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**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) ADDRESSEES OUTSIDE OF THE UNITED STATES WHO ARE NON-US PERSONS**

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached offering memorandum (the "Offering Memorandum"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

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The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. **We will provide a hard copy version to you upon request.**

**Restrictions:** The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum. You are reminded that the information in the attached document is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer or guarantor of the securities or any Initial Purchaser to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

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OFFERING MEMORANDUM

**Sinopec Group Overseas Development (2013) Limited**

*(incorporated in the British Virgin Islands with limited liability)*

**US\$750,000,000 2.500% Senior Notes Due 2018**  
**US\$1,500,000,000 4.375% Senior Notes Due 2023**  
**US\$500,000,000 5.375% Senior Notes Due 2043**  
**€550,000,000 2.625% Senior Notes Due 2020**

*unconditionally and irrevocably guaranteed by*



**CHINA PETROCHEMICAL CORPORATION**

**中国石油化工集团公司**

*(a state-owned enterprise incorporated in the People's Republic of China)*

The 2.500% Senior Notes due 2018 (the "2018 Notes"), the 4.375% Senior Notes due 2023 (the "2023 Notes"), and the 5.375% Senior Notes due 2043 (the "2043 Notes," together with the 2018 Notes and the 2023 Notes, the "Dollar Notes") will be the unsubordinated senior obligations of Sinopec Group Overseas Development (2013) Limited (the "Issuer"). The 2018 Notes, the 2023 Notes and the 2043 Notes will bear interest at a rate of 2.500%, 4.375% and 5.375% per year, respectively. Interest on the Dollar Notes will accrue from October 17, 2013. Interest will be paid on the 2018 Notes, the 2023 Notes and the 2043 Notes semi-annually in arrears on October 17 and April 17 of each year, beginning on April 17, 2014. Unless previously repurchased, cancelled or redeemed, the 2018 Notes, the 2023 Notes and the 2043 Notes will mature on October 17, 2018, October 17, 2023 and October 17, 2043, respectively.

The 2.625% Senior Notes due 2020 (the "Euro Notes" together with the Dollar Notes, the "Notes") will be the unsubordinated senior obligations of the Issuer. The Euro Notes will bear interest at a rate of 2.625% per year. Interest will accrue from October 17, 2013 and will be paid on the Euro Notes annually in arrears on October 17 of each year, beginning on October 17, 2014. Unless previously repurchased, cancelled or redeemed, the Euro Notes will mature on October 17, 2020.

The Notes will be irrevocably and unconditionally guaranteed (the "Guarantees") by China Petrochemical Corporation (the "Company").

The Issuer may redeem the Notes at any time upon the occurrence of certain tax events. At any time, the Issuer or the Company may at the Company's option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date.

The Notes will rank *pari passu* with all of the Issuer's other existing and future unsubordinated obligations and will be effectively subordinated to its secured obligations. The Guarantees will rank *pari passu* with all of the Company's other existing and future unsubordinated obligations and will be effectively subordinated to its secured obligations and the obligations of its subsidiaries.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 25.**

The Notes are expected to be, assigned a rating of "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's or S&P. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

The Issuer has received an eligibility letter from The Stock Exchange of Hong Kong Limited (the "SEHK") for listing of, and permission to deal in, the Notes by way of debt issues to professional investors only (as defined in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules")). The SEHK assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this offering memorandum. Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Notes, the Guarantees, the Issuer or the Company.

Application has been made to the Irish Stock Exchange (the "ISE") for the approval of this document as listing particulars (the "Listing Particulars"). Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. This document constitutes the Listing Particulars in respect of the admission of the Euro Notes to the Official List and to trading on the Global Exchange Market of the ISE.

**Offering Price for the 2018 Notes: 99.413% of principal amount plus accrued interest from October 17, 2013**

**Offering Price for the 2023 Notes: 99.312% of principal amount plus accrued interest from October 17, 2013**

**Offering Price for the 2043 Notes: 99.381% of principal amount plus accrued interest from October 17, 2013**

**Offering Price for the Euro Notes: 99.276% of principal amount plus accrued interest from October 17, 2013**

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other place. Accordingly, the Notes and the Guarantees may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes and the Guarantees may be offered and sold only to (1) persons who are qualified institutional buyers ("Qualified Institutional Buyers") (as defined in Rule 144A under the Securities Act) purchasing for its own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or (2) a non-U.S. person (as defined in the Securities Act) in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. Prospective purchasers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "Transfer Restrictions."

It is expected that delivery of the Dollar Notes will be made to investors in book-entry form through the facilities of the Depository Trust Company on or about October 17, 2013. It is expected that the delivery of the Euro Notes will be made to investors in book-entry form through a common depository of Euroclear Bank S.A./N.V. and Clearstream Banking *société anonyme*, Luxembourg on or about October 17, 2013. The Dollar Notes and Euro Notes offerings, respectively, contemplated hereby will not be cross conditioned with one another. See "Plan of Distribution".

*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners*

**Citigroup**

**J.P. Morgan**

**HSBC**

**Société Générale  
Corporate & Investment  
Banking**

**Goldman Sachs  
(Asia) L.L.C.**

*Joint Lead Managers and  
Joint Bookrunners (Dollar Notes)*

*Joint Lead Managers and  
Joint Bookrunners (Euro Notes)*

**CCB  
International**

**BofA Merrill  
Lynch**

**BOC  
International**

**Mizuho  
Securities**

**ICBC  
International**

**Deutsche  
Bank**

**UBS**

**Standard  
Chartered Bank**

Offering Memorandum dated October 16, 2013

## NOTICE TO INVESTORS

This offering memorandum has been prepared by the Issuer and the Company solely for use in connection with the proposed offering of the Notes. Both the Issuer and the Company, as well as Citigroup Global Markets Inc., J.P. Morgan Securities plc, The Hongkong and Shanghai Banking Corporation Limited, Société Générale, Goldman Sachs (Asia) L.L.C., CCB International Capital Limited, Merrill Lynch International, BOCI Asia Limited, Mizuho Securities USA Inc., ICBC International Securities Limited, Deutsche Bank AG, Singapore Branch, UBS AG, Hong Kong Branch and Standard Chartered Bank (the “Initial Purchasers”), reserve the right to withdraw the offering of the Notes at any time or to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Notes offered hereby.

This offering memorandum is personal to the prospective investor to whom it has been delivered by the Initial Purchasers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum to any person other than the prospective investor and those persons, if any, retained to advise that prospective investor with respect thereto is unauthorized, and any disclosure of its contents without the Issuer’s prior written consent is prohibited. The prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the indentures governing the Notes (the “Indentures”) and other transaction documents described herein. The information provided is not all-inclusive. The market information in this offering memorandum has been obtained by the Issuer from publicly available sources deemed by it to be reliable. The Issuer has accurately reproduced certain information, and as far as the Issuer is aware and able to ascertain third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained herein, the Initial Purchasers do not accept any liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by or on the Issuer’s or the Company’s behalf.

Each of the Issuer and the Company confirms that, after having made all reasonable inquiries, this offering memorandum contains all information with regard to it and the Notes which is material to the offering and sale of the Notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. Each of the Issuer and the Company accepts responsibility. We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of this offering memorandum.

You should rely only on the information contained in this offering memorandum. The Issuer and the Company have not authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell the Notes. The information in this document may only be accurate at the date of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company’s or the Issuer’s affairs and those of each of their respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof.

This offering memorandum includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and the Issuer. The directors of the

Company and the Issuer collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Prospective investors hereby acknowledge that (i) they have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with any investigation of the accuracy of such information or their investment decision and (ii) no person has been authorized to give any information or to make any representation concerning the Issuer, the Company, the Notes or the Guarantees (other than as contained herein and information given by the Issuer's or the Company's duly authorized officers and employees, as applicable, in connection with investors' examination of the Issuer and the Company, and the terms of this offering) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Company or the Initial Purchasers.

**In making an investment decision, prospective investors must rely on their examination of the Issuer and the Company and the terms of this offering, including the merits and risks involved. Neither the Notes nor the Guarantees have been approved or recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.**

Hong Kong Exchanges and Clearing Limited, the SEHK and the ISE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Note or Guarantee offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation.

In connection with this issue, Citigroup Global Markets Inc., J.P. Morgan Securities plc, The Hongkong and Shanghai Banking Corporation Limited, Société Générale and Goldman Sachs (Asia) L.L.C. (the "Stabilizing Managers"), or any of their affiliates (or any person acting on behalf of any of them) may, to the extent permitted by applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after this Issue Date (i.e., October 17, 2013). However, there is no obligation on the Stabilizing Managers, or any of their affiliates (or any person acting on behalf of any of them), to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

**None of the Issuer, the Company or the Initial Purchasers, or any of its or their respective affiliates or representatives is making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. The Initial Purchasers have not separately verified the information contained in this offering memorandum. None of the Initial Purchasers, the Trustee, Paying Agent or Registrar (each as defined below) makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this offering memorandum. To the fullest extent permitted by law, none of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accepts any responsibility for the contents of this offering memorandum or for any other statement made or purported to be made by the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar or on their**

**behalf in connection with the Issuer and the Company or the issue and offering of the Notes. Each of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.**

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The distribution of this offering memorandum and the offer and sale of the Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. See “Plan of Distribution” for a description of certain restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions.

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#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B (“RSA 421-B”) OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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#### **AVAILABLE INFORMATION**

At any time when we are not subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the “Exchange Act”), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to any holder of the Notes, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of the Notes for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act. We will also furnish to each such holder all notices of shareholders’ meetings and other reports and communications that are made generally available to shareholders.

## CERTAIN DEFINED TERMS AND CONVENTIONS

In this offering memorandum, references to:

- “Company,” “Guarantor,” “we,” “our” and “us” are to China Petrochemical Corporation, a PRC state-owned enterprise (PRC company registration number 100000000001244(4-1)) (unless the context requires otherwise, including any subsidiaries of the Company), wholly owned by the State Council of China;
- “Issuer” are to Sinopec Group Overseas Development (2013) Limited;
- “NDRC” are to the National Development and Reform Commission of the PRC;
- “PRC” or “China” are to the People’s Republic of China, excluding, for the purpose of this offering memorandum only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- “provinces” are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- “RMB” or “Renminbi” are to the Renminbi, the official currency of the PRC;
- “SAFE” are to the State Administration of Foreign Exchange of the PRC;
- “SASAC” are to the State-owned Assets Supervision and Administration Commission of the State Council of China;
- “Sinopec Corp.” are to China Petroleum & Chemical Corporation, a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Corp.);
- “Sinopec Engineering” are to Sinopec Engineering (Group) Co., Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Engineering);
- “Sinopec Group” are to the Company and its subsidiaries other than Sinopec Corp. and its subsidiaries; and
- “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America.

Solely for your convenience, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB 6.1374 to US\$1.00, the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (“Federal Reserve Board”) (the “Noon Buying Rate”) on June 28, 2013 and the translation of euro amounts into U.S. dollar amounts has been made at the rate of US\$1.3010 to €1.00, the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board on June 28, 2013. Further information on exchange rates is set forth in “Exchange Rates.” You should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding our industry, our position in the industry, our market and segment share and the market and segment shares of various industry participants based on experience, our own investigation of market conditions and our review of industry publications, including information made available to the public by our competitors. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Company or the Initial Purchasers or their respective directors and advisors, and neither the Issuer, the Company, nor the Initial Purchasers nor their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of the Issuer, the Company and the terms of the offering and the Notes, including the merits and risks involved.

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## PRESENTATION OF INFORMATION

### Financial Data

The Company's consolidated income statement and balance sheet data for the years ended and as of December 31, 2010, 2011 and 2012 have been extracted from the consolidated financial statements audited by Grant Thornton China, Certified Public Accountants and included elsewhere in this offering memorandum. The Company's consolidated income statement data for the six months ended June 30, 2012 and 2013 and balance sheet data as of June 30, 2013 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. Such financial statements are prepared in accordance with the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC on February 15, 2006, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter ("PRC GAAP"). PRC GAAP differs in certain material respects from U.S. GAAP. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences Between PRC GAAP and U.S. GAAP."

Certain amounts and percentages included in this offering memorandum have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column.

### Oil and Gas Reserves

Oil and gas reserves are key elements in the Company's investment decision-making process in relation to its exploration and production business. The term "reserves" describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation, in particular the prices of crude oil and natural gas, present at the time of estimation. Reserves are estimated using either a deterministic method, in which a single best estimate is made based on known geological, engineering and economic data, or a probabilistic method, in which known geological, engineering and economic data are used to generate a range of estimates and their associated probabilities. All oil and gas reserves data are estimates, which are revised when additional information becomes available (for example, when additional wells are drilled or when actual production commences). "Proved reserves" refers to the estimated quantities of crude oil and natural gas that geological and engineering data demonstrate have reasonable certainty of being recovered in future years from known reservoirs under existing economic and operating conditions (that is, prices and costs at the date the estimate is made). To qualify as proved reserves, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the proved estimate.

The Company's total estimated proved crude oil and natural gas reserves are located in the PRC as well as overseas. The Company's domestic crude oil and natural gas reserves account for more than 60% of the total reserves of the Company in each of 2010, 2011 and 2012. The Company manages its domestic and Angola Block 18 reserves estimation through Sinopec Corp. and its other overseas reserves estimation through Sinopec International Petroleum Exploration and Production Corporation ("SIPC"). Each of Sinopec Corp. and SIPC has a two-tier reserve management system comprising (i) a reserve management committee at its headquarters level that oversees the overall reserves estimation process and reviews the reserves estimation; and (ii) reserve management offices at its production units or project companies that implement the reserves estimation process and reviews reserves estimation reports.

The Company's reserves estimation is guided by procedural manuals and technical guidance. Initial collection and compilation of reserves information is conducted internally. The reserve management offices then work with technical experts to perform peer reviews to ensure that the reserves estimation complies with relevant technical guidance qualitatively and quantitatively and is accurate and reasonable. The reserve management committee is primarily responsible for managing and coordinating the reserves estimation process, reviewing and approving annual changes to and results of reserves estimation and reporting proved reserves. The Company's reserves estimation process is further facilitated by a specialized reserves database which is improved and updated periodically. Sinopec Corp. engages independent engineering consultants who assist it in its reserves estimation process and to comply with relevant rules and regulations of the United States Securities and Exchange Commission (the "SEC"). In addition, a substantial majority of the Company's overseas oil and gas reserves estimation has been assessed by or with assistance from independent engineering consultants.

The Company believes that the methods it uses to estimate these reserves are consistent with the definitions and classifications in the Petroleum Resources Management System developed by internationally recognized organizations such as the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, which serve as guidelines for the oil and gas industry. Sinopec Corp.'s reserve data for 2010, 2011 and 2012 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting," which became effective on January 1, 2010.

Unless otherwise indicated, information regarding the Company's oil and gas reserves and production in this offering memorandum refers to the Company's share of reserves and production based on its percentage of equity interest in the relevant properties.

## FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are not historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This offering memorandum may contain words such as “believe,” “could,” “may,” “will,” “target,” “estimate,” “project,” “predict,” “forecast,” “guideline,” “should,” “plan,” “expect” and “anticipate” and similar expressions that are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Particularly, statements under the captions “Summary,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” relating to the following matters may include forward-looking statements:

- the anticipated demand for oil and gas products and related capital expenditures and investments,
- projections of capital expenditures in general and other financial items,
- generation of future receivables,
- expected sales to customers and price levels,
- the expected results of exploration, production and refining activities and related capital expenditures and investments, and
- environmental compliance and remediation.

Such statements are subject to various risks and uncertainties, including, but not limited to:

- changes in global economic and social conditions,
- changes in the world political situation,
- changes in economic and political conditions and increases in regulatory burdens in the PRC and other countries in which we operate, transact business or have interests,
- accidents and natural disasters,
- changes in import controls or import duties, levies or taxes, either in international markets or in the PRC,
- changes in laws, regulations, taxation or accounting standards or practices,
- currency, interest rate, price and credit risks,
- changes in prices or demand for products or raw materials produced or used by us or our subsidiaries or affiliates, both in the PRC and in international markets, as a result of competitive actions or economic factors, such as inflation or exchange rate fluctuations,
- the risks of the increasing expenditures and investments,
- uncertainty of technological change,

- the technical limitations of our exploration and production of the oil and gas reserves,
- the ability of third parties to perform in accordance with contractual terms and specifications,
- acquisitions or divestitures,
- potential disputes with international and domestic joint venture partners, and
- other factors, including those discussed in “Risk Factors.”

In addition, the expectations of management with respect to oil and gas exploration activities are subject to risks arising from the inherent difficulty of predicting the presence, yield or quality of oil and gas deposits, as well as unknown or unforeseen difficulties in extracting, transporting or processing any oil and gas found, or doing so on a commercial basis.

Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialize, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed and anticipated improvements in capacity, performance or profit levels might not be fully realized. Although we believe that the expectations of our management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, you are cautioned not to place undue reliance on the forward-looking statements and neither the Issuer nor the Company undertakes any obligation to update or revise any of them, whether as a result of new information, future developments or otherwise.

## ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

We are a state-owned enterprise incorporated in the PRC. Most of our assets are located in the PRC. In addition, all, except for one, of our directors and officers are residents of the PRC, where substantially all of their assets may be located. As a result, it may be difficult for investors to effect service of process upon us or such persons, or to enforce against us or such persons judgments obtained in courts or arbitral tribunals outside the PRC, including judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Where adequate law exists in the PRC, the enforcement of existing laws or contracts based on existing law may be nevertheless uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretations, and prior court decisions may be referenced but carry limited weight as precedents.

We have been advised by our PRC legal counsel, Haiwen & Partners, that there is uncertainty as to whether the courts of the PRC would:

- (1) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States, or upon any other basis, as the PRC does not have treaties for the reciprocal enforcement of judgments with the United States; or
- (2) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated solely upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Haiwen & Partners has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other agreements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. Therefore, it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

The Issuer has been advised by Conyers Dill & Pearman, its British Virgin Islands legal advisors, that the courts of the British Virgin Islands would recognise as a valid judgment, a final and conclusive judgment in personam obtained in the foreign courts against the Issuer under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

## SUMMARY

*This summary may not contain all of the information that may be important to you. You should read this entire offering memorandum before making an investment decision to purchase the Notes.*

### Overview

#### *The Company*

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of revenue, according to the “2013 Fortune Global 500.” We are the largest refined oil producer in China and the second largest in the world in terms of crude oil throughput in 2012. We are also the largest distributor of refined oil products in China measured by sales volume in 2012, and the number of our service stations ranks first in China and second in the world as of December 31, 2012. We rank first in China in terms of production volume of major petrochemical products in 2012. We have been named in the “Fortune Global 500” since 2003 and ranked first among Chinese companies and fourth in the “2013 Fortune Global 500” in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation. We are a state-authorized and invested entity and one of China’s key state-owned enterprises (“SOEs”) under the supervision of the SASAC. The SASAC has recognized us as one of the 23 “China’s Backbone SOEs,” and awarded us “Grade A in SOE Annual Performance Review” for seven consecutive years.

We conduct the following key businesses:

- **Exploration and Production:** We are China’s second largest oil and gas producer based on production volume in 2012. In recent years, we have successfully expanded our exploration and production segment by leveraging on domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. As of December 31, 2012, we had 6,001 million barrels of oil equivalent (“boe”) of proved reserves of crude oil and natural gas, including 4,615 million barrels of crude oil and 8,316 billion cubic feet (“bcf”) of natural gas. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 122%, 227% and 126% in 2010, 2011 and 2012, respectively. In 2012 and the six months ended June 30, 2013, our production of crude oil and natural gas was 628 and 322 million boe, respectively. Our overseas exploration and production activities have expanded to 26 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and the Asia-Pacific. In 2012 and the six months ended June 30, 2013, our overseas crude oil and natural gas production accounted for 33.7% and 35.6%, respectively, of our total crude oil and natural gas production. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, oil sands, LNG and other unconventional energies.

- Refining:** We are the largest refined oil producer in China and the second largest in the world in terms of crude oil throughput in 2012. In 2012, we processed 223 million tonnes of crude oil, representing approximately 48% of the total crude oil processed in China during the year. We operate 35 refineries in China, including 13 with refining capacity of 10 million tonnes or more per annum, which are located in China's eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers. We have successfully expanded our refining operations overseas. In January 2012, we signed a joint venture agreement with Saudi Aramco, the national oil company of Saudi Arabia, to complete the construction of and operate a full-conversion refinery in Yanbu on the west coast of the Kingdom of Saudi Arabia.
- Chemicals:** We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2012. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia and urea. Our chemical products are widely distributed throughout China and used in various industries, including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.
- Marketing and Distribution:** We are the largest distributor of refined oil products in China measured by sales volume in 2012. In 2012, our domestic market share with respect to the sales of refined oil products was 63% as to major refined oil products, which include gasoline, diesel, and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the "Sinopec" brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of June 30, 2013, we had 30,682 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline and diesel through these Sinopec-branded service stations accounted for approximately 67.8% of our major refined oil products sales volume for 2012. As of December 31, 2012, we had more than 1,000 service stations in each of 13 provinces, which are all located in China's eastern and southern regions. These 13 provinces accounted for 63% of China's GDP, 64% of China's population, 59% of China's total length of expressway and 70% of China's total length of highway in 2011. As of December 31, 2012, we had 9,416 kilometers of refined oil pipelines, and 15.2 million cubic meters of refined oil product storage capacity. In 2012 and the six months ended June 30, 2013, we sold 173.2 million tonnes and 88.1 million tonnes of refined oil products, respectively.
- Oil and Petrochemical Engineering Technical Services:** We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. Equipped with our in-house technology and patents, we possess advanced technology in refining and chemical engineering design both in China and overseas. In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$2.0 billion and US\$1.0 billion, respectively. In addition, our oil engineering technical service teams have provided services in 43 countries and regions in relation to more than 500 oil engineering technical service contracts. In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$4.3 billion and US\$3.0 billion, respectively.

- **Others:** We also engage in international trade, research and development and other businesses, collectively referred to as our “Others” segment. We had a total crude oil trade volume of 256 million tonnes in 2012.

The following table sets forth our operating revenues by business segment for the periods presented.

	Year Ended December 31,				Six Months Ended June 30,				
	2010	2011	2012		2012		2013		
	RMB	RMB	RMB	Percentage	(unaudited) RMB	Percentage	(unaudited) RMB	(unaudited) US\$	(unaudited) Percentage
	(in millions)								
<b>Total Operating Revenues:</b>									
Exploration and Production . . . . .	220,594	293,378	318,601	6.3%	152,942	6.1%	146,465	23,864	5.7%
Refining . . . . .	981,583	1,222,035	1,282,825	25.6%	644,731	25.8%	649,651	105,851	25.3%
Chemicals . . . . .	361,067	461,546	459,666	9.1%	220,612	8.8%	228,387	37,212	8.9%
Marketing and Distribution . . . . .	1,041,508	1,347,628	1,471,882	29.2%	710,332	28.4%	732,779	119,396	28.5%
Oil & Petrochemical Engineering Technical Services . . . . .	110,301	124,292	135,347	2.7%	59,289	2.4%	66,378	10,815	2.6%
Others . . . . .	873,626	1,193,566	1,367,040	27.1%	711,411	28.5%	746,322	121,602	29.0%
Elimination of inter-segment . . . . .	(1,619,637)	(2,090,494)	(2,204,752)	—	(1,132,653)	—	(1,117,529)	(182,084)	—
<b>Total . . . . .</b>	<b>1,969,042</b>	<b>2,551,951</b>	<b>2,830,609</b>	<b>100%</b>	<b>1,366,664</b>	<b>100%</b>	<b>1,452,453</b>	<b>236,656</b>	<b>100%</b>

(1) Revenues breakdown by segments is calculated without taking into account inter-segment elimination. Percentage of revenues is based on total operating revenues before inter-segment elimination.

