NYSE Euronext
Form 8-K
May 23, 2007

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

Form 8-K

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): 05/23/2007

NYSE Euronext

(Exact name of registrant as specified in its charter)

Commission File Number: 001-33392

Delaware	**20-5110848**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

11 Wall Street
New York, NY 10005
(Address of principal executive offices, including zip code)

212-656-3000
(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Information to be included in the report

Item 2.02. Results of Operations and Financial Condition

On May 23, 2007, NYSE Euronext issued a press release announcing, on an unaudited pro forma condensed basis as if the merger between NYSE Group and Euronext had been consummated on January 1, 2007, the results of operations for the first quarter of 2007 of NYSE Euronext.

A copy of the press release is attached as Exhibit 99.1 to this report and is being furnished in this Form 8-K. NYSE Euronext does not intend for this Item 2.02 or Exhibit 99.1 to be deemed "filed" for any purposes under the Securities Exchange Act of 1934, as amended, or to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, amended.

Item 9.01. Financial Statements and Exhibits

Exhibit 99.1 -- Press Release dated May 23, 2007, announcing the unaudited pro forma combined results of operations of NYSE Euronext, as if the merger between NYSE Group and Euronext had been consummated on January 1, 2007, for the three months ended March 31, 2007.

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NYSE Euronext

Date: May 23, 2007

By: /s/ Nelson Chai

Nelson Chai
Chief Financial Officer

Exhibit Index

Exhibit No.	Description
EX-99.1	Press Release dated May 23, 2007, announcing the unaudited pro forma combined results of operations of NYSE Euronext, as if the merger between NYSE Group and Euronext had been consummated on January 1, 2007, for the three months ended March 31, 2007

federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs. For purposes of this summary, a US Holder is a beneficial owner of H shares or ADSs that is for United States federal income tax purposes: o an individual who is a citizen or resident of the United States; o a corporation created in or organized under the laws of, the United States or any State or political subdivision thereof; o an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source; o a trust the administration of which is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust; or o a trust that has elected to be treated as a United States person under the Code. If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds H shares or ADSs, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding our H shares or ADSs are urged to consult their tax advisors as to the particular United States federal income tax consequences applicable to them. A foreign corporation will be treated as a "passive foreign investment company" (a "PFIC"), for United States federal income tax purposes, if 75% or more of its gross income consists of certain types of "passive" income or 50% or more of its assets are passive. Sinopec Corp. presently does not believe that it is a PFIC and does not anticipate becoming a PFIC. This is, however, a factual determination made on an annual basis and is subject to change. The following discussion is based on the belief that Sinopec Corp. will not be classified as a PFIC for United States federal income tax purposes. See the discussion below under the heading "PFIC Considerations" for a brief summary of the PFIC rules. General For United States federal income tax purposes, a US Holder of an ADS will be treated as the owner of the proportionate interest of the H shares held by the depositary that is represented by an ADS and evidenced by such ADS. Accordingly, no gain or loss will be recognized upon the exchange of an ADS for the holder's proportionate interest in the H shares. A US Holder's tax basis in the withdrawn H shares will be the same as the tax basis in the ADS surrendered 79 therefor, and the holding period in the withdrawn H shares will include the period during which the holder held the surrendered ADS. Dividends Any cash distributions paid by Sinopec Corp. out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as dividend income and will be includible in the gross income of a US Holder upon receipt. A non-corporate recipient of dividend income will generally be subject to tax on dividend income from a "qualified foreign corporation" at a maximum U.S. federal tax rate of 15% rather than the marginal tax rates generally applicable to ordinary income so long as certain holding period requirements are met. A non-U.S. corporation (other than a passive foreign investment company) generally will be considered to be a qualified foreign corporation (i) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information program or (ii) with respect to any dividend it pays on stock which is readily tradable on an established securities market in the United States. There is currently a tax treaty in effect between the United States and the People's Republic of China which the Secretary of Treasury of the United States determined is satisfactory for these purposes and Sinopec Group, presently believes that it is eligible for the benefits of such treaty. Additionally, our ADSs trade on the New York Stock Exchange, an established securities market in the United States. Cash distributions paid by Sinopec Corp. in excess of its earnings and profits will be treated as a tax-free return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, and after that as gain from the sale or exchange of a capital asset. Dividends paid in Hong Kong dollars will be includible in income in a United States dollar amount based on the United States dollar - Hong Kong dollar exchange rate prevailing at the time of receipt of such dividends by the depositary, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. Gain or loss, if any, recognized on a subsequent sale, conversion or other disposition of Hong Kong dollars generally will be

U.S. source income or loss. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations. Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which the US Holder elects to do so for all creditable foreign income taxes. A distribution of additional shares of Sinopec Corp.'s stock to US Holders with respect to their H shares or ADSs that is pro rata to all Sinopec Corp.'s shareholders may not be subject to United States federal income tax. The tax basis of such additional shares will be determined by allocating the US Holders' adjusted tax basis in the H shares or ADSs between the H shares or ADSs and the additional shares, based on their relative fair market values on the date of distribution. Sale or Other Disposition of H shares or ADSs A US Holder will recognize capital gain or loss upon the sale or other disposition of H shares or ADSs in an amount equal to the difference between the amount realized upon the disposition and the US Holder's adjusted tax basis in such H shares or ADSs, as each is determined in US dollars. Any capital gain or loss will be long-term if the H shares or ADSs have been held for more than one year and may be, under the income tax treaty between the People's Republic of China and the United States, foreign source gain or loss. The claim of a deduction in respect of a capital loss, for United States federal income tax purposes, may be subject to limitations. PFIC Considerations If Sinopec Corp. were to be classified as a PFIC in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of United States federal income tax that a U.S. Holder could derive from investing in a foreign company that does not distribute all of its earnings on a current basis. In such event, a U.S. Holder of the H shares or ADSs may be subject to tax at ordinary income tax rates on (i) any gain recognized on the sale of the H shares or ADSs and (ii) any "excess distribution" paid on the H shares or ADSs (generally, a distribution in excess of 125% of the average annual distributions paid by 80 Sinopec Corp. in the three preceding taxable years). In addition, a U.S. Holder may be subject to an interest charge on such gain or excess distribution. The above results may be eliminated if a "mark-to-market" election is available and a US Holder validly makes such an election. If the election is made, such holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in H shares or ADSs at the end of each taxable year as ordinary income or ordinary loss (to the extent of any net mark-to-market gain previously included in income). In addition, any gain from a sale or other disposition of H shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss (to the extent of any net mark-to-market gain previously included in income). F. DIVIDENDS AND PAYING AGENTS Not applicable. G. STATEMENT BY EXPERTS Not applicable. H. DOCUMENTS ON DISPLAY We filed with the Securities and Exchange Commission in Washington, D.C. a Registration Statement on Form F-1 (Registration No. 333-12502) under the Securities Act in connection with the ADSs offered in the global offering. The Registration Statement contains exhibits and schedules. Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the Registration Statement, the contract or document is deemed to modify the description contained in this annual report. You must review the exhibits themselves for a complete description of the contract or documents. You may inspect and copy our registration statements, including their exhibits and schedules, and the reports and other information we file with the Securities and Exchange Commission in accordance with the Exchange Act at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, Room 1024, N.W., Washington, D.C. 20549 and at the regional offices of the Securities and Exchange Commission located at 233 Broadway, New York, NY 10279 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also inspect the registration statements, including their exhibits and schedules, at the office of the New York Stock Exchange, Wall Street, New York, New York 10005. Copies of such material may also be obtained from the Public Reference Section of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the Washington D.C. Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by contacting the Securities and Exchange Commission over the internet at its website at http://www.sec.gov. I. SUBSIDIARY INFORMATION Not applicable. ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates. Commodity Price Risk We are exposed to fluctuations in prices of crude oil, refined products and petrochemicals whose prices are volatile. We purchase substantial volumes of crude oil from domestic and international suppliers and sell substantial volumes of refined products and petrochemicals to domestic buyers. Therefore, fluctuations of prices of crude oil, refined products and petrochemicals have a significant effect on our operating expenses and net profits. 81 Foreign Exchange Rate Risk The Renminbi is not a freely convertible currency. With the authorization from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on July 21, 2005. Actions taken by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations and financial condition. However, we believe that significant depreciation in the Renminbi against major foreign currencies may have a material adverse impact on our capital expenditure program. The following presents various market risk information regarding market-sensitive financial instruments that we held or issued as of December 31, 2006 and 2005. We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The following tables provide information regarding instruments that are sensitive to foreign exchange rates as of December 31, 2006 and 2005. For debt obligations, the table presents cash flows and related weighted average rates by expected maturity dates. 82 As of December 31, 2006: Expected maturity -- 2007 2008 2009 2010 2011 thereafter Total Fair value ---- ---- ---- ---- ---- ---------- ----- ---------- (RMB equivalent in millions, except interest rates) -- Assets Cash and cash equivalents In United States dollar 761 - - - - - 761 761 In Hong Kong dollar 27 - - - - - 27 27 In Japanese yen 17 - - - - - 17 17 In Euro 23 - - - - - 23 23 Liabilities Debts in United States dollar < Fixed rate 4,236 220 196 195 113 521 5,481 5,362 Average interest rate 5.3% 3.3% 3.1% 2.7% 2.2% 2.0% Variable rate 3,902 527 537 546 561 1,305 7,378 7,378 Average interest rate (1) 6.0% 6.0% 6.0% 6.0% 6.0% 6.0% Debts in Japanese yen Fixed rate 165 95 95 95 68 775 1,293 1,479 Average interest rate 2.8% 2.6% 2.6% 2.6% 2.6% 2.6% Variable rate 361 260 256 180 180 183 1,420 1,420 Average interest rate (1) 3.2% 3.2% 3.1% 3.0% 3.0% 2.1% Debts in Hong Kong dollar Fixed rate 50 - - - - - 50 50 Average interest rate 4.7% - - - - - Variable rate 8,213 - - - - - 8,213 8,213 Average interest rate (1) 4.5% - - - - - Debts in Euro Fixed rate 25 25 25 26 - - 101 106 Average interest rate 6.7% 6.7% 6.7% 6.7% - - (1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31,2006. 83 As of December 31, 2005: Expected maturity -- 2006 2007 2008 2009 2010 thereafter Total Fair value ---- ---- ---- ---- ---- ---------- ----- ---------- (RMB equivalent in millions, except interest rates) -- Assets Cash and cash equivalents In United States dollar 617 - - - - - 617 617 In Hong Kong dollar 66 - - - - - 66 66 In Japanese yen 19 - - - - - 19 19 In Euro 21 - - - - - 21 21 Liabilities Debts in United States dollar Fixed rate 2,471 304 250 203 192 616 4,036 3,982 Average interest rate 4.4% 3.6% 3.2% 2.9% 2.3% 1.4% Variable rate 8,506 1,521 354 356 356 2,930 14,023 14,023 Average interest rate (1) 5.2% 5.2% 5.2% 5.2% 5.2% 5.2% Debts in Japanese yen Fixed rate 246 172 101 101 94 883 1,597 1,888 Average interest rate 3.0% 2.8% 2.6% 2.6% 2.6% 2.6% Variable rate 370 355 262 269 178 363 1,797 1,797 Average interest rate (1) 2.6% 2.6% 2.8% 2.8% 3.0% 3.0% Debts in Hong Kong dollar Fixed rate 788 - - - - - 788 788 Average interest rate 4.1% - - - - - Variable rate 196 12 - - - - 208 208 Average interest rate (1) 4.9% 4.8% - - - - Debts in Euro Fixed rate 24 23 23 24 23 - 117 125 Average interest rate 6.7% 6.7% 6.7% 6.7% 6.7% - (1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2005. Interest Rate Risk We are exposed to interest rate risk resulting from fluctuations in interest rates on our short- and long-term debts. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings. Our debts consist of fixed and variable rate debt obligations with original maturities ranging from 1 to 25 years. Fluctuations in interest rates can lead to significant fluctuations in the fair values of our debt obligations. The following tables present principal cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2006 and 2005. 84 As of December 31, 2006: Expected maturity -- 2007 2008 2009 2010 2011 thereafter Total Fair value ---- ---- ---- ---- ---- ---------- ----- ---------- (RMB equivalent in millions, except interest rates) -- Assets Cash and cash equivalents In Renminbi 7,260 - - - - - 7,260 7,260 In United States dollar 761 - - - - - 761 761

