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Company SnapShot

PETROCHINA COMPANY LIMITED (HKSE: 0857; NYSE: PTR; SSE: 601857)

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Contents

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LATEST FINANCIAL ANNOUNCEMENT

PetroChina Company Limited (PTR)

PetroChina Records Profit in First Half of 2016

Adheres to Principle of Steady Development
Reforms and Innovations Boost Quality and Profitability

2016-08-24

24 August, 2016, Beijing – PetroChina Company Limited ("PetroChina" or “the Company", HKSE: 0857; NYSE: PTR; SSE: 601857) today announced that the Company mitigated the impact of the plunge in oil and natural gas prices on its profitability, maintained stable and controllable production and operations, achieved improved financial results month-by-month and recorded profit on an overall basis in the first half of 2016. Its achievement took place amid a challenging environment arising from further slump in international oil prices, weak domestic demand for oil and gas and intensified market competition in the first half of 2016. During the period, the Company faced the most difficult period for its production and operation since its listing, with the realized crude oil price and natural gas price decreasing by 36.5% and 24.5% compared to the same period in 2015, respectively. Under such circumstances, the Company proactively adapted to the “New Normal” of economic development, adhered to the guiding principle of steady development, and continued to improve quality and profitability through reforms and innovations. As a result, the Company achieved satisfactory results relative to its international peers, outperforming most of them in some major indicators such as oil and gas output and natural gas reserves.

As of 30 June 2016, based on the International Financial Reporting Standards, the Company recorded profit from operations of RMB34.54 billion and net profit attributable to shareholders of the Company of RMB 531million, signaling that profit from operations was declining at a lower rate than the fall in oil prices. Of the operational indicators, capital expenditures decreased by approximately 46% compared with historical highs, with the investment structure further emphasizing quality and profitability. The major cost indicators continuously trended downward, resulting in the oil and gas lifting cost per unit falling more than 10% compared with the same period in 2015. The product structure was optimized according to market demand, reducing the diesel-to-gasoline ratio to 1.42 from 1.75 for the same period in 2015. Remarkable results were achieved in broadening revenue sources, reducing costs and improving profitability. The Company maintains a healthy financial position with the debt-to-asset ratio decreasing by 0.2 percentage point compared with the beginning of the period, with free cash flow remaining stable and increasing by about RMB22.7 billion compared with the same period in 2015 to RMB29.9 billion.

Exploration and Production

In the first half of 2016, the Company emphasized quality and profitability in its oil and gas exploration and development business. The domestic exploration business focused on key basins and scalable and profitable reserves, strengthened comprehensive geological research, and endeavored to achieve breakthroughs in engineering technologies. In terms of oil exploration, six discoveries were made in the Junggar Basin and Tarim Basin, indicating large-scale reserves at the levels of 100 million tons or 10 million tons of original oil in place. In terms of natural gas exploration, several reserve zones with over 100 billion cubic meters of gas resources each were discovered in the Tarim Basin and other regions. In its overseas oil and gas exploration, the Company focused on seeking quality reserves which can be quickly recovered, and achieved breakthroughs and progress in several regions. In terms of development and production, the Company planned its production based on the trends of international oil prices and production efficiency, adjusted crude oil production plans in a timely manner, and continued to optimize its production plans as well as output structure. The Company reduced production lines and workloads with low margin or no profitability, supporting production stimulation measures. In the first half of 2016, crude oil output from domestic operations was 385.3 million barrels and domestic marketable natural gas output was 1,528.4 billion cubic feet. Oil and gas equivalent output from overseas operations reached 108.1 million barrels. The oil and gas equivalent output exceeded half of the full-year target in the first half of 2016, accounting for 14.4% of the Company’s total oil and natural gas equivalent output.

In the first half of 2016, the domestic exploration and production segment stepped up efforts to broaden revenue sources, reduce costs and improve efficiency. It adopted a number of measures to vigorously control and reduce losses, resulting in effective control of investments and costs. The overseas businesses established a mechanism linking costs and oil prices, so as to respond to market changes and oil price fluctuations in a timely and effective manner, as well as to maintain the stable and effective growth of the business. Under the adverse impact of depressed international oil prices, the Exploration and Production segment recorded a loss from operations of RMB2, 419 million.

