



In 2001, the world economy suffered a marked slowdown with the slowing in growth in the US economy, in particular following the “9.11” incident, global recession set in. The economy of the PRC continued to see a higher growth due to the State’s continued strategy of whipping up the domestic demand and the adoption of a proactive financial policy and sound monetary policy, whereby the growth in GDP for the year reached 7.3%. With these benefits, the PRC’s demand in both petroleum and chemical products increased steadily, and this has created favourable market conditions for the business of the Company. According to the statistics of the Company, apparent consumption of refined oil products (including gasoline, diesel and kerosene including jet fuel) amounted to 114.63 million tonnes in 2001, representing an increase of 4.9% over the previous year, and apparent consumption of petrochemicals (in terms of ethylene) amounted to 12.60 million tonnes, representing an increase of 14.8 % over the previous year.

### 1. REVIEW OF MARKET ENVIRONMENT

In 2001, domestic demand was high. However as deregulation has been stepping up and in view of the regulatory environment moving towards a market economy, the Company is no exception to other international energy and petrochemical companies in that it operates amid a severe market environment and challenges.

#### (1) The market for crude oil

In spite of the efforts made by OPEC to reduce and limit crude oil production, the slowdown in the world economy led to a lackluster demand for crude oil, especially following the “9.11” incident when the international prices for crude oil kept falling, and the prices of Brent crude had fell to as low as US\$ 18 per barrel, and the Platt’s Singapore annual average spot price was US\$ 24.89 per barrel, representing a decrease of 12.8% over the average annual spot price of US\$ 28.54 per barrel in 2000, and prices of domestic crude oil slipped significantly as a result.



Mr. Wang Jiming, Director and President

#### (2) The market for refined oil products

Affected by the decrease in international crude oil prices, prices of refined oil products kept sliding. At the same time, undermined by the fact that the domestic market for refined oil products was not well-developed, that market competition had been disorderly, and that there was an oversupply of resources in the principal markets of the Company, and as the domestic pricing mechanism for refined oil products in the PRC had not been entirely reasonable and the international crude oil

prices have been decreasing, domestic distributors for refined oil products became hesitant, a disorderly and unregulated competition occurred as a result in the Company’s principal markets in eastern, southern and central PRC. As such, prices of refined oil products, and in particular the wholesale prices, fell. In addition, refining capacity of the Asian region grew faster than expected, whereas growth in demand slowed down, leading to a decrease in regional refinery capacity utilization and in the profit

## EXPLORATION & PRODUCTION

THE COMPANY IS THE SECOND LARGEST CRUDE OIL PRODUCER IN CHINA. IN 2001, THE ANNUAL PRODUCTION OF CRUDE OIL AND NATURAL GAS AMOUNTED TO APPROXIMATELY 296 MILLION BARRELS OIL EQUIVALENT. AFTER THE ACQUISITION OF SINOPEC NATIONAL STAR, THE COMPANY, AT THE SAME TIME, OWNS EXPLORATION AND PRODUCTION LICENCES IN RESPECT OF BOTH TERRESTRIAL BED FORMATION AREAS AND MARINE BED FORMATION AREAS.









CHINA PETROLEUM & CHEMICAL CORPORATION

margin of refining. It was particularly marked during the period from June to August, 2001 when gasoline prices in Singapore fell below the prices of crude oil. In these circumstances, the Company suffered a significant decrease in its refining margin for the second half of last year.

In the face of such severe conditions, the Company initiated coordinating efforts with other suppliers of refined oil products in the PRC, seeking to improve the situation. At the same time it had also made good efforts to draw the attention of the relevant authorities of the State to the difficulties in the implementation of the original pricing mechanism for refined oil products. With the support of the State, the new pricing mechanism for refined oil products came into force on 17 October, 2001. Under the new mechanism, prices of refined oil products are no longer linked only to the market prices in Singapore, but instead to the market prices in Singapore, Rotterdam and New York. Thus, the retail of refined oil products may now fluctuate by 8% up or down from the approved mean retail guidance prices announced by the State Development and Planning Commission instead of the original 5% range in effect previously. Convergence of the new pricing mechanism better embodies the principle of moving towards the international market and the market economy; it has also increased corporate autonomy, enabling the Company to better respond to market changes.

### (3) Review of the chemical products market

Driven by the continued growth in the economy of the PRC, demand for chemical products has been high and China still has to import chemical products in large quantities to meet the consumption. Annual apparent consumption of synthetic resins, synthetic fibers, monomers/polymers for synthetic fibers and synthetic rubbers amounted to 24.27 million tonnes, 8.86 million tonnes, 14.21 million tonnes and 1.69 million tonnes respectively, representing an increase of 19%, 11%, 18% and 10% respectively over 2000.