In Hong Kong dollar 27 - - - - - 27 27 In Japanese yen 17 - - - - - 17 17 In Euro 23 - - - - - 23 23 Time deposits with financial institutions In Renminbi 635 - - - - - 635 635 Liabilities Debts in Renminbi Fixed rate 40,293 24,125 8,057 2,477 258 41,031 116,241 115,767(1) Average interest rate 4.7% 5.2% 5.0% 4.8% 4.7% 0.6% Variable rate 1,515 1,277 10,895 7,315 4,130 2,516 27,648 27,648 Average interest rate (2) 5.6% 5.6% 5.6% 5.8% 5.9% 6.1% Debts in United States dollar Fixed rate 4,236 220 196 195 113 521 5,481 5,362 Average interest rate 5.3% 3.3% 3.1% 2.7% 2.2% 2.0% Variable rate 3,902 527 537 546 561 1,305 7,378 7,378 Average interest rate (2) 6.0% 6.0% 6.0% 6.0% 6.0% 6.0% Debts in Japanese yen Fixed rate 165 95 95 95 68 775 1,293 1,479 Average interest rate 2.8% 2.6% 2.6% 2.6% 2.6% 2.6% Variable rate 361 260 256 180 180 183 1,420 1,420 Average interest rate (2) 3.2% 3.2% 3.1% 3.0% 3.0% 2.1% Debts in Hong Kong dollar Fixed rate 50 - - - - - 50 50 Average interest rate 4.7% - - - - - Variable rate 8,213 - - - - - 8,213 8,213 Average interest rate (2) 4.5% - - - - - Debts in Euro Fixed rate 25 25 25 26 - - 101 106 Average interest rate 6.7% 6.7% 6.7% 6.7% - - (1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive. (2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2006. 85 As of December 31, 2005: Expected maturity -- 2006 2007 2008 2009 2010 thereafter Total Fair value ---- ---- ---- ---- ---- ---------- ----- ---------- (RMB equivalent in millions, except interest rates) Assets Cash and cash equivalents In Renminbi 13,346 - - - - - 13,346 13,346 In United States dollar 617 - - - - - 617 617 In Hong Kong dollar 66 - - - - - 66 66 In Japanese yen 19 - - - - - 19 19 In Euro 21 - - - - - 21 21 Time deposits with financial institutions In Renminbi 1,002 - - - - - 1,002 1,002 Liabilities Debts in Renminbi Fixed rate 29,198 16,233 24,508 5,787 5,517 41,586 122,829 122,588(1) Average interest rate 4.5% 5.1% 5.1% 5.0% 5.0% 0.7% Variable rate 1,418 1,167 420 1,158 3,265 2,685 10,113 10,113 Average interest rate (2) 5.3% 5.4% 5.4% 5.4% 5.4% 5.5% Debts in United States dollar Fixed rate 2,471 304 250 203 192 616 4,036 3,982 Average interest rate 4.4% 3.6% 3.2% 2.9% 2.3% 1.4% Variable rate 8,506 1,521 354 356 356 2,930 14,023 14,023 Average interest rate (2) 5.2% 5.2% 5.2% 5.2% 5.2% 5.2% Debts in Japanese yen Fixed rate 246 172 101 101 94 883 1,597 1,888 Average interest rate 3.0% 2.8% 2.6% 2.6% 2.6% 2.6% Variable rate 370 355 262 269 178 363 1,797 1,797 Average interest rate (2) 2.6% 2.6% 2.8% 2.8% 3.0% 3.0% Debts in Hong Kong dollar Fixed rate 788 - - - - - 788 788 Average interest rate 4.1% - - - - - Variable rate 196 12 - - - - 208 208 Average interest rate (2) 4.9% 4.8% - - - - Debts in Euro Fixed rate 24 23 23 24 23 - 117 125 Average interest rate 6.7% 6.7% 6.7% 6.7% 6.7% - (1) Carrying amounts are used for loans from Sinopec Group Company and its affiliates as it is not practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive. (2) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2005. 86 ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES Not applicable PART II ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES None ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS A. MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITIES HOLDERS None B. USE OF PROCEEDS Not applicable ITEM 15. CONTROLS AND PROCEDURES Disclosure Controls and Procedures Our management, with the participation of our Chairman, President and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chairman, President and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were adequate and effective to ensure that material information relating to our company, including our consolidated subsidiaries, was made know to them by others within our company and our consolidated subsidiaries. Management's Report on Internal Control over Financial Reporting Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards and generally accepted accounting principles in the United States of America. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management assessed the effectiveness of our internal control over financial reporting based upon the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of December 31, 2006. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2006 based on the these criteria. KPMG, an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on our 87 management's assessment of the effectiveness of our internal control over financial reporting and the effectiveness of our internal control over financial reporting. Attestation Report of the Registered Public Accounting Firm The Board of Directors and Shareholders of China Petroleum & Chemical Corporation: We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that China Petroleum & Chemical Corporation and subsidiaries (the "Group") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Group's internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, management's assessment that the Group maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by COSO. Also, in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by COSO. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Group as of December 31, 2005 and 2006, and the related consolidated statements of income, cash flows and equity for each of the years in the three-year period ended December 31, 2006, and our report dated April 6, 2007 expressed an unqualified opinion on those consolidated financial statements. /s/ KPMG Hong Kong, China April 6, 2007 88 Changes in Internal Control over Financial Reporting During the year ended December 31, 2006, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. ITEM 16. RESERVED ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT The board of directors has determined that Mr. Liu Zhongli qualifies as an audit committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Liu was appointed as an independent non-executive director and a member of the audit committee of the third board of our company in May 2006. For Mr. Liu's biographical information, see "Item 6 Directors, Senior Management and Employees - A. Directors, members of the supervisory committee and senior management." ITEM 16B. CODE OF ETHICS As of the date of this annual report, we do not have, in form, a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Our principal executive officers, Mr. Chen Tonghai (Chairman) and Mr. Wang Tianpu (President), and our principal financial officer, Mr. Dai Houliang (CFO), currently also serve as our directors and are thus subject to the director service contracts that they have with us. Under the director service contracts, each of them agrees that he owes a fiduciary and diligence obligation to our company and that he shall not engage in any activities in competition with our business or carry out any activities detrimental to the interests of our company. Each of them also agrees to perform his respective duties as a director and senior officer in accordance with the Company Law of the PRC, relevant rules and regulations promulgated by China Securities Regulatory Commission and the Mandatory Provisions of Articles of Association of Overseas Listed Companies. ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2005 and 2006: Audit Fees Audit-Related Fees Tax Fees Other Fees ---------- ----------------- -------- ---------- 2005 RMB 72 million -- -- -- 2006 RMB 81 million -- -- -- Before our principal accountants were engaged by our company or our subsidiaries to render audit or non-audit services, the engagement has been approved by our audit committee. ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES Not applicable. ITEM 16E. PURCHASERS OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS None. PART III ITEM 17. FINANCIAL STATEMENTS Not applicable. ITEM 18. FINANCIAL STATEMENTS See F-pages following Item 19. 89 ITEM 19. EXHIBITS 1* Articles of Association of the Registrant, amended and adopted by the shareholders' meeting on May 24, 2006 (English translation). 4.1* Forms of Director Service Contracts dated May 24, 2006 (English translation). 4.2* Forms of Supervisor Service Contracts dated May 24, 2006 (English translation). 4.3** Reorganization Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.4** Agreement for Mutual Provision of Products and Ancillary Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.5** Agreement for Provision of Cultural, Educational, Hygiene and Community Services between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.6** Trademark License Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.7** Patents and Proprietary Technology License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.8** Computer Software License Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.9** Assets Swap Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.10** Land Use Rights Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.12** Property Leasing Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 3, 2000 (including English translation), incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and

Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.13** Accounts Collectable Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.17 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 90 4.14** Loan Transfer and Adjustment Contract between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 16, 2000 (including English translation), incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on October 10, 2000 (File Number: 333-12502). 4.15* Agreement on Adjustment to Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated June 11, 2001 (English translation). 4.16* Land Use Right Leasing Agreement between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated August 22, 2003 (English translation). 4.17* 2004 Agreement on Adjustment to Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated October 31, 2004 (English translation). 4.18* Memorandum on Adjustment of Rent of Land Use Rights between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated March 31, 2006 (English translation). 4.19* Supplementaral Agreement on Related Party Transactions between China Petrochemical Corporation and China Petroleum & Chemical Corporation dated March 31, 2006 (English translation). 8* A list of the Registrant's subsidiaries. 12.1* Certification of Chairman pursuant to Rule 13a-14(a). 12.2* Certification of President pursuant to Rule 13a-14(a). 12.3* Certification of CFO pursuant to Rule 13a-14(a). 13* Certification of CEO and CFO pursuant to 18 U.S.C. ss.1350, and Rule 13a-14(b). * Filed as part of this annual report ** Incorporated by reference. 91 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS Page ---- F-1 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM The Board of Directors and Shareholders of China Petroleum & Chemical Corporation: We have audited the accompanying consolidated balance sheets of China Petroleum & Chemical Corporation and subsidiaries (the "Group") as of December 31, 2005 and 2006, and the related consolidated statements of income, cash flows and equity for each of the years in the three-year period ended December 31, 2006, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board. International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 37 to the consolidated financial statements. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Group's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 6, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting. /s/ KPMG Hong Kong, China April 6, 2007 F-2 CHINA PETROLEUM & CHEMICAL

CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (Amounts in millions, except per share data) Years ended December 31, ------------------------------- Note 2004 2005 2006 ---- ----------- ---------- --------- RMB RMB RMB Operating revenues Sales of goods...................................... 597,318 799,259 1,044,652 Other operating revenues............................ 3 22,597 24,013 26,750 ----------- ---------- --------- 619,915 823,272 1,071,402 Other income 4 - 9,415 5,000 Operating expenses Purchased crude oil, products and operating supplies and expenses..................................... (442,503) (651,201) (861,437) Selling, general and administrative expenses......... (32,969) (33,880) (37,758) Depreciation, depletion and amortization............. (32,493) (31,618) (34,235) Exploration expenses, including dry holes............ (6,396) (6,411) (7,983) Personnel expenses.................................. 5 (18,719) (18,649) (19,857) Employee reduction expenses......................... 6 (919) (369) (236) Taxes other than income tax......................... 7 (16,347) (17,185) (28,639) Other operating expenses, net....................... 8 (6,678) (5,128) (2,437) ----------- ---------- --------- Total operating expenses....................... (557,024) (764,441) (992,582) ----------- ---------- --------- Operating income... 62,891 68,246 83,820 ----------- ---------- --------- Finance costs Interest expense.................................... 9 (4,583) (5,926) (7,437) Interest income..................................... 378 384 555 Foreign exchange losses............................. (223) (79) (153) Foreign exchange gains.............................. 61 996 935 ----------- ---------- --------- Net finance costs.............................. (4,367) (4,625) (6,100) Investment income.. 121 178 256 Income from associates................................... 797 857 947 ----------- ---------- --------- Income before income tax................................. 59,442 64,656 78,923 Income tax... 10 (18,091) (19,880) (23,515) ----------- ---------- --------- Net income .... 41,351 44,776 55,408 =========== ========== ========== Attributable to: Equity shareholders of the Company............... 35,335 41,455 53,912 Minority interests.............................. 6,016 3,321 1,496 ----------- ---------- --------- Net income .... 41,351 44,776 55,408 =========== ========== ========== Basic and diluted earnings per share..................... 11 0.41 0.48 0.62 =========== ========== ========== Weighted average number of shares........................ 11 86,702 86,702 86,702 =========== ========== ========== See accompanying notes to consolidated financial statements. F-3 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2006 (Amounts in millions) December 31, ------------ Note 2005 2006 ----- ----- RMB RMB ASSETS Current assets Cash and cash equivalents................................ 14,069 8,088 Time deposits with financial institutions................ 1,002 635 Trade accounts receivable, net........................... 12 14,646 15,590 Bills receivable... 7,167 8,757 Inventories.. 13 89,519 93,436 Prepaid expenses and other current assets................ 14 20,654 18,961 -------- -------- Total current assets................................ 147,057 145,467 -------- -------- Non-current assets Property, plant and equipment, net....................... 15 317,382 366,475 Construction in progress................................. 16 54,380 53,180 Goodwill... 17 2,203 14,325 Investments.. 18 3,151 2,582 Interest in associates................................... 19 9,267 11,617 Deferred tax assets...................................... 21 6,072 7,158 Lease prepayments.. 2,407 2,937 Long-term prepayments and other assets................... 22 7,121 8,049 -------- -------- Total non-current assets............................ 401,983 466,323 -------- -------- Total assets.. 549,040 611,790 ======== ======== LIABILITIES AND EQUITY Current liabilities Short-term debts... 23 40,411 53,359 Loans from Sinopec Group Company and its affiliates....... 23 2,805 5,401 Trade accounts payable................................... 24 53,817 52,125 Bills payable.. 23,243 21,685 Accrued expenses and other payables...................... 25 49,523 69,056 Income tax payable....................................... 5,212 9,176 -------- -------- Total current liabilities........................... 175,011 210,802 -------- -------- Non-current liabilities Long-term debts.. 23 72,359 69,970 Loans from Sinopec Group Company and its affiliates....... 23 39,933 39,095 Deferred tax liabilities................................. 21 5,975 6,339 Other liabilities.. 782 795 -------- -------- Total non-current liabilities....................... 119,049 116,199 -------- -------- Total liabilities................................... 294,060 327,001 -------- -------- Equity Share capital.. 26 86,702 86,702 Reserves... 27 137,599 176,143 -------- -------- Total equity attributable to equity shareholders of the Company 224,301 262,845 Minority interests....................................... 30,679 21,944 -------- -------- Total equity.. 254,980 284,789 -------- -------- Total liabilities and equity........................ 549,040 611,790 ======== ======== See accompanying notes to consolidated financial statements. F-4 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (Amounts in millions) Years ended December 31, ---------------------- Note 2004 2005 2006 ---- ---- ---- RMB RMB RMB Net cash generated from operating activities..................... (a) 68,941 78,214 95,875 --------- ----------- ------ Cash flows from investing activities Capital expenditure... (64,313) (63,993) (70,604) Exploratory wells expenditure............................... (4,959) (5,810) (7,985) Capital expenditure of jointly controlled entities.......... (6,035) (2,474) (382) Purchase of investments, investments in associates and subsidiaries, net of cash acquired....................... (1,305) (3,650) (3,571) Proceeds from disposal of investments and investments in associates.. 186 1,264 717 Proceeds from disposal of property, plant and equipment...... 322 567 406 Acquisition of minority interests in subsidiaries........... -- (4,324) (21,971) Purchase of time deposits with financial institutions........ (1,932) (565) (916) Maturity of time deposits with financial institutions........ 2,217 1,462 1,283 --------- ----------- ------ Net cash used in investing activities.................. (75,819) (77,523) (103,023) --------- ----------- ------ Cash flows from financing activities Proceeds from bank and other loans.......................... 403,201 554,187 764,659 Proceeds from bank and other loans of jointly controlled entities.. 3,014 3,954 87 Proceeds from issuance of corporate bonds.................. 3,472 9,875 22,689 Repayments of bank and other loans.......................... (388,811) (557,692) (754,159) Repayment of corporate bonds................................ -- -- (21,000) Distributions to minority interests......................... (823) (1,682) (852) Contributions from minority interests....................... 1,008 129 1,255 Dividend paid... (8,670) (10,404) (11,271) Distributions to Sinopec Group Company..................... (3,741) (3,218) (216) --------- ----------- ------ Net cash generated from/(used in) financing activities 8,650 (4,851) 1,192 --------- ----------- ------ Net increase/(decrease) in cash and cash equivalents............. 1,772 (4,160) (5,956) Effect of foreign exchange rate changes.......................... 1 (22) (25) Cash and cash equivalents at January 1........................... 16,478 18,251 14,069 --------- ----------- ------ Cash and cash equivalents at December 31......................... 18,251 14,069 8,088 ========= =========== ====== See accompanying notes to consolidated financial statements. F-5 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006 (Amounts in millions) (a) Reconciliation of income before income tax to net cash generated from operating activities The reconciliation of income before income tax to net cash generated from operating activities is as follows: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ----- RMB RMB RMB Operating activities Income before income tax... 59,442 64,656 78,923 Adjustment for: Depreciation, depletion and amortization.................... 32,493 31,618 34,235 Dry hole cost... 2,976 2,992 3,960 Income from associates..................................... (797) (857) (947) Investment income.. (121) (178) (256) Interest income.. (378) (384) (555) Interest expense... 4,583 5,926 7,437 Unrealized foreign exchange losses/(gains).................. 150 (852) (689) Loss on disposal of property, plant and equipment, net....... 1,697 2,098 1,646 Impairment losses on long-lived assets...................... 3,919 1,851 825 ------- ------- ------- Operating income before changes in working capital............... 103,964 106,870 124,579 Increase in trade accounts receivable....................... (521) (4,759) (737) (Increase)/decrease in bills receivable..................... (1,495) 652 (1,570) Increase in inventories.................................... (16,526) (25,037) (3,112) Decrease in prepaid expenses and other current assets........ 2,930 1,786 371 Decrease/(increase) in lease prepayments.................... 187 (1,071) (559) Increase in long-term prepayments and other assets........... (4,321) (2,222) (1,123) Increase/(decrease) in trade accounts payable............... 850 29,142 (1,901) Increase/(decrease) in bills payable........................ 6,521 (7,554) (1,613) (Decrease)/increase in accrued expenses and other payables... (289) 8,154 9,531 (Decrease)/increase in other liabilities.................... (334) (227) 13 ------- ------- ------- Cash generated from operations .... 90,966 105,734 123,879 Interest received.. 378 388 558 Interest paid.. (5,450) (6,967) (8,861) Investment and dividend income received..................... 330 668 619 Income tax paid.. (17,283) (21,609) (20,320) ------- ------- ------- Net cash generated from operating activities..................... 68,941 78,214 95,875 ======= ======= ======= See accompanying notes to consolidated financial statements. F-6 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EQUITY (Amounts in millions) Total equity attributable to equity shareholders Share Capital Share Revaluation Other Retained of the Minority Total capital reserve premium reserve reserves earnings Company interests equity --- RMB RMB RMB RMB RMB RMB RMB RMB RMB Balance at January 1, 2004, as previously reported................86,702 (18,960) 18,072 30,341 23,528 31,832 171,515 26,051 197,566 Adjusted for the acquisition of the Acquired Group.................... -- -- -- -- 984 -- 984 665 1,649 ------ ------- ------- -------- ------- ------ -------- -------- ------- Balance at January 1, 2004, as adjusted 86,702 (18,960) 18,072 30,341 24,512 31,832 172,499 26,716 199,215 Net income / (loss) recognized directly in equity: Revaluation surplus of Petrochemical and Catalyst Assets.. -- (257) -- 257 257 -- 257 -- 257 Impairment losses on revalued assets (Note 8) .... -- -- -- (709) -- -- (709) -- (709) ------ ------- ------- -------- ------- ------ -------- -------- ------- -- (257) -- (452) 257 -- (452) -- (452) Net income............................ -- -- -- -- -- 35,335 35,335 6,016 41,351 ------ ------- ------- -------- ------ ------ -------- -------- ------- Total recognized income for the year.... -- (257) -- (452) 257 35,335 34,883 6,016 40,899 Final dividend for 2004 .... -- -- -- -- -- (5,202) (5,202) -- (5,202) Interim dividend for 2004.............. -- -- -- -- -- (3,468) (3,468) -- (3,468) Appropriations (Note 27 (c) and (d)).... -- -- -- -- 6,456 (6,456) -- -- -- Revaluation surplus realized........... -- -- -- (1,891) -- 1,891 -- -- -- Realization of deferred tax on land use rights............................ -- -- -- -- (5) 5 -- -- -- Transfer from retained earnings to other reserves.................... -- -- -- -- 815 (815) -- -- -- Net assets distributed to Sinopec Grou Company (Note 27(g)).............. -- -- -- -- (2,244) -- (2,244) -- (2,244) Consideration for Acquisition of Petrochemical and Catalyst Assets (Note 30)......................... -- -- -- -- (3,128) -- (3,128) -- (3,128) Distributions to minority interests net of contribution................... -- -- -- -- -- -- -- (777) (777) ------ ------- ------- -------- ------- ------ -------- -------- ------- Balance at December 31, 2004 86,702 (19,217) 18,072 27,998 26,663 53,122 193,340 31,955 225,295 Net income / total recognized income for the year...................... -- -- -- -- -- 41,455 41,455 3,321 44,776 Final dividend for 2004 .... -- -- -- -- -- (6,936) (6,936) -- (6,936) Interim dividend for 2005.............. -- -- -- -- -- (3,468) (3,468) -- (3,468) Appropriation (Note 27 (c) and (d))..... -- -- -- -- 7,912 (7,912) -- -- -- Revaluation surplus realized............ -- -- -- (1,656) -- 1,656 -- -- -- Realization of deferred tax on land use rights........................... -- -- -- -- (5) 5 -- -- -- Transfer from retained earnings to other reserves.................... -- -- -- -- 535 (535) -- -- -- Distribution to Sinopec Group Company (Note 27(g))...................... -- -- -- -- (90) -- (90) -- (90) Acquisitions of minority interests in subsidiaries .... -- -- -- -- -- -- -- (2,957) (2,957) Distributions to minority interests net of contribution................... -- -- -- -- -- -- -- (1,640) (1,640) ------ ------- ------- -------- ------- ------ -------- -------- ------- Balance at December 31, 2005............86,702 (19,217) 18,072 26,342 35,015 77,387 224,301 30,679 254,980 F-7 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EQUITY - (Continued) (Amounts in millions) Total equity attributable to equity shareholders Share Capital Share Revaluation Other Retained of the Minority Total capital reserve premium reserve reserves earnings Company interests equity --- RMB RMB RMB RMB RMB RMB RMB RMB RMB Balance at December 31, 2005............86,702 (19,217) 18,072 26,342 35,015 77,387 224,301 30,679 254,980 Net income recognized directly in equity: Change in fair value of available-for-sale securities, net of deferred tax -- -- -- -- 34 -- 34 -- 34 Net income............................ -- -- -- -- -- 53,912 54,226 1,496 55,408 ------ ------- ------- -------- ------- ------ -------- -------- ------- Total recognized income for the year -- -- -- -- 34 53,912 53,946 1,496 55,442 Final dividend for 2005................ -- -- -- -- -- (7,803) (7,803) -- (7,803) Interim dividend for 2006.............. -- -- -- -- -- (3,468) (3,468) -- (3,468) Appropriation (Note 27(c) and (e))...... -- -- -- -- 25,066 (25,066) -- -- -- Revaluation surplus realized .... -- -- -- (1,590) -- 1,590 -- -- -- Realization of deferred tax on land use rights............................ -- -- -- -- (7) 7 -- -- -- Transfer from retained earnings to other reserves.................... -- -- -- -- 1,013 (1,013) -- -- -- Transfer from capital reserve to other reserves.......................... -- (2,373) -- -- 2,373 -- -- -- -- Distribution to Sinopec Group Company (Note 27(g))...................... -- -- -- -- (631) -- (631) -- (631) Consideration for the Acquisition of Oil Production Plants (Note 1)..... -- -- -- -- (3,500) -- (3,500) -- (3,500) Acquisitions of minority interests in subsidiaries...................... -- -- -- -- -- -- -- (9,730) (9,730) Contributions from minority interests net of distributions............. -- -- -- -- -- -- -- 242 242 Disposal of a subsidiary (Note 33)..... -- -- -- -- -- -- -- (743) (743) ------ ------- ------- -------- ------- ------ -------- -------- ------- Balance at December 31, 2006............86,702 (21,590) 18,072 24,752 59,363 95,546 262,845 21,944 284,789 ====== ======= ======= ======== ======= ====== ======== ======== ======= F-8 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (All amounts in millions, except per share data and except otherwise stated) 1 PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION Principal activities China Petroleum & Chemical Corporation (the "Company") is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the "Group"), engages in fully integrated oil and gas and chemical operations in the People's Republic of China (the "PRC"). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses. Organization The Company was established in the PRC on February 25, 2000 as a joint stock limited company as part of the reorganization (the "Reorganization") of China Petrochemical Corporation ("Sinopec Group Company"), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureau, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company. As part of the Reorganization, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities were transferred to the Company. On February 25, 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on February 25, 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the "Predecessor Operations"). Basis of presentation Pursuant to the resolution passed at the Directors' meeting on October 10, 2006, the Group acquired equity interests in Sinopec Hainan Refining and Chemical Company Limited ("Sinopec Hainan") for cash of RMB 2,990 (hereinafter referred to as the "Acquisition of Sinopec Hainan"). Sinopec Hainan was previously wholly owned by Sinopec Group Company. Pursuant to the resolution passed at the Directors' meeting on December 6, 2006, the Group acquired the equity interests in certain oil and gas production companies ("Oil Production Plants") from Sinopec Group Company, for a total consideration of RMB 3,500 payable in 2007 (hereinafter referred to as the "Acquisition of Oil Production Plants"). As the Group, Sinopec Hainan and Oil Production Plants are under the common control of Sinopec Group Company, the Acquisitions of Sinopec Hainan and Oil Production Plants are considered as "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities acquired from Sinopec Hainan and Oil Production Plants have been accounted for at historical cost. In connection with these acquisitions, certain assets, primarily property, plant and equipment and construction in progress, were retained by Sinopec Group Company. The assets retained by Sinopec Group Company and the considerations paid by the Company for these acquisitions were treated as equity transactions. The financial condition and results of operation previously reported by the Group as of December 31, 2005 and for the years ended December 31, 2004 and 2005 have been restated to include the financial condition and results of operation of Sinopec Hainan and Oil Production Plants (collectively the "Acquired Group") as set out below. F-9 The The Group without the Acquired Acquired Group Group Combined ------------- ----- -------- RMB RMB RMB 2004 Results of operation: Operating revenue.................................... 619,783 132 619,915 Net income attributable to the equity shareholders of the Company...................................... 36,019 (684) 35,335 Basic and diluted earnings per share................. 0.42 (0.01) 0.41 2005 Results of operation: Operating revenue.................................... 823,117 155 823,272 Net income attributable to the equity shareholders of the Company...................................... 40,920 535 41,455 Basic and diluted earnings per share................. 0.47 0.01 0.48 Financial condition: Current assets....................................... 145,291 1,766 147,057 Total assets... 537,321 11,719 549,040 Current liabilities.................................. 170,649 4,362 175,011 Total liabilities.................................... 284,325 9,735 294,060 Total equity attributable to equity shareholders of the Company................................... 223,556 745 224,301 For the years presented, all significant balances and transactions between the Group and the Acquired Group have been eliminated. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes International Accounting Standards ("IAS") and related interpretations. A summary of the principal accounting policies adopted by the Group is set out in Note 2. These accounting policies have been consistently applied by the Group. Information relating to the nature and effect of the significant differences between

