

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNLESS THE CONTEXT OTHERWISE REQUIRES, REFERENCES MADE TO "THE COMPANY" ARE TO CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND ITS SUBSIDIARIES. CERTAIN REVENUES AND COSTS INCLUDED IN THE RESULTS OF OPERATIONS OF THE COMPANY FOR 1999 WERE ASSOCIATED WITH CERTAIN PRODUCTION ASSETS RELATING TO PETROLEUM AND PETROCHEMICAL PRODUCTS WHICH WERE RETAINED BY SINOPEC GROUP COMPANY FOLLOWING THE REORGANISATION OF SINOPEC GROUP COMPANY. THESE OPERATIONS, ASSETS AND LIABILITIES WERE NOT AVAILABLE TO GENERATE REVENUES FOR THE COMPANY IN 2000 (AND WILL NOT BE AVAILABLE TO GENERATE REVENUES FOR THE COMPANY IN CURRENT OR FUTURE PERIODS). THEREFORE, THE RESULTS OF OPERATIONS OF THE COMPANY FOR 2000, PARTICULARLY WITH RESPECT TO PETROCHEMICALS, ARE NOT NECESSARILY COMPARABLE WITH THE RESULTS FOR 1999.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth certain income and expense items from the consolidated profit and loss account of the Company for the years indicated.

Turnover

Overview. The Company had significant growth in the sales of refined products in 2000. Turnover and other operating revenues increased by RMB 88.9 billion, or 37%, from RMB 240.0 billion in 1999 to RMB 328.9 billion in 2000. Sales of refined products from the refining and the marketing and distribution segments contributed RMB 73.6 billion, or approximately 83%, of the increase in the turnover and other operating revenues of the Company. This increase in sales of refined products was due primarily to increases in the averaged realised sales prices of gasoline and diesel, which have been set with reference to FOB Singapore prices since June 2000, and the increased portion of the sales volume of gasoline and diesel made through retail sales which tend to have the highest unit prices among all sales channels. Turnover and other operating revenues from the corporate and others segment contributed RMB 13.8 billion, or 15%, of the

increase in turnover and other operating revenues. This increase was primarily due to the increased external sales of Sinopec Hong Kong Co. and the consolidation of the financial results of China International United Petroleum and Chemicals Co., Ltd., or Unipet, of which the Company's equity interest increased to 70% at the end of 1999 resulting in the Company's accounting for it as a subsidiary for the whole year in 2000.

Sales of crude oil and natural gas. Sales of crude oil and natural gas contributed 3% of the turnover and other operating revenues of the Company, compared with 2.6% in 1999. The Company produces crude oil principally to supply its refining and chemical operations. The Company sold approximately 4.9 million tonnes crude oil representing approximately 15% of their total crude oil sales volume in 2000, compared with approximately 4.5 million tonnes external crude oil sales volume representing approximately 14% of the total crude oil sales volume in 1999. The increase in external sales volume is primarily due to the segregation and distribution on 31 December 1999 of certain refineries to Sinopec Group Company which during previous periods had been accounted for as the intersegment sales

of the Company but were actually retained by Sinopec Group Company in the reorganisation.

Turnover of crude oil and natural gas increased by approximately RMB 3.7 billion, or 60%, to RMB 9.8 billion in 2000. The increase in sales of crude oil and natural gas was principally due to:

- an increase of approximately 89.1% in the average realised sales price of crude oil from approximately RMB 880 per tonne in 1999 to approximately RMB 1,664 per tonne in 2000, as the international crude oil prices against which the crude oil prices of the Company are principally benchmarked rose steeply in 2000 as compared with 1999; and
- an increase of approximately 8.9% in the external sales volume of crude oil from approximately 4.5 million tonnes in 1999 to approximately 4.9 million tonnes in 2000.

Sales of refined products. Both the refining and the marketing and distribution segments make external sales of refined products. External sales from the refining and the marketing and distribution segments in 2000 were RMB 67.9 billion and RMB 174.6 billion, respectively, representing increases of 34.6% and 45.2%, respectively, from 1999. Consolidated revenues from external sales of refined products in the two segments represented approximately 73.7% of the turnover and other operating revenues in 2000.

	Year Ended 31 December	
	2000	1999
	RMB	RMB
	(in billions)	
Turnover and other operating revenues		
Turnover	322.9	237.6
Other operating revenues	6.0	2.4
Total turnover and other operating revenues	328.9	240.0
Operating expenses		
Purchased crude oil, products and operating supplies and expenses	(226.1)	(160.8)
Selling, general and administrative expenses	(19.3)	(18.3)
Depreciation, depletion and amortisation	(20.1)	(17.9)
Exploration expenses, including dry holes	(2.9)	(2.4)
Personnel expenses	(13.0)	(12.5)
Taxes other than income tax	(12.2)	(9.5)
Other operating expenses, net	(0.5)	(3.2)
Total operating expenses	(294.1)	(224.6)
Operating profit	34.8	15.4
Net finance costs	(4.8)	(10.2)
Gains from issuance of shares by subsidiaries	—	0.6
Other income and gains	0.2	0.7
Profit from ordinary activities before taxation	30.2	6.5
Taxation	(9.4)	(0.3)
Profit from ordinary activities after taxation	20.8	6.2
Minority interests	(1.8)	(1.5)
Profit attributable to shareholders	19.0	4.7

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Company derived approximately 72% of their sales of refined products from sales of gasoline and diesel in 2000. Gasoline sales went up by 35% to RMB 65.2 billion and diesel sales went up by 41% to RMB 108.9 billion in 2000 from 1999. The increase in gasoline and diesel sales was primarily the result of the significant increase in the realised sales prices for both gasoline and diesel. Sales of principal refined products other than gasoline and diesel also experienced significant growth due to both the increased realised sales prices and the increased sales volume, except for sales volume of lubricants which decreased slightly, from 1999 to 2000.

