

CHINA PETROLEUM & CHEMICAL CORP
Form 20-F
April 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

£ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

OR

£ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT

FOR THE TRANSACTION PERIOD FORM _____ TO _____

COMMISSION FILE NUMBER 1-15138

CHINA PETROLEUM & CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

The People's Republic of China
(Jurisdiction of incorporation or organization)

22 Chaoyangmen North Street
Chaoyang District, Beijing, 100728
The People's Republic of China
(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing 100 H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.
H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12 (g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

H Shares, par value RMB 1.00 per share	16,780,488,000
A Shares, par value RMB 1.00 per share	69,922,039,774

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP <input type="checkbox"/>	International Financial Reporting Standards <input checked="" type="checkbox"/> as issued by the International Accounting Standards Board	Other <input type="checkbox"/>
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If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- "Sinopec Corp.", "we", "our" and "us" are to China Petroleum & Chemical Corporation, a PRC joint stock limited company, and its subsidiaries;
- "Sinopec Group Company" are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;
- "Sinopec Group" are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- "RMB" are to Renminbi, the currency of the PRC;
- "HK\$" are to Hong Kong dollar, the currency of the Hong Kong Special Administrative Region of the PRC; and
- "US\$" are to US dollars, the currency of the United States of America.

Conversion Conventions

Conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources, one tonne to 7.1 barrels for crude oil we produce in China, and one tonne to 7.27 barrels for crude oil we produce in Africa, representing the American Petroleum Institute ("API") gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.31 cubic feet.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- "billion" are to a thousand million.
- "BOE" are to barrels-of-oil equivalent; natural gas is converted at a ratio of 6,000 cubic feet of natural gas to one BOE.
- "primary distillation capacity" are to the crude oil throughput capacity of a refinery's crude oil distillation units, calculated by estimating the number of days in a year that such crude oil distillation units are expected to operate, excluding downtime for regular maintenance, and multiplying that number by the amount equal to the units' optimal daily crude oil throughput.
-

"rated capacity" are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, excluding downtime for regular maintenance, and multiplying that number by an amount equal to the unit's optimal daily output or throughput, as the case may be.

CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to US dollars have been made at a rate of RMB6.6000 to US\$1.00, the noon buying rate on December 30, 2010 as set forth in

the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or US dollar amounts could be converted into US dollars or Renminbi, as the case may be, at any particular rate, the rates below or at all. On March 31, 2011, the noon buying rate was RMB6.5483 to US\$1.00.

The following table sets forth noon buying rate for US dollars in Renminbi for the periods indicated:

Period	End	Noon Buying Rate(1)		
		Average(2)	High	Low
		(RMB per US\$1.00)		
2006	7.8041	7.9723	8.0702	7.9723
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
October 2010	6.6707	6.6675	6.6912	6.6397
November 2010	6.6670	6.6537	6.6906	6.6233
December 2010	6.6000	6.6497	6.6745	6.6000
January 2011	6.6017	6.5964	6.6364	6.5809
February 2011	6.5713	6.5761	6.5965	6.5520
March 2011	6.5483	6.5645	6.5743	6.5483

(1) For the period prior to January 1, 2009, the exchange rates reflect the noon buying rates certified by the Federal Reserve Bank of New York. For the period after January 1, 2009, the exchange rates reflect those set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

(2) Annual averages are determined by averaging the rates on the last business day of each month during the relevant period. Monthly averages are calculated using the average of the daily rates during the relevant period.

FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements. These forward-looking statements address, among others, such issues as:

- amount and nature of future exploration and development,
- future prices of and demand for our products,
- future earnings and cash flow,
- development projects and drilling prospects,
- future plans and capital expenditures,
- estimates of proved oil and gas reserves,
- exploration prospects and reserves potential,
- expansion and other development trends of the petroleum and petrochemical industry,
- production forecasts of oil and gas,
- expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- expansion and growth of our business and operations, and
- our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in "Item 3. Key Information — Risk Factors" and the following:

- fluctuations in crude oil prices,
- fluctuations in prices of our products,
- failures or delays in achieving production from development projects,
- potential acquisitions and other business opportunities,
- general economic, market and business conditions, and
- other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this Form 20-F. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

ITEM IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.

Not applicable.

ITEM OFFER STATISTICS AND EXPECTED TIMETABLE

2.

Not applicable.

ITEM KEY INFORMATION

3.

A. SELECTED FINANCIAL DATA

The selected consolidated income statement data (except per ADS data) and consolidated cash flow data for the years ended December 31, 2008, 2009 and 2010, and the selected consolidated balance sheet data as of December 31, 2009, and 2010 have been derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The selected consolidated income statement data and consolidated cash flow data for the years ended December 31, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2006, 2007 and 2008 are derived from our audited consolidated financial statements which are not included elsewhere in this annual report and the financial statements of the acquired businesses described below.

We acquired from Sinopec Group Company the equity interest of Sinopec Hainan Refining and Chemical Company Limited (Sinopec Hainan) and certain oil and gas production companies (Oil Production Plants) in 2006; the equity interest of Zhanjiang Dongxing Petroleum Company Limited, Sinopec Hangzhou Oil Refinery Plant, Yangzhou Petrochemical Plant, Jiangsu Taizhou Petrochemical Plant and Sinopec Qingjiang Petrochemical Company Limited (collectively, Refinery Plants) in 2007; the entire equity interest of Sinopec Qingdao Petrochemical Company Limited and certain storage and distribution operations (collectively, the Acquired Group) in 2009; and 55% equity interest of Sonangol Sinopec International Limited (SSI) in 2010. As we and these companies are under the common control of Sinopec Group Company, our acquisitions are reflected in our consolidated financial statements as combination of entities under common control that is accounted for in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and related liabilities have been accounted for at historical cost and our consolidated financial statements for periods prior to the combinations have been restated to include the financial condition and the results of operation of these companies on a combined basis.

Moreover, the selected financial data should be read in conjunction with our consolidated financial statements and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS.

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	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(RMB in millions, except per share and per ADS data)				
Consolidated Income Statement Data(1):					
Operating revenues	1,056,363	1,200,997	1,444,291	1,345,052	1,913,182
Other income	5,225	4,863	50,857	-	-
Operating expenses	(980,343)	(1,118,540)	(1,456,567)	(1,254,353)	(1,808,178)
Operating income	81,245	87,320	38,581	90,699	105,004
Earnings before income tax	79,068	84,246	33,442	86,604	103,693
Tax expense	(23,865)	(25,659)	(3,624)	(19,599)	(25,689)
Net income attributable to equity shareholders of the Company	53,771	56,168	31,199	63,147	71,800
Basic earnings per share(2)	0.62	0.65	0.36	0.73	0.83
Basic earnings per ADS(2)	62.02	64.78	35.98	72.83	82.81
Diluted earnings per share(2)	0.62	0.65	0.32	0.72	0.82
Diluted earnings per ADS(2)	62.02	64.78	31.92	72.36	82.03
Cash dividends declared per share	0.130	0.160	0.145	0.160	0.190
Segment results					
Exploration and production	63,357	49,910	78,649	23,894	47,149
Refining	(26,450)	(10,197)	(66,640)	27,508	15,855
Marketing and distribution	30,361	35,904	38,519	30,300	30,760
Chemicals	14,924	13,306	(12,950)	13,805	15,037
Corporate and others	(1,532)	(1,483)	(2,167)	(2,205)	(2,342)
Elimination	585	(120)	3,170	(2,603)	(1,455)
Operating income	81,245	87,320	38,581	90,699	105,004

	As of December 31,				
	2006	2007	2008	2009	2010
	(RMB in millions)				
Consolidated Balance Sheet Data(1):					
Cash and cash equivalents	7,188	8,618	7,040	8,782	17,008
Total current assets	148,076	187,685	165,525	201,479	260,229
Total non-current assets	490,499	579,953	634,821	696,784	734,925
Total assets	638,575	767,638	800,346	898,263	995,154
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts)	70,952	70,491	114,208	75,216	35,828
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts)	118,406	142,568	135,720	152,725	174,075
Equity attributable to equity shareholders of the Company	264,903	308,133	329,783	378,940	419,047
Capital employed(3)	469,391	538,095	594,876	623,975	643,263

	Year Ended December 31				
	2006	2007	2008	2009	2010
	(RMB in millions)				

Other Financial Data(1):

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Net cash generated from operating activities	99,359	124,030	86,443	165,513	170,333
Net cash (used in)/generated from financing activities	(17,543)	(4,004)	20,347	(46,411)	(56,294)
Net cash used in investing activities	(90,082)	(118,504)	(108,288)	(117,355)	(105,788)
Capital expenditure					
Exploration and production	42,348	60,491	60,059	54,272	52,680
Refining	22,815	22,964	12,793	15,468	20,015
Marketing and distribution	13,475	14,671	14,796	16,283	26,168
Chemicals	12,629	16,184	20,622	25,207	12,894

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Corporate and others	2,170	3,289	2,393	1,505	1,894
Total	93,437	117,599	110,663	112,735	113,651

- (1) The acquisitions of equity interest of Sinopec Hainan and Oil Production Plants in 2006, the acquisition of equity interest of the Refining Plants in 2007, the acquisition of the Acquired Group in 2009, and the acquisition of 55% equity interest of SSI in 2010 from Sinopec Group Company are treated as “combination of entities under common control” which are accounted in a manner similar to a pooling-of-interests. Accordingly, the acquired assets and liabilities have been accounted for at historical cost and the consolidated financial statements for periods prior to the combinations have been restated to include the financial condition and results of operation of these acquired companies on a combined basis. The considerations for these acquisitions were treated as equity transactions.
- (2) Basic earnings per share have been computed by dividing net income attributable to equity shareholders of our company by the weighted average number of shares in issue. Basic and diluted earnings per ADS have been computed as if all of our issued or potential ordinary shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 shares.
- (3) Capital employed is derived by the sum of short-term debts, long-term debts, loans from Sinopec Group Company and its affiliates and total equity less cash and cash equivalents.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Relating to Our Business Operation

Our business may be adversely affected by the fluctuation of crude oil and refined petroleum product prices.

We consume a large amount of crude oil to produce our refined petroleum products and petrochemical products. While we try to adjust the sale price of our products to track international crude oil price fluctuations, our ability to pass on the increased cost resulting from crude oil price increases to our customers is dependent on international and domestic market conditions as well as the PRC government’s price control over refined petroleum products. Although the current price-setting mechanism for refined petroleum products in China allows the PRC government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains discretion as to whether or when to adjust the refined petroleum products price. The PRC government generally exercises certain price control over refined petroleum products once international crude oil price experiences sustained rises or becomes significantly volatile. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil and refined petroleum product prices.

Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and

development activities for additional reserves also expose us to inherent risks associated with drilling, including the risk that no economically productive oil or natural gas reservoirs might be discovered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

We rely heavily on outside suppliers for crude oil and other raw materials, and we may even experience disruption of our ability to obtain crude oil and other raw materials.

We purchase a significant portion of our crude oil and other feedstock requirements from outside suppliers located in different countries and areas in the world. In 2010, approximately 78% of the crude oil required for our refinery business

was sourced from international suppliers, some of which are from countries or regions that are on the sanction list published and administered by the Office of Foreign Assets Control of the US Department of Treasury, including Iran and Sudan. In addition, our development requires us to source an increasing amount of crude oil from outside suppliers. We are subject to the political, geographical and economic risks associated with these countries and areas. If one or more of our material supply contracts were terminated or disrupted due to any natural disasters or political events, it is possible that we would not be able to find sufficient alternative sources of supply in a timely manner or on commercially reasonable terms. As a result, our business and financial condition would be materially and adversely affected.

Our business faces operation risks and natural disasters that may cause significant property damages, personal injuries and interruption of operations, and we may not have sufficient insurance coverage for all the financial losses incurred by us.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined and petrochemical products involve a number of operating hazards. Significant operating hazards and natural disasters may cause interruption to our operations, property or environmental damages as well as personal injuries, and each of these incidents could have a material adverse effect on our financial condition and results of operations.

We have been paying high attention to the safety of our operation and implemented health, safety and environment management system within our company with the view to preventing accident, and reducing personal injuries, property losses and environment pollution. We also maintain insurance coverage on our property, plant, equipment and inventory. However, our preventative measures may not be effective and our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Losses incurred or payments required to be made by us due to operating hazards or natural disasters, which are not fully insured, may have a material adverse effect on our financial condition and results of operations.

The oil and natural gas reserves data in this annual report are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this annual report represent third party's estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- the quality and quantity of technical and economic data;
- the prevailing oil and gas prices applicable to our production;
- the production performance of the reservoirs; and
- extensive engineering judgments.

In addition, new drilling, testing and production results following the estimates may cause substantial upward or downward revisions in the estimates.

Our business may be adversely affected by global climate changes.

The oil and gas industry in which we operate are drawing increasing concerns about global climate change in recent years. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. For example, more than 160 nations are signatories to the 1992 Framework Convention on Global Climate Change, commonly known as the “Kyoto Protocol”. The implementation of the Kyoto Protocol in a number of countries and other potential legislation limiting emissions could affect the global demand for fossil fuels. The Kyoto Protocol is set to expire in 2012. The nations subject to the Kyoto Protocol have not yet reached agreement upon a successor to the Kyoto Protocol, but the parties have “taken note of” the Copenhagen Accord, a voluntary agreement to work to curb climate change. If China or other countries in which we operate or desire to operate enact legislation focused on reducing greenhouse gases, either independently or in response to the Kyoto Protocol or a successor agreement, it could result in

substantial capital expenditure from compliance with these laws, reduced demand for our products, and revenue generation and strategic growth opportunities could also be adversely impacted.

Our overseas businesses may be adversely affected by changes of local policies and business environment.

We acquired SSI in 2010 which engages in the oil and gas operation in Angola. Since the end of civil war in 2002, the Angola government has focused on economic recovery and social development. It has made substantial progress on stability of its social and investment environment in recent years, and keeps continuity and stability on the oil production related policies. However, Angola is still one of the most undeveloped countries defined by the United Nations, and its social and investment environment are subject to certain risks, including without limitation, the income distribution gap among nationals, a high unemployment rate, and the problem of discretionary execution of its laws and regulations. In addition, Angola's current laws, regulations and policies are subject to uncertain changes since it will have the first presidential campaign in 2012. Angola entered into the Organization of the Petroleum Exporting Countries, or the OPEC, in 2006, and therefore it is also subject to the oil-output restriction imposed by the OPEC. For example, in 2009, Angola's oil production amount was passively reduced due to the OPEC oil-output restriction.

In addition, in respect to the oil production management in Angola, if there is any malfunction on our water or gas injection systems, the maintenance work may take a long time and our oil production capacity and outputs may decline. In respect to the reserve management in Angola, as more oilfields are developed, the growth rate of water cut in oilfields may increase and the oil reserve pressures may decrease, which may materially and adversely affect our oil production capacity and reserve development.

Risks Relating to Our Industry

Our operations may be adversely affected by the global and domestic economic conditions.

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. Although the global economy has been recovering slowly from the 2008 financial crisis, it is uncertain whether such recovery is stable or sustainable. Our operations may also be adversely affected by factors such as volatility in international commodity prices, PRC government's laws, regulations and policies which may affect the domestic market, some countries' trade protection policies which may affect the export and some regional trade agreements which may affect the input.

Our operations may be adversely affected by the cyclical nature of the market.

Most of our revenues are attributable to sales of refined petroleum products and petrochemical products, and certain of these businesses and related products have historically been cyclical and sensitive to a number of factors that are beyond our control. These factors include the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. Many of our products have become increasingly subject to the cyclical nature of global markets, and hence, our operations may be adversely affected by the cyclical nature of the market.

We face strong competition from domestic and foreign competitors.

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2007, Ministry of Commerce of the PRC promulgated the "Administrative Rules for Crude Oil Market"

and “Administrative Rules for Refined Petroleum Products Market”, which open the wholesale market of crude oil and refined petroleum products to new market entrants. As a result, we expect to face more competition in both crude oil and refined petroleum product markets. We also expect to face more competition in petrochemical product market as a result of our domestic and international competitors’ increasing production capacity. Increased competition may have an adverse effect on our financial condition and results of operations.

Risks Relating to Our Controlling Shareholder

Related party transactions.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group, which provides to us a number of services, including, but not limited to, ancillary supply, engineering, maintenance,

transport, lease of land use right, lease of buildings, as well as educational and community services. The nature of our transactions with Sinopec Group is governed by a number of service and other contracts between Sinopec Group and us. We have established various schemes in those agreements so that these transactions would be entered into under terms at arm's length. However, we cannot assure you that Sinopec Group Company or any of its members would not take actions that may favor its interests or its other subsidiaries' interests over ours.

Non-competition.

Sinopec Group Company has interests in certain businesses, such as oil refining, petrochemical producing and overseas exploration and development, which compete or are likely to compete, either directly or indirectly, with our businesses. To avoid the adverse effects brought by the competition between us and Sinopec Group Company to the maximum extent possible, we and Sinopec Group Company have entered into a non-competition agreement whereby Sinopec Group Company has agreed to: refrain from operating new businesses which compete or could compete with us in any of our domestic or international markets; grant us an option to purchase Sinopec Group Company's operations that compete or could compete with our businesses; operate its sales enterprises in a manner uniform to our sales and service operations; and appoint us as sales agent for certain of its products which compete or could compete with our products. Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our controlling shareholder, Sinopec Group Company may take actions that may conflict with our own interests.

Investments in OFAC sanctioned countries.

Sinopec Group Company undertakes, from time to time and without our involvement, overseas investments and operations in the oil and gas industry, including exploration and production of oil and gas, refining and LNG projects. Sinopec Group Company's overseas asset portfolio includes oil and gas development projects in Iran, Sudan and Syria, which countries are on the sanction list published and administrated by the Office of Foreign Assets Control, or OFAC, of the U.S. Department of Treasury. Certain U.S.-based investors, including state and municipal governments and universities, may not wish to invest, and have proposed or adopted divestment or similar initiatives regarding investments, in companies that do business with countries on OFAC's sanction list. These investors may not wish to invest, and may divest their investment, in us because of our relationship with Sinopec Group Company and its investments and activities in those OFAC sanctioned countries. As a result, the trading prices of our ADSs may be adversely affected.

Risks Relating to the PRC

Government regulations may limit our activities and affect our business operations.

The PRC government, though gradually liberalizing its regulations on entry into the petroleum and petrochemical industry, continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include granting the licenses to explore and produce crude oil and natural gas, granting the licenses to market and distribute crude oil and refined petroleum products, regulating the upper limit of the retail, supply and wholesale prices for petroleum and diesel products as well as ex-factory price for jet fuels; collecting special gain levies, assessing taxes and fees payable, deciding import and export quotas and procedures for the oil and gas industry, and setting safety, environmental and quality standards. As a result, we may face constraints on our flexibility and ability to expand our business operations.

Our business operations may be adversely affected by present or future environmental regulations.

As an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses; and
- the government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste water, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved,

and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

Some of our development plans require compliance with state policies and regulatory confirmation and registration.

We are currently engaged in a number of construction, renovation and expansion projects. Some of our large construction, renovation and expansion projects are subject to governmental confirmation and registration. The timing and cost of completion of these projects will depend on numerous factors, including when we can receive the required confirmation and registration from relevant PRC government authorities and the general economic condition in China. If any of our important projects required for our future growth are not confirmed or registered, or not confirmed or registered in a timely manner, our results of operations and financial condition could be adversely impacted.

Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results.

We receive a significant majority of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency needs, which include, among other things:

- import of crude oil and other materials;
- debt service on foreign currency-denominated debt;
- purchases of imported equipment;
- payment of the principals and interests of bonds issued overseas; and
- payment of any cash dividends declared in respect of the H shares (including ADS).

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi.

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the foreign exchange control policies of the PRC government and the changes in the PRC's and international political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. On June 19, 2010, the People's Bank of China decided to further promote the reform of Renminbi exchange rate formation mechanism, and improve the flexibility of Renminbi exchange rate. Since we purchase a significant portion of the crude oil from international suppliers, and the purchase prices are benchmarked to US dollar-denominated international prices, fluctuations in the exchange rate of the Renminbi against the U.S. dollars and certain other foreign currencies may materially and adversely affect our financial condition and results of operations.

Risks relating to enforcement of shareholder rights; Mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information are different from those applicable to companies incorporated in the United States, the United Kingdom and other Western countries. In addition, the mechanism for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under

constituent documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot assure you that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may not be assured. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company, are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. We are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

ITEM INFORMATION ON THE COMPANY

4.

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at 22 Chaoyangmen North Street, Chaoyang District, Beijing 100728, the People's Republic of China, our telephone number is (8610) 5996-0028 and our fax number is (8610) 5996-0386. We have appointed our subsidiary in the United States, SINOPEC-USA Co., Ltd., 410 Park Avenue, 22nd Fl., New York, NY 10022, USA (telephone number: (212) 759-5085; fax number: (212) 759-6882) as our agent for service of processes for actions brought under the U.S. securities laws.

We were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder. Our principal businesses consist of petroleum and petrochemical businesses transferred to us by Sinopec Group Company pursuant to a reorganization agreement. Such businesses include:

- exploration for, development, production and marketing of crude oil and natural gas;
- refining of crude oil and marketing and distribution of refined petroleum products, including transportation, storage, trading, import and export of petroleum products; and
- production and sales of petrochemical products.

Sinopec Group Company's continuing activities consist, among other things, of:

- exploring and developing oil and gas reserves overseas;
- operating certain petrochemical facilities and small capacity refineries;
- providing geophysical exploration, and well drilling, survey, logging and downhole operational services;
- manufacturing production equipment and providing equipment maintenance services;

- providing construction services;
- providing utilities, such as electricity and water; and
- providing other operational services including transportation services.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. Sinopec Group Company also agreed in the reorganization agreement to transfer to us its exploration and production licenses and all rights and obligations under the agreements in connection with its core businesses transferred to us. The employees relating to these assets were also transferred to us.

In order to expand our core businesses, prevent competition between us and members of Sinopec Group and reduce related party transactions, between 2001 and 2008 we have acquired from Sinopec Group Company Sinopec National Star Petroleum Company, Sinopec Group Maoming Petrochemical Company, Tahe Oilfield Petrochemical Factory and Xi'an Petrochemical Main Factory, certain Petrochemical and Catalyst Assets, certain Refinery Plants and certain service stations, certain Oil Production Plants, Sinopec Hainan and certain downhole operation assets. We have also sold and disposed of certain auxiliary assets to third parties. In addition, we completed the privatization of Beijing Yanhua Petrochemical Co., Ltd. and Sinopec Zhenhai Refinery and Chemicals Co., Ltd. and the tender offers for the acquisition of publicly-held A-shares of four subsidiaries formerly listed on stock exchanges in China, namely Sinopec Qilu Petrochemical Co., Ltd., Sinopec Yangzi Petrochemical Co., Ltd., Sinopec Zhongyuan Petroleum Co., Ltd., and Shengli Oil Field Dynamic Co., Ltd. In addition, in 2007, we acquired 20 service stations and fuel business in Hong Kong from China Resources Enterprise, Ltd.

On June 30, 2009, we completed the acquisition of 100% equity interest of Sinopec Qingdao Petrochemical Co., Ltd. and certain other assets relating to exploration and production, refining and marketing and distribution segments from Sinopec Group Company; and also completed the disposition of certain assets in our chemicals segment to Sinopec Group Company. The total consideration for the acquisition was RMB1,839 million and the total consideration for the disposal was RMB157 million.

On August 31, 2009, we completed the acquisitions from Sinopec Group Company of (i) all the assets in Petroleum Exploration & Production Research Institute, Research Institute of Petroleum Processing, Beijing Chemical Research Institute, Shanghai Research Institute of Petrochemical Technology, Fushun Research Institute of Petroleum and Petrochemicals and Qingdao Safety Engineering Research Institute, and (ii) 100% equity interest in Beijing Xingpu Fine Chemical Technical Development Company, Beijing Petrochemical Design Institute of Beijing Chemical Institute, Qingdao Sinosun Management System Certification Center, Fushun Huanke Petrochemical Technical Development Co., Ltd. and Sinopec Material Equipment Company. The total consideration for the acquisitions is RMB3,946 million, which we funded through our internal resources.

On March 3, 2010, the warrants issued by us in 2008 matured, of which 188,292 warrants had been exercised and converted into 88,774 shares, providing funding of approximately RMB1.7 million to us.

On September 30, 2010, we acquired 55% equity interest of SSI, from Sinopec Overseas Oil & Gas Limited, a subsidiary of Sinopec Group Company, for a consideration of US\$1.678 billion. SSI owns 50% mineral interest in Angola Block 18.

B. BUSINESS OVERVIEW

Exploration and Production

Overview

We currently explore for, develop and produce crude oil and natural gas in a number of areas across China and Africa. As of December 31, 2010, we held 193 production licenses in China, with an aggregate acreage of 19,136 square kilometers and with terms ranging from 10 to 80 years. Our production licenses may be renewed upon our application at least 30 days prior to the expiration date, which are renewable for unlimited times. During the term of our production license, we pay an annual production license fee of RMB1,000 per square kilometer. Oilfields at our Shengli production bureau in Shangdong province accounted for approximately 52.46% of our total crude oil and natural gas production in 2010.

As of December 31, 2010, we held 307 exploration licenses in China for various blocks in which we engaged in exploration activities, with an aggregate acreage of 968, 000 square kilometers and with the maximum term of 7 years. Our exploration licenses may be renewed upon our application at least 30 days prior to the expiration date, with each renewal for a maximum two-year term. We are obligated to make an annual minimum exploration investment in each of the exploration blocks which we obtained the exploration licenses. We are also obligated to pay an annual exploration license fee ranging from RMB100 to RMB500 per square kilometer. Under the PRC laws and regulations, however, we are entitled for reduction and exemption of exploration license fee for exploration in the western region, northeast region and offshore of China.

As of December 31, 2010, we held 2 production licenses in Africa (Anglo Block 18), with an aggregate acreage of 322.57 square kilometers. We currently do not have exploration licenses in Africa.

Properties

We currently operate 16 oil and gas production fields in China, each of which consists of many oil and gas producing fields and blocks.

Shengli production field is our most important crude oil production field. It consists of 70 producing blocks of various sizes extending over an area of 2,564 square kilometers in northern Shandong province, all of which are our net developed acreage. Most of Shengli's blocks are located in the Jiyang trough with various oil producing layers. In 2010, Shengli production field produced 194 million barrels of crude oil and 17.93 billion cubic feet of natural gas, with an average daily production of 540 thousand BOE, accounting for approximately 49.10% of our total crude oil and natural gas production for the year.

As of December 31, 2010, the total acreage of our oil and gas producing fields and blocks in China was 8,490 square kilometers, including 5,822 square kilometers of developed acreage, all of which were net developed acreage; and 2,668 square kilometers of gross undeveloped acreage, all of which were net undeveloped acreage.

As of December 31, 2010, the total acreage of our oil and gas producing fields and blocks in Africa was 101.8 square kilometers, including 85.0 square kilometers of developed acreage, of which 23 square kilometers were net developed acreage; and 16.8 square kilometers of gross undeveloped acreage, of which 4.6 square kilometers were net undeveloped acreage.

Oil and Natural Gas Reserves

As of December 31, 2010, our estimated proved reserves of crude oil and natural gas were 3,963 million BOE (including 2,888 million barrels of crude oil and 6,447 billion cubic feet of natural gas), representing a decrease of 2.0% from 2009. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical.

The following tables set forth our proved developed and undeveloped crude oil and natural gas reserves by region as of December 31, 2008, 2009 and 2010. Reserves information as of December 31, 2009 and 2010 shown in the following tables was calculated using the average of first-day-of-the-month price for oil and gas during 2009 and 2010. Reserves information as of December 31, 2008 shown in the following tables was calculated using year-end oil and gas price. From December 31, 2010 until the date of this report, we have not had any material discovery of reserves nor there is any event which may have material effect on our proved reserves.

	As of December 31,		
	2008	2009	2010
Crude Oil Proved Reserves	(in millions of barrels)		
Developed			
China			
Shengli	1,964	2,009	1,963
Others	487	504	519
Africa(1)	87	76	72
Total Developed	2,538	2,589	2,554
Undeveloped			
China			

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Shengli	187	114	131
Others	203	193	180
Africa(1)	33	23	23
Total Undeveloped	423	330	334
Total Proved Reserves	2,961	2,919	2,888

	As of December 31,		
	2008	2009	2010
Natural Gas Proved Reserves	(in billions of cubic feet)		

Developed			
China			
Puguang	0	0	2,804
Others	1,571	1,727	1,667
Africa(1)	0	0	0
Total Developed	1,571	1727	4,471
Undeveloped			
China			
Puguang	4,001	3,926	978
Others	1,387	1,086	998
Africa(1)	0	0	0
Total Undeveloped	5,388	5,012	1,976
Total Proved Reserves	6,959	6,739	6,447

(1) In 2010, we acquired from Sinopec Group Company 55% equity interest of SSI, which owns 50% mineral interest in Anglo Block 18. Accordingly, the historical information for 2008 and 2009 has been restated to include the information of SSI. The proved reserves amount in Africa is the net reserves amount of SSI after deducting the government's amount-sharing.

As of December 31, 2010, approximately 334 million barrels of our crude oil proved reserves and 1,976 billion cubic feet of our natural gas proved reserves were classified as proved undeveloped reserves in China and Africa. This compares to 330 million barrels and 5,012 billion cubic feet of proved undeveloped reserves of crude oil and natural gas, respectively, as of December 31, 2009. During 2010, 1,067 and 4 new wells were drilled by us in China and Africa, respectively. We converted 102 million barrels of proved undeveloped crude oil reserves and 314 billion cubic feet of proved undeveloped natural gas reserves into proved developed reserves in 2010. Total capital expenditure incurred in converting proved undeveloped reserves into proved developed reserves amounted to RMB15.254 billion, including RMB13.548 billion and RMB1.706 billion incurred in connection with our operations in China and Africa, respectively, in 2010.

As of December 31, 2010, we have approximately 19.5 million barrels of our crude oil proved reserves and 0.357 billion cubic feet of our natural gas proved reserves classified as proved undeveloped reserves for more than five years, due to offshore platform construction, delay on transport-channel construction and other factors. These reserves are mostly located in the Shengli, Xi'nian and Shanghai production bureaus.

We manage our reserves estimation through a two-tier management system. Our Oil and Natural Gas Reserves Management Committee, or the RMC, at our headquarters level oversees the overall reserves estimation process and reviews the reserves estimation of our company. Each of our production bureaus has a reserves management committee that manages the reserves estimation process and reviews the reserves estimation report at production bureau level.

Our RMC is chaired by Mr. Wang Zhigang, one of our senior vice presidents, and is co-led by our deputy chief geologist and our director general of our exploration and production segment. Mr. Wang holds a Ph.D. degree in geology from Geology and Geo-physics Research Institute of the China Academy of Science and has 29 years of experience in oil and gas industry. Our RMC also consists of 31 other members who are senior management members in charge of exploration and development activities at production bureau level. A majority of our RMC members hold doctor's or master's degrees and our RMC members have an average of 20 years of technical experience in relevant

industry fields, such as geology, engineering and economics.

Our reserves estimation is guided by procedural manuals and technical guidance. Initial collection and compilation of reserves information are conducted by different working divisions, including exploration, development, financial and legal divisions, at production bureau level. Exploration and development divisions collectively prepare the initial report on reserves estimation. Together with technical experts, reserves management committees at production bureau level then holds peer review to ensure the qualitative and quantitative compliance with technical guidance and accuracy and reasonableness of the reserves estimation. At headquarter level, the RMC is primarily responsible for the management and coordination of the reserves estimation process, review and approval of annual changes and results in reserves estimation and reporting of our proved reserves. We also engage outside consultants who assist us to be in compliance with the U.S. Securities and Exchange Commission rules and regulations. Our reserves estimation process is further facilitated by a specialized reserves database which is improved and updated periodically.

Oil and Natural Gas Production

In 2010, we produced an average of 1,029.45 thousand BOE per day in China, of which approximately 80.42% was crude oil and 19.58% was natural gas. We produced an average of 70 thousand BOE per day in Africa, all of which was crude oil. The following tables set forth our average daily production of crude oil and natural gas sold for the years ended December 31, 2008, 2009 and 2010. The production of crude oil includes condensed oil.

	Year Ended December 31,		
	2008	2009	2010
	(in thousands of barrels daily)		
Average Daily Crude Oil Production			
China			
Shengli	538	541	532
Others(1)	273	284	296
Africa(2)	69	73	70
Total Crude Oil Production	880	898	898

	Year Ended December 31,		
	2008	2009	2010
	(in millions of cubic feet daily)		
Average Daily Natural Gas Production			
China			
Puguang	0	10	401
Others(1)	801	809	808
Africa(2)	0	0	0
Total Natural Gas Production	801	819	1,209

(1) Due to our management adjustment on bureaus and blocks, Chunguang block which was originally managed by Shengli production bureau has been managed by Henan production bureau since November 2009.

(2) The average daily production in Africa is the net production of SSI after deducting the government's sharing of production. We hold 55% equity interest of SSI.

Lifting Cost & Realized Prices

The following table sets forth our average lifting costs per BOE of crude oil produced, average sales prices per barrel of crude oil and average sales prices per thousand cubic meters of natural gas for the years ended December 31, 2008, 2009 and 2010.

	Weighted Average	China (RMB)	Africa(1)
For the year ended December 31, 2010			
Average petroleum lifting cost per BOE	94.87	97.48	54.34
Average realized sales price			
Per barrel of crude oil	479.77	475.37	517.21
Per thousand cubic meters of natural gas	1,173.92	1,173.92	-
For the year ended December 31, 2009			
Average petroleum lifting cost per BOE	87.42	90.51	44.41
Average realized sales price			
Per barrel of crude oil	347.13	339.36	424.48

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Per thousand cubic meters of natural gas For the year ended December 31, 2008	959.04	959.04	-
Average petroleum lifting cost per BOE	85.68	88.80	59.10
Average realized sales price			
Per barrel of crude oil	607.31	601.22	659.72
Per thousand cubic meters of natural gas	941.47	941.47	-

(1) The exchange rates we used for Africa data in this table was the average exchange rates for each year ended December 31, 2008, 2009 and 2010, which are RMB6.9451 to \$1.00, RMB6.8310 to \$1.00 and RMB6.7698 to \$1.00, respectively.

Exploration and Development Activities

In 2010, we continued to increase our production capacity and scale of our reserve development. We made new discovery in our exploration of Tarim Basin Maigaiti Slope, Tahe oilfield and Jiyang trough, and new progress with our southeastern Sichuan and western Sichuan marine phase natural gas projects. We also made two-dimensional seismic exploration of 23,483 kilometers and three-dimensional seismic exploration of 6,373 square kilometers, in China. In 2010, the production capacity of our new established crude oil achieved 5.92 million tonnes per annum, and the production capacity of our new established natural gas achieved 7.056 billion cubic meters per annum. In 2010, the production capacity of our southwestern and north China natural gas filed increased, and Sichuan-to-East China Gas Project commenced formal production. In addition, we made material progress in our expansion into overseas upstream business.

The following table sets forth the numbers of our exploratory and development wells, including a breakdown of productive wells and dry wells we drilled during the years ended December 31, 2008, 2009 and 2010.

	Total	China		Africa
		Shengli	Others	
For the year ended December 31, 2010				
Exploratory				
Productive	319	231	88	0
Dry	390	107	283	0
Development				
Productive (Oil)	3,206	1,777	1,425	4
Dry (Oil)	25	4	21	0
For the year ended December 31, 2009				
Exploratory				
Productive	259	109	150	0
Dry	311	95	216	0
Development				
Productive	3,087	1,702	1,377	8
Dry	22	8	14	0
For the year ended December 31, 2008				
Exploratory				
Productive	248	128	120	0
Dry	296	105	191	0
Development				
Productive	3,137	1,563	1,565	9
Dry	24	4	20	0

The following table sets forth the number of wells being drilled by us as of December 31, 2010, as compared to December 31, 2009:

	As of December 31,			
	2009		2010	
	Gross	Net	Gross	Net
China				
Shengli	54	54	26	26
Others	165	165	107	107

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Africa	8	4	4	2
Total Wells Drilling	227	223	137	135

The following table sets forth our number of productive wells for crude oil and natural gas as of December 31, 2010, as compared to December 31, 2009:

Productive Wells for Crude Oil	As of December 31,			
	2009		2010	
	Gross	Net	Gross	Net
China				
Shengli	25,600	25,600	26,960	26,960

Others	13,384	13,384	14,101	14,101
Africa	16	7	18	8
Total Productive Wells	39,000	38,991	41,079	41,069

Productive Wells for Natural Gas	As of December 31,			
	2009		2010	
	Gross	Net	Gross	Net
China				
Puguang	0	0	34	34
Others	3,080	3,069	3,251	3,240
Africa	0	0	0	0
Total Productive Wells	3,080	3,069	3,285	3,274

Refining

Overview

In 2010, our refinery throughputs were approximately 211 million tonnes. We produce a full range of refined petroleum products. The following table sets forth our production of our principal refined petroleum products for the years ended December 31, 2008, 2009 and 2010.

	Year Ended December 31,		
	2008	2009	2010
	(in million tonnes)		
Gasoline	29.65	34.43	35.87
Diesel	69.74	68.86	76.09
Jet Fuel and Kerosene	7.99	10.39	12.42
Light chemical feedstock	23.12	26.87	35.00
Lubricant	12.05	1.33	1.44
Liquefied petroleum gas	8.15	8.66	8.39
Fuel oil	5.09	4.09	3.15

Gasoline and diesel are our largest revenue producing products, and are sold mostly through our marketing and distribution segment through both wholesale and retail channels. We use most of our production of chemical feedstock as feedstock for our own chemical operations. Most of our refined petroleum products were sold domestically to a wide variety of industrial and agricultural customers, and a small amount are exported.

Refining Facilities

Currently we operate 34 refineries in China. As of December 31, 2010, our total primary distillation capacity of crude oil was 245 million tonnes per annum.

The following table sets forth our total primary distillation capacity per annum of crude oil and refinery throughputs as of and for the years ended December 31, 2008, 2009 and 2010.

	As of and for the Year Ended December 31,		
	2008	2009	2010

Primary distillation capacity of crude oil (million tonnes per annum)(1)	208.00	227.00	244.70
Refinery throughputs (million tonnes per annum)(1) (2)	173.39	186.58	211.13

(1) The primary distillation capacity and refinery throughputs of joint ventures are 100% included in our statistics.

(2) We made retroactive adjustments on the data for the years ended December 31, 2008 and 2009 to include condensate oil and heavy oil in the refinery throughputs. The refinery throughputs are calculated at a rate of 1 tonne to 7.35 barrel.

In 2010, measured by the total output from our refineries, our overall gasoline yield was 16.99%, overall diesel yield was 36.04%, overall kerosene yield was 5.88%, and overall light chemical feedstock yield was 16.58%. Other

products include lubricant, liquefied petroleum gas, solvent, asphalt, petroleum coke, paraffin and fuel oil. For the years ended December 31, 2008, 2009 and 2010, our overall yield for all refined petroleum products at our refineries was 94.05%, 94.53% and 94.83%, respectively.

The following table sets forth the primary distillation capacity per annum as of December 31, 2010 of each of our refineries with the primary distillation capacity of 8 million tonnes or more per annum.

Refinery	Primary Distillation Capacity as of December 31, 2010 (in million tonnes per annum)
Zhenhai	23.0
Shanghai	14.0
Maoming	13.5
Guangzhou	13.2
Jinling	13.0
Yanshan	13.5
Gaoqiao	13.0
Qilu	14.0
Qingdaolianhua	10.0
Yangzi	8.0
Hainan	8.0
Luoyang	8.0
Wuhan	8.0
Fujian	12.0
Tianjin	12.5

In 2010, our primary distillation capacity of crude oil increased by 20.1 million tonnes per annum, representing a net increase of 18.5 million tonnes per annum from 2009, which includes an increase of 7.0 million tonnes per annum in the distillation capacity of high-sulfur crude oil. In addition, in 2010, our hydro-refining capacity and coking capacity increased by 16.3 million tonnes per annum and 6.0 million tonnes per annum, respectively. The revamping projects for a number of refining facilities to improve refined petroleum product quality were also progressing as planned.

