

CHINA PETROLEUM & CHEMICAL CORP  
Form 6-K  
April 01, 2010

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
The Securities Exchange Act of 1934

For the month of March, 2010

CHINA PETROLEUM & CHEMICAL CORPORATION  
22 Chaoyangmen North Street,  
Chaoyang District, Beijing, 100728  
People's Republic of China  
Tel: (8610) 59960114

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_. )

N/A

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This Form 6-K consists of:

The annual report for the year ended December 31, 2009, of China Petroleum & Chemical Corporation (the “Registrant”), made by the Registrant on March 26, 2010.

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## CONTENTS

2	Company Profile
3	Principal Financial Data and Indicators
7	Changes in Share Capital and Shareholdings of Principal Shareholders
10	Chairman's Statement
14	Business Review and Prospects
22	Management Discussion and Analysis
34	Significant Events
40	Connected Transactions
43	Corporate Governance
50	Management's Report on Internal Control
52	Report of the Board of Directors
58	Report of the Board of Supervisors
60	Directors, Supervisors, Senior Management and Employees
74	Principal Wholly-owned, Controlling and Non Wholly-owned Subsidiaries
75	Financial Statements
197	Corporate Information
199	Documents for Inspection
200	Confirmation from the Directors and Senior Management

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, reserves and other estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 26 March 2010 and unless required by regulatory authorities, the Company undertakes no obligation to update these statements.

IMPORTANT: THE BOARD OF DIRECTORS AND THE BOARD OF SUPERVISORS OF CHINA PETROLEUM & CHEMICAL CORPORATION (“SINOPEC CORP.”) AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WARRANT THAT THERE ARE NO MATERIAL OMISSIONS FROM, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE SUBSTANTIAL SHAREHOLDERS OR OTHER CONNECTED PARTIES, AND NO EXTERNAL GUARANTEE THAT VIOLATES DECISION-MAKING PROCEDURES IS MADE. MR. CHEN XIAOJIN, DIRECTOR OF SINOPEC CORP., COULD NOT ATTEND THE FIFTH MEETING OF THE FOURTH SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. CHEN XIAOJIN AUTHORISED MR. YE QING TO VOTE ON HIS BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. SU SHULIN, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, VICE CHAIRMAN AND PRESIDENT AND MR. WANG XINHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE CORPORATE FINANCE DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THIS ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2009.

THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 OF SINOPEC CORP. AND ITS SUBSIDIARIES (THE “COMPANY”) PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (“ASBE”), AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) HAVE BEEN AUDITED BY KPMG HUAZHEN AND KPMG RESPECTIVELY, AND BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED OPINIONS ON THE ANNUAL FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT.

Exploration and  
Production

Refining

Marketing and  
Distribution Chemicals

## COMPANY PROFILE

Sinopec Corp. is a company established in China and listed in Hong Kong, New York, London and Shanghai with integrated energy and chemical operations. The principal operations of the Company include:

exploring for and developing, producing and trading crude oil and natural gas

processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products

producing, distributing and trading petrochemical products

The Company’s competitive strengths are mainly reflected in:

its leading market position in the production and sales of refined oil products in China

its status as the largest petrochemical products producer in China

its strategic market position in China’s highest economic growth areas

its well-established, highly efficient and cost effective sales and distribution network

its integrated business structure with strong resistance against industry cyclical risks

its well-recognised brand and excellent reputation

The Company intends to fully implement its development strategies that are well balanced between the Company's development, contribution to the country, return to shareholders, reward to the society and its employees. Leveraging its advantages in vertical integration of upstream and downstream businesses, the Company will make great efforts to expand the market, explore alternative energy and enhance innovation, so as to develop into a multinational energy and chemical corporation with strong competitiveness.

