

## CHAIRMAN'S REPORT



*Jiang Jiemin*  
Chairman and President

Dear Shareholders,

I am pleased to submit to you the annual report of the Company for the year ended December 31, 2007.

### Review of Results of Operations

In 2007, faced with new changes and new trends in the macro environment both domestically and globally, the Company upheld the guiding principle of scientific development and implemented firmly the three main strategies in the areas of resources, marketing and internationalisation of operations. The Company optimised production arrangements and strengthened operations and management. The main performance indicators of the Group have achieved record high again and the overall business strengths of the Group were enhanced markedly. In accordance with CAS, for the twelve months ended December 31, 2007, profit before taxation of the Group was RMB192,825 million, representing an increase of 1.6% compared with the previous year. Net profit attributable to equity holders of the Company was RMB134,574 million, representing a decrease of 1.2% compared with the previous year. Basic earnings per share for profit attributable to equity holders of the Company during the year amounts to RMB0.75. In accordance with IFRS, for the twelve months ended December 31, 2007, profit before taxation of the Group was RMB204,381 million, representing an

increase of 2.6% compared with the previous year. Net profit attributable to equity holders of the Company was RMB145,625 million, representing an increase of 2.4% compared with the previous year. For the twelve months ended December 31, 2007, the basic and diluted earnings per share attributable to equity holders of the Company were RMB0.81.

The Board of Directors has recommended to pay final dividends of RMB0.156859 per share (together with the interim dividend of RMB0.205690 per share, the annual dividend for 2007 will be RMB0.362549 per share), subject to shareholders' review and approval at the forthcoming annual general meeting to be held on May 15, 2008.

### Board of Directors and Supervisory Committee

The annual general meeting of the Company for 2006 was held in Beijing on May 16, 2007. Articles 89 and 109 of the Articles of Association of the Company (the "Articles of Association") provide that "directors shall be elected at the shareholders' meeting for a term of three (3) years and may serve consecutive terms if re-elected upon the expiry of their term of office" and "the supervisory committee shall compose of seven (7) supervisors and one of the members of the supervisory committee shall act as the chairman. Each supervisor shall serve for a term of three (3) years, which is renewable upon re-election and re-appointment", respectively. The term of office of four Directors and two Supervisors expired on May 17, 2007. Mr Chen Geng notified the Board that he would retire from his office and would not seek for re-election. Mr Xu Fengli notified the Company that he would retire from his office and would not seek for re-election. Pursuant to the provisions of Articles 51 (3) and (13) of the Company's Articles of Association regarding the "election and re-election of supervisors nominated by the shareholders" shall be subject to the approval at the shareholders' meetings and "review of proposals presented by shareholders representing 5% or more of the voting shares of the Company" at the shareholders' meetings, resolutions for the re-election of three Directors and two Supervisors were considered and approved at the annual general meeting. It was resolved that each of Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende be re-elected as Directors and Mr Sun Xianfeng and Mr Zhang Jinzhu be re-elected and elected as Supervisors respectively.

Given that Mr Chen Geng retired from his office as Director and Chairman of the Company, in accordance with Articles 88 and 89 of the Articles of Association of the Company which provide that "the board shall have one chairman" and "the chairman shall be elected and removed by more than one-half of all the members of the board of directors", an extraordinary meeting of the Board of Directors was convened on May 20, 2007 to consider and pass the resolution to elect Mr Jiang Jiemin as the chairman of the Board of Directors which was approved by way of written resolution.

In addition, the Articles of Association of the Company provides that the Board of Directors shall consist of thirteen Directors. The Board of Directors currently consists of eleven Directors. To ensure the normal operation of the Board of Directors, the Company will arrange for election of two Directors in accordance with the procedures set out in the Articles of Association of the Company.

On June 19, 2007, at the seventh meeting of the Third Session of the Board of Directors, the Company appointed each of Mr Sun Longde, Mr Shen Diancheng and Mr Liu Hongbin as Vice President, Mr Zhou Mingchun as the Chief Financial Officer and Mr Lin Aiguo as the Chief Engineer of the Company. On November 20, 2007, at the ninth meeting of the Third Session of the Board of Directors, the Company appointed Mr Li Hualin as Vice President of the Company.

I would like to take this opportunity to express my gratitude to Mr Chen Geng and Mr Xu Fengli for their contribution to the Company during their term of office. I would also like to express my heartfelt thanks to all shareholders for their support and members of the Board of Directors and the Supervisory Committee and all staff of the Company for their close co-operation and hard work.