The average realised sales prices of gasoline and diesel in 2000 went up by approximately 40% and 38%, respectively, from 1999, to approximately RMB 2,846 and RMB 2,634 per tonne, respectively. This increase in prices was principally the result of:

- the PRC government's reform on the state control over gasoline and diesel prices, which allowed the domestic prices to more closely reflect the rising gasoline and diesel prices on the international markets after May 2000; and
- the higher percentage of retail sales in the sales volume of gasoline and diesel of the Company in 2000 compared with 1999.

Combined sales volumes of gasoline and diesel in 2000 amounted to 64.2 million tonnes, which slightly increased from 1999. The retail sales volume of gasoline as a percentage of total sales volume of gasoline was up from 23.8% in 1999 to 34.6% in 2000, and the retail sales volume of diesel as a percentage of total sales volume of diesel was up from 13.7% in 1999 to 27.9% in 2000. The increases in retail sales volume and the decreases in wholesale sales volume are primarily due to the acquisition by the Company of more than 8,200 service stations which during previous periods had been wholesale customers and the construction by the Company of more than 600 new service stations. The Company also plans to acquire, including leasing, or build more service stations in 2001. As a result, the Company expects both their retail sales volume and the percentage of retail sales volume in the total sales volume of gasoline and diesel will further increase.

Sales of chemicals. Turnover of chemicals was RMB 56.2 billion in 2000, down 6% from 1999. The decline in chemicals sales was a result of

lower sales volumes of some principal chemical products in 2000 as compared to 1999, which was primarily due to the segregation and distribution of certain petrochemical operations that were retained by Sinopec Group Company in the reorganisation but were included in the historical financial statements of the Company prior to 31 December 1999. If these operations were excluded as at 1 January 1999, sales volumes for most chemicals other than chemical fertilisers would have increased in 2000 as compared to 1999, and turnover of chemicals in 2000 would have increased by 24% from 1999. Average realised sales prices of most chemicals other than chemical fertilisers increased significantly due to:

- the PRC's domestic demand for chemicals continued to grow at a fairly strong rate which the Company believes is correlated with China's 8% GDP growth rate;
- higher crude oil price drove up petrochemical feedstock cost which is partly passed on to the chemical product prices;
- the Company's efforts to improve its product mix with more higher value added products such as differential fibers and performance compounds for synthetic resin; and
- the Company's efforts to increase the amount of direct sales as a percentage of its total sales of major chemical products.

Operating Expenses

Overview. Total operating expenses of the Company in 2000 were RMB 294.1 billion, representing an increase of RMB 69.5 billion, or 31%, from 1999. The increase in total operating expenses was primarily attributable to the increase in the expense item of purchased crude oil, products and operating supplies and expenses.

Purchased crude oil, products and operating supplies and expenses. Purchased crude oil, products and operating supplies and expenses increased by RMB 65.3 billion, or 40.6%, to RMB 226.1 billion in 2000 from 1999. Purchased crude oil expenses accounted for approximately RMB 141.2 billion, or 62%, of this expense item, and constituted approximately 48% of the total operating expenses in 2000. Purchased crude oil expenses increased by approximately RMB 73.5 billion in 2000 from 1999, due to:

- an increase of approximately 27% in the volume of crude oil purchased from approximately 61

million tonnes in 1999 to approximately 77.4 million tonnes in 2000; and

- an increase of approximately 64% in the average realised prices for crude oil expensed by the Company from approximately RMB 1,113 per tonne in 1999 to approximately RMB 1,825 per tonne in 2000. The increase in the average realised price expensed for crude oil reflected the upward trend in 2000 of crude oil prices in the international markets.

Approximately 74% of the crude oil requirements of the Company by volume in 2000 were sourced from imports, PetroChina, CNOOC and Sinopec National Star, with the remaining 26% supplied by the Company's own exploration and production operations. While the volume of crude oil supplied by the exploration and production segment increased slightly by approximately 1%, such volume as a percentage of the total crude oil requirements of the Company declined from 31% in 1999 to 26% in 2000 because the crude oil distillation throughput of the Company in 2000 was 19.6% higher than 1999.

The Company purchased diesel and gasoline from other domestic refineries to supplement its own production. Purchased diesel and gasoline expenses decreased by approximately RMB 8.3 billion, or 27%, from approximately RMB 30.8 billion in 1999 to approximately RMB 22.5 billion in 2000. The decrease was entirely due to a decrease in the volume purchased from external sources, partially offset by increased prices in 2000. Externally purchased volumes of gasoline and diesel were down by approximately 52% and 43%, respectively, to approximately 3.6 million tonnes and 5.6 million tonnes, respectively, in 2000.

The Company improved its crude oil distillation capacity utilisation rate from 67.7% in 1999 to 81% in 2000. The Company produced more gasoline and diesel and its sales of diesel and gasoline included a larger percentage of internally produced products in 2000 compared to 1999.

The increase in purchased crude oil, products and operating supplies and expenses in 2000 as compared to 1999 was also attributable to the increased purchases and expenses of the Company's trading subsidiaries, Unipec, and Sinopec Hong Kong Co., both of which were accounted in the corporate and others segment.

Selling, general and administrative expenses. Selling, general and administrative expenses