Sources of Crude Oil

Crude oil is our most important raw material. The following table sets forth the sources of our crude oil supply for the years ended December 31, 2008, 2009 and 2010.

Source of Supply	Year ended December 31,		
	2008	2009	2010
	(in million tonnes)		
Self-supply in China	34.57	35.22	35.13
PetroChina Company Ltd.	6.13	7.05	5.10
CNOOC Ltd.	9.04	6.49	6.91
Import	128.38	138.82	165.00
Total	178.13	187.58	212.14

Marketing and Sales of Refined Petroleum Products

Overview

We operate the largest sales and distribution network for refined petroleum products in China. In 2010, we distributed and sold in China approximately 140.5 million tonnes of gasoline, diesel, jet fuel and kerosene. Most of the refined petroleum products sold by us are produced internally. In 2010, approximately 79.6% of our gasoline sales volume and approximately 84.5% of our diesel sales volumes were produced internally.

The table below sets forth a summary of key data in the marketing and sales of refined petroleum products for the year ended December 31, 2008, 2009 and 2010.

	Year Ended December 31,			
	2008	2009	2010	
Sales volume of refined petroleum products in China (in million tonnes)	122.98	124.02	140.49	
Of which: Retail	84.10	78.90	87.63	
Direct Sales	19.63	25.61	32.40	
Wholesale	19.25	19.52	20.47	
Average annual throughput of service stations (in tonnes per station)	2,935	2,715	2,960	
		As of December 31,		
		2008	2009	2010
Total number of service stations under Sinopec brand		29,279	29,698	30,116
Of which: Self-operated service stations		28,647	29,055	29,601
Franchised service stations		632	643	515

Retail

All of our retail sales are made through a network of service stations and petroleum shops operated under the Sinopec brand. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently deploy our retail network.

In 2010, we sold approximately 87.6 million tonnes of gasoline, diesel and kerosene through our retail network, representing approximately 62.4% of our total gasoline, diesel, jet fuel and kerosene sales volume. Our retail network mainly consists of service stations that are wholly-owned and operated by us, and jointly-owned and generally operated or leased by us, all of which are operated under the Sinopec brand. We also franchised the Sinopec brand to third parties services stations. As of December 31, 2010, we had 515 franchised service stations that are owned and operated by third parties.

In 2010, we continued to improve our refined petroleum products retail networks through acquisition, construction and renovation of service stations, and added 546 new service stations operated by us into our retail network. We believe we have further strengthened our leading position in our principal market, and further improved our brand awareness and customer loyalty.

Direct Sales

In 2010, we sold approximately 32.4 million tonnes of refined petroleum products, including 3.1 million tonnes of gasoline, 27.8 million tonnes of diesel and 1.5 million tonnes of kerosene, through direct sales to commercial customers such as industrial enterprises, hotels, restaurants and agricultural producers.

Wholesale

In 2010, we sold approximately 20.5 million tonnes of gasoline, diesel, kerosene and jet fuel through wholesale channels, representing approximately 14.6% of our total sales volume of gasoline, diesel, kerosene and jet fuel. Our

wholesale sales include sales to large commercial or industrial customers and independent distributors as well as sales to certain long-term customers such as railway, airlines, shipping and public utilities.

Through our wholesale centers, we operate 404 storage facilities with a total capacity of approximately 14.1 million cubic meters, substantially all of which are wholly-owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own some dedicated railways, oil wharfs and oil barges, as well as a number of rail tankers and oil trucks.

Chemicals

Overview

We are the largest petrochemicals producer in China. We produce a full range of petrochemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fibers, synthetic rubber and chemical fertilizers. Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other chemical products. Our chemical operations are integrated with our refining businesses, which supply a significant portion of our chemical feedstock such as naphtha. Because of strong domestic demand, most of our petrochemical products are sold in China's domestic market.

In 2010, our Zhongsha (Tianjing) ethylene and Zhenhai ethylene projects commenced operation.

Products

Intermediate Petrochemicals

We are the largest ethylene producer in China. Our rated ethylene capacity as of December 31, 2010 was 9.325 million tonnes per annum. In 2010, we produced 9.059 million tonnes of ethylene. Nearly all of our olefins production is used as feedstock for our petrochemical operations.

We produce aromatics mainly in the forms of benzene and para-xylene, which are used primarily as feedstock for purified terephthalic acid, or PTA, the preferred raw material for polyester. We are the largest aromatics producer in China.

Organic chemicals extracted mainly from olefins and aromatics are intermediate petrochemicals and are essential raw materials for synthetic resins, synthetic rubber and synthetic fibers. We are the largest producer of butanol, styrene, paraxylene, vinyl acetate, phenol and acetone in China.

The following table sets forth our rated capacity per annum, production volume and major plants of production as of or for the year ended December 31, 2010 for our principal intermediate petrochemical products.

	Our Rated Capacity (thousand tonnes per annum)	Our Production (thousand tonnes)	Major Plants of Production
Ethylene	9,325	9,059	Yanshan, Shanghai, Yangzi, Qilu, Maoming, Guangzhou, Tianjin, Zhongyuan, SECCO*,

			BASF-YPC*, Fujian*, Zhongsha (Tianjing)* and Zhenhai
Propylene	7,940	7,363	Yanshan, Shanghai, Yangzi, Qilu, Maoming, Guangzhou, Tianjin, Zhongyuan, SECCO*, BASF-YPC*, Gaoqiao, Anqing, Jinan, Jingmen, Wuhan, Fujian*, Zhongsha (Tianjing)* and Zhenhai
Benzene	4,103	3,522	Yanshan, Shanghai, Yangzi, Qilu, Guangzhou, Zhenhai, Tianjin, Luoyang, SECCO* and BASF-YPC*
Styrene	1,834	1,637	Yanshan, Qilu, Guangzhou, Maoming, SECCO* and Zhenhai
Para-xylene	3,468	4,023	Shanghai, Yangzi, Qilu, Tianjin Luoyang and Fujian*

Phenol	594	550	Yanshan and Gaoqiao
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* Joint ventures, of which the production capacities and outputs are 100% included in our statistics.

Synthetic Resins

We are the largest producer of polyethylene, polypropylene and polystyrene and supplier of major synthetic resins products in China.

The following table sets forth our rated capacity per annum, production volumes and major plants of production for each of our principal synthetic resins as of or for the year ended December 31, 2010.

	Our Rated Capacity (thousand tonnes per annum)	Our Production (thousand tonnes)	Major Plants of Production
Polyethylene	6,141	6,175	Yanshan, Shanghai, Yangzi, Qilu, Maoming, Guangzhou, Tianjin, Zhongyuan, SECCO*, BASF-YPC*, Fujian*, Zhongsha (Tianjing)* and Zhenhai
Polypropylene	4,973	5,115	Yanshan, Shanghai, Yangzi, Qilu, Guangzhou, Maoming, Tianjin, Zhongyuan, SECCO*, Wuhan Fenghuang, Jingmen, Fujian*, Zhongsha (Tianjing)* and Zhenhai
Polyvinyl chloride	600	596	Qilu
Polystyrene	750	692	Yanshan, Qilu, Maoming, Guangzhou and SECCO*
Acrylonitrile butadiene styrene	200	166	Gaoqiao

* Joint ventures, of which the production capacities and outputs are 100% included in our statistics.

Synthetic Fiber Monomers and Polymers

Our principal synthetic fiber monomers and polymers are purified terephthalic acid, ethylene glycol, acrylonitrile, caprolactam, polyester, polyethylene glycol and polyamide fiber. Based on our 2010 production, we are the largest producer of purified terephthalic acid, ethylene glycol, caprolactam and polyester in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

The following table sets forth our rated capacity per annum, our production volume and major plants of production as of or for the year ended December 31, 2010 for each type of our principal synthetic fiber monomers and polymers.

	Our Rated Capacity (thousand tonnes per	Our Production (thousand tonnes)	Major Plants of Production
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	annum)		
Purified teraphthalic acid	3,119	3,383	Shanghai, Yangzi, Yizheng, Tianjin and Luoyang
Ethylene glycol	2,422	1,675	Yanshan, Shanghai, Yangzi, Tianjin, Maoming, BASF-YPC*, Zhongsha (Tianjing)* and Zhenhai
Acrylonitrile	510	570	Shanghai, Anqing, Qilu and SECCO*
Caprolactam	300	293	Shijiazhuang and Baling
Polyester	2,745	2,823	Shanghai, Yizheng, Tianjin and Luoyang

* Joint ventures, of which the production capacities and outputs are 100% included in our statistics.

Synthetic Fibers

We are the largest producer of polyester and acrylic fibers in China. Our principal synthetic fiber products are polyester fiber and acrylic fiber.

The following table sets forth our rated capacity per annum, production volume and major plants of production for each type of our principal synthetic fibers as of or for the year ended December 31, 2010.

	Our Rated Capacity (thousand tonnes per annum)	Our Production (thousand tonnes)	Major Plants of Production
Polyester fiber	1,241	1,077	Yizheng, Shanghai, Tianjin and Luoyang
Acrylic fiber	265	310	Shanghai, Anqing and Qilu

Synthetic Rubbers

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber, or SBR, styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber, or IIR. Based on our 2010 production, we are the largest producer of SBR and cis-polybutadiene rubber and the only producer of IIR in China.

The following table sets forth our rated capacity per annum, production volume and major plants of production as of or for the year ended December 31, 2010 for each of our principal synthetic rubbers.

	Our Rated Capacity (thousand tonnes per annum)	Our Production (thousand tonnes)	Major Plants of Operation
Cis-polybutadiene rubber	285	315	Yanshan, Qilu, Maoming and Gaoqiao
Styrene butadiene rubber	460	440	Yanshan, Qilu, Maoming and Gaoqiao and Yangzi
Styrene-butadiene-styrene thermoplastic elastomers	170	177	Yanshan and Maoming
Isobutylene isoprene rubber	45	36	Yanshan

Chemical Fertilizers

We produce synthetic ammonia and urea. Our synthetic ammonia is used to manufacture urea, caprolactam and acrylic nitrile.

The following table sets forth our rated capacity per annum, our production volume and major plants of production for ammonia and urea as of or for the year ended December 31, 2010.

	Our Rated Capacity (thousand tonnes per	Our Production (thousand tonnes)	Major Plants of Production
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annum)

Ammonia	1,983	891	Zhenhai, Jinling, Anqing, Jiujiang, Qilu, Hubei and Baling
Urea	3,634	1,233	Zhenhai, Jinling, Anqing, Jiujiang, Qilu, Hubei and Baling

Marketing and Sales of Petrochemicals

Price and volume of petrochemical sales are primarily market driven. The southern and eastern regions in China, where most of our petrochemical plants are located, constitute the major petrochemical market in China. Our proximity to the major petrochemical market gives us a geographic advantage over our competitors.

Our principal sales and distribution channels consist of direct sales to end-users, most of which are large- and medium-sized manufacturing enterprises, and sales to distributors in our national sales network. We also provided after-sale services to our customers, including technical support. We continuously strive to improve our product mix and enhance our product quality to meet market needs.

Competition

Refining and Marketing of Refined Petroleum Products

Market participants compete primarily on the basis of quality of products and service, efficiency of operations including proximity to customers, awareness of brand name and price. While we constantly face competition from other market participants, we believe that we have a competitive advantage in our principal market over our competitors in most of these aspects.

Chemicals

We compete with domestic and foreign chemicals producers in the chemicals market. We believe our proximity to customers has given us significant geographical advantages. Most of our petrochemical production facilities are located in the eastern and southern regions in China, an area which has experienced higher economic growth rates in China in the past two decades. Proximity of our production facilities to our markets has given us an advantage over our competitors in terms of easy access to our customers, resulting in lower transportation costs, more reliable delivery of products and better service to customers.

Patents and Trademarks

In 2010, we were granted 771 patents in China. As of December 31, 2010, we owned a total of 5,853 patents in China. We are also entitled to use certain patents by Sinopec Group Company on a royalty-free basis. The patents cover various products, processes and product uses and have different valid terms.

Regulatory Matters

Overview

China's petroleum and petrochemical industry has seen significant liberalization in the past ten years. However, the exploration, production, marketing and distribution of crude oil and natural gas, as well as the production, marketing and distribution of certain refined petroleum products are still subject to regulation of many government agencies including:

National Development and Reform Commission ("NDRC")

The NDRC is responsible for formulating and implementing key policies in respect of petroleum and petrochemical industry, including:

- Formulating guidance plan for annual production, import and export amount of crude oil, natural gas and gasoline nationwide based on its forecast on macro economic conditions in China;
- Setting the pricing policy for refined petroleum products;
- Approving certain domestic and overseas resource investment projects which are subject to NDRC's approval as required by the Catalogue of Investment Projects Approved by the Government (2004); and
- Approving foreign investment projects that are in excess of certain investment limits.

The Ministry of Commerce ("MOFCOM")

MOFCOM is responsible for examining and approving production sharing contracts, Sino-foreign equity joint venture contracts and Sino-foreign cooperation joint venture contracts for oil and gas development within the PRC. It is also responsible to issue quotas and licenses for import and export of crude oil and refined oil.

In November 2010, we were approved by four Ministries including MOFCOM to become one of the first trial enterprises to cooperate with international business partners and develop oil and gas resources (MOFCOM Circular 984[2010]).

Ministry of Land and Resources ("MLR")

The MLR is responsible for issuing the licenses that are required to explore and produce crude oil and natural gas in China.

Regulation of Exploration and Production

Exploration and Production Rights

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1986, the Standing Committee of the National People's Congress passed the Mineral Resources Law which authorizes the Ministry of Land and Resources, or the MLR, to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The MLR has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only we, PetroChina, CNOOC and Yanchang Petroleum Group Ltd. have received such exploration licenses and production licenses in oil and gas industry. In addition, pursuant to the Regulation on the Administration of Geological Survey Qualifications promulgated by the State Council, which became effective from July 1, 2008, any entity engaging in geological survey activities shall obtain a geological survey qualification certificate. Oil and natural gas survey qualifications, among others, shall be examined, approved and granted by the MLR.

Applicants for exploration licenses must first register with the MLR blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make an annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB2,000 per square kilometer for the initial year to RMB5,000 for the second year and to RMB10,000 for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee of RMB100 per square kilometer for each of the first three years. Afterwards, the annual fee increases by an additional RMB100 per square kilometer per year up to a maximum of RMB500 per square kilometer. The maximum term of an exploration license is 7 years. The exploration license may be renewed upon application by the holder at least 30 days prior to expiration date, with each renewal for a maximum two-year term.

At the exploration stage, an applicant can also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proved. The progressive exploration and production license has a maximum term of 15 years. When the reserves become proved for a block, the holder must apply for a full production license in order to undertake production.

The MLR issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 80 years. The full production license is renewable upon application by the holder at least 30 days prior to expiration of the original term. A holder of the full production license has to pay an annual full production right usage fee of RMB1,000 per square kilometer.

Exploration and production licenses do not grant the holders the right to enter upon any land for the purpose of exploration and production. Holders of exploration and production licenses must separately obtain the right to use the land covered by the licenses, and if permissible under applicable laws, current owners of the rights to use such land may transfer or lease the land to the license holder.

Volume and Price of Natural Gas

The NDRC formulates the annual natural gas supply guidelines which require natural gas producers to distribute specified amount of natural gas to specified fertilizer producers. The actual production level of natural gas (excluding the amount supplied to the fertilizer producers) is determined by the natural gas producers themselves.

On May 31, 2010, the NDRC adjusted the price-setting mechanism of natural gas. In order to save resources, adjust the prices of natural gas with other alternative resources and allocate natural gas resources rationally, the NDRC decided to increase the ex-factory price of natural gas produced by China and to improve the natural gas pricing policies and related measures, which include:

- removing the “dual-pricing mechanism”, and increasing the basic ex-factory price of onshore natural gases produced by China; and
- increasing the floating range of prices: after combining the first and second tiers of prices of onshore natural gases produced by China, the ex-factory basic price may fluctuate up to 10% of the guidance price with no limitation on the minimum price; within such floating range, business parties may negotiate the actual price.

Regulation of Refining and Marketing of Refined Petroleum Products

Volume and Price Controls on Gasoline, Diesel and Jet Fuel

The PRC government continues to exercise control over gasoline, diesel and jet fuel prices.

According to the Notice on Implementing Reforms on Prices of Refined Products and Tax promulgated by the State Council on December 18, 2008 and the Measures for Administration of Petroleum Products Price (Trial) issued by the NDRC on May 7, 2009, the sale price for refined petroleum products in the PRC market shall be adjusted with reference to international crude oil price fluctuations, subject to governmental control. The NDRC will set maximum retail price and the provincial price bureaus have the authority to set maximum whole sale prices for gasoline and diesel . As a principle, maximum retail price for gasoline and diesel in the Chinese market shall be decided with reference to the international crude oil price plus the average domestic processing costs, tax levies, reasonable sales and marketing expenses and appropriate profit. The refined petroleum products price in the PRC market may be adjusted when the moving average price of international crude oil price fluctuates beyond 4% within a period of 22 consecutive business days. If the international crude oil prices experience sustained increase or radical fluctuation, the price of refined petroleum products, including gasoline and diesel products, will be controlled by the government to reduce the oil price fluctuation impact upon the PRC market.

Regulation of Crude Oil and Refined Petroleum Products Market

On December 4, 2006, Ministry of Commerce of the PRC promulgated the “Administrative Rules for Crude Oil Market” and “Administrative Rules for Refined Petroleum Products Market” to open the wholesale market of crude oil and refined petroleum products to new market entrants, respectively. We will face more competition in both crude oil and refined petroleum products markets. Such increased competition may have a material adverse effect on our financial conditions and results of operations.

Investment

Under the State Council's Decision on Investment System Reform, investments without the use of government funds are only subject to a licensing system or a registration system, as the case may be. Under the current system, only significant projects and the projects of restrictive nature are subject to approval so as to maintain social and public interests, and all other projects of any investment scale are only subject to a registration system.

On February 14, 2011, the NDRC issued the “Notice of Delegating the Power and Authority to Verify and Approve Overseas Investment”, pursuant to which, overseas investment project falling within the category of resources development involving investment of less than US\$300 million by any Chinese party which is a local enterprise, and overseas investment project falling outside the category of resources development (other than special projects) involving investment of less than US\$100 million by any Chinese party which is a local enterprise, shall be verified and approved by the provincial-level authority of NDRC. Any forgoing overseas investment by any Chinese party which is an enterprise

managed by PRC central government shall be filed with the NDRC. Overseas investment project falling within the category of resources development involving investment of more than US\$300 million (inclusive) by PRC central government, and overseas investment project falling outside the category of resources development involving investment of more than US\$100 million (inclusive) by PRC central government, shall be verified and approved by the NDRC.

Pursuant to the Anti-Monopoly Law of the PRC which became effective on August 1, 2008, when market concentration by business carriers through merger, acquisition of control through shares or assets acquisition, or acquisition of control or the ability to exercise decisive influence over other business carriers by contract or by other means reaches a threshold of declaration level prescribed by the State Council, the business carriers shall declare in advance to the Anti-monopoly Law Enforcement Agency, otherwise, the business carriers shall not implement such market concentration.

Taxation, Fees and Royalty

Companies which operate petroleum and petrochemical businesses in China are subject to a variety of taxes, fees and royalties.

Effective from January 1, 2008, the general enterprise income tax rate imposed on entities, other than certain enterprises enjoying preferential treatments under the new Enterprise Income Tax Law of the PRC, is 25%.

China conducted the resources tax reform first in Xinjiang on June 1, 2010, and extended such reform to oil and gas enterprises in west China on December 1, 2010. Subject to certain exemptions and reductions, enterprises which developed crude oil and natural gas in Xinjiang and other western areas in China are subject to a resources tax at the rate of 5% of the sales price.

Applicable tax, fees and royalties on refined petroleum products and other refined products generally payable by us or by other companies in similar industries are shown below.

Tax Item	Tax Base	Tax Rate
Enterprise income tax	Taxable income	25% effective from January 1, 2008.
Value-added tax	Revenue	13% for liquefied petroleum gas, natural gas, and low density polyethylene for production of agricultural film and fertilizers and 17% for other items. We generally charge value-added tax to our customers at the time of settlement on top of the selling prices of our products on behalf of the taxation authority. We may directly claim refund from the value-added tax collected from our customers of any value-added tax that we paid for (i) purchasing materials consumed during the production process; (ii) charges paid for drilling and other engineering services; and (iii) labor consumed during the production process.
Business tax		3%.

	Revenue from pipeline transportation services	
Consumption tax	Aggregate volume sold or self-consumed	RMB1 per liter for gasoline, naphtha, solvent oil and lubricant; RMB0.8 per liter for diesel, jet fuel and fuel oil. Prior to December 31, 2010, the consumption tax paid for imported naphtha for the production of ethylene and aromatic hydrocarbon will be refunded, and naphtha procured from domestic sources for the production of ethylene and aromatic hydrocarbon will remain tax-free. Consumption tax on jet fuel is currently exempted.
Import tariff	CIF China price	5% for gasoline, 6% for light diesel, 9% for jet kerosene and 6% for No. 5-7 fuel oil. The current applicable tax rates in 2010 for jet kerosene and No. 5-7 fuel oil are 6%

		and 3%, respectively.
Resource tax	Aggregate volume sold or self-consumed	RMB 14 to RMB 30 per tonne for crude oil. RMB7 to RMB15 per thousand cubic meters for natural gas. In the 12 provinces in west China, 5% of the sales price.
Compensatory fee for mineral resources	Revenue of crude oil and natural gas	1%
Exploration license fee	Area	RMB100 to RMB500 per square kilometer per annum.
Production license fee	Area	RMB1,000 per square kilometer per annum.
Royalty fee(1)	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	Total amount of value-added tax, consumption tax and business tax	1%, 5% and 7%.
Education Surcharge	Total amount of value-added tax, consumption tax and business tax	3%.
Special Oil Income Levy	Any revenue derived from sale of domestically produced crude oil when the realized crude oil price exceeds US\$40 per barrel.	Progressive rate of 20% to 40% for revenue derived from crude oil with realized price in excess of US\$40 per barrel.

(1) Payable only by Sino-foreign oil and gas exploration and development cooperative projects, and the project companies of those cooperative projects are not subject to any other resource taxes or fees.

C. ORGANIZATIONAL STRUCTURE

For a description of our relationship with Sinopec Group Company, see "Item 4. Information on the Company — A. History and Development of the Company" and "Item 7. Major Shareholders and Related Party Transactions." For a description of our significant subsidiaries, see Note 34 to our consolidated financial statements.

D. PROPERTY, PLANT AND EQUIPMENT

We own substantially all of our properties, plants and equipment relating to our business activities. We hold production licenses covering all of our interests in our developed and undeveloped crude oil and natural gas fields and productive wells. See "Item 4. Information on the Company — B. Business Overview" for description of our property, plant and equipment.

Environmental Matters

We are subject to various national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. For example, national regulations promulgated by the central government set discharge standards for emissions into air and water. They also set forth schedules of discharge fees for various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of discharge up to a certain level. Above a certain level, the central regulations permit the local government to order any of our facilities to cure certain behavior causing environmental damage and subject to the central government's approval, the local government may also issue orders to close any of our facilities that fail to comply with the existing regulations. In addition, we have incurred capital expenditure specifically in compliance

with the various environmental protection objectives set by the PRC government for the petroleum and chemical industry, to promote energy saving and environmental protection in China.

Each of our production subsidiaries has implemented a system to control its pollutant emissions and to oversee compliance with the PRC environmental regulations. We have a central safety and environmental compliance department to set our internal environmental requirements and procedures, and to manage and supervise the environmental protection programs at the various production facilities. Each production subsidiary has an environmental compliance department which is responsible for supervising environmental matters at the subsidiary and implementing our environmental requirements and procedures. These departments report both to the management of the subsidiary and to the central environmental compliance department.

Our production facilities have their own facilities to treat waste water, solid waste and waste gases on site. Waste water first goes through preliminary treatment at our own waste water treatment facilities. Thereafter, the water is sent to nearby waste water treatment centers operated either by us or by Sinopec Group for further treatment. All solid waste materials generated by our production facilities are buried at disposal sites or burned in furnaces either operated by us or by Sinopec Group. Waste gases are generally treated and burned in furnaces before dissipation and the ash is disposed in accordance with our solid waste disposal procedures.

Environmental regulations also require companies to file an environmental impact report to the environmental bureau for approval before undertaking any construction of a new production facility or any major expansion or renovation of an existing production facility. Such an undertaking will not be permitted to operate until the environmental bureau has performed an inspection and is satisfied that environmentally sound equipment has been installed for the facility.

We believe our environmental protection systems and facilities are adequate for us to comply with current applicable national and local environmental protection regulations. The PRC government, however, may impose stricter regulations which require additional expenditure on compliance with environmental regulations.

We paid pollutant discharge fees of approximately RMB2.3 billion in 2008, RMB3.2 billion in 2009 and RMB3.9 billion in 2010.

Insurance

In respect of our refining, petrochemical production, and marketing and sales operations, we currently maintain with Sinopec Group Company, under the terms of its Safety Production Insurance Fund ("SPI Fund"), approximately RMB534.4 billion of coverage on our property and plants and approximately RMB68.4 billion of coverage on our inventory. In 2010, we paid an insurance premium of approximately RMB2.1 billion to Sinopec Group Company for such coverage. Transportation vehicles and products in transit are not covered by Sinopec Group Company and we maintain insurance policies for those assets with insurance companies in the PRC.

The insurance coverage under SPI Fund applies to all domestic enterprises controlled by Sinopec Group Company under regulations published by the Ministry of Finance. We believe that, in the event of a major accident, we will be able to recover most of our losses from insurance proceeds paid under the SPI Fund or by insurance companies.

Pursuant to an approval of the Ministry of Finance, Sinopec Group Company entered into an agreement with China People's Insurance Company on January 29, 2002 to purchase a property and casualty policy which would also cover our assets. The policy provides for an annual maximum cumulative claim amount of RMB4.0 billion and a maximum of RMB2.36 billion per occurrence.

Consistent with what we believe to be customary practice among PRC enterprises, we do not currently carry any third party liability insurance to cover claims in respect of personal injury, environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the past three years. We do not carry business interruption insurance.

ITEM UNRESOLVED STAFF COMMENTS

4A.

None.

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ITEM OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.

A. GENERAL

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements. Our consolidated financial statements have been prepared in accordance with IFRS. Certain financial information presented in this section is derived from our audited consolidated financial statements. Unless otherwise indicated, all financial data presented on a consolidated basis or by segment, are presented net of inter-segment transactions (i.e., inter-segment and other intercompany transactions have been eliminated).

In 2009 and 2010, we acquired the equity interest of Sinopec Qingdao Petrochemical Company Limited and SSI and the property interest of eight refined oil pipeline project divisions from Sinopec Group Company. As we and these newly acquired entities are under the common control of Sinopec Group Company, our acquisitions of such entities are reflected in our consolidated financial statements as “combination of entities under the common control” that is accounted for in a manner similar to a pooling-of-interests. As a result, all historic data of the acquired entities’ assets and liabilities has been presented, and our consolidated financial statement prior to the acquisitions has been adjusted to reflect the financial and business conditions of the acquired entities.

Critical Accounting Policies

Our reported consolidated financial condition and consolidated results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in Note 2 to the consolidated financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Oil and gas properties and reserves

The accounting for our upstream oil and gas activities is subject to special accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. We have elected to use the successful efforts method.

The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off (depreciation) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as

“proved”. Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalized as oil and gas properties with equivalent amounts recognized as provision for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs, and in disclosing the supplemental standardized

measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired. There have been no significant changes to the original reserve estimates during any of the three years ended December 31, 2008, 2009 and 2010.

Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset, including oil and gas properties, may not be recoverable, the asset may be "impaired", and an impairment loss may be recognized. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. For goodwill, the recoverable amount is estimated annually. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for our assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sales volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of reserve quantities, sales volume, selling price and amount of operating costs.

Impairment losses recognized for each of the three years ended December 31, 2008, 2009 and 2010 in our statement of income on long-lived assets are summarized as follows:

	Year ended December 31,		
	2008	2009	2010
	(RMB in millions)		
Exploration and production	5,991	1,595	3,250
Refining	270	396	4,902
Marketing and distribution	709	1,479	1,183
Chemicals	1,511	3,807	5,121
Corporate and others	19	8	21
Total	8,500	7,285	14,477

Depreciation

Property, plant and equipment (other than oil and gas properties) are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There have been no changes to the estimated useful lives and residual values during each of the three years ended December 31, 2008, 2009 and 2010.

Impairment of accounts receivable for bad and doubtful debts

We estimate impairment of accounts receivable for bad and doubtful debts resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs would be higher than estimated. The changes in the impairment losses for bad and doubtful accounts are as follows:

	Year ended December 31,		
	2008	2009	2010
	(RMB in millions)		
Balance as of January 1	2,909	2,406	1,921

Impairment losses recognized for the year.	143	70	48
Reversal of impairment losses	(254)	(245)	(130)
Written off	(392)	(310)	(517)
Balance as of December 31	2,406	1,921	1,322

Allowance for diminution in value of inventories

If the costs of inventories fall below their net realizable values, an allowance for diminution in value of inventories is recognized. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. We base the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated. Allowance for diminution in value of inventories is analyzed as follows:

	Year ended December 31,		
	2008	2009	2010
	(RMB in millions)		
Balance as of January 1	4,572	9,189	1,038
Allowance for the year	8,777	401	1,087
Reversal of allowance on disposal	(64)	(185)	(77)
Written off	(4,096)	(8,367)	(957)
Balance as of December 31	9,189	1,038	1,091

Recently Pronounced International Financial Reporting Standards

Information relating to the recently pronounced IFRS is presented in Note 37 to the consolidated financial statements.

Overview of Our Operations

We are the largest integrated petroleum and petrochemical company in China and one of the largest in Asia in terms of operating revenues. We engage in exploring for, developing and producing crude oil and natural gas, operating refineries and petrochemical facilities and marketing crude oil, natural gas, refined petroleum products and petrochemicals. We have reported our consolidated financial results according to the following four principal business segments and the corporate and others segment.

- Exploration and Production Segment, which consists of our activities related to exploring for and developing, producing and selling crude oil and natural gas;
- Refining Segment, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing of crude oil into refined petroleum products, selling refined petroleum products principally to our marketing and distribution segment;
- Marketing and Distribution Segment, which consists of purchasing refined petroleum products from our refining segment and third parties, and marketing, selling and distributing refined petroleum products by wholesale to large customers and independent distributors and retail through our retail network;

Chemicals Segment, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products; and

- Corporate and Others Segment, which consists principally of trading activities of the import and export subsidiaries and our research and development activities.

B. CONSOLIDATED RESULTS OF OPERATIONS

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

In 2010, our total operating revenues and other income were RMB1,913.2 billion, and the operating income was RMB105.0 billion, representing an increase of 42.2% and 15.8% over the year of 2009, respectively. The increases in our operating revenues and operating income were primarily due to the increases in prices of crude oil, refined oil and petrochemical products, enhancement in marketing and quality of our products and services, improvement of our production and sales structure and further leveraging on our strength in business scale and integration.

The following table sets forth major revenue and expense items in the consolidated income statements for the years ended December 31, 2009 and 2010.

	Year Ended December 31,		Rate of Change from 2009 to 2010
	2010	2009	
	(RMB in millions)		%
Operating revenues and other income	1,913,182	1,345,052	42.2
Operating revenues	1,876,758	1,315,915	42.6
Other income	36,424	29,137	25.0
Operating expenses	(1,808,178)	(1,254,353)	44.2
Purchased crude oil, products and operating supplies and expenses	(1,482,484)	(980,564)	51.2
Selling, general and administrative expenses	(51,048)	(40,539)	25.9
Depreciation, depletion and amortization	(59,223)	(54,016)	9.6
Exploration expenses, including dry holes	(10,955)	(10,545)	3.9
Personnel expenses	(33,672)	(28,895)	16.5
Taxes other than income tax	(157,189)	(132,884)	18.3
Other operating expenses, net	(13,607)	(6,910)	96.9
Operating income	105,004	90,699	15.8
Net finance costs	(6,974)	(7,466)	(6.6)
Investment income and share of income less losses from associates and jointly controlled entities	5,663	3,371	68.0
Earnings before income tax	103,693	86,604	19.7
Tax expense	(25,689)	(19,599)	31.1
Net income	78,004	67,005	16.4
Attributable to:			
Equity shareholders of the Company	71,800	63,147	13.7
Non-controlling interests	6,204	3,858	60.8

Operating revenues

In 2010, our operating revenues were RMB1,876.8 billion, representing an increase of 42.6% over the year of 2009. The increase in our operating revenues was primarily due to the increases in prices of crude oil, refined oil and petrochemical products, our efforts on marketing, sales and production.

The following table sets forth our external sales volume, average realized prices and the respective rates of change from 2009 to 2010 for our major products:

Average Realized Price	Rate of Change	Sales Volume	Rate of Change
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	2010		2009		from 2009 to 2010 (%)	2010		2009		from 2009 to 2010 (%)
	(RMB)									
Crude Oil	3,349	(1)	2,303	(1)	45.4	5,554	(2)	4,915	(2)	13.0
Natural Gas	1,155	(3)	933	(3)	23.8	9,951	(4)	6,486	(4)	53.4
Gasoline	7,297	(1)	6,367	(1)	14.6	43,467	(2)	39,035	(2)	11.4
Diesel	5,992	(1)	5,092	(1)	17.7	90,827	(2)	82,344	(2)	10.3
Kerosene	4,758	(1)	3,918	(1)	21.4	14,758	(2)	11,353	(2)	30.0

Basic chemical feedstock	5,598	(1)	4,359	(1)	28.4	17,821	(2)	13,272	(2)	34.3
Synthetic Fiber Monomer and Polymer	8,211	(1)	6,530	(1)	25.7	5,772	(2)	4,650	(2)	24.1
Synthetic Resin	9,243	(1)	8,072	(1)	14.5	9,871	(2)	8,667	(2)	13.9
Synthetic Fiber	11,644	(1)	9,140	(1)	27.4	1,512	(2)	1,418	(2)	6.6
Synthetic Rubber	16,436	(1)	11,448	(1)	43.6	1,222	(2)	1,116	(2)	9.5
Chemical fertilizer	1,641	(1)	1,657	(1)	(1.0)	1,299	(2)	1,769	(2)	(26.6)

(1) per tonne

(2) thousand tonnes

(3) per thousand cubic meters

(4) million cubic meters

Sales of crude oil and natural gas

Most of crude oil and a portion of natural gas we produced were internally used for refining and chemical production and the remaining were sold to other customers. In 2010, the total revenue from crude oil, natural gas and other upstream products that were sold externally amounted to RMB35.0 billion, accounting for 1.8% of our total revenues and other income, and representing an increase of 81.1% over 2009. The increase was mainly due to the increase in the price of crude oil, natural gas and other products, the increase in the external sales volume of crude oil and the sales volume of natural gas and the commencement of operation of Puguang oil and gas bureau.

Sales of refined petroleum products

In 2010, our refining segment and marketing and distribution segment sold petroleum products (mainly consisting of gasoline, diesel and kerosene which are referred to as the refined oil products and other refined petroleum products) to external parties. The external sales revenue realized by these two segments were RMB1,192.8 billion, accounting for 62.3% of our operating revenues and other operating income, and representing an increase of 36.4% over 2009. The increase was mainly due to the increase in price and our sales volume of refined oil products and other refined petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB931.6 billion, accounting for 78.1% of the total revenue of petroleum products and representing an increase of 30.8% over 2009. Sales revenue of other refined petroleum products was RMB261.2 billion, accounting for 21.9% of the total revenue of petroleum products and representing an increase of 61.3% over 2009.

Sales of chemical products

Our external sales revenue of chemical products was RMB285.6 billion, accounting for 14.9% of our operating revenues and other operating income, and representing an increase of 48.2% over 2009. This was mainly due to the increase in the price and our sales volume of chemical products, the commencement of operation of our newly established equipment, and our efforts on the marketing of chemical products markets.

Operating expenses

In 2010, our operating expenses were RMB1,808.2 billion, representing an increase of 44.2% over 2009, among which:

Purchased crude oil, products and operating supplies and expenses were RMB1,482.5 billion, representing an increase of 51.2% over 2009, accounting for 82.0% of the total operating expenses, of which:

- crude oil purchase expenses were RMB606 billion, representing an increase of 49.5% over 2009. In 2010, the total throughput of crude oil that was purchased externally was 155.1 million tonnes (excluding the amount processed for third parties), representing an increase of 14.8% over 2009; the average unit processing cost for crude oil purchased externally was RMB3,907 per tonne, representing an increase of 30.2% over 2009; and
- other purchasing expenses were RMB 876.5 billion, representing an increase of 52.4% over 2009. This was mainly due to the increase in the cost of refined oil, chemical raw materials and other feedstock purchased externally, and the increase in the expense of affiliated companies.

Selling, general and administrative expenses totaled RMB51.0 billion, representing an increase of 25.9% over 2009. This was mainly due to the increase in the selling, transportation and others expenses resulting from the increased sales volume, and the increase in rental charges and R&D expenses.

Depreciation, depletion and amortization was RMB59.2 billion, representing an increase of 9.6% over 2009. This was mainly due to the depreciation resulting from our continuous capital expenditure on property, plant and equipment.

Exploration expenses, including dry holes were RMB11.0 billion, representing an increase of 3.9% over 2009, reflecting our enhanced exploration activities in northeastern Sichuan, west Sichuan and Erdos regions.

Personnel expenses were RMB33.7 billion, representing an increase of 16.5% compared with 2009, reflecting the increased personnel in associated with the growth of our business, performance-based staff salaries, accrual of staff annuity and housing subsidy.

Taxes other than income tax were RMB157.2 billion, representing an increase of 18.3% compared with 2009. This was mainly due to the increase of special oil income levy by RMB12.6 billion over 2009 resulting from the crude oil price increases, and the increase of the consumption tax, urban construction tax and educational surcharge by RMB11.1 billion over 2009 resulting from the products' sales volume increases.

Other operating expenses, net were RMB13.6 billion, representing an increase of 96.9% over 2009, which was mainly due to the increase of long-lived asset impairment losses by RMB7.2 billion on chemical fertilizer and other low-efficiency assets.

Operating income

In 2010, our operating income was RMB105.0 billion, representing an increase of 15.8% over 2009.

Net finance costs

In 2010, our net finance costs were RMB7.0 billion, representing a decrease of 6.6% over 2009. This decrease in finance costs reflected our continuing efforts in improving the financing structure, increasing the direct financing scale, extending the low-interest short-term loan of US dollars, and managing working capital and cash flows.

Earnings before income tax

In 2010, our earnings before income tax were RMB103.7 billion, representing an increase of 19.7% over 2009.

Tax expense

In 2010, we recognized tax expense of RMB25.7 billion, representing an increased of 31.1% over 2009. The increase was mainly due to the increase in our earnings before income taxes.

Net income attributable to non-controlling interests

In 2010, our net income attributable to non-controlling interests was RMB6.2 billion, representing an increase of 60.8% over 2009. This was mainly due to the increase of net income of subsidiaries controlled by us.

Net income attributable to equity shareholders of the Company

In 2010, our net income attributable to our equity shareholders was RMB71.8 billion, representing an increase of 13.7% over 2009.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

In 2009, our total operating revenues and other income were RMB1,345.1 billion, representing a decrease of 10.0% over 2008. Our operating income was RMB90.7 billion, representing an increase of 135.1% over 2008. The increase in our operating income was primarily due to our efforts responding to the international financial crisis, including our development in the markets we compete, enhancement in marketing and services quality, improvement of our raw material

structure and further leveraging on our strength in business scale and integration. These efforts were coupled with the reform on pricing mechanism and taxation and fee policies for refined oil products by the PRC government and the increase in demand for chemical products in domestic market.

The following table sets forth major revenue and expense items in the consolidated income statements for the years ended December 31, 2008 and 2009.

