

President's Report



In 2019, in face of the frequent oil price fluctuation and intensified competition in the domestic oil and gas market, the company maintained a strong commitment to high-quality growth, a market-driven and efficiency-centered approach and a positioning of "priority, effectiveness, acceleration and coordination" for core business development in line with the production and operation targets set by the Board of Directors. The company achieved RMB 2,771.4 billion in revenue and RMB 120.4 billion in earnings before taxes for the year by optimizing production processes, making structural adjustments, deepening reform and innovation, strengthening risk prevention and control, as well as making great efforts in cost reduction and efficiency improvement. As a result, there is a stable increase in major production indices and a steady improvement in terms of value generation and the market competitiveness of our oil and gas business.

Domestic E&P efforts strengthened with reserves and production boosted remarkably. 2019 was the first year to implement the Seven-Year E&P Action Plan under the instructions of Chinese President Xi Jinping on boosting E&P activities. The year witnessed remarkable E&P achievements. A number of major breakthroughs were made in the Junggar, Songliao, Sichuan, Ordos and other basins through deploying risk exploration wells, including the discovery of 1-billion-ton reserves at the Qingcheng Oilfield and two 1-trillion-cubic-meter gas provinces, i.e. Sichuan (shale gas) and Bozi-Dabei in the Tarim Basin respectively. The full-year additions to proven oil and gas in place were 836.6 million tons and 1,239.9 billion cubic meters respectively, both at record highs since the company's restructuring in 1998. The company reversed a downward trend in crude production and produced 101.77 million tons of crude oil in 2019 by stabilizing production in mature fields and ramping up production in key areas such as Xinjiang and Sichuan. Natural gas production reached 118.8 billion cubic meters, marking the biggest increase in five years.

Refining transformation and upgrading made headway with "more petrochemicals and less refined products" measure effectively in place. The company has formulated a plan for the high-quality development of refining and petrochemical business, and accelerated the upgrading and transformation of the business focusing on producing more petrochemicals and less refined products, structural adjustment as well as technological innovation. In 2019, the company processed 168.44 million tons of crude oil in China, up 3.7% year-on-year, by optimizing resource allocation, rationally arranging utilization and ensuring the safe, stable and long-cycle operation of facilities. The ramp-up in petrochemical production resulted in an optimized product mix. The company produced 119.13 million tons of refined products in China, and realized a decline in diesel-gasoline ratio for ten years running. The year also saw a fast rise in high-value products such as jet fuel and premium gasoline as well as a steady sales increase in ethylene and other petrochemicals. The upgrading project at Huabei Petrochemical was put into operation. Key projects construction made progress, including the refining-petrochemicals integration project at Guangdong Petrochemical and the ethane-to-ethylene projects in Changqing and Tarim.

Oil product sales continued to grow with marketing efforts made at full stretch. Facing the fierce competition in the refined oil market, the company introduced a new marketing model, furthered sophisticated and strategic marketing, and implemented a differentiated approach for various regions, products and business processes. In 2019, the company sold 119.59 million tons of refined products in China, up 1.9% year-on-year. Focusing on high-end markets and high-value stations, the company further bolstered its sales network and built a number of Version 3.0 service stations offering convenient, eco-friendly and intelligent services.



The integrated approach to marketing refined products, fuel cards, non-fuel commodities and lubricants was strengthened. The company achieved significant growth in non-fuel business. The number of newly issued Kunlun ETC cards exceeded 1.8 million.

Natural gas and pipeline business went well with end-user's market expanded and profit increased. As the most important natural gas producer and supplier in China, the company has been playing an active role in stabilizing market supply based on a holistic approach to coordinating domestic and overseas resources, optimizing resource portfolio, market layout and sales structure, as well as forging ahead with the construction of the production, trade, storage and transportation system. The company sold 181.3 billion cubic meters of natural gas in China throughout the year, up 5.1% year-on-year. The Three-Year Action Plan for End-User's Market Development was implemented across the board and the cooperation with Heilongjiang, Xinjiang, Wuhan and Yinchuan registered progress. Meanwhile, effective measures were taken to enhance pipeline safety and optimize network operation. Key pipeline projects proceeded smoothly. The north section of the Eastern Russia-China Natural Gas Pipeline was put into operation. A total of 21 pipeline connectivity projects went on stream, including the Fujian-Guangdong branch trunk line of the Third West-East Gas Pipeline and the capacity build-up for the Fourth Shaanxi-Beijing Gas Pipeline etc.