## PRINCIPAL FINANCIAL DATA AND INDICATORS

## 1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH CHINA ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (“ASBE”)

## (1) Principal financial data

Items	For the years ended 31 December			
	2009 RMB millions	2008 RMB millions	Change %	2007 RMB millions
Operating income	1,345,052	1,444,291	(6.9)	1,200,997
Operating profit/(loss)	80,202	(28,766)	—	78,083
Profit before taxation	80,076	22,025	263.6	82,817
Net profit attributable to equity shareholders of the Company	61,290	28,445	115.5	55,896
Net profit attributable to equity shareholders of the Company before extraordinary gain and loss	61,258	29,307	109.0	56,438
Net cash flow from operating activities	158,796	74,268	113.8	123,629

Items	At 31 December			
	2009 RMB millions	2008 RMB millions	Change %	2007 RMB millions
Total assets	866,475	763,297	13.5	740,358
Shareholders’ equity attributable to equity shareholders of the Company	377,182	329,300	14.5	308,509

## (2) Principal financial indicators

Items	For the years ended 31 December			
	2009 RMB	2008 RMB	Change %	2007 RMB
Basic earnings per share	0.707	0.328	115.5	0.645
Diluted earnings per share	0.702	0.288	143.8	0.645
Basic earnings per share (before extraordinary gain and loss)	0.707	0.338	109.0	0.651
Fully diluted return on net assets (%)	16.25	8.64	7.61	18.12
Weighted average return on net assets (%)	17.25	8.86	8.39	19.37
Fully diluted return (before extraordinary gain and loss) on net assets (%)	16.24	8.90	7.34	18.29
Weighted average return (before extraordinary gain and loss) on net assets (%)	17.24	9.13	8.11	19.56

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Net cash flow from operating activities per share	1.832	0.857	points 113.8	1.426
			At 31 December	
Items	2009 RMB	2008 RMB	Change %	2007 RMB
Net assets attributable to equity shareholders of the Company per share	4.350	3.798	14.5	3.558

## (3) Extraordinary items and corresponding amounts

Items	For the year ended 31 December 2009 (Income)/expense RMB millions
Gain on disposal of non-current assets	(211)
Donations	174
Gain on holding and disposal of various investments	(322)
Net (profit)/loss of subsidiaries generated from a business combination involving entities under common control before acquisition date	(62)
Other non-operating income and expenses, net	190
Subtotal	(231)
Tax effect	42
Total	(189)
Attributable to:	
Equity shareholders of the Company	(32)
Minority interests	(157)

## (4) Significant changes of items in the financial statements

The table below sets forth reasons for those changes where the fluctuation was more than 30% during the reporting period, or such changes which constituted 5% or more of total assets at the balance sheet date or more than 10% of profit before taxation:

Items	At 31 December		Increase/(decrease)		Reasons for change
	2009 RMB millions	2008 RMB millions	Amount RMB millions	Percentage (%)	
Bills receivable	2,110	3,660	(1,550)	(42.3)	Mainly due to enhanced collection of cash in respond to the in market condition
Accounts receivable	26,592	12,990	13,602	104.7	Mainly due to the increase in scale of operations and crude oil price compared with the end of last year
Other receivables	4,454	20,525	(16,071)	(78.3)	Please refer to Note 9 to the financial statements prepared in accordance with ASBE
Prepayments	3,614	7,610	(3,996)	(52.5)	Mainly due to the decrease in prepayments in connection with construction facilities and purchase deposits
Inventories	141,611	95,979	45,632	47.5	Mainly due to the increase in scale of operations and crude oil price compared with the end of last year
Other current assets	856	287	569	198.3	Mainly due to the increase in the available-for-sale financial assets