	Year Ended December 31,		Rate of Change from 2008 to 2009 %
	2009 (RMB in millions)	2008	
Operating revenues and other income	1,345,052	1,495,148	(10.04)
Operating revenues	1,315,915	1,413,203	(6.88)
Other income	29,137	31,088	(6.28)
Other	-	50,857	-
Operating expenses	(1,254,353)	(1,456,567)	(13.88)
Purchased crude oil, products and operating supplies and expenses	(980,564)	(1,270,586)	(22.83)
Selling, general and administrative expenses	(40,539)	(39,420)	2.84
Depreciation, depletion and amortization	(54,016)	(49,541)	9.03
Exploration expenses, including dry holes	(10,545)	(8,310)	26.90
Personnel expenses	(28,895)	(23,408)	23.44
Taxes other than income tax	(132,884)	(57,214)	132.26
Other operating expenses, net	(6,910)	(8,088)	(14.56)
Operating income	90,699	38,581	135.09
Net finance costs	(7,466)	(6,109)	(22.21)
Income from investments	3,371	970	(247.53)
Earnings before income tax	86,604	33,442	158.97
Tax (expense)/benefit	(19,599)	(3,624)	440.81
Net income	67,005	29,818	124.71
Attributable to:			
Equity shareholders of the Company	63,147	31,199	102.40
Non-controlling interests	3,858	(1,381)	-

Operating Revenues

In 2009, our operating revenues and other income were RMB1,345.1 billion, representing a decrease of 10.0% over 2008. This was mainly due to the decrease in the price of crude oil, refined oil and petrochemical products over 2008. In addition, in 2008, we received RMB50.9 billion of government subsidy as a result of the PRC government's tight control over refined petroleum products prices in 2008 (categorized as other income), and we did not receive any such subsidy as a result of the reform on pricing mechanism and taxation and fee policies for refined oil products by the PRC government in 2009.

The following table sets forth our external sales volume, average realized prices and the respective rates of change from 2008 to 2009 for our major products:

Average Realized Price

Sales Volume

	2009		2008		Rate of Change from 2008 to 2009 (%)	2009		2008		Rate of Change from 2008 to 2009 (%)
	(RMB)				(%)					(%)
Crude Oil	2,303	(1)	4,190	(1)	(45.0)	4,915	(2)	4,394	(2)	11.9
Natural Gas	933	(3)	911	(3)	2.4	6,486	(4)	6,283	(4)	3.2

Gasoline	6,367	(1)	6,409	(1)	(0.7)	)	39,035	(2)	37,732	(2)	3.5
Diesel	5,092	(1)	5,629	(1)	(9.5)	)	82,344	(2)	80,236	(2)	2.6
Kerosene	3,918	(1)	6,063	(1)	(35.4)	)	11,353	(2)	9,216	(2)	23.2
Basic chemical feedstock	4,359	(1)	6,238	(1)	(30.1)	)	13,272	(2)	10,667	(2)	24.4
Synthetic Fiber Monomer and Polymer	6,530	(1)	8,054	(1)	(18.9)	)	4,650	(2)	3,990	(2)	16.5
Synthetic Resin	8,072	(1)	10,094	(1)	(20.0)	)	8,667	(2)	7,827	(2)	10.7
Synthetic Fiber	9,140	(1)	10,488	(1)	(12.9)	)	1,418	(2)	1,353	(2)	4.8
Synthetic Rubber	11,448	(1)	16,160	(1)	(29.2)	)	1,116	(2)	982	(2)	13.6
Chemical fertilizer	1,657	(1)	1,729	(1)	(4.2)	)	1,769	(2)	1,658	(2)	6.7

(1) per tonne

(2) thousand tonnes

(3) per thousand cubic meters

(4) million cubic meters

Sales of crude oil and natural gas

Most of crude oil and a portion of natural gas we produced were internally used for refining and chemical production and the remaining were sold to other customers. In 2009, the total revenue from crude oil, natural gas and other upstream products that were sold externally amounted to RMB19.3 billion, representing a decrease of 26.7% over 2008. The change was mainly due to the decrease in the price of crude oil.

Sales of refined petroleum products

In 2009, our refining segment and marketing and distribution segment sell petroleum products (mainly consisting of gasoline, diesel and kerosene which are referred to as the refined oil products and other refined petroleum products) to external parties. The external sales revenue realized by these two segments were RMB874.2 billion, accounting for 65.0% of our operating revenues and representing a decrease of 6.5% over 2008. The decrease was mainly due to the decrease in price of refined oil products. The sales revenue of gasoline, diesel and kerosene was RMB712.3 billion, accounting for 81.5% of the total revenue of petroleum products and representing a decrease of 5.0% over 2008. Sales revenue of other refined petroleum products was RMB161.9 billion, accounting for 18.5% of the total turnover of petroleum products and representing a decrease of 12.8% over 2008.

Sales of chemical products

Our external sales revenue of chemical products was RMB192.7 billion, accounting for 14.3% of our operating revenues and representing a decrease of 12.3% over 2008. This was mainly due to the decrease in the price of chemical products.

Operating expenses

In 2009, our operating expenses were RMB1,254.4 billion, representing a decrease of 13.9% over 2008, among which:

Purchased crude oil, products and operating supplies and expenses were RMB980.6 billion, representing a decrease of 22.8% over 2008, accounting for 78.2% of the total operating expenses, of which:

- crude oil purchase expenses were RMB405.4 billion, representing a decrease of 41.3% over 2008. In 2009, the total throughput of crude oil that was purchased externally was 135.14 million tonnes (excluding the amount processed for third parties), representing an increase of 0.2% over 2008; the average unit processing cost for crude oil purchased externally was RMB3,000 per tonne, representing a decrease of 41.5% over 2008; and
- other purchasing expenses were RMB575.2 billion, representing a decrease of 0.7% over 2008. This was mainly due to the decrease in the cost of gasoline, diesel, kerosene and other feedstock purchased externally.

Selling, general and administrative expenses totaled RMB40.5 billion, representing an increase of 2.8% over 2008. This was mainly due to the increase in the expenses of community services and culture, education and healthcare and the increase in rental charges of some gas stations.

Depreciation, depletion and amortization was RMB54.0 billion, representing an increase of 9.0% over 2008. This was mainly due to the depreciation resulting from our continuous capital expenditure on property, plant and equipment.

Exploration expenses, including dry holes were RMB10.5 billion, representing an increase of 26.9% over 2008, reflecting our enhanced exploration activities in northeastern Sichuan, west Sichuan and Erdos regions.

Personnel expenses were RMB28.9 billion, representing an increase of 23.4% compared with 2008, reflecting our accrual of staff annuity and housing subsidy.

Taxes other than income tax were RMB132.9 billion, representing an increase of 132.3% compared with 2008. This was mainly due to the reform on pricing mechanism and taxation and fee policies for refined oil products by the PRC government, which led to the increase in the consumption tax, urban construction tax and educational surcharge by RMB 101.4 billion over 2008. In addition, the special oil income levy decreased by RMB25.7 billion compared to 2008 as a result of the decrease in the price of crude oil in 2009.

Other operating expenses, net were RMB6.9 billion, representing a decrease of 14.6% over 2008.

Operating income

In 2009, our operating income was RMB90.7 billion, representing an increase of 135.1% over 2008.

Net finance costs

In 2009, our net finance costs were RMB7.5 billion, representing an increase of 22.2% over 2008, among which, our interest expenses in 2009 were RMB7.6 billion, representing a decrease of RMB5.2 billion over 2008; our foreign currency exchange gains were RMB 0.4 billion, representing a decrease of RMB2.8 billion over 2008. We also incurred a loss of RMB0.2 billion with respect to the fair value change of embedded financial derivative instruments in convertible bonds as a result of the change in our H share's trading price, compared with a gain of RMB3.9 billion with respect to the fair value change of embedded financial derivative instruments in convertible bonds in 2008.

Earnings before income tax

In 2009, our earnings before income tax were RMB86.6 billion, representing an increase of 159.0% over 2008.

Tax expense

In 2009, we recognized an income tax expense of RMB19.6 billion, increased by RMB16 billion. The increase was mainly due to substantial growth of earnings before income taxes over 2008.

Net income attributable to non-controlling interests

In 2009, our net income attributable to non-controlling interests was RMB3.9 billion, representing an increase of RMB5.3 billion compared with 2008.

Net income attributable to equity shareholders of the Company

In 2009, our net income attributable to our equity shareholders was RMB63.1 billion, representing an increase of 102.4% over 2008.

C. DISCUSSIONS ON RESULTS OF SEGMENT OPERATIONS

We divide our operations into four business segments (exploration and production segment, refining segment, marketing and distribution segment and chemicals segment) and corporate and others. Unless otherwise specified, the

inter-segment transactions have not been eliminated in the financial data discussed in this section. In addition, the operating revenue data of each segment have included the “other operating revenues” of the segment.

The following table sets forth the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e. after elimination of inter-segment sales) for the periods indicated.

	Year Ended December 31,			As a Percentage of Consolidated Operating Revenues Before Elimination of Inter-segment Sales		As a Percentage of Consolidated Operating Revenues After Elimination of Inter-segment Sales	
	2008	2009	2010	2009	2010	2009	2010
	(RMB in billions)			(%)	(%)	(%)	(%)
Exploration and Production							
External sales(1)	45	37	53	1.6	1.6	2.7	2.8
Inter-segment sales	168	98	134	4.1	4.0		
Total operating revenue	213	135	187	5.7	5.6		
Refining							
External sales(1)	178	100	166	4.2	5.0	7.4	8.7
Inter-segment sales	693	604	806	25.6	24.2		
Total operating revenue	871	704	972	29.8	29.2		
Marketing and distribution							
External sales(1)	814	781	1,038	33.1	31.2	58.0	54.2
Inter-segment sales	3	2	3	0.1	0.1		
Total operating revenue	817	783	1,041	33.2	31.3		
Chemicals							
External sales(1)	226	197	292	8.4	8.8	14.7	15.3
Inter-segment sales	27	21	36	0.9	1.1		
Total operating revenue	253	218	328	9.3	9.9		
Corporate and others							
External sales(1)	232	230	364	9.7	11.0	17.2	19.0
Inter-segment sales	484	292	433	12.3	13.0		
	716	522	797	22.0	24.0		

Total operating revenue						
Total operating revenue before inter-segment eliminations	2,870	2,362	3,325	100.0	100.0	
Elimination of inter-segment sales	(1,375)	(1,017)	(1,412)			
Consolidated operating revenues	1,495	1,345	1,913		100.0	100.0

(1) include other operating revenues.

The following table sets forth the operating revenues, operating expenses and operating income/(loss) by each segment before elimination of the inter-segment transactions for the periods indicated, and the rate of changes from 2009 to 2010.

	Year Ended December 31,			Rate of Change from 2009 to 2010 (%)
	2008	2009	2010	
Exploration and Production				

33

40

Total operating revenues	213	135	187	38.8
Total operating expenses	(134)	(111)	(140)	26.2
Total operating income	79	24	47	97.3
Refining				
Total operating revenues	830	704	972	38.1
Other income	41	0	0	-
Total operating expenses	(938)	(676)	(956)	41.4
Total operating income/(loss)	(67)	28	16	(42.4)
Marketing and distribution				
Total operating revenues	807	783	1,041	32.9
Other income	10	0	0	-
Total operating expenses	(778)	(753)	(1,010)	34.2
Total operating income	39	30	31	1.5
Chemicals				
Total operating revenues	253	218	328	50.0
Total operating expenses	(266)	(205)	(313)	52.7
Total operating income/(loss)	(13)	14	15	8.9
Corporate and others				
Total operating revenues	716	522	797	52.7
Total operating expenses	(718)	(524)	(799)	52.5
Total operating loss	(2)	(2)		2 6.2

Exploration and Production Segment

Most of the crude oil and a portion of the natural gas produced by the exploration and production segment were used for our refining and chemicals operations. Most of our natural gas and a small portion of crude oil were sold to other customers.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

In 2010, the operating revenues of this segment were RMB187.1 billion, representing an increase of 38.8% over 2009. This is mainly attributable to the increase in the selling price of crude oil and natural gas, the increase in the sales volume of natural gas and the commencement of operation of Puguang oil and gas filed.

The segment sold 43.9 million tonnes of crude oil and 11.1 billion cubic meters of natural gas in 2010, representing an increase of 0.2% and 57.4% over 2009, respectively. The average realized price of crude oil and natural gas were RMB3,406 per tonne and RMB1,174 per thousand cubic meters respectively, representing an increase of 38.2% and an increase of 22.4% respectively over 2009.

In 2010, the operating expenses of this segment were RMB140 billion, representing an increase of 26.2% over 2009. The was mainly due to the increase of special oil income levy by RMB12.6 billion over 2009, which reflected the increase in crude oil price.

The expense of depreciation, depletion and amortization in 2010 was increased by RMB3.3 billion over 2009. This was mainly due to the increased depreciation and depletion resulting from the oil and gas assets invested.

The expense of raw material, fuel and power in 2010 was increased by RMB2.1 billion over 2009. This was mainly due to the increase in the purchase price.

The asset impairment loss in 2010 was increased by RMB1.7 billion over 2009. This was mainly due to the decrease in reserve of certain small-scale blocks and the high cost of production and development.

The lifting cost for oil and gas was RMB674 per tonne in 2010, representing an increase of 8.5% over 2009. This was primarily due to the increase in the price of raw materials, fuels and power purchased externally, and the expenses for improving the injection-production system of oil filed.

In 2010, the segment made every effort to maintain stable production with stale growth. The segment's operating income was RMB47.1 billion in 2010, representing an increase of 97.3% over 2009.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

In 2009, the operating revenues of this segment were RMB134.8 billion, representing a decrease of 36.8% over 2008. This is mainly attributable to the decrease in the selling price of crude oil.

The segment sold 43.8 million tonnes of crude oil and 7.0 billion cubic meters of natural gas in 2009, representing an increase of 2.0% and 2.2%, respectively, over 2008. The average realized price of crude oil and natural gas were RMB2,465 per tonne and RMB959 per thousand cubic meters respectively, representing a decrease of 42.8% and an increase of 1.9%, respectively, over 2008.

In 2009, the operating expenses of this segment were RMB110.9 billion, representing a decrease of 17.7 % over 2008. The was mainly due to the decrease of special oil income levy by RMB25.7 billion over 2008, which reflected the decrease in crude oil price.

The lifting cost for oil and gas was RMB620 per tonne in 2009, representing an increase of 2.0% over 2008.

The segment's operating income was RMB23.9 billion in 2009, representing a decrease of 69.6% over 2008, which was mainly caused by substantial decline in prices of crude oil in 2009.

Refining Segment

Business activities of the refining segment consist of purchasing crude oil from third parties or from our exploration and production segment, processing crude oil into refined petroleum products, selling gasoline, diesel and kerosene to the marketing and distribution segment, selling a portion of chemical feedstock to our chemicals segment, and selling other refined petroleum products to the domestic and overseas customers.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

In 2010, the operating revenues of this segment were RMB971.6 billion, representing an increase of 38.1% over 2009. This was mainly attributable to the increase in prices and sales volumes of the refined petroleum products.

The table below sets forth sales volume and average realized prices by product for 2009 and 2010, as well as the percentage changes in sales volume and average realized prices for the periods shown.

	Sales volume		Rate of change	Average realized prices		Rate of change
	2010	2009	from 2009 to 2010	2010	2009	from 2009 to 2010
	(thousand tonnes)		(%)	(RMB per tonne)		(%)
Gasoline	32,699	31,343	4.3	6,581	5,591	17.7
Diesel	69,535	63,095	10.2	5,554	4,646	19.5
Chemical feedstock	34,260	26,983	27.0	4,574	3,333	37.2
Other refined petroleum products	50,418	44,075	14.4	4,114	3,208	28.2

In 2010, our sales revenues of gasoline were RMB215.2 billion, representing an increase of 22.8% over 2009; the sales revenues of diesel were RMB386.2 billion, representing an increase of 31.8% over 2009; the sales revenues of chemical feedstock were RMB156.7 billion, representing an increase of 74.3% over 2009; and the sales revenues of other refined petroleum products were RMB207.4 billion, representing an increase of 46.7% over 2009.

The segment's operating expenses were RMB955.7 billion in 2010, representing an increase of 41.4% over 2009, which is mainly attributable to the increase of refining feedstock sales price and processing volume.

In 2010, the average unit cost of refining feedstock processed was RMB3,876 per tonne, representing an increase of 32.1% over 2009. Refining throughput were 198.5 million tonnes (excluding the volume processed for third parties), representing an increase of 12.3% over 2009. In 2010, the total costs of refining feedstock processed were RMB769.6 billion, representing an increase of 48.4% over 2009.

The refining margin was RMB290.5 per tonne in 2010, representing a decrease of 12.7% over 2009. This was primarily due to the growth rate of refined oil price was less than the growth rate of crude oil price.

In 2010, the unit refining cash operating cost (defined as operating expenses less the refinery processing cost, depreciation and amortization, taxes other than income tax and other operating expenses, and divided by the refinery throughput) was RMB139.7 per tonne, representing an increase of 2.7% over 2009. This was mainly due to the higher process cost associated with the increase in purchase prices of supporting materials, power and fuel, and higher sales cost as a result of the enhanced marketing of other refined petroleum products by the segment.

The segment's operating income was RMB15.9 billion in 2010, representing a decrease of 42.4% over 2009.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

In 2009, the operating revenues of this segment were RMB703.6 billion, representing a decrease of 19.2% over 2008. This was mainly attributable to the decrease in prices of the refined petroleum products.

The table below sets forth sales volume and average realized prices by product for 2008 and 2009, as well as the percentage changes in sales volume and average realized prices for the periods shown.

	Sales volume		Rate of change	Average realized prices		Rate of change
	2009	2008	from 2008 to 2009 (%)	2009	2008	from 2008 to 2009 (%)
	(thousand tonnes)			(RMB per tonne)		
Gasoline	31,343	28,725	9.1	5,591	5,586	0.1
Diesel	63,095	68,725	(8.2)	4,646	4,934	(5.8)
Chemical feedstock	26,983	23,604	14.3	3,333	5,983	(44.3)
Kerosene and other refined petroleum products	44,075	41,895	5.2	3,208	4,391	(26.9)

In 2009, our sales revenues of gasoline were RMB175.2 billion, representing an increase of 9.2% over 2008; the sales revenues of diesel were RMB293.2 billion, representing a decrease of 13.6% from 2008; the sales revenues of chemical feedstock were RMB89.9 billion, representing a decrease of 36.3% from 2008; and the sales revenues of other refined petroleum products were RMB141.4 billion, representing a decrease of 23.1% from 2008.

The segment's operating expenses were RMB676.1 billion in 2009, representing a decrease of 27.9% against 2008, which was mainly attributable to the decrease of crude oil processing cost caused by decrease of crude oil sales price.

In 2009, the average unit cost of crude oil processed was RMB2,911 per tonne, representing a decrease of 41.9% against 2008. Refining throughput were 167.08 million tonnes (excluding the volume processed for third parties), representing an increase of 0.9% over 2008. In 2009, the total costs of crude oil processed were RMB486.3 billion, representing a decrease of 41.4% against 2008.

The refining margin was RMB333 per tonne in 2009, by an increase of RMB 764 per tonne over 2008, primarily reflecting the reform on pricing mechanism and taxation and fee policies for refined oil products by the PRC government, and our optimization of production scheme, adjustment in product mix as well as our higher load operations.

In 2009, the unit refining cash operating cost (defined as operating expenses less the purchase cost of crude oil and refining feedstock, depreciation and amortization, taxes other than income tax and other operating expenses, and divided by the throughput of crude oil and refining feedstock) was RMB136 per tonne, representing an increase of RMB6.4 per tonne, or 4.9%, compared with 2008. This was mainly due to lower quality of crude oil and the higher cost in upgrading oil products quality.

The segment's operating income was RMB27.5 billion in 2009, by an increase of RMB94.1 billion compared with 2008.

Marketing and Distribution Segment

The business activities of the marketing and distribution segment include purchasing refined oil products from our refining segment and third parties, making wholesale and direct sales to domestic customers, and retail of the refined oil products through the segment's retail distribution network, as well as providing related services.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

In 2010, the operating revenues of this segment were RMB1,040.7 billion, representing an increase of 32.9% compared with 2009.

In 2010, the sales revenues of gasoline, diesel and kerosene were RMB317.5 billion, RMB546.6 billion and RMB70.3 billion, representing an increase of 27.6%, 29.8% and 58.3% from 2009, respectively.

The following table sets forth the sales volumes, average realized prices and the respective rates of changes of the four major product categories in 2009 and 2010 in different forms of sales channels.

	Sales Volume		Rate of Change	Average Realized Prices		Rate of Change
	2010	2009	from 2009 to 2010	2010	2009	from 2009 to 2010
	(thousand tonnes)		(%)	(RMB per tonne)		(%)
Gasoline	43,511	39,067	11.4	7,296	6,366	14.6
Retail sale	35,050	31,474	11.4	7,469	6,540	14.2
Direct sale	2,489	2,377	4.7	6,424	5,554	15.7
Wholesale	5,972	5,216	14.5	6,649	5,687	16.9
Diesel	91,257	82,701	10.3	5,990	5,091	17.7
Retail sale	46,357	41,941	10.5	6,243	5,374	16.2
Direct sale	29,134	28,143	3.5	5,819	4,844	20.1
Wholesale	15,766	12,617	25.0	5,560	4,697	18.4
Kerosene	14,770	11,330	30.4	4,759	3,919	21.4
Fuel Oil	23,424	17,894	30.9	3,527	2,952	19.5

The operating expenses of the segment in 2010 was RMB1,009.9 billion, representing an increase of 34.2% over 2009, which was mainly attributable to the increase of 35.1% of refined oil purchase cost, which accounts for 94.8% of our total operating expenses.

In 2010, the segment's unit cash selling expenses of refined oil products per tonne (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortization and divided by the sales volume) was RMB170.1 per tonne, representing an increase of 4.0% over 2009. This was primarily attributable to the increase of daily operation costs and rental charges as a result of the expansion of operation.

The operating income of the segment in 2010 was RMB30.8 billion, an increase of 1.5% over 2009, which was primarily attributable to our efforts on expanding the market, increase production volume and improve the operation efficiency.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

In 2009, the operating revenues of this segment were RMB783.1 billion, representing a decrease of 4.1% compared with 2008, which was primarily due to the decline of refined oil selling price.

In 2009, the sales revenues of gasoline, diesel and kerosene were RMB248.7 billion, RMB421.0 billion and RMB44.4 billion, representing an increase of 2.9% and a decrease of 7.3% and 20.3%, respectively, from 2008.

The following table sets forth the sales volumes, average realized prices and the respective rates of changes of the four major product categories in 2008 and 2009 in different forms of sales channels.

	Sales Volume		Rate of Change from 2008 to 2009	Average Realized Prices		Rate of Change from 2008 to 2009
	2009 (thousand tonnes)	2008	2009 (%)	2009 (RMB per tonne)	2008	2009 (%)
Gasoline	39,067	37,712	3.6	6,366	6,410	(0.7)
Retail sale	31,474	29,833	5.5	6,540	6,524	0.3
Direct sale	2,377	2,614	(9.1)	5,554	6,013	(7.6)
Wholesale	5,216	5,265	(0.9)	5,687	5,964	(4.6)
Diesel	82,701	80,649	2.5	5,091	5,629	(9.6)
Retail sale	41,941	48,894	(14.2)	5,374	5,704	(5.8)
Direct sale	28,143	22,313	26.1	4,844	5,561	(12.9)
Wholesale	12,617	9,442	33.6	4,697	5,402	(13.0)
Kerosene	11,330	9,186	23.3	3,919	6,065	(35.4)
Fuel Oil	17,894	11,459	56.2	2,952	3,692	(20.1)

The operating expenses of the segment in 2009 was RMB752.8 billion, representing a decrease of 3.3% over 2008, which was mainly attributable to the decrease in purchasing costs of gasoline and diesel.

In 2009, the segment's unit cash selling expenses of refined oil products per tonne (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortization and divided by the sales volume) was RMB163.6 per tonne, representing an increase of 6.8% over 2008. This was primarily attributable to the repair and maintenance expenses for gas station and increase of rental and storage charges.

The operating income of the segment in 2009 was RMB30.3 billion, a decrease of 21.3% over 2008, which was primarily attributable to the smaller price gap resulting from the reform on pricing mechanism and taxation and fee policies for refined oil products by the PRC government as well as high level of supply and severe competition in the refined oil products market.

Chemicals Segment

The business activities of the chemicals segment include purchasing chemical feedstock from our refining segment and third parties, producing, marketing and distributing petrochemical and inorganic chemical products.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

The operating revenues of the chemicals segment in 2010 were RMB327.6 billion, representing an increase of 50.0% against 2009, which was mainly attributable to increase in chemical product sales prices and sales volume.

The sales revenues of our six major categories of chemical products (namely basic organic chemicals, synthetic fiber monomers and polymers for synthetic fiber, synthetic fiber, synthetic rubber and chemical fertilizer) of the segment in 2010 were approximately RMB308.4 billion, representing an increase of 53.4% compared with 2009, accounting for 94.1% of the operating revenues of the segment.

The following table sets forth the sales volume, average realized price and the respective rates of changes for each of these six categories of chemical products of this segment from 2009 to 2010.

	Sales Volume		Rate of Change	Average Realized Prices		Rate of Change
	2010 (thousand tonnes)	2009	from 2009 to 2010 (%)	2010 (RMB per tonne)	2009	from 2009 to 2010 (%)
Basic organic chemicals	23,339	16,663	40.1	5,547	4,296	29.1
Synthetic fiber monomers and polymers	5,820	4,692	24.0	8,194	6,519	25.7
Synthetic resins	9,880	8,682	13.8	9,243	8,073	14.5
Synthetic fiber	1,512	1,418	6.6	11,644	9,140	27.4
Synthetic rubber	1,222	1,119	9.2	16,435	11,448	43.6
Chemical fertilizer	1,329	1,769	(24.9)	1,641	1,657	(1.0)

The operating expenses of the segment in 2010 were RMB312.6 billion, representing an increase of 52.7% over 2009, which was mainly attributable to the increase of the unit cost and consuming volume of raw materials.

The segment proactively expanded the market in 2010, strengthened the integration of manufacturing, sales and research operations, improved customer services and strengthened strategic alliance with key customers and hence achieved operating income of RMB15 billion, representing an increase of 8.9% over 2009.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

The operating revenues of the chemicals segment in 2009 were RMB218.5 billion, representing a decrease of 13.8% against 2008, which was mainly attributable to the dramatic drop in chemical product sales prices.

The sales revenues of our six major categories of chemical products (namely basic organic chemicals, synthetic fiber monomers and polymers for synthetic fiber, synthetic fiber, synthetic rubber and chemical fertilizer) of the segment in 2009 were approximately RMB201.0 billion, representing a decrease of 12.7% compared with 2008, accounting for 92.0% of the operating revenues of the segment.

The following table sets forth the sales volume, average realized price and the respective rates of changes for each of these six categories of chemical products of this segment from 2008 to 2009.

	Sales Volume		Rate of Change	Average Realized Prices		Rate of Change
	2009	2008	from 2008 to 2009	2009	2008	from 2008 to 2009
	(thousand tonnes)		(%)	(RMB per tonne)		(%)
Basic organic chemicals	16,663	13,386	24.5	4,296	6,392	(32.8)
Synthetic fiber monomers and polymers	4,692	4,019	16.7	6,519	8,052	(19.0)
Synthetic resins	8,682	7,845	10.7	8,073	10,097	(20.0)
Synthetic fiber	1,418	1,353	4.8	9,140	10,488	(12.9)
Synthetic rubber	1,119	988	13.3	11,448	16,180	(29.3)
Chemical fertilizer	1,769	1,659	6.6	1,657	1,729	(4.2)

The operating expenses of the segment in 2009 were RMB204.7 billion, representing a decrease of 23.2% over 2008, which was mainly attributable to the decrease of the unit cost of raw materials, resulting in the decrease of raw material costs by RMB60.1 billion.

The segment proactively expanded the market in 2009, strengthened the integration of manufacturing, sales and research operations, improved customer services and strengthened strategic alliance with key customers and hence achieved operating income of RMB13.8 billion, an increase of RMB 26.8 billion over 2008.

Corporate and others

The business activities of corporate and others mainly consist of the import and export operations, international trading, research and development activities of us and managerial activities of our headquarters.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

In 2010, the operating revenue generated from corporate and others was RMB796.8 billion, representing an increase of 52.7% over 2009, which was mainly attributable to the trading affiliates' operating revenue of RMB778.7 billion, representing an increase of 49.6% over 2009.

In 2010, the operating expenses of this segment was RMB799.1 billion, representing an increase of 52.5% over 2009, which was mainly attributable to the trading affiliates' purchasing costs of RMB777.7 billion, representing an increase of 49.8% over 2009.

In 2010, the operating loss of this segment were RMB 2.3 billion, representing an increase of 6.2% over 2009. This includes operating income from trading companies which amounted to RMB1.0 billion and the operating loss from research affiliates and headquarters which amounted to RMB3.3 billion.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

In 2009, the operating revenue generated from corporate and others was RMB521.9 billion, representing a decrease of 27.2% over 2008, which was mainly attributable to the decrease in petroleum and petrochemical product prices, leading to the decrease of revenues from crude oil and refined oil trading business of the trading subsidiaries. The operating revenue from trading companies was RMB520.5 billion.

In 2009, the operating expenses of this segment was RMB524.1 billion, representing a decrease of 27.1% over 2008, which was mainly attributable to the decrease in its trading companies' purchasing costs. The operating expense from the trading companies was RMB519.3 billion.

In 2009, the operating loss of this segment were RMB2.2 billion, flat with that of 2008. This includes operating income from trading companies which amounted to RMB1.2 billion and the operating loss from research affiliates and headquarters which amounted to RMB3.4 billion.

D. LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been cash provided by our operating activities, short-term and long-term loans. Our primary uses of cash have been for working capital, capital expenditures and repayment of short-term and long-term loans. We arrange and negotiate financing with financial institutions to finance our capital resource requirement, and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short term debts and obligations when they become due.

The following table sets forth a summary of our consolidated cash flows for the years ended December 31, 2009 and 2010.

Cash flow data	Year Ended December 31,	
	2010	2009
	(RMB in millions)	
Net cash generated from operating activities	170,333	165,513
Net cash used in investing activities	(105,788)	(117,355)
Net cash used in financing activities	(56,294)	(46,411)
Net increase in cash and cash equivalents	8,251	1,747

The net cash generated from our operating activities in 2010 was RMB170.3 billion, an increase of RMB4.8 billion over 2009, which reflected: (i) an increase in our earnings before taxation of RMB17.1 billion over 2009, (ii) an increase in our depreciation, depletion and amortization of RMB5.2 billion over 2009; (iii) an increase of long-term asset impairment of RMB7.2 billion over 2009; and (iv) an increase in note receivables, account receivables, inventory and other working capital employed of RMB22.0 billion over 2009, due to expansion of operation and increases in crude oil prices.

The net cash used in our investing activities was RMB105.8 billion, a decrease of RMB11.6 billion over 2009, which reflected: (i) the increase in cash inflow of RMB15.5 billion due to the sales of property, equipment and plant; (ii) a decrease in cash outflow of RMB2.4 billion on the exploratory wells expense and capital expenditures pursuant to our annual investment plan; and (iii) an increase in cash outflow of RMB7.0 billion due to the net investment on affiliated companies, joint ventures and financial instruments.

The net cash outflow from our financing activities was RMB56.3 billion, an increase of RMB9.9 billion over 2009. This reflected: (i) an increase in cash outflow of RMB11.9 billion due to the acquisitions of Sinopec Group Company's assets; and (ii) a decrease in cash outflow of RMB1.0 billion on the interest expense.

In 2010, as the global and domestic general economic conditions recovered, we expanded business operation, enhanced capital management, controlled the size of monetary funds and interest-paid debts and facilitated the cash turnover. During the year our cash flow maintained sustainable growth, and our overall economic efficiency increased.

As our total profit and operating cash flow increased, we incurred financing debts of RMB209.9 billion at the end of 2010, compared with RMB227.9 billion at the beginning of 2010. Our short-term debts were reduced by RMB39.4 billion, amounting to 17.07% of our total financing debts at the end of 2010 compared with 33% at the beginning of 2010, which was mainly due to our duly repayment of short-term corporate bonds of RMB30.0 billion. Our long-term debts were increased by RMB21.3 billion, amounting to 82.93% at the end of 2010 compared with 67% at the beginning of 2010,

which was mainly due to our bonds issuance of RMB20.0 billion. We primarily made short-term revolving loans according to our business plan and operation needs, and entered into overdrawing agreements on the corporate bank account with our strategic-alliance banks, to meet our daily payment requirements.

Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and commercial commitments as of December 31, 2010.

	Total	As of December 31, 2010			After 5 years
		less than 1 year	1-3 years	4-5 years	
		(RMB in millions)			
Contractual obligations(1)					
Short-term debt	30,633	30,633	0	0	0
Long-term debt	201,061	9,996	65,144	60,561	65,360
Total contractual obligations	231,694	40,629	65,144	60,561	65,360
Other commercial commitments					
Operating lease commitments	273,601	10,555	19,598	19,156	224,292
Capital commitments	176,430	139,377	37,053	0	0
Exploration and production licenses	1,013	119	203	46	645
Guarantees(2)	7,700	7,700	0	0	0
Total commercial commitments	458,744	157,751	56,854	19,202	224,973

(1) Contractual obligations include the contractual obligations relating to interest payments.

(2) Guarantee is not limited by time, therefore specific payment due period is not applicable. As of December 31, 2010, we have not entered into any off-balance sheet arrangements other than guarantees given to banks in respect of banking facilities granted to certain parties. As of December 31, 2010, the maximum amount of potential future payments under the guarantees was RMB7.7 billion. See Note 30 to the consolidated financial statements for further information of the guarantees.

Historical and Planned Capital Expenditure

The following table sets forth our capital expenditure by segment for the years of 2008, 2009 and 2010 and the capital expenditure in each segment as a percentage of our total capital expenditure for such year.

	2008		2009		2010		Total	
	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent
	(in billions, except percentage data)							
Exploration and production .	60.06	54.27 %	54.27	48.14 %	52.68	46.35 %	167.01	49.55 %
Refining.	12.79	11.56 %	15.47	13.72 %	20.02	17.62 %	48.28	14.32 %
Marketing and distribution.	14.80	13.37 %	16.28	14.44 %	26.17	23.03 %	57.25	16.99 %
Chemicals.	20.62	18.63 %	25.21	22.36 %	12.89	11.34 %	58.72	17.42 %
Corporate and others .	2.39	2.17 %	1.51	1.34 %	1.89	1.66 %	5.79	1.72 %

Total.	110.66	100.0	%	112.74	100.0	%	113.65	100.0	%	337.05	100.0	%
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Year of 2011 Compared with Year of 2010

In 2010, our total capital expenditure amounted to RMB113.7 billion, among which:

- Exploration and production. RMB52.7 billion was used in exploration and production segment to support the exploration and production capacity of Tahe, Shengli, Angola Block 18, Puguang, Erdos and other oil and gas fields, and the pipeline construction of Sichuan-to-East Gas Project. The production capacity of newly-built crude oil was 5.92 million tonnes per annum, and the production capacity of newly-built natural gas 7.056 billion cubic per annum.

- Refining. RMB20.0 billion was used in our refining segment to support our strategic plan of refining development, increase the refining capacity, upgrade the refined oil products' quality, restructure the low-quality crude oil's adaptability, as well as construct the crude oil transportation and delivery system.
- Marketing and distribution. RMB26.2 billion was used in this segment to construct and acquire petrol and gas stations in key areas including highways, major cities and newly planned regions, accelerate the construction of oil products storage facilities and pipeline, and develop the refined oil products sales network.
- Chemicals. RMB12.9 billion was spent in this segment, including the complete construction on Tianjin and Zhenhai ethylene projects, and ongoing construction on Wuan ethylene and Yanshan butyl rubber projects.
- Corporate and Others. RMB1.9 billion was used for scientific research equipment and construction of information systems.

In 2011, we will continue to focus on investments into our most profitable and core projects. We will strictly manage our investment procedures and project construction process. The total planned capital expenditure in 2011 amounts to RMB124.1 billion, including:

- Exploration and production. The planned capital expenditure in 2011 for this segment is RMB54.3 billion. We expect to focus on the exploration and production of material oil fields in eastern China and Tahe oil fields, Angola Block 18, Yuanba gas field, and the construction of Shandong LNG project.
- Refining. The planned capital expenditure in 2011 for this segment is RMB26.5 billion. We expect to develop the refining and upgrade the diesel quality of Beihai, Changling and Wuhan projects, and focus on the construction of Rizhao-Yizheng and Zhanjiang-Beihai crude oil pipelines and ancillary projects.
- Marketing and distribution. The planned capital expenditure in 2011 for this segment is RMB21.3 billion. We expect to focus on the construction, acquisition and renovation of petrol and gas stations, and the construction of refined oil pipelines and ancillary oil depots in Yongshaojinyu, Pearl River Delta and Baihai-Nanjing.
- Chemicals. The planned capital expenditure in 2011 for this segment is RMB19.2 billion. We expect to focus on Wuhan ethylene, Zhongyuan methanol to olefins, Yanshan butyl rubber, Qilu synthetic resin projects, and the construction of chemical raw materials and products logistics facilities.
- Corporate and Others. The planned capital expenditure in 2011 for this segment is RMB2.8 billion. We expect to focus on scientific research equipment and construction of information systems.

Consumer Price Index

According to the data provided by the National Bureau of Statistics, the consumer price index in the PRC increased by 3.3% in 2010, compared with a decrease of 0.7% in 2009 and an increase of 5.9% in 2008. According to China's official analysis, the inflation in the PRC during 2010 was due to the increase in prices of food, raw materials and fuels. Inflation has not had a significant impact on our results of operations in 2010.

ITEM DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.

A.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

The table and discussion below set forth certain information concerning our directors. The current term for all our directors is three years, which will expire in May 2012.

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Name	Age	Positions with Sinopec Corp.
Su Shulin	48	Chairman
Wang Tianpu	48	Vice Chairman, President
Zhang Yaocang	57	Vice Chairman
Zhang Jianhua	46	Director, Senior Vice President
Wang Zhigang	53	Director, Senior Vice President
Cai Xiyu	49	Director, Senior Vice President
Cao Yaofeng	57	Director
Li Chunguang	55	Director
Dai Houliang	47	Director, Senior Vice President
Liu Yun	54	Director
Li Deshui	66	Independent Non-executive Director
Xie Zhongyu	67	Independent Non-executive Director
Chen Xiaojin	66	Independent Non-executive Director
Ma Weihua	62	Independent Non-executive Director
Wu Xiaogen	45	Independent Non-executive Director

Su Shulin, aged 48, Chairman of the Board of Directors of Sinopec Corp. and President of Sinopec Group Company. He received his Bachelor degree from Daqing Petroleum Institute in July 1983, and obtained a Master degree from Harbin Engineering University in March 1999. He is a professor level senior engineer. From March 1996 to January 1997, Mr. Su acted as Assistant to the Director of China National Petroleum Corporation (CNPC) Daqing Petroleum Administration Bureau. From January to November 1997, Mr. Su served as Head of the No. 1 Oil and Gas Development Department and Assistant to the Director of CNPC Daqing Petroleum Administration Bureau. From November 1997 to January 1999, Mr. Su was Deputy Director and member of the Party Committee of CNPC Daqing Petroleum Administration Bureau. From January to September 1999, Mr. Su was Director and Vice Secretary to the Party Committee of CNPC Daqing Petroleum Administration Bureau. From October 1999 to August 2000, Mr. Su Shulin was served as Vice President of PetroChina Company Limited and Chairman, General Manager and Secretary to the Party Committee of Daqing Oilfield Company Limited and Vice Secretary to Party Committee of CNPC Daqing Petroleum Administration Bureau. From August 2000 to March 2001, Mr. Su acted as Deputy General Manager and member of the Party Committee of CNPC, Vice President of PetroChina Company Limited, Chairman, General Manager and Secretary to the Party Committee of Daqing Oilfield Company Limited as well as Vice Secretary to the Party Committee of CNPC Daqing Petroleum Administration Bureau. From March 2001 to December 2002, Mr. Su served as Deputy General Manager and member of the Party Committee of CNPC, Vice President of PetroChina Company Limited and Chairman and General Manager of Daqing Oilfield Company Limited. He concurrently served as Director of PetroChina Company Limited in November 2001. From December 2002 to December 2003, Mr. Su acted as Deputy General Manager and member of the Party Committee of CNPC, Director and Senior Vice President of PetroChina Company Limited as well as Chairman and General Manager of Daqing Oilfield Company Limited. From December 2003 to September 2006, Mr. Su acted as Deputy General Manager and member of the Party Committee of CNPC, Director and Senior Vice President of PetroChina Company Limited. From September 2006 to October 2006, Mr. Su was elected as a member of the Standing Committee of the provincial Party Committee of Liaoning Province. In October 2006, Mr. Su was appointed as a member of the Standing Committee and Head of the Organization Department of Liaoning Provincial Committee. In June 2007 he was appointed as President and Secretary of the Party Leadership Group of Sinopec Group Company. Mr. Su was elected as Director and Chairman on Third Session of the Board of Directors of Sinopec Corp. in August 2007.