### **Sinopec Corp.**

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of our production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Its H shares and American Depositary Shares representing H shares were simultaneously listed on the Hong Kong Stock Exchange (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange on August 8, 2001. Sinopec Corp. was awarded “Best Managed Company in China” by Euromoney in 2012, “Best Managed Company” by FinanceAsia in 2011 and “Responsible and Outstanding Enterprise” in 2010 by Xinhua News Agency. As of June 30, 2013, the Company directly owned 73.86% of the share capital of Sinopec Corp. Sinopec Corp. accounted for approximately 56.62% of the Company’s total assets as of December 31, 2012 and 89.62% of the Company’s revenue for the year ended December 31, 2012, according to the audited consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance

with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.'s periodic filings with the SEC on [www.sec.gov](http://www.sec.gov). Sinopec Corp.'s periodic filings do not constitute part of this offering memorandum.

### Sinopec Engineering

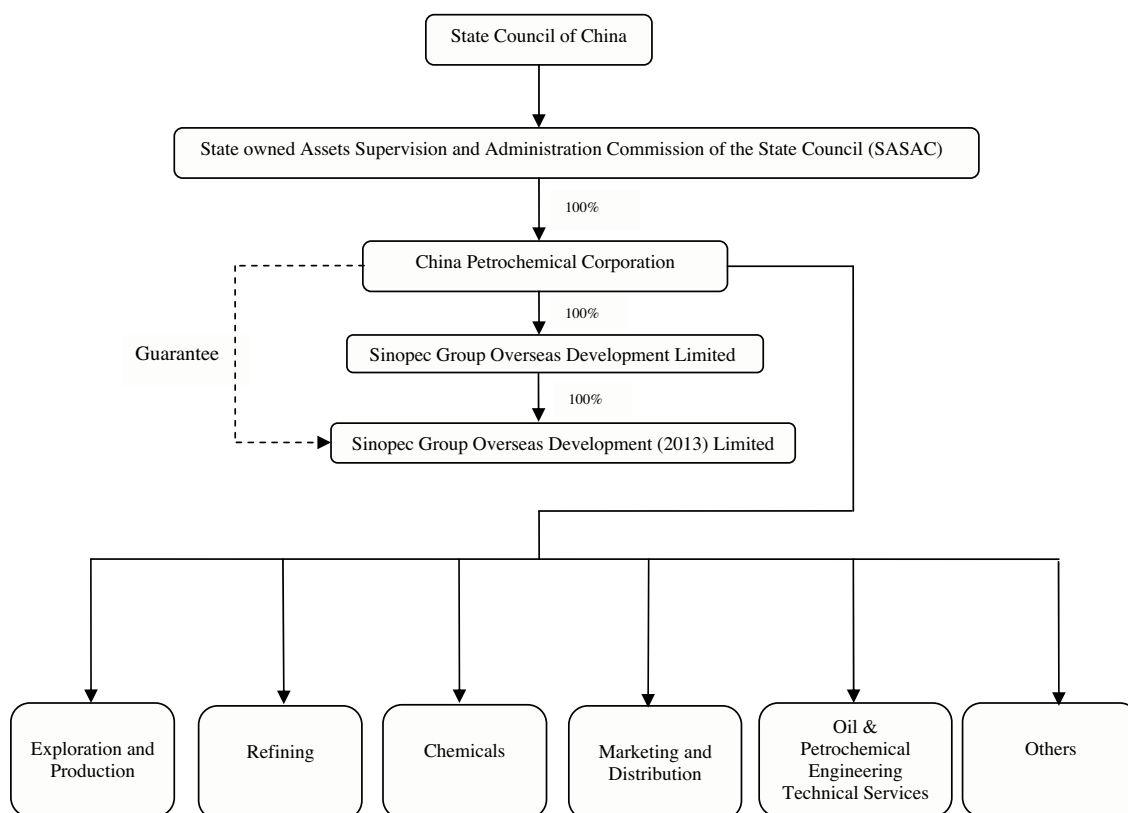
Sinopec Engineering is a subsidiary of the Company and focuses on providing integrated engineering and technical services for domestic and overseas refining and chemical engineering market. It is also one of the premiere engineering companies in China. In May 2013, the H shares of Sinopec Engineering was successfully listed on the SEHK (stock code: 2386).

### The Issuer

The Issuer was incorporated with limited liability on September 24, 2013 in the British Virgin Islands under the BVI Business Companies Act 2004. It is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. The Issuer has no material assets (except as described below) and will conduct no business except in connection with the issuance of the Notes and the advance of the net proceeds from their issuance to a company controlled by us that is located outside the PRC. The registered address of the Issuer is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The telephone number of the Issuer is +86 (10) 59669300.

### Corporate Structure

The following chart briefly illustrates the shareholding and group structure of the Company and the Issuer.



## **Competitive Strengths**

- We are a global leader and the largest integrated petroleum and petrochemical company in China with strong government support.
- We operate effectively as an integrated petroleum and petrochemical company with a leading position in every segment along the oil and gas value chain.
- Our market-leading petroleum and petrochemical downstream businesses in China offer stable cash flow generation and growth potential.
- Our growing exploration and production segment improves our overall profitability and achieves better balance among our complementary portfolios of assets.
- We have prudent financial policies and an effective risk management system which contribute to our solid financial results.
- We have an experienced management team with a strong corporate governance system and a high performance corporate culture.

## **Strategy**

Our business objective is to build a world leading energy and chemical company which is highly responsible, respected and well regarded in its fields. To realize this goal, we will seek to implement the following strategies:

- Continue to expand our exploration activities and raise production.
- Continue to reinforce our advantages, strengthen our dominant position in the downstream businesses and enhance profitability.
- Reinforce the advantages of our integrated business model.
- Increase the scale and scope of our international operations and build a global Sinopec brand.
- Differentiate on product, market and service to expand the market coverage and improve profitability.
- Emphasize low-carbon consumption and sustainable development.

## **Recent Overseas Investments**

We have accelerated our overseas expansions in oil and gas exploration and production as well as refining operations.

In February 2013, we announced that one of our subsidiaries had entered into an agreement with Chesapeake Energy to acquire a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion. The transaction closed in June 2013.

In June 2013, we entered into an agreement to purchase Marathon Oil Corp.'s 10% equity interest in deepwater Block 31 offshore Angola for US\$1.52 billion. The acquisition, which will increase our stake in Block 31 to 15%, will also increase our share of production to 14,600 barrels of oil per day. Block 31 is estimated to have proved and probable reserves of 533 million barrels. The transaction is pending necessary government approvals.

In August 2013, we launched a global strategic partnership with Apache Corporation. As the first step in this partnership, we agreed to acquire a 33.3% stake in Apache's oil and gas business in Egypt, for US\$3.1 billion in cash. The transaction is pending necessary government approvals.

## SUMMARY FINANCIAL INFORMATION

The following summary historical consolidated statement of comprehensive income data for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013 and summary historical consolidated balance sheet data as of December 31, 2010, 2011 and 2012 and June 30, 2013 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

Our selected historical consolidated statement of comprehensive income data presented below for the six months ended June 30, 2012 and 2013 and our selected historical consolidated balance sheet data as of June 30, 2013 have been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this offering memorandum. Our unaudited interim condensed consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all normal and recurring adjustments that we consider necessary for a fair statement of our financial position and operating results for the periods presented except as permitted for interim financial statements. Other than disclosed herein, there has been no material adverse change in our prospects and the prospects of the Guarantor since December 31, 2012 and there has been no significant change in our financial or trading position or the financial or trading position of the Issuer since June 30, 2013.

You should read the summary financial information below in conjunction with our consolidated financial statements and related notes and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from U.S. GAAP. See “Description of Certain Differences Between PRC GAAP and U.S. GAAP.” Our historical results do not necessarily indicate results expected for any future period.

## Consolidated Income Statement Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	(unaudited) RMB	(unaudited) RMB	US\$
	(in millions)					
<b>Operating Revenues</b> . . . . .	1,969,042	2,551,951	2,830,609	1,366,664	1,452,453	236,656
Operating costs . . . . .	1,556,407	2,087,537	2,365,265	1,143,538	1,224,211	199,467
Business taxes and surcharges . . . . .	166,615	201,375	205,828	103,532	103,203	16,815
Selling and distribution expenses . . . . .	33,682	40,525	42,645	19,883	21,786	3,550
General and administrative expenses .	70,615	78,237	76,899	35,802	35,083	5,716
Exploration expenses . . . .	17,484	20,931	20,643	9,697	9,077	1,479
Financial expenses . . . . .	10,124	10,463	15,953	8,750	7,601	1,238
Assets impairment losses .	17,816	6,184	7,847	7,062	104	17
<b>Operating Expenses</b> . . . . .	1,872,743	2,445,252	2,735,080	1,328,264	1,401,065	228,282
Gains (losses) from changes in fair value . . . . .	(166)	1,420	207	510	737	120
Investment income . . . . .	8,693	9,330	6,212	3,030	3,260	531
<b>Operating Profit</b> . . . . .	104,826	117,449	101,948	41,940	55,385	9,025
Non-operating income . . . . .	3,681	7,034	6,573	1,826	1,840	300
Non-operating expenses . . .	2,833	4,392	3,859	1,010	2,686	438
<b>Profit Before Income Tax</b> .	105,674	120,091	104,662	42,756	54,539	8,887
Income tax . . . . .	33,094	36,972	34,871	14,781	18,244	2,973
<b>Net Profit</b> . . . . .	72,580	83,119	69,791	27,975	36,295	5,914
Net profits attributable to parent company . . . . .	52,100	61,092	51,869	21,014	25,764	4,198
Minority interest . . . . .	20,480	22,027	17,922	6,961	10,531	1,716

### Consolidated Balance Sheet Data of the Company

	As of December 31,			As of June 30,	
	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	US\$
			(in millions)		
Total current assets . . . . .	339,630	481,630	481,681	498,793	81,271
Total non-current assets . . . . .	1,146,697	1,267,049	1,475,145	1,491,308	242,987
Total assets . . . . .	1,486,327	1,748,679	1,956,826	1,990,101	324,258
Total current liabilities . . . . .	504,677	612,140	659,184	680,195	110,828
Total non-current liabilities . . . . .	359,179	416,200	504,843	455,201	74,168
Total liabilities . . . . .	863,856	1,028,340	1,164,027	1,135,396	184,996
Total owners' equity attributable to parent company . . . . .	493,243	574,399	636,518	666,482	108,594
Minority Interest . . . . .	129,228	145,940	156,281	188,223	30,668
Total owners' equity . . . . .	622,471	720,339	792,799	854,705	139,262
Total liabilities and owners' equity . . . . .	1,486,327	1,748,679	1,956,826	1,990,101	324,258

### Consolidated Cash Flows Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
			(in millions)	(unaudited)	(unaudited)	
Net cash flows generated from (used in) operating activities . . . . .	193,199	202,734	170,363	5,334	35,381	5,765
Net cash flows generated from (used in) investing activities . . . . .	(238,923)	(231,029)	(280,064)	(130,574)	(97,596)	(15,902)
Net cash flows generated from (used in) financing activities . . . . .	50,755	70,791	74,769	75,910	72,732	11,851
Effect of foreign exchange rate changes . . . . .	(444)	(553)	153	(1,970)	(372)	(61)
Net increase (decrease) in cash and cash equivalents .	4,587	41,943	(34,779)	(51,300)	10,145	1,653
Cash and cash equivalents at the beginning of the year .	30,900	35,487	77,430	77,430	42,651	6,949
Cash and cash equivalents at the end of the year . . . . .	<u>35,487</u>	<u>77,430</u>	<u>42,651</u>	<u>26,130</u>	<u>52,796</u>	<u>8,602</u>

## Other Financial Data of the Company

	As of and for the Year Ended December 31,			As of and for the Twelve Months Ended June 30,
	2010	2011	2012	2013
				(unaudited)
EBITDA <sup>(1)</sup> (RMB in millions) . . . .	211,251	222,137	231,209	241,589
EBITDA <sup>(1)</sup> (US\$ in millions) . . . .	32,008	35,294	37,112	39,363
EBITDA margin <sup>(2)</sup> . . . . .	10.7%	8.7%	8.2%	8.3%
Total debt <sup>(3)</sup> (RMB in millions) . . .	384,673	436,912	525,975	578,885
Net debt <sup>(4)</sup> (RMB in millions) . . . .	349,275	359,651	483,402	526,167
Total debt/EBITDA . . . . .	1.82	1.97	2.27	2.40
Net debt/EBITDA . . . . .	1.65	1.62	2.09	2.18
EBITDA/Interest <sup>(5)</sup> . . . . .	19.12	17.14	12.65	12.85
Total debt/Total capitalization <sup>(6)</sup> . . .	38.19%	37.75%	39.88%	40.38%
Cash/Short-term borrowings . . . . .	33.81%	58.86%	29.12%	21.94%

- (1) EBITDA for any period is calculated as operating profit adjusted for foreign exchange gains (losses), investment income and gains (losses) from changes in fair value, plus assets impairment losses, financial expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by operating revenues.
- (3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.
- (4) Net debt is calculated as total debt minus cash.
- (5) Interest is calculated as interest expenses plus capitalized interests.
- (6) Total capitalization equals total debt plus total owners' equity.

## THE OFFERING

*The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. For a more complete description of the terms of the Notes and Guarantees, see “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees” in this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees.”*

Issuer . . . . .	Sinopec Group Overseas Development (2013) Limited, a company incorporated with limited liability on September 24, 2013 in the British Virgin Islands under the Business Companies Act (BVI Company No. 1791909).
Guarantor/The Company . . . . .	China Petrochemical Corporation, a state-owned enterprise incorporated in the PRC.
Notes Offered . . . . .	<p>US\$750,000,000 aggregate principal amount of 2.500% senior notes due 2018 (the “2018 Notes”).</p> <p>US\$1,500,000,000 aggregate principal amount of 4.375% senior notes due 2023 (the “2023 Notes”).</p> <p>US\$500,000,000 aggregate principal amount of 5.375% senior notes due 2043 (the “2043 Notes” and together with the 2018 Notes and the 2023 Notes, the “Dollar Notes”).</p> <p>€550,000,000 aggregate principal amount of 2.625% senior notes due 2020 (the “Euro Notes” and together with the Dollar Notes, the “Notes”).</p>
Concurrent Offerings . . . . .	<p>The offering of the Dollar Notes and the offering of the Euro Notes contemplated hereby will be made pursuant to separate Purchase Agreements involving different groups of Initial Purchasers (as described below under “Plan of Distribution”). The separate Dollar Notes and Euro Notes offerings, respectively, will not be cross conditioned with one another. Accordingly, although this offering memorandum includes discussion of both offerings, it is possible that one of the offerings will proceed to completion while the other offering will not do so.</p> <p>Investors should be aware that the offerings are not cross-conditioned and that the information in the table below under “Capitalization” assumes that both the Dollar Notes and Euro Notes offerings are completed substantially concurrently (the Dollar Notes initially into DTC and the Euro Notes initially into Euroclear and Clearstream, Luxembourg) but there can be no assurance that the concurrent offerings will occur in the manner and timing contemplated herein or at all.</p>

Guarantees . . . . .	Payment of principal of, interest and any Additional Amount on, the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price . . . . .	2018 Notes: 99.413% of principal amount, plus accrued interest from October 17, 2013 to the issue date.  2023 Notes: 99.312% of principal amount, plus accrued interest from October 17, 2013 to the issue date.  2043 Notes: 99.381% of principal amount, plus accrued interest from October 17, 2013 to the issue date.  Euro Notes: 99.276% of principal amount, plus accrued interest from October 17, 2013 to the issue date.
Maturity Dates . . . . .	2018 Notes: October 17, 2018.  2023 Notes: October 17, 2023.  2043 Notes: October 17, 2043.  Euro Notes: October 17, 2020.
Interest Payment Dates . . . . .	2018 Notes: October 17 and April 17, commencing April 17, 2014.  2023 Notes: October 17 and April 17, commencing April 17, 2014.  2043 Notes: October 17 and April 17, commencing April 17, 2014.  Euro Notes: October 17, commencing October 17, 2014.
Interest . . . . .	The 2018 Notes will bear interest from October 17, 2013 at the rate of 2.500% per annum, payable semi-annually in arrears from April 17, 2014. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.  The 2023 Notes will bear interest from October 17, 2013 at the rate of 4.375% per annum, payable semi-annually in arrears from April 17, 2014. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.  The 2043 Notes will bear interest from October 17, 2013 at the rate of 5.375% per annum, payable semi-annually in arrears from April 17, 2014. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The Euro Notes will bear interest from October 17, 2013 at the rate of 2.625% per annum, payable annually in arrears from October 17, 2014. If interest shall be calculated for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed divided by 365 or (in the case of a leap year) 366.

Further Issues . . . . .

The 2018 Notes will be issued in an initial aggregate principal amount of US\$750,000,000, the 2023 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000 and the 2043 Notes will be issued in an initial aggregate principal amount of US\$500,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Dollar Notes, create and issue, pursuant to the Indentures, additional notes, having the same terms and conditions under the respective Indenture as the previously outstanding Dollar Notes of a relevant series in all respects, except for issue date, issue price and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Dollar Notes; *provided, however*, that such additional notes may be issued under the same CUSIP, ISIN, Common Code or other identifying number of the Dollar Notes only if (i) such additional notes are fungible with such Dollar Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

The Euro Notes will be issued in an initial aggregate principal amount of €550,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Euro Notes, create and issue pursuant to the Indenture, additional notes having the same terms and conditions under the Indenture as the previously outstanding Euro Notes in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Euro Notes; *provided, however*, that such additional notes may have the same ISIN, Common Code or other identifying number as the outstanding Euro Notes only if (i) such additional notes are fungible with the Euro Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch

has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same ISIN, Common Code or other identifying number.

Ranking . . . . .

The Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer ranking *pari passu*, without any preference or priority of payment among themselves, with all other unsecured and unsubordinated indebtedness of the Issuer (except obligations preferred by applicable law). The Guarantees will constitute the Guarantor’s direct, unsecured and unsubordinated obligations ranking *pari passu* with all our other unsecured and unsubordinated indebtedness (except obligations preferred by applicable law).

Certain Covenants . . . . .

The Guarantor has covenanted in the Indentures, with certain exceptions, not to incur certain liens or consolidate, merge or sell its assets substantially as an entirety unless certain conditions are satisfied. The Notes and the Indentures do not otherwise restrict or limit the Guarantor’s ability to incur additional indebtedness by itself or its subsidiaries or its ability to enter into transactions with, or to pay dividends or make other payments to, affiliates. See “Description of the Dollar Notes and Guarantees — Certain Covenants — Limitation on Liens” and “— Consolidation, Merger and Sale of Assets” and “Description of the Euro Notes and Guarantees — Certain Covenants — Limitation on Liens” and “— Consolidation, Merger and Sale of Assets.”

Additional Amounts . . . . .

In the event that withholding taxes are imposed by a Relevant Taxing Jurisdiction in respect of payments pursuant to the Notes or the Guarantees, the Guarantor or the Issuer, as the case may be, will, subject to certain exceptions, pay such Additional Amounts under the Notes as will result, after deduction or withholding of such taxes, in the payment of the amounts that would have been payable in respect of the Notes had no deduction or withholding been required. See “Description of the Dollar Notes and Guarantees — Additional Amounts” and “Description of the Euro Notes and Guarantees — Additional Amounts.”

Optional Redemption . . . . .

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem Dollar Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Dollar Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the Dollar Notes and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Dollar Notes (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2018 Notes, 20 basis points in the case of 2023 Notes and 30 basis points in the case of the 2043 Notes, plus accrued and unpaid interest on the applicable Dollar Notes to be redeemed, if any, to the date of redemption. See “Description of the Dollar Notes and Guarantees — Redemption — Optional Redemption.”

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem the Euro Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Euro Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the Euro Notes and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Euro Notes (not including interest accrued to the date of redemption), discounted to the date of redemption on an annual basis at the Comparable Government Bond Rate plus 20 basis points, plus accrued and unpaid interest on the applicable Euro Notes to be redeemed, if any, to the date of redemption. See “Description of the Euro Notes and Guarantees — Redemption — Optional Redemption.”

Optional Tax Redemption . . . . .

Each series of the Notes may be redeemed at the option of the Issuer, in whole but not in part, at the principal amount thereof, plus accrued and unpaid interest, in the event the Guarantor or the Issuer becomes obligated to pay Additional Amounts in respect of such series of the Notes or the Guarantees except for Additional Amounts in respect of a withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law. See “Description of the Dollar Notes and Guarantees — Redemption — Optional Tax Redemption” and “Description of the Euro Notes and Guarantees — Redemption — Optional Tax Redemption.”

Repurchase upon a Change of Control Triggering Event . . . . .	Upon the occurrence of a Change of Control Triggering Event, the Issuer will be required to make an offer to repurchase all of the Notes at a price in cash equal to 101% of the principal amount of the Notes repurchase, plus accrued and unpaid interest on the principal amount of Notes being repurchased to but excluding the date of repurchase. See “Description of the Dollar Notes and Guarantees — Repurchase upon a Change of Control Triggering Event” and “Description of the Euro Notes and Guarantees — Repurchase upon a Change of Control Triggering Event.”
Repurchase upon Failure to Complete Registration of the Guarantees . . . . .	Administrative registration of the Guarantees with the Beijing Branch of the SAFE as a procedural matter is expected to be completed prior to or soon after the closing date of the offering. However, if administrative registration with respect to the Notes is not completed by 45 Beijing business days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase. See “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events” and “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events.”
Transfer Restrictions . . . . .	The Notes have not been registered under the Securities Act, any state securities laws in the United States or the securities laws of any other jurisdiction. Unless they are registered, the Notes may not be sold except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act, applicable state securities laws or the applicable securities laws of any other jurisdiction. See “Transfer Restrictions.”
Use of Proceeds . . . . .	The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US\$2,725 million and €544 million. We intend to use the net proceeds of this offering for the general corporate purposes of our overseas businesses and to refinance our existing indebtedness. See “Use of Proceeds.”
Governing Law . . . . .	The Notes, the Guarantees and the Indentures will be governed by, and construed in accordance with, the laws of the State of New York.

Denomination, Form and  
Registration .....

The Dollar Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Dollar Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company (“DTC”). The Dollar Notes offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of DTC for the respective accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream, Luxembourg”).

DTC will credit the account of each of its participants, including Euroclear and Clearstream, Luxembourg, with the principal amount of Dollar Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

The Euro Notes will be issued in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Euro Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg. The Euro Notes offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg will credit the account of each of its participants, with the principal amount of Euro Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.

Ratings .....	The Notes are expected to be rated “Aa3” by Moody’s and “A+” by S&P. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agencies.
Risk Factors.....	See “Risk Factors” and the other information in this offering memorandum for a discussion of factors that should be carefully considered before deciding to invest in the Notes.
Listing.....	We have received an eligibility letter from the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors only as described in this offering memorandum. Application has been made to the ISE for the approval of this document as Listing Particulars. Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. However, the Issuer cannot assure you that the application to such stock exchange will be approved. The settlement of the Notes is not conditional on obtaining such listing. The Issuer may elect to apply for a delisting of the Notes from any stock exchange or markets if the listing requirements are unduly burdensome.
Trustee.....	Citicorp International Limited.
Paying Agent, Transfer Agent and Registrar .....	Citibank N.A., London Branch.