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Intangible assets	22,862	16,348	6,514	39.8	Please refer to Note 15 to the financial statements prepared accordance with ASBE
Fixed assets	465,182	411,939	53,243	12.9	Please refer to Note 13 to the financial statements prepared in accordance with ASBE
Other non-current assets	1,792	1,013	779	76.9	Mainly due to the increase in the available-for-sale financial assets
Short term loans	34,900	74,415	(39,515)	(53.1)	Mainly due to the Company's adjustment of its debt structure and increase in financing from issuance of bonds
Accounts payable	97,749	56,464	41,285	73.1	Mainly due to the increase in scale of operations and crude oil price which resulted in increase in accounts payable
Employee benefits payable	4,526	1,827	2,699	147.7	Mainly due to the accrual of staff annuity and housing subsidies
Taxes payable	16,489	6,816	9,673	141.9	Please refer to Note 25 to the financial statements prepared in accordance with ASBE
Short-term debentures payable	31,000	15,000	16,000	106.7	Please refer to Note 29 to the financial statements prepared accordance with ASBE
Non-current liabilities due within one year	6,641	19,511	(12,870)	(66.0)	Please refer to Note 27 to the financial statements prepared in accordance with ASBE
Long-term loans	52,065	64,937	(12,872)	(19.8)	Please refer to Note 28 to the financial statements prepared in accordance with ASBE
Debentures payable	93,763	62,207	31,556	50.7	Please refer to Note 29 to the financial statements prepared accordance with ASBE
Other non-current liabilities	2,192	1,403	789	56.2	Mainly due to the increase in deferred income
Operating income	1,345,052	1,444,291	(99,239)	(6.9)	Please refer to MD&A
Operating costs	1,035,815	1,321,030	(285,215)	(21.6)	Please refer to MD&A
Sales taxes and surcharges	132,884	57,214	75,670	132.3	Please refer to Note 35 to the financial statements prepared in accordance with ASBE
Impairment losses	7,453	16,869	(9,416)	(55.8)	Please refer to Note 38 to the financial statements prepared in accordance with ASBE
Loss/(gain) from changes in fair value	365	(4,198)	4,563		Please refer to Note 39 to the financial statements prepared accordance with ASBE
Investment income	3,589	1,452	2,137	147.2	Please refer to Note 40 to the financial statements prepared accordance with ASBE
Non-operating income	1,275	51,911	(50,636)	(97.5)	Please refer to Note 41 to the financial statements prepared in accordance with

				ASBE
I n c o m e t a x	16,076	(2,846)	18,922	NotPlease refer to Note 43 to the financial
expense/(benefit)				applicablestatements prepared in accordance with
				ASBE
Minority interests	2,710	(3,574)	6,284	NotMainly due to the increase in net profit
				applicablefrom controlling subsidiaries

## 2 FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Unit: RMB millions

Items	For the years ended 31 December				
	2009	2008	2007	2006	2005
Turnover, other operating revenues and other income	1,345,052	1,495,148	1,205,860	1,061,588	824,005
Operating profit	84,431	26,336	85,496	81,250	71,517
Profit before taxation	80,568	22,116	82,847	79,073	68,090
Profit attributable to equity shareholders of the Company	61,760	28,525	55,914	53,773	43,743
Basic earnings per share (RMB)	0.712	0.329	0.645	0.620	0.505
Diluted earnings per share (RMB)	0.708	0.289	0.645	0.620	0.505
Return on capital employed (%)	11.13	5.15	11.66	12.58	12.50
Return on net assets (%)	16.44	8.70	18.16	20.30	19.31
Net cash generated from operating activities per share (RMB)	1.754	0.767	1.368	1.060	0.903

Unit: RMB millions

Items	At 31 December				
	2009	2008	2007	2006	2005
Non-current assets	676,562	613,774	556,610	471,413	400,160
Net current liabilities	112,139	121,258	88,772	76,364	32,285
Non-current liabilities	165,570	143,974	134,616	107,815	110,195
Non-controlling interests	23,192	20,653	25,325	22,323	31,174
Total equity attributable to equity shareholders of the Company	375,661	327,889	307,897	264,911	226,506
Net assets per share (RMB)	4.333	3.782	3.551	3.055	2.612
Adjusted net assets per share (RMB)	4.254	3.690	3.471	2.982	2.552
Debt/equity ratio*(%)	27.96	27.94	28.10	27.53	31.34

\* Debt/equity ratio = long-term loans/(total equity attributable to equity shareholders of the Company+ long-term loans) x 100%

## 3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS

	For the years ended 31	
	December	December
	2009	2008
	RMB	RMB
	millions	millions
(1) Analysis of the effects of major differences between the net profit under ASBE and profit for the year under IFRS		
Net profit under ASBE	64,000	24,871
Adjustments:		
Revaluation of land use rights	30	30
Government grants	462	61
Tax effects of the above adjustments	(8)	(6)
Profit for the year under IFRS	64,484	24,956

## (2) Analysis of the effects of major differences between the shareholders' equity under ASBE and total equity under IFRS

	At 31 December	
	2009	2008
	RMB	RMB
	millions	millions
(2) Analysis of the effects of major differences between the shareholders' equity under ASBE and total equity under IFRS		
Shareholders' equity under ASBE	400,585	350,166
Adjustments:		
Revaluation of land use rights	(982)	(1,012)
Government grants	(1,042)	(912)
Tax effects of the above adjustments	292	300
Total equity under IFRS	398,853	348,542