Refining and Chemicals

For the Refining and Chemicals segment in the first half of 2016, the Company carried out overall planning in terms of managing profitability, markets and resources. It also allocated more resources to the refining and chemical integrated complex and more profitable enterprises. The Company also increased its chemical production workload, accelerated the research and development, production and sales of new products, and strengthened optimization of resources allocation and product logistics, with the workload of its key refinery and high-margin chemical plants maintained at high levels. The Company processed 483.4 million barrels of crude oil, and produced 43.436 million tons of refined products. The output of chemical products rose 13.4% over the same period in 2015 to 11.811 million tons, with the proportion of high-margin refinery products such as high-octane gasoline and aviation fuel up 11.6 percentage points, and that of profitable chemical products such as synthetic resin up 7.6 percentage points. Sixteen major technical and economic indicators – including refining comprehensive energy consumption, fuel and power energy consumption in ethylene production– performed better compared with the same period in 2015. The Company optimized resources allocation and product logistics in chemical product sales with 16 new products achieving mass production and sales. In the first half of 2016, the main facilities of Yunnan Petrochemical entered the trial run stage, while the quality upgrading project of the national standard V gasoline and diesel proceeded as planned.

In the first half of 2016, the Refining and Chemicals segment focused on the principles of market-orientation and profitability, and continued to strengthen product structure as well as control of costs and expenses. As a result, the segment profitability significantly improved, boosting the overall profitability of the Company. During the reporting period, the Refining and Chemicals segment recorded a profit from operations of RMB27.474 billion, representing an increase of RMB22.817 billion over the same period in 2015. Of this, the refining business recorded a profit from operations of RMB21.425 billion, representing an increase of RMB 15.875 billion over the same period in 2015. The chemical business achieved a turnaround and recorded a profit from operations of RMB6.049 billion, representing an improvement of RMB6.942 billion compared with a loss from operations of RMB893 million over the same period in 2015.

Marketing

In the first half of 2016, the Marketing segment actively coped with slowing demand growth for refined oil products. It capitalized on the market trend, strengthened the links between production, transportation and sales, and optimized resources allocation and logistics. The Company continued to enhance its sales capabilities to end customers, fully implemented themed promotions, and conducted integrated marketing of refined products, fuel cards, non-oil business and lubricants on a regular basis. The Company improved the management of stations with low efficiency and low sales and adopted a new payment method on a trial basis. The Company strived to increase the operating quality of its international trading operations by focusing on synergies, taking advantage of its overseas oil and gas operation centers, and vigorously exploring the high-end and high-profit markets. The Company sold a total of 76.31million tons of gasoline, kerosene and diesel in the first half of 2016. Of this, petrol pump sales increased by 395,000tons,. The Company expanded its quality marketing channels by various means, adding 245 new service stations and reconstructing or expanding 47 stations. Annual retail capacity increased by 1.5 million tons.
In the first half of 2016, the domestic business of the Marketing segment controlled its costs and expenses, explored the market through various channels, and implemented target-specific marketing strategies, with the non-oil business becoming a new growth point, making a positive contribution to the Company's overall profitability. For international trading, the Company optimized the import of oil and gas resources and expanded the export of self-refined products, achieving a continuous growth in exporting volume. The Marketing segment recorded a profit from operations of RMB4.609 billion, representing an increase of 65.6% over the same period in 2015.

Natural Gas and Pipeline

In the first half of 2016, the Company's Natural Gas and Pipeline segment proactively responded to rapid changes in the market, and coordinated the utilization of its peak-shaving capabilities. It optimized the operations of the domestic gas and imported gas business and maintained the overall balance of production, transportation, sales and storage. In particular, facing lower-than-expected market demand in the second quarter, the Company put more efforts in the marketing of natural gas, optimized the monthly operational plan of imported gas, increased the storage of gas, made headway in its market expansion and adopted flexible sales tactics in the high-end market and to some of its users under direct supply. At the same time, the Company proactively developed power plant projects in Guangdong, Shandong and Northeast China region as new users, and explored the Caofeidian and regional markets in Southern Hebei. The Company also promoted new users to commence production. These measures led to increased sales and stable profitability. In the first half of the year, the Company sold 66.05 billion cubic meters of natural gas in domestic market, representing an increase of 10.6% over the same period in 2015. The construction of various key projects made steady progress. The Guigang-Yulin and Jintan-Liyang gas pipeline projects were completed and put into operation. The construction of the East Section of the Third West-East Gas pipeline was basically completed, while some projects such as Yunnan refined products pipeline proceeded as planned. The construction of the second China-Russia Oil Pipeline has commenced.