## RISK FACTORS

*You should consider carefully all of the information in this offering memorandum, including the risks and uncertainties described below, before investing in the Notes. Any of the following risks and uncertainties could have a material and adverse effect on our business, financial condition, results of operations and prospects.*

### **Risks Relating to Our Business Operation**

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

We consume a large amount of crude oil to produce our refined oil products and chemical products. While we try to adjust the sale price of our products to track international crude oil price fluctuations, our ability to pass on the increased cost resulting from crude oil price increases to our customers is dependent on international and domestic market conditions as well as the PRC government's price controls over refined oil products. Although the current price-setting mechanism for refined oil products in China allows the PRC government to adjust prices in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains discretion as to whether or when to adjust the refined oil products prices. The PRC government generally exercises certain price controls over refined oil products once international crude oil prices experience sustained rises or become significantly volatile. For example, on September 13, 2013, the NDRC raised the retail prices of gasoline and diesel by RMB 90 per tonne and RMB 85 per tonne, respectively, effective September 14, 2013. On September 29, 2013, the NDRC lowered the retail prices of gasoline and diesel by RMB 90 per tonne and RMB 85 per tonne, respectively, effective September 30, 2013. We do not have, and will not have, control over the factors affecting international prices for crude oil and refined oil products. A decline in crude oil prices will reduce our crude oil revenues derived from external customers. An increase in crude oil prices may, however, increase the production costs of refined oil products, which we may not be able to pass on to customers in a timely manner or at all due in part to the control of retail prices by the PRC government. A decline in refined oil products prices will reduce our revenue derived from refining operations. An increase in the refined oil products prices, however, will increase the production costs of chemical products which use refined oil products as raw materials. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil and refined oil product prices.

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

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves also expose us to inherent risks associated with drilling, including the risk that no proved oil or natural gas reserves might be discovered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. Without reserve additions through further exploration and development or acquisition

activities, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

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

We purchase a significant portion of our crude oil and other feedstock requirements from outside suppliers located in different countries and areas in the world. In 2012, approximately 79.71% of the crude oil required for our refinery business was sourced from international suppliers, some of which are from countries or regions that are the subject of various United States economic sanctions regimes, such as Iran and Sudan. In addition, our development requires us to source an increasing amount of crude oil from outside suppliers. We are subject to the political, geographical, economic, regulatory and legal risks associated with certain of these countries and areas, including the following:

- changes in international political and economic conditions, as well as social conditions;
- military hostilities, war, political unrest or acts of terrorism;
- challenges caused by distance, language, local business customs and cultural differences;
- difficulty in obtaining licenses, permits or other regulatory approvals from local authorities and in enforcing the oil and gas segment's rights under contracts;
- with respect to those countries that are members of OPEC, the lowering of petroleum production volume pursuant to OPEC policy;
- changes in laws, regulations or government policies, or in the interpretation or enforcement of laws, regulations and government policies, including changes driven by resource nationalism, or uncertainties thereof;
- measures which may be introduced to control inflation or changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad or reduction in tariff protection and other import restrictions;
- natural disasters and epidemics, outbreaks or pollution; and
- changes in the usage and costs of state-controlled transportation services.

If one or more of our material supply contracts were terminated or suspended due to any natural disasters or political events, it is possible that we would not be able to find sufficient alternative sources of supply in a timely manner or on commercially reasonable terms. As a result, our business and financial condition would be materially and adversely affected.

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

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

The reliability of reserves estimates depends on:

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

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

***Oilfield exploration and drilling involves numerous risks, including risks that no commercially productive crude oil or natural gas reserves can be discovered and risks of failure to acquire or retain reserves.***

Our oil and gas business is currently involved in exploration activities in various regions, including in some areas where natural conditions may be challenging and where the costs of such exploration activities may be high. As a result, our oil and gas business may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including, but not limited to, the following:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- oil well blowouts;
- adverse weather conditions or natural disasters;
- compliance with existing or enhanced environmental regulations;
- governmental requirements and standards; or
- delays in the availability of drilling rigs and delivery and maintenance of equipment.

The future production of our oil and gas business depends significantly upon our success in finding or acquiring additional reserves and retaining and developing such reserves. If our oil and gas business fails to conduct successful exploration activities or to acquire or retain assets holding proved reserves, it may not meet its production or growth targets, and its proved reserves will decline as it extracts crude oil and natural gas from the existing reservoirs, which could adversely affect our business, financial condition and results of operations.

We have been actively pursuing business opportunities outside China to supplement our domestic resources. However, there can be no assurance that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be adversely affected.

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

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined oil and chemical products involves a number of operating hazards. Our operations are subject to significant hazards and risks inherent in refining operations and in transporting and storing crude oil, intermediate products and refined oil products. These hazards and risks include, but are not limited to, natural disasters, fires, explosions, pipeline ruptures and spills, third-party interference and mechanical failure of equipment at our or third-party facilities, any of which could result in production and distribution difficulties and disruptions, environmental pollution, personal injury or wrongful death claims and other damage to our properties and the property of others. There is also risk of mechanical failure and equipment shutdowns both in general and following unforeseen events. In such situations, undamaged refinery processing units may be dependent on or interact with damaged process units and, accordingly, are also subject to being shut down. Significant operating hazards and natural disasters may cause interruption to our operations, property or environmental damages as well as personal injuries, and each of these incidents could have a material adverse effect on our financial condition and results of operations.

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

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

We incur, and expect to continue to incur, substantial capital, operating, maintenance and remediation costs relating to compliance with increasingly complex laws and regulations for the protection of the environment and human health and safety, including:

- costs of preventing, controlling, eliminating or reducing certain types of emissions to air and discharges to the sea, including costs incurred in connection with government action to address the risk of spills and concerns about the impacts of climate change;
- remediation of environmental contamination and adverse impacts caused by our activities or accidents at various facilities owned or previously owned by us and at third-party sites where our products or waste have been handled or disposed of;
- compensation of persons and/or entities claiming damages as a result of our activities or accidents; and
- costs in connection with the decommissioning of drilling platforms and other facilities.

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

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

Our production operations produce substantial amounts of wastewater, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We believe we have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters. In August 2013, we were found by the PRC Ministry of Environmental Protection to have failed to meet a target to cut nitrogen oxide emissions. As a result, the PRC Ministry of Environmental Protection would suspend approvals of environment impact assessments for all new refining project from us, apart from any upgrades that target fuel pollution specifications or other environmental renovations. We are in the process to remediate such non-compliance.

Furthermore, in countries where we operate or expect to operate in the near future, new laws and regulations (such as the offshore safety regulation proposed by the European Commission on October 27, 2011, if such regulation is adopted by the European Economic Area), the imposition of stricter requirements on licences, increasingly strict enforcement of or new interpretations of existing laws and regulations, the aftermath of operational catastrophes in which we or members of our industry are involved or the discovery of previously unknown contamination may require future expenditure in order to, among other things:

- modify operations;
- install pollution control equipment;
- implement additional safety measures;
- perform site cleanups;

- curtail or cease certain operations;
- temporarily shut down our facilities;
- meet technical requirements;
- increase monitoring, training, record-keeping and contingency planning; and
- establish credentials in order to be permitted to commence drilling.

Compliance with laws, regulations and obligations relating to climate change and other environmental regulations could result in substantial capital expenditure, reduced profitability as a result of changes in operating costs, and adverse effects on revenue generation and strategic growth opportunities.

***Our business may be adversely affected by actions and regulations prompted by global climate changes.***

The oil and gas industry has been drawing increasing concerns about global climate change in recent years. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. For example, more than 190 nations are signatories to the Framework Convention on Global Climate Change, commonly known as the “Kyoto Protocol”. The implementation of the Kyoto Protocol in a number of countries and other potential legislations limiting emissions could affect the global demand for fossil fuels. Although the first commitment period under Kyoto Protocol expired in 2012, nations that are parties to Kyoto Protocol adopted an amendment to the Kyoto Protocol (the “Doha Amendment”) at a conference held in Doha, Qatar, in December 2012. Under the Doha Amendment, the second commitment period for implementing the amended Kyoto Protocol was extended to 2020. The PRC government has also announced proposals to introduce a “carbon tax”, which may have an adverse impact on our operations. If China or other countries in which we operate or plan to operate enact legislation focusing on reducing the amount of greenhouse gases, either independently or in response to the Kyoto Protocol or the Doha Amendment, it could result in substantial capital expenditure incurred by us in order to comply with these laws, reduced demand for our products, and our revenue generation and strategic growth opportunities could also be adversely impacted.

***Our overseas exploration, development and production projects are exposed to political, economic, regulatory and legal risks.***

We are subject to various political, legal and regulatory environments in foreign countries and regions where we operate, some of which are known to be unstable and differ in certain significant respects from those prevailing in developed countries. Some countries and regions where we have made significant investments are among the most undeveloped countries as defined by the United Nations, and their laws, regulations and policies are subject to changes due to political and economic uncertainties.

In addition, the results of our operations may be adversely affected by a number of factors in the countries and regions in which we operate or have interests, including the same risks as those associated with certain countries and regions of our third-party suppliers, as set out in the risk factor “— We rely heavily on third-party suppliers for crude oil and other raw materials, and we may experience disruption of our ability to obtain crude oil and other raw materials.”

***Our development projects and production activities involve many uncertainties and operating risks that can prevent us from realizing profits and cause substantial losses.***

Our development projects and production activities may be curtailed, delayed or cancelled for many reasons, including equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, pressure or irregularities in geological formations, accidents, mechanical and technical difficulties and industrial action. These projects and activities, which include projects focused on unconventional oil and gas exploration and development, will also often require the use of new and advanced technologies, which may be expensive to develop, purchase and implement, and may not function as expected. There is a risk that development projects that we undertake may not yield adequate returns. In addition, our development projects and production activities, particularly those in remote areas, could become less profitable, or unprofitable, if we experience a prolonged period of low oil or gas prices or cost overruns.

***We may encounter problems with our joint projects and disputes with our joint venture and other business partners may adversely affect our business, financial condition and results of operations.***

In the course of our business, we have in the past formed, and will in the future continue to form, joint ventures, consortiums or other cooperative relationships with other parties, including in some cases foreign governmental entities or foreign companies, to jointly engage in certain business activities, which include, among others, jointly operating the oilfields. We also rely on third-party operators to operate certain of our projects for our overseas business and we may be unable to control the actions of such third-party operators.

We may bear joint and several liabilities to the project owners or other parties with third-party operators, other consortium members or joint venture or business partners under the relevant consortium, joint venture or other agreements, and, as a result, we may incur damages and other liabilities for any defective work or other breaches by third-party operators, other consortium members or joint venture or business partners.

In addition, if there are disagreements between us and our joint venture partners regarding the business and operations of the joint projects, there can be no assurance that they will be able to resolve them in a manner that will be in our best interests. Certain major decisions, such as selling or refinancing these projects, may require the consent of all other partners. These limitations could adversely affect our ability to sell, refinance or otherwise operate and profit from these projects.

Any of these and other factors may have an adverse effect on the performance of our oil and gas joint projects and expose such projects to a number of risks, including the risk that these projects may not be able to fulfill their obligations under contracts with customers, resulting in disputes not only between us and our partners, but also between the joint ventures and their customers, or create unexpected complications. Such a material adverse effect on the performance of the joint projects may in turn adversely affect our business, financial condition and results of operations.

***We are dependent upon subcontractors and other third parties for various services and products in our business.***

We may from time to time subcontract portions of our engineering and construction projects to independent third-party subcontractors. In addition, if we need extra manpower due to a shortage of labor, or in order to accelerate the progress of project work, we may need to subcontract labor

services internally, hire short-term temporary workers, or engage independent third-party subcontractors. We also rely on third-party manufacturers or other service providers for production and supply of certain parts, components and services in connection with our resources development, equipment manufacturing and property development operations. Outsourcing to subcontractors and other third parties supplements our capacity, reduces our need to employ a large workforce, including skilled and semi-skilled labor in different specialized areas, and increases our flexibility and cost effectiveness in carrying out contracts. We have established a system with respect to the selection and control of subcontractors in our engineering and construction business, which involves, among others, maintaining a regularly updated list of qualified subcontractors and entering into agreements with them to set forth each party's rights and obligations. In our other businesses, we also endeavor to source products and services from third-party manufacturers and service providers whom we believe are able to meet our quality, delivery schedule and other requirements. Nevertheless, we may not be able to monitor the performance of these subcontractors and other third parties as directly and efficiently as our own staff. In addition, qualified subcontractors and other third parties may not always be readily available when our needs for outsourcing arise. If we are unable to hire qualified subcontractors and other third parties, our ability to complete projects or other contracts could be impaired. If the amounts that we are required to pay to subcontractors and other third parties exceed what we have estimated, especially in the case of customer contracts with a pre-agreed price, we may suffer losses on those contracts. Outsourcing also exposes us to risks associated with non-performance, delayed performance or substandard performance by subcontractors or other third parties. As a result, we may experience a deterioration in the quality or late delivery of our construction projects, incur additional costs due to delays or higher prices in sourcing the services, equipment or supplies, or be subject to liability under the relevant contract for the non-performance, delayed performance or substandard performance of our subcontractors or other third parties. Such events could have a material and adverse impact upon our profitability, financial performance and reputation, and may result in litigation or damage claims against us.

***We face challenges in achieving our strategic objective of successfully exploiting growth opportunities.***

An important element of our strategy is to continue to pursue attractive and profitable growth opportunities available to us, by both enhancing and repositioning our asset portfolio and expanding into new markets. The opportunities that we are actively pursuing may involve the acquisition of businesses or properties that complement or expand our existing portfolio.

Our ability to successfully implement this strategy will depend on a variety of factors, including our ability to:

- identify acceptable opportunities;
- negotiate favorable terms;
- develop new market opportunities or acquire properties or businesses promptly and profitably;
- integrate acquired properties or businesses into our operations;
- arrange financing, if necessary; and
- comply with legal regulations.

As we pursue business opportunities in new and existing markets, we anticipate significant investments and costs in connection with the development of such opportunities. We may incur or assume unanticipated liabilities, losses or costs associated with assets or businesses acquired. Any failure by us to successfully pursue and exploit new business opportunities could result in financial losses and inhibit growth.

Any such new projects that we acquire will require additional capital expenditure and will increase the cost of our discoveries and development. These projects may also have different risk profiles than our existing portfolio. These and other effects of such acquisitions could result in our having to revise either or both of our forecasts with respect to unit production costs and production. To the extent that some acquisitions may have operational complexities due to the nature of their business, the election to not fully integrate such acquisitions may be made if such integration does not quantitatively improve operational or financial efficiencies. Some integration efforts will be phased in to ensure that desired efficiencies are quickly and cost effectively realized. Any element of integration must be justified rationally on potential cost savings realized by the business. If we are unable to successfully integrate some or all of the operations of our acquired overseas businesses or future acquisitions, this could have a material adverse effect on our business and operations.

In addition, the pursuit of acquisitions or new business opportunities could divert financial and management resources away from our day-to-day operations to the integration of acquired operations or properties. We may require additional debt or equity financing to undertake or consummate future acquisitions or projects, and such financing may not be available on terms satisfactory to us, if at all, and it may, in the case of equity, be dilutive to our earnings per share.

***Our exploration, development and production activities and our refining and petrochemical business require substantial expenditure and investments and our plans for and ability to make, such expenditures and investments are subject to various risks.***

Exploring, developing and producing crude oil and natural gas fields are capital-intensive activities involving a high degree of risk. Our ability to undertake exploration, development and production activities and make the necessary capital expenditures and investments is subject to many risks, contingencies and other uncertainties, which may prevent our oil and gas business from achieving the desired results, or which may significantly increase the expenditures and investments that our oil and gas business makes, including, but not limited to, the following:

- ability to generate sufficient cash flows from operations to finance its expenditures, investments and other requirements, which are affected by changes in crude oil and natural gas prices and other factors;
- availability and terms of external financing;
- mix of exploration and development activities conducted on an independent basis and those conducted jointly with other partners;
- extent to which its ability to influence or adjust plans for exploration and development related expenditures is limited under joint operating agreements for those projects in which it has partners;
- government approvals required for exploration and development-related expenditures and investments in jurisdictions in which it conducts business; and

- economic, political and other conditions in jurisdictions in which it conducts business.

We intend to expand our exploration and production segment and, from time to time, construct new and/or revamp existing refining and petrochemical facilities, which require substantial capital expenditures and investments, there can be no assurance that the cash generated by our operations will be sufficient to fund these development plans or that our actual future capital expenditures and investments will not significantly exceed our current planned amounts. Our inability to obtain sufficient funding for development plans could adversely affect our business, financial condition and results of operations.

***Our activities in certain countries that are the subject of U.S. sanctions could result in negative media and investor attention and materially and adversely affect investment in the Notes.***

We engage, or have engaged, through various group entities in limited international oil and gas production investment and related services, petrochemical engineering technical services, and international oil and gas trading activities in countries that are the subject of various United States economic sanctions regimes, including Iran, Sudan, Myanmar and Syria, in compliance with applicable laws and regulations. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by us or our affiliates in countries that are the subject of U.S. sanctions. Although our overall operations and activities in these countries represent only a small percentage of our consolidated assets, revenues and net income, such activities may have an adverse effect on investment in the Notes.

It is possible that, as a result of activities by us or our affiliates in these countries, we may be subject to negative media or investor attention, which may distract management, consume internal resources and negatively affect investors' perception of our company. Further, in recent years, the U.S. Government has implemented a number of sanctions targeting non-U.S. companies that engage in certain Iran-related transactions, including, but not limited to, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, the National Defense Authorization Act for Fiscal Year 2012 ("2012 NDAA"), Executive Order 13622, and the Iran Threat Reduction and Syria Human Rights Act of 2012, all of which broadened the range of sanctionable Iran-related transactions. Under the Iran Freedom and Counter-Proliferation Act of 2012 ("IFCA") and Executive Order 13645, moreover, wide-ranging sanctions against the energy, shipping, shipbuilding, and automotive sectors of Iran, as well as Iranian port operators and Iranian currency, became effective on July 1, 2013. The Iran Sanctions Act, as amended, authorizes the imposition of sanctions on companies that, among other things, make investments above certain thresholds that contribute to the development of Iranian petroleum resources (including natural gas resources); export certain levels of refined oil products to Iran; provide certain types and levels of assistance to Iran in developing petroleum resources, producing refined oil products, or importing refined oil products; transport crude oil from Iran; or conceal the Iranian origin of crude oil and refined petroleum products transported on vessels. In addition, Executive Order 13622 provides for the imposition of sanctions on persons determined to have knowingly engaged in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran, subject to certain exemptions. We engage in certain business activities in or related to Iran that might be interpreted as activities targeted by the ISA or other U.S. sanctions. If it is determined that we do engage in activities targeted by the ISA or any of the laws and Executive Orders referenced above, or similar future U.S. laws, regulations, or Executive Orders, we could be subject to sanctions ranging from restrictions on U.S. exports or bank financing to outright blocking of our property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to our

property, including property of our controlled subsidiaries, we and the Issuer could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in the Notes and distributions to U.S. individuals and entities with respect to the Notes could also be prohibited. We can give you no assurances that we will not be the subject of sanctions under the ISA or other U.S. laws in the future due to our activities in Iran. If we were sanctioned under any such laws, it could materially and adversely affect the market price of the Notes and you might be unable to sell, or receive distributions with respect to, the Notes. In addition, certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions, such as Iran or Sudan.

### **Risks Relating to Our Industry**

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

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. Although nations around the world have adopted various economic policies to mitigate the adverse influences caused by factors such as the slowdown of world economy and the European financial crisis, it is uncertain how quickly the world economy would grow going forward. Our operations may also be adversely affected by factors such as certain countries' trade protection policies which may affect export and certain regional trade agreements which may affect import.

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

Most of our revenues are attributable to sales of refined oil products and chemical products, and certain of these businesses and related products have historically been cyclical and sensitive to a number of factors that are beyond our control. These factors include the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. Although we are an integrated company with upstream, midstream and downstream businesses, we have limited ability to mitigate the adverse impact of the cyclical nature of global markets.

#### ***We face strong competition from domestic and foreign competitors.***

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2007, the Ministry of Commerce of the PRC (the "MOFCOM") promulgated the "Administrative Rules for Crude Oil Market" and "Administrative Rules for Refined Oil Products Market," which opened the wholesale market of crude oil and refined oil products to new market entrants. As a result, we face increased competition in both crude oil and refined oil product markets. We also expect to face competition in both domestic and international petrochemical product markets as a result of our domestic and international competitors' increasing production capacity. Increased competition may have a material adverse effect on our financial condition and results of operations.

## **Risks Relating to Doing Business in the PRC**

*The insolvency laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar.*

Because the Company is incorporated under the laws of the PRC, any insolvency proceeding relating to the Company would likely involve PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

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

The PRC government, though gradually liberalizing its regulations on entry into the petroleum and petrochemical industry, continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include granting licenses to explore and produce crude oil and natural gas, granting licenses to market and distribute crude oil and refined petroleum products, adjusting upper limit of the retail prices for gasoline and diesel; collecting special gain levies, formulating import and export quotas and procedures, imposing safety, environmental and quality standards, and promulgating policies to conserve energy and reduce emission; meanwhile, there could be potential changes to macroeconomic and industry policies such as further improvement of pricing mechanism of petroleum products, reforming and improvement of pricing mechanism of natural gas, and reforming resource tax and environmental tax, which could affect our production and operations. Such control mechanisms may have material adverse effects on our operations and profitability.

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

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

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

Our production activities produce substantial amounts of liquid, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

*Some of our development plans require compliance with state policies and governmental regulation.*

We are currently engaged in a number of construction, renovation and expansion projects. Some of our large construction, renovation and expansion projects are subject to governmental confirmation

and registration. The timing and cost of completion of these projects will depend on numerous factors, including when we can receive the required confirmation and registration from relevant PRC governmental authorities and general economic conditions in China. If any of our key projects required for our future growth are not confirmed or registered, or not confirmed or registered in a timely manner, our results of operations and financial condition could be adversely impacted.

***We are subject to audits and inspections by the PRC governmental authorities from time to time. We cannot predict the effect of the outcome of these audits and inspections on our business and financial conditions or our reputation.***

The PRC governmental authorities from time to time carry out audits, inspections, inquiries or similar actions on state-owned enterprises such as us. While we operate our business pursuant to applicable laws and regulations, we cannot predict the outcome of such governmental audits and inspections. If we are found to have material misstatements or omissions in our financial reports or material incompliance with laws or other irregularities in our operation, we may be subject to fines and other disciplinary actions imposed by such government authorities, and our reputation, business and financial conditions may be materially and adversely affected.

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

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

- import of crude oil and other materials;
- debt service on foreign currency-denominated debt;
- purchases of imported equipment; and
- payment of the principal and interest on bonds issued overseas.

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

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the changes in the PRC's and international political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. On June 19, 2010, the People's Bank of China ("PBOC") decided to further promote the reform of the Renminbi

exchange rate formation mechanism, and improve the flexibility of Renminbi exchange rate. Since 2005, the value of Renminbi has appreciated significantly against U.S. dollar. Since we purchase a significant portion of crude oil from international suppliers, and the purchase prices are benchmarked to U.S. dollar-denominated international prices, fluctuations in the exchange rate of Renminbi against U.S. dollars and certain other foreign currencies may materially and adversely affect our crude oil purchase costs.

***Uncertainties with respect to the PRC legal system could limit the protections available to the Company.***

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate and predict the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with future partners, service providers and suppliers. The effect of future developments in the PRC legal system cannot be predicted, particularly with regard to the oil and gas industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

**Risks Relating to the Notes and the Guarantees**

***Certain facts and statistics are derived from publications not independently verified by the Company, the Initial Purchasers or their respective advisors.***

Facts and statistics in this offering memorandum relating to China's economy and the industries in which the Company operates are derived from publicly available sources. While the Company has taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by the Company, the Initial Purchasers or their respective advisors and, therefore, the Company makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. If the calculation and collection methods are ineffective or there are other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon.