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

## 1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

Unit: 10,000 Shares

Before change	Increase/(decrease)		After change					Number	Percentage
	Number	Percentage	New share issued	Bonus issued	Conversion from reserve	Others	Sub-total		
Shares with selling restrictions	5,708,780.0	65.84	—	—	(5,708,780.0)	(5,708,780.0)	—	—	
1 State-owned shares	5,708,780.0	65.84	—	—	(5,708,780.0)	(5,708,780.0)	—	—	
2 State-owned legal person shares	—	—	—	—	—	—	—	—	
3 Shares held by other domestic investors	—	—	—	—	—	—	—	—	
4 Shares held by foreign investors	—	—	—	—	—	—	—	—	
Shares without selling restrictions	2,961,463.9	34.16	—	—	—5,708,780.0	5,708,780.0	8,670,243.9	100.00	
1 RMB ordinary shares	1,283,415.1	14.80	—	—	—5,708,780.0	5,708,780.0	6,992,195.1	80.65	
2 Foreign shares listed domestically	—	—	—	—	—	—	—	—	
3 Foreign shares listed overseas	1,678,048.8	19.35	—	—	—	—	1,678,048.8	19.35	
4 Others	—	—	—	—	—	—	—	—	
Total Shares	8,670,243.9	100.00	—	—	—	—	8,670,243.9	100.00	

Note: Percentage of individual items may not add up to total figure due to rounding.

## 2 CHANGES IN SHARES WITH SELLING RESTRICTIONS

Unit: 10,000 Shares

Name of shareholders	Number of shares with selling restriction at beginning of the year	Number of shares released from selling restriction during the year	Increase of shares with selling restriction during the year	Number of shares with selling restriction of the year	Reason of selling restriction	Date when restriction expired
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year

China Petrochemical Corporation	5,708,780.0	5,708,780.0	—	—	A ShareOctober 16, reform 2009
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## 3 NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders of Sinopec Corp. as at 31 December 2009 was 769,563, including 762,493 holders of A Shares and 7,070 holders of H Shares. The public float of Sinopec Corp. satisfied the requirement of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited.

(1) Top ten shareholders

Unit: 10,000 Shares

Name of Shareholders	Nature of shareholders	As a percentage of total shares in issue at the end of reporting period %	Number of shares held at the end of reporting period	Number of Change from 2008 to 2009	Number of pledges or lock-ups
China Petrochemical Corporation	State-owned	75.84	6,575,804.4	—	—
HKSCC (Nominees) Limited	H Shares	19.23	1,667,527.7	(1,240.5)	N/A
China Life Insurance Corp. Dividend Individual Dividend-005L-FH002 Shanghai	A Shares	0.30	25,678.2	20,695.5	—
Guotai Junan Securities Co., Ltd.	A Shares	0.29	25,448.4	(12,342.2)	—
Bosera Thematic Sector Securities Investment Fund	A Shares	0.09	7,500.0	—	—
Changsheng Tongqing Separately-traded Stock Fund	A Shares	0.07	6,002.7	New shareholder	—
Shanghai Investment & Morgan China Premium Securities Investment Fund	A Shares	0.05	4,400.0	(582.7)	—
Shanghai Stock Exchange Tradable Open-ended Index 50 Fund	A Shares	0.05	3,955.4	(1,879.2)	—
Fortune SGAM Selected Sectors Fund	A Shares	0.04	3,609.0	359.2	—
China AMC GARP Fund	A Shares	0.04	3,546.1	New shareholder	—

Statement on the connected party relationship or acting in concert among the above mentioned shareholders:

We are not aware of any connected party relationship or acting in concert among or between the top ten shareholders, except that Shanghai Stock Exchange Tradable Open-ended Index 50 Fund and ChinaAMC GARP Fund are managed by China Asset Management Co., Ltd.