In 2001, with the slowdown in the growth of the world economy and sluggishness in the cyclical changes of chemical products, prices of these products were believed to remain in a trough and have been sliding, and the prices of chemical products in the PRC also fell. Compared with 2000, the prices of key chemical products decreased by 18.5%, of which the average price of synthetic resins decreased by RMB 1,628 per tonne, and of synthetic fibers, by RMB 1,425 per tonne, and monomers/polymers for synthetic fibres and their polymers, by RMB 1,060 per tonne.

These severe market conditions exerted immense pressure on the Company in achieving its profit target.

## 2. REVIEW OF PRODUCTION OPERATIONS

In spite of the severe market conditions, the Company adhered to its operating strategies, which are: "expanding resources, expanding

markets, reducing costs and disciplining investments", and with the flexibility of its adjustments to the production and sales strategies, the Company has managed to achieve satisfactory results in production operations in 2001.

### (1) Exploration and Production

In 2001, under the unified principle of "reserves, production and effectiveness", the Company continued with its expansion into the upstream business with a view to increasing the resources for oil and gas. As a result, good results were attained in exploration of oil and gas, making it possible for a substantial increase in the production of crude oil and natural gas. In certain promising areas, a number of oil and gas wells and high production potential fields have been identified. The annual production of crude oil amounted to 269.16 mmbbls, and annual production of natural gas amounted to 162.8 billion cubic feet, representing an increase of 8.8% and 103% respectively over the previous year; added proved oil reserves reached 316 mmbbls, newly added proved natural gas reserves reached 309 billion cubic feet, newly built crude production capacity amounted to 5.21 million tonnes, and newly built natural gas production capacity amounted to 1.01 billion cubic metre, thereby achieving a larger than 100% replacement ratio of crude oil reserve the five consecutive years and meeting the targets of the production operations for the year.

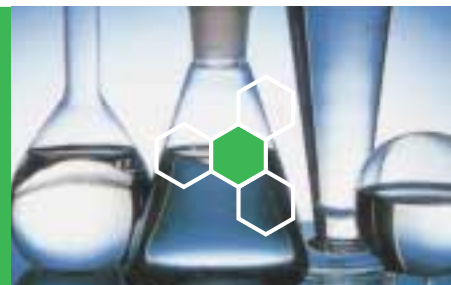
### Summary of Operations of the Exploration and Production Segment

	2000 (Sinopec National	1999 (Sinopec National	% change in 2001 compared to 2000
	2001 Star excluded)	Star excluded)	
Crude oil production (mmbbls)	269.16	247.35	8.8
Natural gas production (bcf)	162.8	80.3	103
Newly added proved crude oil reserves (mmbbls)	316	318	-0.6
Newly added proved gas reserves (bcf)	309	297.0	4.0
Year end proved reserves of crude oil (mmbbls)	3,215	2,952	8.9
Year end proved reserves of natural gas (bcf)	3,488	999.0	249.2
Year end proved reserves of oil and gas (mmbbls)	3,796	3,118	21.7



## REFINING

THE COMPANY IS THE LARGEST REFINER OF CRUDE OIL IN CHINA – PRODUCING GASOLINE, DIESEL, JET FUEL, LUBRICANTS, FUEL OIL, VARIOUS PETROCHEMICAL FEEDSTOCK AND OTHER REFINED PRODUCTS. IN 2001, THE COMPANY OPERATED 25 REFINERIES AND PROCESSED 101.42 MILLION TONNES OF CRUDE OIL.









Both Shengli oilfield and the newly acquired Sinopec National Star achieved remarkable results in production operations:

#### Summary of Production of Shengli Oilfield

	2001	2000	1999	% change in 2001 compared to 2000
Oil production (mmbbls)	189.43	189.97	189.21	-0.30
Natural gas production (bcf)	30.01	24.3	25.84	23.5
Newly added proved oil reserves (mmbbls)	250	265.97	287.9	-6.0
Newly added proved gas reserves (bcf)	24.9	44.1	36.7	-43.5
Year end proved reserves of crude oil (mmbbls)	2,214	2,153	2,077	2.83
Year end proved reserves of natural gas (bcf)	299.0	304.0	106.0	-1.64
Year end proved reserves of oil and gas (mmbboe)	2,264	2,204	2,094	2.72