***Developments in other markets may adversely affect the market price of the Notes.***

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for Chinese securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in other regions

in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

***The Issuer is a special purpose vehicle with no business activities of its own and will be dependent on funds from the Guarantor to make payments under the Notes.***

The Issuer was established by the Guarantor specifically for the purpose of raising funds through the issue of the Notes and will on-lend the net proceeds from issuing the Notes to the Guarantor and/or its subsidiaries. The Issuer does not and will not have any material assets but it will receive repayments from the Guarantor and/or its subsidiaries in respect of loans made by the Issuer to those companies, which will be the only material sources of funds available to meet the claims of holders of the Notes. As a result, the Issuer is subject to all the risks to which the Guarantor is subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans.

***The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and our existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and our secured debt to the extent of the value of the collateral securing such indebtedness.***

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and our existing and future subsidiaries, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and our subsidiaries, and the Issuer and we may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and us is subject to various restrictions under applicable law. Each of the Issuer's and our subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or make any funds available therefor, whether by dividends, loans or other payments. The Issuer's and our right to receive assets of any of the Issuer's and our subsidiaries, respectively, upon that subsidiary's liquidation or reorganization will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or we are creditors of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and our subsidiaries and any subsidiaries that the Issuer or we may in the future acquire or establish.

The Notes are the Issuer's and our unsecured obligations and will (i) rank equally in right of payment with all the Issuer's and our other present and future senior unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and our present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and our present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or our bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to you ratably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets

remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid. The Issuer does not have any subsidiary and does not have any indebtedness, other than the Notes. As of June 30, 2013, our subsidiaries, other than the Issuer, had approximately RMB 578,809 million (US\$94,309 million) of unsecured borrowings and indebtedness, and we and our subsidiaries, other than the Issuer, had an aggregate of RMB 76 million (US\$12 million) secured borrowings and indebtedness.

*There is uncertainty relating to the enforceability of the Guarantees of the Notes.*

We will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. Any guarantee of foreign indebtedness by a PRC-incorporated entity is subject to approval by the SAFE. On September 29, 2013, we obtained approval from the SAFE to guarantee indebtedness payable by the Issuer under the Notes incurred outside the PRC. The approval was granted by the SAFE pursuant to the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by the SAFE on July 30, 2010 (the “SAFE Foreign Security Notice”), and the Notice on Deciding the External Financing Guarantee Balance Quota of Domestic Banks in 2011 issued by the SAFE on July 27, 2011 (the “SAFE Circular 30”).

We are required to register the Guarantees with the Beijing Branch of the SAFE (the “Beijing Branch”) as a procedural matter within 15 days after the date of execution of the Guarantees of the Notes. Under PRC law, the Guarantees may not be enforceable against our assets within the PRC until the administrative registration of the Guarantees with the Beijing Branch is completed in accordance with the Measures for the Administration of Foreign Security by Domestic Institutions promulgated by the PBOC on September 25, 1996. We intend to execute and register the Guarantees with the Beijing Branch as soon as reasonably practicable after the pricing date. Administrative registration of the Guarantees of the Notes with the Beijing Branch as a procedural matter is expected to be completed soon after the closing date of the offering. However, if administrative registration is not completed by 45 Beijing Business Days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes for which administrative registration has not been completed at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase (a “SAFE Noncompliance Offer”), as described under “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events” and “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events.” Guarantees with respect to the Notes which holders elect not to resell to the Issuer in the event of a SAFE Noncompliance Offer may not be enforceable under PRC law against the assets of the Guarantor within the PRC. Prior to the performance or discharge of our obligations under the Guarantees, we are also required to obtain an approval from the Beijing Branch for each remittance under the Guarantees.

The SAFE Foreign Security Notice and the SAFE Circular 30 are recent regulations and may be subject to a degree of executive and policy discretion and interpretation by the SAFE. On the basis of the SAFE Foreign Security Notice, the Guarantees will, upon execution and registration with the Beijing Branch, be valid, binding and enforceable against us under PRC law. There can be no assurance, however, that the approval obtained by us will not be revoked or amended in the future by changes in PRC law, or that the application or interpretation of the SAFE Foreign Security Notice and the SAFE Circular 30 will not adversely affect the enforceability of the Guarantees in the PRC. See “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees.”

The Guarantees and the Indentures, which set out the terms of the Guarantees, are governed by the laws of the State of New York. Judgments of foreign courts, including New York courts, are unlikely to be recognized or enforced in the PRC unless there is a treaty between the PRC and the

country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other agreements that provide for reciprocal recognition and enforcement of foreign judgments with the United States. As a result, you may need to pursue claims based on the Guarantees and the Indentures in the PRC courts. See “Enforceability of Foreign Judgments and Civil Liabilities.”

***The Notes and the Guarantees are unsecured obligations.***

As the Notes and the Guarantees are unsecured obligations, their repayment may be compromised if:

- we or the Issuer enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Issuer’s or our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer’s or our indebtedness.

Although we do not expect any of these events to occur with respect to the Issuer, since it is not permitted under the terms of the Indentures to carry on any business activities other than in connection with the issuance of the Notes and advance of the proceeds therefrom to us or our subsidiaries, if any of these events occur, the Issuer’s and our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

***An active trading market may not develop for the Notes and the trading price of the Notes could be materially and adversely affected.***

The Notes are a new issue of securities with no established trading market. The Issuer has received an eligibility letter from the SEHK for listing of, and permission to deal in, the Notes by way of selectively marketed securities (as defined in the Listing Rules) and application has been made for the Euro Notes to be listed on the Official List of the ISE and to be admitted to trading on the Global Exchange Market. However, we cannot assure you that the application to such stock exchange will be approved. We cannot assure you that the Notes will be or remain listed. The Issuer may elect to apply for a delisting of the Notes from any stock exchange or markets if the listing requirements are unduly burdensome. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Notes as permitted by applicable laws. However, the Initial Purchasers are not obligated to make a market in the Notes and may discontinue their market-making activities at any time at their discretion without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Notes. If a market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;

- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Notes at attractive prices or at all.

***Holders of the Notes will not be entitled to registration rights, and we do not currently intend to register the Notes under applicable securities laws. There are restrictions on your ability to transfer or resell the Notes.***

The Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable securities laws, and we do not currently intend to register the Notes in any jurisdiction. The holders of the Notes will not be entitled to require the Issuer to register the Notes for resale or otherwise. Therefore, you may transfer or resell the Notes only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable securities laws of your jurisdiction and/or state, and you may be required to bear the risk of your investment for an indefinite period of time. See “Transfer Restrictions.”

***The ratings of the Notes may be lowered, suspended or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.***

The Notes are expected to be assigned a rating of Aa3 and A+ by Moody’s and S&P, respectively. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of your Notes and increase our corporate borrowing costs.

***The Issuer may be deemed to be a PRC tax resident enterprise by the PRC tax authorities and certain withholding taxes may be applicable.***

The Issuer is incorporated under the laws of the British Virgin Islands. Pursuant to the Enterprise Income Tax Law of the PRC, (the “EIT Law”), effective as of January 1, 2008, and its implementation regulations, enterprises that are established under the laws of foreign countries and regions but whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the

relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income sourced from both within and outside PRC.

Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment within the PRC must pay enterprise income tax at the rate of 10% or a lower rate if tax treaty benefits are available on its income sourced inside the PRC, and such income tax must be withheld by the PRC payer. In the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, interest paid on the Notes may be considered to be PRC source, in which case the Issuer would be required to withhold income tax from the payments of interest in respect of the Notes to any non-PRC enterprise holders of the Notes. Any capital gain realized by non-PRC enterprise from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a PRC tax of up to 10% if the Issuer is treated as a PRC tax resident. In accordance with the Individual Income Tax Law of the PRC which took effect on September 1, 2011 and its implementation regulations which took effect on September 1, 2011, if the Issuer is considered to be a PRC tax resident enterprise, interest payable to non resident individual holders of the Notes may be treated as income derived from sources within the PRC and be subject to a 20% individual income tax; accordingly, the Issuer may be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Notes. In addition, any capital gain realized by a non-resident individual holder from transfer of the Notes may be regarded as being derived from sources within the PRC and be subject to PRC tax of up to 20%. The rates of PRC tax on interest and capital gains may be reduced under an applicable income tax treaty. See “Taxation — PRC.”

If the Issuer is not a PRC tax resident, non-resident holders of the Notes will not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

***The Issuer or the Guarantor may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event it is required to pay additional amounts in respect of PRC withholding tax at a rate in excess of 10% because it is treated as a PRC “resident enterprise”.***

In the event the Issuer is treated as a PRC “resident enterprise” under the PRC Enterprise Income Tax Law, it may be required to withhold PRC tax on interest payable to non-resident enterprise investors. The Guarantor is a PRC “resident enterprise” and required to withhold PRC tax on interest payable to non-resident enterprise investors, which would include interest payable in respect of the Notes pursuant to the Guarantee. In such case, the Issuer (or the Guarantor) will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Dollar Notes and Guarantees — Redemption — Optional Tax Redemption” and “Description of the Euro Notes and Guarantees — Redemption — Optional Tax Redemption,” in the event the Issuer (or the Guarantor) is required to pay additional amounts as a result of certain changes in or interpretations of tax law that result in it being required to withhold tax at a rate in excess of 10% on interest payments as a result of it

being treated as a PRC “resident enterprise,” the Issuer (or the Guarantor, as the case may be) may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. See “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees.”

***You may experience difficulties in effecting service of legal process and enforcing judgments against us, our directors, supervisors or senior management.***

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in China. All but one of our directors and senior management reside within the PRC. The assets of these directors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our directors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. As a result, in the PRC, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. See “Enforceability of Foreign Judgments and Civil Liabilities.”

***PRC corporate disclosure and accounting standards differ from U.S. GAAP.***

We are a private company not listed on any stock exchange. There may be less publicly available information about us and our subsidiaries than is regularly made available by public companies in certain other countries, including the United States. In addition, our financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from U.S. GAAP. See “Description of Certain Differences Between PRC GAAP and U.S. GAAP.”

***The Issuer and the Company will follow the applicable corporate disclosure standards for debt securities listed on the SEHK and the ISE, which standards may be different from those applicable to companies in certain other countries.***

The Issuer has received an eligibility letter from the SEHK for listing of and permission to deal in the Notes by way of debt issues to professional investors only (as defined in the Listing Rules). Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. Upon the granting of the approvals by the SEHK and the ISE, the Issuer will be subject to the applicable corporate disclosure standards for debt securities listed on the SEHK and the ISE. The disclosure standards imposed by the SEHK and the ISE may be different than those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of June 30, 2013 and as adjusted to give effect to this offering. You should read this table in conjunction with our unaudited consolidated financial statements as of June 30, 2013, and related notes included elsewhere in this offering memorandum.

	As of June 30, 2013 <sup>(1)</sup>			
	Actual		As Adjusted	
	(unaudited)		(unaudited)	
	RMB	US\$	RMB	US\$
	(in millions)			
<b>Indebtedness<sup>(2)</sup></b>				
Indebtedness — due within one year . . . . .	240,333	39,159	240,333	39,159
Indebtedness — due after one year . . . . .	338,552	55,162	338,552	55,162
Notes offered hereby <sup>(3)</sup> . . . . .	—	—	21,272	3,466
<b>Total indebtedness . . . . .</b>	<b><u>578,885</u></b>	<b><u>94,321</u></b>	<b><u>600,157</u></b>	<b><u>97,787</u></b>
<b>Owners' equity</b>				
Paid-up capital . . . . .	251,140	40,920	251,140	40,920
Capital surplus . . . . .	53,192	8,667	53,192	8,667
Special reserves . . . . .	4,526	737	4,526	737
Surplus reserves . . . . .	171,392	27,926	171,392	27,926
General risk provision . . . . .	640	104	640	104
Undistributed profit . . . . .	196,140	31,958	196,140	31,958
Currency translation differences . . . . .	(10,548)	(1,718)	(10,548)	(1,718)
Minority interest . . . . .	188,223	30,668	188,223	30,668
<b>Total owners' equity . . . . .</b>	<b><u>854,705</u></b>	<b><u>139,262</u></b>	<b><u>854,705</u></b>	<b><u>139,262</u></b>
<b>Total capitalization<sup>(4)</sup> . . . . .</b>	<b><u><u>1,433,590</u></u></b>	<b><u><u>233,583</u></u></b>	<b><u><u>1,454,862</u></u></b>	<b><u><u>237,049</u></u></b>

- (1) Except as disclosed herein, there have been no material changes in the Company's consolidated capitalization since June 30, 2013.
- (2) Indebtedness does not include amounts due to our subsidiaries.
- (3) The Dollar Notes and Euro Notes offerings, respectively, contemplated hereby will not be cross conditioned with one another. See "Plan of Distribution".
- (4) Total capitalization equals total indebtedness plus total owners' equity.

## DESCRIPTION OF THE ISSUER

### Formation

The Issuer was incorporated with limited liability on September 24, 2013 in the British Virgin Islands under the BVI Business Companies Act 2004. Its registered office is located at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The Issuer is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands.

### Business Activity

Under the Issuer's memorandum of association, the Issuer has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction that is not prohibited under any law for the time being in force in the British Virgin Islands. However, so long as the Notes are outstanding, the Issuer will limit its permitted activities as described under "Description of the Dollar Notes and Guarantees — Certain Covenants — Further Limitation on Issuer's Activities and Related Matters" and "Description of the Euro Notes and Guarantees — Certain Covenants — Further Limitation on Issuer's Activities and Related Matters." The Issuer's primary purpose is to act as one of our financing subsidiaries to issue and hold the Notes. The Issuer has no material business nor assets and does not have any employees. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue further bonds and engage in other business activities related to us and may incur substantial liabilities and indebtedness.

### Directors and Officers

The directors of the Issuer are Wen Dongfen and Wang Guangsheng. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. The business address of the directors is 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, PRC.

There are no potential conflicts of interest between any duties of any of the management of the Issuer or the Guarantor to the Issuer or the Guarantor, respectively, and their private interests and/or other duties.

### Share Capital

The Issuer is authorized to issue up to a maximum of 50,000 ordinary shares of a single class of US\$0.0002 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

### Summary Financial Information of the Issuer

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorization, execution and issue of the Notes, and the documents and matters referred to or contemplated in this offering memorandum to which the Issuer is or will be a party and matters which are incidental or ancillary to the foregoing.

Except as disclosed elsewhere in this offering memorandum, at the date of this offering memorandum, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

The financial year of the Issuer runs from January 1 to December 31. There has been no material change in the activities of the Issuer since its incorporation.

The Issuer has not prepared any financial statements since its incorporation.

## **USE OF PROCEEDS**

The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US\$2,725 million and €544 million. We intend to use the net proceeds of this offering for the general corporate purposes of our overseas businesses and to refinance our existing indebtedness.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering subject to the applicable PRC laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

## OUR HISTORY AND CORPORATE STRUCTURE

### Our History

Our predecessor was the former China Petrochemical Corporation (“Old Sinopec”) founded in 1983 by the PRC State Council as a ministerial level enterprise. Old Sinopec was historically the dominant force in the refining and petrochemical industry in China. It was primarily responsible for the development and administration of the refining and petrochemical industry in China, including formulating industrial policies for the refining and petrochemical industry and supervising the construction and operation of refineries.

In December 1984, Old Sinopec set up a sales subsidiary, and became responsible for the administration of the marketing and distribution of refined oil products in China.

In July 25, 1998, the restructuring of the petroleum and petrochemical industry reorganized Old Sinopec into the Company, a large, vertically integrated petroleum and petrochemical enterprise with commercial operations concentrated in the eastern and southern regions of China.

On February 28, 2000, China Petroleum & Chemical Corporation (“Sinopec Corp.”) was established as a joint stock company with limited liability under the Company Law of the PRC as part of a restructuring in which we transferred to Sinopec Corp. the majority of our production operations consisting of most of our petroleum and petrochemical operations, while retaining within Sinopec Group most of the social and ancillary services and certain production assets and retail service stations. As a result of the transfer, Sinopec Corp. conducts the following businesses:

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

On October 18, 2000, the H shares and American Depositary Shares of Sinopec Corp. were simultaneously listed on the Hong Kong Stock Exchange, the New York Stock Exchange and the London Stock Exchange.

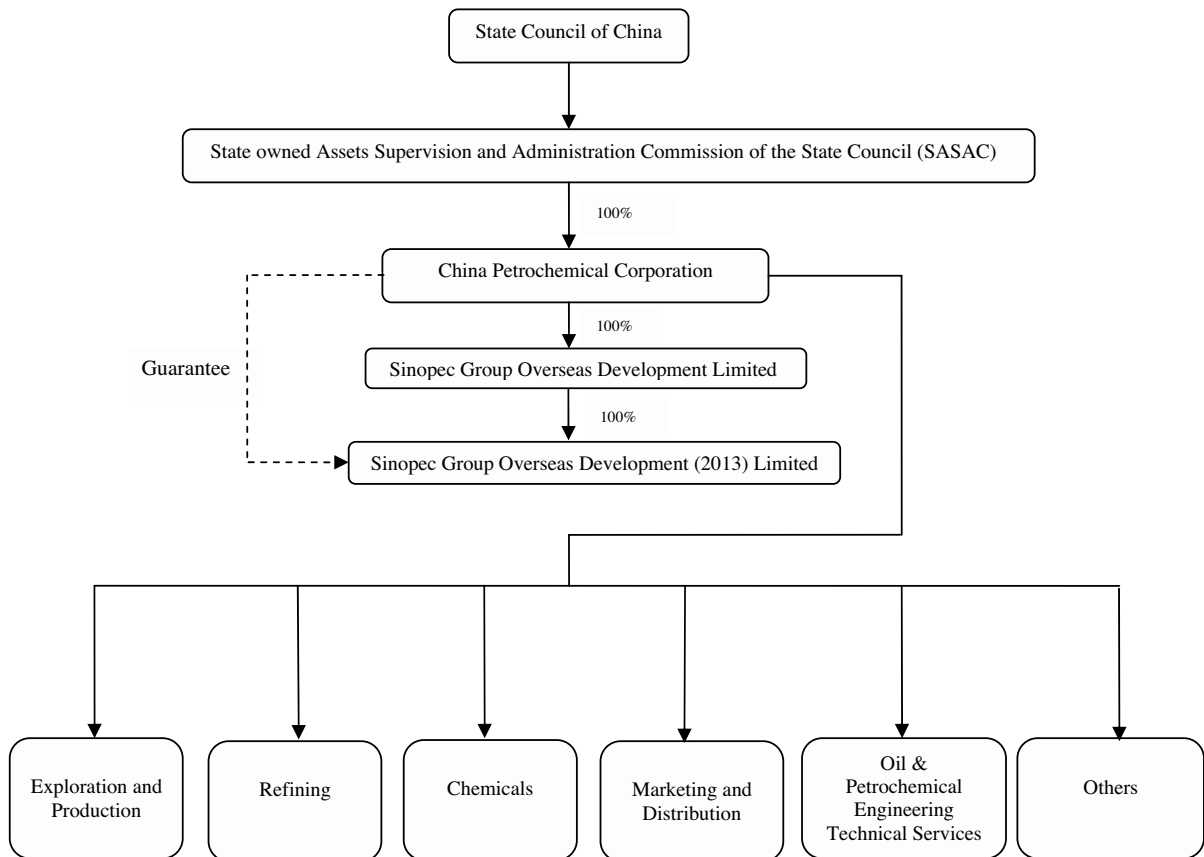
In January 2001, we incorporated Sinopec International Petroleum Exploration and Production Corporation (“SIPC”), one of our wholly owned subsidiaries, as an integrated strategic business unit to implement our overseas expansions in oil and gas exploration and production investments and operations.

On August 8, 2001, the A shares of Sinopec Corp. were successfully listed on the Shanghai Stock Exchange.

In May 2013, the H shares of Sinopec Engineering (Group) Co., Ltd. (“Sinopec Engineering”), a subsidiary of the Company, was successfully listed on the SEHK.

## Our Corporate Structure

The following chart briefly illustrates our shareholding and group structure.



## SELECTED FINANCIAL INFORMATION

The following selected historical consolidated statement of comprehensive income data for the years ended December 31, 2010, 2011 and 2012 and selected historical consolidated balance sheet data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

Our selected historical consolidated statement of comprehensive income data presented below for the six months ended June 30, 2012 and 2013 and our selected historical consolidated balance sheet data as of June 30, 2013 have been derived from our unaudited interim condensed consolidated financial statements included elsewhere in this offering memorandum. Our unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all normal and recurring adjustments that we consider necessary for a fair statement of our financial position and operating results for the periods presented except as permitted for interim financial statements.

You should read the selected consolidated financial information in conjunction with our audited consolidated financial statements and unaudited interim consolidated financial statements and related notes and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain material respects from U.S. GAAP. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see “Description of Certain Differences Between PRC GAAP and U.S. GAAP.” Our historical results do not necessarily indicate our results expected for any future period.