## (2) Information disclosed by the shareholders of H Shares according to the Securities and Futures Ordinance

Name of shareholders	Capacity of interests held	Number of share interests held or regarded as held	As a approximate percentage
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of Sinopec Corp.'s  
interests  
(H Share) (%)

JPMorgan Chase & Co.	Beneficial owner	92,587,846(L)	0.6%(L)
		42,595,972(S)	0.3%(S)
	Investment manager	722,073,136(L)	4.3%(L)
		0(S)	0.0%(S)
	Custodian corporation	692,206,787(L)	4.1%(L)
		0(S)	0.0%(S)
Blackrock, Inc.	Interest of corporation controlled	1,210,021,640(L)	7.2%(L)
	by the substantial shareholder	26,000(S)	0.0%(S)

Note: (L): Long position, (S): Short position



#### 4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

There was no change in the controlling shareholders or the de facto controller of Sinopec Corp. during the reporting period.

- (1) Controlling shareholder  
The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation. Established in July 1998, China Petrochemical Corporation is a state authorised investment organisation and a state-owned company. Its registered capital is RMB 130.6 billion, and the legal representative is Mr. Su Shulin. Through reorganisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical business into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, well logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services including water and power and social services.
- (2) Except for HKSCC (Nominees) Limited, no other legal person shareholders hold 10% or more of the shares of Sinopec Corp.
- (3) Basic information of the de facto controller  
China Petrochemical Corporation is the de facto controller of Sinopec Corp.
- (4) Diagram of the equity and controlling relationship between Sinopec Corp. and its de facto controller

#### 5 ISSUANCE AND LISTING OF SECURITIES

Please refer to “Significant Events” of this annual report.

## CHAIRMAN'S STATEMENT

Su Shulin, Chairman

Dear Shareholders:

On behalf of the Board of Directors, I would like to express our sincere gratitude to all our shareholders and the public for their care and support.

In 2009, the global financial crisis and intense market competition posed severe challenges to the Company's production and operations. In particular, the beginning of the year witnessed plummeting price and demand for petroleum and petrochemical products, and a harsh contraction in E&P segment profits, while the refining, petrochemical and marketing businesses were faced with high inventories. Despite the challenges, the Company achieved impressive results by taking a series of proactive measures including vigorous efforts to develop new markets, targeted management for refinement on details, as well as structural adjustments, and so on.

The E&P business maintained crude output volume with reduced costs and expenses while the price of crude remained sluggish. It increased exploration input for potential traps, and also invested resources in technological research and development for tertiary oil recovery from challenging reserves. As the international crude price gradually recover, the E&P segment realized good results and enhanced the sustainability of its business.

Fully leveraging its capability to accommodate various crude feeds, the refineries endeavoured to expand throughput by running at almost full capacity since the second quarter of 2009. In the meantime, the refining segment introduced process optimization initiatives across several functions, from crude procurement and resource allocation, to inventory and logistics management, and product mix adjustment, thus generating better profits.

In the chemicals business, the Company made more efforts to expand the market, and enhanced the integration of R&D throughout the production plan. It also continued to improve customer service and strengthened strategic alliances with key customers. Despite the unfavorable market environment, the majority of chemical plants operated at full capacity since March 2009, delivering excellent performance.

Capitalizing on the well-established marketing network, logistics systems and strong brand, the Company's marketing business successfully expanded its operational scale in an over-supplied domestic market by adopting innovative marketing approaches, flexible promotional programs and customer-oriented after-sales service. In addition, the non-fuel business grew significantly, driving up non-fuel business revenue and realized good operational results.

Over the course of the past year, China's macro-economy gradually recovered, and a fuel pricing policy paired with tax and fee reform were implemented in the domestic market. The Company's four business segments all achieved good operating performance, resulting from our effective counter-measures to the economic crisis, as well as from advantages gained from our integrated upstream, midstream and downstream business model. In 2009, the Company's total turnover, other operating income and other revenues, reached RMB 1,345.052 billion, down 10% year-on-year. In accordance with the Chinese Accounting Standards for Business Enterprises ("ASBE"), net profit attributable to equity holders of the Company was RMB 61.29 billion, up by 115.5% year-on-year. Under the International Financial Reporting Standards ("IFRS"), profit attributable to the equity holders of the Company was RMB 61.76 billion, up by 116.5% year-on-year. Both structure and quality of assets of the Company were constantly improved with the net assets up 14.6% year-on-year. In 2009, taxes and fees paid by the Company to the central and local governments totalled RMB179.05 billion. With the above achievements, both economic returns and social responsibilities have been well fulfilled by the Company. The Board of Directors recommended a full year dividend of RMB 0.18 per share for 2009. The final dividend for 2009 was RMB 0.11 per share after deducting the interim dividend of RMB 0.07 per

share.