## Business Prospects

Looking forward in 2008, the global economy will hopefully maintain steady growth, and the Chinese economy will maintain its rapid growth momentum. These will continue to fuel the demand for oil and natural gas and petrochemical products. Government regulations will become more stringent. The public will be more concerned with changes in crude oil prices and stability in oil and gas supply. Confronted with complicated and ever changing external environments, and ever increasing market competition, the Group will seek new growth engines positively in order to achieve good and rapid business developments, and continue to implement the three main strategies in the areas of resources, marketing and internationalisation of operations. The Group will continue to place top priority on resources exploration and development and further consolidate its leading position of the upstream business in China. The Group will speed up modification of the strategic structure of its refinery and petrochemical business and to develop such business in an orderly and efficient manner. Sales of refined products and petrochemical products could be improved to ensure market supply. Construction of strategic pipelines and the domestic pipeline network will be enhanced with a view to building up a diversified oil and gas supply system. The Group will continue to enhance international energy co-operation opportunities in order to be mutually benefited, and endeavour to achieve efficient and sustainable development of its overseas businesses.

In respect of exploration and production, the Group will continue to place top priority on resources exploration and development and further consolidate the leading position of its upstream business in China. The Group will stress the parallel development of oil and gas exploration, carry out exploration at the key basins and focus on key preliminary exploration projects. Exploration of mature oilfields will be enhanced, and venture into the exploration of new oilfields will be pushed forward actively. The Group will endeavour to unearth sizeable and high quality reserves with a view to meet the annual reserves target. In oilfield exploration, emphasis will be placed on the overall development of new oilfields. The Group has extensively initiated works to achieve a steady oil and gas production in mature oilfields through the deployment of various comprehensive measures including conducting secondary recovery of mature oilfields, strengthening the descriptive analysis of reserves and unearthing potential resources. In natural gas exploration, emphasis will be placed on construction in key gas regions, overall planning and development and production planning. Production capacity will be enhanced at a quicker pace so that rapid growth of natural gas production can be sustained.

In respect of refining and petrochemicals, the Group will speed up modification of the strategic structure of its refinery and petrochemical business to expedite and facilitate the construction of large-scale refinery and petrochemical bases and to develop such business in an orderly and efficient manner. The Group will strive to meet market requirements for refined products and petrochemical products necessitated by rapid growth in the economic and social developments by improving production organisation and management, arranging for resources processing in a scientific manner, and ensuring full load operation of refinery facilities and high load, safe and steady operation of petrochemical facilities. The Group will continue to improve different economic and technological indicators, optimise product mix, and improve market competitiveness.

In respect of the sale of refined products, the Group will further improve the refined products sales and distribution network and sales information system. Efforts will be made to explore profitable markets. Regulated management of service stations and regulated sales of refinery products will be strengthened with a view to increase the retail sales and daily sales of individual serviced stations. The Group will endeavour to improve the marketing quality and operating efficiency of the sale of high quality lubricants business. Increasing efforts will be made to achieve overall balance of better resources allocation, optimisation and utilisation of resources in various markets in order to ensure supply of refined products in the domestic market.

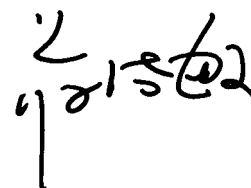
In respect of natural gas and pipeline construction, the Group will continue to pursue actively key construction projects. Construction of the four major strategic oil and gas pipelines in the northwestern, northeastern and southwestern China as well as in the sea and the domestic trunk pipeline network will be sped up. Storage and transportation facilities and resources despatch capabilities will be improved. A nationwide pipeline network and supply system characterised by diversification of resources, flexible despatch priority and stable supply will be established. Overall balance of the allocation of natural gas resources will be

enhanced. Linkage of production, transportation and marketing will be enhanced. Utilisation of gas will be optimised, and marketing efficacy could be boosted. Further studies on extended natural gas business will be conducted with a view to achieving secondary value-added benefits to the application of natural gas.

In respect of international operations, the Group will continue to enhance international energy co-operation opportunities in order to obtain mutual benefits, and endeavour to achieve efficient and sustainable development of the scale of its overseas businesses. The Group will focus on oil and gas exploration, continue to expand the scale of reserves and speed up the pace of overseas businesses development. Subject to proper risk management, the Group will develop its current businesses steadily in the global market, continue to utilise various business forms, and gradually improving the allocation of resources of the Group to an international level.

In respect of safety and environmental protection, the Group will continue to adhere firmly to the principle of "prioritising of safety, environmental protection and people-orientation" and minimise potential risks in full force. The Group will promote the effective operation of the Health, Safety and Environment (HSE) management system. The Group will put its emphasis on energy saving, water saving and land saving and reducing emission of pollutants, and continue to improve efficiency in utilisation of resources.

In its future development, the Group will continue to emphasize two guiding principles, namely, scientific development and social harmony. The Group will continue to conduct its business in a prudent and steady manner, thereby increasingly enhancing its corporate value and actively fulfilling its economic, environmental and social responsibilities to maximise returns to its equity holders, the society and its staff.



Jiang Jiemin  
Chairman  
Beijing, the PRC  
March 19, 2008