In the first half of the year, facing obvious fall in natural gas prices, the Company's Natural Gas and Pipeline segment optimized the allocation of resources, reduced comprehensive purchase costs, stepped up marketing efforts, and improved the marketing efficiency and profitability of the pipeline network. The Natural Gas and Pipeline segment recorded a profit from operations of RMB11, 431 million. Of this, the segment recorded a net loss of RMB8, 006 million on the sale of imported pipeline gas and LNG, narrowing the loss by RMB2, 620 million over the same period in 2015.

Outlook for the Second Half of 2016

In the second half of this year, the demand and supply of the domestic and international oil and gas market is not expected to undergo significant change. However, after the proactive response in the first half of the year, the Company has improved its efficiency and profitability. It has started a favorable trend with steady development and is expanding continuously. The Company will further enhance its analysis and assessment of the situation, and capture the opportunities arising from the implementation of country's major strategies such as supply-side structural reforms and the "The Belt and Road Initiative". The Company endeavors to keep a foothold on the gas and oil business, focus on improving quality and efficiency, promote reformation and innovation, as well as take advantage of its integrated business model covering all businesses along the industry chain. Meanwhile, the Company will proactively promote the "Ethos of Hard Work" and "Three Truths and Four Cardinals" of the "Daqing Spirit", striving to achieve all the targets for the year, as well as to promote its high-quality and steady development.

Additional information on PetroChina is available at the Company's website: http://www.petrochina.com.cn

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http://www.petrochina.com.cn/ptr/xwxx/201608/9b071c58fcc24a56bb22590b78b9b8e6.shtml

COMPANY PROFILE

PetroChina Company Limited (PTR)

PetroChina is the largest oil and gas producer and distributor in China and one of the largest oil companies in the world. PetroChina was established as a joint stock company with limited liabilities by China National Petroleum Corporation under the Company Law and the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies on November 5, 1999.

http://www.petrochina.com.cn

COMPETITORS

ChemChina

ChemChina Petrochemical Co.,Ltd. is a subsidiary of China National Chemical Corporation (ChemChina). The company has more than 80 sets of oil refining and chemical production units and related oil products storage and delivery facilities. The company can produce standard gasoline, liquefied gas, petroleum coke and other oil products, as well as basic chemical raw materials such as styrene, acrylic acid, butyl acrylate, methyl ethyl ketone (MEK), nonylphenol, octene, nonene, propylene and polypropylene. It provides raw materials for ChemChina's new chemical materials and specialty chemicals.

http://petro.chemchina.com/youqien/gywm/gsjj/A120101web_1.htm

China Chemical Engineering Corporation (601117)

CNCEC is a large, comprehensive corporation directly administrated by the State Council of China. It manages domestic and international engineering contracting, research of process technology, service businesses of design engineering, prospecting and environmental treatment.

http://www.cncec.com.cn/htdocs/epages.asp?id=73

China Gas Holdings Ltd (0384)

China Gas Holdings Limited is listed on the main board of The Hong Kong Stock Exchange Limited. It engages principally in the investment, operation and management of city gas pipeline infrastructure, distribution of natural gas and LPG to residential, commercial and industrial users, construction and operation of oil stations and gas stations, and development and application of natural gas and LPG-related technologies in China. To date, China Gas owns 205 natural gas projects, including exclusive piped gas development rights in 195 cities and regions, nine natural gas pipeline transmission projects, one natural gas exploration project, as well as the license to import and export LNG and other fuel products in China, and 44 LPG distribution projects.

http://www.chinagasholdings.com.hk/siteen/gsjj/index.html

China National Petroleum Corporation (CNPZ)

CNPC is China's largest oil and gas producer and supplier, as well as one of the world's major oilfield service providers and a globally reputed contractor in engineering construction. It has a presence in almost 70 countries. CNPC was established on September 17, 1988 by the Ministry of the Petroleum Industry. This state oil company is endowed with certain governmental administrative functions.

http://www.cnpc.com.cn/en/aboutcnpc/

China National Offshore Oil Corporation (0384)

Headquartered in Beijing, CNOOC is China's largest offshore oil and gas producer. This state-owned company, operating directly under the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, has, since its founding in 1982, maintained strong growth momentum, evolving from a purely upstream oil and gas exploration company to an international energy company with promising primary businesses and a complete industrial chain.