IFRS and accounting principles generally accepted in the United States of America ("US GAAP") are set forth in Note 37. The accompanying consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 15). The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. F-10 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the following year are disclosed in Note 35. F-11 2. PRINCIPAL ACCOUNTING POLICIES (a) Basis of consolidation The consolidated financial statements comprise the Company and its subsidiaries, and the Group's interest in associates and jointly controlled entities. (i) Subsidiaries Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statements of equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statements of income as an allocation of the total net income or loss for the year between minority interests and the equity shareholders of the Company. The particulars of the Group's principal subsidiaries are set out in Note 33. (ii) Interests in associates An associate is an entity, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for in the consolidated financial statements using the equity method from the date that significant influence commences until the date that significant influence ceases. (iii)Jointly controlled entities A jointly controlled entity is an entity over which the Group can exercise joint control with other venturers. Joint control is the contractually agreed sharing of control over an economic activity. Investments in jointly controlled entities are accounted for in the consolidated financial statements on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expense caption of the Group's consolidated statements of income and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's consolidated balance sheet, from the date that joint control commences until the date that joint control ceases. (iv) Transactions eliminated on consolidation Inter-company balances and transactions and any unrealized gains arising from inter-company transactions are eliminated on consolidation. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. (b) Translation of foreign currencies The presentation currency of the Group is Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the applicable PBOC rates at the balance sheet date. F-12 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Exchange differences, other than those capitalized as construction in progress, are recognized as income or expenses in the consolidated statements of income. There were no exchange differences capitalized for the years ended December 31, 2004, 2005 and 2006. (c) Cash and cash equivalents Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value. (d) Trade accounts and other receivables Trade accounts and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (Note 2(l)). (e) Inventories Inventories, other than spare parts and consumables, are stated at the lower of cost and net realizable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labor and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Spare parts and consumables are stated at cost less any provision for obsolescence. (f) Property, plant and equipment An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses (Note 2(l)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 15), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognized as an expense in the consolidated statements of income in the year in which it is incurred. F-13 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized as income or expense in the consolidated statements of income on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Depreciation is provided to write off the cost/revalued amount of items of property, plant and equipment, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows: Buildings 15 to 45 years Plant, machinery, equipment, oil depots, storage tanks and others 4 to 18 years Service stations 25 years Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually. (g) Oil and gas properties The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalized. The cost of exploratory wells is initially capitalized as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalized costs relating to proved properties are amortized at the field level on a unit-of-production method. The amortization rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses. Gains and losses on the disposal of proved oil and gas properties are not recognized unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties. (h) Lease prepayments Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortization and impairment losses (Note 2(l)). Amortization is provided to write off the cost of lease prepayments on a straight-line basis over the respective periods of the rights. (i) Construction in progress Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(l)). Cost of an item comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress. F-14 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (j) Goodwill Goodwill represents amounts arising on acquisition of subsidiaries, associates or jointly controlled entities. Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates. (k) Investments Investment in available-for-sale equity securities are carried at fair value with any change in fair value, other than impairment losses (Note2(l)), recognized directly in equity. When these investments are derecognized or impaired, the cumulative gain or loss previously recognized directly in equity is recognized in the consolidated statements of income. Investments in equity securities, other than investments in associates, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (Note 2(l)). (l) Impairment of assets (i) Impairment of trade accounts receivable, other receivables and investment in equity securities other than investments in associates are accounted as follows: Trade accounts receivable, other receivables and investment in equity securities other than investments in associates are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognized. The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognized as an expense in the consolidated statements of income. Impairment losses for trade and other receivables are reversed through the consolidated statements of income if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities are not reversed. (ii) Impairment of other long-lived assets is accounted for as follows: The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayment and investments in associates, are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). The amount of the reduction is recognized as an expense in the consolidated statements of income unless the asset is carried at revalued amount for which an impairment loss is recognized directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset, except in the case of goodwill, in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A F-15 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognized as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognized as an expense in the consolidated statements of income; a reversal of such impairment loss is recognized as an income. The reversal is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed. (m) Trade accounts and other payables Trade accounts and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost. (n) Interest-bearing borrowings Interest bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statements of income over the period of borrowings using the effective interest method. (o) Provisions and contingent liability A provision is recognized for liability of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. (p) Revenue recognition Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and ancillary materials are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognized in the consolidated statements of income upon performance of the services. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably. Interest income is recognized on a time apportioned basis that takes into account the effective yield on the asset. Government grants relating to the purchase of assets used for technology improvements are initially recorded as long-term liabilities when there is reasonable assurance that they will be received and thereafter offset against the cost of the related assets upon the transfer of these assets to property, plant and equipment. The grants are recognized as income over the useful life of these property, plant and equipment by way of reduced depreciation. A government grant that becomes receivable as compensation for expenses or losses already incurred with no future related costs is recognized as income in the period in which it becomes receivable. (q) Borrowing costs F-16 Borrowing costs are expensed in the consolidated statements of income in the year in which they are incurred, except to the extent that they are capitalized as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use. (r) Repairs and maintenance expenditure Repairs and maintenance expenditure is expensed as incurred. (s) Environmental expenditures Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred. Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures. (t) Research and development costs Research and development costs are recognized as expenses in the year in which they are incurred. Research and development costs amounted to RMB 1,541, RMB 2,244 and RMB 2,902 for the years ended December 31, 2004, 2005 and 2006, respectively. F-17 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (u) Operating leases Operating lease payments are charged to the consolidated statements of income on a straight-line basis over the period of the respective leases. Operating lease charges amounted to RMB 4,288, RMB 5,516 and RMB 6,128 for the years ended December 31, 2004, 2005 and 2006, respectively. (v) Retirement benefits The contributions payable under the Group's retirement plans are recognized as expenses in the consolidated statements of income as incurred and according to the contribution determined by the plans. Further information is set out in Note 31. (w) Income tax Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The tax value of losses expected to be available for utilization against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. (x) Dividends Dividends are recognized as a liability in the period in which they are declared. (y) Segmental reporting A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. F-18 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 3. OTHER OPERATING REVENUES Other operating revenues represent: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ------ RMB RMB RMB Sale of materials, service and others.........22,224 23,619 26,366 Rental income................................ 373 394 384 ------ ------ ------ 22,597 24,013 26,750 ====== ====== ====== 4. OTHER INCOME During the years ended December 31, 2005 and 2006, the Group received cash government grants from the Ministry of Finance of the PRC of RMB 9,415 and RMB 5,000, respectively, as a compensation of loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices. There are no unfilled conditions and other contingencies attached to the receipt of the government grant. There is no assurance that the Group will continue to receive such grant in the future. 5. PERSONNEL EXPENSES Personnel expenses represent: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ------ RMB RMB RMB Wages and salaries...........................13,660 13,742 14,840 Staff welfare.................................1,782 1,808 1,927 Contributions to retirement schemes...........2,245 2,273 2,270 Social security contributions..................1,032 826 820 ------ ------ ------ 18,719 18,649 19,857 ====== ====== ====== 6. EMPLOYEE REDUCTION EXPENSES During the year ended December 31, 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Petrochemical and Catalyst Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 relating to reduction of approximately 24,000 employees. During the year ended December 31, 2005, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 369 in respect of the voluntary termination of approximately 7,000 employees. During the year ended December 31, 2006, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 236 in respect of the voluntary termination of approximately 4,000 employees. F-19 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 7. TAXES OTHER THAN INCOME TAX Taxes other than income tax represent: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ------ RMB RMB RMB Consumption tax...............................11,920 12,430 14,121 Special oil income levy...................... - - 8,747 City construction tax........................ 2,544 2,589 3,038 Education surcharge.......................... 1,260 1,311 1,615 Resources tax................................ 458 642 854 Business tax................................ 165 213 264 ------ ------ ------ 16,347 17,185 28,639 ====== ====== ====== Consumption tax is levied on producers of gasoline, diesel, naphtha, fuel oil, jet fuel, lubricant oil and solvent oil based on a tariff rate applied to the volume of sales. Effective March 26, 2006, a special oil income levy has been levied on oil exploration and production entities based on the progressive rates ranging from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil produced in the PRC exceeding USD 40 per barrel. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax. 8. OTHER OPERATING EXPENSES, NET Other operating expenses, net represent: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ------ RMB RMB RMB Fines, penalties and compensations...................... 277 155 65 Donations... 291 203 98 Loss on disposal of property, plant and equipment, net... 1,697 2,098 1,646 Impairment losses on long-lived assets (i)............... 3,919 1,851 825 Gain from debt extinguishment (ii)...................... - - (486) Others.. 494 821 289 ------ ------ ------ 6,678 5,128 2,437 ====== ====== ====== (i) Impairment losses recognized on long-lived assets of the refining segment were RMB 14, RMB nil and RMB nil for the years ended December 31, 2004, 2005 and 2006, respectively. Impairment losses recognized on long-lived assets of the chemicals segment were RMB 2,747, RMB 1,425 and RMB 250 for the years ended December 31, 2004, 2005 and 2006, respectively. These impairment losses relate to certain refining and chemical production facilities that are held for use. The carrying values of these facilities were written down to their recoverable amount that were based either on the asset held for use model using the present value of estimated future cash flows or on the appraised values of the production facilities. Amounts of RMB 2,052, RMB 1,425 and RMB 250 for the years ended December 31, 2004, 2005 and 2006, respectively, were charged to the consolidated statements of income. An amount of RMB 709 for the year ended December 31, 2004 was charged directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses on long-lived assets of the refining and chemicals segments was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price. F-20 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Impairment losses recognized on long-lived assets of the marketing and distribution segment of RMB 1,769, RMB 366 and RMB 23 respectively, for the years ended December 31, 2004, 2005 and 2006 primarily relate to certain service stations that were closed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area. The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 98, RMB 60 and RMB 552 for the years ended December 31, 2004, 2005 and 2006, respectively, were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties were written down to a recoverable amount which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment. (ii) During the year ended December 31, 2006, a subsidiary of the Group reached an agreement with a bank to waive loan principal balance and related interest payable totaling RMB 486. 9. INTEREST EXPENSE Interest expense represents: Years ended December 31, --- 2004 2005 2006 --------- --------- --------- RMB RMB RMB Interest expense incurred..................................... 5,493 7,311 8,931 Less: Interest expense capitalized*........................... (910) (1,385) (1,494) --------- --------- --------- 4,583 5,926 7,437 ========= ========= ========= * Interest rates per annum at which borrowing costs were capitalized for construction in progress................... 3.1% to 6.0% 3.3% to 6.6% 3.6% to 6.1% ============ ============ ============ F-21 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 10. INCOME TAX Income tax in the consolidated statements of income represents: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ------ RMB RMB RMB Current tax - Provision for the year.............. 18,458 20,646 23,981 - Under-provision in prior years...... 340 477 260 Deferred taxation (Note 21)................ (707) (1,243) (726) ------ ------ ------ 18,091 19,880 23,515 ======= ====== ====== A reconciliation between actual tax expense and accounting profit at applicable tax rates is as follows: Years ended December 31, ----------------------- 2004 2005 2006 -------- -------- -------- RMB RMB RMB Income before income tax.. 59,453 64,656 78,923 ======== ======== ======== Expected PRC income tax expense at a statutory tax rate of 33%........... 19,620 21,336 26,045 Tax effect of non-deductible expenses................................... 821 461 516 Tax effect of non-taxable income....................................... (216) (567) (648) Tax effect of differential tax rate on subsidiaries' income (Note)....... (2,091) (2,010) (2,867) Tax effect of tax losses not recognized for deferred tax, net............ 409 391 258 Under-provision in prior years.. 94 477 260 Tax credit for domestic equipment purchases.............................. (546) (208) (49) -------- -------- -------- Actual tax expense .... 18,091 19,880 23,515 ======== ======== ======== Substantially all income before income tax and related tax expense is from PRC sources. Note: The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain entities of the Group, which are taxed at a preferential rate of 15%. 11. BASIC AND DILUTED EARNINGS PER SHARE The calculation of basic and diluted earnings per share are based on the net income attributable to the equity shareholders of the Company of RMB 35,335, RMB 41,455 and RMB 53,912 divided by the weighted average number of shares in issue during the year of 86,702,439,000 for each of the years in the three-year period ended December 31, 2006. F-22 CHINA PETROLEUM & CHEMICAL

CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 12. TRADE ACCOUNTS RECEIVABLE, NET Trade accounts receivable are analyzed as follows: December 31, ------------ 2005 2006 ---- ---- RMB RMB Amounts due from third parties................................. 13,564 14,601 Amounts due from Sinopec Group Company and its affiliates....... 3,145 3,396 Amounts due from associates.................................... 572 380 Amounts due from jointly controlled entities................... 505 547 ------ ------ 17,786 18,924 Less: Impairment losses for bad and doubtful debts............. (3,140) (3,334) ------ ------ 14,646 15,590 ====== ====== The impairment losses for bad and doubtful debts are analyzed as follows: Years ended December 31, ------------------------ 2004 2005 2006 -------- -------- -------- RMB RMB RMB At beginning of year... 3,350 3,671 3,140 Impairment losses recognized for the year............................. 935 328 438 Written-off/reversal of impairment losses............................. (454) (859) (244) Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets........... (160) -- -- -------- -------- -------- At end of year... 3,671 3,140 3,334 ======== ======== ========= Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and its affiliates are repayable under the same terms. F-23 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 13. INVENTORIES Inventories represent: December 31, ------------ 2005 2006 ---- ---- RMB RMB Crude oil and other raw materials.........................53,360 54,227 Work in progress... 9,422 9,828 Finished goods...23,173 25,762 Spare parts and consumables.............................. 4,456 4,485 ------ ------ 90,411 94,302 Less: Allowance for diminution in value of inventories.... (892) (866) ------ ------ 89,519 93,436 ====== ======= The allowance for diminution in value of inventories is analyzed as follows: Years ended December 31, ------------------------ 2004 2005 2006 -------- -------- -------- RMB RMB RMB At beginning of year.. 601 906 892 Provision for the year.. 648 262 419 Written back on sales... (261) (276) (445) Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets............ (82) -- -- -------- -------- -------- At end of year... 906 892 866 ======== ======== ========= The cost of inventories recognized as an expense in the consolidated statements of income amounted to RMB 474,104, RMB 682,288 and RMB 895,290 for the years ended December 31, 2004, 2005 and 2006, respectively. 14. PREPAID EXPENSES AND OTHER CURRENT ASSETS Prepaid expenses and other current assets represent: December 31, ------------ 2005 2006 ---- ---- RMB RMB Advances to third parties...1,776 1,732 Amounts due from Sinopec Group Company and its affiliates.................2,965 2,020 Other receivables...1,977 2,298 Purchase deposits...2,496 3,106 Prepayments in connection with construction work and equipment purchases...6,613 4,658 Prepaid value-added tax and customs duty..................................4,288 4,815 Amounts due from associates.. 539 332 ----- ----- 20,654 18,961 ===== ====== F-24 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 15. PROPERTY, PLANT AND EQUIPMENT, NET By segment: Exploration Marketing Corporate and and and production Refining distribution Chemicals others Total ---------- -------- ---------- --------- ------ ----- RMB RMB RMB RMB RMB RMB Cost/valuation: Balance at January 1, 2005 194,466 116,923 65,345 163,222 4,092 544,048 Additions 412 129 382 271 150 1,344 Transferred from construction in progress 23,451 8,121 14,017 18,457 381 64,427 Proportionate share of a jointly controlled entity -- -- -- 1,028 -- 1,028 Reclassification (157) (432) 204 289 96 -- Disposals (3,131) (2,859) (2,927) (3,164) (245) (12,326) ---------- -------- ---------- ------- ------ -------- Balance at December 31, 2005 215,041 121,882 77,021 180,103 4,474 598,521 ---------- -------- ---------- ------- ------ -------- Balance at January 1, 2006 215,041 121,882 77,021 180,103 4,474 598,521 Additions 1,175 145 1,280 280 456 3,336 Transferred from construction in progress 28,695 26,994 10,087 15,461 161 81,398 Acquisition of a subsidiary 2,071 -- -- -- -- 2,071 Reclassification (56) (600) -- 725 (69) -- Disposals (5,562) (1,522) (2,280) (4,302) (153) (13,819) ---------- -------- ---------- ------- ------ -------- Balance at December 31, 2006 241,364 146,899 86,108 192,267 4,869 671,507 ---------- -------- ---------- ------- ------ -------- Accumulated depreciation: Balance at January 1, 2005 94,977 56,581 13,465 92,042 1,407 258,472 Depreciation charge for the year 11,090 6,974 3,013 9,392 282 30,751

Impairment losses for the year 60 -- 366 1,425 -- 1,851 Reclassification (78) (214) 78 160 54 -- Written back on disposals (2,706) (2,206) (2,110) (2,719) (194) (9,935) ---------- -------- ---------- ------- ------ -------- Balance at December 31, 2005 103,343 61,135 14,812 100,300 1,549 281,139 ---------- -------- ---------- ------- ------ -------- Balance at January 1, 2006 103,343 61,135 14,812 100,300 1,549 281,139 Depreciation charge for the year 12,839 7,671 3,422 9,391 401 33,724 Acquisition of a subsidiary 592 -- -- -- -- 592 Impairment losses for the year 552 -- 23 250 -- 825 Reclassification (23) (392) -- 420 (5) -- Written back on disposals (5,253) (1,314) (1,103) (3,470) (108) (11,248) ---------- -------- ---------- ------- ------ -------- Balance at December 31, 2006 112,050 67,100 17,154 106,891 1,837 305,032 ---------- -------- ---------- ------- ------ -------- Net book value: At January 1, 2005 99,489 60,342 51,880 71,180 2,685 285,576 ========== ======== ========== ======= ====== ======== At December 31, 2005 111,698 60,747 62,209 79,803 2,925 317,382 ========== ======== ========== ======= ====== ======== At December 31, 2006 129,314 79,799 68,954 85,376 3,032 366,475 ========== ======== ========== ======= ====== ======== F-25 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) By asset class: Oil depots, storage Plant, tanks machinery, Oil and gas and service equipment Buildings properties stations and others Total --------- ---------- -------- ---------- ----- RMB RMB RMB RMB RMB Cost/valuation: Balance at January 1, 2005 45,119 175,522 60,533 262,874 544,048 Additions 108 253 228 755 1,344 Transferred from construction in progress 2,535 22,235 13,851 25,806 64,427 Proportionate share of a jointly controlled entity 182 -- -- 846 1,028 Reclassification (406) (802) 650 558 -- Disposals (1,034) (1,928) (2,145) (7,219) (12,326) --------- ---------- -------- ---------- ------- Balance at December 31, 2005 46,504 195,280 73,117 283,620 598,521 --------- ---------- -------- ---------- ------- Balance at January 1, 2006 46,504 195,280 73,117 283,620 598,521 Additions 748 777 1,071 740 3,336 Transferred from construction in progress 2,777 26,579 14,549 37,493 81,398 Acquisition of a subsidiary 519 1,313 -- 239 2,071 Reclassification (1,569) 10 3,170 (1,611) -- Disposals (749) (5,266) (1,658) (6,146) (13,819) --------- ---------- -------- ---------- ------- Balance at December 31, 2006 48,230 218,693 90,249 314,335 671,507 --------- ---------- -------- ---------- ------- Accumulated depreciation: Balance at January 1, 2005 20,334 85,996 11,781 140,361 258,472 Depreciation charge for the year 1,724 10,431 2,914 15,682 30,751 Impairment losses for the year 79 60 261 1,451 1,851 Reclassification (98) (430) 153 375 -- Written back on disposals (598) (1,683) (1,379) (6,275) (9,935) --------- ---------- -------- ---------- ------- Balance at December 31, 2005 21,441 94,374 13,730 151,594 281,139 --------- ---------- -------- ---------- ------- Balance at January 1, 2006 21,441 94,374 13,730 151,594 281,139 Depreciation charge for the year 1,787 12,126 3,728 16,083 33,724 Acquisition of a subsidiary 49 468 -- 75 592 Impairment losses for the year 118 532 23 152 825 Reclassification (352) (45) 1,221 (824) -- Written back on disposals (437) (5,073) (834) (4,904) (11,248) --------- ---------- -------- ---------- ------- Balance at December 31, 2006 22,606 102,382 17,868 162,176 305,032 --------- ---------- -------- ---------- ------- Net book value: At January 1, 2005 24,785 89,526 48,752 122,513 285,576 ========= ========== ======== ========== ======= At December 31, 2005 25,063 100,906 59,387 132,026 317,382 ========= ========== ======== ========== ======= At December 31, 2006 25,624 116,311 72,381 152,159 366,475 ========= ========== ======== ========== ======= F-26 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group as of September 30, 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB 159,788. The surplus on revaluation of RMB 32,320, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at December 31, 1999. In connection with the acquisitions of certain entities and related operations from Sinopec Group Company in prior years, the related property, plant and equipment were revalued by independent valuers in accordance with PRC relevant rules and regulations. The surplus on these revaluations of RMB 1,409, net of amounts allocated to minority interests, was credited to revaluation reserve. In connection with the Acquisition of Oil Production Plants, the property, plant and equipment of the Oil Production Plants were revalued at June 30, 2006, by a firm of independent valuers in accordance with the PRC relevant rules and regulations. The value of property, plant and equipment of the Oil Production Plants pursuant to the valuation, based on depreciated replacement costs, was determined at RMB 2,303, which approximated the net historical carrying value of the assets. In accordance with IAS 16, subsequent to these revaluations, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed as of December 31, 2004, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value. F-27 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 16. CONSTRUCTION IN PROGRESS Exploration Marketing Corporate and and and production Refining distribution Chemicals others Total ----------- -------- ----------- -------- ------- ------ RMB RMB RMB RMB RMB RMB Balance at January 1, 2005..................... 9,387 9,483 13,781 13,170 1,513 47,334 Additions..................................... 27,245 18,971 10,572 9,115 1,014 66,917 Additions by jointly controlled entities....... 814 -- -- 1,830 -- 2,644 Proportionate share of a jointly controlled entity....................................... -- -- -- 5,461 -- 5,461 Dry hole costs written off..................... (2,992) -- -- -- -- (2,992) Transferred to property, plant and equipment and other assets............................ (23,451) (8,121) (14,017) (19,014) (381) (64,984) -------- ------ -------- --------- ------ ------- Balance at December 31, 2005.................. 11,003 20,333 10,336 10,562 2,146 54,380 ======== ====== ======== ========= ====== ======= Balance at January 1, 2006..................... 11,003 20,333 10,336 10,562 2,146 54,380 Additions..................................... 37,892 21,824 10,039 12,361 1,714 83,830 Additions by jointly controlled entities....... 91 -- -- 148 -- 239 Acquisition of a subsidiary................... 89 -- -- -- -- 89 Dry hole costs written off..................... (3,960) -- -- -- -- (3,960) Transferred to property, plant and equipment... (28,695) (26,994) (10,087) (15,461) (161) (81,398) -------- ------ -------- --------- ------ ------- Balance at December 31, 2006.................. 16,420 15,163 10,288 7,610 3,699 53,180 ======== ====== ======== ========= ====== ======= The Group's proportionate share of the jointly controlled entities' construction in progress in the E&P and the chemicals segments reflected in the above table were RMB 2,888 and RMB 504, respectively, as of December 31, 2005, and RMB 2,979 and RMB 603, respectively, as of December 31, 2006. Net changes in capitalized cost of exploratory wells included in the Group's construction in progress in the E&P segment are analyzed as follows: Years ended December 31, ----------------------- 2004 2005 2006 ---- ---- ---- RMB RMB RMB At beginning of year... 2,438 2,898 3,573 Additions, net of amount that were capitalized and subsequently expensed in the same year, pending the determination of proved reserves... 2,031 2,554 3,241 Transferred to oil and gas properties based on the determination of proved reserves... (382) (671) (305) Dry hole costs written off... (1,189) (1,208) (1,738) ------- ------- ------- At end of year.. 2,898 3,573 4,771 ======= ======= ======= Aging of capitalized exploratory well costs based on the date the drilling was completed are analyzed as follows: December 31, ----------------------- 2004 2005 2006 ---- ---- ---- RMB RMB RMB One year or less.. 2,711 3,277 4,393 Over one year... 187 296 378 ------- ------- ------- 2,898 3,573 4,771 ======= ======= ======= Capitalized exploratory wells costs aged over one year are related to wells for which the drilling results are being further evaluated or the development plans are being formulated. The geological and geophysical costs paid during the years ended December 31, 2004, 2005 and 2006 amounted to RMB 3,235, RMB 3,200 and RMB 3,878, respectively. F-28 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 17 Goodwill 2005 2006 ------ ------ RMB RMB Cost: Balance at January 1.............................. 383 2,203 Additions.. 1,820 12,122 ------ ------ Balance at December 31............................ 2,203 14,325 ====== ====== Accumulated impairment losses: Balance at January 1 and December 31.............. - - ------ ------ Net book value................................... Balance at January 1.............................. 383 2,203 ====== ====== Balance at December 31............................ 2,203 14,325 ====== ====== Impairment tests for cash-generating units containing goodwill Goodwill is allocated to the following Group's cash-generating units: December 31, ------------ 2005 2006 ----- ----- RMB RMB Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")......................... 1,157 1,157 Sinopec Zhenhai Refining and Chemical Company Limited ("Sinopec Zhenhai")... - 3,952 Sinopec Qilu Petrochemical Company Limited ("Sinopec Qilu")................. - 2,159

Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")............. - 2,737 Sinopec Zhongyuan Petroleum Company Limited ("Sinopec Zhongyuan")........... - 1,391 Shengli Oil Field Dynamic Company Limited ("Dynamic")....................... - 1,361 Multiple units without significant goodwill................................ 1,046 1,568 ----- ------ 2,203 14,325 ===== ====== During the year ended December 31, 2005, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Sinopec Beijing Yanshan Petrochemical Company Limited from minority interests shareholders at HK$ 3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) was RMB 1,157. During the year ended December 31, 2006, the Group acquired additional equity interests in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic of 28.7%, 17.7%, 14.8%, 28.5% and 71.4%, respectively. The Company acquired these additional equity interests to reduce management layers and improve the efficiency of the production, management and sales of the Group as a whole. The total consideration paid by the Group was approximately RMB 21,971 which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic were RMB 3,952, RMB 2,159, RMB 2,737, RMB 1,391 and RMB 1,361, respectively. Management of the Company considers the acquisitions of additional equity interests in these companies can reduce management layers and improve the efficiency of the production, management and sales of the Group as a whole. As of December 31, 2006, the goodwill allocated to the E&P, refining, chemicals, and marketing and distribution segments were RMB 2,774, RMB 4,346, RMB, 6,053 and 1,152, respectively. As of December 31, 2005, the goodwill allocated to the refining, chemicals, and marketing and distribution segments were RMB 394, RMB 1,157 and 652, respectively. F-29 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) The recoverable amounts of the Sinopec Yanshan, Sinopec Zhenhai, Sinopec Yangzi, Sinopec Qilu, Sinopec Zhongyuan and Dynamic are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 14.2% to 17.2%. Cash flows beyond the one-year period are maintained constant. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amounts are based would not cause these entities' carrying amounts to exceed their recoverable amounts. Key assumptions used for the value in use calculations for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation for the development of international crude oil prices. The sales volume was based on the production capacity and the sales volume in the period immediately before the budget period. 18. INVESTMENTS December 31, ------------ 2005 2006 ---- ---- RMB RMB Available-for-sale securities.................... 119 157 Other unlisted investments, at cost.............. 3,359 2,741 ----- ----- 3,478 2,898 Less: Impairment losses.......................... (327) (316) ----- ----- 3,151 2,582 ===== ===== Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations. The Group has no significant investments in marketable securities. The impairment losses relating to investments for the years ended December 31, 2004, 2005 and 2006 were RMB 96, RMB 77 and RMB 48, respectively. F-30 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 19. INTEREST IN ASSOCIATES December 31, ------------ 2005 2006 ----- ------ RMB RMB Share of net assets................................ 9,267 11,617 ===== ====== The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The share of associates' taxation amounted to RMB 340, RMB 420 and RMB 439 for the years ended December 31, 2004, 2005 and 2006, respectively. The principal investments in associates, all of which are incorporated in the PRC, are as follows: Percentage Percentage of of equity Form of equities held by the business Particulars of issued held by the Company's Name of company structure and paid up capital Company subsidiaries Principal activities -------------- --------- -------------------- ------- ----------- ------------------- % % Sinopec Shandong Taishan Incorporated 480,793,320 ordinary 38.68 ___ Trading of petroleum Petroleum Company shares of RMB 1.00 products and decoration of Limited ("Taishan") each service gas stations Sinopec Finance Company Incorporated Registered capital

49.00 ___ Provision of non-banking Limited RMB 6,000,000,000 financial services Shanghai Petroleum National Incorporated Registered capital 30.00 ___ Exploration and production Gas Corporation RMB 900,000,000 of crude oil and natural gas Shanghai Chemical Industry Incorporated Registered capital ___ 38.26 Planning, development and Park Development Company RMB 2,372,439,000 operation of the Chemical Limited Industry Park in Shanghai, the PRC China Shipping & Sinopec Incorporated Registered capital ___ 50.00 Transportation of Suppliers Company Limited RMB 876,660,000 petroleum products China Aviation Oil Supply Incorporated Registered capital ___ 29.00 Marketing and distribution Company Limited RMB 3,800,000,000 of refined petroleum products During the year ended December 31, 2006, the Group acquired 71.4% equity interests in Dynamic, which was previously an associate of the Group, and thereafter, Dynamic became a subsidiary of the Company (Note 17 and 33). F-31 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 20. INTEREST IN JOINTLY CONTROLLED ENTITIES The Group's investments in jointly controlled entities are primarily engaged in the oil and gas and chemical operations in the PRC as follows: Percentage Percentage of of equity Form of equities held by the business Particulars of issued held by the Company's Name of company structure and paid up capital Company subsidiaries Principal activities -------------- --------- -------------------- ------------------ ------------------- % % Shanghai Secco Petrochemical Incorporated Registered capital 30.00 20.00 Manufacturing and Company Limited USD 901,440,964 distribution of petrochemical products BASF-YPC Company Limited Incorporated Registered capital 30.00 10.00 Manufacturing and RMB 8,793,000,000 distribution of petrochemical products Yueyang Sinopec and Shell Coal Incorporated Registered capital 50.00 -- Manufacturing and Gasification Company Limited USD 45,588,700 distribution of industrial gas Block A Oil Field in the Unincorporated -- -- 43.00 Exploration and production Western Area Chengdao in of crude oil and natural Bohai Bay gas Included in the consolidated financial statements are the following items that represent the Group's proportionate share of the jointly controlled entities' results of operation, financial condition and cash flows. Years ended December 31, ------------------------- 2004 2005 2006 ---- ---- ---- RMB RMB RMB Results of operation: Operating revenue.................... 313 10,082 17,913 Expenses............................. (450) (9,773) (15,180) ----- --------- -------- Net (loss) / income.................. (137) 309 2,733 ===== ========= ======== December 31, ------------ 2005 2006 --------- RMB RMB Financial condition: Current assets... 2,631 4,966 Non-current assets, primarily property, plant and equipment and construction in progress with net book value of RMB 14,259 (2005: RMB 15,287) and RMB 3,582 (2005: RMB 3,392), respectively............................. 19,522 18,635 Current liabilities.. (2,543) (2,736) Non-current liabilities, primarily long-term bank loans, excluding current portion, of RMB 8,267 (2005: RMB 10,006) .... (10,177) (8,643) -------- ------- Net assets.. 9,433 12,222 ======== ======= Years ended December 31, ----------------------- 2004 2005 2006 ---- ---- ---- RMB RMB RMB Cash flows: Net cash generated from / (used in) operating activities........ 233 (1,434) 2,452 Net cash used in investing activities.......................... (6,035) (2,474) (382) Net cash generated from / (used in) financing activities....... 5,909 4,011 (939) F-32 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 21. DEFERRED TAX ASSETS AND LIABILITIES Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below: Assets Liabilities Net balance December 31, December 31, December 31, ------------- ------------- --------------- 2005 2006 2005 2006 2005 2006 -------- ------ ------ ------ ------ ------ RMB RMB RMB RMB RMB RMB Current Receivables and inventories.................... 3,448 3,531 -- -- 3,448 3,531 Accruals....................................... 456 865 -- -- 456 865 Non-current Property, plant and equipment.................. 1,642 2,295 (1,619) (1,678) 23 617 Accelerated depreciation....................... -- -- (4,290) (4,657) (4,290) (4,657) Tax value of losses carried forward, net of valuation allowances....................... 128 53 -- -- 128 53 Lease prepayments .... 359 351 -- -- 359 351 Others... 39 63 (66) (4) (27) 59 -------- ------ ------ ------ ------ ------ Deferred tax assets/(liabilities) .... 6,072 7,158 (5,975) (6,339) 97 819 ======== ====== ====== ====== ====== ====== As of December 31, 2006, certain subsidiaries of the Company provided valuation allowance against tax value of losses carried forward for PRC income tax purpose of RMB 4,382 which are available to offset their future PRC taxable income, if any. Tax value of losses carried forward of RMB 215, RMB 341, RMB 720 RMB 1,185 and RMB 1,921 will expire in 2007, 2008, 2009, 2010, and 2011, respectively. A valuation allowance on deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realized through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment on the realizability of the deferred tax assets. The Group has reviewed its deferred tax assets as of December 31, 2004, 2005 and 2006. Based on this review, net valuation allowances of RMB 409, RMB 391 and RMB 258 were provided for the years ended December 31, 2004, 2005 and 2006, respectively. The Group determined the valuation allowance based on management's assessment of the probability that taxable profits will be available over the period which the deferred tax assets can be realized or utilized. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilized and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is probable to be realized. The valuation allowance is analyzed as follows: Years ended December 31, ------------------------ 2004 2005 2006 ------ ------ ----- RMB RMB RMB At beginning of year.................... 641 1,050 1,354 Allowance during the year, net.......... 409 391 258 Written-off............................ -- (87) (166) ------ ------ ------ At end of year .... 1,050 1,354 1,446 ====== ====== ====== Movements in temporary differences between calculations of certain items for accounting and for taxation purposes can be specified as follows: F-33 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Recognized in Balance at consolidated Recognized in Balance at January 1, statements of other December 31, 2004 income reserve 2004 ---- ------ ------- ---- RMB RMB RMB RMB Current Receivables and inventories.......................... 1,446 814 ___ 2,260 Accruals.. 23 245 ___ 268 Non-current Property, plant and equipment......................... (709) 571 ___ (138) Accelerated depreciation.............................. (3,673) (327) ___ (4,000) Tax value of losses carried forward, net of valuation allowance (Note i)................................ 923 (591) (266) 66 Lease prepayments.................................... 373 (7) ___ 366 Others... 30 2 ___ 32 ------- ------- --------- -------- Net deferred tax (liabilities)/assets................. (1,587) 707 (266) (1,146) ======= ======= ========= ======== (Note 10) Recognized in Balance at consolidated Recognized in Balance at January 1, statements of other December 31, 2004 income reserve 2004 ---- ------ ------- ---- RMB RMB RMB RMB Current Receivables and inventories.......................... 2,260 1,188 ___ 3,448 Accruals.. 268 188 ___ 456 Non-current Property, plant and equipment......................... (138) 161 ___ 23 Accelerated depreciation.............................. (4,000) (290) ___ (4,290) Tax value of losses carried forward, net of valuation 66 62 ___ 128 allowance... Lease prepayments .... 366 (7) ___ 359 Others... 32 (59) ___ (27) ------- ------- --------- -------- Net deferred tax (liabilities)/assets................. (1,146) 1,243 ___ 97 ======= ======== ========= ======== (Note 10) Recognized in Balance at consolidated Recognized in Balance at January 1, statements of other December 31, 2004 income reserve 2004 ---- ------ ------- ---- RMB RMB RMB RMB Current Receivables and inventories........................... 3,448 83 ___ 3,531 Accruals.. 456 409 ___ 865 Non-current Property, plant and equipment......................... 23 594 ___ 617 Accelerated depreciation.............................. (4,290) (367) ___ (4,657) Tax value of losses carried forward, net of valuation 128 (75) ___ 53 allowance... Lease prepayments.................................... 359 (8) ___ 351 Others (Note ii)...................................... (27) 90 (4) 59 ------- ------- --------- -------- Net deferred tax assets............................... 97 726 (4) 819 ======= ======== ========= ======== (Note 10) Note: (i) As of December 31, 2004, deferred tax assets of RMB 266 were distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. (ii) The amount recognized in equity represents the tax effect of change in fair value of available-for-sale securities, which was recognized directly in equity. F-34 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 22. LONG-TERM PREPAYMENTS AND OTHER ASSETS Long-term prepayments and other assets primarily represent prepaid rental expenses over one year, computer software and catalysts. 23. SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND ITS AFFILIATES Short-term debt represent: December 31, ------------ 2005 2006 ------ ------ RMB RMB Third parties' debt Short-term bank loans... 15,392 25,666 ------ ------ Current portion of long-term bank loans... 14,879 15,291 Current portion of long-term other loans... 26

27 Current portion of long-term bank loans of jointly controlled entities .... 193 490 ------ ------ 15,098 15,808 ------ ------ Corporate bonds (a)... 9,921 11,885 ------ ------ 40,411 53,359 ------ ------ Loans from Sinopec Group Company and its affiliates Short-term loans... 2,705 4,849 Current portion of long-term loans.. 100 552 ------ ------ 2,805 5,401 ------ ------ 43,216 58,760 ====== ====== The Group's weighted average interest rates on short-term loans were 4.0% and 5.2% as of December 31, 2005 and 2006, respectively. As of December 31, 2005, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to RMB 130,000 on an unsecured basis, at 4.698%. As of December 31, 2005, the Company's outstanding borrowings under these facilities were RMB 2,000 and were included in short-term bank loans. These facilities expire at various dates in 2006 and contain no financial covenants. As of December 31, 2006, the Company had standby credit facilities with several PRC financial institutions which allowed the Company to borrow up to RMB 130,000 on an unsecured basis, at 5.020%. As of December 31, 2006, the Company's outstanding borrowings under these facilities were RMB 4,420 and were included in short-term bank loans. These facilities expire at various dates in 2007 and contain no financial covenants. F-35 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Long-term debt comprise: Interest rate and final maturity December 31, ------------------------------- ----------------- 2005 2006 ------ ------- RMB RMB Third parties' debt Long-term bank loans Renminbi denominated Interest rates ranging from interest free to 6.9% per annum as of December 31, 2006 with maturities through 2016 65,069 65,484 Japanese Yen denominated Interest rates ranging from 2.6% to 5.8% per annum as of December 31, 2006 with maturities through 2024 3,394 2,713 US Dollar denominated Interest rates ranging from interest free to 7.4% per annum as of December 31, 2006 with maturities through 2031 5,056 2,081 Euro denominated Fixed interest rate at 6.7% per annum as of December 31, 2006 with maturities through 2010 117 101 Hong Kong Dollar denominated Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum as of December 31, 2005 with maturities through 2007; Paid off as of December 31, 2006 94 ___ --------- --------- 73,730 70,379 Long-term other loans Renminbi denominated Interest rates ranging from interest free to 5.2% per annum as of December 31, 2006 with maturities through 2009 170 3,098 US Dollar denominated Interest rates ranging from interest free to 2.0% per annum as of December 31, 2006 with maturities through 2015 51 44 --------- -------- 221 3,142 --------- -------- Total long-term banks and other loans carried forward 73,951 73,521 F-36 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Long-term debt comprise: Interest rate and final maturity December 31, ------------------------------- ----------------- 2005 2006 ------ ------- RMB RMB Total long-term banks and other loans brought forward 73,951 73,521 Corporate bonds Renminbi denominated Fixed interest rate at 4.61% per annum as of December 31, 2006 with maturity in February 2014 (b) 3,500 3,500 ------ ------ Long-term bank loans of jointly controlled entities Renminbi denominated Floating rate at 90% of PBOC's base lending rate per annum as of December 31, 2006 with maturities through 2021 5,710 5,019 US Dollar denominated Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum as of December 31, 2006 with maturities through 2021 4,296 3,738 ------- ------- 10,006 8,757 ------- ------- Total third parties' long-term debts 87,457 85,778 Less: Current portion (15,098) (15,808) -------- -------- 72,359 69,970 ------- ------- Long-term loans from Sinopec Group Company and its affiliates Renminbi denominated Interest rates ranging from interest free to 5.7% per annum as of December 31, 2006 with maturities through 2020 39,962 39,572 Long-term loans of jointly controlled entities from Sinopec Group Company and its affiliates Renminbi denominated Floating rate at 90% of PBOC's base lending rate applicable to three-year tenor loan per annum as of December 31, 2006 with maturities through 2021 71 75 Less: Current portion (100) (552) ------- ------- 39,933 39,095 ------- ------- 112,292 109,065 ======== ======== F-37 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (a) The Company issued six-month corporate bonds of face value at RMB 10,000 to corporate investors in PRC debenture market on October 24, 2005, at a discounted value of RMB 98.75 per RMB 100 par value, with an effective yield at 2.54% per annum. The Company redeemed the corporate bonds in April 2006. A subsidiary of the Company issued 270-day corporate bonds of face value at RMB 1,000 to corporate investors in PRC debenture market on February 23, 2006, at a discounted value of RMB 97.78 per RMB 100 par value with an effective yield of 3.07% per annum. The Company redeemed the corporate bonds in