Overseas production and profit increased as international operation continued to deepen. Focusing on the Belt and Road construction, the company continued to deepen all-round cooperation across the value chain of the oil and gas industry and participated actively in global energy governance. In 2019, the company expanded and deepened international cooperation by holding the Second Belt and Road Roundtable for Oil & Gas Cooperation, the Second China-Russia Energy Business Forum, CNPC International Cooperation Forum, and the 11th International Petroleum Technology Conference. The company achieved important progress in new project development, having completed the transaction on the Arctic LNG-2 project, won bids for two deep-sea pre-salt oilfields in Brazil, inked the MOU to further oil and gas cooperation with Kazakhstan partners, and signed the extension contract of Block 5 in Oman. The management level of the company's overseas business was further enhanced. Risk exploration efforts led to a large-scale breakthrough in western Africa; and multiple new discoveries were made through rolling exploration in mature areas in host countries such as Kazakhstan and Ecuador. A number of key projects including the Chad Project Phase 2.2 were put into operation. Production was resumed at Block 1/2/4 in South Sudan. Our project in Mozambique and Libra Oilfield in Brazil were making headway. The company's international trading business beefed up its network layout as well as cross-region and cross-market operations with trading capabilities growing stronger and a trading volume of 540 million tons realized in 2019.

Service capabilities and competitiveness continued to sharpen with business performance kept improving. Leveraging the integrated business architecture, the company consolidated the coordinated development of its core business and service business, and continued to sharpen its capabilities in oilfield services, engineering and construction, financial services as well as equipment manufacturing etc. The company launched the "Service Guarantee Year" campaign in 2019 to improve the quality and efficiency of services. Key indicators such as 3D seismic acquisition ratio and drilling footage per crew were greatly boosted to provide staunch support for increasing oil and gas reserves and production. The quality of engineering and construction projects was effectively improved through whole-process management. The company won the National Quality Engineering Gold Awards 2019 for the revamping of Shymkent Refinery in Kazakhstan and the Yunnan Petrochemical Project. Our financial business continued to expand market and beef up risk management

and realized a rapid growth in revenue. The company's equipment manufacturing arm forged ahead with lean management and moved fast towards service-oriented manufacturing.

Technological innovation accelerated enabling a high-quality growth of core business. Technology is the primary productive force and innovation is the key driver for development. In 2019, the company issued the *Guidance on Advancing Technological Innovation for High-Quality Growth* to boost R&D efforts in major theoretical knowledge, key core technologies and proprietary equipment development etc., and to facilitate the integration and application of new technologies. These efforts have led to a number of major deliverables, providing solid support for the company's core business development. In 2019, the "100-million-ton production capacity and high efficient development for extremely-thick and complex carbonate reservoirs in the Middle East" received the First Prize of the State Science and Technology Progress Award. The company also won the China Patent Gold Award and Silver Award. Meanwhile, the company took lead in drafting and amending several international standards. Information technology has been extensively integrated with all our businesses in the form of cloud-based E&P platform, digital oilfields, intelligent pipelines, intelligent refineries and smart service stations etc.

HSE performance continued to improve while practicing Green Development. The company maintained a strong commitment to safe, environmentally-friendly and resource-saving operations, in order to build a resource-saving and environmentally-friendly enterprise. Production process was vigorously managed and controlled. Safety responsibility system was put in place through a safety responsibility list, warning talks for under-performance, and a management accountability mechanism etc. For the first time, HSE review was conducted in parallel with quality management review. Tighter measures for contractor management were taken and a new round of hazard control programs was launched to ensure safe and stable operation of all businesses. Pollution control efforts were strengthened. An investigation of pollution source was conducted extensively across the company's domestic and overseas projects. Treatment of VOCs and revamping on leak-proof underground storage for service stations were accelerated. The annual emission reduction targets for key pollutants were overfulfilled in 2019. Energy management efforts were proceeding smoothly to save energy and boost energy efficiency. The company reduced energy consumption by 0.82 million tons of standard coal, and water consumption by 10.84 million cubic meters throughout the year. In 2019, the company's HSE performance indicators were at their best in history, with no major safety and environmental accidents happened.

The company is faced with a series of emerging risks and challenges in 2020. In particular, the world economy is being massively hit by the COVID-19 pandemic. International oil prices plummeted as the supply glut continues to worsen. To navigate through these trends and challenges, we will stay focused on our core business operation and continue to improve management, operational quality and efficiency through ongoing efforts to boost operational excellence, strengthen risk management, and deepen reform and innovation. We will do our utmost to accomplish the goals of the company's 13th Five-Year Plan, and strive for greater success in building a world-leading integrated international energy company.

President



Li Fanrong