Wang Tianpu, aged 48, Vice Chairman of the Board of Directors of and President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute in July 1985 majoring in basic organic chemistry. He obtained his MBA degree in Dalian University of Science & Technology in July 1996 and Ph.D. degree in Zhejiang University in August 2003 majoring in chemical engineering. He is a professor level senior engineer and well-experienced in the production and management in petrochemical industry. From March 1999 to February 2000, Mr. Wang was Vice President of Qilu Petrochemical Company of Sinopec Group. From February 2000 to September 2000, he was Vice President of Sinopec Corp Qilu Company. From September 2000 to August 2001, he was President of Sinopec Corp Qilu Company. Mr. Wang was Vice President of Sinopec Corp. from August 2001 to April 2003 and was Senior Vice President of Sinopec Corp. from April 2003 to March 2005. Mr. Wang has been President of Sinopec Corp. since March 2005. Mr. Wang was elected as Director of the Third Session of the Board of Directors of Sinopec Corp. in May 2006 and has been President of Sinopec Corp. In May 2009, Mr. Wang was elected as Vice Chairman of Board of Directors.

Zhang Yaocang, aged 57, Vice Chairman of the Board of Directors of Sinopec Corp. and Vice President of Sinopec Group Company. Mr. Zhang is a professor level senior engineer and obtained a graduate degree of Graduate School. In

November 1990, he was appointed as Deputy Director General of Bureau of Petroleum Geology and Marine Geology, Ministry of Geology and Mineral Resources (MGMR); in February 1994, he was appointed as Secretary of CPC Committee and Deputy Director General of Bureau of Petroleum Geology and Marine Geology, Ministry of Geology and Mineral Resources (MGMR); in June 1997, he was appointed as Deputy Secretary of CPC Leading Group and Executive Vice President of Sinopec Star Petroleum Co. Ltd; in April 2000, he was appointed as Assistant to President of Sinopec Group Company and concurrently as President of Sinopec Star Petroleum Co., Ltd.; in August 2000, he was appointed concurrently as Secretary of CPC Committee of Sinopec Star Petroleum Co. Ltd; in July 2001, he was appointed as Vice President of Sinopec Group Company; in May 2009, he was elected as Vice Chairman of the Board of Directors of Sinopec Corp.

Zhang Jianhua, aged 46, Director of the Board of Directors and Senior Vice President of Sinopec Corp. Mr. Zhang graduated from East China Chemical Institute in July 1986 majoring in petroleum refining, and obtained a Master degree from East China University of Science and Technology in December 2000 majoring in chemical engineering. He is a professor level senior engineer. From April 1999 to February 2000, Mr. Zhang was Vice President of Shanghai Gaoqiao Petrochemical Company of Sinopec Group. From February 2000 to September 2000, he was Vice President of Sinopec Corp. Shanghai Gaoqiao Company. He was President of Sinopec Corp. Shanghai Gaoqiao Company from September 2000 to June 2003. Mr. Zhang served as Vice President of Sinopec Corp. from April 2003 to March 2005. He was also the Director General of Sinopec Production & Operation Management Dept. from November 2003 to November 2005. He has been Senior Vice President of Sinopec Corp. since March 2005; Mr. Zhang was elected as Director of the Third Session of the Board of Directors of Sinopec Corp. in May 2006 and has been Senior Vice President of Sinopec Corp.

Wang Zhigang, aged 53, Director of the Board of Directors and Senior Vice President of Sinopec Corp. Mr. Wang graduated from East China Petroleum Institute in January 1982, majoring in oil production, and then obtained a Masterdegree from University of Petroleum in June 2000, majoring in oil and gas development engineering. He obtained a Ph.D. degree from Geology and Geo-physics Research Institute of the China Academy of Sciences in September 2003 majoring in geology. He is a professor level senior engineer. From February 2000 to June 2000, he was Vice President of Sinopec Shengli Oilfield Company Limited. From June 2000 to December 2001, Mr. Wang served as Director and President of Sinopec Shengli Oilfield Company Limited. He was appointed as honorary Deputy Director-General of the Economic and Trade Committee of Ningxia Hui Autonomous Region from November 2001 to May 2003. He was Vice President of Sinopec Corp. from April 2003 to March 2005. He was also the Director General of Sinopec Exploration and Production Dept. since June 2003 to November 2005. He has been Senior Vice President of Sinopec Corp. since March 2005. Mr. Wang was elected as Director of the Third Session of the Board of Directors of Sinopec Corp. in May 2006 and has been Senior Vice President of Sinopec Corp.

Cai Xiyong, aged 49, Director of the Board of Directors and Senior Vice President of Sinopec Corp. Mr. Cai graduated from Fushun Petroleum Institute in August 1982 majoring in petroleum refining automation, and obtained a MBA degree from China Industry and Science Dalian Training Center in October 1990. He is a professor level senior economist. From June 1995 to May 1996, he was Deputy General Manager of Jinzhou Petrochemical Company of the former Sinopec Group Company. From May 1996 to December 1998, he was Deputy General Manager of Dalian Western Pacific Petrochemical Co., Ltd (WEPEC). From December 1998 to June 2001, he was Deputy General Manager of Sinopec Sales Co., Ltd, and from June 2001 to December 2001, he was Executive Deputy Manager of Sinopec Sales Co., Ltd. He has been Director and General Manager of China International United Petrochemical Company Limited (UNIPEC) from December 2001 to December 2005. He was Vice President of Sinopec Corp. from April 2003 to November 2005. Mr. Cai has been Senior Vice President of Sinopec Corp. since November 2005. He was elected as Director of the Fourth Session of the Board of Directors of Sinopec Corp. in May 2009.

Cao Yaofeng, aged 57, Director of the Board of Directors of Sinopec Corp. and Vice President of Sinopec Group Company. Mr. Cao is a professor level senior engineer and obtained a master degree. In April 1997, he was appointed

as Deputy Director General of Shengli Petroleum Administration Bureau; in May 2000, he served as concurrently as Vice Chairman of Board of Directors of Sinopec Shengli Oilfield Co., Ltd.; in December 2001, he served as Board Director and President of Sinopec Shengli Oilfield Co., Ltd.; in December 2002, he served as Director General of Shengli Petroleum Administration Bureau of Sinopec Group Company and Chairman of Board of Directors of Shengli Oilfield Company Limited; from April 2003 to May 2006, he served as Employee Representative Board Director of Sinopec Corp.; in October 2004, he was appointed as Assistant to President of Sinopec Group Company; in November 2005, he was appointed as Vice President of Sinopec Group Company; in May 2009, he was elected as Board Director of Sinopec Corp.

Li Chunguang, aged 55, Director of the Board of Directors of Sinopec Corp. and Vice President of Sinopec Group Company. Mr. Li is a professor level senior engineer and obtained a university diploma. In August 1991, he was appointed as Deputy General Manager of Sinopec Sales Company North China Branch; in October 1995, he was appointed as Deputy General Manager of Sinopec Sales Company; in June 2001, he was appointed as General Manager of Sinopec Sales Co.,

Ltd.; in December 2001, he was appointed as Director General of Oil Product Sales Department of Sinopec Corp.; in April 2002 he was elected as Chairman of Board of Directors and General Manager of Sinopec Sales Co., Ltd.; in April 2003, he was appointed as Vice President of Sinopec Corp.; in November 2005, he was appointed as Vice President of Sinopec Group Company; in May 2009, he was elected as Board Director of Sinopec Corp.

Dai Houliang, aged 47, Director of the Board of Directors of Sinopec Corp. and Senior Vice President of Sinopec Corp. Mr. Dai graduated from Jiangsu Chemical Institute in July 1985, specializing in organic chemical engineering. From September 1997 to July 1999, he participated in the MBA training program in Nanjing University. He is a professor level senior engineer. He was Deputy Manager of Sinopec Yangzi Petrochemical Company from December 1997 to April 1998. He served as Director and Deputy General Manager of Sinopec Yangzi Petrochemical Co., Ltd. from April 1998 to July 2002. He was Vice Chairman and General Manager of Sinopec Yangzi Petrochemical Co., Ltd. and Director of Sinopec Yangzi Petrochemical Company from July 2002 to December 2003. He was Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Chairman of Sinopec Yangzi Petrochemical Company from December 2003 to September 2005. He also served as Chairman of BASF-YPC Company Limited from December 2004 to October 2006. He has been the Deputy CFO of Sinopec Corp. from September 2005 to May 2006. Mr. Dai has been Vice President of Sinopec Corp. from November 2005 to May 2006. In May 2006, he was elected as Director of the Third Session of the Board of Directors, Senior Vice President and CFO of Sinopec Corp. Mr. Dai was elected as Director of the Fourth Session of the Board of Directors and appointed as Senior Vice President of Sinopec Corp. in May 2009.

Liu Yun, aged 54, Director of the Board of Directors of Sinopec Corp. and Chief Accountant of Sinopec Group Company. Mr. Liu is a senior accountant and obtained a master degree. In December 1998, he was appointed as Deputy Director General of Financial Department of Sinopec Group Company; in February 2000, he was appointed as Deputy Director General of Financial Department of Sinopec Corp.; in January 2001, he was appointed as Director General of Financial Department of Sinopec Corp.; in June 2006, he was appointed as Deputy CFO of Sinopec Corp.; in February 2009, he was appointed as Chief Accountant of Sinopec Group Company; and in May 2009, he was elected as Board Director of Sinopec Corp.

Li Deshui, aged 66, Independent Non-Executive Director of Sinopec Corp. Mr. Li graduated from university in 1967. He is a senior engineer, researcher, part-time professor of the Economics School of Peking University and the Economics School of Renmin University of China. After graduating from university, he was assigned to work at Maanshan Steel Company and has acted as Workshop Section Head and Dispatch Head. In 1977 he worked at the Planning Institute of the Metallurgy Department. In 1984 he worked at the Raw Materials Bureau of the State Planning Commission. In 1988 he acted as Deputy Division Director of the First Industrial Planning Division of the Long-term Planning Department of the State Planning Commission. In 1989 he was Division Director of the First Industrial Planning Division of the Long-term Planning Department and Division Director of the First Industrial Planning Division of the Long-term Planning and Industrial Policy Department. In 1992 he acted as Deputy Director of the National Economy Comprehensive Department of the State Planning Commission. In May 1996 he was Director of the National Economy Comprehensive Department of the State Planning Commission. In November 1996, he acted as Vice Mayor of Chongqing in Sichuan Province. In March 1997 he acted as Vice Mayor of Chongqing Municipality. In November 1999 he worked as Deputy Director of the Research Office of the State Council and a member of the Party Committee. In April 2002, he served as Secretary of the Party Committee and Deputy General Manager of China International Engineering Consultancy Company. In March 2003 he served as Secretary of the Party Committee and Head of the State Statistics Bureau, a member of the Monetary Policy Committee of the People's Bank of China and Chairman of China Statistics Institute. In March 2005, he was elected as Vice Chairman of the Thirty-sixth Statistics Commission of the United Nations. In March 2005 he served as a member of the Tenth Session of the Chinese People's Political Consultative Conference. In April 2006 he acted as a member of the Economic Commission. In March 2006, he was the consultant of the State Statistics Bureau. Mr. Li was elected as Independent Non-Executive Director of the Fourth Session of the Board of Directors of Sinopec Corp. in May 2009.

Xie Zhongyu, aged 67, Independent Non-executive Director of Sinopec Corp. Mr. Xie is a senior engineer and obtained a university diploma. In May 1986, he was appointed as Deputy Director General for both Investigation and Research Office and Policy Research Office in Ministry of Chemical Industry; in November 1988, he was appointed as Director General of Department of Policy, Laws & Regulations of Ministry of Chemical Industry; in December 1991, he was appointed as Director General of Department of Policy, Laws & Regulations of Ministry of Chemical Industry; in September 1993, he was appointed as Director General of General Office of Ministry of Chemical Industry; in June 1998, he was appointed as Deputy Director General, Member of CPC Leading Group of State Petroleum and Chemical Industry Bureau; from June 2000 to December 2006, he served as Chairman of the Board of Supervisors for Key Large-scaled State Owned Enterprises; in October 2007, he was elected as Board Director of Nuclear Power Technology Corporation; and in May 2009, he was elected as Independent Non-executive Director of Sinopec Corp.

Chen Xiaojin, aged 66, Independent Non-executive Director of Sinopec Corp. Mr. Chen is a senior engineer

(research fellow level) and obtained a university diploma. In December 1982, he was appointed as President of Tianjin Ship Industry Corporation; in January 1985, he was appointed successively as Vice President and President of CNOOC Platform Corporation; in February 1987, he was appointed successively as Director General of Operation Department, Director General of Foreign Affairs Bureau, Director General of International Affairs Department in China State Shipbuilding Corporation and Deputy President of China State Shipbuilding Trading Company; in December 1988, he was appointed as Vice President of China State Shipbuilding Corporation; in January 1989, he was appointed concurrently as President of China State Shipbuilding Trading Company; in October 1996, he was elected as concurrently as Chairman of Board of Directors of China State Shipbuilding Trading Company; from June 1996 to July 2008, he served as President and Secretary of CPC Leading Group of China State Shipbuilding Corporation; in May 2009, he was elected as Independent Non-executive Director of Sinopec Corp.

Ma Weihua, aged 62, Independent Non-executive Director of Sinopec Corp. Mr. Ma is a senior economist and obtained a PhD Degree. In May 1988, he was appointed as the Deputy Director of the General Affairs Office of the People's Bank of China ("PBOC"); in March 1990, he was appointed as the Deputy Director of Fund Planning Department of PBOC; in October 1992, he was appointed as the branch President and Secretary of the CPC Leading Group of the Hainan Branch of PBOC; in January 1999, he was appointed as the Director, Governor and Secretary of the CPC Leading Group of China Merchants Bank; and in May 2010, he was elected as Independent Non-executive Director of Sinopec Corp.

Wu Xiaogen, aged 45, Independent Non-executive Director of Sinopec Corp. Mr. Wu is a research fellow and obtained a PhD Degree. In April 1998, he was appointed as the General Manager Assistant and Deputy General Manager of Bond Department of China Golden Canyon International Trust and Investment Co., Ltd.; in March 1999, he was appointed as the Deputy General Manager of Bond Management Head-Office of China Science & Technology International Trust and Investment Corporate, and concurrently as the General Manager of Organization Management Department of this Corporate; in July 2000, he served as the Director of Audit Teaching and Research Office of Accountancy Institute of Central Finance and Economics University; in September 2003, he served as the Deputy Director of Accountancy Institute of Central Finance and Economics University; in November 2004, he was appointed as the Chief Accountant of China First Heavy Machinery Group Corporate; from May 2005 to May 2008, he was appointed as the Independent Non-executive Director of Heilongjiang SunField Science and Technology Co., Ltd.; from January 2003 to January 2009, he was appointed as the Independent Non-executive Director of Beijing AriTime Intelligent Control Co., Ltd.; in March 2010, he was appointed as the Independent Non-executive Director of China Eastern Airline Co., Ltd.; and in May 2010, he was elected as the Independent Non-executive Director of Sinopec Corp.

Supervisors

The table and discussion below set forth certain information concerning our supervisors. The current term of our supervisors is three years, which will expire in May 2012.

Name	Age	Position with the Company
Wang Zuoran	60	Chairman of the Board of Supervisors
Zhang Youcai	69	Vice Chairman, Independent Supervisor
Geng Limin	56	Supervisor
Zou Huiping	50	Supervisor
Li Yonggui	70	Independent Supervisor
Zhou Shiliang	53	Employee Representative Supervisor
Chen Mingzheng	53	Employee Representative Supervisor
Jiang Zhenying	46	Employee Representative Supervisor

Yu Renming

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Employee Representative Supervisor

Wang Zuoran, aged 60, Chairman of the Supervisory Board of Sinopec Corp. Mr. Wang graduated from Shandong Economic Administration Institute in September 1994 specializing in economic administration. Mr. Wang is a professor level senior economist and has extensive experience in the management of petroleum industry. From October 1994 to February 2000, Mr. Wang served as Deputy Director and Party Secretary of Shengli Petroleum Administration Bureau. From February 2000 to July 2001, Mr. Wang was the Assistant to the President of Sinopec Group Company. Mr. Wang has been Director of Disciplinary Supervision Committee of Sinopec Group Company since July 2001. Mr. Wang served as Supervisor of the First Session of the Supervisory Board of Sinopec Corp. from February 2000 to April 2003. From April 2003 to May 2006, Mr. Wang served as Supervisor and Chairman of the Second Session of the Supervisory Board of Sinopec Corp.; he was elected as Supervisor and Chairman of the Third Session of the Supervisory Board of Sinopec Corp. in May 2006.

Zhang Youcai, aged 69, Independent Supervisor and Vice Chairman of the Supervisory Board of Sinopec Corp. Mr. Zhang graduated from Nanjing Industrial University in August 1965 majoring in inorganic chemistry. He is a professor and has long been engaged in business administration, financial management and government affairs, and has extensive experience in industrial, economic, financial and accounting management. From January 1968 to August 1980, he served as a technician, Vice-President, Deputy Secretary of the Party Committee and President of Nantong Chemical Fertilizer Plant. From August 1980 to January 1982, he was Deputy Director-General and member of the Party Committee of the Industrial Bureau of Nantong Region. From January 1982 to February 1983, he served as Deputy Director - General of Planning Commission of Nantong Region. From February 1983 to November 1989, he served as Deputy Mayor, Deputy Secretary of the Party Committee and Mayor of Nantong City. He was Vice Minister and member of the Party Committee of Ministry of Finance from December 1989 to July 2002 (from May 1994 to March 1998, he served concurrently as Director-General of State-owned Assets Administration Bureau). He has been Chairman of the Chinese Institute of Chief Accountants since November 2002. He has been a member of the Standing Committee of the Tenth National People's Congress (NPC) and Deputy Director of its Financial and Economic Committee of NPC from March 2003. Mr. Zhang served as an Independent Non-Executive Director of the Second Session of Board of Directors of Sinopec Corp. from April 2003 to May 2006; he was elected as Independent Supervisor and Vice Chairman of the Third Session of the Supervisory Board of Sinopec Corp. in May 2006.

Geng Limin, aged 56, Supervisor of Sinopec Corp., Director General of Supervision Department of Sinopec Corp., Vice Leader of Discipline Inspection Group for CPC Leading Group of Sinopec Group Company, Director General of Supervision Bureau of Sinopec Group Company. Mr. Geng is a senior administration engineer and obtained a college diploma. In February 2000, he was appointed as Deputy Director General of Supervision Department of Sinopec Corp. and Deputy Director General of Supervision Bureau of Sinopec Group Company; in January 2007, he was appointed as Deputy Secretary of CPC Committee, Secretary of Discipline Inspection Committee as well as Trade Union Chairman of Sinopec Chemical Products Sales Company; in August 2008, he was appointed as Director General of Supervision Department of Sinopec Corp. and Vice Leader of Discipline Inspection Group for CPC Leading Group of Sinopec Group Company and Director General of Supervision Bureau of Sinopec Group Company; and in May 2009, he was elected as Supervisor of Sinopec Corp.

Zou Huiping, aged 49, Supervisor of Sinopec Corp. Mr. Zou graduated from Jiangxi Institute of Finance and Economics in July 1986 specializing in trade economics. He is a professor level senior accountant. From November 1998 to February 2000, he served as Chief Accountant of Sinopec Group Guangzhou Petrochemical Company. From February 2000 to December 2001, he was Deputy Director General of Financial Assets Department of Sinopec Group Company. From December 2001 to March 2006, he was Deputy Director General of Finance Planning Department of Sinopec Group Company. In March 2006, he was Director General of Financial Assets Department of Sinopec Assets Management Co., Ltd. Since March 2006, he has been Director General of Audit Department of Sinopec Corp. Mr. Zou was elected as Supervisor of the Third Session of the Supervisory Board of Sinopec Corp. in May 2006.

Li Yonggui, aged 69, Independent Supervisor of Sinopec Corp. Mr. Li graduated from Shandong Institute of Finance and Economics in July 1965, majoring in treasury finance. He is a senior economist and CPA, and has long been engaged in tax management with extensive management experience in taxation. From February 1985 to December 1988, he was Deputy Director-General of Taxation Bureau of Ministry of Finance. He served as Chief Economist of State Administration of Taxation from December 1988 to April 1991. From April 1991 to February 1995, he served as Deputy Director-General of State Administration of Taxation. He was Chief Economist of State Administration of Taxation from February 1995 to September 2001. Mr. Li has been Chairman of Chinese Association of Certified Public Taxation Experts since April 2000. He has served as Vice Chairman of Chinese Association of Certified Accountants since November 2004. In July 2008, he was appointed as consultant of Chinese Association of Certified Public Taxation Experts. Mr. Li served as Independent Supervisor of the Second Session of Supervisory Board of Sinopec Corp. from April 2003 to May 2006; he was elected as Independent Supervisor of the Third Session of Supervisory Board of Sinopec Corp. in May 2006.

Zhou Shiliang, aged 53, Employee Representative Supervisor of Sinopec Corp. and Director General of Personnel Departments of both Sinopec Corp. and Sinopec Group Company. Mr. Zhou is a professor level senior engineer and obtained a master degree. In February 2000, he was appointed as Deputy Director General of Yunnan-Guizhou-Guangxi Petroleum Exploration Bureau; in September 2000, he was appointed as President of Sinopec Yunnan-Guizhou-Guangxi Oilfield Company; in April 2002, he was appointed as Secretary of CPC Committee and Vice President in Sinopec South Exploration & Development Company; in April 2006, he was appointed as Secretary of CPC Committee and Deputy Director General in Sinopec Henan Petroleum Exploration Bureau; in November 2007, he was appointed as Director General of Sinopec Personnel Department of both Sinopec Corp. and Sinopec Group Company; and in May 2009, he was elected as Employee Representative Supervisor of Sinopec Corp.

Chen Mingzheng, aged 53, Employee Representative Supervisor of Sinopec Corp., Vice President of Sinopec Northwest Oilfield Company and Secretary of CPC Committee of Northwest Petroleum Bureau of Sinopec Group Company. Mr. Chen is a senior engineer and obtained a graduate degree from Graduate School. In November 2000, he was appointed as Deputy Director General of North China Petroleum Bureau under Sinopec Star Petroleum Co. Ltd.; in June 2003, he was appointed as Deputy Director General of North China Petroleum Bureau under Sinopec Group Company; in October 2004, he was appointed as Secretary of CPC Committee in North China Petroleum Bureau under Sinopec Group Company; in March 2008, he was appointed as Secretary of CPC Committee in Southwest Petroleum Bureau of Sinopec Group Company and Vice President of Sinopec Northwest Oilfield Company; in May 2009, he was elected as Employee Representative Supervisor of Sinopec Corp.

Jiang Zhenying, aged 46, Employee's Representative Supervisor of Sinopec Corp., General Director (General Manager), Executive Director and Secretary of CPC Committee of Sinopec Supplies & Equipment Department (China Petrochemical International Co., Ltd.). Mr. Jiang is a professor level senior economist and obtained a Doctor Degree. In December 1998, he was appointed as the deputy general manager of the China Petrochemical Supplies & Equipment Co., Ltd.; in February 2000, he was appointed as the vice director of Sinopec Supplies & Equipment Department; in December 2001, he was appointed as the director of Sinopec Supplies & Equipment Department and later concurrently held the positions of Chairman, General Manger and Secretary of CPC Committee of China Petrochemical International Co., Ltd.; in March 2006, he was appointed as the director (general manager), executive director and secretary of the CPC committee of Sinopec Supplies & Equipment Department (China Petrochemical International Co., Ltd.); and in December 2010, he was elected as the Employee's Representative Supervisor of Sinopec Corp.

Yu Renming, aged 47, Employee's Representative Supervisor of Sinopec Corp., General Director of Sinopec Production Management Department. Mr. Yu is a professor level senior engineer and obtained a Graduate Degree. In June 2000, he was appointed as the deputy general manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in June 2003, he was appointed as the board director and deputy general manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in September 2006, he was appointed as the deputy manager of Sinopec Zhenhai Refining & Chemical Company; in September 2007, he was appointed as the manager and the vice secretary of CPC committee of Sinopec Zhenhai Refining & Chemical Company; in January 2008, appointed as the director of Sinopec Production Management Department; and in December 2010, he was elected as Employee's Representative Supervisor of Sinopec Corp.

Other Executive Officers

Name	Age	Positions with Sinopec Corp.
Wang Xinhua	55	CFO
Zhang Kehua	57	Vice President
Zhang Haichao	53	Vice President
Jiao Fangzheng	48	Vice President
Lei Dianwu	48	Vice President
Ling Yiqun	48	Vice President
Chen Ge	48	Secretary of the Board of Directors

Wang Xinhua, 55, CFO of Sinopec Corp. and Director General of Financial Department of Sinopec Corp. Mr. Wang is a professor level Senior accountant and obtained a university diploma. In January 2001, he was appointed as Deputy Director General of Finance & Assets Department of Sinopec Group Company; in December 2001, he was appointed as Deputy Director General of Finance & Planning Department of Sinopec Group Company; in October 2004, he was

appointed as Director General of Finance & Planning Department of Sinopec Group Company; in May 2008, he was appointed as Director General of Financial Department of Sinopec Group Company; in March 2009, he was appointed as Director General of Financial Department of Sinopec Corp.; in May 2009, he was appointed as CFO of Sinopec Corp.

Zhang Kehua, 57, Vice President of Sinopec Corp. Mr. Zhang graduated from Shanghai Chemical Engineering University in January 1980 majoring in chemical and mechanical engineering. He is a senior engineer and had his master's degree from University of Petroleum majoring in management science and engineering in December 2000. He was Deputy Manager of No. 3 Construction Company of the former Sinopec Group Company from February 1994 to April 1996. From April 1996 to December 1998, he was Deputy Director General (Deputy Manager of Sinopec Engineering Incorporation) of the Engineering Department of the former Sinopec Group Company. He was Deputy Director General of the former Engineering Department of Sinopec Group Company from December 1998 to December 2001 and was Deputy Director General of Engineering Department of Sinopec Group Company from December 2001 to September 2002. Mr. Zhang was

Director General of Engineering Department of Sinopec Group Company from September 2002 to October 2004. Mr. Zhang has served as the Assistant to the President of Sinopec Group Company and Director General of Engineering Department since October 2004. Mr. Zhang has been Vice President of Sinopec Corp. since May 2006. From June 2007 to Present, he has been Director General of Engineering Dept. of Sinopec Corp.

Zhang Haichao, 53, Vice President of Sinopec Corp. Mr. Zhang graduated from Zhoushan Commercial and Technical School in December 1979, specializing in oil storage and transportation. He also graduated from Jilin Petrochemical Institute in July 1985 specializing in recycling of lubricating oil. From January 2001 to June 2002, he participated in the business administration program at Macau Science & Technology University. He is an economist. He served as Deputy General Manager of Zhejiang Petroleum Company from March 1998 to September 1999. He served as General Manager of Zhejiang Petroleum Company from September 1999 to February 2000, and has served as Manager of Sinopec Zhejiang Petroleum Company from February 2000 to September 2005. He has been Chairman of Sinopec-BP Zhejiang Petroleum Sales Co., Ltd. since April 2004. He was Secretary of the Party Committee, Vice Chairman and Deputy General Manager of Sinopec Sales Co., Ltd. from October 2004 to November 2005. He was Secretary of Party Committee, Chairman and General Manager of Sinopec Sales Co., Ltd. from November 2005 to June 2006. He has been Chairman and General Manager of Sinopec Sales Co., Ltd. since June 2006. From December 2008, he acted as Chairman and President of Sinopec Sales Co., Ltd. He served as Employee Representative Supervisor of the Second Session of the Supervisory Board of Sinopec Corp. from April 2003 to November 2005. Mr. Zhang has been Vice President of Sinopec Corp. since November 2005.

Jiao Fangzheng, 48, Vice President of Sinopec Corp. Mr. Jiao won his bachelor's degree in petroleum exploration and won his doctoral degree in natural gas engineering from Southwest Petroleum Institute respectively in July 1983 and November 2000. Mr. Jiao is a professor level senior engineer. From January 1999 to February 2000, he was Chief Geologist of Zhongyuan Petroleum Exploration Bureau of Sinopec Group Company. He then served as Deputy Manager and Chief Geologist of Zhongyuan Oilfield Company of Sinopec Group Company from February 2000 to February 2001. He was Vice President of Sinopec Exploration and Production Research Institute from July 2000 to March 2001. He then served as Deputy Director General of Sinopec Oilfield E & P Department from March 2001 to June 2004. Since June 2004, he served as Manager of the Northwest Company of Sinopec Group Company. Mr. Jiao has served as Vice President of Sinopec Corp. since October 2006.

Lei Dianwu, 48, Vice President of Sinopec Corp, Director General of Development & Planning Department of Sinopec Corp. Mr. Lei is a senior engineer and obtained a university diploma. In October 1995, he was appointed as Vice President of Yangzi Petrochemical Corporation; in December 1997, he was appointed as Director of Planning & Development Department in China Donglian Petrochemical Co., Ltd.; in May 1998, he was appointed as Vice President of Yangzi Petrochemical Corporation; in August 1998 he was appointed as Vice President in Yangzi Petrochemical Co., Ltd.; in March 1999, he was appointed temporarily as Deputy Director General of Development & Planning Department of Sinopec Group Company; in February 2000, he was appointed as Deputy Director General of Development & Planning Department of Sinopec Corp.; in March 2001, he was appointed as Director General of Development & Planning Department of Sinopec Corp.; in May 2009, he was appointed as Vice President of Sinopec Corp.

Ling Yiqun, aged 48, Vice President of Sinopec Corp, General Director of Sinopec Refining Department. Mr. Ling is a professor level senior engineer and obtained mater degree. From 1983, he worked in the refinery of Beijing Yanshan Petrochemical Company and the refining dept. of Beijing Yanshan Petrochemical Company Ltd. In February 2000, he was appointed as the Deputy General Director of Sinopec Refining Department; in June 2003, he was appointed as the General Director of Sinopec Refining Department; in July 2010, he was appointed as Vice President of Sinopec Corp.

Chen Ge, 48, Secretary to the Board of Directors of Sinopec Corp. Mr. Chen graduated from Daqing Petroleum Institute in July 1983 majoring in petroleum refining, and then obtained his MBA degree from Dalian University of

Science and Technology in July 1996. He is a senior economist. From July 1983 to February 2000, he worked in Beijing Yanshan Petrochemical Company. From February 2000 to December 2001, he was Deputy Director General of the Board Secretariat of Sinopec Corp. Mr. Chen has been Director General of the Board Secretariat since December 2001. Mr. Chen has been the Secretary to the Board of Directors of Sinopec Corp. since April 2003.

B. COMPENSATION

Salaries of Directors, Supervisors and Members of the Senior Management

Our directors and supervisors who hold working posts with us and other senior management members receive their remuneration in the form of basic salary and performance rewards.

The following table sets forth the compensation on individual basis for our directors, supervisors and executive officers who receive compensation from us in 2010.

Name	Position with the Company	Remuneration paid by the Company in 2010 (RMB in thousand)
Directors		
Su Shulin	Chairman	-
Wang Tianpu	Vice Chairman, President	967.4
Zhang Yaocang	Vice Chairman	-
Zhang Jianhua	Director, Senior Vice President	967.4
Wang Zhigang	Director, Senior Vice President	967.4
Cai Xiyu	Director, Senior Vice President	967.4
Cao Yaofeng	Director	-
Li Chunguang	Director	-
Dai Houliang	Director, Senior Vice President	967.4
Liu Yun	Director	-
Li Deshui	Independent Non-executive Director	240 (Director's Fees)
Xie Zhongyu	Independent Non-executive Director	240 (Director's Fees)
Chen Xiaojin	Independent Non-executive Director	240 (Director's Fees)
Ma Weihua(1)	Independent Non-executive Director	140 (Director's Fees)
Wu Xiaogen(2)	Independent Non-executive Director	140 (Director's Fees)
Liu Zhongli(3)	Independent Non-executive Director	100 (Director's Fees)
Ye Qing(4)	Independent Non-executive Director	100 (Director's Fees)
Supervisors		
Wang Zuoran	Chairman of the Board of Supervisors	-
Zhang Youcai	Vice Chairman, Independent	240 (Supervisor's Fees)

	Supervisor	
Geng Limin	Supervisor	-
Zou Huiping	Supervisor	472.5
Li Yonggui	Independent Supervisor	240 (Supervisor's Fees)
Zhou Shiliang	Employee Representative Supervisor	457.0
Chen Mingzheng	Employee Representative Supervisor	479.4
Jiang Zhenying(5)	Employee Representative Supervisor	28.7
Yu Renming(6)	Employee Representative Supervisor	31.8
Liu Xiaohong(7)	Employee Representative Supervisor	121.5
Su Wensheng(8)	Employee Representative Supervisor	121.5
Cui Guoqi(9)		383.5
Chang Zhenyong(10)		397.9
Other Executive officers		

Wang Xinhua	CFO	522.6
Zhang Kehua	Vice President	566.9
Zhang Haichao	Vice President	553.7
Jiao Fangzheng	Vice President	541.8
Lei Dianwu	Vice President	548.2
Ling Yiquan(11)	Vice President	338.7
Chen Ge	Secretary of the Board of Directors	474.9

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- (1) Ma Weihua was appointed as an independent non-executive director on May 19, 2010.
 - (2) Wu Xiaogen was appointed as an independent non-executive director on May 19, 2010.
 - (3) Liu Zhongli resigned as an independent non-executive director on April 28, 2010.
 - (4) Ye Qing resigned as an independent non-executive director on April 28, 2010.
 - (5) Jiang Zhenying was appointed as an employee representative supervisor on December 16, 2010.
 - (6) Yu Renming was appointed as an employee representative supervisor on December 16, 2010.
 - (7) Liu Xiaohong resigned as an employee representative supervisor on April 28, 2010.
 - (8) Su Wensheng resigned as an employee representative supervisor on April 28, 2010.
 - (9) Cui Guoqi was appointed as an employee representative supervisor on April 28, 2010 and he resigned on December 16, 2010.
 - (10) Chang Zhenyong was appointed as an employee representative supervisor on April 28, 2010 and he resigned on December 16, 2010.
 - (11) Ling Yiquan was appointed as a vice president in July 2010.

C. BOARD PRACTICE

We have three special board committees, namely, the audit committee, the strategy committee and the remuneration and evaluation committee. The majority of the members of the strategy committee and the remuneration and evaluation committee, and all members of the audit committee, are independent directors. In addition, the audit committee shall have at least one independent director who is a financial expert.

The main responsibilities of the audit committee include:

- to propose the appointment or replacement of the independent auditor;
- to oversee the internal auditing system and its implementation;
- to coordinate the communication between the internal auditing department and the independent auditor;
- to examine and approve financial information and its disclosure; and
- to examine the internal control system.

The main responsibilities of the strategy committee are to conduct research and put forward proposals on the long-term development strategy and significant investments.

The main responsibilities of the remuneration and evaluation committee include:

-

to research on evaluation criteria for directors and the president, to conduct their evaluations and make necessary suggestions; and

- to research on and review the policies and proposals in respect of the remuneration of directors, supervisors, president, vice-president, Chief Financial Officer and secretary of the board of directors.

The members of our audit committee are Xie Zhongyu, Li Deshui and Wu Xiaogen, all of whom are our Independent Non-executive Directors. Our Board has determined that Wu Xiaogen qualifies as an audit committee financial expert. The members of our strategy committee are Wang Tianpu, Zhang Yaocang, Zhang Jianhua, Wang Zhigang, Dai Houliang, Li Deshui, Xie Zhongyu and Ma Weihua. The members of our remuneration and evaluation committee are Li Deshui, Chen Xiaojin, Ma Weihua and Li Chunguang.

Our directors have entered into directors service contracts with us and under such contracts, there is no severance pay arrangements for our directors.

D. EMPLOYEES

As of December 31, 2008, 2009 and 2010, we had approximately 358,304, 371,333 and 373,375 employees, respectively. The following table sets forth the number of our employees by our business segments, their scope of work and their education as of December 31, 2010.

By Segment	Number of Employees	Percentage of Total Number of Employees (%)
Exploration and Production	147,875	39.6
Refining	84,997	22.8
Marketing and Distribution	64,517	17.3
Chemicals	65,623	17.6
Corporate and Others	10,363	2.7
Total	373,375	100

By Employee's Scope of Work	Number of Employees	Percentage of Total Number of Employees (%)
Production	188,470	50.5
Sales	55,949	15.0
Technical	49,819	13.3
Finance	9,603	2.6
Administration	29,870	8.0
Others	39,664	10.6
Total	373,375	100

By Education	Number of Employees	Percentage of Total Number of Employees (%)
Master's degree and above	9,689	2.6
University	78,217	21.0
Tertiary education	78,443	21.0
Technical/polytechnic school	32,513	8.7
Secondary, technical/polytechnic school or below	174,513	46.7
Total	373,375	100

We have trade unions that protect employee rights, organize educational programs, assist in the fulfillment of economic objectives, encourage employee participation in management decisions, and assist in mediating disputes

between us and individual employees. We have not been subject to any strikes or other labor disturbances that have interfered with our operation, and we believe that our relations with our employees are good.

The total remuneration of our employees includes salary, performance bonuses and allowances. Employees also receive certain subsidies in housing, health services, education and other miscellaneous items.

Since 2001, we have implemented an employee reduction plan by means of retirement, voluntary resignation and/or redundancy to enhance our efficiency and operating income, and by December 31, 2010, a total of 180,244 employees have retired.

E. SHARE OWNERSHIP

Our directors, supervisors and senior officers do not have share ownership in us.

ITEM MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding our 5% or more shareholders as of March 22, 2011.

Shareholder	Number of Shares Owned (in millions)	Percentage of Ownership (%)
Sinopec Group Company	65,758.04	75.84

As of March 22, 2011, 1,184,261,200 H shares were registered in the name of a nominee of Citibank, N.A., the depositary under our ADS deposit agreement. Citibank, N.A. has advised us that, as of March 22, 2011, 11,842,612 ADSs, representing 1,184,261,200 H shares, were held of record by Cede & Co. and 44 other registered shareholders domiciled in and outside of the United States. We have no further information as to our shares held, or beneficially owned, by U.S. persons.

B. RELATED PARTY TRANSACTIONS

Sinopec Group Company owns 75.84% of our outstanding equity as of March 22, 2011. Sinopec Group Company will be able to exercise all the rights of a controlling shareholder, including the election of directors and voting in respect of amendments to our articles of association. Sinopec Group Company, as our controlling shareholder, will be subject to certain non-controlling shareholder protection provisions under our articles of association.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group Company, which provide a number of services to us, including ancillary supply, transport, educational and community services. The nature of our transactions with Sinopec Group Company is governed by a number of service and other contracts between Sinopec Group Company and us. A discussion of these agreements and arrangements is set forth under the heading “Item 7 - Major Shareholders and Related Party Transactions - Related Party Transactions” in our annual report on Form 20-F filed with the Securities and Exchange Commission on October 10, 2000, April 13, 2007 and May 20, 2009, respectively, and under the heading “Item 4 – Information on the Company – History and Development of the Company” of this annual report.

On August 21, 2009, we entered into certain agreements with Sinopec Group Company, pursuant to which certain related party transaction agreements between the parties were amended. Pursuant to the Continuing Connected Transactions Second Supplemental Agreement dated August 21, 2009 between Sinopec Group Company and us, the term of each of the Mutual Supply Agreement, the Community Services Agreement and the Intellectual Property License Agreements, dated June 3, 2000 and as amended and supplemented from time to time, was extended to December 31, 2012, December 31, 2012 and December 31, 2019, respectively. Pursuant to the Land Use Rights Leading Agreement Second Amendment Memo dated August 21, 2009 between Sinopec Group Company and us, the members of Sinopec Group Company agreed to lease to us certain parcels of land with an area of approximately 416 million square meters.