November 2006. The Company issued 183-day corporate bonds of face value at RMB 10,000 to corporate investors in PRC debenture market on May 16, 2006, at a discounted value of RMB 98.68 per RMB 100 par value, with an effective yield of 2.67% per annum. The Company redeemed the corporate bonds in November 2006. The Company issued 182-day corporate bonds of face value at RMB 10,000 to corporate investors in PRC debenture market on November 13, 2006, at a discounted value of RMB 98.43 per RMB 100 par value, with an effective yield of 3.20% per annum. The bonds mature in May 2007. A subsidiary of the Company issued 365-day corporate bonds of face value at RMB 2,000 to corporate investors in the PRC debenture market on December 11, 2006 at par value, with an effective yield 3.83% per annum. The bonds mature in December 2007. (b) The Company issued ten-year corporate bonds of RMB 3,500 to PRC citizens as well as PRC legal and non-legal persons on February 24, 2004, with a fixed interest rate at 4.61% per annum. Third parties' loans of RMB 35 and RMB 171 as of December 31, 2005 and 2006, respectively, were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 83 and RMB 288 as of December 31, 2005 and 2006, respectively. The aggregate maturities of long-term debts and loans from Sinopec Group Company and its affiliates subsequent to December 31, 2006 are as follows: RMB 2007... 16,360 2008.. 26,529 2009.. 20,061 2010.. 10,834 2011.. 5,310 Thereafter.. 46,331 -------- 125,425 ======== Included in short-term and long-term debts and loans from Sinopec Group Company and its affiliates of the Group are the following amounts denominated in a currency other than the functional currency of the entity to which they relate: December 31, ---------------- 2005 2006 --------- -------- US Dollars................................ USD 2,158 USD 985 Japanese Yen.............................. JPY 50,507 JPY 41,350 Euro .... EUR 12 EUR 10 Hong Kong Dollars......................... HKD 128 HKD 7,789 ============= =============== F-38 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 24. TRADE ACCOUNTS PAYABLE Trade accounts payable are analyzed as follows: December 31, ------------------ 2005 2006 -------- ------- RMB RMB Amounts due to third parties................................ 50,353 49,177 Amounts due to Sinopec Group Company and its affiliates...... 2,763 2,194 Amounts due to jointly controlled entities.................. 650 750 Amounts due to associates................................... 51 4 --------- -------- 53,817 52,125 ========= ======== Amounts due to Sinopec Group Company and its affiliates are repayable in accordance with normal commercial terms. 25. ACCRUED EXPENSES AND OTHER PAYABLES Accrued expenses and other payables represent: December 31, ------------------ 2005 2006 -------- ------- RMB RMB Amounts due to Sinopec Group Company and its affiliates.... 8,133 12,670 Accrued expenditures..................................... 19,660 23,266 Taxes other than income tax............................... 3,092 6,313 Receipts in advance....................................... 12,375 18,513 Advances from third parties............................... 1,226 1,356 Others.. 5,037 6,938 ------ ------- 49,523 69,056 ====== ======= F-39 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 26. SHARE CAPITAL December 31, ------------------ 2005 2006 -------- ------- RMB RMB Registered, issued and fully paid 69,921,951,000 domestic listed A shares of RMB 1.00 each...... ___ 69,922 16,780,488,000 overseas listed H shares of RMB 1.00 each...... 16,780 16,780 67,121,951,000 domestic state-owned A shares of RMB 1.00 each. 67,122 ___ 2,800,000,000 domestic listed A shares of RMB 1.00 each....... 2,800 ___ -------- ------- 86,702 86,702 ======== ======= The Company was established on February 25, 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1). Pursuant to the resolutions passed at an Extraordinary General Meeting held on July 25, 2000 and approvals from relevant government authorities, the Company is authorized to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorized to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares. In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK$ 1.59 per H share and US$ 20.645 per

ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors. In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC. On September 25, 2006, the shareholders of listed A shares accepted the proposal offered by the shareholders of state-owned A shares whereby the shareholders of state-owned A shares agreed to transfer 2.8 state-owned A shares to shareholders of listed A shares for every 10 listed A shares they held, in exchange for the approval for the listing of all state-owned A shares. In October 2006, the 67,121,951,000 domestic state-owned A shares became listed A shares. All A shares and H shares rank pari passu in all material aspects. F-40 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 27. RESERVES 2005 2006 --------- --------- RMB RMB Capital reserve (Note (a)) At January 1.. (19,217) (19,217) Transfer from capital reserve to other reserves................................. -- (2,373) --------- -------- December 31.. (19,217) (21,590) --------- -------- Share premium (Note (b)) At January 1 and December 31.. 18,072 18,072 --------- -------- Revaluation reserve At January 1.. 27,998 26,342 Revaluation surplus realized.. (1,656) (1,590) --------- -------- At December 31... 26,342 24,752 --------- -------- Statutory surplus reserve (Note (c)) At January 1.. 9,558 13,514 Appropriation.. 3,956 5,066 Statutory public welfare fund transferred to statutory surplus reserve........... -- 13,514 --------- -------- At December 31.. 13,514 32,094 --------- -------- Statutory public welfare fund (Note (d)) At January 1.. 9,558 13,514 Appropriation.. 3,956 -- Statutory public welfare fund transferred to statutory surplus reserve........... -- (13,514) --------- -------- At December 31... 13,514 -- --------- -------- Discretionary surplus reserve (Note (e)) At January 1 .... 7,000 7,000 Appropriation.. -- 20,000 --------- -------- At December 31... 7,000 27,000 --------- -------- Other reserves At January 1, as adjusted.. 547 987 Change in fair value of available-for-sale securities, net of deferred tax -- 34 Realization of deferred tax on land use rights (Note (f))....................... (5) (7) Transfer from retained earnings to other reserves.............................. 535 1,013 Transfer from capital reserve to other reserves................................ -- 2,373 Distribution to Sinopec Group Company (Note (g))................................ (90) (631) Consideration for Acquisition of Oil Production Plants (Note 1)................. -- (3,500) --------- -------- At December 31... 987 269 --------- -------- F-41 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 2005 2006 --------- -------- RMB RMB Retained earnings (Note (h)) At January 1... 53,122 77,387 Net income attributable to equity shareholders of the Company................... 41,455 53,912 Final dividend in respect of the previous financial years, approved and paid during the year (Note (i))... (6,936) (7,803) Interim dividend (Note (j))... (3,468) (3,468) Appropriation.. (7,912) (25,066) Revaluation surplus realized.. 1,656 1,590 Realization of deferred tax on land use rights................................. 5 7 Transfer from retained earnings to other reserves.............................. (535) (1,013) --------- -------- At December 31... 77,387 95,546 --------- -------- 137,599 176,143 ========= ======== Notes: (a) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganization and (ii) the difference between the considerations paid over the amount of the net assets of certain entities and related operations acquired from Sinopec Group Company. (b) The application of the share premium account is governed by Sections 168 and 169 of the PRC Company Law. (c) According to the Company's Articles of Association, the Company is required to transfer 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the years ended December 31, 2005 and 2006, the Company transferred RMB 3,956 and RMB 5,066, respectively, being 10% of the current year's net income determined in accordance with the PRC Accounting Rules and Regulations, to this reserve. (d) Before January 1, 2006, according to the Company's Articles of Association, the Company was required to transfer 5% to 10% of its net income, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund could only be utilized on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. The transfer to this fund must be made before distribution of a dividend to shareholders. Pursuant to the Company's Articles of Associations and a resolution passed at the Directors' meeting on August 26, 2005, the directors authorized to transfer RMB 1,804 for the six-month period ended June 30, 2005, being 10% of the net income for the six-month period ended June 30, 2005 determined in accordance with the PRC Accounting Rules and Regulations, to this fund. The directors authorized the transfer of RMB 2,152, being 10% of the net income for the six-month period ended December 31, 2005 determined in accordance with the PRC Accounting Rules and Regulations, which was approved by the shareholders at the Annual General Meeting on May 24, 2006, to this fund. According to the Company Law of the PRC which was revised on October 27, 2005, the Company is no longer required to make appropriation to the statutory public welfare fund commencing from January 1, 2006. Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of Finance on March 15, 2006, the balance of this fund as of December 31, 2005 was transferred to the statutory surplus reserve. (e) The directors authorized the transfer of RMB 20,000 for the year ended December 31, 2006, subject to the shareholders' approval at the Annual General Meeting, to the discretionary surplus reserve. There was no F-42 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) transfer to this fund for the year ended December 31, 2005. The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve. (f) Effective January 1, 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights credited to revaluation reserve previously, net of minority interests, was eliminated during the year. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As a result of the tax deductibility of the revaluation surplus, a deferred tax asset, net of minority interests, is created with a corresponding increase in other reserves. (g) These represent net assets distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended December 31, 2004 represent certain net assets retained, including certain property, plant and equipment with net book value of RMB 1,840 and certain construction in progress with net book value of RMB 232, by Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. These transactions were recorded at historical cost and were reflected as changes in other reserves in the year the transaction occurred. (h) According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. As of December 31, 2005 and 2006, the amounts of retained earnings available for distribution were RMB 20,591 and RMB 42,156, respectively, being the amount determined in accordance with IFRS. Pursuant to a resolution passed at the Directors' meeting on April 6, 2007, a final dividend in respect of the year ended December 31, 2006 of RMB 0.11 per share totaling RMB 9,537 was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 9,537 in respect of the year ended December 31, 2006 has not been not recognized as a liability as of the balance sheet date. Subject to the relevant provisions of the PRC Company Law and the Company's Articles of Association, Sinopec Group Company may seek to influence the Company's determination of dividends with a view to satisfying Sinopec Group Company's cash flow requirements. (i) Pursuant to the shareholders' approval at the Annual General Meeting on May 18, 2005, a final dividend of RMB 0.08 per share totaling RMB 6,936 in respect of the year ended December 31, 2004 was declared and paid on June 27, 2005. Pursuant to the shareholders' approval at the Annual General Meeting on May 24, 2006, a final dividend of RMB 0.09 per share totaling RMB 7,803 in respect of the year ended December 31, 2005 was declared and paid on June 30, 2006. (j) Pursuant to the Company's Articles of Association and a resolution passed at the Director's meeting on August 26, 2005, the directors authorized to declare an interim dividend for the year ended December 31, 2005 of RMB 0.04 per share totaling RMB 3,468, which was paid on September 30, 2005. Pursuant to the Company's Articles of Association and a resolution passed at the Director's meeting on August 25, 2006, the directors authorized to declare an interim dividend for the year ended December 31, 2006 of RMB 0.04 per share totaling RMB 3,468, which was paid on September 28, 2006. F-43 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 28. COMMITMENTS AND CONTINGENT LIABILITIES Operating lease commitments The Group leases service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments. As of December 31, 2006, the future minimum lease payments under operating leases are as follows: RMB 2007.. 4,711 2008.. 4,568 2009.. 4,531 2010.. 4,505 2011.. 4,450 Thereafter.................................... 122,406 --------- Total minimum lease payments................... 145,171 ========= The Group's leasing arrangement impose no restrictions on dividends, additional debt and/or further leasing. Capital commitments As of December 31, 2006, the Group had capital commitments as follows: RMB The Group Authorized and contracted for.................. 113,192 Authorized but not contracted for.............. 165,967 ------- 279,159 ======= Jointly controlled entities Authorized and contracted for.................. 1,878 Authorized but not contracted for.............. 5 ------- 1,883 ======= These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interest in associates. Exploration and production licenses Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration. F-44 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 189, RMB 208 and RMB 236 for the years ended December 31, 2004, 2005 and 2006, respectively. Estimated future annual payments as of December 31, 2006 are as follows: RMB 2007.. 156 2008.. 147 2009.. 67 2010.. 57 2011.. 10 Thereafter.................................... 226 ------ Total payments................................ 663 ====== Contingent liabilities (a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganization, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganization. (b) As of December 31, 2006, guarantees given to banks in respect of banking facilities granted to the parties below were as follows: RMB Associates..................................... 160 === The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognize any such losses under guarantees when those losses are estimable. As of December 31, 2006, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements. F-45 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Environmental contingencies To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 248, RMB 493 and RMB 1,637 for the years ended December 31, 2004, 2005 and 2006, respectively. Legal contingencies The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group. 29. CONCENTRATION OF RISKS Credit risk The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for bad and doubtful debts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues during the years ended December 31, 2004, 2005 and 2006. No other financial assets carry a significant exposure to credit risk. F-46 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Concentration of economic risk The Group's operations may be adversely affected by significant political, economic, and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for the past two decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Group sells its products, may have a negative effect on its operating results and financial conditions. Currency risk Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. With the authorization from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on July 21, 2005. Other than the amounts as disclosed in Note 23, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group. Business risk The Group conducts its principal operations in China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the oil and gas industry. Interest rate risk The interest rates and terms of repayment of short-term and long-term debt of the Group are disclosed in Note 23. F-47 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 30. RELATED PARTY TRANSACTIONS Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. (a) Transactions with Sinopec Group Company and its affiliates, associates and jointly controlled entities The Group is part of a larger group of companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with Sinopec Group Company and its affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties. The principal related party transactions with Sinopec Group Company and its affiliates, associates and jointly controlled entities, which were carried out in the ordinary course of business, are as follows: Years ended December 31, ------------------------ Note 2004 2005 2006 -------- -------- ------ RMB RMB RMB Sales of goods.. (i) 63,507 95,043 132,345 Purchases... (ii) 35,402 45,923 57,005 Transportation and storage... (iii) 2,003 1,959 1,582 Exploration and development services................................... (iv) 14,446 17,001 22,000 Production related services... (v) 9,036 10,653 12,340 Ancillary and social services.. (vi) 1,740 1,790 1,737 Operating lease charges.. (vii) 3,297 3,213 3,826 Agency commission income... (viii) 41 48 60 Intellectual property licence fee paid................................. (ix) 10 9 - Interest received.. (x) 59 52 52 Interest paid.. (xi) 623 1,036 1,039 Net deposits placed with/ (withdrawn from) related parties.............. (xii) 340 (67) (3,910) Net loans obtained from/ (repaid to) related parties.................... (xiii) 3,548 (4,714) 1,758 The amounts set out in the table above in respect of each of the years in the three-year period ended December 31, 2006 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties. There were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and its affiliates as of December 31, 2005 and 2006. Guarantees given to banks by the Group in respect of banking facilities to associates are disclosed in Note 28. The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors. F-48 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Notes: (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials. (ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas. (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities. (iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services. (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection. (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services. (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and equipment. (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of materials for certain entities owned by Sinopec Group Company. (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of certain licenses for trademarks, patents, technology and computer software. (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits as of December 31, 2005 and 2006 were RMB 4,599 and RMB 689, respectively. (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited. (xii) Deposits were placed with / withdrawn from Sinopec Finance Company Limited. (xiii) The Group obtained loans from / repaid loans to Sinopec Group Company and Sinopec Finance Company Limited. In connection with the Reorganization, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarized as follows: F-49 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows: o the government-prescribed price; o where there is no government-prescribed price, the government-guidance price; o where there is neither a government-prescribed price nor a government-guidance price, the market price; or o where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%. (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from January 1, 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement. (c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 3,241 and RMB 568, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, however such amount cannot exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company. (d) The Company has entered into agreements with Sinopec Group Company effective from January 1, 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses. (e) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from January 1, 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group. F-50 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) During the year ended December 31, 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company, Sinopec Group Luoyang Petrochemical General Plant, Zhongyuan Petrochemical Company Limited, Sinopec Group Guangzhou Petrochemical General Plant and certain catalyst plants from Sinopec Group Company for a total consideration of RMB 3,128 which was fully paid in 2005 (the "Acquisition of Petrochemical and Catalyst Assets").

