

## **Business Operating Review**

The Company has achieved satisfactory results in each of its segments for the six months ended June 30, 2002.

For the six months ended June 30, 2002, the Company's total output of oil and gas amounted to 435.52 million barrels (including 1.07 million barrels from the Devon acquisition), including 384.20 million barrels of crude oil and 307.9 billion cubic feet of marketable natural gas, representing an average production of 2.1227 million barrels of crude oil and 1.701 billion cubic feet of marketable natural gas per day. It sold 363.9 million barrels of crude oil and 286.6 billion cubic feet of natural gas. Approximately 72% of the crude oil sold by the Company was purchased by its refineries. For the six months ended June 30, 2002, the Company successfully reduced its lifting cost to US\$4.265 per barrel, representing a decrease of 3.07% in comparison with the six months ended June 30, 2001. By June 30, 2002, the exploration and production segment achieved 81% of the RMB6 billion cost reduction target set for the four years up to 2002.

For the six months ended June 30, 2002, the Company's refineries processed 280 million barrels of crude oil, or an average of 1.5470 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 23.34 million tons of gasoline, diesel and kerosene and sold approximately 25.75 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, 2002, there were 12,250 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, 2002, the Company owned and operated a crude oil pipeline network of approximately 9,186 kilometres and a refined product pipeline of 984 kilometres. The processing costs of the refining unit of the Company were RMB137 per ton, which was the same as the first half of last year. By June 30, 2002, the refining and marketing segment has achieved 95% of the RMB1.3 billion cost reduction target set for the four years up to 2002.

For the six months ended June 30, 2002, the Company produced 0.739 million tons of ethylene, 0.957 million tons of synthetic resin, 0.13 million tons of synthetic fibres, 0.103 million tons of synthetic rubber, and 1.755 million tons of urea. For the six months ended June 30, 2002, 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 production of higher added-value output. Up to June 30, 2002, the chemicals and marketing segment had reduced costs by 96% of the RMB1.2 billion cost reduction target set for the four years up to 2002.

The natural gas and pipeline segment is the Company's core business segment for development. In the six months ended June 30, 2002, the Company produced 307.9 billion cubic feet of marketable natural gas, of which 242.7 billion cubic feet was sold through the natural gas and pipeline segment. The Company currently owns and operates 12,918 kilometres of regional natural gas pipeline networks, of which 11,826 kilometres are operated by the natural gas and pipeline segment.

In order to create higher shareholders value, the Company has persistently improved the returns on upstream operations and prospects for growth, and will actively develop overseas oil exploration and development business. On April 12, 2002, the Company entered into an agreement for the acquisition of the entire interest of Devon. The acquired oil and gas assets include both oil fields under production and gas fields protected by contracts in Indonesia.

On June 18, 2002, the Company successfully completed the takeover of Devon. Approximately 30 staff from the Company are currently working in Indonesia. The project is operating well.

The West-East gas pipeline project is progressing well. Please see the section “Material Investments” for details of the project.