

Business Operating Review

The Company has achieved satisfactory results in each of its segments for the six months ended June 30, 2001.

For the six months ended June 30, 2001, the Company produced 381 million barrels of crude oil and 278.9 billion cubic feet of marketable natural gas, representing an average production of 2.105 million barrels of crude oil and 1.541 billion cubic feet of marketable natural gas per day. It sold 361.3 million barrels of crude oil and 259.2 billion cubic feet of natural gas. Approximately 74% of the crude oil sold by the Company was purchased by its refineries. For the six months ended June 30, 2001, the Company successfully reduced its lifting cost to US\$4.4 per barrel, representing a decrease of 9.8% in comparison with the six months ended June 30, 2000. By June 30, 2001, the exploration and production segment achieved 57% of the RMB6 billion cost reduction target set for the four years up to 2002.

For the six months ended June 30, 2001, the Company's refineries processed 285 million barrels of crude oil, or an average of 1.5745 million barrels per day. Approximately 94% of the crude oil processed in the Company's refineries was supplied by the exploration and production segment. The Company produced approximately 23.3 million tons of gasoline, diesel and fuel oil and sold approximately 25.01 million tons of these products. The Company is actively expanding its sales and distribution networks, in particular the retail distribution network, by capitalising fully on the complementary value-added effect of the integration of refining and marketing. As at June 30, 2001, there were 11,859 service stations either owned, controlled or franchised by the Company or owned by CNPC but to which the Company provides supervisory support. As at June 30, 2001, the Company owned and operated a crude oil pipeline network of approximate 8,748 kilometres and a refined product pipeline of 984 kilometres. The processing costs of the refining unit of the Company are also declining steadily, from RMB141 per ton to RMB137 per ton. By June 30, 2001, the refining and marketing segment has achieved 72% of the RMB1.3 billion cost reduction target set for the four years up to 2002.

For the six months ended June 30, 2001, the Company produced approximate 0.794 million tons of ethylene, approximate 0.917 million tons of synthetic resin, approximate 0.163 million tons of synthetic fibres, approximate 0.113 million tons of synthetic rubber, and approximate 1.44 million tons of urea. There has been significant improvement in the operating results of the chemicals and marketing segment through improved technology, the adjustment of product mix and the thorough production of higher added-value output. Up to June 30, 2001 the chemicals and marketing segment had reduced costs by 76% of the RMB1.2 billion cost reduction target set for the four years up to 2002.

The natural gas and pipelines segment is the Company's core business segment for development. In the six months ended June 30, 2001, the Company produced 278.9 billion cubic feet of commodity natural gas, of which 219.1 billion cubic feet was sold through the natural gas and pipelines segment. The Company currently owns and operates 11,617 kilometres of regional natural gas pipeline networks, of which 10,525 kilometres are operated by the natural gas and pipelines segment.

The West-East gas pipeline project is progressing well. In February 2001, the Company entered into gas off-take letters of intent with 37 entities. The Company is in negotiations with four international investment consortia on the timing and scope of international partner participation in the project. The investment consortia are all led by large international oil and gas companies, namely BP, ExxonMobil, Gazprom and Shell. In July 2001, the Company entered into memoranda of understanding with potential international partners.