http://en.cnooc.com.cn/data/html/english/channel_110.html

China Northeast Petroleum Holdings (NEP)

NEP is a pioneer in China's private oilfield production and services Industry. Through its Chinese subsidiaries, Long De Oil & Gas Development Co. Ltd and Yu Qiao Oil & Gas Development Co. Ltd, NEP has entered into 20-year lease agreements with PetroChina Jilin Branch for the extraction of crude oil in Jilin Qian'an Oilfield. Under this arrangement, NEP has agreed to sell all of its extracted oil to PetroChina Jilin Branch for use in the China marketplace. In 2004, NEP secured a public listing in the US capital markets.

http://www.cnepetroleum.com/corporation/Corporate_Profile.html

China Oilfield Services Ltd. (601808)

COSL is an integrated oilfield service solution provider with nearly 50 years of experience in offshore operation. It is listed on both the Shanghai and the Hong Kong Stock Exchanges. COSL's four major business segments — geophysical services, drilling services, well services and marine & transportation services — cover the exploration, development and production phases of the oil and gas industry. COSL possesses China's largest fleet of offshore oilfield services facilities. Its services extend beyond offshore China to Southeast Asia, Australia, the Middle East, America, North Africa, and North Europe.

http://www.cosl.com.cn/data/html/english/channel_113.html

China Petrochemical Corporation (Sinopec)

Sinopec is a super-large petroleum and petrochemical enterprise group established in July 1998. Sinopec is a state-owned company solely invested by the state, functioning as a state-authorized investment organization in which the state holds the controlling share. Headquartered in Beijing, Sinopec Group has a registered capital of RMB182 billion.

http://www.sinopecgroup.com/group/en/companyprofile/AboutSinopecGroup/

Shenhua Group Corporation

Shenhua Group Corporation Limited, through its subsidiaries, is engaged in coal, power, railway, port, coal chemicals, and shipping businesses. It produces and distributes coal; produces thermal power; provides railway transportation of freight; port services to load bulk cargo and ore; produces coal chemical products (methanol, PE, and PP) and coal-to-liquid products (diesel oil, liquefied gas, naphtha); and provides shipping services for coastal power plants. The company was founded in 1995 and is based in Beijing, China.

http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=11734467

Zhejiang Hengyi Group Co., Ltd

Zhejiang Hengyi Group Co., Ltd., founded on October 18, 1994, is a large, modern, private enterprise with core businesses in purified terephthalic acid manufacturing, polyester spinning and chemical fiber elasticizing. The company's secondary businesses are financial investment and international trading. It has been ranked as one of the Top 500 Enterprises in China and one of the Top 100 Enterprises in Zhejiang province for many years.

http://www.hengyi.com/en/company.asp

THE INDUSTRY

Petrochemical and Plastic Industry Outlook for China

China and the chemicals industry is a phenomenal growth story. China has grown to be the third-largest producer of chemicals and petrochemicals globally and has reported growth rates of circa ten percent per annum for the last ten years. This growth is driven by the demand for Chinese manufactured goods, as key customers of the chemical industry have shifted their manufacturing and production to China. This has allowed China to secure its position as the primary recipient of new chemical investment in petrochemical and polymer facilities. As some of the first petrochemical and polymer investments partly financed by foreign companies are commissioned in Nanjing (BASF) and Caojing (SECCO), it is interesting to note the revival in proposals for investment in the Middle East and, in the longer term, in India. This in part reflects an expectation of continued high oil prices and a desire to take advantage of natural gas feedstock's and encouraging economic growth in India. For China though, the increased focus on the Middle East and India is not a matter of immediate concern. China does not possess significant oil and gas reserves; however, the forecast growth rates are such that petrochemical and polymer capacity are unlikely to keep pace with demand, and it is likely that the shortfall will be imported from the Middle East. This will fundamentally alter the Asian chemical trade flows in the coming years. For the foreign companies that have invested, there is the promise of continued growth. However, for those who have not, it may be difficult and expensive to catch up with established players.