On September 30, 2010, we acquired 55% equity interest of SSI from Sinopec Overseas Oil & Gas Limited, a subsidiary of Sinopec Group Company, for a consideration of US\$1.678 billion. SSI owns 50% mineral interest in Angola Block 18.

Please also see Note 31 of our consolidated financial statements included elsewhere in this annual report for a detailed discussion of our related party transactions. The aggregate amount of connected transactions we actually incurred during 2010 was RMB397.341 billion, of which, expenses amounted to RMB166.300 billion, and revenues amounted to RMB231.041 billion (including RMB230.883 billion of sales of goods and services, RMB93 million of interest income, RMB65 million of agency commission receivable). In 2010, the products and services provided by Sinopec Group Company and its subsidiaries, including procurement, storage, exploration and production and other services to us amounted to RMB109.211 billion, representing 5.37% of our operating expenses for 2010. The auxiliary and community services provided by Sinopec Group Company to us amounted to RMB3.693 billion, representing 0.20% of our operating expenses for 2010. In 2010, our product sales to Sinopec Group Company amounted to RMB61.361 billion, representing 3.20% of our operating revenues. We also paid rentals of RMB7,450 million to Sinopec Group Company in 2010 pursuant to the Leasing Agreement for Properties.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM FINANCIAL INFORMATION

8.

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See F-pages following Item 19.

Legal Proceedings

We are involved in certain judicial and arbitral proceedings before Chinese courts or arbitral bodies concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Dividend Distribution Policy

Our board of directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may determine are important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our board of directors in Renminbi and paid in HK dollars. The depositary will convert the HK dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

In addition to cash, dividends may be distributed in the form of shares. Any distribution of shares, however, must be approved by special resolution of the shareholders. Dividends in the form of shares will be distributed to the depositary and, except as otherwise described in the Deposit Agreement, will be distributed by the depositary in the form of additional ADSs, to holders of ADSs.

Dividends may be paid only out of our distributable profits (less allocations to the statutory surplus reserve funds which are 10% of our net income determined in accordance with the PRC Accounting Standards for Business Enterprises ("ASBE") and the discretionary surplus reserve funds) and may be subject to PRC withholding tax. Our articles of association limit our distributable profits to the lower of the amount determined in accordance with the ASBE and IFRS. Subject to the above, we currently expect that we will distribute as dividends up to 40% of our distributable profits.

In accordance with the board resolution adopted on March 25, 2011, our board has proposed dividend of RMB0.21 (including tax) per ordinary share for the year ended December 31, 2010. After deducting the interim dividends distribution of RMB0.08 (including tax) per ordinary share, the year end dividend is RMB0.13 (including tax) per

ordinary share. The final dividend to be paid amounted to approximately RMB11.271 (including tax) billion. The resolution is subject to the approval by the general shareholders' meeting.

B. SIGNIFICANT CHANGES

None.

ITEM THE OFFER AND LISTING

9.

A. OFFER AND LISTING DETAILS

Not applicable, except for Item 9A (4) and Item 9C.

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Our H Shares have been listed on the Hong Kong Stock Exchange (Code: 0386), and our ADSs, each representing 100 H Shares, have been listed on the New York Stock Exchange and the London Stock Exchange under the symbol "SNP", since we completed our initial public offering on October 19, 2000. Prior to that time, there was no public market for our H Shares. The Hong Kong Stock Exchange is the principal non-U.S. trading market for our H Shares. Our publicly traded domestic shares, or A shares, are listed on the Stock Exchange of Shanghai since August 8, 2001 (Code: 600028).

The following table sets forth, for the periods indicated, the high and low closing prices per H Share, as reported on the Stock Exchange of Hong Kong, per ADS, as reported on the New York Stock Exchange and per A share, as reported on the Stock Exchange of Shanghai.

Period	The Stock Exchange of Hong Kong		The New York Stock Exchange		The Shanghai Stock Exchange	
	High	Low	High	Low	High	Low
Past 6 months	(HK dollar per H share)		(US dollar per ADS)		(RMB per A share)	
March	8.06	7.47	103.19	97.18	8.84	8.42
February	8.75	7.66	111.89	99.74	9.27	8.47
2011 January	8.59	7.57	110.22	97.63	9.00	8.08
December	7.45	7.08	96.00	91.15	8.36	7.99
November	7.94	7.17	102.69	92.80	9.49	8.09
2010 October	7.65	6.76	98.81	87.78	9.42	8.44
Quarterly Data						
2010 F o u r t h Quarter	7.94	6.76	102.69	87.78	9.49	7.99
T h i r d Quarter	6.88	6.01	88.28	76.74	8.91	7.77
S e c o n d Quarter	6.70	5.81	87.40	73.80	12.00	7.82
First Quarter	6.82	5.75	88.20	73.86	13.90	10.82
2009 F o u r t h Quarter	7.06	6.35	92.16	82.05	14.14	11.46
T h i r d Quarter	7.15	5.87	93.50	74.76	15.42	10.78
S e c o n d Quarter	6.50	5.15	85.82	67.45	10.84	8.78
First Quarter	5.26	3.65	67.70	47.08	9.27	7.06
Annual Data						
2010	7.94	5.75	102.69	73.80	13.90	7.77
2009	7.15	3.65	93.50	47.08	15.42	7.06
2008	11.66	3.76	146.28	50.57	24.38	6.67
2007	12.96	5.67	178.83	72.92	28.49	8.37
2006	7.2	3.775	92.64	47.40	9.15	4.58
2005	3.90	2.75	50.58	35.55	4.66	3.25

Source: Bloomberg

ITEM ADDITIONAL INFORMATION

10.

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of our articles of association and its appendices, as amended, the Company Law of the PRC (2006) and certain other applicable laws and regulations of the PRC. You and your advisors

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should refer to the text of our articles of association, as amended, and to the texts of applicable laws and regulations for further information.

Objects and Purposes

We are a joint stock limited company established in accordance with the Company Law and certain other laws and regulations of the PRC. We are registered with the PRC State Administration of Industry and Commerce with business license number 100000000032985. Article 12 of our articles of association provides that our scope of businesses includes, among other things, exploration, exploitation, storage, pipeline transportation, land transportation, water transportation, sales of oil and natural gas; oil refining; wholesaling and retailing of gasoline, kerosene and diesel oil(for subsidiaries only); sales of lubricant, liquid gas, fuel oil, solvent naphtha and asphalt; the production, sales, storage land transportation and water transportation of ethylene, propylene, butadiene, naphtha, heavy oil, ethylene glycol, PTA, beta-lactam, dacron, nitrilon, rubber and other chemical raw materials and products; production of chemical fertilizer; production of electricity; operation of 24-hour stores; shaped packing foods, retailing of cigarettes, automobile decorations (for subsidiaries only), automobile cleaning; production, supervision of manufacturing, installation of oil and petrochemical machinery and equipment; purchase and sales of oil and petrochemical raw and auxiliary materials, equipment and parts; technology and information, research, development, application and consultation of alternative energy products; self-operation of and acting as agency for the import and export of various commodities and technologies other than those restricted or prohibited by the state from import and export; contractor of overseas mechanical, electronics, petrochemical projects and domestic international bid-inviting projects; export of equipments and materials required for the aforementioned overseas projects; dispatch of labor required for the aforementioned overseas projects.

Directors

Our directors shall be elected at our shareholders' general meeting. Cumulative voting shall be adopted for the election of directors if a controlling shareholder controls 30% or more of our shares. Details of the cumulative voting mechanism are set forth in Article 59 of the Rules and Procedures for the Shareholders' General Meetings that is an appendix to, and forms an integral part of, our articles of association. Our directors shall be elected for a term of three years and may serve consecutive terms upon re-election, except that independent directors may only serve a maximum of two terms. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the board of directors at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the board. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined by the Listing Rule of the Hong Kong Stock Exchange) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board at a meeting in which the director neither votes nor is not counted in the quorum, such contract, transaction or arrangement shall be voidable by us except with respect to a bona fide party thereto who does not have notice of the director's interests.

We are prohibited from making loans or providing guarantees to our directors and their associates except where such loan or guarantee is to meet expenditure requirement incurred or to be incurred by the director for the purposes of the company or for the purpose of enabling the director to perform his or her duties properly in accordance with the terms

of a service contract approved by the shareholders in a general meeting.

The board of directors shall examine and approve the amount of the long-term loans for the current year according to the annual investment plan as approved by the shareholders' general meeting. The chairman of the board of directors is authorized to make adjustments of no more than 10% of the total amount of the long-term loans as approved by the board of directors for the current year. Within the total amount of the long-term loans as approved by the board of directors, the chairman of the board of directors is authorized to approve and execute individual long-term loan agreement with the loan amount exceeding RMB1 billion, and the president is authorized to approve and execute individual long-term loan agreement with the loan amount not exceeding RMB1 billion. Within the total amount of the working capital loans for the current year as approved by the board of directors, the chairman of the board of directors is authorized to execute the overall short-term loan facility agreement for raising working capitals as we need.

Matters relating to the remuneration of our directors shall be determined by the shareholders' general meeting.

Dividends

A distribution of final dividends for any financial year is subject to shareholders' approval. Except as otherwise decided by Shareholders' meeting, the board of directors may make decision on the distribution of interim dividends. Except as otherwise provided by laws and regulations, the sum of interim dividends shall not exceed 50 percents of the net profit for the half year interim period. Dividends may be distributed in the form of cash or shares. A distribution of shares, however, must be approved by special resolution of the shareholders.

Dividends may only be distributed after allowance has been made for:

- recovery of losses, if any;
- allocations to the statutory surplus reserve fund; and
- allocations to a discretionary surplus reserve fund if approved by the shareholders.

The allocations to the statutory surplus reserve fund shall be 10% of our after-tax profits of the current year determined in accordance with ASBE.

The articles of association require us to appoint on behalf of the holders of H shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. The articles of association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in HK dollars. The depository of our ADSs will convert such proceeds into U.S. dollars and will remit such converted proceeds to our holders of ADSs. If we record no profit for the year, we may not normally distribute dividends for the year.

Dividend payments may be subject to PRC withholding tax.

Voting Rights and Shareholders' Meetings

Our board of directors shall convene a shareholders' annual general meeting once every year and within six months from the end of the preceding financial year. Our board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- where the number of directors is less than the number stipulated in the PRC Company Law or two-thirds of the number specified in our articles of association;
- where our unrecovered losses reach one-third of the total amount of our actually paid-in share capital;
- where shareholder(s) holding 10% or more of our issued and outstanding voting shares request(s) in writing the convening of an extraordinary general meeting;
- whenever our board deems necessary or our board of supervisors so requests; or
- circumstances provided in the articles of association.

Meetings of a special class of shareholders must be called in certain enumerated situations when the rights of the holders of such class of shares may be modified or adversely affected as discussed below. Proposals made by the board of directors, the board of supervisors or shareholder(s) holding 3% or more of the total number of voting shares shall be included in the agenda for the relevant general meeting if they are matters which fall within the scope of the functions and powers of shareholders in general meeting. Shareholder(s) holding 3% or more of the total shares of the Company may put forward interim motions by written proposals to the convener 10 days before the shareholders' general meeting. The convener shall publish supplementary notice to announce the interim motion within two days upon receiving.

All shareholders' meetings must be convened by our board of directors by written notice given to shareholders no less than 45 days before the meeting, by our board of supervisors or certain qualified shareholders in case a shareholders'

meeting is not convened by our board of directors and board of supervisors. Shareholder(s) holding 10% or more the total number of shares of the Company have the right to convene and chair the interim shareholders' general meeting or class shareholders' meeting in accordance with the provisions in laws, administrative rules and the articles of association, in the event that the board of directors and the board of supervisors fail to convene and chair such meeting upon demand made by such shareholders. Based on the written replies received by us 20 days before a shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. Where the number of voting shares represented by those shareholders amount to more than one-half of our total voting shares, we may convene the shareholders' general meeting (regardless of the number of shareholders who actually attend). Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders' meeting may be convened. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting.

Shareholders at meetings have the power, among other things, to approve or reject our profit distribution plans, annual budget, financial statements, increase or decrease in share capital, issuance of debentures, merger or liquidation and any amendment to our articles of association. Shareholders of the shares which the Company issues to foreign investors for subscription in foreign currencies possess the same rights and undertake the same obligations as those of the shares which the Company issues to domestic investors for subscription in Renminbi. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of all shareholders at a general shareholders' meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate, without limitation, certain amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to shares of such class.

Cumulative voting in accordance with the relevant laws and regulations in effect is adopted for the election of directors and supervisors. For all other matters, each share is entitled to one vote on all such matters submitted to a vote of our shareholders at all shareholders' meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address, or such other place as is specified in the meeting notice, no less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder's attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Except for those actions discussed below which require supermajority votes ("special resolutions"), resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by or more than two-thirds of the voting rights represented held by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

- an increase or reduction of our share capital or the issue of shares, including stock distributions, of any class, warrants and other similar securities;

- issuance of debentures;
- our division, merger, dissolution and liquidation; (Shareholders who object to a proposed division or merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price.)
- amendments to our articles of association and its appendices;
- change of our company form;
- acquisition or disposal of material assets or provision of material guarantee within one year, with the value exceeding 30% of our latest audited total assets;

- any stock incentive plan;
- any other matters required by laws and regulations or our articles of association and its appendices or considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be of a nature which may have a material impact on us and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and supervisors and the declaration of cash dividend payments, will be decided by an ordinary resolution of the shareholders. The listing agreement between us and the Hong Kong Stock Exchange (the ‘Listing Agreement’) provided that we may not permit amendments to certain sections of the articles of association which have been mandated by the Hong Kong Stock Exchange. These sections include provisions relating to:

- varying the rights of existing classes of shares;
- voting rights;
- our power to purchase our own shares;
- rights of non-controlling shareholders; and
- procedure on liquidation.

In addition, certain amendments to the articles of association require the approval and consent of the relevant PRC authorities.

Any shareholder resolution which is in violation of any laws or administrative regulations of the PRC will be null and void subject to statutory procedures.

Liquidation Rights

In the event of our liquidation, the H shares will rank *pari passu* with the domestic ordinary shares, and payment of debts out of our remaining assets shall be made in the order of priority prescribed by applicable laws and regulations or, if no such standards exist, in accordance with such procedure as the liquidation committee which has been appointed either by us or the People’s Court of the PRC may consider to be fair and reasonable. After payment of debts, we shall distribute the remaining property to shareholders according to the class and proportion of their shareholders.

Further Capital Call

Shareholders are not liable to make any further contribution to the share capital other than according to the terms, which were agreed by the subscriber of the relevant shares at the time of subscription.

Increases in Share Capital and Preemptive Rights

The articles of association require the approval by a special resolution of the shareholders and by special resolution of holders of domestic ordinary shares and oversea-listed foreign invested shares at separate shareholder class meetings be obtained prior to authorizing, allotting, issuing or granting shares, securities convertible into shares or options,

warrants or similar rights to subscribe for any shares or such convertible securities. No such approval is required if, but only to the extent that:

- we issue domestic ordinary shares and/or overseas-listed foreign-invested shares, either separately or concurrently, in numbers not exceeding 20% of the number of domestic ordinary shares and overseas-listed foreign-invested shares then in issue, respectively, in any 12-month period, as approved by a special resolution of the shareholders; or
- if our plans for issuing domestic ordinary shares and overseas-listed foreign-invested shares upon its establishment are implemented within fifteen months of the date of approval by the China Securities Regulatory Commission.

New issues of shares must also be approved by the relevant PRC authorities.

Reduction of Share Capital and Purchase by Us of Our Shares and General Mandate to Repurchase Shares

We may reduce our registered share capital only upon obtaining the approval of the shareholders by a special resolution and, in certain circumstances, of relevant PRC authorities. The number of H shares, which may be purchased is subject to the Hong Kong Takeovers and Share Repurchase Codes.

Restrictions on Large or Controlling Shareholders

Our articles of association provide that, in addition to any obligation imposed by laws and administration regulations or required by the listing rules of the stock exchanges on which our H shares are listed, a controlling shareholder shall not exercise his voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

- to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (save according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our articles of association and its appendices).

A controlling shareholder, however, will not be precluded by our articles of association or any laws and administrative regulations or the listing rules of the stock exchanges on which our H shares are listed from voting on these matters.

A controlling shareholder is defined by our articles of association as any person who acting alone or in concert with others:

- is in a position to elect half or more of the board of directors;
- has the power to exercise, or to control the exercise of, 30% or more of our voting rights;
- acting separately or in concert with others, holds 30% or more of our issued and outstanding shares; or
- acting separately or in concert with others, has de facto control of us in any other way.

As of the date of this annual report, Sinopec Group Company is and will be our only controlling shareholder.

Disclosure

The Listing Agreement imposes a requirement on us to keep the Hong Kong Stock Exchange, our shareholders and other holders of our listed securities informed as soon as reasonably practicable of any information relating to us and our subsidiaries, including information on any major new developments which are not public knowledge, which:

- is necessary to enable them and the public to appraise the position of us and our subsidiaries;
- is necessary to avoid the establishment of a false market in its securities; and
- might be reasonably expected materially to affect market activity in and the price of its securities.

There are also requirements under the Listing Rules for us to obtain prior shareholders' approval and/or to disclose to shareholders details of certain acquisitions or disposals of assets and other transactions (including transactions with controlling shareholders).

Sources of Shareholders' Rights

The PRC's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. The PRC's legal system is similar to civil law systems in this regard. In 1979, the PRC began the process of developing its legal system by undertaking to promulgate a comprehensive system of laws. In December 1993, the Standing Committee of the 8th National People's Congress adopted the PRC Company Law. On October 27, 2005, the PRC Company law was amended by the Standing Committee of the 10th National People's Congress, and came into force on January 1, 2006. The amended PRC Company Law enhanced the protection of shareholders' rights primarily in the following regards:

- Shareholders holding 10 percent or more of the shares of the company are entitled to petition the court to dissolve the company if (i) the company is in serious operational difficulties; (ii) its continuing existence will seriously prejudice the interests of the shareholders; and (iii) such difficulties cannot be resolved through any other means;
- Shareholders holding 1 percent or more of the shares of the company for more than 180 consecutive days are entitled to request the board of supervisors (in terms of directors and senior management) or the board of directors (in terms of supervisors) to bring legal proceedings, or bring legal proceedings in their own name on behalf of the company where it is in emergency and the company will be subject to irreparable loss if not to do so, against directors, supervisors or senior management who fail to comply with the laws and regulations or the company's articles of association in the course of performing their duties and cause loss to the company;
- Shareholders who oppose the company's decision on merger or separation are entitled to request the company to repurchase their shares; and
- Shareholders holding 10 percent or more of the voting rights of the company are entitled to convene a shareholders' meeting.

Currently, the primary sources of shareholder rights are our articles of association, as amended, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder, i.e., Sinopec Group Company. To facilitate the offering and listing of shares of PRC companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the State Council Securities Committee and the State Commission for Restructuring the Economic System issued on August 27, 1994 the Mandatory Provisions for articles of association of Company Listing Overseas (the "Mandatory Provisions"). These Mandatory Provisions become entrenched in that, once they are incorporated into the articles of association of a PRC company, any amendment to those provisions will only become effective after approval by the State-owned Assets Supervision and Administration Commission of the State Council. The Listing Rules require a number of additional provisions to the Mandatory Provisions to be included in the articles of association of PRC companies listing H shares on the Hong Kong Stock Exchange (the "Additional Provisions"). The Mandatory Provisions and the Additional Provisions have been incorporated into our articles of association.

In addition, upon the listing of and for so long as the H shares are listed on the Hong Kong Stock Exchange, we will be subject to those relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including the Listing Rules of the Hong Kong Stock Exchange, the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Securities (Insider Dealing) Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases (the "Hong Kong Takeovers and Repurchase Codes").

Unless otherwise specified, all rights, obligations and protections discussed below derive from our articles of association and/or the PRC Company Law.

Enforceability of Shareholders' Rights

There has not been any public disclosure in relation to the enforcement by holders of H shares of their rights under constitutive documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies.

In most states of the United States, shareholders may sue a corporation “derivatively”. A derivative suit involves the commencement by a shareholder of a corporate cause of action against persons (including corporate officers, directors

or controlling shareholders) who have allegedly wronged the corporation, where the corporation itself has failed to enforce such claim against such persons directly. Such action is brought based upon a primary right of the corporation, but is asserted by a shareholder on behalf of the corporation. The PRC company law as amended in October 2005 and effective in January 2006 has also granted shareholders with the rights to bring such derivative suits.

Our articles of association provide that all differences or claims, arising from any provision of our articles of association, any right or obligation conferred or imposed by the PRC Company Law or any other relevant law or administrative regulation which concerns our affairs:

- between a holder of overseas-listed foreign-invested shares and us;
- between a holder of overseas-listed foreign-invested shares and any of our directors, supervisors, general managers, deputy general managers or other senior officers; or
- between a holder of overseas-listed foreign-invested shares and a holder of domestic ordinary shares

must be referred to arbitration at either the China International Economic and Trade Arbitration Commission in the PRC or the Hong Kong International Arbitration Center, and the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations. Our articles of association provide that such arbitration will be final and conclusive. In June 1999, an arrangement was made between the People's Courts of the PRC and the courts of Hong Kong to mutually enforce arbitration awards rendered in the PRC and Hong Kong according to their respective laws. This new arrangement was approved by the Supreme Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. We have provided an undertaking to the United States Securities and Exchange Commission that, at such time, if any, as all applicable laws and regulations of the PRC and (unless our H shares are no longer listed on the Hong Kong Stock Exchange) all applicable regulations of the Stock Exchange of Hong Kong Ltd. shall not prohibit, and to the extent Section 14 under the United States Securities Act of 1933, as amended, so requires, our board of directors shall propose an amendment to the articles of association which would permit shareholders to adjudicate disputes arising between our shareholders and us, our directors, supervisors or officers by means of judicial proceedings.

The holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The SDI Ordinance establishes certain obligations in relation to disclosure of shareholder interests in Hong Kong listed companies, the violation of which is subject to prosecution by the Securities and Futures Commission of Hong Kong. The Hong Kong Takeovers and Repurchase Codes do not have the force of law and are only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong as established by the Securities and Futures Commission and the securities and futures industry in Hong Kong.

We have appointed our subsidiary in the U.S., SINOPEC-USA Co., Ltd., 410 Park Avenue, 22nd Fl., New York, NY 10022, USA, as our agent to receive service of process with respect to any action brought against us in certain courts in New York under the United States federal and New York State's securities laws. However, as the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan or most other the Organization for Economic Cooperation and Development countries, administrative actions brought by regulatory authorities, such as the Commission, and other actions which result in foreign court judgments, could (assuming such actions are not required by PRC law and the articles of association to be arbitrated) only be enforced in the PRC on a reciprocal basis or according to relevant international treaty to which China is a party if such judgments or rulings do not violate the basic principles of the law of the PRC or the sovereignty, security and public interest of the society of the PRC, as determined by a People's Court of the PRC which has the jurisdiction for recognition and enforcement of judgments. We have been advised by our PRC counsel,

Haiwen & Partners, that there is certain doubt as to the enforceability in the PRC of actions to enforce judgments of United States courts arising out of or based on the ownership of H shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

Restrictions on Transferability and the Share Register

Our H shares shall only be traded among investors who are not PRC persons and may not be sold to PRC investors. There are no restrictions on the ability of investors who are not PRC residents to hold our H shares.

As provided in the articles of associations we may refuse to register a transfer of H shares unless:

- any relevant transfer fee is paid;
- the instrument of transfer is only related to H shares listed in Hong Kong;
- the instrument of transfer is accompanied by the share certificates to which it relates, or such other evidence is given as may be reasonably necessary to show the right of the transferor to make the transfer;
- the stamp duty which is chargeable on the instrument of transfer has already been paid;
- if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and
- the Company does not have any lien on the relevant shares.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H shares to be listed on the Hong Kong Stock Exchange. Shareholders have the right to inspect and, for a nominal charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders' general meeting or within 5 days prior to the record date established for the purpose of distributing a dividend.

We have appointed HKSCC Registrars Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares at our offices in Hong Kong and enters transfers of shares in such register upon the presentation of the documents described above.

C. MATERIAL CONTRACTS

We have not entered into any material contracts other than in the ordinary course of business and other than those described under "Item 4. Information on the Company", "Item 7 - Major Shareholders and Related Party Transactions" or elsewhere in this Form 20-F.

D. EXCHANGE CONTROLS

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the U.S. dollar. Since the adoption of this new policy, the value of Renminbi against the U.S. dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the U.S. dollar. On January 4, 2006, the PBOC authorized the China Foreign Exchange Trade System to publish the exchange rate of the RMB against the US dollar, the euro, the Japanese yen, and the HK dollar at 9:15 am of each business day, which would be the medium exchange rate of RMB for transactions on the interbank spot foreign exchange market (over-the-counter transactions and automatic price-matching transactions) as well as transactions over bank counters. On June 19, 2010, the PRC government decided to further promote the Renminbi exchange rate formation mechanism, and enhance the flexibility of RMB exchange rate. Any significant fluctuation of exchange rate of the Renminbi against US dollars and Hong Kong dollars may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on, our ADSs in foreign currency terms. We cannot assure you that the fluctuation of exchange rate of the Renminbi against US dollars

or other foreign currencies would not have a material and adverse effect on our operation and financial condition in the future. Information relating to the exchange risk, exchange rate and hedging activities is presented in “Item 11. Qualitative and Quantitative Disclosures about Market risk — Foreign Exchange Rate Risk”.

E. TAXATION

PRC Taxation

The following discussion addresses the principal PRC tax consequences of investing in the H shares or ADSs.

Taxation of Dividends

Individual Investors

According to the PRC Individual Income Tax Law, as amended, dividends paid by Chinese companies are ordinarily subject to a Chinese withholding tax levied at a flat rate of 20%. For a foreign individual who has no domicile and does not stay in the territory of China or who has no domicile but has stayed in the territory of China for less than one year, the receipt of dividends from a company in China is normally subject to a withholding tax of 20% unless reduced or exempted by an applicable tax treaty.

Foreign Enterprises

In accordance with the new Enterprise Income Tax Law and its implementation rules that became effective on January 1, 2008, dividends derived from the revenues accumulated from January 1, 2008 and are paid by PRC companies to non-resident enterprises, which are established under the laws of non-PRC jurisdictions and have no establishment or place of business in China or whose dividends from China do not relate to their establishment or place of business in China, are generally subject to a PRC withholding tax levied at a rate of 10% unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. Dividends paid by PRC companies to resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose “de facto management body” is located in the PRC, are not subject to any PRC withholding tax, unless the dividends are derived from the publicly traded shares which have been held continuously by the resident enterprises for less than twelve months. Dividends, bonuses and other return based on equity investment that a non-resident enterprise with establishment or place of business in China receives from a resident enterprise and that have actual connection with such establishment or place of business are also exempted from any PRC withholding tax, except of those derived from the publicly traded shares which have been held continuously by the non-resident enterprises for less than 12 months. Chinese resident enterprises are required to withhold PRC enterprise income tax at the rate of 10% on dividends paid for 2008 and later years' earnings payable to their respective H Shares holders that are “non-resident enterprises,” except for those holders whose dividend income is not subject to PRC enterprise income tax pursuant to PRC governmental approval.

Tax Treaties

Holders resident in countries which have entered into avoidance of double taxation treaties or arrangements with the PRC may be entitled to a reduction or exemption of the withholding tax imposed on the payment of dividends. The PRC currently has avoidance of double taxation treaties or arrangements with a number of other countries/jurisdictions, which include Australia, Canada, France, Germany, Hong Kong, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Under a tax treaty between United States and China, China may tax dividends paid by Sinopec Corp. to eligible US Holders up to a maximum of 10% of the gross amount of such dividend. Under the tax treaty, an eligible US Holder is

a person who, by reason of domicile, residence, place of head office, place of incorporation or any other criterion of similar nature is liable to tax in the United States, subject to a detailed "treaty shopping" provision.

Taxation of Capital Gains

In accordance with the new Enterprise Income Tax Law effective from January 1, 2008, and its implementation rules, capital gains realized by foreign enterprises which are non-resident enterprises in China upon the sale of overseas-listed shares are generally subject to a PRC withholding tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. The capital gains realized by resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose "de facto management body" is located in the PRC, upon the sales of overseas-listed shares are subject to the PRC enterprise income tax.

PRC Stamp Tax Considerations

Under the Provisional Regulations of The People's Republic of China Concerning Stamp Tax, which became effective in October 1988, PRC stamp tax should not be imposed on the transfer of shares of H Shares or ADSs of PRC publicly traded companies..

United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who hold H shares or ADSs. This summary is based upon existing United States federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including: financial institutions, insurance companies, broker-dealers, tax-exempt organizations, non-US Holders, investors who own (directly, indirectly, or constructively) 10% or more of our voting stock, investors that will hold H shares or ADSs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes, or US Holders that have a functional currency other than the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, local or alternative minimum tax considerations. This summary only addresses investors that will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code (the "Code"). Each holder is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of an investment in H shares or ADSs.

For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created in or organized under the laws of, the United States or any State or political subdivision thereof;
- an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source;
- a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or
- a trust that has elected to be treated as a United States person under the Code.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds H shares or ADSs, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding our H shares or ADSs are urged to consult their tax advisors as to the particular United States federal income tax consequences applicable to them.

A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. Sinopec Corp. presently does not believe that it is a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following

discussion is based on the belief that Sinopec Corp. will not be classified as a PFIC for United States federal income tax purposes. See the discussion below under the heading “PFIC Considerations” for a brief summary of the PFIC rules.

General

For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depository that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holder's proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered

therefor, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS.

Dividends

Any cash distributions paid by Sinopec Corp. out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as dividend income and will be includible in the gross income of a US Holder upon receipt. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be treated as a "dividend" for United States federal income tax purposes. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a "qualified foreign corporation" at a maximum U.S. federal tax rate of 15% rather than the marginal tax rates generally applicable to ordinary income so long as certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. There is currently a tax treaty in effect between the United States and the People's Republic of China which the Secretary of Treasury of the United States determined is satisfactory for these purposes and Sinopec Group, presently believes that it is eligible for the benefits of such treaty. Additionally, our ADSs trade on the New York Stock Exchange, an established securities market in the United States. Dividends paid in Hong Kong dollars will be includible in income in a United States dollar amount based on the United States dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depository, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. Gain or loss, if any, recognized on a subsequent sale, conversion or other disposition of Hong Kong dollars generally will be U.S. source income or loss. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes.

A distribution of additional shares of Sinopec Corp.'s stock to US Holders with respect to their H shares or ADSs that is pro rata to all Sinopec Corp.'s shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution.

Sale or Other Disposition of H shares or ADSs

A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equal to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and may be, under the income tax treaty between the People's Republic of China and the United States, foreign source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations.

PFIC Considerations

If Sinopec Corp. were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by Sinopec Corp. in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution.

The above results may be eliminated if a "mark-to-market" election is available and a US Holder validly makes such an election. If the election is made, such holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in H shares or ADSs at the end of each taxable year as ordinary

income or ordinary loss (to the extent of any net mark-to-market gain previously included in income). In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income).

Withholding Tax, Backup Withholding, and Information Reporting

Pursuant to recently enacted legislation, U.S. Holders may be required to submit to the Internal Revenue Service certain information with respect to an investment in the H shares or ADSs not held through an account with a "financial institution." This new legislation also imposes penalties if a U.S. Holder is required to submit such information to the Internal Revenue Service and fails to do so. In addition, U.S. Holders may be subject to information reporting to the Internal Revenue Service with respect to dividends on and proceeds from the sale or other disposition of our H shares or ADSs. Dividend payments with respect to our H shares or ADSs and proceeds from the sale or other disposition of our H shares or ADSs are not generally subject to U.S. withholding tax or backup withholding (provided that certain certification requirements are satisfied). U.S. Holders should consult their tax advisors regarding the application of the United States information reporting and backup rules.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We filed with the Securities and Exchange Commission in Washington, D.C. a Registration Statement on Form F-1 (Registration No. 333-12502) under the Securities Act in connection with the ADSs offered in the global offering. The Registration Statement contains exhibits and schedules. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Registration Statement, the contract or document is deemed to modify the description contained in this annual report. You must review the exhibits themselves for a complete description of the contract or documents.

You may inspect and copy our registration statements, including their exhibits and schedules, and the reports and other information we file with the Securities and Exchange Commission in accordance with the Exchange Act at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at 233 Broadway, New York, NY 10279 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also inspect the registration statements, including their exhibits and schedules, at the office of the New York Stock Exchange, Wall Street, New York, New York 10005. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the Washington D.C. Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by contacting the Securities and Exchange Commission over the internet at its website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

11.

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

Commodity Price Risk

We engage in oil and gas operations and are exposed to commodity price risk related to price volatility of crude oil and refined oil products. The fluctuations in prices of crude oil and refined oil products could have significant impact on us. We use derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As of

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December 31, 2010 we had certain commodity contracts of crude oil and refined oil products designated as qualified cash flow hedges and economic hedges. As of December 31, 2010, the fair value assets and fair value liabilities of these derivative financial instruments were RMB335 million and RMB1,204 million, respectively.

As of December 31, 2010, it is estimated that a general increase/decrease of US\$10 per barrel in crude oil and refined oil products, with all other variables held constant, would decrease/increase our net income and retained earnings by approximately RMB229 million, and decrease/increase our other reserves by approximately RMB1,066 million. This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to our derivative financial instruments at that date with exposure to commodity price risk.

Foreign Exchange Rate Risk

The Renminbi is not a freely convertible currency. With the authorization from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on July 21, 2005. On June 19, 2010, the PRC government decided to further promote the Renminbi exchange rate formation mechanism, and enhance the flexibility of RMB exchange rate. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition.

The following presents various market risk information regarding market-sensitive financial instruments that we held or issued as of December 31, 2010 and 2009. We conduct our business primarily in Renminbi, which is also our functional and reporting currency.

The following tables provide information regarding instruments that are sensitive to foreign exchange rates as of December 31, 2010 and 2009. For debt obligations, the table presents cash flows and related weighted average rates by expected maturity dates.

(RMB equivalent in millions, except exchange rate)

As of December 31, 2010

	Expected Maturity Date						Total carrying amount	Fair value
	2011	2012	2013	2014	2015	Thereafter		
Assets								
Cash and cash equivalent								
In US Dollar	428	-	-	-	-	-	428	428
In HK Dollar	31	-	-	-	-	-	31	31
In Japanese Yen	10	-	-	-	-	-	10	10
In Euro	103	-	-	-	-	-	103	103
Time deposits with financial institutions								
In US Dollar	3	-	-	-	-	-	3	3
Liabilities								

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Debts in US Dollar													
Fixed rate	113		55		55		55		55		216	549	564
Average interest rate	1.5	%	1.4	%	1.4	%	1.4	%	1.4	%	1.4	%	
Variable rate	18,979		3		3		4		3		3	18,992	18,992
Average interest rate(1)	1.6	%	4.9	%	4.9	%	4.9	%	4.9	%	4.9	%	
Debts in Japanese Yen													
Fixed rate	85		85		85		85		85		619	1,044	1,172
Average interest rate	2.6	%	2.6	%	2.6	%	2.6	%	2.6	%	2.6	%	
Variable rate	223		223		-		-		-		-	446	446
Average interest rate(1)	2.9	%	2.9	%	-		-		-		-		
Debts in HK Dollar													
Fixed rate	-		-		-		10,667		-		-	10,667	10,667
Average interest rate	-		-		-		4.2	%	-		-		
Variable rate	-		-		-		-		-		-	-	-
Average interest rate(1)	-		-		-		-		-		-		
Debts in Euro													
Fixed rate	27		-		-		-		-		-	27	27
Average interest rate	6.6	%	-		-		-		-		-		

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2010.

(RMB equivalent in millions, except exchange rate)

As of December 31, 2009

	Expected Maturity Date						Total carrying amount	Fair value
	2010	2011	2012	2013	2014	Thereafter		
Assets								
Cash and cash equivalent								
In US Dollar	2,184	-	-	-	-	-	2,184	2,184
In HK Dollar	149	-	-	-	-	-	149	149
In Japanese Yen	14	-	-	-	-	-	14	14
In Euro	129	-	-	-	-	-	129	129
Time deposits with financial institutions								
In US Dollar	4	-	-	-	-	-	4	4
Liabilities								
Debts in US Dollar								
Fixed rate	1,108	71	57	57	57	279	1,629	1,644
Average interest rate	1.0 %	1.5 %	1.4 %	1.4 %	1.4 %	1.4 %		
Variable rate	18,216	6,900	4	3	4	2	25,129	25,129
Average interest rate(2)	1.4 %	2.4 %	4.9 %	4.9 %	4.9 %	4.9 %		
Debts in Japanese Yen								
Fixed rate	104	74	74	74	74	654	1,054	1,172
Average interest rate	2.6 %	2.6 %	2.6 %	2.6 %	2.6 %	2.6 %		
Variable rate	202	202	202	-	-	-	606	606
Average interest rate(2)	2.9 %	2.9 %	2.9 %	-	-	-		
Debts in HK Dollar								
Fixed rate	-	-	-	-	10,371	-	10,371	10,371
Average interest rate	-	-	-	-	4.2 %	-		
Variable rate	-	-	-	-	-	-	-	-
Average interest rate(2)	-	-	-	-	-	-		
Debts in Euro								
Fixed rate	85	31	-	-	-	-	116	120
Average interest rate	6.6 %	6.6 %	-	-	-	-		

(2) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2009.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short-term and long-term debts. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings.

Our debts consist of fixed and variable rate debt obligations with original maturities ranging from one to 22 years. Fluctuations in interest rates can lead to significant fluctuations in the fair values of our debt obligations.

The following tables present principal cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2010 and 2009.

(RMB equivalent in millions, except exchange rate)

	As of December 31, 2010						Total carrying amount	Fair value
	2011	2012	Expected Maturity Date		2015	Thereafter		
			2013	2014				
Assets								
Cash and cash equivalent								
In Renminbi	16,436	-	-	-	-	-	16,436	16,436
In US Dollar	428	-	-	-	-	-	428	428
In HK Dollar	31	-	-	-	-	-	31	31
In Japanese Yen	10	-	-	-	-	-	10	10
In Euro	103	-	-	-	-	-	103	103
Time deposits with financial institutions								

In Reminbi	1,129	-	-	-	-	-	-	-	-	1,129	1,129	
In US Dollar	3	-	-	-	-	-	-	-	-	3	3	
Liabilities												
Debts in Reminbi												
Fixed rate	12,855	38,580	60	29,513	11,143	61,360	153,511(2)	152,360				
Average interest rate	3.2	%	3.0	%	3.0	%	3.0	%	4.5	%	2.0	%
Variable rate	3,545	4,210	15,305	1,078	529	-	24,667	24,667				
Average interest rate(1)	5.1	%	5.1	%	5.1	%	6.0	%	6.0	%	-	
Debts in US Dollar												
Fixed rate	113	55	55	55	55	216	549	564				
Average interest rate	1.5	%	1.4	%	1.4	%	1.4	%	1.4	%	1.4	%
Variable rate	18,979	3	3	4	3	-	18,992	18,992				
Average interest rate(1)	1.6	%	4.9	%	4.9	%	4.9	%	4.9	%	-	
Debts in Japanese Yen												
Fixed rate	85	85	85	85	85	619	1,044	1,172				
Average interest rate	2.6	%	2.6	%	2.6	%	2.6	%	2.6	%	2.6	%
Variable rate	223	223	-	-	-	-	446	446				
Average interest rate(1)	2.9	%	2.9	%	-	-	-	-	-	-	-	
Debts in HK Dollar												
Fixed rate	-	-	-	10,667	-	-	10,667	10,667				
Average interest rate	-	-	-	4.2	%	-	-	-				
Variable rate	-	-	-	-	-	-	-	-				
Average interest rate(1)	-	-	-	-	-	-	-	-				
Debts in Euro												
Fixed rate	27	-	-	-	-	-	27	27				
Average interest rate	6.6	%	-	-	-	-	-	-				

(1) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2010.

(2) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive.