#### Summary of Production of Sinopec National Star

	2001	2000	1999	% change in 2001 compared to 2000
Oil production (mmbbls)	21.37	15.76	10.98	35.60
Natural gas production (bcf)	70.41	54.4	49.96	29.43
Newly added proved oil reserves (mmbbls)	43.97	85	50	-48.27
Newly added proved gas reserves (bcf)	215.4	1,148	382.2	-81.24
Year end proved reserves of crude oil (mmbbls)	238.6	216	146.8	10.46
Year end proved reserves of natural gas (bcf)	2,488	2,343	1,248.9	6.19
Year end proved reserves of oil and gas (mmbboe)	653.2	606.5	355	7.7

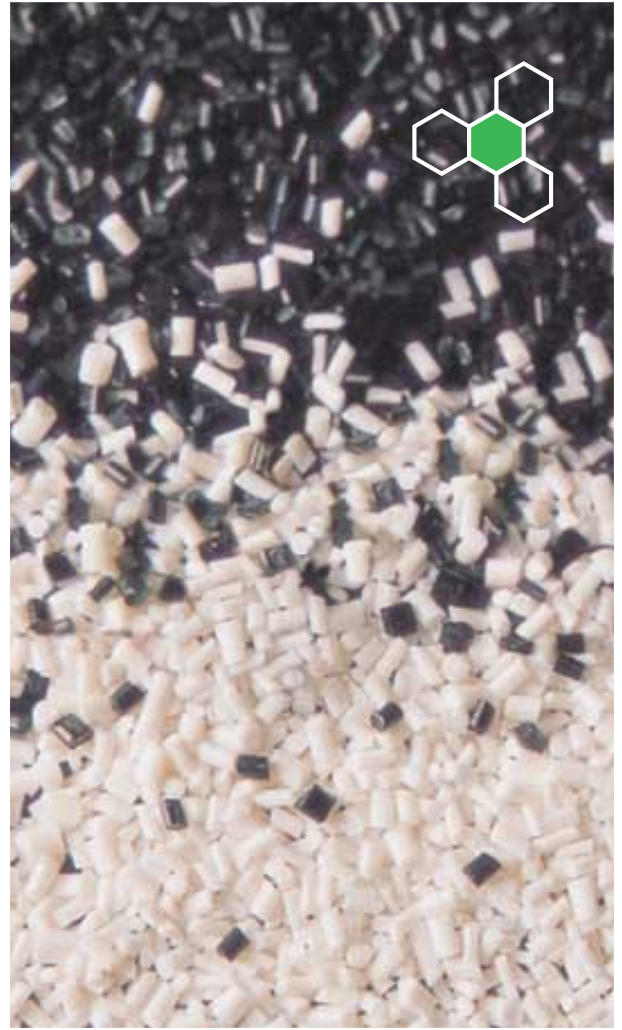
#### (2) Refining segment

The annual throughput of crude oil was set at an appropriate level and on market conditions. In 2001, the Company's throughput of crude oil was 2,042.4 mbbbls per day, representing a decrease of 3.2 % over the previous year, of which lower cost sour crude oil amounted to 387.6 mbbbls per day, representing an increase of 40.4 % over the previous year. Relying on technological advances and systematic

management, having adjustments made to the product mix, the ratio of diesel to gasoline production topped 2.02, marking a historical high. With improvements in product quality, the refinery sector of the Company has been able to fully meet the specification of diesel which met the new standards. Having reduced production costs, improvements have been made to all the major technological and economic indicators.

#### Crude Sourcing Structure (1,000 tonnes)

	2001	2000	1999	% change in 2001 compared to 2000
Self-supply	29,410	27,390	27,100	7.4
Sinopec Petrochemical Group*	NA	160	NA	NA
Petrochina Company Limited	14,460	16,560	20,220	-12.7
CNOOC Limited	6,180	5,170	7,630	19.5
Import	49,180	58,920	34,140	-16.5
Total	99,240	108,200	89,090	-8.28





## MARKETING & DISTRIBUTION

THE COMPANY HAS WELL-ESTABLISHED DISTRIBUTION NETWORK FOR REFINED OIL PRODUCTS IN CHINA. FOR THE YEAR ENDED 31 DECEMBER 2001, THE COMPANY HAD 28,246 PETROL STATIONS UNDER THE "SINOPEC" BRAND, OF WHICH THE COMPANY OPERATED 24,062 PETROL STATIONS AND FRANCHISED 4,184 STATIONS. IN 2001, THE COMPANY'S SALES VOLUME OF MAJOR REFINED PRODUCTS ACCOUNTED FOR 65% OF THE RETAIL VOLUME OF MAJOR REFINED OIL PRODUCTS IN THE COMPANY'S PRINCIPAL MARKETS.