China's surging economy and growing prominence on the world stage are increasingly shaping the economies and manufacturing output of the Asia Pacific region. As demand for manufactured goods continues to grow and the manufacturing base is diversifying in their domestic market, China is fast becoming a chemicals and plastics manufacturing hub, both in the region and around the world. It already has welcomed many of the global players into the marketplace with a large number of them currently building multi-billion-dollar integrated chemical plants. Today, China is stepping up chemical and plastics production in the country in a bid to meet surging demand both domestically and from around the globe with current projections expecting China to be the world's biggest plastics market by around 2025. China's emergence as a leading economy and world power is no flash in the pan. The past two years have seen Western companies launch an unprecedented wave of investment in Asia with four-fifths of the world's 500 largest organizations now having a mainland presence. GDP growth reached 9.5 percent for the year ending 2004 and is forecast to remain strong. Meanwhile, utilized foreign direct investment in China last year reached US$60.6 billion as multinational investor interest gathered further momentum. Following the continued economic upsurge within the country, China is working hard to improve its infrastructure and has proved that it is not just an export platform but also a place where increasingly successful companies are doing research and development. KPMG's experience in mainland China and the Asia Pacific region has already helped organizations in the chemicals and plastics industry — both multinational and Chinese — with their operations and strategies. Today, we have more than 4,200 professionals on the ground in China with offices in Beijing, Shanghai, Guangzhou, Shenzhen, Hong Kong and Macau.

Executive summary

China's growing role as a producer and consumer of chemicals and petrochemicals is having a profound impact on the global chemical industry. China is the world's third largest producer of chemicals and petrochemicals, at US$120.8 billion in 2003 (around five percent of world output). That value is forecast to climb 34.5 percent to US$162.4 billion by 2008

China consumes more than nine percent of the world's chemicals. From 1993-2003, its chemical consumption increased by ten percent per year. By 2015, China is expected to be the second largest chemical market after the United States (US). Today China accounts for roughly 15 percent of global demand, making it the world's second largest consumer of chemical goods — and the fastest-growing. Furthermore, the mainland market is expected to account for some 40 percent of global demand growth in 2003 – 2006 — reaching 20 percent of global demand by 2006, according to industry players based in China. At home, the country's chemical industry accounts for a staggering ten percent of Gross Domestic Product (GDP)

The country's booming economy is largely responsible for surging chemicals and petrochemicals growth, with demand outstripping supply across the board. This is not a flash in the pan. With China's yearly growth rate forecast to remain around seven percent until 2015, domestic chemical demand will continue to push beyond supply, offering unprecedented opportunities for multinational companies. In Europe and North America, margins for chemical companies will continue to tighten over the next decade, chemical margins in China are expected to remain well above levels of industrialized , and could reach their peak in 2006-2007, according to one China-based manager at a multinational chemical company.

Major multinational players are busy setting up or expanding mainland capacity in a bid to reduce under capacity in the country's chemical industry. Mainland investors are drawn from the world's leading chemical giants: BASF, Bayer, BP, ChevronTexaco, Dow Chemical, DuPont, ExxonMobil, Mitsubishi Chemicals, Shell and Total. From 2001 to the end of 2005, BASF — the global market leader by sales — will have invested an impressive US$2.4 billion in China, setting up major new sites in Nanjing and Shanghai. Bayer had 24 enterprises in China with a total sales value of US$1.43 billion in 2004, prior to the spin-off of the Lanxess business. Smaller players are involved too: Air Liquide has invested US$121 million in China, with plans to plough in a further US$35–55 million per year if the strong growth in demand continues.

Multinational players are focusing on a range of chemical facilities across China in a bid to raise supply of basic chemical raw materials, organic chemicals, plastics and polymers. Many investments are going towards building new production capacity in industrial zones such as the Shanghai Chemical Industry Park (SCIP) in the Yangtze River Delta. To date, foreign investors have already pumped in US$8 billion into large-scale projects in SCIP. Foreign investment is vital for the development of China's chemical and petrochemical sectors. Local industry desperately needs the cash, technology, equipment and knowhow which foreign companies can provide. Yet this relationship is hopefully mutually beneficial. The global chemical industry is increasingly dependent on the Chinese economy, which saw 9.5 percent growth in 2004. With so much riding on China, is its economic growth sustainable — or is the booming chemical industry heading for a glut? Foreign investment is largely focused on bulk chemicals and polymers, which are key raw materials for Chinese manufactured goods. Those goods are primarily for export.