(RMB equivalent in millions, except exchange rate)

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As of December 31, 2009

	Expected Maturity Date						Total carrying amount	Fair value
	2010	2011	2012	2013	2014	Thereafter		
Assets								
Cash and cash equivalent								
In Renminbi	6,306	-	-	-	-	-	6,306	6,306
In US Dollar	2,184	-	-	-	-	-	2,184	2,184
In HK Dollar	149	-	-	-	-	-	149	149
In Japanese Yen	14	-	-	-	-	-	14	14
In Euro	129	-	-	-	-	-	129	129
Time deposits with financial institutions								
In Reminbi	1,232	-	-	-	-	-	1,232	1,232
In US Dollar	4	-	-	-	-	-	4	4
Liabilities								
Debts in Renminbi								
Fixed rate	50,947	192	38,580	60	28,392	52,364	170,535(4)	169,730
Average interest rate	2.8 %	2.8 %	2.8 %	2.5 %	2.5 %	1.6 %		
Variable rate	4,554	3,513	4,108	5,200	1,126	-	18,501	18,501
Average interest rate(3)	5.4 %	5.2 %	5.2 %	5.3 %	5.2 %	-		
Debts in US Dollar								
Fixed rate	1,108	71	57	57	57	279	1,629	1,644
Average interest rate	1.0 %	1.5 %	1.4 %	1.4 %	1.4 %	1.4 %		
Variable rate	18,216	6,900	4	3	4	2	25,129	25,129
Average interest rate(3)	1.4 %	2.4 %	4.9 %	4.9 %	4.9 %	4.9 %		
Debts in Japanese Yen								
Fixed rate	104	74	74	74	74	654	1,054	1,172
Average interest rate	2.6 %	2.6 %	2.6 %	2.6 %	2.6 %	2.6 %		
Variable rate	202	202	202	-	-	-	606	606
Average interest rate(3)	2.9 %	2.9 %	2.9 %	-	-	-		
Debts in HK Dollar								
Fixed rate	-	-	-	-	10,371	-	10,371	10,371
Average interest rate	-	-	-	-	4.2 %	-		
Variable rate	-	-	-	-	-	-	-	-

Average interest rate(3)	-	-	-	-	-	-	-	-
Debts in Euro								
Fixed rate	85	31	-	-	-	-	116	120
Average interest rate	6.6	% 6.6	% -	-	-	-	-	-

(3) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2009.

(4) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive.

ITEM DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Depository Fees and Charges

Under the terms of the Deposit Agreement for China Petroleum & Chemical Corporation's American Depositary Shares (ADSs), an ADS holder may have to pay the following services fees to the Depository:

Services	Fees
Issuance of ADSs	\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
Cancellation of ADSs	\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) canceled
Distribution of cash dividends or other cash distributions	\$2.00 (or less) per 100 ADSs (or portion of 100 ADSs) held

Distribution of ADSs pursuant to stock dividends, free stock distributions or exercises of rights	\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) held
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Distribution of securities other than ADSs or rights to purchase additional ADSs	\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) held
--	---

An ADS holder will also be responsible to pay certain fees and expenses incurred by the Depositary and certain taxes and governmental charges such as:

- Taxes (including relevant interests and fines) and other governmental charges;

- such registration fees as may from time to time be in effect, for the registration of deposited securities in the register of members, or for the registration of transfers of deposited securities to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals;
- such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement;
- such expenses as are incurred by the Depositary in the conversion of foreign currency;
- such expenses as are incurred with the compliance with the foreign currency control, ADSs and other deposited securities related laws, regulations and rules; and
- any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, Depositary, or the agents of the Custodian or Depositary, in connection with the servicing of deposited securities.

Depositary Payments for the Year 2010

In 2010, Citibank, N.A., the Depositary for our ADR program, provided reimbursement for our expenses related to the listing and investor' relations activities, etc. as follows:

- reimbursement of application fees: US\$50,733.56
- reimbursement of data infrastructure fees: US\$4,416.04
- reimbursement of proxy procedure fees: US\$164,126.93
- reimbursement of investor relations expenses (including expenses related to non-deal road show, investor meeting and investor relations agency) : US\$274,085.66
- the accounting committee and accounting standard committee of public company: US\$22,656.09
- Total: US\$516,018.28

ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

13.

None.

ITEM MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

14.

- A. MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITIES HOLDERS

None.

- B. USE OF PROCEEDS

Not applicable.

ITEM CONTROLS AND PROCEDURES

15.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure the information required to be disclosed in reports filed by us under the U.S. Securities & Exchange Act of 1934 (the "Exchange Act"), as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2010 (the "Evaluation Date"), the end of the fiscal year covered by this annual report. Based on this evaluation, our principal executive officer

and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting based upon the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of December 31, 2010. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2010 based on these criteria.

KPMG, an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Petroleum & Chemical Corporation:

We have audited China Petroleum & Chemical Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. China Petroleum & Chemical Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those

policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, China Petroleum & Chemical Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

/S/ KPMG
Hong Kong, China
March 25, 2011

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2010, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM RESERVED

16.

ITEM AUDIT COMMITTEE FINANCIAL EXPERT

16A.

The board of directors has determined that Mr. Wu Xiaogen qualifies as an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. Mr. Wu was appointed as an independent non-executive director and a member of the audit committee of the fourth board of our company in 2010. For Mr. Wu's biographical information, see "Item 6 Directors, Senior Management and Employees – A. Directors, members of the supervisory committee and senior management."

ITEM CODE OF ETHICS

16B.

As of the date of this annual report, we do not have, in form, a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our principal executive officers, Mr. Su Shulin (Chairman) and Mr. Wang Tianpu (Vice Chairman and President), currently also serve as our directors and are thus subject to the director service contracts that they have with us. Our principal financial officer, Mr. Wang Xinhua (CFO) is subject to the employment contract that he has with us. Under such contracts, each of them agrees that he owes a fiduciary and diligence obligation to our company and that he shall not engage in any activities in competition with our business or carry any activities detrimental to the interests of our company. Each of them also agrees to perform his respective duties as a director and senior officer in accordance with the Company Law of the PRC, relevant rules and regulations promulgated by China Securities Regulatory Commission and the Mandatory Provisions of Articles of Association of Overseas Listed Companies.

ITEM PRINCIPAL ACCOUNTANT FEES AND SERVICES

16C.

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2009 and 2010:

	Audit Fees	Audit-Related Fees	Tax Fees	Other Fees
2009	RMB84 million	—	—	—
2010	RMB80 million	—	—	—

Before our principal accountants were engaged by our company or our subsidiaries to render audit or non-audit services, the engagement has been approved by our audit committee.

ITEM EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
16D.

Not applicable.

ITEM PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS
16E.

None.

ITEM CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT
16F.

Not applicable.

ITEM COMPARISON OF NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE RULES AND
16G. CHINA CORPORATE GOVERNANCE RULES FOR LISTED COMPANIES

Under the amended Corporate Governance Rules of New York Stock Exchange (NYSE), foreign issuers (including the Company) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences is listed below:

NYSE corporate governance rules Corporate governance guidelines	Corporate governance rules applicable to the domestically listed companies in China and the Company’s governance practices
Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director compensation, director continuing education, annual performance evaluation of the board of directors, etc.	CSRC (China Securities Regulatory Commission) has issued the Corporate Governance Rules, prescribing detailed guidelines on directors of the listed companies, including director selection, the structure of the board of directors and director performance evaluation etc. The Company Law of PRC has specific regulations on the directors’ qualification. Furthermore, CSRC promulgates the guidelines on the senior management training and organizes the relevant training. The Company has complied with the above mentioned laws or rules.
Director Independence A listed company must have a majority of independent directors on its board of directors. No director qualifies as “independent” unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a	It is required in China that any listed company must establish an independent director system and set forth specific requirements for the qualification of independent directors. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main

relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$120,000 in direct compensation from the listed company.

To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship.

The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.

No similar requirements.

Nominating/Corporate Governance Committee

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.

It is stipulated in China that the board of directors of a listed company may, through the resolution of the shareholders' meeting, establish a nominating committee composed entirely of directors, of which the independent directors shall be the majority and the convener. Up to now, the Company has not set up any nominating committee.

The nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities which, at minimum, must be to: search for eligible people for the board of directors, select and nominate directors for the next session of the shareholders' annual meeting, study and propose corporate governance guidelines, supervise the evaluation of the board of directors and management, and evaluate the performance of the committee every year.

Relevant responsibilities of the nominating/corporate governance committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

It is stipulated in China that the board of directors of a listed company should, through the resolution of shareholders' meeting, have a compensation and assessment committee composed entirely of directors, of whom the independent directors are the majority and act as the convener.

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

- (1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;

It is stipulated in China that the responsibilities of the compensation committee are:

- (1) to study evaluation standards on the performance of directors and the senior management and submit suggestion to the board of directors;
- (2) to study and review the compensation policies on the directors and the senior management.

It is also stipulated that the committee shall produce a report about the committee's performance in the annual report. But the committee is not required to produce a report on the executive compensation or

(3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC. The charter must also include the requirement for an annual performance evaluation of the compensation committee.

make an annual performance evaluation of the committee.

The board of directors of the Company has established a compensation and performance evaluation committee composed mainly of independent directors who act as the convener, and the committee has established a written charter complying with the domestic corporate governance rules.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Securities Exchange Act of 1934 (the "Exchange Act"). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

It is stipulated in China that the board of directors of a listed company should, through the resolution of the shareholders' meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

Each listed company must have an internal audit department.

Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules. It is also stipulated that the committee shall produce a report about the committee's performance in the annual report.

But according to the domestic practices, the company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the company's annual proxy statement.

The Board of Directors of the Company has established an audit committee that satisfies relevant domestic and overseas requirements and the audit committee has a written charter.

China has a similar regulatory provision, and the Company has an internal audit department.

The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers shall be approved by the board and disclosed to the public upon the approval of the board of directors.

Code of ethics for directors, officers and employees

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

China does not have such requirement for a code for ethics. But, since the directors and officers of the Company have all signed the Director Service Agreement or employment agreement, as applicable, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal responsibilities in accordance with the Company Law of PRC, relative requirements of CSRS and Mandatory Provisions to the Charter of Companies Listed Overseas. Meanwhile, the Company establishes The Model Code of Securities Transactions by Corporate

Employees and The Rules of The Company's Shares Transactions by Corporate Directors, Superiors and Senior Managements to regulate the above mentioned people when transacting related securities. In 2008, the Company promulgated the Code for Employees of the Company as the standards of business conduct and ethics of the employees.

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE on writing of any material non-compliance with any applicable provisions of Section 303A.

No similar requirements.

ITEM FINANCIAL STATEMENTS

17.

Not applicable.

ITEM FINANCIAL STATEMENTS

18.

See F-pages following Item 19.

ITEM EXHIBITS

19.

1 ** Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on May 24, 2006 (English translation), incorporated by reference to Exhibit 1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).

1.1 ** Amendment to the Articles of Association of China Petroleum & Chemical Corporation, adopted by the shareholders' meeting on May 26, 2008 (English translation), incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 20, 2009 (File Number: 001-15138).

1.2 ** Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on May 22, 2009 (English translation), incorporated by reference to Exhibit 1.2 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 30, 2010 (File Number: 001-15138).

4.1** Forms of Director Service Contracts dated May 24, 2006 (English translation), incorporated by reference to Exhibit 4.1 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).

4.2** Forms of Supervisor Service Contracts dated May 24, 2006 (English translation), incorporated by reference to Exhibit 4.2 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).

4.3** Reorganization Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.4** Agreement for Mutual Provision of Products and Ancillary Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.5** Agreement for Provision of Cultural, Educational, Hygiene and Community Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

4.6** Trademark License Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000

(File Number: 333-12502).

- 4.7** Patents and Proprietary Technology License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.8** Computer Software License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.9** Assets Swap Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.9 to our Registration

Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).

- 4.10** Land Use Rights Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.12** Property Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.13** Accounts Collectable Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.14** Loan Transfer and Adjustment Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502).
- 4.15** Agreement on Adjustment to Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 11, 2001 (English translation), incorporated by reference to Exhibit 4.15 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).
- 4.16** Land Use Right Leasing Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 22, 2003 (English translation), incorporated by reference to Exhibit 4.16 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).
- 4.17** 2004 Agreement on Adjustment to Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated October 31, 2004 (English translation), incorporated by reference to Exhibit 4.17 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).
- 4.18** Memorandum on Adjustment of Rent of Land Use Rights between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated March 31, 2006 (English translation), incorporated by reference to Exhibit 4.18 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).
- 4.19** Supplemental Agreement on Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated March 31, 2006 (English translation), incorporated by reference to Exhibit 4.19 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on April 13, 2007 (File Number: 001-15138).

4.20** Memorandum on Adjustment of Rent of Land Use Rights between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 22, 2008 (English Translation), incorporated by reference to Exhibit 4.20 to our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 20, 2009 (File Number: 001-15138).

8* A list of the Registrant's subsidiaries.

12.1* Certification of Chairman pursuant to Rule 13a-14(a).

12.2* Certification of President pursuant to Rule 13a-14(a).

12.3* Certification of CFO pursuant to Rule 13a-14(a).

13* Certification of CEO and CFO pursuant to 18 U.S.C. §1350, and Rule 13a-14(b).

* Filed herewith.

** Incorporated by reference.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
China Petroleum & Chemical Corporation:

We have audited the accompanying consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Petroleum & Chemical Corporation and subsidiaries as of December 31, 2009 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China Petroleum & Chemical Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 25, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/S/ KPMG
Hong Kong, China
March 25, 2011

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

(Amounts in millions, except per share data)

	Note	Years ended December 31,		
		2008	2009	2010
		RMB	RMB	RMB
Operating revenues				
Sales of goods		1,413,203	1,315,915	1,876,758
Other operating revenues	3	31,088	29,137	36,424
		1,444,291	1,345,052	1,913,182
Other income				
Other income	4	50,857	—	—
Operating expenses				
Purchased crude oil, products and operating supplies and expenses		(1,270,586)	(980,564)	(1,482,484)
Selling, general and administrative expenses	5	(39,420)	(40,539)	(51,048)
Depreciation, depletion and amortization		(49,541)	(54,016)	(59,223)
Exploration expenses, including dry holes		(8,310)	(10,545)	(10,955)
Personnel expenses	6	(23,408)	(28,895)	(33,672)
Taxes other than income tax	7	(57,214)	(132,884)	(157,189)
Other operating expenses, net	8	(8,088)	(6,910)	(13,607)
Total operating expenses		(1,456,567)	(1,254,353)	(1,808,178)
Operating income		38,581	90,699	105,004
Finance costs				
Interest expense	9	(12,842)	(7,609)	(7,972)
Interest income		466	277	660
Unrealized gain / (loss) on embedded derivative component of the Convertible Bonds	24(c)	3,947	(218)	(127)
Foreign currency exchange losses		(958)	(345)	(609)
Foreign currency exchange gains		3,278	429	1,074
Net finance costs		(6,109)	(7,466)	(6,974)
Investment income		390	374	273
Income from associates and jointly controlled entities		580	2,997	5,390
Earnings before income tax		33,442	86,604	103,693
Tax expense	10	(3,624)	(19,599)	(25,689)
Net income		29,818	67,005	78,004
Attributable to:				
Equity shareholders of the Company		31,199	63,147	71,800
Non-controlling interests		(1,381)	3,858	6,204
Net income		29,818	67,005	78,004
Earnings per share:				
Basic	12	0.36	0.73	0.83

Diluted	12	0.32	0.72	0.82
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See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010
(Amounts in millions)

	Note	Years ended December 31,		
		2008 RMB	2009 RMB	2010 RMB
Net income		29,818	67,005	78,004
Other comprehensive income for the year (after tax and reclassification adjustments)	11			
Cash flow hedges		—	54	(221)
Available-for-sale securities		(232)	(175)	(9)
Share of other comprehensive income of associates		(2,206)	806	(533)
Foreign currency translation differences		(106)	(4)	(1,360)
Total other comprehensive income		(2,544)	681	(2,123)
Total comprehensive income for the year		27,274	67,686	75,881
Attributable to:				
Equity shareholders of the Company		28,821	63,867	69,793
Non-controlling interests		(1,547)	3,819	6,088
Total comprehensive income for the year		27,274	67,686	75,881

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2010
(Amounts in millions)

	Note	December 31, 2009 RMB	2010 RMB
ASSETS			
Current assets			
Cash and cash equivalents		8,782	17,008
Time deposits with financial institutions		1,236	1,132
Trade accounts receivable, net	13	26,592	43,093
Bills receivable		2,110	15,950
Inventories	14	141,727	156,546
Prepaid expenses and other current assets	15	21,032	26,500
Total current assets		201,479	260,229
Non-current assets			
Property, plant and equipment, net	16	484,815	540,700
Construction in progress	17	120,375	89,599
Goodwill	18	14,072	8,207
Interest in associates	19	18,162	22,815
Interest in jointly controlled entities	20	13,928	20,199
Investments	21	2,174	2,075
Deferred tax assets	23	13,975	15,516
Lease prepayments		16,238	19,464
Long-term prepayments and other assets	22	13,045	16,350
Total non-current assets		696,784	734,925
Total assets		898,263	995,154
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debts	24	59,350	17,019
Loans from Sinopec Group Company and its affiliates	24	15,866	18,809
Trade accounts payable	25	96,762	132,528
Bills payable	25	23,111	3,818
Accrued expenses and other payables	26	117,798	153,478
Income tax payable		3,034	10,754
Total current liabilities		315,921	336,406
Non-current liabilities			
Long-term debts	24	110,918	136,465
Loans from Sinopec Group Company and its affiliates	24	41,807	37,610
Deferred tax liabilities	23	9,707	15,017
Provisions	27	11,860	15,573
Other liabilities		3,234	3,715
Total non-current liabilities		177,526	208,380
Total liabilities		493,447	544,786
Equity			
Share capital	28	86,702	86,702

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Reserves	29	292,238	332,345
Total equity attributable to equity shareholders of the Company		378,940	419,047
Non-controlling interests		25,876	31,321
Total equity		404,816	450,368
Total liabilities and equity		898,263	995,154

See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Amounts in millions)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Dis- cretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to equity shareholders of the Company RMB	Non-control- ling interests RMB	Total equity RMB
Balance as of January 1, 2008, as previously reported	86,702	(22,652)	18,072	37,797	27,000	3,564	157,414	307,897	25,325	333,222
Adjustment for the Acquisition of SSI (Note 1)	—	—	—	—	—	236	—	236	196	432
Balance as of January 1, 2008, as adjusted	86,702	(22,652)	18,072	37,797	27,000	3,800	157,414	308,133	25,521	333,654
Net income	—	—	—	—	—	—	31,199	31,199	(1,381)	29,818
Other comprehensive income:										
Available-for-sale securities	—	—	—	—	—	(114)	—	(114)	(118)	(232)
Share of other comprehensive income of associates	—	—	—	—	—	(2,206)	—	(2,206)	—	(2,206)
Foreign currency translation differences	—	—	—	—	—	(58)	—	(58)	(48)	(106)
Total other comprehensive income	—	—	—	—	—	(2,378)	—	(2,378)	(166)	(2,544)
Total comprehensive income for the year	—	—	—	—	—	(2,378)	31,199	28,821	(1,547)	27,274
Transactions with owners recorded directly in equity:										

Contributions by
and distributions
to owners:

Issuance of the Bonds with Warrants (Note 24 (d))	—	6,879	—	—	—	—	—	6,879	—	6,879
Final dividend for 2007	—	—	—	—	—	—	(9,971)	(9,971)	—	(9,971)
Interim dividend for 2008	—	—	—	—	—	—	(2,601)	(2,601)	—	(2,601)
Adjustment of statutory surplus reserve	—	—	—	1,189	—	—	(1,189)	—	—	—
Appropriation (Note 29(c))	—	—	—	4,092	20,000	—	(24,092)	—	—	—
Transfer from retained earnings to other reserves	—	—	—	—	—	1,430	(1,430)	—	—	—
Distribution to Sinopec Group Company	—	(202)	—	—	—	(958)	—	(1,160)	—	(1,160)
Distributions by subsidiaries to non-controlling interests net of contributions	—	—	—	—	—	—	—	—	(1,152)	(1,152)
Total contributions by and distributions to owners	—	6,677	—	5,281	20,000	472	(39,283)	(6,853)	(1,152)	(8,005)
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Acquisitions of non-controlling interests of subsidiaries	—	(318)	—	—	—	—	—	(318)	(617)	(935)
Total transactions with owners:	—	6,359	—	5,281	20,000	472	(39,283)	(7,171)	(1,769)	(8,940)
Realization of deferred tax on lease prepayments	—	—	—	—	—	(6)	6	—	—	—
Balance as of December 31, 2008	86,702	(16,293)	18,072	43,078	47,000	1,888	149,336	329,783	22,205	351,988

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

(Amounts in millions)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Dis- cretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to equity shareholders of the Company RMB	Non-contr interests RMB	Total equity RMB
Balance as of January 1, 2009	86,702	(16,293)	18,072	43,078	47,000	1,888	149,336	329,783	22,205	351,988
Net income	—	—	—	—	—	—	63,147	63,147	3,858	67,005
Other comprehensive income:										
Cash flow hedges	—	—	—	—	—	54	—	54	—	54
Available-for-sale securities	—	—	—	—	—	(138)	—	(138)	(37)	(175)
Share of other comprehensive income of associates	—	—	—	—	—	806	—	806	—	806
Foreign currency translation differences	—	—	—	—	—	(2)	—	(2)	(2)	(4)
Total other comprehensive income	—	—	—	—	—	720	—	720	(39)	681
Total comprehensive income for the year	—	—	—	—	—	720	63,147	63,867	3,819	67,686
Transactions with owners recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2008	—	—	—	—	—	—	(7,803)	(7,803)	—	(7,803)
Interim dividend for 2009	—	—	—	—	—	—	(6,069)	(6,069)	—	(6,069)
Appropriation (Note 29 (c) and	—	—	—	4,953	20,000	—	(24,953)	—	—	—

(d)										
Transfer from retained earnings to other reserves	—	—	—	—	—	1,387	(1,387)	—	—	—
Transfer from other reserves to capital reserve	—	(1,551)	—	—	—	1,551	—	—	—	—
Consideration for the Acquisition of the Acquired Group (Note 1)	—	—	—	—	—	(771)	—	(771)	—	(771)
Distribution to Sinopec Group Company	—	(49)	—	—	—	—	—	(49)	—	(49)
Distributions by subsidiaries to non-controlling interests net of contributions	—	—	—	—	—	—	—	—	(144)	(144)
Total contributions by and distributions to owners	—	(1,600)	—	4,953	20,000	2,167	(40,212)	(14,692)	(144)	(14,836)
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Acquisitions of non-controlling interests of subsidiaries	—	(18)	—	—	—	—	—	(18)	(4)	(22)
Total transactions with owners	—	(1,618)	—	4,953	20,000	2,167	(40,212)	(14,710)	(148)	(14,858)
Realization of deferred tax on lease prepayments	—	—	—	—	—	(8)	8	—	—	—
Balance as of December 31, 2009	86,702	(17,911)	18,072	48,031	67,000	4,767	172,279	378,940	25,876	404,816

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)

(Amounts in millions)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Dis- cretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to equity shareholders of the Company RMB	Non-control- ling interests RMB	Total equity RMB
Balance as of January 1, 2010	86,702	(17,911)	18,072	48,031	67,000	4,767	172,279	378,940	25,876	404,816
Net income	—	—	—	—	—	—	71,800	71,800	6,204	78,004
Other comprehensive income:										
Cash flow hedges	—	—	—	—	—	(221)	—	(221)	—	(221)
Available-for-sale securities	—	—	—	—	—	(9)	—	(9)	—	(9)
Share of other comprehensive income of associates	—	—	—	—	—	(533)	—	(533)	—	(533)
Foreign currency translation differences	—	—	—	—	—	(1,244)	—	(1,244)	(116)	(1,360)
Total other comprehensive income	—	—	—	—	—	(2,007)	—	(2,007)	(116)	(2,123)
Total comprehensive income for the year	—	—	—	—	—	(2,007)	71,800	69,793	6,088	75,881
Transactions with owners recorded directly in equity:										
Contributions by and distributions to owners:										
Warrants exercised	—	—	2	—	—	—	—	2	—	2
Expiry of warrants	—	(6,879)	6,879	—	—	—	—	—	—	—
Final dividend for 2009	—	—	—	—	—	—	(9,537)	(9,537)	—	(9,537)

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Interim dividend for 2010	—	—	—	—	—	—	(6,936)	(6,936)	—	(6,936)
Appropriation (Note 29 (c) and (d))	—	—	—	6,680	20,000	—	(26,680)	—	—	—
Transfer from retained earnings to other reserves	—	—	—	—	—	1,672	(1,672)	—	—	—
Transfer from other reserves to capital reserve	—	(8,310)	—	—	—	8,310	—	—	—	—
Consideration for the Acquisition of SSI (Note 1)	—	—	—	—	—	(13,177)	—	(13,177)	—	(13,177)
Distribution to Sinopec Group Company	—	(29)	—	—	—	—	—	(29)	—	(29)
Distributions by subsidiaries to non-controlling interests net of contributions	—	—	—	—	—	—	—	—	(643)	(643)
Total contributions by and distributions to owners	—	(15,218)	6,881	6,680	20,000	(3,195)	(44,825)	(29,677)	(643)	(30,320)
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Acquisitions of non-controlling interests of subsidiaries	—	(9)	—	—	—	—	—	(9)	—	(9)
Total transactions with owners	—	(15,227)	6,881	6,680	20,000	(3,195)	(44,825)	(29,686)	(643)	(30,329)
Realization of deferred tax on lease prepayments	—	—	—	—	—	(8)	8	—	—	—
Appropriation to safety production fund (Note 29(h))	—	—	—	—	—	1,325	(1,325)	—	—	—
Balance as of December 31, 2010	86,702	(33,138)	24,953	54,711	87,000	882	197,937	419,047	31,321	450,368

See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010
(Amounts in millions)

	Note	Years ended December 31,		
		2008 RMB	2009 RMB	2010 RMB
Net cash generated from operating activities	(a)	86,443	165,513	170,333
Investing activities				
Capital expenditure		(102,946)	(107,487)	(106,371)
Exploratory wells expenditure		(8,380)	(8,708)	(7,392)
Purchase of investments, investments in associates and investments in jointly controlled entities		(3,089)	(3,240)	(11,310)
Proceeds from disposal of investments and investments in associates		1,366	504	1,687
Proceeds from disposal of property, plant and equipment		265	594	16,126
Purchase of time deposits with financial institutions		(1,442)	(2,304)	(3,522)
Proceeds from maturity of time deposits with financial institutions		1,358	1,820	3,626
Interest received		467	277	660
Investment and dividend income received		3,682	1,133	1,335
Payments for settlement of derivative financial instruments		(5,490)	(3,197)	(5,273)
Proceeds from settlement of derivative financial instruments		5,921	3,253	4,646
Net cash used in investing activities		(108,288)	(117,355)	(105,788)
Financing activities				
Proceeds from issuance of corporate bonds		15,000	61,000	21,000
Proceeds from issuance of convertible bonds, net of issuance costs		29,850	—	—
Proceeds from issuance of shares		—	—	2
Proceeds from bank and other loans		1,192,978	781,212	663,491
Repayments of corporate bonds		(10,000)	(15,000)	(31,000)
Repayments of bank and other loans		(1,177,859)	(850,683)	(672,804)
Distributions by subsidiaries to non-controlling interests		(2,188)	(858)	(1,051)
Contributions to subsidiaries from non-controlling interests		1,137	714	408
Acquisitions of non-controlling interests of subsidiaries		(598)	(213)	—
Dividend paid		(13,530)	(13,559)	(16,391)
Interest paid		(12,263)	(7,762)	(6,739)
Distributions to Sinopec Group Company		(2,180)	(1,262)	(13,210)
Net cash generated from / (used in) financing activities		20,347	(46,411)	(56,294)
Net (decrease) / increase in cash and cash equivalents		(1,498)	1,747	8,251
Cash and cash equivalents as of January 1		8,618	7,040	8,782
Effect of foreign currency exchange rate changes		(80)	(5)	(25)
Cash and cash equivalents as of December 31		7,040	8,782	17,008

See accompanying notes to consolidated financial statements.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010
 (Amounts in millions)

(a) Reconciliation of earnings before income tax to net cash generated from operating activities

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Operating activities			
Earnings before income tax	33,442	86,604	103,693
Adjustment for:			
Depreciation, depletion and amortization	49,541	54,016	59,223
Dry hole costs	4,236	4,761	4,986
Income from associates and jointly controlled entities	(580)	(2,997)	(5,390)
Investment income	(390)	(374)	(273)
Interest income	(466)	(277)	(660)
Interest expense	12,842	7,609	7,972
Unrealized gain on foreign currency exchange rate changes and derivative financial instruments	(2,390)	(81)	(438)
Gain on disposal of property, plant and equipment, net	(231)	(211)	(253)
Impairment losses on long-lived assets	8,500	7,285	14,477
Unrealized (gain) / loss on embedded derivative component of the Convertible Bonds	(3,947)	218	127
	100,557	156,553	183,464
Decrease / (increase) in trade accounts receivable	10,818	(13,467)	(16,500)
Decrease / (increase) in bills receivable	9,273	1,568	(13,840)
Decrease / (increase) in inventories	21,058	(45,606)	(14,819)
(Increase) / decrease in prepaid expenses and other current assets	(10,856)	13,989	(7,062)
Increase in lease prepayments	(2,600)	(5,073)	(3,226)
Decrease in long-term prepayments and other assets	1,930	4,378	2,831
(Decrease) / increase in trade accounts payable	(36,809)	40,943	35,765
Increase / (decrease) in bills payable	6,323	4,353	(19,293)
Increase in accrued expenses and other payables	11,006	13,417	37,318
Increase / (decrease) in other liabilities	442	503	(147)
	111,142	171,558	184,491
Income tax paid	(24,699)	(6,045)	(14,158)
Net cash generated from operating activities	86,443	165,513	170,333

See accompanying notes to consolidated financial statements.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in millions, except per share data and except otherwise stated)

1 PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

Principal activities

China Petroleum & Chemical Corporation (the “Company”) is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the “Group”), engages in oil and gas and chemical operations in the People’s Republic of China (the “PRC”). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil and natural gas by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Organization

The Company was established in the PRC on February 25, 2000 as a joint stock limited company as part of the reorganization (the “Reorganization”) of China Petrochemical Corporation (“Sinopec Group Company”), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureau, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganization, certain of Sinopec Group Company’s core oil and gas and chemical operations and businesses together with the related assets and liabilities were transferred to the Company. On February 25, 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on February 25, 2000 represented the entire registered and issued share capital of the Company as of that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals.

Basis of preparation

Pursuant to the resolution passed at the Directors’ meeting on March 27, 2009, the Group acquired the entire equity interests of Sinopec Qingdao Petrochemical Company Limited and certain storage and distribution operations (collectively “the Acquired Group”) from Sinopec Group Company for total cash considerations of RMB 771 (hereinafter referred to as the “Acquisition of the Acquired Group”).

Pursuant to the resolution passed at the Directors’ meeting on March 26, 2010, the Group acquired 55% equity interests of Sonangol Sinopec International Limited (“SSI”) from Sinopec Overseas Oil & Gas Limited (“SOOGL”), a subsidiary of Sinopec Group Company, and assumed the shareholder’s loans of USD 292 provided by SOOGL to SSI, for a total cash consideration of USD 2,259 (hereinafter referred to as the “Acquisition of SSI”). SSI is engaged in the oil and gas operations in the Republic of Angola (“Angola”).

As the Group, the Acquired Group and SSI are under the common control of Sinopec Group Company, the Acquisition of the Acquired Group and the Acquisition of SSI have been reflected in the accompanying consolidated financial statements as combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Acquired Group and SSI have been accounted for at historical cost and the consolidated financial statements of the Company prior to these acquisitions have been restated to include the results of operations and the assets and liabilities of the Acquired Group and SSI on a combined basis. The differences between the total considerations paid over the amounts of the net assets of the Acquired Group and SSI were RMB 1,551 and RMB 8,310, respectively, which were accounted for as equity transactions.

The financial condition and the results of operation previously reported by the Group as of and for the years ended December 31, 2008 and 2009 have been restated to include the results of operations and the assets and liabilities of SSI on a combined basis as set out below.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

	The Group, as previously reported RMB	SSI RMB	Elimination* RMB	The Group, as restated RMB
2008				
Results of operation:				
Operating revenues	1,444,291	16,869	(16,869)	1,444,291
Net income attributable to the equity shareholders of the Company	28,525	2,674	—	31,199
Basic earnings per share	0.33	—	—	0.36
Diluted earnings per share	0.29	—	—	0.32
2009				
Results of operation:				
Operating revenues	1,345,052	10,973	(10,973)	1,345,052
Net income attributable to the equity shareholders of the Company	61,760	1,387	—	63,147
Basic earnings per share	0.71	—	—	0.73
Diluted earnings per share	0.71	—	—	0.72
Financial condition:				
Current assets	201,280	1,186	(987)	201,479
Total assets	877,842	21,408	(987)	898,263
Current liabilities	313,419	3,489	(987)	315,921
Total liabilities	478,989	15,445	(987)	493,447
Total equity attributable to equity shareholders of the Company	375,661	3,279	—	378,940

*SSI sold its crude oil to the Group. The transactions between the Group and the SSI have been eliminated on combination. All other significant balances and transactions between the Group and SSI have been eliminated on combination.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS includes International Accounting Standards (“IAS”) and related interpretations. A summary of the significant accounting policies adopted by the Group are set out in Note 2. The accompanying financial statements were authorized for issue by the Board of Directors on March 25, 2011.

The IASB has issued certain new and revised IFRS that are first effective for the current accounting period of the Group. There have been no significant changes to the accounting policy applied in these financial statements for the years presented as a result of these developments.

The Group has not adopted any other new standard or interpretation that is not yet effective for the current accounting period (Note 37).

In prior years, investment and dividend income received, and interest received and paid were classified as operating activities in the consolidated statements of cash flows. Since 2010, investment and dividend income and interest received are classified as investing activities, and interest paid are classified as financing activities, in the consolidated statement of cash flows. The change is to align the presentation with the Group's financial statements prepared in accordance with the PRC accounting policies complying with Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance of the PRC ("MOF"). This change has been applied retrospectively.

The accompanying financial statements are prepared on the historical cost basis except for the remeasurement of available-for-sale securities (Note 2(k)), securities held for trading (Note 2(k)), derivative financial instruments (Note 2(l) and (m)) and derivative component of the convertible bonds (Note 2(q)) to their fair values.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and the major sources of estimation uncertainty are disclosed in Note 36.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries, and the Group's interest in associates and jointly controlled entities.

(i) Subsidiaries and non-controlling interests

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Non-controlling interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statements of equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of income and consolidated statements of comprehensive income as an allocation of the total net income or loss and total comprehensive income or loss for the year between non-controlling interests and the equity shareholders of the Company.

The particulars of the Group's principal subsidiaries are set out in Note 34.

(ii) Associates and jointly controlled entities

An associate is an entity, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

Investments in associates and jointly controlled entities are accounted for in the consolidated financial statements using the equity method from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(j) and (n)).

The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the consolidated statements of income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statements of comprehensive income.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealized gains arising from inter-company transactions are eliminated on consolidation. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

(b) Translation of foreign currencies

The presentation currency of the Group is Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC's rates at the balance sheet date.

Exchange differences, other than those capitalized as construction in progress, are recognized as income or expenses in the "finance costs" section of the consolidated statements of income.

The results of foreign operations are translated into Renminbi at the applicable rates quoted by the PBOC prevailing on the transaction dates. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated in equity in the other reserves.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated statements of income when the profit or loss on disposal is recognized.

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(d) Trade, bills and other receivables

Trade, bills and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (Note 2(n)). Trade, bills and other receivables are derecognized if the Group's contractual rights to the cash flows from these financial assets expire or if the Group transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realizable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labor and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(f) Property, plant and equipment

An item of property, plant and equipment is recorded at cost, less accumulated depreciation and impairment losses (Note 2(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognized as an expense in the consolidated statements of income in the year in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized as income or expense in the consolidated statements of income on the date of retirement or disposal.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Depreciation is provided to write off the cost amount of items of property, plant and equipment, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment, and others	4 to 18 years
Oil depots, storage tanks and service stations	8 to 25 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually.

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells, the related support equipment and proved mineral interests in properties are capitalized. The cost of exploratory wells is initially capitalized as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalized costs relating to proved properties are amortized at the field level on a unit-of-production method. The amortization rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Gains and losses on the disposal of proved oil and gas properties are not recognized unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

Management estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices. These estimated future dismantlement costs are discounted at a credit-adjusted risk-free rate and are capitalized as oil and gas properties, which are subsequently amortized as part of the costs of the oil and gas properties.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (Note 2(n)). The cost of lease prepayments is charged to expense on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(n)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

(j) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates or jointly controlled entities. Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

Prior to January 1, 2008, the acquisition of the non-controlling interests of a consolidated subsidiary was accounted for using the acquisition method whereby the difference between the cost of acquisition and the fair value of the net identifiable assets acquired (on a proportionate share) was recognized as goodwill. From January 1, 2008, any difference between the amount by which the non-controlling interest is adjusted (such as through an acquisition of the non-controlling interests) and the cash or other considerations paid is recognized in equity.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units, or groups of cash generating units, that is expected to benefit the synergies of the combination and is tested annually for impairment (Note 2(n)). In respect of associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associates or jointly controlled entities and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(n)).

(k) Investments

Investments in available-for-sale securities are carried at fair value with any change in fair value recognized in other comprehensive income and accumulated separately in equity in other reserves. When these investments are derecognized or impaired, the cumulative gain or loss is reclassified from equity to the consolidated statements of income. Investments in equity securities, other than investments in associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (Note 2(n)).

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in the consolidated statements of income as incurred. At each balance sheet date, the fair value is remeasured, with any resultant gain or loss being recognized in the consolidated statements of income.

(l) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on re-measurement to fair value is recognized immediately in the consolidated statements of income, except where the derivatives qualify for cash flow hedge accounting or the hedge of the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (Note 2(m)).

(m) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on re-measurement of the derivative financial instrument to fair value are recognized in other comprehensive income and accumulated separately in equity in other reserves. The ineffective portion of any gain or loss is recognized immediately in the consolidated statements of income.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated statements of income in the same period or periods during which the asset acquired or liability assumed affects the consolidated statements of income (such as when interest income or expense is recognized).

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated statements of income in the same period or periods during which the hedged forecast transaction affects the consolidated statements of income.

When a hedging instrument expires or is sold, terminated, exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognized in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealized gain or loss is reclassified from equity to the consolidated statements of income immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on re-measurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognized in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to the consolidated statements of income. The ineffective portion is recognized immediately in the consolidated statements of income.

(n) Impairment of assets

(i) Trade accounts receivable, other receivables and investment in equity securities that do not have an quoted market price in an active market are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognized.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognized as an expense in the consolidated statements of income. Impairment losses for trade and other receivables are reversed through the consolidated statements of income if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

For investments in associates and jointly controlled entities accounted under the equity method (Note 2(a)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policy set out in Note 2(n)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with the accounting policy set out in Note 2(n)(ii).

(ii) Impairment of other long-lived assets is accounted for as follows:

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayments and investments in associates and jointly controlled entities, are reviewed at each balance sheet date to identify indicators that the assets may be impaired. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

The amount of the reduction is recognized as an expense in the consolidated statements of income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Management assesses at each balance sheet date whether there is any indication that an impairment loss recognized for a long-lived asset, except in the case of goodwill, in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as an income. The reversal is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed.

(o) Trade, bills and other payables

Trade, bills and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statements of income over the period of borrowings using the effective interest method.

(q) Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments that contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognized as the liability component is recognized as the equity component. Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortized cost. The interest expense on the liability component is calculated using the effective interest method. The equity component is recognized in the capital reserve until the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is transferred to retained earnings.

(ii) Other convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are accounted for as compound financial instruments that contain a liability component and a derivative component.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognized as the derivative component is recognized as the liability component. Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognized initially as part of the liability. The portion relating to the derivative component is recognized immediately as an expense in the consolidated statements of income.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognized in the consolidated statements of income. The liability component is subsequently carried at amortized cost until extinguished on conversion or redemption. The interest expense recognized in the consolidated statements of income on the liability component is calculated using the effective interest method. Both the liability and the related derivative components are presented together for financial statements reporting purposes.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognized in the consolidated statements of income.