In 2009, the Company further improved its corporate governance. The Company successfully completed the rotation and succession of members to the Board of Directors and the Board of Supervisors, and also appointed members to the executive management team. The Company revised the “Articles of Association” and laid a solid foundation for standardized operations. Thanks to the strong support from its independent shareholders, the Company completed adjustment on the continuing connected transactions for the period from 2010 to 2012. In addition, continued efforts were made in strengthening refined management and internal controls to shape a unique management model and push its corporate governance to a higher level. In line with the Company’s strategic targets for corporate development, the Outline of Corporate Culture Development was crafted to establish harmonious corporate values to support the continued sustainable development of the Company.

In 2009, in accordance with the strategy focusing on “Resources, Markets, Integration and Internationalization”, the new Board made a three-year development plan for the Company from 2009 to 2011 and established its future development direction and corporate goals. In accordance with the new plan, the Company increased its capital expenditure to RMB 110.013 billion in 2009, which was primarily allocated to expand resources, increase reserve and output and to expand the market as well.

A number of key projects, including Sichuan-to-the-East China Gas Project, Tianjin one-million-ton-per-year ethylene project and Zhenhai one-million-ton-per-year ethylene project, etc., have been completed or put into operation. The building of storage and transportation facilities for oil and chemical products progressed smoothly. These achievements have facilitated structural adjustments and product quality upgrading in major refineries.

Sinopec International Petroleum Exploration & Production Co., Ltd. was established, a concrete step made in the Company’s overseas expansion in the oil and gas business. In addition to enhancing our business position as a supplier of premium clean fuels to the public, the Company also played an important role in domestic industry restructuring and regional economic development by contracting major equipment from and entering into a joint research and development program with domestic manufacturers,

The Company has always attached great importance to social and environmental issues in order to ensure sustainable development. We have fully implemented the HSE management system and adopted a variety of methods in energy saving and emission reduction in particular CO<sub>2</sub> emission reduction, so as to promote a low-carbon economy. Thanks to the company-wide initiatives in producing clean products through clean production processes, the Company’s comprehensive energy consumption per RMB 10,000 turnover came down to 0.72 tonnes of standard coal, realizing the energy saving target in its 11th Five-Year Plan one year ahead of schedule.

In 2009, the Company carried out a series of employee-focused programs with practical steps taken to improve the quality of the employee canteen and the health check system, as well as a general safety campaign called “I Safe”. In addition, we are actively participating in public welfare activities, including poverty relief and Tibet aid programs, sponsorship of “China Lifeline Express Fund,” and donations to Hope schools and disaster relief programs to help local communities recover from recent events and raise the living standards in disaster- and poverty-stricken areas.

We attribute the Company’s achievements to the trust and support of all our shareholders and all walks of society, as well as to the hard work and concerted efforts of the Board of Directors, the Board of Supervisors, the management team and all employees. Therefore, on behalf of the Board of Directors, I would like to express my heartfelt gratitude for the support and perseverance of all parties involved.

Looking into 2010, the world economy is anticipated to continue its recovery from the crisis, while the Chinese economy is expected to continue to grow at a relatively fast rate driving up the demand for petroleum and petrochemical products, all these present opportunities for the development of the Company. However, we are still confronted with challenges from the high international crude price, and incremental refining and chemical capacities at home and abroad which may lead to fierce competition in the marketplace.

Nevertheless, we are gratified to see that through years of development, the Company has continuously reinforced its reserve basis with natural gas business becoming a new area of profit growth. We are also gratified to see that the structure of refineries and chemical complexes have been constantly optimized with extended marketing networks. At the same time our business in overseas markets are expanding significantly. Additionally, our people, management team and individuals alike, are positive and well-prepared for market competitions, through continuous innovation and savvy management tactics. Therefore, this session of the Board of Directors is confident about our future growth.