Domestic demand is also forecast to increase significantly, which will indirectly absorb a higher proportion of the country's chemical production. This is underlined by GDP growth rates, which are forecast to remain strong at around nine percent in 2005 — falling marginally to seven to eight percent over the next five years. Most notably, China is dependent on the continued import of oil, gas, metals and a number of semi-manufactured goods to sustain previous growth rates. The quest to secure supplies is evidenced by CNOOC's abortive attempt to acquire UNOCAL and recent purchase of PetroKazakhstan. Key challenges remain. Issues such as market fragmentation, a lack of local technology and infrastructure constraints appear insignificant in light of the above. It should also be noted that logistical costs are also far higher than in other markets, with transport costs and tariffs accounting for up to 30 percent of total costs. Despite these obstacles, it is clear that long-term economic growth and increasing global integration are set to make China the world's most important chemical market in the 21st century.

https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Petrochemical-Plastics-China-200509.pdf

China's Chemical Industry Overview

China is undergoing a period of momentous change now with its newly acquired WTO membership proudly tucked under its belt that is providing the world with an unprecedented entry to China's market. It will be an uphill climb before China can attain a free market economy status and the task is made more challenging to prevent its half-restructured economy from collapsing. For the past decade, China's GDP has been nothing less than phenomenal, sustaining an average of 7%, while the global economy was stagnating. Although the market potential is undeniably massive in size, majority of the industrial sectors were plagued by problems brought about by excessive government interference, typical of Maoist policies. The price tag that came with the WTO membership is for China to open up jealously guarded industries such as telecommunication, petrochemical, automotive and agriculture.

The petrochemical industry has been classified as a "pillar" industry, which will remain closely monitored by the government despite relaxation of regulations pertaining to foreign ownership and investments. The astronomical size of the Chinese chemical market has naturally led it to become an integral sector in the Chinese economy. Traditionally the government orchestrated the entire structural development of the petrochemical sector. Unfortunately, there was little geographic and strategic planning involved in the initial planning stages, which resulted in a very fragmented industry comprising of money-losing state-owned enterprises (SOEs).

The expansion of the petrochemical industry was severely hampered by the lack of advanced technology despite concerted efforts by the Chinese government to accelerate the acquisition of Western technology. Moreover, most of them lacked the technical know-how to run the production plant at an optimal rate. The government gradually realized that providing continual support for the SOEs failed to encourage a competitive landscape, and hence, growth. By the mid-1990s, foreign participation in China's petrochemical industry provided impetus for restructuring the entire chemical industry structure, resulting in a lesser degree of interference by the government. Despite the industry reforms that are underway, the government still exercises some control over the chemical sector.

Exhibit 1 details the blueprint of how the Chinese government has methodically designated very specific functions to each organization in order to monitor the developments of the petrochemical industry. The administrative structure is segregated into two levels: (1) Central Government Level and (2) the Ministerial Level. SINOPEC is a dominant force in the latter.

The State Council established China Petroleum Corporation (SINOPEC) in 1983 to consolidate the processing and distribution of petroleum products. When the Central Government recognized the enormous stream of revenues from the petrochemical industry, they realized that it was imperative to set up corporations that serve the following functions:

1. Provide a portal of entry for multinational chemical companies

2. Vertically integrate related chemical and plastic industries in China

3. Centralize the directives particularly on the downstream and distribution aspects of the operation

4. Achieve economies o f scale

5. Accelerate the pace of technological advancement

Therefore, the two dominant petrochemical companies, PetroChina and Sinopec, were instructed by the government to overhaul the whole petrochemical structure within a very tight timeline. Sinopec has been rigorously reforming its organization to prepare for the post-WTO era. The gradual shift from a centrally planned economy to a market economy has triggered a succession of restructuring programs in every facet of the petrochemical industry in China.

In 1998, the WTO entry ticket was in close proximity but there was hardly any time for a celebratory fanfare because the industry only had a few years to eradicate the "thorns" that would ultimately cripple the growth of the industry. These "thorns" that have hampered the growth of the Chinese petrochemical industry refer mainly to the following:

1. Subscale production units

2. Problems in the capital structure include high assets-liabilities ratio, great proportion of non-operating assets and low rate of return on assets.
3. There is a gap of 10-12 years between China and foreign companies in oil refining and petrochemical production. No complete technologies with independent intellectual property rights had been formed in petrochemical production.

4. Domestic products have few varieties and there are a lot of commodities but few special materials to address the needs of the local chemical market. PR656CHINA 5. Inefficient infrastructure.