In addition, the Group acquired certain individual assets and liabilities from Sinopec Group Company, including certain property, plant and equipment with net book value of RMB 1,883, for a total consideration payable of RMB 2,232. In connection with these acquisitions, the Group disposed of certain property, plant and equipment, with net book value of RMB 1,857, and certain other assets and liabilities, related to its oilfield downhole operation (the "Downhole Assets") to Sinopec Group Company for a consideration receivable of RMB 1,712, which approximated the net carrying value of the assets and liabilities, resulting in a net cash consideration of RMB 3,648 payable to Sinopec Group Company. This consideration was fully paid during the year ended December 31, 2005. As discussed in Note 1, pursuant to the resolution passed at the Directors' meeting on October 10, 2006, the Group acquired equity interests in Sinopec Hainan for cash of RMB 2,990. Sinopec Hainan was previously wholly owned by Sinopec Group Company. As discussed in Note 1, pursuant to the resolution passed at the Directors' meeting on December 6, 2006, the Group acquired the equity interests in Oil Production Plants from Sinopec Group Company, for a total consideration of RMB 3,500 payable in 2007. Amounts due from / to Sinopec Group Company and its affiliates, associates and jointly controlled entities included in respective accounts caption are summarized as follows: December 31, ------------- 2005 2006 ----- ----- RMB RMB Trade accounts receivable... 4,222 4,323 Prepaid expenses and other current assets..................................... 3,504 2,352 ------- ------ Total amounts due from Sinopec Group Company and its affiliates, associates and jointly controlled entities.. 7,726 6,675 ======= ====== Trade accounts payable.. 3,464 2,948 Accrued expenses and other payables... 8,133 12,670 Short-term loans and current portion of long-term loans from Sinopec Group Company and its affiliates... 2,805 5,401 Long-term loans excluding current portion from Sinopec Group Company and its affiliates.. 39,933 39,095 ------- ------ Total amounts due to Sinopec Group Company and its affiliates, associates and jointly controlled entities.. 54,335 60,114 ======= ====== Amounts due from / to Sinopec Group Company and its affiliates, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and its affiliates are set out in Note 23. As of and for the year ended December 31, 2006, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and its affiliates, associates and jointly controlled entities. F-51 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (b) Key management personnel emoluments Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensations are as follows: Years ended December 31, ------------------------- 2004 2005 2006 ---- ---- ---- RMB'000 RMB'000 RMB'000 Short-term employee benefits............ 3,997 2,868 4,562 Retirement scheme contributions......... 202 115 184 ---- ---- ---- 4,199 2,983 4,746 ===== ===== ===== Total emoluments are included in "personnel expenses" as disclosed in Note 5. (c) Contributions to defined contribution retirement plans The Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 31. As of December 31, 2006, there was no material outstanding contribution to post-employment benefit plans. (d) Transactions with other state-controlled entities in the PRC The Group is a state-controlled energy and chemical enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organizations (collectively referred as "state-controlled entities"). Apart from transactions with Sinopec Group Company and its affiliates, the Group has transactions with other state-controlled entities include but not limited to the following: o sales and purchase of goods and ancillary materials; o rendering and receiving services; o lease of assets; o depositing and borrowing money; and o use of public utilities. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not. Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details: F-52 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (i) Transactions with other state-controlled energy and chemical companies The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"), which are state-controlled entities. During the years ended December 31, 2004, 2005 and 2006, the aggregate amount of crude oil purchased by refining segment from CNPC and CNOOC Group and refined petroleum purchased by marketing and distribution segment from CNPC Group was RMB 41,652, RMB 58,957 and RMB 60,863, respectively. The aggregate amounts due from / to CNPC Group and CNOOC Group are summarized as follows: December 31, ---------------- 2005 2006 ----- ----- RMB RMB Trade accounts receivable................................ 213 111 Prepaid expenses and other current assets................ 120 115 ----- ----- Total amounts due from CNPC Group and CNOOC Group......... 333 226 ===== ===== Trade accounts payable..................................1,237 1,231 Accrued expenses and other payables...................... 127 7 ----- ----- Total amounts due to CNPC Group and CNOOC Group...........1,364 1,238 ===== ===== (ii) Transactions with state-controlled banks The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the PBOC. The Group's interest income from and interest expense to these state-controlled banks in the PRC are as follows: Years ended December 31, -------------------------- 2004 2005 2006 ---- ---- ---- RMB RMB RMB Interest income................ 315 323 458 ====== ====== ====== Interest expense.............. 3,786 4,878 6,163 ====== ====== ====== F-53 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) The amounts of cash deposited at and loans from state-controlled banks in the PRC are summarized as follows: December 31, ----------------- 2005 2006 ---- ---- RMB RMB Cash and cash equivalents... 9,418 7,366 Time deposits with financial institutions........................... 964 615 ------ ------ Total deposits at state-controlled banks in the PRC................. 10,382 7,981 ====== ====== Short-term loans and current portion of long-term loans.............. 27,891 34,803 Long-term loans excluding current portion of long-term loans......... 67,641 62,346 ------ ------ Total loans from state-controlled banks in the PRC.................. 95,532 97,149 ====== ====== 31. EMPLOYEE BENEFITS PLAN As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the years ended December 31, 2004, 2005 and 2006 were RMB 2,245, RMB 2,273 and RMB 2,270, respectively. F-54 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 32. SEGMENTAL REPORTING The Group has five operating segments as follows: (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers. (ii) Refining, which processes and purifies crude oil, that is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers. (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks. (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers. (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries. The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented. The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. F-55 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Reportable information on the Group's business segments is as follows: Years ended December 31, ------------------------- 2004 2005 2006 -------- --------- --------- RMB RMB RMB Sales of goods Exploration and production External sales..................... 16,091 20,006 23,355 Inter-segment sales................ 60,053 84,423 105,656 -------- --------- --------- 76,144 104,429 129,011 Refining External sales..................... 63,388 82,810 99,201 Inter-segment sales................ 289,699 386,456 471,571 -------- --------- --------- 353,087 469,266 570,772 Marketing and distribution External sales..................... 342,840 459,292 588,270 Inter-segment sales................ 2,831 3,172 4,601 -------- --------- --------- 345,671 462,464 592,871 Chemicals External sales..................... 126,013 160,783 209,135 Inter-segment sales................ 12,510 12,199 12,299 -------- --------- --------- 138,523 172,982 221,432 Corporate and others External sales..................... 48,986 76,368 124,693 Inter-segment sales................ 32,046 44,897 136,775 -------- --------- --------- 81,032 121,265 261,468 Elimination of inter-segment sales...... (397,139) (531,147) (730,902) -------- --------- --------- Total sales of goods................... 597,318 799,259 1,044,652 -------- --------- --------- Other operating revenues Exploration and production.............. 9,294 10,756 14,155 Refining............................... 5,186 5,421 4,590 Marketing and distribution.............. 755 1,358 687 Chemicals.............................. 6,170 5,841 6,661 Corporate and others.................... 1,192 637 657 -------- --------- --------- Total other operating revenues.......... 22,597 24,013 26,750 -------- --------- --------- Other income Refining................................ -- 9,415 5,000 -------- --------- --------- Total other income...................... -- 9,415 5,000 -------- --------- --------- 619,915 832,687 1,076,402 ======== ========= ========= F-56 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Years ended December 31, ------------------------- 2004 2005 2006 -------- --------- --------- RMB RMB RMB Operating income by segment - Exploration and production............ 26,397 48,334 63,182 - Refining............................. 4,982 (3,536) (25,298) - Marketing and distribution............ 14,716 10,350 30,234 - Chemicals............................ 18,721 14,296 17,234 - Corporate and others.................. (1,925) (1,198) (1,532) -------- --------- --------- Total operating income..................... 62,891 68,246 83,820 -------- --------- --------- Income/(loss) from associates - Exploration and production............ 447 326 233 - Refining............................. 58 23 58 - Marketing and distribution............ 302 241 404 - Chemicals............................ (164) 1 20 - Corporate and others.................. 154 266 232 -------- --------- --------- Aggregate income from associates .... 797 857 947 -------- --------- --------- Finance costs Interest expense...................... (4,583) (5,926) (7,437) Interest income....................... 378 384 555 Foreign exchange losses.............. (223) (79) (153) Foreign exchange gains............... 61 996 935 -------- --------- --------- Net finance costs......................... (4,367) (4,625) (6,100) Investment income......................... 121 178 256 -------- --------- --------- Income before income tax.................. 59,442 64,656 78,923 Income tax................................(18,091) (19,880) (23,515) -------- --------- --------- Net income................................ 41,351 44,776 55,408 ======== ========= ========= Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and its affiliates, income tax payable, deferred tax liabilities and other liabilities. Interest in and income from associates are included in the segments in which the associates operate. Information on associates is included in Note 19. Additions to long-lived assets by operating segment are included in Notes 15 and 16. F-57 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Years ended December 31, ------------------------- 2004 2005 2006 -------- --------- --------- RMB RMB RMB Assets Segment assets - Exploration and production.............112,720 127,471 155,043 - Refining..............................112,963 142,776 163,898 - Marketing and distribution............. 93,722 102,935 108,053 - Chemicals..............................105,032 115,942 125,051 - Corporate and others................... 17,574 20,570 22,641 -------- --------- --------- Total segment assets........................442,011 509,694 574,686 -------- --------- --------- Interest in associates - Exploration and production............. 1,396 1,494 1,063 - Refining.............................. 319 571 1,117 - Marketing and distribution............. 2,410 4,298 4,692 - Chemicals............................. 4,315 1,092 1,245 - Corporate and others................... 1,787 1,812 3,500 -------- --------- --------- Aggregate interest in associates............ 10,227 9,267 11,617 -------- --------- --------- Unallocated assets.......................... 28,600 30,079 25,487 -------- --------- --------- Total assets...............................480,838 549,040 611,790 ======== ========= ========= Liabilities Segment liabilities - Exploration and production............. 17,158 20,262 30,082 - Refining.............................. 28,170 27,311 30,162 - Marketing and distribution............. 23,419 23,713 27,090 - Chemicals............................. 16,528 19,442 19,619 - Corporate and others................... 15,547 35,855 35,913 -------- --------- --------- Total segment liabilities...................100,822 126,583 142,866 -------- --------- --------- Unallocated liabilities.....................154,721 167,477 184,135 -------- --------- --------- Total liabilities..........................255,543 294,060 327,001 ======== ========= ========= F-58 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year. Years ended December 31, ------------------------- 2004 2005 2006 -------- --------- --------- RMB RMB RMB Capital expenditure Exploration and production.. 21,234 23,095 31,734 Refining.. 15,319 19,100 21,969 Marketing and distribution.. 16,678 10,954 11,319 Chemicals... 11,025 9,386 12,629 Corporate and others.. 1,550 1,164 2,170 -------- --------- --------- 65,806 63,699 79,821 ======== ========= ========= Capital expenditure of Oil Production Plants Exploration and production............................. 642 1,612 3,362 ======== ========= ========= Capital expenditure of jointly controlled entities Exploration and production.. 1,323 772 102 Chemicals... 5,178 1,830 160 -------- --------- --------- 6,501 2,602 262 ======== ========= ========= Depreciation, depletion and amortization Exploration and production.. 12,217 11,118 12,945 Refining.. 7,730 7,055 7,733 Marketing and distribution.. 2,759 3,026 3,452 Chemicals... 9,325 9,697 9,697 Corporate and others.. 462 722 408 -------- --------- --------- 32,493 31,618 34,235 ======== ========= ========= Impairment losses on long-lived assets recognized in consolidated statements of income Exploration and production.. 98 60 552 Refining.. 14 ___ ___ Marketing and distribution.. 1,769 366 23 Chemicals... 2,038 1,425 250 -------- --------- --------- 3,919 1,851 825 ======== ========= ========= Impairment losses on revalued long-lived assets recognized in equity attributable to equity shareholders of the Company Chemicals... 709 -- -- ======== ========= ========= F-59 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 33. PRINCIPAL SUBSIDIARIES Percentage Percentage of of equity equities held by the Particulars of issued Type of held by the Company's Name of company and paid up capital Legal Entity Company subsidiaries Principal activities --------------- -------------------- ------------ ------- ------------ ------------------- % % China Petrochemical International RMB 1,663 Limited 100.00 __ Trading of crude oil and Company Limited company petrochemical products Sinopec Sales Company Limited RMB 1,700 Limited 100.00 __ Marketing and distribution company of refined petroleum products Sinopec Zhenhai Refining and Chemical RMB 2,524 Limited 100.00 __ Manufacturing of Company Limited (Note 17) company intermediate petrochemical products and petroleum products Sinopec Qilu Petrochemical Company RMB 1,950 Limited 99.76 __ Manufacturing of intermediate petrochemical products and petroleum products Sinopec Yangzi Petrochemical Company RMB 2,330 Limited 99.81 __ Manufacturing of intermediate petrochemical products and petroleum products Sinopec Zhongyuan Petroleum Company RMB 875 Limited 99.35 __ Exploration and production Limited (Note 17) company of crude oil and natural gas Shengli Oil Field Dynamic Company RMB 364 Limited 97.71 __