### Selected Consolidated Income Statement Data of the Company

	For the Year Ended December 31,			For the Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	(unaudited) RMB	(unaudited) RMB	US\$
	(in millions)					
<b>Operating Revenues</b> . . . . .	1,969,042	2,551,951	2,830,609	1,366,664	1,452,453	236,656
Operating costs . . . . .	1,556,407	2,087,537	2,365,265	1,143,538	1,224,211	199,467
Business taxes and surcharges . .	166,615	201,375	205,828	103,532	103,203	16,815
Selling and distribution expenses . . . . .	33,682	40,525	42,645	19,883	21,786	3,550
General and administrative expenses . . . . .	70,615	78,237	76,899	35,802	35,083	5,716
Exploration expenses . . . . .	17,484	20,931	20,643	9,697	9,077	1,479
Financial expenses . . . . .	10,124	10,463	15,953	8,750	7,601	1,238
Assets impairment losses . . . . .	17,816	6,184	7,847	7,062	104	17
<b>Operating Expenses</b> . . . . .	1,872,743	2,445,252	2,735,080	1,328,264	1,401,065	228,282
Gains (losses) from changes in fair value . . . . .	(166)	1,420	207	510	737	120
Investment income . . . . .	8,693	9,330	6,212	3,030	3,260	531
<b>Operating Profit</b> . . . . .	104,826	117,449	101,948	41,940	55,385	9,025
Non-operating income . . . . .	3,681	7,034	6,573	1,826	1,840	300
Non-operating expenses . . . . .	2,833	4,392	3,859	1,010	2,686	438
<b>Profit Before Income Tax</b> . . . . .	105,674	120,091	104,662	42,756	54,539	8,887
Income tax . . . . .	33,094	36,972	34,871	14,781	18,244	2,973
<b>Net Profit</b> . . . . .	72,580	83,119	69,791	27,975	36,295	5,914
Net profits attributable to parent company . . . . .	52,100	61,092	51,869	21,014	25,764	4,198
Minority interest . . . . .	20,480	22,027	17,922	6,961	10,531	1,716

### Selected Consolidated Balance Sheet Data of the Company

	As of December 31,			As of June 30,	
	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	US\$
			(in millions)		
Total current assets . . . . .	339,630	481,630	481,681	498,793	81,271
Total non-current assets . . . . .	1,146,697	1,267,049	1,475,145	1,491,308	242,987
Total assets . . . . .	1,486,327	1,748,679	1,956,826	1,990,101	324,258
Total current liabilities . . . . .	504,677	612,140	659,184	680,195	110,828
Total non-current liabilities . . . . .	359,179	416,200	504,843	455,201	74,168
Total liabilities . . . . .	863,856	1,028,340	1,164,027	1,135,396	184,996
Total owners' equity attributable to parent company . . . . .	493,243	574,399	636,518	666,482	108,594
Minority interest . . . . .	129,228	145,940	156,281	188,223	30,668
Total owners' equity . . . . .	622,471	720,339	792,799	854,705	139,262
Total liabilities and owners' equity . . . . .	1,486,327	1,748,679	1,956,826	1,990,101	324,258

### Selected Consolidated Cash Flows Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
			(in millions)	(unaudited)	(unaudited)	
Net cash flows generated from (used in) operating activities . . . . .	193,199	202,734	170,363	5,334	35,381	5,765
Net cash flows generated from (used in) investing activities . . . . .	(238,923)	(231,029)	(280,064)	(130,574)	(97,596)	(15,902)
Net cash flows generated from (used in) financing activities . . . . .	50,755	70,791	74,769	75,910	72,732	11,851
Effect of foreign exchange rate changes . . . . .	(444)	(553)	153	(1,970)	(372)	(61)
Net increase (decrease) in cash and cash equivalents .	4,587	41,943	(34,779)	(51,300)	10,145	1,653
Cash and cash equivalents at the beginning of the year .	30,900	35,487	77,430	77,430	42,651	6,949
Cash and cash equivalents at the end of the year . . . . .	<u>35,487</u>	<u>77,430</u>	<u>42,651</u>	<u>26,130</u>	<u>52,796</u>	<u>8,602</u>

## Other Financial Data of the Company

	As of and for the Year Ended December 31,			As of and for the Twelve Months Ended June 30,
	2010	2011	2012	2013
				(unaudited)
EBITDA <sup>(1)</sup> (RMB in millions) . . . . .	211,251	222,137	231,209	241,589
EBITDA <sup>(1)</sup> (US\$ in millions) . . . . .	32,008	35,294	37,112	39,363
EBITDA margin <sup>(2)</sup> . . . . .	10.7%	8.7%	8.2%	8.3%
Total debt <sup>(3)</sup> (RMB in millions) . . . . .	384,673	436,912	525,975	578,885
Net debt <sup>(4)</sup> (RMB in millions) . . . . .	349,275	359,651	483,402	526,167
Total debt/EBITDA . . . . .	1.82	1.97	2.27	2.40
Net debt/EBITDA . . . . .	1.65	1.62	2.09	2.18
EBITDA/Interest <sup>(5)</sup> . . . . .	19.12	17.14	12.65	12.85
Total debt/Total capitalization <sup>(6)</sup> . . . . .	38.19%	37.75%	39.88%	40.38%
Cash/Short-term borrowings . . . . .	33.81%	58.86%	29.12%	21.94%

- (1) EBITDA for any period is calculated as operating profit adjusted for foreign exchange gains (losses), investment income and gains (losses) from changes in fair value, plus assets impairment losses, financial expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by operating revenues.
- (3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.
- (4) Net debt is calculated as total debt minus cash.
- (5) Interest is calculated as interest expenses plus capitalized interests.
- (6) Total capitalization equals total debt plus total owners' equity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the financial report and the related notes included elsewhere in this offering memorandum. The consolidated financial statements of the Company have been prepared in accordance with PRC GAAP. PRC GAAP differs in certain material respects from U.S. GAAP. For a summary of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences Between PRC GAAP and U.S. GAAP." The discussion in this section contains forward-looking statements that involve risks and uncertainties. The Company's actual results and timing of selected events could differ from those anticipated in these forward-looking statements as a result of various factors including those set forth under "Risk Factors" and elsewhere in this offering memorandum.*

### Overview

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of operating revenues. We principally engage in the exploration, development and production of crude oil and natural gas, the operation of refineries and petrochemical facilities and the marketing of crude oil, natural gas, refined oil products and chemical products. We have reported our consolidated financial results according to the following six principal business segments.

- *Exploration and Production Segment*, which consists of exploring for, developing, producing and selling crude oil and natural gas;
- *Refining Segment*, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing crude oil into refined oil products and selling refined oil products principally to our marketing and distribution segment;
- *Chemicals Segment*, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products;
- *Marketing and Distribution Segment*, which consists of purchasing refined oil products from our refining segment and third parties, and marketing, selling and distributing refined oil products by wholesale to large customers and independent distributors and by retail through our retail network;
- *Oil & Petrochemical Engineering Technical Services Segment*, which consists of providing a range of oilfield services including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions as well as designing and constructing large-scale refining and petrochemical projects; and
- *Others Segment*, which consists principally of international trade, research and development as well as other businesses, collectively referred to as our "Others" segment.

## **Factors Affecting Results of Operations**

Our results of operations are primarily affected by the following factors:

### *Macroeconomic Environment*

Changes in the macroeconomic environment have affected and will continue to affect our business and operations. The recent global recession and the European sovereign debt crisis have adversely affected economies and businesses in the world, including China. Any slowdown in China's economic growth may lower oil and gas demand and adversely affect us. As the oil and gas industry is sensitive to macroeconomic trends and oil and gas prices tend to fall in recessionary periods, we may experience pricing pressure on our refined oil products, which may adversely affect profitability. The financial and economic situation may also have a negative impact on third parties with whom we do, or may do, business. Any of these factors may affect our financial condition and results of operations.

### *Commodity and Product Prices*

#### *Crude oil and natural gas prices*

Our results of operations are substantially affected by crude oil and natural gas prices. We produce and purchase crude oil and natural gas for our internal use in refining and chemical productions as well as for sale to external customers. Changes in the prices of crude oil and natural gas in China may have a significant effect on, among other things, (i) the revenue from our exploration and production segment and our oil and gas trading business and (ii) the costs of our refining segment, chemical segment and our oil and gas trading business.

Crude oil and natural gas prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to, government controls, overall economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources, as well as weather conditions.

In addition, our typical contracts with natural gas buyers include provisions for price adjustments which may result in selling price fluctuations. In addition to directly affecting our revenues and profits, declines in crude oil and/or natural gas prices may also result in the write-off of higher cost reserves and other assets.

#### *Prices of refined oil products and chemical products*

Our refining segment and marketing and distribution segment engage in the sales to third parties of refined oil products (mainly gasoline, diesel, kerosene (including jet fuel)). Our chemicals segment engages in the sales of chemical products. Our results of operations are significantly affected by the prices of refined oil products and chemical products.

Beginning from December 2008, the PRC government has set upper limits for the retail prices of various refined oil products. We determine the prices of other refined oil products with reference to the published median guidance prices of gasoline and diesel. The government regulation of refined oil product prices has a material impact on our results of operations.

### ***Production, Sales Volumes and Product Mix***

Our results of operations are also affected by production and sales volumes as well as our product mix. Our crude oil and natural gas production volumes depend primarily on the level of our reserve base, the development plan regarding the reserve base, as well as other factors. The production volumes of our refining and chemicals segments depend primarily on the capacities and utilization of our refining and chemical facilities, as well as market conditions. We produce and sell different mixes of crude oil and natural gas, each having different market prices, as well as a variety of refined oil and chemical products. Therefore, in any given period, our product mix is subject to change, which will also affect our results of operations.

### ***Regulatory Environment***

Our operating activities are subject to extensive regulations and controls by the PRC government, including the issuance of exploration and production licenses, the imposition of industry-specific taxes and levies and the implementation of environmental policies and safety standards. Our results of operations will be affected by any future changes of such regulatory environment.

We are subject to various taxes, fees and royalties. Changes in tax rules and regulations applicable to us may affect our results of operations. For example, since March 26, 2006, we have been subject to a crude oil special levy on the sale of domestic oil imposed by the PRC government. Prior to November 1, 2011, the special levy of 20%-40% became applicable if the sales price of domestic oil reached US\$40 per barrel. Effective from November 1, 2011, the sales price triggering the special levy was increased to US\$55 per barrel. In addition, a new resource tax regulation became effective on June 1, 2010, and has been applicable across China generally since November 1, 2011. Under this new regulation, the resource tax payable by taxpayers in connection with their extraction of crude oil and natural gas will be collected based on value instead of volume. The amount of crude oil special levy and resource tax we pay have significantly affected our results of operations. See “Summary of Relevant PRC Laws and Regulations — Taxation, Fees and Royalties” for a more detailed description of current PRC taxation, fees and royalties payable by us.

Driven by environmental and efficiency concerns, the PRC government has been increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs. The PRC government has adopted a preferential value-added tax rate of 13% for natural gas sales as compared to a 17% value-added tax rate for crude oil production. In addition, the NDRC launched pilot reforms on natural gas pricing in Guangdong Province and Guangxi Zhuang Autonomous Region in December 2011, marking the PRC government’s latest efforts in shifting natural gas pricing toward a more market-oriented system. Under the pilot reforms, the prices of natural gas will be pegged to the prices of alternative energies to better trace and reflect market demand and supplies, as well as guide reasonable distributions. We believe that these policies have had a positive effect on the development and consumption of natural gas in many municipalities, benefiting our natural gas business.

### ***Competition***

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2007, the MOFCOM of the PRC promulgated the “Administrative Rules for Crude Oil Market” and “Administrative Rules for Refined Oil Products Market”, which open the wholesale market of crude oil and refined oil

products to new market entrants. As a result, we face more competition in both crude oil and refined oil product markets. We also expect to face competition in both domestic and international petrochemical product markets as a result of our domestic and international competitors' increasing production capacity. Increased competition may have an adverse effect on our financial condition and results of operations.

### **Critical Accounting Judgments and Estimates**

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

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

### ***Oil and Gas Properties and Reserves***

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

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

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved." Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired. There have been no significant changes to the original reserve estimates during any of the three years ended December 31, 2010, 2011 and 2012.

#### ***Impairment for Long-lived Assets***

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

Impairment losses recognized for the periods presented in our statement of income on long-lived assets are summarized as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	(unaudited)
	(RMB in millions)				
Held-to-maturity investments impairment loss . . . . .	(16)	—	(3)	—	—
Long-term equity investment impairment loss . . . . .	22	3	—	—	—
Fixed assets impairment loss . . . . .	6,612	702	8	—	44
Oil and gas assets impairment loss . . . . .	3,149	2,153	1,006	—	—
Intangible assets impairment loss . . . . .	2	1	—	—	—
Construction supplies impairment loss . . . . .	72	13	—	—	—
Construction in progress impairment loss . . . . .	650	28	—	—	—
Goodwill impairment loss . . . . .	6,266	—	—	—	—
Total impairment loss . . . . .	<u>16,757</u>	<u>2,900</u>	<u>1,011</u>	<u>—</u>	<u>44</u>

**Depreciation**

Property, plant and equipment (other than oil and gas properties) are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There have been no significant changes to the estimated useful lives and residual values during each of the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013.

**Impairment of Accounts Receivable for Bad and Doubtful Debts**

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

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	(unaudited)
	(RMB in millions)				
Impairment losses for bad and doubtful accounts . . . . .	<u>124</u>	<u>(7)</u>	<u>(67)</u>	<u>13</u>	<u>73</u>

### *Allowance for Diminution in Value of Inventories*

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

Allowance for diminution in value of inventories is analyzed as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	(unaudited)
	(RMB in millions)				
Allowance for diminution in value of inventories . . . . .	1,023	3,149	7,040	7,347	51

### **Results of Operations of the Company**

The following table sets forth, for the periods indicated, our consolidated results of operations.

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	(unaudited) RMB	(unaudited) RMB	US\$
	(in millions)					
<b>Operating Revenues</b> . . . . .	1,969,042	2,551,951	2,830,609	1,366,664	1,452,453	236,656
Operating costs . . . . .	1,556,407	2,087,537	2,365,265	1,143,538	1,224,211	199,467
Business taxes and surcharges . . . . .	166,615	201,375	205,828	103,532	103,203	16,815
Selling and distribution expenses . . . . .	33,682	40,525	42,645	19,883	21,786	3,550
General and administrative expenses	70,615	78,237	76,899	35,802	35,083	5,716
Exploration expenses . . . . .	17,484	20,931	20,643	9,697	9,077	1,479
Financial expenses . . . . .	10,124	10,463	15,953	8,750	7,601	1,238
Assets impairment losses . . . . .	17,816	6,184	7,847	7,062	104	17
<b>Operating Expenses</b> . . . . .	1,872,743	2,445,252	2,735,080	1,328,264	1,401,065	228,282
Gains (losses) from changes in fair value . . . . .	(166)	1,420	207	510	737	120
Investment income . . . . .	8,693	9,330	6,212	3,030	3,260	531
<b>Operating Profit</b> . . . . .	104,826	117,449	101,948	41,940	55,385	9,025
Non-operating income . . . . .	3,681	7,034	6,573	1,826	1,840	300
Non-operating expenses . . . . .	2,833	4,392	3,859	1,010	2,686	438
<b>Profit Before Income Tax</b> . . . . .	105,674	120,091	104,662	42,756	54,539	8,887
Income tax . . . . .	33,094	36,972	34,871	14,781	18,244	2,973
<b>Net Profit</b> . . . . .	72,580	83,119	69,791	27,975	36,295	5,914
Net profits attributable to parent company . . . . .	52,100	61,092	51,869	21,014	25,764	4,198
Minority interest . . . . .	20,480	22,027	17,922	6,961	10,531	1,716

## *Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012*

### *Operating revenues*

Operating revenues increased by 6.3% from RMB 1,366,664 million for the six months ended June 30, 2012 to RMB 1,452,453 million for the six months ended June 30, 2013. This increase was mainly attributable to increases in the sales volumes of refined oil and chemical products, partially offset by a decrease in realized prices. The increase in operating revenues primarily consisted of increases in sales revenues realized by our refining segment, marketing and distribution segment, chemicals segment and others segment.

The increase in sales revenue realized by our refining segment and marketing and distribution segment which sell refined oil products externally was mainly due to an increase in our sales volume of our refined oil products, partially offset by decreases in their realized prices. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) in the six month ended June 30, 2013 were RMB 8,450 per tonne, RMB 7,031 per tonne and RMB 6,195 per tonne, respectively, compared to RMB 8,740 per tonne, RMB 7,334 per tonne and RMB 6,550 per tonne, respectively, in the six month ended June 30, 2012. Our aggregate sales volume of gasoline, diesel and kerosene (including jet fuel) increased from 25.5 million tonnes, 47.7 million tonnes and 8.9 million tonnes in the six month ended June 30, 2012, respectively to 29.2 million tonnes, 48.7 million tonnes and 9.7 million tonnes in the six month ended June 30, 2013, respectively.

The increase in sales revenue of chemical products was mainly due to the rise of prices for chemical products and increase in the sales volume resulted from our proactive market developing efforts.

The increase in the sales revenue of our others segment was mainly attributable to expanded sales, imports and exports of crude oil and refined oil products by our trading companies.

### *Operating costs*

Operating costs increased by 7.1% from RMB1,143,538 million for the six months ended June 30, 2012 to RMB1,224,211 million for the six months ended June 30, 2013. This increase was primarily due to the increase in (i) the costs of crude oil that we purchased for our refining and trading operations; and (ii) other purchasing expenses, including the costs of refined oil products, chemical feedstock and other products due to our expansion of business in those segments.

### *Business taxes and surcharges*

Business taxes and surcharges decreased slightly from RMB 103,532 million for the six months ended June 30, 2012 to RMB 103,203 million for the six months ended June 30, 2013.

### *Selling and distribution expenses*

Selling expenses increased by 9.6% from RMB 19,883 million for the six months ended June 30, 2012 to RMB 21,786 million for the six months ended June 30, 2013. The increase was mainly attributable to the increases in personnel compensations, depreciation, transportation expenses and maintenance expenses resulting from the expansion of our sales activities.

#### *General and administrative expenses*

General and administrative expenses decreased slightly from RMB 35,802 million for the six months ended June 30, 2012 to RMB 35,083 million for six months ended June 30, 2013.

#### *Exploration expenses*

Exploration expenses decreased by 6.4% from RMB 9,697 million for the six months ended June 30, 2012 to RMB 9,077 million for the six months ended June 30, 2013.

#### *Financial expenses*

Financial expenses decreased by 13.1% from RMB 8,750 million for the six months ended June 30, 2012 to RMB 7,601 million for the six months ended June 30, 2013, primarily due to an increase in foreign exchange gain resulting from the appreciation of Renminbi.

#### *Assets impairment losses*

Assets impairment losses decreased by 98.5% from RMB 7,062 million for the six months ended June 30, 2012 to RMB 104 million for the six months ended June 30, 2013, primarily due to a decrease in provision for inventory of crude oil.

#### *Gain from changes in fair value*

Our gain from changes in fair value increased from RMB 510 million for the six months ended June 30, 2012 to RMB 737 million for the six months ended June 30, 2013.

#### *Investment income*

Investment income increased by 7.6% from RMB 3,030 million for the six months ended June 30, 2012 to RMB 3,260 million for the six months ended June 30, 2013.

#### *Operating profit*

As a result of the foregoing, operating profit increased by 32.1% from RMB 41,940 million for the six months ended June 30, 2012 to RMB 55,385 million for the six months ended June 30, 2013.

#### *Non-operating income*

Non-operating income increased slightly from RMB 1,826 million for the six months ended June 30, 2012 to RMB 1,840 million for the six months ended June 30, 2013.

### *Non-operating expenses*

Non-operating expenses increased by 165.9% from RMB 1,010 million for the six months ended June 30, 2012 to RMB 2,686 million for the six months ended June 30, 2013, primarily due to a RMB 1,561 million one-time payment of the retirement benefits during the six months ended June 30, 2013.

### *Income tax*

Income tax increased by 23.4% from RMB 14,781 million for the six months ended June 30, 2012 to RMB 18,244 million for the six months ended June 30, 2013, primarily due to an increase in taxable income.

### *Net profit*

Primarily as a result of the foregoing, net profit increased by 29.7% from RMB 27,975 million for the six months ended June 30, 2012 to RMB 36,295 million for the six months ended June 30, 2013.

### *Minority interest*

Minority interest increased by 51.3% from RMB 6,961 million for the six months ended June 30, 2012 to RMB 10,531 million for the six months ended June 30, 2013. This increase was primarily due to a public offering or follow-on offering by the company's subsidiaries.

## ***Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

### *Operating revenues*

Operating revenues increased by 10.9% from RMB 2,551,951 million for the year ended December 31, 2011 to RMB 2,830,609 million for the year ended December 31, 2012. This increase was mainly attributable to increases in the prices for and sales volumes of certain refined oil and chemical products. The increase in operating revenues primarily consisted of increases in sales revenues realized by our refining segment, marketing and distribution segment, and others segment, partially offset by a decrease in sales revenues realized by our chemicals segment.

The increase in sales revenue realized by our refining segment and marketing and distribution segment which sell refined oil products externally was mainly due to the increase of prices for gasoline, diesel and kerosene (including jet fuel) and the increase in their sales volume. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) in 2012 were RMB 8,615 per tonne, RMB 7,219 per tonne and RMB 6,416 per tonne, respectively, compared to RMB 8,403 per tonne, RMB 7,075 per tonne and RMB 6,193 per tonne, respectively, in 2011. Our aggregate sales volume of gasoline, diesel and kerosene (including jet fuel) increased from 162 million tonnes in 2011 to 173 million tonnes in 2012.

The decrease in sales revenue of chemical products was mainly due to a decrease in prices for chemical products.

The increase in the sales revenue of our others segment was mainly attributable to expanded sales, imports and exports of crude oil and refined oil products by our trading companies.

#### *Operating costs*

Operating costs increased by 13.3% from RMB 2,087,537 million for the year ended December 31, 2011 to RMB 2,365,265 million for the year ended December 31, 2012. This increase was primarily due to the increase in (i) the costs of crude oil that we purchased for our refining and trading operations; and (ii) other purchasing expenses, including the costs of refined oil products, chemical feedstock and other products due to our expansion of business in those segments.

#### *Business taxes and surcharges*

Business taxes and surcharges increased by 2.2% from RMB 201,375 million for the year ended December 31, 2011 to RMB 205,828 million for the year ended December 31, 2012.

#### *Selling and distribution expenses*

Selling expenses increased by 5.2% from RMB 40,525 million for the year ended December 31, 2011 to RMB 42,645 million for the year ended December 31, 2012. The increase was mainly attributable to the increases in personnel compensations, depreciation, transportation expenses and maintenance expenses resulting from the expansion of our sales activities.

#### *General and administrative expenses*

General and administrative expenses decreased by 1.7% from RMB 78,237 million for the year ended December 31, 2011 to RMB 76,899 million for the year ended December 31, 2012.

#### *Exploration expenses*

Exploration expenses decreased by 1.4% from RMB 20,931 million for the year ended December 31, 2011 to RMB 20,643 million for the year ended December 31, 2012.

#### *Financial expenses*

Financial expenses increased by 52.5% from RMB 10,463 million for the year ended December 31, 2011 to RMB 15,953 million for the year ended December 31, 2012, primarily due to an increase in interest expenses resulting from increased average balances of borrowings and indebtedness, driven by the financing needs of our expanded operations in 2012, which was partially offset by the foreign exchange gain resulting from the appreciation of Renminbi.

#### *Assets impairment losses*

Assets impairment losses increased by 26.9% from RMB 6,184 million for the year ended December 31, 2011 to RMB 7,847 million for the year ended December 31, 2012, primarily due to an increase in provision for inventory of crude oil.

#### *Gain from changes in fair value*

Our gain from changes in fair value decreased from RMB 1,420 million for the year ended December 31, 2011 to RMB 207 million for the year ended December 31, 2012, primarily due to a decrease in the fair value of the embedded derivative component of the convertible bonds of Sinopec Corp.

#### *Investment income*

Investment income decreased by 33.4% from RMB 9,330 million for the year ended December 31, 2011 to RMB 6,212 million for the year ended December 31, 2012, primarily due to a decrease in investment income from some of our chemicals joint ventures.

#### *Operating profit*

As a result of the foregoing, operating profit decreased by 13.2% from RMB 117,449 million for the year ended December 31, 2011 to RMB 101,948 million for the year ended December 31, 2012.

#### *Non-operating income*

Non-operating income decreased by 6.6% from RMB 7,034 million for the year ended December 31, 2011 to RMB 6,573 million for the year ended December 31, 2012.

#### *Non-operating expenses*

Non-operating expenses decreased by 12.1% from RMB 4,392 million for the year ended December 31, 2011 to RMB 3,859 million for the year ended December 31, 2012.

#### *Income tax*

Income tax decreased by 5.7% from RMB 36,972 million for the year ended December 31, 2011 to RMB 34,871 million for the year ended December 31, 2012, primarily due to a decrease in taxable income.

#### *Net profit*

Primarily as a result of the foregoing, net profit decreased by 16.0% from RMB 83,119 million for the year ended December 31, 2011 to RMB 69,791 million for the year ended December 31, 2012.

#### *Minority interest*

Minority interest decreased by 18.6% from RMB 22,027 million for the year ended December 31, 2011 to RMB 17,922 million for the year ended December 31, 2012. This decrease was primarily due to a decrease in profit from chemicals joint ventures controlled by us.

## *Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*

### *Operating revenues*

Operating revenues increased by 29.6% from RMB 1,969,042 million for the year ended December 31, 2010 to RMB 2,551,951 million for the year ended December 31, 2011. This increase was mainly attributable to increases in the prices for and sales volumes of refined oil and chemical products.

The increase in operating revenues primarily consisted of increases in sales revenues realized by our refining segment, marketing and distribution segment, chemicals segment and others segment.

The increase in sales revenue realized by our refining segment and marketing and distribution segment which sell refined oil products externally was mainly due to the increase of prices for refined oil products and the increase in their sales volume. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) in 2011 were RMB 8,403 per tonne, RMB 7,075 per tonne and RMB 6,193 per tonne, respectively, compared to RMB 7,297 per tonne, RMB 5,992 per tonne and RMB 4,758 per tonne, respectively, in 2010. Our aggregate sales volume of gasoline, diesel and kerosene (including jet fuel) increased from 149 million tonnes in 2010 to 162 million tonnes in 2011.