In accordance with the market conditions and the strategic development goals of the Company, our capital expenditure for 2010 is expected to reach approximately RMB 112 billion. We'll make more efforts in exploration and development activities to enhance the upstream reserve base. We'll invest in further optimization of the locations of our refining capacities, promote structural adjustment, produce high value-added products and increase their proportion in the refining business. Moreover, we'll enhance our competitive advantage and improve our capabilities in expanding markets, and improve our marketing network. The Company will continue to invest in technological innovation conducive to clean energy production and R&D on new energies, and such transform will pave the way for a sustainable development of the Company into the future.

My fellow members of the Board of Directors and I believe that the Company will achieve greater development with the support of all of our shareholders and the concerted efforts of the Board of Directors, the Board of Supervisors, the management team and all employees. We will continuously stride forward to become an internationally competitive energy and chemical company, and to reward our shareholders, employees and the whole society with excellent performance from sustainable and effective growth.

Su Shulin  
Chairman

Beijing, China  
March 26, 2010

## BUSINESS REVIEW AND PROSPECTS

Mr. Wang Tianpu, President

### BUSINESS REVIEW

In 2009, Chinese economy was seriously impacted by the global financial crisis. The Chinese government implemented a stimulus package to promote the economic growth and carried out proactive fiscal policy and moderately easy monetary policy, thereby giving an impetus to the growth of Chinese economy and maintaining a GDP growth of 8.7%. The Company's business environment underwent significant and profound changes in 2009. At the beginning of the year, petroleum and petrochemical products witnessed a sharp drop in market demand and prices on a year-on-year basis. However, the market demand gradually recovered and the price went up accordingly after the first quarter. The Company spared no efforts in exploring market, reinforcing precision management and improving structure adjustment according to market condition, which not only guaranteed the stable growth in upstream, mid-stream and downstream production and operation, but also realized satisfactory profits.

#### 1 Review of Market Environment

(1) Crude oil market

In 2009, international crude oil price rebounded after reaching the bottom. In the first quarter, international crude oil price remained low. However, the price climbed substantially since the month of May, fluctuating between US\$ 60/bbl to US\$ 80/bbl. The annual average spot price of Brent was US\$ 61.5/bbl, with a year-on-year drop of 36.6%. Price trend of domestic crude oil was in line with the international markets.

(2) Refined oil products market

Domestic demand in domestic oil products market gradually increased in 2009. However, due to the sufficient supply, the market competition was fierce. With the rapid growth of domestic economy and substantial increase in domestic automobile consumption, the apparent consumption of oil products rose quarter by quarter. According to statistics, in 2009, apparent domestic consumption of oil products (inclusive of gasoline, diesel and kerosene) was 207 million tonnes, with a year-on-year increase of 0.9%.

(3) Chemicals market

Chinese central government's stimulus package promoted the consumption of chemical products in relevant industries in 2009, and boosted the demand in domestic chemical products market. According to the Company's statistics, the apparent domestic consumption of synthetic resin, synthetic fiber and synthetic rubber registered a year-on-year increase of 21.5%, 12.6% and 22.3% respectively. The apparent domestic consumption of ethylene equivalent increased by 8% compared with the previous year. Domestic prices of chemical products gradually recovered from a low level.

## 2 PRODUCTION AND OPERATION

(1) Exploration and Production

In 2009, the Company further implemented oil-and-gas resource strategy by reducing cost and fees instead of trimming production when oil price was low. The Company increased exploration input and reinforced trap reservoir. New breakthroughs were made in Leikoupo Formation in northeast Sichuan. The exploration in Tuoputai area of Tahe realized great achievement. New findings were acquired through exploring new layers in eastern matured fields and new blocks in the west. In 2009, the Company completed 14,515 kilometers of 2D seismic and 11,069 square kilometers of 3D seismic exploration, and drilled 570 exploration wells with a total footage of 1,643 kilometers. Addition of proved oil and gas reserve was 293.25 mmbbl. As to development, Sichuan-East China Gas Project started trial operation. Construction of Songnan Gas Field with an annual capacity of 1 billion cubic meters was completed and put into operation. Meanwhile, the Company intensified its efforts and input in scientific and technological research of tertiary oil recovery and reserves that are difficult to recover, and enhanced single-well capacity and recovery rate, resulting in stable increase of oil and gas output. In addition to the steady increase in crude oil output in the matured fields in east China, the production in the newly-developed western fields, represented by Tahe Oil Field, increased substantially.

### Summary of Operations of Exploration and Production Segment