(r) Provisions and contingent liability

A provision is recognized for liability of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for future dismantlement costs are initially recognized based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

A provision for onerous contracts is recognized when the expected economic benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(s) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and ancillary materials are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognized in the consolidated statements of income upon performance of the services. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Interest income is recognized on a time apportioned basis that takes into account the effective yield on the asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred with no future related costs is recognized as income in the period in which it becomes receivable.

(t) Borrowing costs

Borrowing costs are expensed in the consolidated statements of income in the period in which they are incurred, except to the extent that they are capitalized as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(u) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

(v) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and / or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

(w) Research and development expense

Research and development expenditures are expensed in the period in which they are incurred. Research and development expense amounted to RMB 3,427, RMB 3,816 and RMB 4,835 for the years ended December 31, 2008, 2009 and 2010, respectively.

(x) Operating leases

Operating lease payments are charged to the consolidated statements of income on a straight-line basis over the period of the respective leases.

(y) Employee benefits

The contributions payable under the Group's retirement plans are recognized as an expense in the consolidated statements of income as incurred and according to the contribution determined by the plans. Further information is set out in Note 32.

Termination benefits, such as employee reduction expenses, are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(z) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes only to the extent that it is probable that future taxable income will be available against which the assets can be utilized. Deferred tax is calculated on the basis of the enacted tax rates or substantially enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the consolidated statements of income, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously charged or credited to other comprehensive income or directly in equity.

The tax value of losses expected to be available for utilization against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for

set off against the taxable profit of another legal tax unit. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(aa) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

3. OTHER OPERATING REVENUES

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Sale of materials, service and others	30,597	28,749	36,032
Rental income	491	388	392
	31,088	29,137	36,424

4. OTHER INCOME

During the year ended December 31, 2008, the Group recognized grant income of RMB 50,857. The government grant was for compensation of losses incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices, and the measures taken by the Group to stabilize the supply in the PRC refined petroleum product market during the respective years. There were no unfulfilled conditions and other contingencies attached to the receipts of such grant. The Group did not receive government grant during the year ended December 31, 2009 and 2010.

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Operating lease charges	6,993	7,564	10,452
Impairment losses			
- trade accounts receivable	143	70	48
- other receivables	85	222	308

6. PERSONNEL EXPENSES

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Salaries, wages and other benefits	20,535	24,248	28,825
Contributions to retirement schemes (Note 32)	2,873	4,647	4,847
	23,408	28,895	33,672

7. TAXES OTHER THAN INCOME TAX

	Years ended December 31,		
	2008	2009	2010

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	RMB	RMB	RMB
Consumption tax (i)	17,868	110,206	117,928
Special oil income levy (ii)	32,823	7,145	19,760
City construction tax (iii)	3,363	9,212	11,277
Education surcharge	1,838	5,043	6,339
Resources tax	857	857	1,318
Business tax	465	421	567
	57,214	132,884	157,189

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Note:

- (i) Before January 1, 2009, consumption tax is levied on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil at a rate of RMB 277.6 per tonne, RMB 117.6 per tonne, RMB 277.0 per tonne, RMB 256.4 per tonne, RMB 225.2 per tonne, RMB 101.5 per tonne and RMB 124.6 per tonne, respectively. Effective from January 1, 2009, the consumption tax rates on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil changed to RMB 1,388.0 per tonne, RMB 940.8 per tonne, RMB 1,385.0 per tonne, RMB 1,282.0 per tonne, RMB 1,126.0 per tonne, RMB 812.0 per tonne and RMB 996.8 per tonne, respectively.
- (ii) Special oil income levy is levied on oil exploration and production entities based on the progressive rates ranging from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil produced in the PRC exceeding USD 40 per barrel.
- (iii) City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

8. OTHER OPERATING EXPENSES, NET

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Fines, penalties and compensations	106	159	69
Donations	104	174	177
Gain on disposal of property, plant and equipment, net	(231)	(211)	(253)
Impairment losses on long-lived assets (i)	8,500	7,285	14,477
Net realized and unrealized (gains) / losses on derivative financial instruments not qualified as hedging	(776)	(82)	55
Ineffective portion of change in fair value of cash flow hedges	54	16	(16)
Others	331	(431)	(902)
	8,088	6,910	13,607

Note:

- (i) The primary factor resulting in the exploration and production (“E&P”) segment impairment losses of RMB 5,991 for the year ended December 31, 2008, that comprised of impairment losses of RMB 4,600 on property, plant and equipment and RMB 1,391 on goodwill in respect of Sinopec Zhongyuan cash generating unit, was downward reserves estimation for certain oil fields resulting from lower oil and gas pricing. The primary factor resulting in the E&P segment impairment losses of RMB 1,595 and RMB 1,889 on property, plant and equipment (Note 16) for the years ended December 31, 2009 and 2010, respectively, and impairment losses of RMB 1,361 on

goodwill in respect of Dynamic cash generating unit (Note 18) for the year ended December 31, 2010 was unsuccessful development drilling and high operating and development costs for certain small oil fields. The recoverable amounts were determined based on the present values of the expected future cash flows of the asset or cash generating unit using a pre-tax discount rate of 12.0%, 13.5% and 15.6% for the years ended December 31, 2008, 2009 and 2010, respectively. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the asset or cash generating unit and had an impact on the recognition of impairment.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Impairment losses recognized for the chemicals segment were RMB 1,511, RMB 3,807 and RMB 5,121 for the years ended December 31, 2008, 2009 and 2010, respectively, and comprised of impairment losses of RMB 1,511, RMB 3,728 and RMB 2,953 on property, plant and equipment (Note 16) for the years ended December 31, 2008, 2009 and 2010, respectively, impairment losses of RMB 79 on other long-term assets for the year ended December 31, 2009, and impairment losses of RMB 2,168 on goodwill primarily in respect of Sinopec Qilu cash generating unit (Note 18) for the year ended December 31, 2010. Impairment losses recognized for refining segment were RMB 270, RMB 396 and RMB 4,902 for the years ended December 31, 2008, 2009 and 2010, respectively, and comprised of impairment losses of RMB 270, RMB 377 and RMB 1,649 on property, plant and equipment (Note 16) for the years ended December 31, 2008, 2009 and 2010, respectively, impairment loss of RMB 2,737 on goodwill in respect of Sinopec Yangzi cash generating unit (Note 18) for the year ended December 31, 2010, and impairment losses of RMB 19 and RMB 516 on construction in progress (Note 17) for the years ended December 31, 2009 and 2010, respectively. These impairment losses relate to certain refining and chemicals production facilities that are held for use. The recoverable amounts were primarily determined based on the asset held for use model using the present value of estimated future cash flows of the production facilities or cash generating unit using the pre-tax discount rates ranging from 10.4% to 11.5%, 11.2% to 12.1%, and 15.2% to 15.9% for the years ended December 31, 2008, 2009 and 2010, respectively. The primary factor resulting in the impairment losses on property, plant and equipment of the refining and chemicals segments was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be covered through an increase in selling price.

Impairment losses recognized on long-lived assets of the marketing and distribution segment of RMB 709, RMB 1,479 and RMB 1,183 for the years ended December 31, 2008, 2009 and 2010, respectively, and comprised of impairment losses of RMB 698, RMB 1,425 and RMB 1,055 on property, plant and equipment (Note 16) for the years ended December 31, 2008, 2009 and 2010, respectively, and impairment losses of RMB 11, RMB 54 and RMB 128 on construction in progress (Note 17) for the years ended December 31, 2008, 2009 and 2010, respectively, primarily relate to certain service stations and certain construction in progress that were closed or abandoned during respective years. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

9. INTEREST EXPENSE

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB

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Interest expense incurred	13,978	9,783	8,664
Less: Interest expense capitalized*	(1,584)	(2,621)	(1,266)
	12,394	7,162	7,398
Accretion expenses (Note 27)	448	447	574
Interest expense	12,842	7,609	7,972
	Interest rates per annum at which		
	borrowing costs were Capitalized for		
*	3.8% to	3.0% to	3.0% to
	7.1%	6.8%	6.5%

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

10. INCOME TAX

Income tax in the consolidated statements of income represents:

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Current tax			
- Provision for the year	4,102	19,229	22,177
- Under/(over)-provision in prior years	216	(512)	(299)
Deferred taxation (Note 23)	(694)	882	3,811
	3,624	19,599	25,689

Reconciliation between actual income tax expense and the expected income tax at applicable statutory tax rates is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Earnings before income tax	33,442	86,604	103,693
Expected PRC income tax expense at statutory tax rates of 25%	8,361	21,651	25,923
Tax effect of differential tax rate (i)	1,212	(1,621)	(1,525)
Effect of income taxes from foreign operations in excess of taxes at the PRC statutory tax rate (i)	3,632	2,006	2,639
Tax effect of non-deductible expenses	865	326	2,361
Tax effect of non-taxable income	(11,209)	(1,686)	(1,839)
Tax effect of utilization of previously unrecognized tax losses	(401)	(683)	(1,663)
Tax effect of tax losses not recognized	948	118	92
Under/(over)-provision in prior years	216	(512)	(299)
Actual income tax expense.	3,624	19,599	25,689

Note:

- (i) The provision for PRC current income tax is based on a statutory income tax rate of 25% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain entities of the Group in the PRC that are taxed at preferential rates of 15% or 22%, and the foreign operation in Angola that is taxed at 50% of the assessable income as determined in accordance with the relevant income tax rules and regulations of Angola.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

11 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	Years ended December 31,								
	2008			2009			2010		
	Before-tax amount RMB	Tax benefit RMB	Net-of-tax amount RMB	Before-tax amount RMB	Tax (expense)/benefit RMB	Net-of-tax amount RMB	Before-tax amount RMB	Tax benefit RMB	Net-of-tax amount RMB
Cash flow hedges	—	—	—	65	(11)	54	(263)	42	(221)
Available-for-sale securities	(296)	64	(232)	(227)	52	(175)	(9)	—	(9)
Share of other comprehensive income of associates	(2,206)	—	(2,206)	806	—	806	(533)	—	(533)
Foreign currency translation differences	(106)	—	(106)	(4)	—	(4)	(1,360)	—	(1,360)
Other comprehensive income	(2,608)	64	(2,544)	640	41	681	(2,165)	42	(2,123)

(b) Reclassification adjustments relating to components of other comprehensive income

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognized during the year	662	(2,058)	(682)
Amounts transferred to initial carrying amount of hedged items	—	257	53
Reclassification adjustments for amounts transferred to the cost of inventories for the year	(662)	1,866	366
Net deferred tax (expense)/benefit recognized in other comprehensive income	—	(11)	42
Net movement during the year recognized in other comprehensive income	—	54	(221)
Available-for-sale securities:			
Changes in fair value recognized during the year	(132)	(1)	(6)
Gain on disposal transferred to the consolidated statements of income	(164)	(226)	(3)
Net deferred tax benefit recognized in other comprehensive income	64	52	—
Net movement during the year recognized in other comprehensive income	(232)	(175)	(9)

Share of other comprehensive income of associates:

Net movement during the year recognized in other comprehensive income	(2,206)	806	(533)
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Foreign currency translation differences:

Net movement during the year recognized in other comprehensive income	(106)	(4)	(1,360)
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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

12. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2008, 2009 and 2010 is based on the net income attributable to ordinary equity shareholders of the Company of RMB 31,199, RMB 63,147 and RMB 71,800, respectively, and the weighted average number of the shares of 86,702,439,000, 86,702,439,000 and 86,702,513,472, respectively. The calculation of diluted earnings per share for the years ended December 31, 2008, 2009 and 2010 is based on the net income attributable to ordinary equity shareholders of the Company of RMB 28,022, RMB 63,523 and RMB 72,021, respectively, and the weighted average number of the shares of 87,789,799,595, 87,789,799,595, and 87,789,874,067, respectively, calculated as follows:

(i) Net income attributable to ordinary equity shareholders of the Company (diluted)

	2008 RMB	2009 RMB	2010 RMB
Net income attributable to ordinary equity shareholders of the Company	31,199	63,147	71,800
After tax effect of interest expense (net of exchange gain) of the Convertible Bonds	(217)	212	126
After tax effect of unrealized (gain)/loss on embedded derivative component of the Convertible Bonds	(2,960)	164	95
Net income attributable to ordinary equity shareholders of the Company (diluted)	28,022	63,523	72,021

(ii) Weighted average number of shares (diluted)

	2008 Number of shares	2009 Number of shares	2010 Number of shares
Weighted average number of shares as of December 31	86,702,439,000	86,702,439,000	86,702,513,472
Effect of conversion of the Convertible Bonds	1,087,360,595	1,087,360,595	1,087,360,595
Weighted average number of shares (diluted) as of December 31	87,789,799,595	87,789,799,595	87,789,874,067

The calculation of diluted earnings per share for the years ended December 31, 2008 and 2009 excludes the effect of the Warrants (Note 24(d)), since it did not have any dilutive effect.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

13. TRADE ACCOUNTS RECEIVABLE, NET

	December 31,	
	2009	2010
	RMB	RMB
Amounts due from third parties	27,481	33,681
Amounts due from Sinopec Group Company and its affiliates	697	1,848
Amounts due from associates and jointly controlled entities	335	8,886
	28,513	44,415
Less: Impairment losses for bad and doubtful debts	(1,921)	(1,322)
Trade accounts receivable, net	26,592	43,093

Impairment losses for bad and doubtful debts are analyzed as follows:

	2008	2009	2010
	RMB	RMB	RMB
Balance as of January 1	2,909	2,406	1,921
Impairment losses recognized for the year	143	70	48
Reversal of impairment losses	(254)	(245)	(130)
Written off	(392)	(310)	(517)
Balance as of December 31	2,406	1,921	1,322

Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and its affiliates are repayable under the same terms.

Trade accounts receivable (net of impairment losses for bad and doubtful debts) primarily represents receivable that is neither past due nor impaired. This receivable relates to a wide range of customers in which there is no recent history of default.

14. INVENTORIES

	December 31,	
	2009	2010
	RMB	RMB
Crude oil and other raw materials	87,587	84,428
Work in progress	11,609	13,089
Finished goods	39,737	55,945
Spare parts and consumables	3,832	4,175
	142,765	157,637
Less: Allowance for diminution in value of inventories	(1,038)	(1,091)
	141,727	156,546

Allowance for diminution in value of inventories is analyzed as follows:

	2008	2009	2010
	RMB	RMB	RMB
Balance as of January 1	4,572	9,189	1,038
Allowance for the year	8,777	401	1,087
Reversal of allowance on disposal	(64)	(185)	(77)
Written off	(4,096)	(8,367)	(957)
Balance as of December 31	9,189	1,038	1,091

During the years ended December 31, 2008, 2009 and 2010, costs of inventories recognized as an expense in the consolidated statements of income were RMB 1,317,336, RMB 1,033,313 and RMB 1,542,923, respectively. Such costs include the write-down of inventories that was primarily related to the refining and chemicals segment, of RMB 8,777, RMB 401 and RMB 1,087, respectively, and the reversal of write-down of inventories made in prior years of RMB 4,160, RMB 8,552 and RMB 1,034, respectively, that was mainly due to the sales of inventories. The write-down of inventories and the reversal of write-down of inventories were recorded in purchased crude oil, products and operating supplies and expenses in the consolidated statements of income.

15. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31,	
	2009	2010
	RMB	RMB
Advances to third parties	1,214	937
Amounts due from Sinopec Group Company and its affiliates	787	930
Amounts due from associates and jointly controlled entities	23	2,460
Other receivables	1,181	858
Loans and receivables	3,205	5,185
Purchase deposits and other assets	2,320	4,469
Prepayments in connection with construction work and equipment purchases	1,906	988
Prepaid value-added tax and customs duty	12,577	13,072
Financial assets held for trading	—	2,450
Available-for-sale financial assets	700	—

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Derivative financial instruments – hedging	142	148
Derivative financial instruments – non-hedging	182	188
	21,032	26,500

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT, NET

By segment:

	Exploration and production RMB	Refining RMB	Marketing and distribution RMB	Chemicals RMB	Corporate and others RMB	Total RMB
Cost:						
Balance as of January 1, 2009	363,535	179,551	107,657	189,478	8,741	848,962
Additions	2,143	178	693	754	20	3,788
Transferred from construction in progress	63,587	18,291	9,690	15,146	1,170	107,884
Acquisitions (ii)	60	999	—	—	1,722	2,781
Reclassification	—	6,008	214	(6,089)	(133)	—
Exchange adjustment	(24)	—	(13)	—	(4)	(41)
Reclassification to lease prepayments and other assets	—	—	(650)	—	(16)	(666)
Disposals	(606)	(1,812)	(1,511)	(4,333)	(192)	(8,454)
Balance as of December 31, 2009	428,695	203,215	116,080	194,956	11,308	954,254
Balance as of January 1, 2010	428,695	203,215	116,080	194,956	11,308	954,254
Additions	4,021	123	1,100	88	255	5,587
Transferred from construction in progress	67,922	11,922	12,370	22,964	2,872	118,050
Reclassification	343	144	271	(169)	(589)	—
Contributed to a jointly controlled entity	—	—	—	(290)	—	(290)
Reclassification to lease prepayments and other assets	—	(39)	(451)	—	(146)	(636)
Exchange adjustment	(809)	—	(103)	—	(4)	(916)
Disposals	(370)	(2,980)	(2,144)	(2,603)	(141)	(8,238)
Balance as of December 31, 2010	499,802	212,385	127,123	214,946	13,555	1,067,811
Accumulated depreciation:						
Balance as of January 1, 2009	177,059	84,976	28,815	122,403	3,068	416,321
Depreciation charge for the year	28,075	10,212	5,578	8,313	866	53,044
Acquisitions (ii)	—	591	—	—	159	750
Impairment losses for the year (Note 8 (i))	1,595	377	1,425	3,728	8	7,133
Reclassification	—	(44)	91	2	(49)	—
Exchange adjustment	(6)	—	(3)	—	(2)	(11)

Reclassification to lease prepayments and other assets	—	—	(80)	—	—	(80)
Written back on disposals	(590)	(1,693)	(1,346)	(3,906)	(183)	(7,718)
Balance as of December 31, 2009	206,133	94,419	34,480	130,540	3,867	469,439
Balance as of January 1, 2010	206,133	94,419	34,480	130,540	3,867	469,439
Depreciation charge for the year	31,393	11,227	5,946	8,483	925	57,974
Impairment losses for the year (Note 8 (i))	1,889	1,649	1,055	2,953	21	7,567
Reclassification	12	(3)	25	(145)	111	—
Reclassification to lease prepayments and other assets	—	(3)	(68)	—	(12)	(83)
Exchange adjustment	(218)	—	(41)	—	(1)	(260)
Written back on disposals	(177)	(2,778)	(1,953)	(2,499)	(119)	(7,526)
Balance as of December 31, 2010	239,032	104,511	39,444	139,332	4,792	527,111
Net book value:						
Balance as of January 1, 2009	186,476	94,575	78,842	67,075	5,673	432,641
Balance as of December 31, 2009	222,562	108,796	81,600	64,416	7,441	484,815
Balance as of December 31, 2010	260,770	107,874	87,679	75,614	8,763	540,700

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

By asset class:

	Buildings RMB	Oil and gas properties RMB	Oil depots, storage tanks and service stations RMB	Plant, machinery, equipment and others RMB	Total RMB
Cost:					
Balance as of January 1, 2009	52,561	317,307	116,766	362,328	848,962
Additions	372	2,022	413	981	3,788
Transferred from construction in progress	6,847	41,213	23,840	35,984	107,884
Acquisitions (ii)	1,912	—	342	527	2,781
Reclassification	(63)	—	(2,505)	2,568	—
Exchange adjustment	(17)	(24)	—	—	(41)
Reclassification to lease prepayments and other assets	(81)	—	(585)	—	(666)
Disposals	(389)	—	(1,565)	(6,500)	(8,454)
Balance as of December 31, 2009	61,142	360,518	136,706	395,888	954,254
Balance as of January 1, 2010	61,142	360,518	136,706	395,888	954,254
Additions	259	3,421	1,023	884	5,587
Transferred from construction in progress	5,150	58,465	17,889	36,546	118,050
Reclassification	996	5	325	(1,326)	—
Contributed to a jointly controlled entity	(290)	—	—	—	(290)
Reclassification to lease prepayments and other assets	(204)	—	(389)	(43)	(636)
Exchange adjustment	(33)	(809)	(22)	(52)	(916)
Disposals	(767)	—	(1,675)	(5,796)	(8,238)
Balance as of December 31, 2010	66,253	421,600	153,857	426,101	1,067,811
Accumulated depreciation:					
Balance as of January 1, 2009	27,507	147,320	28,880	212,614	416,321
Depreciation charge for the year	2,309	25,930	5,936	18,869	53,044
Acquisitions (ii)	213	—	292	245	750
Impairment losses for the year	579	1,553	1,076	3,925	7,133
Reclassification	(63)	—	(505)	568	—
Exchange adjustment	(5)	(6)	—	—	(11)
Reclassification to lease prepayments and other assets	(8)	—	(72)	—	(80)
Written back on disposals	(340)	—	(1,401)	(5,977)	(7,718)
Balance as of December 31, 2009	30,192	174,797	34,206	230,244	469,439

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Balance as of January 1, 2010	30,192	174,797	34,206	230,244	469,439
Depreciation charge for the year	2,442	28,196	6,857	20,479	57,974
Impairment losses for the year	660	1,789	1,070	4,048	7,567
Reclassification	263	(9)	(14)	(240)	—
Reclassification to lease prepayments and other assets	—	—	(77)	(6)	(83)
Exchange adjustment	(14)	(218)	(8)	(20)	(260)
Written back on disposals	(499)	—	(1,533)	(5,494)	(7,526)
Balance as of December 31, 2010	33,044	204,555	40,501	249,011	527,111
Net book value:					
Balance as of January 1, 2009	25,054	169,987	87,886	149,714	432,641
Balance as of December 31, 2009	30,950	185,721	102,500	165,644	484,815
Balance as of December 31, 2010	33,209	217,045	113,356	177,090	540,700

Notes:

- (i) The additions to the exploration and production segment and oil and gas properties of the Group for the years ended December 31, 2009 and 2010 included RMB 2,013 and RMB 3,389, respectively, of the estimated dismantlement costs for site restoration (Note 27).
- (ii) During the year ended December 31, 2009, the Group acquired certain property, plant and equipment from Sinopec Group Company (Note 31).

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

17. CONSTRUCTION IN PROGRESS

	Exploration and production RMB	Refining RMB	Marketing and distribution RMB	Chemicals RMB	Corporate and others RMB	Total RMB
Balance as of January 1, 2009	56,542	18,091	14,302	29,765	3,766	122,466
Additions	58,882	14,600	15,547	25,083	1,379	115,491
Dry hole costs written off	(4,761)	—	—	—	—	(4,761)
Transferred to property, plant and equipment	(63,587)	(18,291)	(9,690)	(15,146)	(1,170)	(107,884)
Reclassification to lease prepayments and other assets	(190)	(744)	(2,773)	(1,113)	(44)	(4,864)
Impairment losses for the year (Note 8 (i))	—	(19)	(54)	—	—	(73)
Balance as of December 31, 2009	46,886	13,637	17,332	38,589	3,931	120,375
Balance as of January 1, 2010	46,886	13,637	17,332	38,589	3,931	120,375
Additions	56,924	19,746	25,017	13,183	1,620	116,490
Transferred to a jointly controlled entity	—	—	—	(17,459)	—	(17,459)
Reclassification	—	—	219	(219)	—	—
Dry hole costs written off	(4,986)	—	—	—	—	(4,986)
Transferred to property, plant and equipment	(67,922)	(11,922)	(12,370)	(22,964)	(2,872)	(118,050)
Reclassification to lease prepayments and other assets	(528)	(270)	(2,758)	(2,145)	(426)	(6,127)
Impairment losses for the year (Note 8 (i))	—	(516)	(128)	—	—	(644)
Balance as of December 31, 2010	30,374	20,675	27,312	8,985	2,253	89,599

Net changes in capitalized cost of exploratory wells included in the Group's construction in progress in the E&P segment are analyzed as follows:

	2008 RMB	2009 RMB	2010 RMB
At beginning of year.	6,294	7,833	8,823
Additions, net of amount that were capitalized and subsequently expensed in the same year, pending the determination of proved reserves.	4,613	5,008	6,121
Transferred to oil and gas properties based on the determination of proved reserves.	(1,008)	(1,072)	(1,158)

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Dry hole costs written off	(2,066)	(2,946)	(3,134)
At end of year.	7,833	8,823	10,652

Aging of capitalized exploratory well costs based on the date the drilling was completed are analyzed as follows:

	December 31,		
	2008	2009	2010
	RMB	RMB	RMB
One year or less	7,113	7,625	9,530
Over one year	720	1,198	1,122
	7,833	8,823	10,652

Capitalized exploratory wells costs aged over one year are related to wells for which the drilling results are being further evaluated or the development plans are being formulated.

The geological and geophysical costs paid during the years ended December 31, 2008, 2009 and 2010 amounted to RMB 3,789, RMB 5,437 and RMB 6,433, respectively.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

18. GOODWILL

	2009 RMB	2010 RMB
Cost:		
Balance as of January 1	15,628	15,463
Additions	241	441
Disposals	(406)	(9)
Exchange adjustment	—	(31)
Balance as of December 31	15,463	15,864
Accumulated impairment losses:		
Balance as of January 1	(1,391)	(1,391)
Impairment losses for the year	—	(6,266)
Balance as of December 31	(1,391)	(7,657)
Net book value		
Balance as of December 31	14,072	8,207

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the following Group's cash-generating units:

	December 31,	
	2009 RMB	2010 RMB
Sinopec Beijing Yanshan Branch (“Sinopec Yanshan”)	1,157	1,157
Sinopec Zhenhai Refining and Chemical Branch (“Sinopec Zhenhai”)	3,952	3,952
Hong Kong service stations	926	895
Sinopec Qilu Branch (“Sinopec Qilu”)	2,159	—
Sinopec Yangzi Petrochemical Company Limited (“Sinopec Yangzi”)	2,737	—
Sinopec Shengli Oil Field Dynamic Company Limited (“Dynamic”)	1,361	—
Multiple units without individually significant goodwill	1,780	2,203
	14,072	8,207

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. The calculations for Sinopec Yanshan, Sinopec Zhenhai, Hong Kong service stations, Sinopec Qilu and Sinopec Yangzi use cash flow projections based on financial budgets approved by management covering a one-year period and forecast on market supply and demand for the second to the fifth year based on market research performed by an external research institution. Cash flows beyond the five-year period are maintained constant. The calculation for Dynamic use cash flow projection based on reserve estimation performed by an external reserve valuer and management expectation on crude oil price. The pre-tax discount rates range from 11.2% to 13.6% and 15.2% to 16.8% for the years ended December 31, 2009 and 2010, respectively.

Key assumptions of the cash flow projections for these units are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and management's expectation on the future trend of the prices of crude oil and petrochemical products. The sales volume was based on the production capacity and/or the sales volume in the period immediately before the budget period, and the forecast on market supply and demand based on market research performed by an external research institution.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

During the year ended December 31, 2010, the carrying amounts of each of the Sinopec Qilu, Sinopec Yangzi and Dynamic's cash-generating units were determined to be higher than its recoverable amounts. The reduction in recoverable amounts of Sinopec Qilu and Sinopec Yangzi was primarily due to lower future cash flow projections as a result of intense market competition caused by an expected increase in future supply of relevant petrochemical products in the international market. The reduction in recoverable amount of Dynamic was primarily due to the result of unsuccessful development drilling in this cash-generating unit. The total impairment losses recognized on the goodwill allocated to the Sinopec Qilu, Sinopec Yangzi and Dynamic's cash-generating units were RMB 6,257 for the year ended December 31, 2010. Management believes any reasonably possible change in the key assumptions on which the recoverable amounts of Sinopec Yanshan, Sinopec Zhenhai and Hong Kong service stations are based would not cause carrying amounts of these cash generating units to exceed their recoverable amounts.

19. INTEREST IN ASSOCIATES

	December 31,	
	2009	2010
	RMB	RMB
Share of net assets	18,162	22,815

The Group's investments in associates are with companies primarily engaged in the oil and gas, petrochemical, and marketing and distribution operations in the PRC. These investments are individually and in aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 8,000,000,000	49.00	—	Provision of non-banking financial services
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	—	29.00	Marketing and distribution of refined petroleum products
Zhongtian Synergetic Energy Company Limited	Incorporated	Registered capital RMB 3,678,400,000	38.75	—	Manufacturing of coal-chemical products

Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
Shanghai Petroleum Company Limited	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

20. INTEREST IN JOINTLY CONTROLLED ENTITIES

	December 31,	
	2009	2010
	RMB	RMB
Share of net assets	13,928	20,199

The Group's principal interests in jointly controlled entities are primarily engaged in the refining and chemical operations in the PRC as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Incorporated	Registered capital RMB 13,633,770,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Fujian Refining and Petrochemical Company Limited	Incorporated	Registered capital RMB 12,806,000,000	—	50.00	Manufacturing and distribution of petrochemical products
Sinopec SABIC Tianjin Petrochemical Company limited	Incorporated	Registered capital RMB 6,120,000,000	50.00	—	Manufacturing and distribution of petrochemical products

The Group's effective interest share of the jointly controlled entities' results of operation, financial condition and cash flows are as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Results of operation:			
Operating revenue	27,417	25,141	61,523
Expenses	(28,371)	(23,901)	(58,344)
Net (loss) / income	(954)	1,240	3,179

	December 31,	
	2009	2010
	RMB	RMB
Financial condition:		
Current assets	9,857	15,677
Non-current assets	32,353	39,274
Current liabilities	(9,038)	(11,239)
Non-current liabilities	(19,244)	(23,513)
Net assets	13,928	20,199

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Cash flows:			
Net cash (used in) / generated from operating activities	(2,046)	345	5,800
Net cash used in investing activities	(5,872)	(3,905)	(10,505)
Net cash generated from financing activities	7,999	3,911	6,430
Net increase in cash and cash equivalents	81	351	1,725

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

21. INVESTMENTS

	December 31,	
	2009 RMB	2010 RMB
Available-for-sale financial assets		
- Equity securities, listed and at quoted market price	61	52
- Investment in other available-for-sale security	700	—
Investments in equity securities, unlisted and at cost	1,610	2,207
	2,371	2,259
Less: Impairment losses for investments	(197)	(184)
	2,174	2,075

Unlisted investments represent the Group's interests in PRC privately owned enterprises which are mainly engaged in non-oil and gas activities and operations.

The impairment losses relating to investments for the years ended December 31, 2009 and 2010 amounted to RMB 5 and RMB 11, respectively.

22. LONG-TERM PREPAYMENTS AND OTHER ASSETS

Long-term prepayments and other assets primarily represent prepaid rental expenses over one year, computer software, catalysts and operating rights of service stations.

23. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

	Assets		Liabilities		Net balance	
	December 31,		December 31,		December 31,	
	2009	2010	2009	2010	2009	2010
	RMB	RMB	RMB	RMB	RMB	RMB
Current						
Receivables and inventories	3,207	3,507	—	—	3,207	3,507
Accruals	815	1,588	—	—	815	1,588
Cash flow hedges	7	31	(18)	—	(11)	31
Non-current						
Property, plant and equipment	5,601	7,961	(1,178)	(794)	4,423	7,167
Accelerated depreciation	—	—	(8,410)	(14,142)	(8,410)	(14,142)
Tax value of losses carried forward	3,954	2,116	—	—	3,954	2,116
Lease prepayments	292	284	—	—	292	284
Embedded derivative component of the Convertible Bonds	—	—	(96)	(64)	(96)	(64)

Others	99	29	(5)	(17)	94	12
Deferred tax assets / (liabilities)	13,975	15,516	(9,707)	(15,017)	4,268	499

As of December 31, 2009 and 2010, certain subsidiaries of the Company did not recognize the tax value of losses carried forward of RMB 5,555 and RMB 4,215, respectively, of which RMB 472 and RMB 369 were for the years ended December 31, 2009 and 2010, respectively, because it was not probable that the related tax benefit will be realized. The tax value of these losses carried forward of RMB 64, RMB 461, RMB 2,933, RMB 388 and RMB 369 will expire in 2011, 2012, 2013, 2014 and 2015, respectively.

Periodically, management performs assessment on the probability that taxable profit will be available over the period which the deferred tax assets can be realized or utilized. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilized and whether the tax losses result from identifiable causes which are unlikely to recur.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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Movements in deferred tax assets and liabilities are as follows:

	Balance as of January 1, 2008 RMB	Recognized in consolidated statements of income RMB	Recognized in other comprehensive income RMB	Balance as of December 31, 2008 RMB
Current				
Receivables and inventories	3,841	593	—	4,434
Accruals	2,613	(2,352)	—	261
Non-current				
Property, plant and equipment	1,265	1,340	—	2,605
Accelerated depreciation	(4,572)	(2,544)	—	(7,116)
Tax value of losses carried forward	176	4,620	—	4,796
Lease prepayments	306	(6)	—	300
Available-for-sale securities	(116)	—	64	(52)
Embedded derivative component of the Convertible Bonds	803	(954)	—	(151)
Others	59	(3)	—	56
Net deferred tax assets	4,375	694	64	5,133

	Balance as of January 1, 2009 RMB	Recognized in consolidated statements of income RMB	Recognized in other comprehensive income RMB	Acquisition RMB	Balance as of December 31, 2009 RMB
Current					
Receivables and inventories	4,434	(1,227)	—	—	3,207
Accruals	261	554	—	—	815
Cash flow hedges	—	—	(11)	—	(11)
Non-current					
Property, plant and equipment	2,605	1,844	—	(26)	4,423
Accelerated depreciation	(7,116)	(1,294)	—	—	(8,410)
Tax value of losses carried forward	4,796	(842)	—	—	3,954
Lease prepayments	300	(8)	—	—	292
Available-for-sale securities	(52)	—	52	—	—
Embedded derivative component of the Convertible Bonds	(151)	55	—	—	(96)
Others	56	36	—	2	94
Net deferred tax assets	5,133	(882)	41	(24)	4,268

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

	Balance as of January 1, 2010 RMB	Recognized in consolidated statements of income RMB	Recognized in other comprehensive income RMB	Balance as of December 31, 2010 RMB
Current				
Receivables and inventories	3,207	300	—	3,507
Accruals	815	773	—	1,588
Cash flow hedges	(11)	—	42	31
Non-current				
Property, plant and equipment	4,423	2,744	—	7,167
Accelerated depreciation	(8,410)	(5,732)	—	(14,142)
Tax value of losses carried forward	3,954	(1,838)	—	2,116
Lease prepayments	292	(8)	—	284
Embedded derivative component of the Convertible Bonds	(96)	32	—	(64)
Others	94	(82)	—	12
Net deferred tax assets	4,268	(3,811)	42	499

24. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES

Short-term debts represent:

	December 31,	
	2009 RMB	2010 RMB
Third parties' debts		
Short-term bank loans	21,587	11,380
Current portion of long-term bank loans	6,686	4,554
Current portion of long-term other loans	77	85
	6,763	4,639
Corporate bonds (Note (a))	31,000	1,000
	59,350	17,019
Loans from Sinopec Group Company and its affiliates		
Short-term loans	13,313	17,918
Current portion of long-term loans	2,553	891
	15,866	18,809
	75,216	35,828

The Group's weighted average interest rates on short-term loans were 2.5% and 2.7% as of December 31, 2009 and 2010, respectively.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Long-term debts comprise:

	Interest rate and final maturity	December 31,	
		2009	2010
		RMB	RMB
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 5.64% per annum as of December 31, 2010 with maturities through 2025	18,869	23,161
Japanese Yen denominated	Interest rates ranging from 2.6% to 2.94% per annum as of December 31, 2010 with maturities through 2024	1,660	1,488
US Dollar denominated	Interest rates ranging from interest free to 7.8% per annum as of December 31, 2010 with maturities through 2031	3,171	972
Euro denominated	Fixed interest rate at 6.56% per annum as of December 31, 2010 with maturity in 2011	116	27
		23,816	25,648
Long-term other loans			
Renminbi denominated	Interest rates ranging from interest free to 4.32% as of December 31, 2010 with maturities through 2013	73	250
US Dollar denominated	Interest rates ranging from interest free to 4.89% per annum as of December 31, 2010 with maturities through 2015	29	26
		102	276
Corporate bonds			
Renminbi denominated	Fixed interest rate at 4.61% per annum as of December 31, 2010 with maturity in February 2014 (Note (b))	3,500	3,500

Fixed interest rate at 4.20% per annum as of December 31, 2010 with maturity in May 2017 (Note (b))	5,000	5,000
Fixed interest rate at 5.40% per annum as of December 31, 2010 with maturity in November 2012 (Note (b))	8,500	8,500
Fixed interest rate at 5.68% per annum as of December 31, 2010 with maturity in November 2017 (Note (b))	11,500	11,500
Fixed interest rate at 2.25% per annum as of December 31, 2010 with maturity in March 2012 (Note (b))	10,000	10,000
Fixed interest rate at 2.48% per annum as of December 31, 2010 with maturity in June 2012 (Note (b))	20,000	20,000
Fixed interest rate at 3.75% per annum as of December 31, 2010 with maturity in May 2015 (Note (b))	—	11,000
Fixed interest rate at 4.05% per annum as of December 31, 2010 with maturity in May 2020 (Note (b))	—	9,000
	58,500	78,500

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	Interest rate and final maturity	December 31,	
		2009	2010
		RMB	RMB
Convertible bonds			
Hong Kong Dollar denominated	Zero coupon convertible bonds with maturity in April 2014 (Note (c))	10,371	10,667
Renminbi denominated	Bonds with Warrants with fixed interest rate at 0.8% per annum and maturity in February 2014 (Note (d))	24,892	26,013
		35,263	36,680
Total third parties' long-term debts		117,681	141,104
Less: Current portion		(6,763)	(4,639)
		110,918	136,465
Long-term loans from Sinopec Group Company and its affiliates			
Renminbi denominated	Interest rates ranging from interest free to 6.54% per annum as of December 31, 2010 with maturities through 2020	37,330	37,760
US Dollar denominated	Fixed interest rates at 0.92% per annum as of December 31, 2010 with maturity in 2011	7,030	741
Less: Current portion		(2,553)	(891)
		41,807	37,610
		152,725	174,075

Short-term and long-term debts and loans from Sinopec Group Company and its affiliates, other than the Convertible Bonds (Note (c)), are primarily unsecured and carried at amortized cost.

Notes:

(a) A subsidiary of the Company issued 330-day corporate bonds of face value RMB 1,000 to corporate investors in the PRC debenture market on April 3, 2009 at par value of RMB 100. The effective yield of the 330-day corporate bonds is 2.05% per annum. The subsidiary redeemed the corporate bonds in March 2010.

The Company issued one-year corporate bonds of face value RMB 15,000 to corporate investors in the PRC debenture market on July 16, 2009 at par value of RMB 100. The effective yield of the one-year corporate bonds is 1.88% per annum. The Company redeemed the corporate bonds in July 2010.

The Company issued one-year corporate bonds of face value RMB 15,000 to corporate investors in the PRC debenture market on November 12, 2009 at par value of RMB 100. The effective yield of the one-year corporate bonds is 2.30% per annum. The Company redeemed the corporate bonds in November 2010.

A subsidiary of the Company issued one-year corporate bonds of face value RMB 1,000 to corporate investors in the PRC debenture market on June 22, 2010 at par value of RMB 100. The effective yield of the one-year corporate bonds is 3.27% per annum. The corporate bonds mature in June 2011.

(b) These corporate bonds are guaranteed by Sinopec Group Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

(c) On April 24, 2007, the Company issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HK\$11,700 (the “Convertible Bonds”). The holders can convert the Convertible Bonds into shares of the Company from June 4, 2007 onwards at a price of HK\$10.76 per share, subject to adjustment for, amongst other things, subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have a dilutive effect on the issued share capital of the Company (the “Conversion component”). Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. The Company has an early redemption option at any time after April 24, 2011 (subject to certain criteria) (the “Early Redemption Option”) and a cash settlement option when the holders exercise their conversion right (the “Cash Settlement Option”). The holders also have an early redemption option to require the Company to redeem all or some of the Convertible Bonds as of April 24, 2011 at an early redemption amount of 111.544% of the principal amount.