The increase in sales revenue of chemical products was mainly due to the rise of prices for chemical products and increase in the sales volume resulted from our proactive market developing efforts.

The increase in the sales revenue of our others segment was mainly attributable to expanded sales, imports and exports of crude oil and refined oil products by our trading companies.

### *Operating costs*

Operating costs increased by 34.1% from RMB 1,556,407 million for the year ended December 31, 2010 to RMB 2,087,537 million for the year ended December 31, 2011. This increase was primarily due to the increase in (i) the costs of crude oil that we purchased for our refining and trading operations; and (ii) other purchasing expenses, including the costs of refined oil products, chemical feedstock and other products due to our expansion of business in those segments.

### *Business taxes and surcharges*

Business taxes and surcharges increased by 20.9% from RMB 166,615 million for the year ended December 31, 2010 to RMB 201,375 million for the year ended December 31, 2011, primarily due to an increase in special oil income levy from RMB 19,716 million for the year ended December 31, 2010 to RMB 37,713 million for the year ended December 31, 2011 resulting from the increase of crude oil price, and the increase in the consumption tax, urban construction tax and educational surcharge resulting from the increase in our sales revenue.

### *Selling and distribution expenses*

Selling expenses increased by 20.3% from RMB 33,682 million for the year ended December 31, 2010 to RMB 40,525 million for the year ended December 31, 2011. The increase was mainly attributable to the increases in personnel compensations, depreciation, transportation expenses and maintenance expenses resulting from the expansion of our sales activities.

### *General and administrative expenses*

General and administrative expenses increased by 10.8% from RMB 70,615 million for the year ended December 31, 2010 to RMB 78,237 million for the year ended December 31, 2011, primarily due to (i) the expansion of our production and business operations resulting in a general increase in expenses, including personnel compensations, leasing costs and research and development expenses and (ii) the increase in mineral resources compensation fees.

### *Exploration expenses*

Exploration expenses increased by 19.7% from RMB 17,484 million for the year ended December 31, 2010 to RMB 20,931 million for the year ended December 31, 2011, primarily due to an increase in our oil and gas exploration activities both within the PRC and overseas.

### *Financial expenses*

Financial expenses increased by 3.3% from RMB 10,124 million for the year ended December 31, 2010 to RMB 10,463 million for the year ended December 31, 2011, primarily due to an increase in interest expenses resulting from increased average balances of borrowings and indebtedness, driven by the financing needs of our expanded operations in 2011, which was partially offset by the foreign exchange gain resulting from the appreciation of Renminbi.

### *Assets impairment losses*

Assets impairment losses decreased from RMB 17,816 million for the year ended December 31, 2010 to RMB 6,184 million for the year ended December 31, 2011, primarily due to (i) the decreases in fixed assets impairment loss and oil and gas assets impairment loss and (ii) our one-off goodwill impairment loss of RMB 6,266 million in 2010.

### *Gain from changes in fair value*

Our gain from changes in fair value was RMB 1,420 million for the year ended December 31, 2011, compared to a loss of RMB 166 million for the year ended December 31, 2010. In 2011, we recorded gain of RMB 1 billion from equity-linked derivative instrument relating to the convertible bonds of Sinopec Corp.

### *Investment income*

Investment income increased by 7.3% from RMB 8,693 million for the year ended December 31, 2010 to RMB 9,330 million for the year ended December 31, 2011, primarily because the income from investment in associated and joint venture companies increased as a result of a significant increase of crude oil prices in 2011.

### *Operating profit*

As a result of the foregoing, operating profit increased by 12.0% from RMB 104,826 million for the year ended December 31, 2010 to RMB 117,449 million for the year ended December 31, 2011.

### *Non-operating income*

Non-operating income increased by 91.1% from RMB 3,681 million for the year ended December 31, 2010 to RMB 7,034 million for the year ended December 31, 2011, primarily due to (i) the profit from our disposal of non-current assets, mainly relating to the land use right of a parcel of land in 2011 and (ii) an increase in government subsidy, mainly consisting of a refund of consumption tax.

### *Non-operating expenses*

Non-operating expenses increased by 55.0% from RMB 2,833 million for the year ended December 31, 2010 to RMB 4,392 million for the year ended December 31, 2011, primarily due to the increases in the expenses relating to our social responsibilities, including donation and contribution to public welfare.

### *Income tax*

Income tax increased by 11.7% from RMB 33,094 million for the year ended December 31, 2010 to RMB 36,972 million for the year ended December 31, 2011, primarily due to the increase in our taxable income.

### *Net profit*

Primarily as a result of the foregoing, net profit increased by 14.5% from RMB 72,580 million for the year ended December 31, 2010 to RMB 83,119 million for the year ended December 31, 2011.

### *Minority interest*

Minority interest increased by 7.6% from RMB 20,480 million for the year ended December 31, 2010 to RMB 22,027 million for the year ended December 31, 2011. This increase was primarily due to the increases in the profits of certain of our non-wholly owned subsidiaries.

## Segment Information

The following table sets forth our operating revenues, operating expenses and operating profits by business segment for the periods presented.

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in millions)					
<b>Total Operating Revenues:</b>						
Exploration and Production . .	220,594	293,378	318,601	152,942	146,465	23,864
Refining . . . . .	981,583	1,222,035	1,282,825	644,731	649,651	105,851
Chemicals . . . . .	361,067	461,546	459,666	220,612	228,387	37,212
Marketing and Distribution . .	1,041,508	1,347,628	1,471,882	710,332	732,779	119,396
Oil & Petrochemical						
Engineering Technical						
Services . . . . .	110,301	124,292	135,347	59,289	66,378	10,815
Others . . . . .	873,626	1,193,566	1,367,040	711,411	746,322	121,602
Elimination of inter-segment .	(1,619,637)	(2,090,494)	(2,204,752)	(1,132,653)	(1,117,529)	(182,084)
<b>Total . . . . .</b>	<u>1,969,042</u>	<u>2,551,951</u>	<u>2,830,609</u>	<u>1,366,664</u>	<u>1,452,453</u>	<u>236,656</u>
<b>Total Operating Expenses:</b>						
Exploration and Production . .	179,566	212,934	244,682	108,306	111,886	18,230
Refining . . . . .	969,494	1,260,141	1,300,179	664,601	650,088	105,922
Chemicals . . . . .	346,566	435,908	462,611	223,459	230,160	37,501
Marketing and Distribution . .	1,011,640	1,302,561	1,429,560	690,051	716,358	116,720
Oil & Petrochemical						
Engineering Technical						
Services . . . . .	106,948	119,438	131,080	56,208	61,973	10,098
Others . . . . .	877,547	1,206,643	1,370,415	719,125	748,295	121,924
Elimination of inter-segment .	(1,619,018)	(2,092,373)	(2,203,447)	(1,133,486)	(1,117,695)	(182,113)
<b>Total . . . . .</b>	<u>1,872,743</u>	<u>2,445,252</u>	<u>2,735,080</u>	<u>1,328,264</u>	<u>1,401,065</u>	<u>228,282</u>
<b>Total Operating Profit/(Loss)</b>						
Exploration and Production . .	55,927	83,647	78,038	46,742	36,445	5,938
Refining . . . . .	12,655	(38,106)	(17,354)	(19,870)	(437)	(71)
Chemicals . . . . .	17,636	26,000	(2,349)	(2,647)	(1,674)	(273)
Marketing and Distribution . .	30,959	45,067	42,322	20,280	16,421	2,676
Oil & Petrochemical						
Engineering Technical						
Services . . . . .	3,187	5,477	4,801	3,422	4,439	723
Others . . . . .	12,749	(3,841)	(1,716)	8,782	14,831	2,416
Elimination of inter-segment .	(28,287)	(795)	(1,794)	(14,769)	(14,640)	(2,384)
<b>Total . . . . .</b>	<u>104,826</u>	<u>117,449</u>	<u>101,948</u>	<u>41,940</u>	<u>55,385</u>	<u>9,025</u>

## Liquidity and Capital Resources of the Company

Our primary sources of funding have been cash provided by our operating activities as well as short-term and long-term bank loans, including syndicated loans. For example, in April 2011, we obtained a five-year syndicated loan in the amount of US\$5 billion from a syndicate of 20 banks. Our primary uses of cash have been for working capital, capital expenditures and repayment of short-term and long-term loans. We arrange and negotiate financing with financial institutions to finance our capital resource requirement, and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short-term debts and obligations when they become due.

### Cash Flows

The following table sets forth a summary of our consolidated cash flows for the periods presented.

	Year Ended December 31,			Six Months Ended June 30,		
	2010	2011	2012	2012	2013	
	RMB	RMB	RMB	(unaudited) RMB	(unaudited) RMB	US\$
	(in millions)					
Net cash flows generated from (used in) operating activities . . . . .	193,199	202,734	170,363	5,334	35,381	5,765
Net cash flows generated from (used in) investing activities . . . . .	(238,923)	(231,029)	(280,064)	(130,574)	(97,596)	(15,902)
Net cash flows generated from (used in) financing activities . . . . .	50,755	70,791	74,769	75,910	72,732	11,851
Effect of foreign exchange rate changes . . . . .	(444)	(553)	153	(1,970)	(372)	(61)
Net increase (decrease) in cash and cash equivalents .	4,587	41,943	(34,779)	(51,300)	10,145	1,653
Cash and cash equivalents at the beginning of the year .	30,900	35,487	77,430	77,430	42,651	6,949
Cash and cash equivalents at the end of the year . . . . .	<u>35,487</u>	<u>77,430</u>	<u>42,651</u>	<u>26,130</u>	<u>52,796</u>	<u>8,602</u>

### Operating activities

Our cash inflows from operating activities consist of cash received from sale of goods or rendering services, refund of tax and levy, and other cash received relating to operating activities. Our cash outflows used in operating activities consist of cash paid for goods and services, cash paid to and on behalf of employees, cash paid on taxes and levy and other cash paid relating to operating activities.

The net cash provided by our operating activities amounted to RMB 35,381 million for the six months ended June 30, 2013, compared to RMB 5,334 million for the six months ended June 30, 2012.

The net cash generated from our operating activities in 2012 was RMB 170,363 million, primarily as a result of net profit of RMB 69,791 million, as adjusted mainly by depreciation and amortization of RMB 111,880 million, exploration expenses of RMB 13,099 million, financial expenses of RMB 17,221 million and the effects of changes in working capital. Changes in working capital mainly included (i) an increase in operating payables of RMB 9,404 million, (ii) an increase in inventories of RMB 35,060 million and (iii) an increase in operating receivables of RMB 15,681 million, which were primarily due to expansion of our operational scale and substantial increases in oil prices.

The net cash generated from our operating activities in 2011 was RMB 202,734 million, primarily as a result of net profit of RMB 83,119 million, as adjusted mainly by depreciation and amortization of RMB 98,791 million, exploration expenses of RMB 13,569 million, financial expenses of RMB 10,171 million and the effects of changes in working capital. Changes in working capital mainly included (i) an increase in operating payables of RMB 99,035 million, (ii) an increase in inventories of RMB 60,847 million and (iii) an increase in operating receivables of RMB 36,666 million, which were primarily due to expansion of our operational scale and substantial increases in oil prices.

The net cash generated from our operating activities in 2010 was RMB 193,199 million, primarily as a result of net profit of RMB 72,580 million, as adjusted mainly by depreciation and amortization of RMB 87,012 million, exploration expenses of RMB 17,484 million, financial expenses of RMB 9,902 million and the effects of changes in working capital. Changes in working capital mainly included (i) an increase in operating payables of RMB 45,925 million, (ii) an increase in operating receivables of RMB 30,653 million and (iii) an increase in inventories of RMB 19,773 million, which were primarily due to the expansion of our operations.

#### *Investing activities*

Our cash outflows used in investing activities consist of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets, cash paid for investment, net cash paid to acquire subsidiaries and other operating units and other cash paid relating to investing activities. Our cash inflows generated by investing activities include cash received from disposal of investments, cash received from investment income, net cash received from disposal of fixed assets, oil and gas assets, intangible assets and other long-term assets, net cash received from disposal of subsidiaries and other operating units and other cash received relating to investing activities.

The net cash used in our investing activities in the six months ended June 30, 2013 was RMB97,596 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 89,793 million, other cash paid relating to investing activities of RMB 8,965 million and cash paid for investment of RMB 11,041 million, which were partially offset mainly by other cash received from investing activities of RMB 6,494 million and cash received from disposal of investments of RMB 3,621 million. The net cash used in investing activities in the six months ended June 30, 2012 was RMB 130,574 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible

assets and other long-term assets of RMB 91,893 million, other cash paid relating to investing activities of RMB 43,566 million and cash paid for investment of RMB 56,619 million, which were partially offset mainly by other cash received from investing activities of RMB 46,554 million and cash received from disposal of investments of RMB 12,305 million.

The net cash used in our investing activities in 2012 was RMB 280,064 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 211,322 million, other cash paid relating to investing activities of RMB 66,370 million and cash paid for investment of RMB 81,484 million, which were partially offset mainly by other cash received from investing activities of RMB 58,910 million and cash received from disposal of investments of RMB 15,724 million.

The net cash used in our investing activities in 2011 was RMB 231,029 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 174,410 million, other cash paid relating to investing activities of RMB 90,225 million and cash paid for investment of RMB 69,364 million, which were partially offset mainly by other cash received from investing activities of RMB 74,230 million and cash received from disposal of investments of RMB 38,163 million.

The net cash used in our investing activities in 2010 was RMB 238,923 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 137,408 million and cash paid for investment of RMB 114,338 million, which were partially offset mainly by cash received from disposal of investments of RMB 36,480 million and net cash received from disposal of fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 16,716 million.

#### *Financing activities*

Our cash inflows from financing activities consist of cash received from investment, cash received from borrowings and other cash received relating to financing activities. Our cash outflows in financing activities include cash repayments of amounts borrowed, cash repayments for distribution or dividends, profit or interest expenses and other cash payments relating to financing activities.

Our net cash generated from financing activities in the six months ended June 30, 2013 was RMB 72,732 million, primarily consisting of cash received from borrowings of RMB 512,175 million, which was partially offset mainly by cash repayments of amounts borrowed of RMB 459,568 million. Our net cash generated from financing activities in the six months ended June 30, 2012 was RMB 75,910 million, primarily consisting of cash received from borrowings of RMB 381,859 million, which was partially offset mainly by cash repayments of amounts borrowed of RMB 299,927 million.

Our net cash generated from financing activities in 2012 was RMB 74,769 million, primarily consisting of cash received from borrowings of RMB 825,111 million, which was partially offset mainly by cash repayments of amounts borrowed of RMB 738,103 million. Our net cash generated from financing activities in 2011 was RMB 70,791 million, primarily consisting of cash received from borrowings of RMB 597,372 million, which was partially offset mainly by cash repayments of amounts borrowed of RMB 555,890 million. Our net cash generated from financing activities in 2010 was RMB 50,755 million, primarily consisting of cash received from borrowings of RMB 460,544 million, which was partially offset mainly by cash repayments of amounts borrowed of RMB 438,042 million.

## *Borrowings and Indebtedness*

The following table sets forth the breakdown of our borrowings and indebtedness by types.

	As of December 31, 2012	As of June 30, 2013	
	RMB	(unaudited)	
		RMB	US\$
		(in millions)	
Bank borrowings . . . . .	347,642	382,338	62,297
Bonds . . . . .	178,333	196,547	32,024
<b>Total indebtedness . . . . .</b>	<u>525,975</u>	<u>578,885</u>	<u>94,321</u>

The following table sets forth the breakdown of our borrowings and indebtedness by maturity.

	As of December 31, 2012	As of June 30, 2013	
	RMB	(unaudited)	
		RMB	US\$
		(in millions)	
One year or less . . . . .	146,183	240,333	39,159
Over one year to five years . . . . .	340,804	289,810	47,220
Over five years . . . . .	38,988	48,742	7,942
<b>Total indebtedness . . . . .</b>	<u>525,975</u>	<u>578,885</u>	<u>94,321</u>

The following table sets forth the breakdown of our borrowings and indebtedness by security interest.

	As of December 31, 2012	As of June 30, 2013	
	RMB	(unaudited)	
		RMB	US\$
		(in millions)	
Secured . . . . .	116	76	12
Unsecured . . . . .	525,859	578,809	94,309
<b>Total indebtedness . . . . .</b>	<u>525,975</u>	<u>578,885</u>	<u>94,321</u>

Our bank borrowings consist mainly of short-term loans, long-term borrowings due within one year and long-term loans due in more than one year. Included in secured borrowings and indebtedness are bank loans guaranteed by third parties or secured through mortgage or pledge. As of December 31, 2012, the total lines of credit available to us were RMB 1,389 billion, 64.7% of which was unused. Our bonds payable consists of long-term corporate bonds, mid-term notes and short-term financing bills, substantially all of which were unsecured.

As of June 30, 2013, our total indebtedness was RMB 578,885 million based on our unaudited management accounts.

## Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and commercial commitments as of December 31, 2012.

	As of December 31, 2012				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(RMB in millions)				
<b>Contractual obligations</b> <sup>(1)</sup>					
Short-term debt . . . . .	116,080	116,080	—	—	—
Long-term debt . . . . .	409,895	30,103	228,505	112,299	38,988
<b>Total contractual obligations</b> . . . . .	<u>525,975</u>	<u>146,183</u>	<u>228,505</u>	<u>112,299</u>	<u>38,988</u>
<b>Other commercial commitments</b>					
Operating lease commitments . . . . .	10,427	1,111	3,729	3,411	2,176
Capital commitments . . . . .	219,548	152,623	66,925	—	—
Exploration and production licenses . . .	1,266	325	191	51	699
Guarantees <sup>(2)</sup> . . . . .	6,726	6,726	—	—	—
<b>Total commercial commitments</b> . . . . .	<u>237,967</u>	<u>160,785</u>	<u>68,513</u>	<u>4,886</u>	<u>3,783</u>

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

(2) Guarantee is not limited by time, therefore specific payment due period is not applicable. As of December 31, 2012, we had not entered into any off-balance sheet arrangements other than guarantees given to banks in respect of banking facilities granted to certain parties. See Note 10 to the consolidated financial statements for further information of the guarantees.

## Capital Expenditure

The following table sets forth our capital expenditure by segment for the periods presented and the capital expenditure in each segment as a percentage of our total capital expenditure for such period.

	2010		2011		2012		Six Months Ended June 30, 2012		2013	
							(unaudited)		(unaudited)	
	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent
	(in millions, except percentage data)									
Exploration and production . . . . .	164,270	65.6%	135,129	55.7%	189,123	64.1%	90,275	69.4%	67,324	67.7%
Refining . . . . .	21,955	8.4%	28,234	11.6%	36,399	12.3%	13,472	10.3%	9,124	9.2%
Chemicals . . . . .	12,045	4.8%	16,687	6.9%	24,939	8.5%	8,464	6.5%	7,474	7.5%
Marketing and distribution . . . . .	30,074	12.0%	32,388	13.3%	26,597	9.0%	14,606	11.2%	10,561	10.6%
Oil and Petrochemical Engineering										
Technical services . . . . .	8,202	3.3%	8,144	3.4%	6,855	2.3%	1,756	1.3%	732	0.7%
Others . . . . .	13,683	5.9%	22,050	9.1%	10,987	3.8%	1,700	1.3%	4,300	4.3%
<b>Total</b> . . . . .	<u>250,229</u>	<u>100.0%</u>	<u>242,632</u>	<u>100.0%</u>	<u>294,900</u>	<u>100.0%</u>	<u>130,273</u>	<u>100.0%</u>	<u>99,515</u>	<u>100.0%</u>

## **Off Balance Sheet Arrangement**

As of the date of the offering memorandum, we had no off-balance sheet arrangements as determined for purposes of PRC GAAP other than the contingent liabilities discussed below. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see “Description of Certain Differences Between PRC GAAP and U.S. GAAP.”

## ***Contingent Liabilities***

As of June 30, 2013, the total amount of guarantees provided by us was RMB 6,616 million, all of which were related to loans. We expect that no material liabilities will arise from our guarantees or legal proceedings.

## **Dividends**

As a state-owned enterprise incorporated in China, we distribute profits to the relevant PRC authorities from time to time. Recently, we distributed RMB 2 billion in April 2013 and RMB 3 billion in August 2013 to the relevant PRC authorities.

## **Market Risks**

### ***Currency Risk***

We conduct our businesses primarily in Renminbi. However, there are also foreign currency-denominated transactions arising from our foreign operations. We are exposed to U.S. dollar/Renminbi exchange rate risk as our revenue is principally generated in Renminbi and we have issued debt obligations that require us to make interest and principal payments in U.S. dollars. Currently, the PRC government has implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and international economic and political changes, and demand and supply for Renminbi. Future exchange rates of Renminbi against other currencies may vary significantly from the current exchange rates, which in turn would affect our operating results and financial position as well as our ability to service our foreign currency-denominated debt obligations.

### ***Interest Rate Risk***

Our interest rate risk exposure arises from changing interest rates on our debt, including fair value interest rate risk in relation to our fixed-rate debt and cash flow interest rate risk in relation to variable-rate bank balances and borrowings. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. The management monitors interest rates and may consider hedging significant interest rate exposure if needed.

### ***Price Risk***

We are engaged in the oil and gas business and changes in prices of oil and gas products, which are beyond our control, will positively or negatively affect our results of operations. We are also exposed to equity price risk either through our long-term equity investments, available-for-sale

investments or held-for-trading investments in respect of equity securities listed in the respective stock exchanges. Management manages equity price risk arising from these investments by closely monitoring the performance of respective listed equity security and market conditions. Management will consider diversifying the portfolio of these investments as appropriate.

### **Inflation**

In 2010, 2011 and 2012, the Consumer Price Index increased by 3.3%, 5.4% and 2.6%, respectively, from the previous year, according the PRC National Bureau of Statistics. Although we have not historically been materially affected by inflation since our inception, our results of operations may in the future be adversely affected by higher inflation rates in China.

## INDUSTRY OVERVIEW

*The information in the section below has been derived, in part, from various public and government publications unless otherwise indicated. This information has not been independently verified by the Issuer, the Company, the Joint Global Coordinators or the Initial Purchasers or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.*

### Overview of the Global Oil and Gas Market

#### *Oil and Gas Consumption*

Global oil demand has grown steadily in recent years, with consumption more than tripled over the past fifty years. According to the BP Review of World Energy 2013 (the “BP Review”), global oil consumption grew from 80.1 million barrels per day (“million bpd”) in 2003 to 89.8 million bpd in 2012, representing a compound annual growth rate (“CAGR”) of 1.3%. According to the BP Energy Outlook 2030 (the “BP Outlook”), global oil consumption is projected to grow, reaching to 104.04 million bpd in 2030, representing a CAGR of 0.8% over the period from 2012 to 2030.

The growth in global oil consumption is driven primarily by developing country economies, among which China has been the primary contributor. According to the BP Review, China’s oil consumption has grown from 5.8 million bpd in 2003 to 10.2 million bpd in 2012, representing a CAGR of 6.6%. In contrast, oil consumption in major economies, such as the United States and Russia, grew at CAGRs of -0.8% and 1.9% respectively over the same period.

Similar to oil demand, global natural gas demand has also grown rapidly in recent years, with consumption expanding over five times from 1965 to 2012. According to the BP Review, global natural gas demand grew from 251.1 billion cubic feet per day (“bcfd”) in 2003 to 319.8 bcfd in 2012, representing a CAGR of 2.7%. In addition, the BP Outlook forecasts global natural gas demand to grow and reach 518.1 bcfd in 2030, representing a CAGR of 2.7% over the period from 2012 to 2030.

