

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

☐ 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 FROM _____ 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

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	1,727	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'nan 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	959.04	959.04	-
For the year ended December 31, 2008			
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 Shengli	Others	Africa
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

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:

	As of December 31,			
	2009		2010	
Productive Wells for Crude Oil	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

	As of December 31,			
	2009		2010	
Productive Wells for Natural Gas	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
Qingdaolianshan	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.

	Year ended December 31,		
	2008	2009	2010
Source of Supply	(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.

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;
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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.

2010	Year Ended December 31, (RMB in millions)	2009	Rate of Change from 2009 to 2010 %
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