Exploration and production Limited (Note 17) company of crude oil and distribution of petrochemical products Sinopec Fujian Petrochemical Company RMB 2,253 Limited 50.00 __ Manufacturing of plastics, Limited (i) company intermediate petrochemical products and petroleum products Sinopec Shanghai Petrochemical RMB 7,200 Limited 55.56 __ Manufacturing of synthetic Company Limited company fibres, resin and plastics, intermediate petrochemical products and petroleum products Sinopec Shijiazhuang Refining- RMB 1,154 Limited 79.73 __ Manufacturing of Chemical Company Limited company intermediate petrochemical products and petroleum products Sinopec Kantons Holdings Limited HK$ 104 Limited __ 72.40 Trading of crude oil and company petroleum products Sinopec Wuhan Petroleum Group RMB 147 Limited 46.25 __ Marketing and distribution Company Limited (i) company of refined petroleum products Sinopec Yizheng Chemical Fibre RMB 4,000 Limited 42.00 __ Production and sale of Company Limited (i) company polyester chips and polyester fibres Sinopec Zhongyuan Petrochemical RMB 2,400 Limited 93.51 __ Manufacturing of chemical Company Limited company products Sinopec Shell (Jiangsu) Petroleum RMB 830 Limited 60.00 __ Marketing and distribution Marketing Company Limited company of refined petroleum products BP Sinopec (Zhejiang) Petroleum RMB 800 Limited 60.00 __ Marketing and distribution Company Limited company of refined petroleum products Sinopec Qingdao Refining and Chemical RMB 800 Limited 85.00 __ Manufacturing of Company Limited company intermediate petrochemical products and petroleum products Sinopec Hainan Refining and Chemical RMB 3,986 Limited 75.00 __ Manufacturing of Company Limited company intermediate petrochemical products and petroleum products Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC. (i) The Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies. F-60 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (ii) During the year ended December 31, 2006, the Company disposed the 211,423,651 A shares, representing approximately 40.72% of the issued share capital, in Sinopec Wuhan Phoenix Company Limited pursuant to an agreement entered into with a third party. No significant disposal gain or loss was recorded from this transaction. 34. FAIR VALUES OF FINANCIAL INSTRUMENTS Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and its affiliates, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and its affiliates, trade accounts payable, bills payable, amounts due to Sinopec Group Company and its affiliates, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments as of December 31, 2005 and 2006. The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and its affiliates as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganization of the Group, its existing capital structure and the terms of the borrowings. The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and its affiliates as of December 31, 2005 and 2006: December 31, ------------ 2005 2006 ---- ---- RMB RMB Carrying amount........................ 87,457 85,778 Fair value............................ 87,461 85,376 The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities. Unquoted equity securities are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments. 35. ACCOUNTING ESTIMATES AND JUDGEMENTS The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable F-61 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements. Oil and gas properties and reserves The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off or depreciated over time. Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates. Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense. 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. F-62 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Impairment for long lived assets If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. Depreciation Property, plant and equipment, other than oil and gas properties, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Impairment for bad and doubtful debts The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated. F-63 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2006 Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended December 31, 2006 and which have not been adopted in these financial statements: Effective for accounting period beginning on or after IFRS 7, Financial instruments: disclosures January 1, 2007 IFRS 8, Operating Segments January 1, 2009 IFRIC 7, Applying the restatement approach under IAS 29, Financial March 1, 2006 reporting in hyperinflationary economies IFRIC 8, Scope of IFRS 2 May 1, 2006 IFRIC 9, Reassessment of Embedded Derivatives June 1, 2006 IFRIC 10, Interim financial reporting and impairment November 1, 2006 IFRIC 11, IFRS 2 - Group and treasury share transaction March 1, 2007 IFRIC 12, Service concession arrangements January 1, 2008 Amendment to IAS 1, Presentation of financial statements: capital disclosures January 1, 2007 The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11, IFRIC 12 and the amendment to IAS 1 are not applicable to any of the Group's operations and that the adoption of the remainder of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position. F-64 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) 37. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP The Group's accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences are set out below. (a) Foreign exchange gains and losses In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalized as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. For the years presented herein, the US GAAP adjustments represent the amortization effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 241 and RMB 195 as of December 31, 2005 and 2006, respectively. (b) Capitalization of property, plant and equipment In the years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalization of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the years presented herein, there were no further additions related to the capitalization of interest and pre-production results under IFRS and the US GAAP adjustments represent the amortization effect of such originating adjustments described above. The amounts were fully amortized as of December 31, 2004. Accordingly, there was no difference in the carrying amount of property, plant and equipment under IFRS and US GAAP as of December 31, 2005 and 2006, respectively. (c) Revaluation of property, plant and equipment As required by the relevant PRC regulations with respect to the Reorganization, the property, plant and equipment of the Group were revalued at September 30, 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, Petrochemical and Catalyst Assets and Oil Production Plants were revalued at December 31, 2000, June 30, 2003, October 31, 2003, June 30, 2004 and June 30, 2006, respectively, in connection with the acquisitions of Sinopec National Star, Sinopec Maoming, Refining Assets, Petrochemical and Catalyst Assets and Oil Production Plants. Under IFRS, such revaluations result in an increase in equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases. Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in equity. In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 1,838 and RMB 86 as of December 31, 2005 and 2006, respectively. (d) Exchange of assets During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The F-65 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction. For the years presented herein, the US GAAP adjustments represent the amortization effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 509 and RMB 486 as of December 31, 2005 and 2006, respectively. (e) Reversal of impairment of long-lived assets Under IFRS, impairment charges are recognized when a long-lived asset's carrying amount exceeds the higher of an asset's fair value less costs to sell and value in use, which incorporates discounting the asset's estimated future cash flows. Under US GAAP, determination of the recoverability of a long-lived asset held for use is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for a long-lived asset is based on the difference between the asset's carrying value and the fair value of the asset. In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated statements of income to the extent that an impairment loss on the same asset was previously recognized as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognized as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses. For the years presented herein, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 456 and RMB 418 as of December 31, 2005 and 2006, respectively. (f) Capitalized interest on investment in associates Under IFRS, an investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalized. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalized and subsequently amortized when the operation of the qualifying assets begin. Accordingly, the carrying amount of the investment in associates under IFRS was lower than the amount under US GAAP by RMB 486 and RMB 446 as of December 31, 2005 and 2006, respectively. F-66 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) (g) Goodwill Under IFRS, with reference to IFRS 3, "Business Combination", goodwill arising from a business combination for which the purchase agreement date is on or after March 31, 2004 is not amortized, or goodwill arising from a business combination for which the purchase agreement date was before March 31, 2004 is no longer amortized from the first annual reporting period beginning on or after March 31, 2004. Instead, goodwill is tested for impairment annually. Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortized beginning January 1, 2002. Instead, goodwill is reviewed for impairment at least annually. As a result, there is no difference in respect of goodwill amortization effective January 1, 2005. Accordingly, the carrying amount of the goodwill under IFRS was lower than the amount under US GAAP by RMB 43 and RMB 43 as of December 31, 2005 and 2006, respectively, due to the continued amortization of goodwill under IFRS until the end of 2004. (h) Presentation of minority interests Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the

Group for the year are presented on the face of the consolidated statements of income as an allocation of the total net income for the year between the minority interests and the equity shareholders of the Company. Under US GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated statements of income as a component of net income. (i) Companies included in consolidation Under IFRS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the income attributable to equity shareholders of the Company or the total equity attributable to the equity shareholders of the Company reconciliations between IFRS and US GAAP. F-67 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Presented below is summarized financial information prepared in accordance with US GAAP of such subsidiaries and jointly controlled entities. Years ended December 31, ------------------------ 2004 2005 2006 ---- ----- ---- RMB RMB RMB Sales of goods................ 28,004 53,768 75,184 Income before income tax....... 1,373 286 6,119 Net income / (loss)............ 969 (204) 5,672 At December 31, ---------------- 2005 2006 ----- ---- RMB RMB Current assets................. 12,101 19,417 Total assets.................. 64,560 68,458 Current liabilities........... 8,901 12,231 Total liabilities............. 31,727 31,448 Total equity.................. 32,833 37,010 (j) Recently issued accounting standards SFAS No. 157 In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Currently, the Group does not expect the adoption of SFAS No. 157 will have a material impact on its consolidated financial statements. FIN No. 48 In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109" ("FIN48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 requires that the Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. FIN 48 will be effective for the first fiscal year beginning after December 15, 2006. Currently, the Group does not expect the adoption of this Interpretation will have a material effect on its consolidated financial statements. F-68 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Reconciliation to US GAAP The effect on net income attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows: Reference in note Years ended December 31, above 2004 2005 2006 ----- ---- ---- ---- RMB RMB RMB Net income attributable to equity shareholders of the Company under IFRS.................................. 35,335 41,455 53,912 US GAAP adjustments: Foreign exchange gains and losses.................... (a) 60 54 46 Capitalization of property, plant and equipment....... (b) 22 - - Depreciation on revalued property, plant and equipment. (c) 4,301 4,016 1,340 Disposal of property, plant and equipment............. (c) 2,099 1,838 57 Exchange of assets................................... (d) 23 23 23 Depreciation effect of reversal of impairment of long-lived assets................................ (e) 29 76 38 Capitalized interest on investments in associates, net of amortization effect........................... (f) 205 (40) (40) Goodwill amortization for the year................... (g) 13 - - Deferred tax effect of US GAAP adjustments............ (2,277) (1,786) (421) Minority interests.................................. (h) (519) (489) (93) --------- --------- ======== Net income attributable to equity shareholders of the Company under US GAAP................................ 39,291 45,147 54,862 ======== ======== ======== Basic and diluted earnings per share under US GAAP......... 0.45 0.52 0.63 ======== ======== ======== Basic and diluted earnings per ADS under US GAAP*.......... 45.31 52.07 63.28 ======== ======== ======== *Basic and diluted earnings per

ADS is calculated on the basis that one ADS is equivalent to 100 H shares. F-69 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) The effect on the total equity attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows: Reference in note Years ended December 31, above 2005 2006 ----- ---- ---- RMB RMB Total equity attributable to equity shareholders of the Company under IFRS.................................... 224,301 262,845 US GAAP adjustments: Foreign exchange gains and losses....................... (a) (241) (195) Revaluation of property, plant and equipment........... (c) (1,838) (441) Exchange of assets.................................... (d) (509) (486) Reversal of impairment of long-lived assets............ (e) (456) (418) Capitalized interest on investments in associates....... (f) 486 446 Goodwill... (g) 43 43 Effect of US GAAP adjustments on deferred tax assets.... 921 487 Effect of US GAAP adjustments on deferred tax liabilities....................................... (134) (121) Minority interests.................................... (h) 230 137 -------- -------- Total equity attributable to equity shareholders of the 222,803 262,297 ======== ======== Company under US GAAP................................. 38. SUBSEQUENT EVENT On December 6, 2006, the Group announced its proposal to issue US$ 1,500 convertible bonds, which are convertible into H shares of the Company. This proposal was subsequently approved by the shareholders of the Company at the Extraordinary General Meeting held on January 22, 2007. On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law"), which will take effect on January 1, 2008. According to the new tax law, the corporate income tax rate for entities other than certain high-tech enterprises and small-scale enterprises, as defined in the new tax law will be revised to 25%. In addition, entities that are currently taxed at preferential rates will be subject to a five-year transition period during which the tax rates will gradually be increased to the unified rate of 25% from January 1, 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the Company and certain of its subsidiaries will be reduced from 33% to 25% from January 1, 2008. However, since the detailed implementation rules as to how the existing preferential rates will gradually be increased to the unified rate of 25% over the five-year transition period have not been formulated and promulgated, management is not yet in a position to estimate the impact of the new tax law on the deferred tax assets and liabilities of certain entities which are being taxed at preferential rates. The financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. 39. PARENT AND ULTIMATE HOLDING COMPANY The directors consider the parent and ultimate holding company of the Group as of December 31, 2006 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use. F-70 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) In accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group at December 31, 2004, 2005 and 2006, and for each of the years then ended in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalized costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardized measure of discounted future net cash flows; and changes in the standardized measure of discounted future net cash flows. Table I: Capitalized costs related to oil and gas producing activities Years ended December 31, ------------------------- 2004 2005 2006 RMB RMB RMB Property cost... ___ ___ ___ Wells and related equipment and facilities........................... 160,380 180,138 203,551 Supporting equipment and facilities.................................. 12,756 13,573 16,483 Uncompleted wells, equipment and facilities.......................... 9,387 11,003 16,420 --------- --------- -------- Total capitalized costs.. 182,523 204,714 236,454 Accumulated depreciation, depletion, amortization and impairment allowances... (80,491) (88,274) (96,485) --------- --------- -------- Net capitalized costs.. 102,032 116,440 139,969 ========= ========= ========= Table II: Cost incurred in exploration and development Years ended December 31, ------------------------- 2004 2005 2006 RMB RMB RMB Exploration.. 8,481 9,086 11,127

Development.. 21,113 22,804 32,054 ------ ------ ------ Total cost incurred.. 29,594 31,890 43,181 ====== ====== ====== Table III: Results of operations for oil and gas producing activities Years ended December 31, ------------------------- 2004 2005 2006 RMB RMB RMB Revenues Sales... 13,380 16,796 21,683 Transfers.. 60,053 84,423 105,656 ------- -------- ------- 73,433 101,219 127,339 Production costs excluding taxes................................ (17,606) (21,722) (24,040) Exploration expenses.. (6,396) (6,411) (7,983) Depreciation, depletion, amortization and impairment provisions.. (11,707) (10,595) (13,001) Taxes other than income tax.................................... (1,167) (1,687) (10,784) ------- --------- -------- Income before income tax....................................... 36,557 60,804 71,531 Income tax expense... (12,064) (20,065) (23,605) -------- -------- -------- Results of operations from producing activities................... 24,493 40,739 47,926 ======= ====== ====== F-71 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) The results of operations for producing activities for the years ended December 31, 2004, 2005 and 2006 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations. Table IV: Reserve quantities information The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended December 31, 2004, 2005 and 2006 are shown in the following table. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available. Proved 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 Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods. "Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate. Years ended December 31, ---------------------------- 2004 2005 2006 Proved developed and undeveloped reserves (oil) (million barrels) Beginning of year... 3,257 3,267 3,294 Revisions of previous estimates................................. 23 26 (10) Improved recovery... 127 142 146 Extensions and discoveries...................................... 134 138 148 Production.. (274) (279) (285) ------- ------- ------- End of year.. 3,267 3,294 3,293 ======= ======= ======= Proved developed reserves Beginning of year... 2,786 2,808 2,870 ======= ======= ======= End of year... 2,808 2,870 2,903 ======= ======= ======= Proved developed and undeveloped reserves (gas) (billion cubic feet) Beginning of year... 2,888 3,033 2,952 Revisions of previous estimates................................ (42) (9) (95) Extensions and discoveries...................................... 447 183 170 Production.. (207) (222) (257) ------- ------- ------- End of year.. 3,033 2,952 2,856 ======= ======= ======= Proved developed reserves Beginning of year... 1,249 1,398 1,557 ======= ======= ======= End of year... 1,398 1,557 1,472 ======= ======= ======= F-72 CHINA PETROLEUM & CHEMICAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (All amounts in millions, except per share data and except otherwise stated) Table V: Standardized measure of discounted future net cash flows The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced. The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended December 31, 2004, 2005 and 2006 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves. Years ended December 31, ------------------------------ 2004 2005 2006 Future cash flows..1,003,511 1,401,283 1,235,524 Future production costs....................................... (350,012) (440,743) (487,895) Future development costs...................................... (25,577) (26,994) (33,523) Future income tax expenses.................................... (174,060) (270,607) (189,465) ---------- ---------- --------- Undiscounted future net cash flows............................ 453,862 662,939 524,641 10% annual discount for estimated timing of cash flows......... (204,183) (304,893) (241,180) ---------- ------------ --------- Standardized measure of discounted future net cash flows....... 249,679 358,046 283,461 ========== ============ ========= Table VI: Changes in the standardized measure of discounted future net cash flows Years ended December 31, ---------------------------- 2004 2005 2006 RMB RMB RMB Sales and transfers of oil and gas produced, net of production costs (46,145) (61,346) (92,849) Net changes in prices and production costs 69,305 130,221 (114,796) Net change due to extensions, discoveries and improved recoveries 36,209 56,131 51,445 Revisions of previous quantity estimates 2,204 3,964 (1,207) Previously estimated development costs incurred during the year 7,148 8,134 8,516 Accretion of discount 16,176 21,352 30,190 Net change in income taxes (22,733) (50,397) 43,784 Others 213 308 332 ---------- -------- ------- Net change for the year 62,377 108,367 (74,585) ========= ======== ======= F-73 SIGNATURE The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf. China Petroleum & Chemical Corporation By /s/ Chen Ge -------------- Name: Chen Ge Title: Secretary to the Board of Directors Date: April 6, 2007