The growth in global natural gas consumption has been driven primarily by non-Organisation for Economic Co-operation and Development (“OECD”) countries and developing economies. In particular, China is the key contributor to natural gas consumption growth in the past decade. According to the BP Review, China’s natural gas consumption grew from 3.3 bcfd in 2003 to 13.9 bcfd in 2012, representing a CAGR of 17.4%.

#### *Oil and Gas Production*

On the supply side, according to the BP Review, global oil production increased by 2.3% from 2011 to 2012 and reached 86.2 million bpd in 2012. OPEC countries raised their production by 1.5 million bpd in 2012, representing a 4.0% increase from 2011. As conventional oil production in non-OPEC countries reaches its peak level, most of the future increase in oil production is expected to come from OPEC countries, which hold the bulk of world’s remaining recoverable conventional oil resources. The BP Outlook forecasts global oil production to reach 90.6 million bpd in 2030, representing a CAGR of 0.3% from 2012.

According to the BP Review, global natural gas production increased by 1.9% from 2011 to 2012 and reached 324.6 bcfd in 2012. The United States and Russia are the two largest natural gas producers in the world. The United States recorded a production increase of 4.8% or 3.0 bcfd, while Russia recorded a production decrease of 2.7% or 1.6 bcfd in 2012. Most notably, the increase in the US gas production was largely attributed to the discovery of significant shale gas resources over the past decade and technological development that have made commercialization of such resources viable. Unconventional gas sources such as shale gas, coal bed methane and tightgas are expected to play an increasingly important role in world's future energy supply.

Currently, among the countries in the world that produce or are expected to produce conventional oil and natural gas, many of them have passed their peak production level based on the current levels of oil and gas reserves and technological availabilities to extract the oil and gas.

### *Oil and Gas Prices*

The global economic downturn and subsequent recovery have resulted in unprecedented volatility in the oil and gas industry over the last few years. The West Texas Intermediate ("WTI") and the Brent crude oil prices increased from US\$101/bbl and US\$100/bbl, respectively on April 1, 2008 to a record high of US\$145/bbl and US\$146/bbl, respectively on July 3, 2008 as a result of strong oil demand combined with limited supply due to limited spare production capacity in OPEC countries as well as constant supply disruptions in key regions such as Russia, the Middle East and West Africa. This was followed by a sharp decrease in the oil prices to US\$31/bbl and US\$41/bbl on December 22, 2008, with the collapse of major financial institutions and a slowdown in economic activity throughout the globe. Since then, oil prices have rebounded significantly due to oil being bought and held in storage and sold at higher forward prices, a rebound in global economic activity and China's continued growth in oil demand. As a result, WTI and Brent crude oil prices have recovered and reached US\$104/bbl and US\$108/bbl respectively on September 23, 2013.

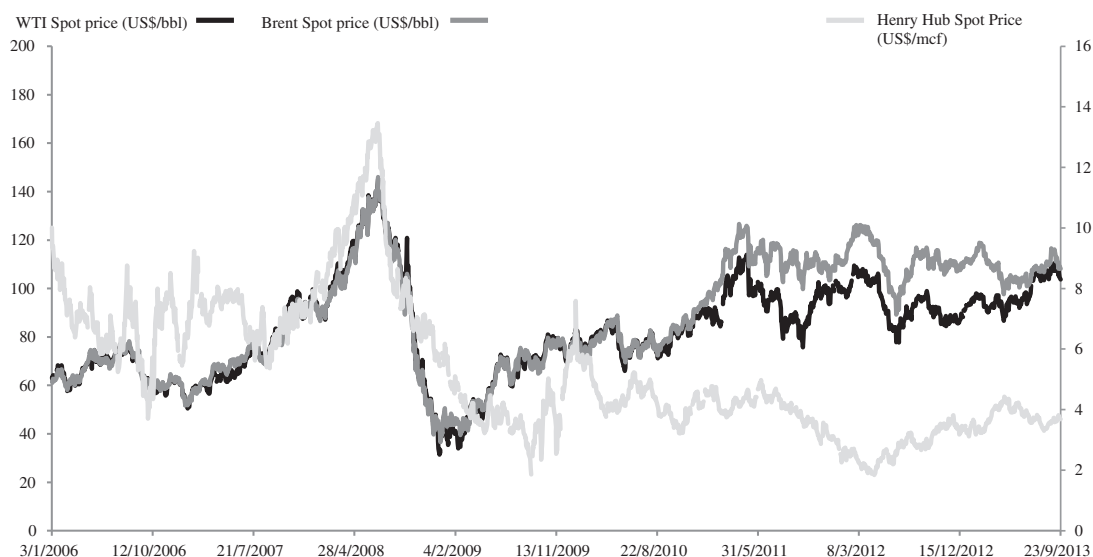
Oil prices are affected by a number of factors, including changes in supply and demand fundamentals, OPEC regulations, weather conditions, government regulations, as well as political and economic conditions. Moreover, the price and availability of various alternative energy substitutes are having a growing impact on oil prices. Extended periods of high oil prices can therefore lead to increased usage of alternative energies at the cost of demand for oil.

According to the International Energy Agency ("IEA"), crude oil price is expected to increase in the long term and reach US\$120/bbl in 2020 and US\$125/bbl in 2035.

On the other hand, natural gas prices in certain regions such as the U.S. have witnessed a recent decoupling from oil prices. Prior to the global economic recession in 2010, natural gas prices were positively correlated with oil prices, evidenced by Henry Hub natural gas price peaking on July 2, 2008 at US\$13.46 per thousand cubic feet ("mcf"). Following the peak, Henry Hub natural gas prices fell sharply as the global recession began. As oil prices rebounded since 2009, Henry Hub natural gas prices continued to fall and decreased to US\$1.86/mcf on September 4, 2009. The decoupling of oil and natural gas price is largely due to the discovery of gas from previously untapped unconventional gas resources such as the North America shale. Recently Henry Hub natural gas price has rebounded and reached US\$3.68/mcf on September 23, 2013 as a result of improved US energy demand.

According to IEA, Henry Hub natural gas price will increase in the long term and reach US\$5.4/mcf in 2030 and US\$7.8/mcf in 2040 as production gradually shifts to less productive and more expensive resources due to depletion of low-cost resources.

### Historical WTI, Brent and Henry Hub Prices



Source: Bloomberg.

Note: Commodity prices up to September 23, 2013.

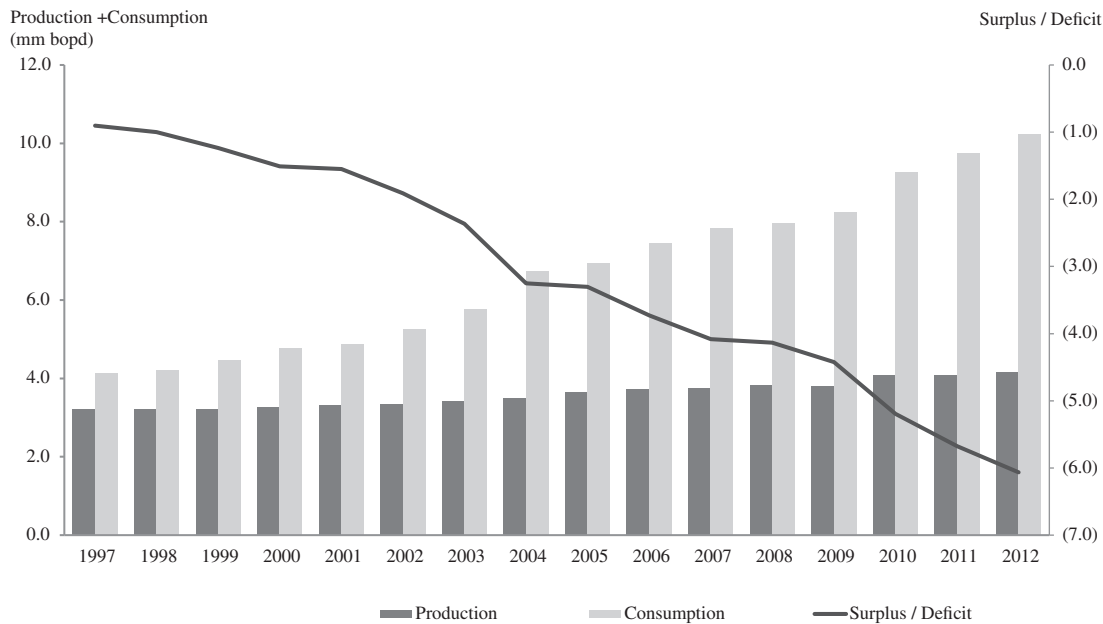
### Overview of the Chinese Oil and Gas Market

Despite increasing participation from independent oil companies, China's oil and gas industry remains dominated by three key state-owned oil and gas companies: the Company, China National Petroleum Corporation ("CNPC") and China National Offshore Oil Corporation ("CNOOC"). The Company is the leading integrated energy and chemical company with businesses across the entire oil and gas value chain. As of December 31, 2012, the Company is the largest refined oil and chemical product producer and supplier and the second largest upstream oil and gas producer in China. CNPC is the largest among the three in terms of proved oil and gas reserves and production. Together with its listed subsidiary PetroChina, CNPC accounts for the bulk of China's domestic oil and gas production. CNOOC, on the other hand, is the largest producer of China's offshore crude oil and natural gas. Apart from the three major oil companies, Sinochem Corporation ("Sinochem"), which has a strong position in the oil trading business, has been expanding its upstream operations primarily through acquisitions of overseas oil and gas assets. However, Sinochem's oil and gas reserves and production are still relatively small compared to the other three national oil companies.

## Oil and Gas Consumption and Production in China

Strong economic growth in the past three decades has transformed China into the world's largest energy consumer and largest net importer of oil. According to the BP Review, oil consumption in China increased from 5.8 million bpd in 2003 to 10.2 million bpd in 2012, representing a CAGR of 6.6%. In contrast, China's oil production only increased from 3.4 million bpd in 2003 to 4.2 million bpd in 2012, representing a CAGR of 2.2%. Going forward, the IEA expects China's net imports to exceed 12.4 million bpd by 2035, more than doubling the current level.

### China Oil Supply and Demand

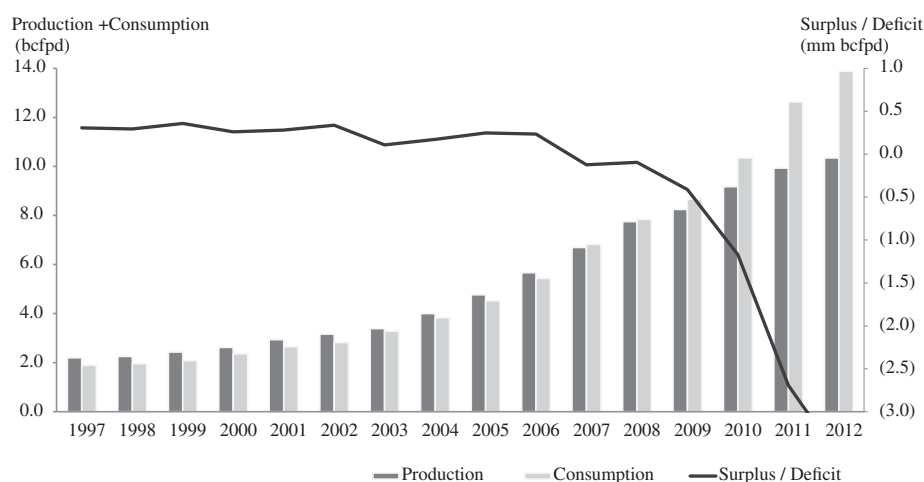


Source: BP Statistical Review of World Energy June 2013.

According to the BP Review, natural gas consumption in China has grown from 3.3 bcf/d in 2003 to 13.9 bcf/d in 2012, representing a CAGR of 17.4%. In contrast, natural gas production grew at a relatively slower pace, reaching 10.3 bcf/d from 3.4 bcf/d during the same period, representing a CAGR of 13.2%.

The increase in domestic production alone is not sufficient to meet demand and China has become a net importer of natural gas since 2007. The IEA expects China to be one of the fastest growing natural gas consumers and account for a quarter of global gas demand growth by 2035. Nevertheless, China is expected to continue to rely on imports to meet domestic demand in the near future.

## China Gas Supply and Demand



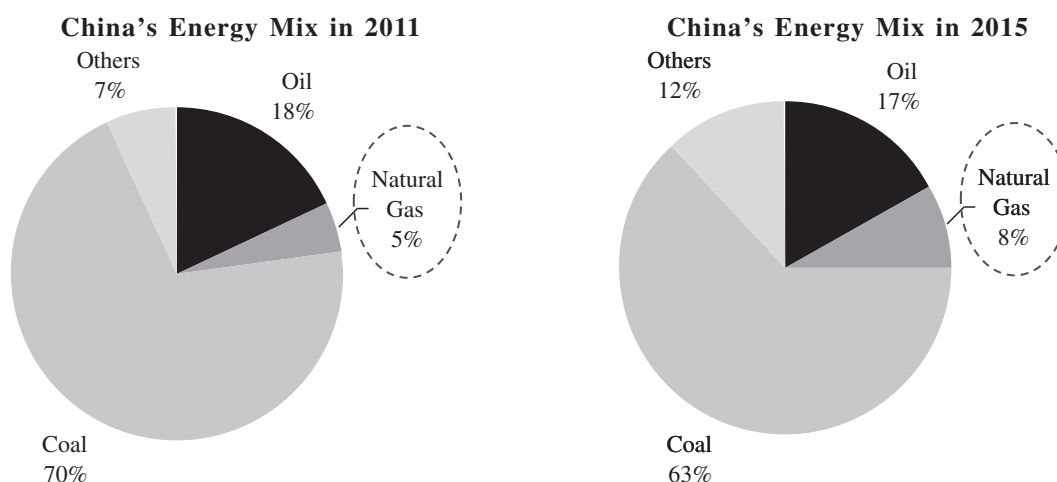
Source: BP Statistical Review of World Energy June 2013.

The rising demand for oil and gas in China, along with the declining production capacity of oil and the expected shortfall of domestic gas production, has resulted in a large and growing supply gap in China's domestic oil and gas market.

### *Chinese Natural Gas Market Overview*

Because of insufficient oil production capacity, growing concerns about environmental issues, and rising oil prices, China has been active in searching for alternative energy sources. Natural gas is the preferred choice as existing infrastructure, technology restrictions and scale limitation make most of the other choices unviable. In addition, the Chinese government has released policy guidelines to increase consumption of natural gas in order to diversify China's energy mix and reduce pollution. Based on the BP Review, natural gas only accounts for approximately 4.3% of China's energy consumption in 2012. According to China's 12th Five-Year Plan, this proportion is expected to increase to 7.5% by 2015, with the continuous improvement of energy infrastructure.

### Change in China's Primary Energy Consumption Composition



Source: BP Statistical Review of World Energy June 2013; NDRC.

China is more resourceful in both conventional gas and unconventional gas (including coal bed methane and shale gas) than in oil. However, China's natural gas market is still in short supply and the gap between demand and supply is expected to broaden. To meet the increasing demand for natural gas, China has been aggressively importing long-distance piped gas from gas-rich regions such as Russia and Central Asia, as well as LNG from Qatar, Australia and Malaysia. The PRC government is planning cross-border, long-distance pipelines and having a number of LNG regasification terminals under construction or in the planning stage.

China's natural gas benchmark wellhead price is determined by the NDRC under the State Council. Wellhead prices for pipeline gas in China were adjusted three times from 2005 to 2010. Most recently, the NDRC lifted wellhead natural gas prices for non-residential users by 15%, from RMB 1.69 per cubic meter to RMB 1.95 per cubic meter on June 28, 2013, to boost the country's natural gas production.

In addition, the Chinese government is in the process of establishing a market-oriented natural gas pricing system nationwide. On December 27, 2011, the NDRC launched a pilot scheme for natural gas pricing reform in Guangdong and Guangxi Provinces. The reform aims to establish a pricing mechanism for natural gas which reflects the market dynamics and resource scarcity and will eventually be expanded to other provinces.

### **Global Refining Market Overview**

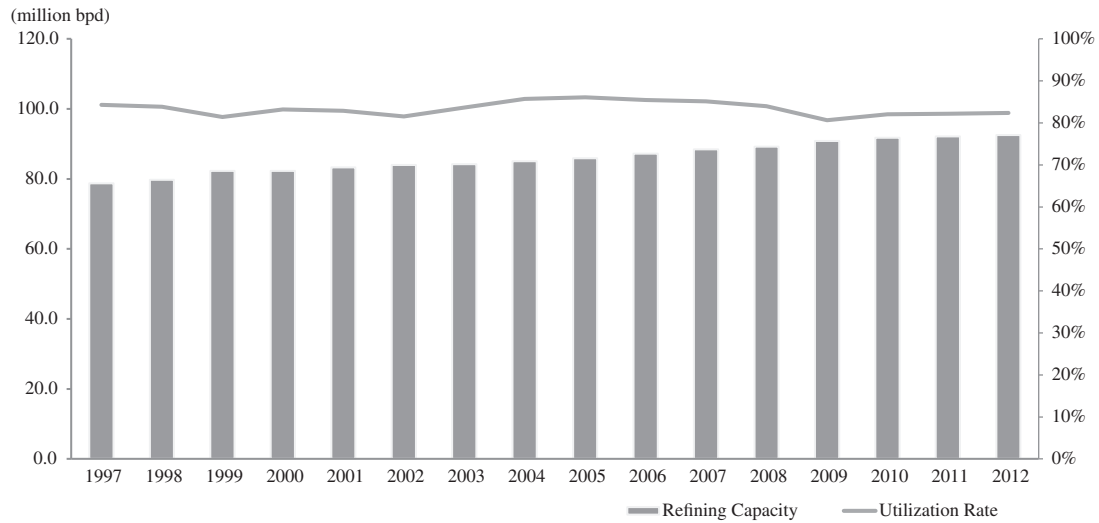
The global refining sector has been supported by the recovery of global economic growth and oil demand in the past two years. According to the BP Review, global oil consumption grew from 87.8 million bpd in 2010 to 89.8 million bpd in 2012, representing a CAGR of 1.1%. Increasing demand for refined oil products from non-OECD countries and regions such as China, India, the Middle East and Latin America is expected to continue driving global oil consumption in the foreseeable future.

The ongoing industry consolidation has resulted in larger and fewer refineries worldwide. Despite current capacity surplus, capacity additions will likely to continue as a result of demand growth, a shift towards low cost producing region and higher complexity. China, India and the Middle East are expected to drive capacity buildup in the near future.

Global refining utilization rates were consistently above 85% from 2004 until the financial recession in 2008 as a result of decrease in oil demand. Although the rates had fallen again during the recent recession and have only shown a moderate recovery globally in 2010, Asia, where strong oil demand is seen, has proved to have a better resilience and faster recovery.

Refining margins have remained relatively steady since mid-2010 despite some volatility and peripheral concerns over the European economy. Margins in 2009 were hit particularly hard due to a slowdown in the global economy and overcapacity from overexpansion as refiners globally attempted to capitalize on previously wide light-heavy differentials. In Asia, unexpected facility shutdowns and project delays tightened up capacity and led to a three-year high in refining margins in third quarter of 2012.

## Global Refining Capacity and Utilization Rate



Source: BP Statistical Review of World Energy June 2013.

### Chinese Refining Market Overview

China's demand for petroleum products, in particular light and medium distillates, is expected to continue, mainly driven by sustained economic growth and a steady rise in automobile ownership. Improving industrial activities and toll-road networks should also increase the demand for trucks. At the same time, stronger demand for refining feedstock such as naphtha is expected going forward, mainly driven by incremental ethylene capacity and higher consumption of petrochemical products.

On the supply side, China's refining capacity is expected to continue to outpace domestic demand growth, which would potentially reduce the country's reliance on oil product import. According to the IEA, China's crude distillation capacity will reach 13.2 million bpd in 2016, as several large projects are expected to come online.

China's refining sector has undergone modernization and consolidation in recent years. Currently, most of the refining capacity in China is held by Sinopec and CNPC. In addition, both companies are having a number of major project commissions in the next few years. CNOOC has also entered the downstream arena recently and commissioned its first refinery in 2009 to process the high-sulfur crudes from its Bohai Bay fields. Sinochem has also proposed a number of new refineries through potential partnerships with national oil companies from Kuwait and Saudi Arabia.

China's refineries are adjusting to the changing crude slate. Traditionally, many of China's refineries were built to handle relatively light and sweet crude oils. In recent years, refiners have built or upgraded facilities to support greater Middle Eastern crude oil imports, which tend to be heavy and sour and more recently, for high-acid and high-sulfur crude oil streams.

The NDRC has the authority to adjust the sale prices of refined oil products in China based on market price fluctuations and macro economic conditions. In 2012, the NDRC adjusted the sale prices of gasoline and diesel eight times to reflect the global market dynamics of crude oil prices. Previously, these prices in China were based on the crude oil benchmark prices of Brent, Dubai and Cinto. However, on March 26, 2013, the NDRC announced further steps to adjust the existing refined oil pricing mechanism. The adjustments to oil pricing mechanism include, among other things, (i) shortening of price reference period from 22 working days to 10 working days and lifting the 4% downward and upward fluctuation cap on benchmark crude oil prices; (ii) changing the composing types of benchmark crude oil in response to the changes taking place with respect to composition of imported crude oil and crude oil trading in the overseas market; and (iii) issuing additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon the approval by the State Council, to regulate significant fluctuations of crude oil price.

### **Global Petrochemical Market Outlook**

Global petrochemical demand is expected to grow following the continued economic recovery, with Asia and the Middle East serving as the main driving force. Based on sustained strong economic growth, petrochemical markets in China, India and Southeast Asia are to see a demand surge in the next five years, and Asia is expected to contribute the majority of the total incremental global petrochemical demand. China and the Middle East are expected to account for a significant portion of capacity addition through 2016. Due to close proximity to vast hydrocarbon resources, Middle East ethylene producers will continue to benefit from a substantial raw material cost advantage.

The rapid commercialization of unconventional gas resources is expected to reduce the cost of petrochemical feedstock, which typically accounts for over 80% of the total operating expenses.

### **Chinese Petrochemical Market Overview**

As a result of rapid industrialization and continued economic growth, China has become the world's largest petrochemical market in terms of both production capacity and consumption. Demand for key petrochemical products, such as ethylene, is expected to remain robust. The significant addition of new ethylene and derivative projects announced in China over the next five years is in tandem with the strong expectation in demand growth. In general, large-scale capacity expansion and new investments across China's petrochemical sector is expected in the foreseeable future, as China's self-sufficiency rate in petrochemicals remains low, particularly of high-value added products.

## BUSINESS

### Overview

#### *The Company*

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of revenue, according to the “2013 Fortune Global 500”. We are the largest refined oil producer in China and the second largest in the world in terms of crude oil throughput in 2012. We are also the largest distributor of refined oil products in China measured by sales volume in 2012, and the number of our service stations ranks first in China and second in the world. We rank first in China in terms of production and sales volumes of major chemical products. We have been named in the “Fortune Global 500” since 2003 and ranked first among Chinese companies and fourth in the “2013 Fortune Global 500” in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation. We are a state-authorized and invested entity and one of China’s key SOEs under the supervision of the SASAC. The SASAC has recognized us as one of the 23 “China’s Backbone SOEs,” and awarded us “Grade A in SOE Annual Performance Review” for seven consecutive years.