Prior to China's accession into the WTO, there were numerous heated debates on the pros and cons of opening up China to the world. Although most in the petrochemical industry grudgingly acknowledges the pressing need for foreign participation to propel their technological progression, but most local players will not be able remain unscathed from the intense competition that is imminent.

Sinopec Corp.

SINOPEC Corp. (China Petroleum and Chemical Corporation) was established in 1998 as part of a premeditated reform by the 100% state-owned SINOPEC Group, in order to channel the best assets and businesses into one mammoth enterprise with the intention of selling 20% of its stake to foreign investors. The State, of course, still holds 55% of its shares and will always remain as the predominant shareholder and supervisory body in this corporation. SINOPEC Corp. was created to fulfill the objectives of adopting the managerial style of a modern enterprise, divesting its assets and increasing the competitiveness of local chemical products to a global standard. It is involved in every aspect of the upstream and downstream processing operations covering an array of activities such as oil exploration/refining, chemical fibers, fertilizers, natural gas transportation, commodity chemicals, synthetic resins, synthetic rubber and engineering plastics.

Exhibit 4 shows the major petrochemical complexes located mainly in the south and eastern regions of China, which is where their principal markets lie. SINOPEC also has more than 70 subsidiaries including joint ventures with foreign companies focusing mainly on downstream operations. Although SINOPEC has identified downstream petrochemical products such as polyolefin's, PVC and ABS as their focus in developing higher value products but its progress is impeded by under-performing production facilities. Since SINOPEC was very much an "enterprise" run by the government, it was severely deficient in several elements that a successful corporation should possess such as (1) asset management, (2) operation efficiency (3) fundamental understanding of market dynamics/mechanisms (4) business strategy and (5) synergy of upstream and downstream operations. By June 1998, SINOPEC was ready for a mega-metamorphosis i.e. to corporatize and adopt a modern enterprise system in response to SETC's goal of cutting down government's interference in private enterprises.

Sinopec Corp. – Operations Overview

Exploration & Refining

SINOPEC has 6 oilfields located mainly in the eastern and southern parts of China and is the second largest producer of crude oil and natural gas. Shengli Oilfield, the second largest in China, is the most important producing field under Sinopec Corp. Its exploration activities were boosted by the recent acquisition of SINOPEC National Star. SINOPEC produces about 737, 7000 barrels of crude oil daily, accounting for about 22% of the total crude oil production in China. SINOPEC operates 25 refineries located, again, in the eastern coastal regions. Refining and petrochemical production remains as SINOPEC's core businesses and it accounts for 53% of the nation's total crude oil processing sector.

Chemicals

In China, SINOPEC is definitely the dominant player in the chemicals sector with over 17 plants producing intermediates, synthetic resins, fiber-grade monomers and polymers, synthetic fiber, synthetic rubber and chemical fertilizer, etc. In 2001, the global economic slowdown sent the prices of chemical products spiraling downward by an average of 18.5% mainly because the local market was swamped by imports from Asian and Middle Eastern regions suffering from overcapacity. Despite the global recession, the demand for chemical products remained robust because the local Chinese chemicals market is still crippled by a wide import-export disparity of 50%.

Restructuring Measures of SINOPEC

Ridding Under-Performing Assets

By the end of 1998, SINOPEC had about 89 subsidiaries either wholly-owned or joint ventures under its umbrella, a registered capital of RMB 68.8 billion, more than 30 collaborative projects with foreign countries and owns the most prominent petrochemical complexes such as Shanghai Petrochemical, Beijing Yansan, Qilu Petrochemical and Yangtze Petrochemical. These figures are superficially impressive and a deeper investigation will reveal the mounting “dead weight” SINOPEC was encumbered by. This “dead weight” refers to substandard operations that were under-performing and a source of financial drain for the company. Since these inefficient plants were crippling SINOPEC’s growth, they undertook a major overhaul to abolish manufacturing sites such as Guangzhou Ethylene Plant and Zhongyuan Petrochemical. Jilin Petrochemical, a subsidiary of SINOPEC Corp., closed down 14 production units that were depleting Jilin’s financial resources and were too technologically obsolete to maintain. SINOPEC is still in the process of rationalizing inefficient assets to boost utilization rates to 90% by 2003.

http://cmrhoutex.com/media/download_gallery/Chinese%20Chemical%20Industry%20-%20%20CMR%20Inc%20Analysis2.pdf