As of December 31, 2009, the carrying amount of the liability component and the derivative component, representing the Conversion component, the Early Redemption Option and the Cash Settlement Option, of the Convertible Bonds were RMB 10,153 and RMB 218, respectively. No conversion of the Convertible Bonds has occurred up to December 31, 2009.

As of December 31, 2010, the carrying amount of the liability component and the derivative component, representing the Conversion component, the Early Redemption Option and the Cash Settlement Option, of the Convertible Bonds were RMB 10,327 and RMB 340, respectively. No conversion of the Convertible Bonds has occurred up to December 31, 2010.

As of December 31, 2009 and 2010, the fair value of the derivative components of the Convertible Bonds was calculated using the Black-Scholes Model. The following are the major inputs used in the Black-Scholes Model:

	2009	2010
Stock price of underlying shares	HKD 6.91	HKD 7.44
Conversion price	HKD 10.76	HKD 10.76
Option adjusted spread	150 basis points	125 basis points
Average risk free rate	0.87%	1.46%
Average expected life	2.8 years	1.8 years

Any change in the major inputs into the Black-Scholes Model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from December 31, 2008 to December 31, 2009 and from December 31, 2009 to December 31, 2010 resulted in an unrealized loss of RMB 218 and an unrealized loss of RMB 127, respectively, which have been recorded in the “finance costs” section of the consolidated statements of income.

The initial carrying amount of the liability component of the Convertible Bonds is the residual amount, which is after deducting the allocated issuance cost of the Convertible Bonds relating to the liability component and the fair value of the derivative component as of April 24, 2007. Interest expense is calculated using the effective interest method by applying the effective interest rate of 4.19% to the adjusted liability component. Should the aforesaid derivative

components not been separated out and the entire Convertible Bonds been considered as the liability component, the effective interest rate would have been 3.03%.

(d) On February 26, 2008, the Company issued bonds with stock warrants due 2014 with an aggregate principal amount of RMB 30,000 in the PRC (the "Bonds with Warrants"). The Bonds with Warrants, which bear a fixed interest rate of 0.80% per annum payable annually, were issued at par value of RMB 100. The Bonds with Warrants are guaranteed by Sinopec Group Company. Every ten Bonds with Warrants are entitled to warrants to subscribe 50.5 A shares of the Company. The warrants were exercisable during the five trading days between February 25 and March 3, 2010.

During the year ended December 31, 2010, 188,292 units of warrants were exercised at an exercise price of RMB 19.15 per share (Note 28) and the remaining warrants expired.

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The initial recognition of the liability component of the Bond with Warrants is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option (“market interest rate”). Interest expense is calculated using the effective interest method by applying the market interest rate of 5.40% to the liability component. Upon the expiry of the warrants, the amount initially recognized as the equity component in capital reserve of RMB 6,879 was transferred to share premium.

25 TRADE ACCOUNTS AND BILLS PAYABLE

	December 31,	
	2009	2010
	RMB	RMB
Amounts due to third parties	92,949	120,224
Amounts due to Sinopec Group Company and its affiliates	2,127	6,613
Amounts due to associates and jointly controlled entities	1,686	5,691
	96,762	132,528
Bills payable	23,111	3,818
Trade accounts and bills payable measured at amortized cost	119,873	136,346

26. ACCRUED EXPENSES AND OTHER PAYABLES

	December 31,	
	2009	2010
	RMB	RMB
Accrued expenditures	35,465	44,113
Advances from third parties	2,796	3,336
Amounts due to Sinopec Group Company and its affiliates	11,979	9,309
Others	6,306	7,169
Financial liabilities measured at amortized cost	56,546	63,927
	24,178	31,827
Taxes other than income tax	36,316	56,261
Receipts in advance	319	907
Derivative financial instruments – hedging	439	556
Derivative financial instruments – non-hedging	117,798	153,478

27. PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has committed to the PRC government to establish certain standardized measures for the dismantlement of its oil and gas properties by making reference to the industry practices and is therefore constructively obligated to take dismantlement measures of its oil and gas properties.

Movement of provision of the Group’s obligations for the dismantlement of its oil and gas properties is as follows:

	2008 RMB	2009 RMB	2010 RMB
Balance as of January 1	7,839	9,547	11,789
Provision for the year	1,482	2,013	3,389
Accretion expenses	448	447	574
Utilized	(222)	(218)	(242)
Balance as of December 31	9,547	11,789	15,510

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28. SHARE CAPITAL

	December 31,	
	2009	2010
	RMB	RMB
Registered, issued and fully paid		
69,922,039,774 listed A shares (2009: 69,921,951,000) of RMB 1.00 each	69,922	69,922
16,780,488,000 listed H shares (2009: 16,780,488,000) of RMB 1.00 each	16,780	16,780
	86,702	86,702

The Company was established on February 25, 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on July 25, 2000 and approvals from relevant government authorities, the Company is authorized to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorized to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares (“ADSs”, each representing 100 H shares), at prices of HK\$ 1.59 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

On September 25, 2006, the shareholders of listed A shares accepted the proposal offered by the shareholders of state-owned A shares whereby the shareholders of state-owned A shares agreed to transfer 2.8 state-owned A shares to shareholders of listed A shares for every 10 listed A shares they held, in exchange for the approval for the listing of all state-owned A shares. In October 2006, the 67,121,951,000 domestic state-owned A shares became listed A shares.

On March 3, 2010, the Company issued 88,774 domestic listed A shares with a par value of RMB 1.00 as a result of exercise of 188,292 warrants relating to the Bonds with Warrants (Note 24(d)) and received a net proceeds of RMB 1.70.

All A shares and H shares rank pari passu in all material aspects.

Capital management

Management optimizes the structure of the Group's capital, which comprises of equity and loans. In order to maintain or adjust the capital structure of the Group, management may cause the Company to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans (excluding current portion), including long-term debts and loans from Sinopec Group Company and its affiliates, by the total equity attributable to equity shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-equity ratio and the liability-to-asset ratio of the Group at a range considered reasonable. The debt-to-equity ratio of the Group was 28.8% and 29.3% as of December 31, 2009 and 2010, respectively. The liability-to-asset ratio of the Group was 55.0% and 54.7% as of December 31, 2009 and 2010, respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 24 and 30, respectively.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

There were no changes in the management's approach to capital management of the Group during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. RESERVES

	2009 RMB	2010 RMB
Capital reserve (Note (a))		
Balance as of January 1	(16,293)	(17,911)
Expiry of warrants (Note 24 (d))	—	(6,879)
Transfer from other reserves to capital reserve	(1,551)	(8,310)
Distributions to Sinopec Group Company	(49)	(29)
Acquisitions of non-controlling interests of subsidiaries	(18)	(9)
Balance as of December 31	(17,911)	(33,138)
Share premium (Note (b))		
Balance as of January 1	18,072	18,072
Warrants exercised (Note 24 (d))	—	2
Expiry of warrants (Note 24 (d))	—	6,879
Balance as of December 31	18,072	24,953
Statutory surplus reserve (Note (c))		
Balance as of January 1	43,078	48,031
Appropriation	4,953	6,680
Balance as of December 31	48,031	54,711
Discretionary surplus reserve (Note (d))		
Balance as of January 1	47,000	67,000
Appropriation	20,000	20,000
Balance as of December 31	67,000	87,000
Other reserves		
Balance as of January 1	1,888	4,767
Change in fair value of cash flow hedge, net of deferred tax	54	(221)
Change in fair value of available-for-sale securities, net of deferred tax	(138)	(9)
Share of other comprehensive income of associates	806	(533)
Foreign currency translation differences	(2)	(1,244)
Transfer from retained earnings to other reserves	1,387	1,672
Transfer from other reserves to capital reserve	1,551	8,310
Consideration for the Acquisition of the Acquired Group and the Acquisition of SSI (Note 1)	(771)	(13,177)
Realization of deferred tax on lease prepayments	(8)	(8)
Others (Note (h))	—	1,325
Balance as of December 31	4,767	882

Retained earnings (Note (e))		
Balance as of January 1	149,336	172,279
Net income attributable to equity shareholders of the Company	63,147	71,800
Final dividend inspect of the previous year, approved and paid during the year (Note (f))	(7,803)	(9,537)
Interim dividend (Note (g))	(6,069)	(6,936)
Appropriation	(24,953)	(26,680)
Transfer from retained earnings to other reserve	(1,387)	(1,672)
Realization of deferred tax on lease prepayments	8	8
Others (Note (h))	—	(1,325)
Balance as of December 31	172,279	197,937
	292,238	332,345

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Notes:

- (a) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganization (ii) the difference between the consideration paid over the amount of the net assets of entities and related operations acquired from Sinopec Group Company and non-controlling interests.
- (b) The application of the share premium account is governed by Sections 168 and 169 of the PRC Company Law.
- (c) According to the Company's Articles of Association, the Company is required to transfer 10% of its net income in accordance with the PRC accounting policies adopted by the Group to statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is needed. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.
- Pursuant to the requirement in Cai Kuai [2008] No. 11 "Interpretation of ASBE No. 2" issued by the MOF on August 7, 2008, for statutory financial statement purposes, the Group adopted certain PRC accounting policies that were applied retrospectively. The statutory surplus reserve, amounting to RMB 1,189, has been adjusted accordingly. The adjustment to statutory surplus reserve was reflected as a movement for the year ended December 31, 2008. During the years ended December 31, 2008, 2009 and 2010, the Company transferred RMB 4,092, RMB 4,953 and RMB 6,680, respectively, being 10% of the net income determined in accordance with ASBE, to this reserve.
- (d) For the year ended December 31, 2009, the directors authorized the transfer of RMB 20,000, which was approved by the shareholders at the Annual General Meeting on May 18, 2010, to discretionary surplus reserve. For the year ended December 31, 2010, the directors authorized the transfer of RMB 20,000, subject to the shareholders' approval at the Annual General Meeting, to the discretionary surplus reserve. The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.
- (e) According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the accounting policies complying with ASBE and the amount determined in accordance with the accounting policies complying with IFRS. As of December 31, 2009 and 2010, the amount of retained earnings available for distribution was RMB 91,772 and RMB 112,921, respectively, being the amount determined in accordance with the accounting policies complying with IFRS. Final dividend for the year ended December 31, 2010 of RMB 11,271 proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.
- (f) Pursuant to the shareholders' approval at the Annual General Meeting on May 22, 2009, a final dividend of RMB 0.09 per share totaling RMB 7,803 in respect of the year ended December 31, 2008 was declared and paid on June 30, 2009.

Pursuant to the shareholders' approval at the Annual General Meeting on May 18, 2010, a final dividend of RMB 0.11 per share totaling RMB 9,537 in respect of the year ended December 31, 2009 was declared and paid on June 30, 2010.

(g) Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on August 21, 2009, the directors authorized to declare an interim dividend for the year ended December 31, 2009 of RMB 0.07 per share totaling RMB 6,069, which was paid on October 15, 2009.

Pursuant to the Company's Articles of Association and a resolution passed at the Director's meeting on August 20, 2010, the directors authorized to declare an interim dividend for the year ended December 31, 2010 of RMB 0.08 per share totaling RMB 6,936, which was paid on September 30, 2010.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

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(All amounts in millions, except per share data and except otherwise stated)

(h) During the year ended December 31, 2010, the Group transferred RMB 1,325 from retained earnings to other reserves, being the net balance of the reserve for the safety production fund according to relevant PRC regulations.

30. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group leases land and buildings, service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

As of December 31, 2009 and 2010, the future minimum lease payments under operating leases are as follows:

	December 31,	
	2009	2010
	RMB	RMB
Within one year	6,088	10,555
Between one and two years	5,905	9,877
Between two and three years	5,834	9,721
Between three and four years	5,722	9,634
Between four and five years	5,604	9,522
Thereafter	145,338	224,292
	174,491	273,601

Capital commitments

As of December 31, 2009 and 2010, capital commitments are as follows:

	December 31,	
	2009	2010
	RMB	RMB
Authorized and contracted for	124,403	138,980
Authorized but not contracted for	62,144	37,450
	186,547	176,430

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects and the construction of service stations and oil depots.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The

Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 437, RMB 395 and RMB 450 for the years ended December 31, 2008, 2009 and 2010, respectively.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

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Estimated future annual payments are as follows:

	December 31,	
	2009	2010
	RMB	RMB
Within one year	136	119
Between one and two years	118	181
Between two and three years	21	22
Between three and four years	20	23
Between four and five years	20	23
Thereafter	689	645
	1,004	1,013

Contingent liabilities

As of December 31, 2009 and 2010, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	December 31,	
	2009	2010
	RMB	RMB
Jointly controlled entities	14,815	7,548
Associates	181	152
	14,996	7,700

As of December 31, 2010, the Company and a subsidiary have provided a guarantee on the bank loans drawn by a jointly controlled entity. The guarantees expire on December 31, 2015.

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognize any such losses under guarantees when those losses are estimable. As of December 31, 2009 and 2010, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for the Group's obligation under these guarantee arrangements.

Environmental contingencies

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect management's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown

magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 2,284, RMB 3,196 and RMB 3,880 for the years ended December 31, 2008, 2009 and 2010, respectively.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

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31. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals (being members of key management personnel, significant shareholders and / or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(a) Transactions with Sinopec Group Company and its affiliates, associates and jointly controlled entities

The Group is part of a larger group of companies under Sinopec Group Company, which is controlled by the PRC government, and has significant transactions and relationships with Sinopec Group Company and its affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The principal related party transactions with Sinopec Group Company and its affiliates, associates and jointly controlled entities, which were carried out in the ordinary course of business, are as follows:

	Note	Years ended December 31,		
		2008 RMB	2009 RMB	2010 RMB
Sales of goods	(i)	186,381	162,671	230,883
Purchases	(ii)	56,516	64,548	109,195
Transportation and storage	(iii)	1,206	1,251	1,407
Exploration and development services	(iv)	33,034	31,343	33,301
Production related services	(v)	14,133	17,603	10,287
Ancillary and social services	(vi)	1,611	3,329	3,693
Operating lease charges	(vii)	4,897	4,866	7,450
Agency commission income	(viii)	78	45	65
Interest received	(ix)	19	38	93
Interest paid	(x)	2,306	1,186	967
Net deposits placed with related parties	(ix)	353	4,640	3,267
Net loans obtained from/(repaid to) related parties	(xi)	7,379	(21,928)	(1,254)

The amounts set out in the table above in respect of each of the years in the three-year period ended December 31, 2010 represent the relevant costs to the Group and income from related parties as determined by the corresponding contracts with the related parties.

There were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and its affiliates as of December 31, 2009 and 2010. Guarantees given to banks by the Group in respect of banking facilities to associates and jointly controlled entities are disclosed in Note 30.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

- (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and equipment.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of materials for certain entities owned by Sinopec Group Company.
- (ix) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits as of December 31, 2009 and 2010 were RMB 5,336 and RMB 8,603, respectively.
- (x) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and its affiliates.
- (xi) The Group obtained or repaid loans from or to Sinopec Group Company and its affiliates.

In connection with the Reorganization, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarized as follows:

- (a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon giving at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

the government-prescribed price;

where there is no government-prescribed price, the government-guidance price;

where there is neither a government-prescribed price nor a government-guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

(b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

- (c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and the rental amount is approximately RMB 4,225 and RMB 6,727 per annum for the years ended December 31, 2009 and 2010, respectively. The Company and Sinopec Group Company can renegotiate the rental amount for buildings every year. However such amount cannot exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from January 1, 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company.
- (e) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from January 1, 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

Pursuant to the resolutions passed at the Directors' meeting held on March 27, 2009, the Group acquired the entire equity interests of Sinopec Qingdao Petrochemical Company Limited and certain storage and distribution operations from Sinopec Group Company for total cash consideration of RMB 771 (Note 1). In addition, the Group acquired certain operating assets related to the E&P and refining segments from Sinopec Group Company for total cash consideration of RMB 1,068.

Pursuant to the resolutions passed at the Directors' meeting held on August 21, 2009, the Group acquired certain operating assets related to the corporate and others business segment from a subsidiary of Sinopec Group Company for total cash consideration of RMB 3,946.

Pursuant to the resolutions passed at the Directors' meeting held on March 26, 2010, the Group acquired 55% equity interests of SSI from SOOGL, a subsidiary of Sinopec Group Company, and assumed the shareholder's loans of USD 292 provided by SOOGL to SSI for a total cash consideration of USD 2,259.

Amounts due from / to Sinopec Group Company and its affiliates, associates and jointly controlled entities included in the following accounts captions are summarized as follows:

	December 31,	
	2009	2010
	RMB	RMB
Trade accounts receivable	1,032	10,734
Prepaid expenses and other current assets	810	3,390
Total amounts due from Sinopec Group Company and its affiliates, associates and jointly controlled entities	1,842	14,124
Trade accounts payable	3,813	12,304
Accrued expenses and other payables	11,979	9,309
Short-term loans and current portion of long-term loans from Sinopec Group Company and its affiliates	15,866	18,809

Long-term loans excluding current portion from Sinopec Group Company and its affiliates	41,807	37,610
Total amounts due to Sinopec Group Company and its affiliates, associates and jointly controlled entities	73,465	78,032

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Amounts due from / to Sinopec Group Company and its affiliates, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and its affiliates are set out in Note 24.

As of and for the years ended December 31, 2009 and 2010, no individually significant impairment losses for bad and doubtful debts were recognized in respect of amounts due from Sinopec Group Company and its affiliates, associates and jointly controlled entities.

(b) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensations are as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	6,530	7,664	8,692
Retirement scheme contributions	198	287	318
	6,728	7,951	9,010

Total emoluments are included in “personnel expenses” as disclosed in Note 6.

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The details of the Group’s employee benefits plan are disclosed in Note 32. As of December 31, 2009 and 2010, the accrual for the contribution to post-employment benefit plans was not material.

(d) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled energy and chemical enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organizations (collectively referred as “state-controlled entities”).

Apart from transactions with Sinopec Group Company and its affiliates, the Group has transactions with other state-controlled entities include but not limited to the following:

- sales and purchase of goods and ancillary materials;
- rendering and receiving services;
- lease of assets;
- depositing and borrowing money; and
- use of public utilities.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the Group's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

(i) Transactions with other state-controlled energy and chemical companies

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"), which are state-controlled entities.

During the years ended December 31, 2008, 2009 and 2010, the aggregate amount of crude oil purchased by the Group's refining segment from CNPC Group and CNOOC Group and refined petroleum purchased by the Group's marketing and distribution segment from CNPC Group was RMB 113,612, RMB 100,641 and RMB 145,200, respectively.

The aggregate amounts due from / to CNPC Group and CNOOC Group included in the following accounts captions are summarized as follows:

	December 31,	
	2009	2010
	RMB	RMB
Trade accounts receivable	318	868
Prepaid expenses and other current assets	17	20
Total amounts due from CNPC Group and CNOOC Group	335	888
Trade accounts payable	3,628	3,797
Accrued expenses and other payables	361	290
Total amounts due to CNPC Group and CNOOC Group	3,989	4,087

(ii) Transactions with state-controlled banks

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the PBOC. The Group's interest income from and interest expense to these state-controlled banks in the PRC are as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Interest income	413	238	153
Interest expense	7,445	2,830	2,736

The amounts of cash deposited at and loans from state-controlled banks in the PRC included in the following accounts captions are summarized as follows:

	December 31,	
	2009	2010
	RMB	RMB

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Cash and cash equivalents	3,046	8,617
Time deposits with financial institutions	1,236	509
Total deposits at state-controlled banks in the PRC	4,282	9,126
Short-term loans and current portion of long-term loans	23,081	12,546
Long-term loans excluding current portion of long-term loans	16,983	21,094
Total loans from state-controlled banks in the PRC	40,064	33,640

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

32. EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 18.0% to 23.0% of the salaries, bonuses and certain allowances of its staff. A member of the above plans is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the years ended December 31, 2008, 2009 and 2010 were RMB 2,873, RMB 4,647 and RMB 4,847, respectively.

33. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining, which processes and purifies crude oil, that is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics.

Group's chief operating decision maker evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash and cash equivalents, time deposits with financial institutions, investments, deferred tax assets and other non-current assets. Segment liabilities exclude short-term and long-term debts, loans from Sinopec Group Company and its affiliates, income tax payable, deferred tax liabilities and other non-current liabilities.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Information on the Group's reportable segments is as follows:

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Sales of goods			
Exploration and production			
External sales	26,403	19,342	35,024
Inter-segment sales	168,262	97,981	133,691
	194,665	117,323	168,715
Refining			
External sales	132,209	95,792	159,858
Inter-segment sales	692,520	603,870	805,704
	824,729	699,662	965,562
Marketing and distribution			
External sales	802,817	778,417	1,032,900
Inter-segment sales	3,200	2,372	3,258
	806,017	780,789	1,036,158
Chemicals			
External sales	219,723	192,735	285,596
Inter-segment sales	27,303	21,125	35,581
	247,026	213,860	321,177
Corporate and others			
External sales	232,051	229,629	363,380
Inter-segment sales	484,343	291,396	432,415
	716,394	521,025	795,795
Elimination of inter-segment sales	(1,375,628)	(1,016,744)	(1,410,649)
Sales of goods	1,413,203	1,315,915	1,876,758
Other operating revenues			
Exploration and production	18,705	17,485	18,430
Refining	4,957	3,909	6,015
Marketing and distribution	906	2,302	4,540
Chemicals	6,430	4,597	6,445
Corporate and others	90	844	994
Other operating revenues	31,088	29,137	36,424
Other income			
Refining	41,017	—	—
Marketing and distribution	9,840	—	—
Total other income	50,857	—	—
Sales of goods, other operating revenues and other income	1,495,148	1,345,052	1,913,182

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Result	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Operating income / (loss)			
By segment			
- Exploration and production	78,649	23,894	47,149
- Refining	(66,640)	27,508	15,855
- Marketing and distribution	38,519	30,300	30,760
- Chemicals	(12,950)	13,805	15,037
- Corporate and others	(2,167)	(2,205)	(2,342)
- Elimination	3,170	(2,603)	(1,455)
Total segment operating income	38,581	90,699	105,004
Income from associates and jointly controlled entities			
- Exploration and production	216	136	158
- Refining	(822)	478	557
- Marketing and distribution	708	690	864
- Chemicals	(92)	1,084	3,211
- Corporate and others	570	609	600
Aggregate income from associates and jointly controlled entities	580	2,997	5,390
Investment income / (loss)			
- Exploration and production	(24)	(1)	21
- Refining	130	(8)	26
- Marketing and distribution	54	47	169
- Chemicals	130	311	20
- Corporate and others	100	25	37
Aggregate investment income	390	374	273
Net finance costs	(6,109)	(7,466)	(6,974)
Earnings before income tax	33,442	86,604	103,693

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

	2008	December 31,	
	RMB	2009	2010
		RMB	RMB
Assets			
Segment assets			
- Exploration and production	257,008	283,430	305,413
- Refining	184,531	213,027	230,925
- Marketing and distribution	144,139	153,777	190,368
- Chemicals	121,964	128,322	125,586
- Corporate and others	31,120	60,433	60,897
Total segment assets	738,762	838,989	913,189
Interest in associates and jointly controlled entities	27,376	32,090	43,014
Investments	1,483	2,174	2,075
Deferred tax assets	13,768	13,975	15,516
Cash and cash equivalents and time deposits with financial institutions	7,792	10,018	18,140
Income tax receivable	9,784	—	—
Other unallocated assets	1,381	1,017	3,220
Total assets	800,346	898,263	995,154
Liabilities			
Segment liabilities			
- Exploration and production	63,404	57,907	65,067
- Refining	37,264	56,277	51,554
- Marketing and distribution	37,727	50,540	76,981
- Chemicals	16,220	27,074	33,836
- Corporate and others	31,754	56,077	75,832
Total segment liabilities	186,369	247,875	303,270
Short-term debts	77,339	59,350	17,019
Income tax payable	135	3,034	10,754
Long-term debts	92,988	110,918	136,465
Loans from Sinopec Group Company and its affiliates	79,601	57,673	56,419
Deferred tax liabilities	8,635	9,707	15,017
Other unallocated liabilities	3,291	4,890	5,842
Total liabilities	448,358	493,447	544,786

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Capital expenditure			
Exploration and production	60,059	54,272	52,680
Refining	12,793	15,468	20,015
Marketing and distribution	14,796	16,283	26,168
Chemicals	20,622	25,207	12,894
Corporate and others	2,393	1,505	1,894
	110,663	112,735	113,651
Depreciation, depletion and amortization			
Exploration and production	25,335	28,177	31,515
Refining	9,658	10,330	11,351
Marketing and distribution	5,270	5,999	6,489
Chemicals	8,463	8,574	8,838
Corporate and others	815	936	1,030
	49,541	54,016	59,223
Impairment losses on long-lived assets			
Exploration and production	5,991	1,595	3,250
Refining	270	396	4,902
Marketing and distribution	709	1,479	1,183
Chemicals	1,511	3,807	5,121
Corporate and others	19	8	21
	8,500	7,285	14,477

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
 (All amounts in millions, except per share data and except otherwise stated)

34. PRINCIPAL SUBSIDIARIES

As of December 31, 2010, the following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Particulars of issued capital	Percentage of equity	Principal activities
China Petrochemical International Company Limited	RMB 1,400	100.00	Trading of petrochemical products and equipments
Sinopec Sales Company Limited	RMB 1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 16,337	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited (Note)	RMB 4,769	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HKD 104	72.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (Note)	RMB 4,000	42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	93.51	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	60.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 5,000	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum and Chemical Company Limited	RMB 3,040	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	75.00	Manufacturing of intermediate petrochemical products and

			petroleum products
Sinopec (Hong Kong) Limited	HKD 5,477	100.00	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petroleum Ltd.	RMB 1,840	55.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Petrochemical Company Limited	RMB 1,595	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec International Petroleum Exploration and Production Limited	RMB 8,000	100.00	Investment in exploration, production and sales of petroleum and natural gas
Sinopec Fuel Oil Sales Company Limited	RMB 2,200	100.00	Marketing and distribution of refined petroleum products

Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the above principal subsidiaries are incorporated in the PRC. All of the above principal subsidiaries are limited companies.

Note: The Company consolidated the financial statements of the entity because it controlled the board of this entity and had the power to govern its financial and operating policies.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Overview

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and its affiliates, advances to third parties, amounts due from associates and jointly controlled entities, derivative financial instruments and other receivables. Financial liabilities of the Group include short-term and long-term debts, loans from Sinopec Group Company and its affiliates, trade accounts payable, bills payable, amounts due to Sinopec Group Company and its affiliates, derivative financial instruments and advances from third parties.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- equity price risk.

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management controls and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC with acceptable credit ratings. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total trade accounts receivable. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade receivables are set out in Note 13.

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, derivative financial instruments and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

As of December 31, 2009 and 2010, the Group has standby credit facilities with several PRC financial institutions which provide borrowings up to RMB 159,500 and RMB 167,500 on an unsecured basis, at a weighted average interest rate of 3.33% and 2.61% per annum, respectively. As of December 31, 2009 and 2010, the Group's outstanding borrowings under these facilities were RMB 9,361 and RMB 6,622 and were included in short-term debts, respectively.

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group would be required to repay:

	Carrying amount RMB	Total contractual undiscounted cash flow RMB	December 31, 2009			
			Within 1 year or on demand RMB	More than 1 year but less than 2 years RMB	More than 2 years but less than 5 years RMB	More than 5 years RMB
Short-term debts	59,350	60,298	60,298	—	—	—
Long-term debts	110,918	132,588	3,131	9,118	99,942	20,397
Loans from Sinopec Group Company and its affiliates	57,673	58,510	16,398	5,112	1,440	35,560
Trade accounts payable	96,762	96,762	96,762	—	—	—
Bills payable	23,111	23,114	23,114	—	—	—
Accrued expenses and other payables	57,304	57,304	57,304	—	—	—
	405,118	428,576	257,007	14,230	101,382	55,957

	Carrying amount	Total contractual undiscounted cash flow	December 31, 2010			
			Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years

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	RMB	RMB	RMB	RMB	RMB	RMB
Short-term debts	17,019	17,202	17,202	—	—	—
Long-term debts	136,465	157,394	4,240	46,617	76,737	29,800
Loans from Sinopec Group Company and its affiliates	56,419	57,098	19,187	312	2,039	35,560
Trade accounts payable	132,528	132,528	132,528	—	—	—
Bills payable	3,818	3,818	3,818	—	—	—
Accrued expenses and other payables	65,390	65,390	65,390	—	—	—
	411,639	433,430	242,365	46,929	78,776	65,360

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its short term debts and obligations when they become due.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts and loans from Sinopec Group Company and its affiliates denominated in US Dollars, Japanese Yen and Hong Kong Dollars. Where necessary, the Group enters into a number of foreign exchange contracts to manage its currency risk exposure. There was no forward exchange contract held by the Group as of December 31, 2010 and 2009.

Included in short-term and long-term debts and loans from Sinopec Group Company and its affiliates of the Group are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	December 31,			
	2009		2010	
Gross exposure arising from loans and borrowings				
US Dollars	USD	1,341	USD	501
Japanese Yen	JPY	22,500	JPY	18,313
Hong Kong Dollars	HKD	11,779	HKD	12,114

A 5 percent strengthening of Renminbi against the following currencies as of December 31 would have increased net income and retained earnings of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	December 31,	
	2009	2010
US Dollars	343	124
Japanese Yen	62	56
Hong Kong Dollars	389	400

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of short-term and long-term debts and loans from Sinopec Group Company and its affiliates of the Group are disclosed in Note 24.

As of December 31, 2009 and 2010, it is estimated that a general increase / decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease / increase the Group's net income and retained earnings by approximately RMB 266 and RMB 259, respectively. This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's debts outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the

same basis for 2009.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil and refined oil products. The fluctuations in prices of crude oil and refined oil products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As of December, 31, 2009 and 2010, the Group had certain commodity contracts of crude oil and refined oil products designated as qualified cash flow hedges and economic hedges. The fair values of these derivative financial instruments as of December 31, 2009 and 2010 are set out in Notes 15 and 26.

As of December 31, 2009, it is estimated that a general increase/decrease of USD 10 per barrel in crude oil and refined oil products, with all other variables held constant, would decrease/increase the Group's net income and retained earnings by approximately RMB 215, and increase/decrease the Group's other reserves by approximately RMB 1,991. As of December 31, 2010, it is estimated that a general increase/decrease of USD 10 per barrel in crude oil and refined oil products, with all other variables held constant, would decrease/increase the Group's net income and retained earnings by approximately RMB 229, and decrease/increase the Group's other reserves by approximately RMB 1,066. This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis was performed on the same basis for 2009.

Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As of December 31, 2010, the Group's exposure to equity price risk is the derivative embedded in the Convertible Bonds issued by the Company as disclosed in Note 24(c).

As of December 31, 2009, it is estimated that an increase of 20% in the Company's own share price would decrease the Group's net income and retained earnings by approximately RMB 306 while a decrease of 20% in the Company's own share price would increase the Group's net income and retained earnings by approximately RMB 156. As of December 31, 2010, it is estimated that an increase of 20% in the Company's own share price would decrease the Group's net income and retained earnings by approximately RMB 218 while a decrease of 20% in the Company's own share price would increase the Group's net income and retained earnings by approximately RMB 108. The sensitivity analysis has been determined assuming that the changes in the Company's own share price had occurred at the balance sheet date and that all other variables remain constant. The analysis was performed on the same basis for 2009.

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

	December 31, 2009			Total RMB
	Level 1 RMB	Level 2 RMB	Level 3 RMB	
Assets				
Available-for-sale financial assets:				
- Listed	61	—	—	61
- Unlisted	—	1,400	—	1,400
Derivative financial instruments:				
- Derivative financial assets	17	307	—	324
	78	1,707	—	1,785
Liabilities				
Derivative financial instruments:				
- Derivative components of the Convertible Bonds	—	218	—	218
- Other derivative financial liabilities	4	754	—	758
	4	972	—	976

	December 31, 2010			Total RMB
	Level 1 RMB	Level 2 RMB	Level 3 RMB	
Assets				
Financial assets held for trading	700	1,750	—	2,450
Available-for-sale financial assets:				
- Listed	52	—	—	52
Derivative financial instruments:				
- Derivative financial assets	113	223	—	336
	865	1,973	—	2,838
Liabilities				
Derivative financial instruments:				
- Derivative components of the Convertible Bonds	—	340	—	340
- Other derivative financial liabilities	164	1,299	—	1,463
	164	1,639	—	1,803

During the year there were no transfers between instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

The disclosures of the fair value estimates, and their methods and assumptions of the Group's financial instruments, are made to comply with the requirements of IFRS 7 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable

judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and / or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair values of the Group's financial instruments (other than long-term indebtedness and investment in unquoted equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities ranging 4.18% to 5.94% and 3.87% to 6.14% for the years ended December 31, 2009 and 2010, respectively. The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and its affiliates as of December 31, 2009 and 2010:

	December 31,	
	2009	2010
	RMB	RMB
Carrying amount	115,139	141,004
Fair value	114,471	139,999

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(All amounts in millions, except per share data and except otherwise stated)

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and its affiliates as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganization of the Group, its existing capital structure and the terms of the borrowings.

Investments in unquoted equity securities are individually and in aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The Group intends to hold these unquoted equity securities for long term purpose.

36. ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. Management bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in Note 2. Management believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off or depreciated over time.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalized as oil and gas properties with equivalent amounts recognized as provision for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

Impairment for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in accordance with IAS 36 “Impairment of Assets”. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group’s assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sale volume, selling price and amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the Group’s customers to make the required payments. Management bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Allowance for diminution in value of inventories

If the costs of inventories fall below their net realizable values, an allowance for diminution in value of inventories is recognized. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the annual accounting period ended December 31, 2010 and which have not been adopted in these financial statements.

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(All amounts in millions, except per share data and except otherwise stated)

38. POST BALANCE SHEET EVENT

In March 2011, the Company issued convertible bonds due 2017 with an aggregate principal amount of RMB 23,000 in the PRC (the “2011 Convertible Bonds”). The 2011 Convertible Bonds are issued at par value of RMB 100 with an initial exercise price of RMB 9.73 per share. The coupon interest rate of the 2011 Convertible Bonds per annum payable annually is 0.5% for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year.

39. PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as of December 31, 2010 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING
ACTIVITIES (UNAUDITED)

(All currency amounts in millions)

In accordance with the Accounting Standards Update 2010-03, Extractive Activities – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures, (“ASU 2010-03”), issued by the Financial Accounting Standards Board of the United States, this section provides supplemental information on oil and gas exploration and producing activities of the Group as of December 31, 2008, 2009 and 2010, and for the years then ended in the following six separate tables. Tables I through III provide historical cost information under IFRS pertaining to capitalized costs related to oil and gas producing activities; costs incurred in oil and gas exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group’s estimated net proved reserve quantities; standardized measure of discounted future net cash flows; and changes in the standardized measure of discounted future net cash flows.

Tables I to VI of supplemental information on oil and gas producing activities of the Group set out below represent information of the Company and its consolidated subsidiaries. The oil and gas producing activities of the equity method investee of the Group are insignificant and have not been combined with the information included herein.

Table I: Capitalized costs related to oil and gas producing activities

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Property cost, wells and related equipment and facilities	317,307	360,518	421,600
Supporting equipment and facilities	46,720	68,784	79,001
Uncompleted wells, equipment and facilities	56,542	46,886	30,374
Total capitalized costs	420,569	476,188	530,975
Accumulated depreciation, depletion, amortization and impairment losses	(177,262)	(206,416)	(239,414)
Net capitalized costs	243,307	269,772	291,561

Table II: Cost incurred in oil and gas exploration and development

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Exploration	12,947	14,572	15,746
Development	55,422	50,245	47,889
Total costs incurred	68,369	64,817	63,635

Table III: Results of operations for oil and gas producing activities

	Years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
Revenues			
Sales	26,192	19,114	34,133
Transfers	167,920	97,801	133,449

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	194,112	116,915	167,582
Production costs excluding taxes	(32,128)	(33,124)	(38,423)
Exploration expenses	(8,310)	(10,545)	(10,955)
Depreciation, depletion, amortization and impairment losses	(29,935)	(29,772)	(33,404)
Taxes other than income tax	(35,980)	(9,188)	(22,830)
Income before income tax	87,759	34,286	61,970
Income tax expense	(25,029)	(10,139)	(17,454)
Results of operation from producing activities	62,730	24,147	44,516

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING
ACTIVITIES (UNAUDITED) – (Continued)
(All currency amounts in millions)

The results of operations for producing activities for the years ended December 31, 2008, 2009 and 2010 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. Income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended December 31, 2008, 2009 and 2010 are shown in the following table.

Proved oil and gas reserves are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well.

“Net” reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

Year-end reserves quantities for the years ended December 31, 2009 and 2010 shown in the following tables were calculated using the average, first-day-of-the-month price for oil and gas during the twelve-month period before the ending date of the period covered by the report. Year-end reserves quantities for the year ended December 31, 2008 shown in the following tables were calculated using year-end price. The estimated impact of changing to the average, first-day-of-the-month price for oil and gas during the twelve-month period before the ending date of the period was not significant on the Group's proved reserves for the years ended December 31, 2009 and 2010.

	Years ended December 31,		
	2008	2009	2010
Proved developed and undeveloped reserves (oil) (million barrels)			
Beginning of year	3,169	2,961	2,919
Revisions of previous estimates	(94)	86	85
Improved recovery	98	131	144
Extensions and discoveries	110	69	69
Production	(322)	(328)	(328)
End of year	2,961	2,919	2,889

Non-controlling interest in proved developed and undeveloped reserves

End of year	54	45	43
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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING
 ACTIVITIES (UNAUDITED) – (Continued)
 (All currency amounts in millions)

	Years ended December 31,		
	2008	2009	2010
Proved developed reserves			
Beginning of year	2,764	2,539	2,589
End of year	2,539	2,589	2,554
Proved undeveloped reserves			
Beginning of year	405	422	330
End of year	422	330	335
Proved developed and undeveloped reserves (gas) (billion cubic feet)			
Beginning of year	6,331	6,959	6,739
Revisions of previous estimates	203	52	23
Improved recovery	-	-	81
Extensions and discoveries	718	27	45
Production	(293)	(299)	(441)
End of year	6,959	6,739	6,447
Proved developed reserves			
Beginning of year	1,518	1,571	1,727
End of year	1,571	1,727	4,471
Proved undeveloped reserves			
Beginning of year	4,813	5,388	5,012
End of year	5,388	5,012	1,976

Table V: Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of ASU 2010-03. Estimated future cash inflows from production are computed by applying the year-end prices for oil and gas for the year ended December 31, 2008 and the average, first-day-of-the-month price for oil and gas during the twelve-month period before the ending date of the period covered by the report for the years ended December 31, 2009 and 2010 to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended December 31, 2008, 2009 and 2010

and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

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CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING

ACTIVITIES (UNAUDITED) – (Continued)

(All currency amounts in millions)

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Future cash flows	1,003,848	1,259,335	1,621,070
Future production costs	(545,853)	(556,320)	(749,752)
Future development costs	(47,402)	(38,262)	(46,902)
Future income tax expenses	(46,525)	(108,864)	(140,804)
Undiscounted future net cash flows	364,068	555,889	683,612
10% annual discount for estimated timing of cash flows	(114,951)	(233,298)	(279,686)
Standardized measure of discounted future net cash flows	249,117	322,591	403,926
Non-controlling interest in discounted future net cash flow			
End of year	3,365	8,282	7,032

Table VI: Changes in the standardized measure of discounted future net cash flows

	Years ended December 31,		
	2008 RMB	2009 RMB	2010 RMB
Sales and transfers of oil and gas produced, net of production costs	(127,175)	(59,578)	(86,735)
Net changes in prices and production costs	(275,497)	84,041	88,765
Net change due to extensions, discoveries and improved recoveries	32,011	35,009	45,695
Revisions of previous quantity estimates	(8,298)	11,405	14,899
Previously estimated development costs incurred during the year	29,863	14,547	10,638
Accretion of discount	38,472	21,366	26,120
Net change in income taxes	86,012	(33,528)	(18,326)
Others	352	212	279
Net change for the year	(224,260)	73,474	81,335

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

China Petroleum & Chemical Corporation

By: /s/ Chen Ge
Name: Chen Ge
Title: Secretary to the Board of Directors

Date: April 8, 2011