earnings of our service businesses. Faced with booming E&P activities in 2018, our oilfield service sector deployed more deep-well drilling rigs, fracturing units and coiled tubing equipment to support reserve and capacity ramp-ups in domestic fields, and meanwhile won some mega service contracts in the UAE and Venezuela, etc. Our engineering & construction arms strengthened project lifecycle management in support of the company's field surface engineering, refining and chemicals, storage and transportation, and LNG projects. Strategic cooperation has been advancing steadily and a global market network has taken shape, with contracts signed with clients from Iraq, Saudi Arabia and UAE, etc. Our financial service sector achieved record-high operating results in terms of earnings, profits and number of clients, etc., by leveraging innovative products, integrated services and heightened risk controls. Our manufacturing subsidiaries highlighted lean management and equipment customization, achieving profitable operation.

Intensified reform and fundamental management played a bigger role in increasing the company's operating efficiency and revenue. Organization-wide reforms targeting corporate governance, internal controls, business processes and market-driven mechanisms continued to push forward. The reform in labor, personnel and compensation systems has gathered pace. The mixed-ownership reform proceeded steadily to generate momentum effectively. Ongoing efforts in cost reduction, efficiency improvement, investment deliberation and structural optimization, together with innovative capital operation models and enhanced day-to-day management have achieved a good result. The company's technological innovation has contributed to major technological advancements, as evidenced by a first prize of the State Science and Technology Progress Award and a second prize of the State Technological Invention Award. Meanwhile, significant progress was achieved in the fields of digital oilfield, intelligent refinery, intelligent pipeline, and Service Station 3.0, etc. The company has maintained a strong commitment to production safety and eco-friendliness. Our HSE system review and safety monitoring practices have helped strengthen risk control in our overseas operations. The Blue Sky Program was launched to address air pollution. No major HSE accident was reported throughout the year.

Looking ahead into 2019, we will strive for high-quality growth and make new headway on building an integrated international energy conglomerate, through heightened efforts to bolster core operations, innovation and IT capabilities, management mechanisms and HSE procedures, with a focus on resource optimization, coordination, service competence and risk control.

President 张伟