We conduct the following key businesses:

- ***Exploration and Production:*** We are China’s second largest oil and gas producer based on production volume in 2012. In recent years, we have successfully expanded our exploration and production segment by leveraging on domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. As of December 31, 2012, we had 6,001 million boe of proved reserves of crude oil and natural gas, including 4,615 million barrels of crude oil and 8,316 bcf of natural gas. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 122%, 227% and 126% in 2010, 2011 and 2012, respectively. In 2012 and the six months ended June 30, 2013, our production of crude oil and natural gas was respectively 628 and 322 million boe. Our overseas exploration and production activities have expanded to 26 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and the Asia-Pacific. In 2012 and the six months ended June 30, 2013, our overseas crude oil and natural gas production accounted for 33.7% and 35.6%, respectively, of our total crude oil and natural gas production. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, oil sands, LNG and other unconventional energies.
- ***Refining:*** We are the largest refined oil producer in China and the second largest in the world in terms of crude oil throughput in 2012. In 2012, we processed 223 million tonnes of crude oil, representing approximately 48% of the total crude oil processed in China during the year. In the six months ended June 30, 2013, we processed 116 million tonnes of crude oil,

representing approximately 49% of the total crude oil processed in China during the same period. We operate 35 refineries in China, including 13 with refining capacity of 10 million tonnes or more per annum, which are located in China's eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers. We have successfully expanded our refining operations overseas. In January 2012, we signed a joint venture agreement with Saudi Aramco, the national oil company of Saudi Arabia, to complete the construction of and operate a full-conversion refinery in Yanbu on the west coast of the Kingdom of Saudi Arabia.

- **Chemicals:** We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2012. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia and urea. Our total sales in the six months ended June 30, 2013 was 24.5 million tonnes. Our chemical products are widely distributed throughout China and used in various industries including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.
- **Marketing and Distribution:** We are the largest distributor of refined oil products in China measured by sales volume in 2012. In 2012, our domestic market share with respect to the sales of refined oil products was 63% as to major refined oil products, which include gasoline, diesel, and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the "Sinopec" brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of June 30, 2013, we had 30,682 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline and diesel through these Sinopec-branded service stations accounted for approximately 67.8% of our major refined oil products sales volume for 2012. As of December 31, 2012, we had more than 1,000 service stations in each of 13 provinces, which are all located in China's eastern and southern regions. These 13 provinces accounted for 63% of China's GDP, 64% of China's population, 59% of China's total length of expressway and 70% of China's total length of highway in 2011. As of December 31, 2012, we had 9,416 kilometers of refined oil pipelines, and 15.2 million cubic meters of refined oil product storage capacity. In 2012 and the six months ended June 30, 2013, we sold 173.2 million and 88.1 million tonnes of refined oil products, respectively.
- **Oil and Petrochemical Engineering Technical Services:** We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$2.0 billion and US\$1.0 billion, respectively. Equipped with our in-house technology and patents, we possess advanced technology in refining and chemical engineering design both in China and overseas. In addition, our oil engineering technical service teams have provided services in

43 countries and regions in relation to more than 500 oil engineering technical service contracts. In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$4.3 billion and US\$3.0 billion, respectively.

- **Others:** We also engage in international trade, research and development and other businesses, collectively referred to as our “Others” segment. We had a total crude oil trade volume of 256 million tonnes in 2012.

The following table sets forth our operating revenues by business segment for the periods presented.

	Year Ended December 31,		Six Months Ended June 30,			
	2012		2012		2013	
	RMB (in millions)	Percentage	(unaudited) RMB (in millions) Percentage		(unaudited) RMB (in millions) Percentage	
<b>Total Operating Revenues:</b> <sup>(1)</sup>						
Exploration and Production . . . . .	318,601	6.3%	152,942	6.1%	146,465	5.7%
Refining . . . . .	1,282,825	25.6%	644,731	25.8%	649,651	25.3%
Chemicals . . . . .	459,666	9.1%	220,612	8.8%	228,387	8.9%
Marketing and Distribution . . . . .	1,471,882	29.2%	710,332	28.4%	732,779	28.5%
Oil & Petrochemical Engineering Technical Services. . . . .	135,347	2.7%	59,289	2.4%	66,378	2.6%
Others. . . . .	1,367,040	27.1%	711,411	28.5%	746,322	29.0%
Elimination of inter-segment . . . . .	(2,204,752)	—	(1,132,653)	—	(1,117,529)	—
<b>Total . . . . .</b>	<b>2,830,609</b>	<b>100.0%</b>	<b>1,366,664</b>	<b>100.0%</b>	<b>1,452,453</b>	<b>100.0%</b>

(1) Revenues breakdown by segments is calculated without taking into account inter-segment elimination. Percentage of revenues is based on total operating revenues before inter-segment elimination.

### **Sinopec Corp.**

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of our production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Its H shares and American Depositary Shares representing H shares were simultaneously listed on the Hong Kong Stock Exchange (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange on August 8, 2001. Sinopec Corp. was awarded “Best Managed Company in China” by Euromoney in 2012, “Best Managed Company” by FinanceAsia in 2011 and “Responsible and Outstanding Enterprise” in 2010 by Xinhua News Agency. As of June 30, 2013, the Company directly owned 73.86% of the share capital of Sinopec Corp. Sinopec Corp. accounted for approximately 56.62% of the Company’s total assets as of December 31, 2012 and 89.62% of the Company’s revenue for the year ended December 31, 2012, according to the audited

consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.'s periodic filings with the SEC on [www.sec.gov](http://www.sec.gov). Sinopec Corp.'s periodic filings do not constitute part of this offering memorandum.

## **Sinopec Engineering**

Sinopec Engineering is a subsidiary of the Company and focuses on providing integrated engineering and technical services for domestic and overseas refining and chemical engineering market. It is also one of the premiere engineering companies in China. In May 2013, the H shares of Sinopec Engineering was successfully listed on the SEHK (stock code: 2386).

## ***The Issuer***

The Issuer was incorporated with limited liability on September 24, 2013 in the British Virgin Islands under the BVI Business Companies Act 2004. It is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. The Issuer has no material assets and will conduct no business except in connection with the issuance of the Notes and the advance of the net proceeds from their issuance to a company controlled by us that is located outside the PRC. The registered address of the Issuer is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands.

## **Competitive Strengths**

***We are a global leader and the largest integrated petroleum and petrochemical company in China with strong government support.***

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of operating revenues. In 2012, we reported an operating revenue of RMB 2.83 trillion, which was the highest among all enterprises in China and ranked fourth among Fortune Global 500 companies.

We maintain a leading position in China's petroleum and petrochemical industry. In 2012, we accounted for approximately 48% of crude oil processed, 63% of major refined oil products sales volume and 64% of ethylene production in China.

We play a broad and strategically important role in facilitating China's overall economic growth and development, and we benefit from strong government support. We are 100% owned and controlled by the SASAC and operate under the supervision of the SASAC. The PRC government has designated us to establish China's National Strategic Crude Oil Storage. The energy industry we operate in is strategically important to China's economic growth, and we have important responsibilities in implementing national energy policies and securing refined oil products supplies necessary for China's continued economic growth.

In 2012, our operating revenue accounted for approximately 5.5% of China's gross domestic product ("GDP"). Our 2012 consolidated tax payments in China accounted for approximately 2.7% of China's total government fiscal income in 2012.

***We operate effectively as an integrated petroleum and petrochemical company with a leading position in every segment along the oil and gas value chain.***

Our core business covers all segments of the oil and gas value chain from upstream and midstream to downstream. Our integrated operations generate substantial synergies which we believe both facilitate value maximization and resources sharing along the petroleum and petrochemical business chain as well as enhance our risk management.

We are the second largest oil and gas producer in China in terms of 2012 production volume. In 2012, we reported total proved oil and gas reserves of 6,001 million boe and total oil and gas production of 628 million boe.

We are the largest refined oil products producer in China and the second largest in the world, with a crude oil processing capacity of 275 million tonnes as of December 31, 2012. We processed 223 and 116 million tonnes of crude oil in 2012 and the six months ended June 30, 2013 respectively.

We have established a nationwide refined oil products distribution network comprising more than 30,000 service stations as of June 30, 2012, representing the largest station network in China and the second largest globally. In addition, we are the largest distributor of major refined oil products and various other refined oil products in China by volume.

We are the largest chemical products producer in China in terms of 2012 production volume, with ethylene, polypropylene, polyethylene and synthetic rubber production capacity and output that place us among the top global petrochemical companies. Our total ethylene production in 2012 was 9.5 million tonnes, representing approximately 64% of total domestic production.

We are one of the largest providers of refining and petrochemical engineering technical services in China measured by revenue in 2012. We leverage our refinery and ethylene unit design and construction capabilities and portfolio of patented technologies to complete large-scale refining and petrochemical construction projects. We are committed to becoming a best-in-class global technology and service provider.

We also operate the leading crude oil trading business in China and have consistently been the leading crude oil trading company by volume.

***Our market-leading petroleum and petrochemical downstream businesses in China offer stable cash flow generation and growth potential.***

As the largest refiner and chemical products supplier in China, we have an attractive business position in the downstream segments of China's expanding energy industry.

As China's economy continues to expand, we expect our strong downstream oil and gas businesses to perform well as economic growth tends to increase the overall demand for downstream oil and gas products. Because we have significant existing advantages in both the refinery and oil and gas products distribution segments, we expect that, as China further grows its economy and liberalizes its oil and gas pricing mechanisms, we will also be well positioned to benefit from increasing cash flows and attractive levels of growth and profitability.

In the refining and chemicals segments, our significant advantages include:

- **Scale.** We had an annual crude oil processing capacity of 275 million tonnes as of December 31, 2012. During 2012, we processed 223 million tonnes of crude oil. We have consistently accounted for approximately 50% of oil processed in China in recent years. Our aggregate production of gasoline, diesel, kerosene (including jet fuel) and other refined oil products, as well as ethylene and some other chemical products, is the largest in China by volume. We own a total of 13 ten-million-tonne refineries and 10 integrated refinery and petrochemical production facilities.
- **Locations.** Most of our refineries and petrochemical plants are located in the eastern and southern regions of China, particularly in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta regions, where higher population levels and higher average family income support greater consumption of refined oil products. Our refineries are located in strategic locations close to our end-users and port facilities, thus reducing transportation costs as compared to our competitors.
- **Advanced Technologies.** We have developed the capability to construct large-scale refining and petrochemical facilities using our proprietary technologies. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques so that we can be adaptable to a wider selection of feedstock for our refineries and improve the economics of our refining business. We believe our advances in this area represent the highest level of technology in use in this industry segment in China.

In the marketing and distribution segment, our significant advantages include:

- **Broad Network.** We operate the largest retail distribution network in China as of June 30, 2013, comprising a network of more than 30,000 service stations nationwide.
- **Strategic Locations.** A large percentage of our service stations are located in the eastern and southern parts of China where economies are more developed and vehicle ownership is higher. We also own a large number of stations in locations near expressway access points and transportation hubs with high transaction volume. Because of the strategic locations of our service stations, we achieved an average sales volume of 3,498 tonnes per station in 2012, increasing from 2,960 and 3,330 tonnes per station, respectively, in 2010 and 2011.
- **Robust Distribution Infrastructure.** We operate a complex and far reaching refined oil products transmission and storage infrastructure network. Our refined oil pipelines in China connect 18 provinces and municipalities with a total length of 9,416 kilometers. We also own significant refined oil product storage facilities in China with current total capacity of approximately 15.2 million cubic meters.
- **Well-known Brands.** Our “Sinopec” brand ranked the seventh most valuable brand in China in 2012, according to World Brand Lab. We also own and promote a range of well-recognized brands for our products and services. Our “Great Wall” lubricant oil brand, for example, represents and conveys our industry-leading quality and technology to consumers and has been designated as the official lubricant oil for China’s aerospace programs. According to World Brand Lab, in 2012, our “Great Wall” brand ranked the 52nd among the most valuable 500 brands in China.

***Our growing exploration and production segment improves our overall profitability and achieves better balance among our complementary portfolios of assets.***

We are seeking to expand our exploration and production operations in China and overseas with a view to both increasing our available energy resources and enhancing our complementary asset and business mix.

With respect to domestic resources, we have stabilized and are gradually seeking to expand our domestic production. As of December 31, 2012, we held domestic oil and gas reserves totaling 3,893 million boe. In 2012, we recorded 416 million boe of domestic crude oil and gas production, representing a 4.2% increase over 2011. Our older oilfields in eastern China produced over 250 million boe in 2012 while production at our western oilfields increased during the same year. Production at the Northwest Oilfield, our second largest oilfield and one of the top 10 producing onshore fields in China, exceeded 7 million tonnes in 2012.

We are also focusing on increasing our natural gas reserves and production. Our domestic natural gas production in 2012 increased by 15.7% from 2011. Some of our major gas fields such as Puguang experienced strong performance in 2012, with output increased by 24.9% from 2011. We also reported a range of breakthroughs in domestic oil and gas exploration in 2012. Further, various recent hydrocarbon discoveries in marine carbonates demonstrated additional attractive reserves potential.

We are actively seeking to develop our overseas oil and gas resources through acquisitions and other activities. Our global footprint in respect of oil and gas assets and potential oil and gas resources now extends across 26 countries in the major oil regions of Africa, Asia-Pacific, Russia-Central Asia, Middle East and North and South America. As of December 31, 2012, our overseas oil and gas reserves (calculated on the basis of our equity percentage of ownership) was approximately 2,108 million boe, representing an increase of 8.2% from 2011. Our 2012 overseas oil and gas production also increased 26.5% over 2011 to a total of 212 million boe.

As of December 31, 2012, our overseas reserves represented 35.1% of our total reserves, and our overseas production in 2012 accounted for 33.7% of our total production.

We focus on developing our upstream resources and businesses in a manner that will support our future growth objectives, provide a more balanced mix of assets, reduce our operational risks and enhance our overall profitability. As of December 31, 2012, our exploration and production assets accounted for approximately 40% of our total consolidated assets (before inter-segment elimination) and we anticipate that this percentage will increase over time. By continuing to expand our upstream resource base, and in particular our overseas resources, we believe we will optimize our existing asset and business mix and establish more reliable and sustainable supplies of crude oil and gas for use in our refining and distribution operations.

***We have prudent financial policies and an effective risk management system which contribute to our solid financial results.***

We have prudent financial policies and are implementing centralized management of our financial and treasury functions to manage our financial resources and risks more effectively.

- ***Debt and Leverage Management.*** As our business has expanded, we have increased our focus on managing leverage, including setting appropriate target leverage ratios and enhancing our debt maturities profile and currencies structure to reduce risk and diversify our financing channels.
- ***Treasury Management.*** We operate a highly-centralized treasury management system which uses centrally controlled collections and payments and internal closed-end settlements and funding allocations with a goal to reducing our overall funding costs and improving our use of capital.
- ***Risk Management and Internal Controls.*** We have established comprehensive risk management and internal control systems. The Risk Management Group and the Risk Management Office at the group level work closely with the various business units to enhance real-time risk identification, measurement, supervision and prevention in operations. Our internal control system extends across and through both company structures and business lines.

We believe our sustained attention to our financial policies and initiatives will help us to reduce our potential risks and maintain a prudent and stable financial profile as we expand globally. In 2012, we recorded an operating revenue and net profit attributable to owners of RMB 2.83 trillion and RMB 51.9 billion, respectively, representing an increase of 10.9% and a decrease of 15.1% from those in 2011, respectively. We maintained a total debt to total assets ratio of 26.9% and a total debt to total owners' equity ratio of 66.3% as of December 31, 2012.

***We have an experienced management team with a strong corporate governance system and a high performance corporate culture.***

Our Chairman and President was appointed by the State Council, the highest level administrative body in the PRC government, and our other senior executives were also appointed through a rigorous selection process. Our senior management team consists of highly experienced and widely respected professionals with strong experience in the energy and chemical industries and extensive experience in exploration and production, refining, distribution and human resources management. Our Chairman, Mr. Fu Chengyu, was recently awarded the "Best Oil Executive Globally" in 2012 by Energy Intelligence Group.

Our major subsidiary Sinopec Corp. is a public company with its shares being listed on the stock exchanges in Hong Kong, London, New York and Shanghai. It is the first Chinese company to have obtained a listing of its shares on four stock exchanges and, as a result, is subject to high international standards of corporate governance.

We are seeking to build a high performance corporate culture based on the principles of unity, entrepreneurship and diligence. Our internal management policies are geared toward promoting innovation, teamwork and risk prevention. Our business philosophy is founded on integrity and trustworthiness. We give high priority to the well-being of our employees to enhance cohesion and loyalty and promote the sustainable development of our businesses and companies.

## **Strategy**

Our business objective is to build a world leading energy and chemical company which is highly responsible, respected and well regarded in its fields. To realize this goal, we will seek to implement the following strategies:

### ***Continue to expand our exploration activities and raise production.***

We have been increasing our investment in the exploration and production segment and will continue to make such investments in order to increase our total reserve base and production. Domestically, we will focus on the activities that will (i) maintain our significant businesses in eastern China, (ii) enlarge our presence and assets in western China, (iii) accelerate our growth in southern China and the natural gas business and (iv) emphasize research and development of technology to strengthen our core competence. Internationally, we will expand and strengthen our presence, especially in the established six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific. We will grow our reserve and production through prudent and selective acquisitions, increase our exploration activities in the high potential geological areas, and increase our oil and gas recovery rate leveraging enhanced oil recovery technologies as well as invest to accelerate the development of our reserve base. We will continue to cooperate with reputable partners to accumulate our international operating experience and mitigate operational risks.

### ***Continue to reinforce our advantages, strengthen our dominant position in the downstream businesses and enhance profitability.***

As China's population and economic development continue to grow and spread westward, we plan to gradually expand our oil refining business into central China by building new refineries. We will continue to develop technology to lower our costs and increase our oil refining output rate. We will continue to improve the operational and marketing channels for our oil products, consolidate the development of the end-market for our products and enhance end-market penetration by opening more service stations. We will actively explore new business models for our service stations and further develop our non-oil businesses such as convenience stores, branded credit cards for use at our service stations and e-commerce devices. In the chemicals segment, we will continue to launch high value-added, high performance industrial chemical products, enhance the differentiation of chemical products and focus our product development on consumer needs, all with a view to continuing to provide our large client base with industry-leading chemical products and services. Through these policies we seek to further increase our market share, increase the overall scale of our downstream business and improve profitability.

### ***Reinforce the advantages of our integrated business model.***

We intend to reinforce the advantages that come from being an integrated petroleum and petrochemical company. We will balance the development across the upstream, midstream and downstream businesses. With our downstream business already in a dominant position in China, we will accelerate the development of our upstream business to reduce the reliance on crude oil supply from third parties. We will optimize resource allocation in different segments, regions and subsidiaries to maximize returns. Since we have a long value chain from oil and gas production, refining processing, further down to base chemical and specialty chemical production, we will

selectively increase or decrease the production of certain products according to market conditions and dynamics. We will continue to grow our oil and petrochemical engineering technical services segment as a separate business and at the same time benefit from the synergies resulted from integrated technological advancement to support our upstream and downstream production businesses.

***Increase the scale and scope of our international operations and build a global Sinopec brand.***

Leveraging an established international presence, we will continue to develop our international operations across our integrated value chain. For the exploration and production segment, we already established six strategic international regions and will further expand our footprint through prudent and selective acquisitions to increase our reserve base and production. For the refining and downstream businesses, we may also consider participating in the construction of new projects or acquiring high-quality assets in strategic locations that can benefit our business strategically and financially. In January 2012, we signed a joint venture agreement with Saudi Aramco, the national oil company of Saudi Arabia, to complete the construction of and operate a full-conversion refinery in Yanbu on the west coast of the Kingdom of Saudi Arabia. At the same time, we plan to expand our engineering and professional services provided in overseas markets to be able to compete successfully with the world's leading providers of engineering and professional services. Such expansion will include developing and implementing international management concepts and systems that meet international standards and attracting talented foreign employees. We are in the process of and will continue to build a core staff team that has extensive experience in international operations. All of these programs and efforts will contribute to realizing our strategy of establishing Sinopec as a global brand.

***Differentiate on product, market and service to expand the market coverage and improve profitability.***

*Product differentiation*

Leveraging on our well-established base chemical production facilities, we will expand our value chain to the specialty chemical segment. We will focus on developing high value-added products, where technical advancement and product differentiation are the core competency. We believe our proprietary technologies combined with our strong research and development capabilities will support us to implement such a strategy.

*Market differentiation*

Taking advantage of our extensive distribution and marketing network, we will be selectively developing the market segments where there are strong market supply and demand dynamics and potentially attractive margins. For example, we have established operating units to develop and sell high-quality lubricant oil and vessel lubricant because of high demand for and limited supply of such products in China.

*Service differentiation*

In addition to our advantages of scale and network coverage in the retail market in China, we aim to further diversify the types of our services to benefit our customers with services that are differentiated from our competitors. Our non-oil service businesses, such as convenience stores and fast-food chain restaurants, have achieved significant growth in the past few years. We plan to continue to grow and improve our performance in this segment.

***Emphasize low-carbon consumption and sustainable development.***

As a state-owned enterprise, we see ourselves as a public utility that is charged with the social responsibility to promote sustainable economic development as a key element of its overall growth strategy. We support the PRC government's programs in promoting low-carbon consumption. In addition to accelerating the development of our natural gas assets, we are actively exploring alternative sources of energy including unconventional oil and gas resources such as CSG, shale gas, shale oil and bio-energy such as bio-diesel, bio-coal and coal. We continue to promote energy saving and emissions reduction as well as low-carbon production at all of our production facilities. As one of the largest employers in China, we have comprehensive programs across all of our operating units and segments to promote the efficient use of energy.

Recognizing that the petrochemical business entails inherent environmental risks, we will continue to emphasize the importance of environmental protection in all of our operations. We strictly implement health, safety and environmental measures up and down our entire supply chain and operations.

**Recent Overseas Investments**

We have accelerated our overseas expansions in oil and gas exploration and production as well as refining operations.

In February 2013, we announced that one of our subsidiaries had entered into an agreement with Chesapeake Energy to acquire a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion. The transaction closed in June 2013.

In June 2013, we entered into an agreement to purchase Marathon Oil Corp.'s 10% interest in deepwater Block 31 offshore Angola for US\$1.52 billion. The acquisition, which will increase our stake in Block 31 to 15%, will also increase our share of production to 14,600 barrels of oil per day. Block 31 is estimated to have proved and probable reserves of 533 million barrels. The transaction is pending necessary government approvals.

In August 2013, we launched a global strategic partnership with Apache Corporation. As the first step in this partnership, we agreed to acquire a 33.3% stake in Apache's oil and gas business in Egypt for US\$3.1 billion in cash. The transaction is pending necessary government approvals.

**Exploration and Production**

***Overview***

We are China's second largest oil and gas producer based on production volumes. In recent years, we have successfully expanded our exploration and production segment by leveraging our domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. Globally, we had 6,001 million boe of proved reserves of crude oil and natural gas, including 4,615 million barrels of crude oil and 8,316 bcf of natural gas as of December 31, 2012. In 2012, our production of crude oil and natural gas was 628 million boe.

We have implemented a clear strategy with respect to our domestic resources. We have been maintaining a stable output from our oil and gas fields in the eastern region, expanding production from western areas, accelerating development of natural gas in the southern region, advancing offshore exploration and production and achieving breakthroughs in the development of unconventional resources such as coal-bed methane, shale oil and gas. We have been striving to utilize advanced technology to further develop our upstream business and maintain a strong reserve replacement ratio. In China, we had 3,893 million boe of proved reserves of crude oil and natural gas, including 2,771 million barrels of crude oil and 6,730 bcf of natural gas as of December 31, 2012.

Our overseas exploration and production activities have expanded to 26 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific. In 2012, our overseas crude oil and gas production was 212 million boe, accounting for 33.7% of our total crude oil and gas production. As of December 31, 2012, our overseas proved crude oil and natural gas reserves amounted to 2,108 million boe, accounting for 35.1% of our total crude oil and natural gas reserves.

### ***Exploration and Development Activities***

During the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we made progress with our key exploration and development projects in Shengli and Tahe, and our Songnan gas field started production. Our Sichuan-to-East China Gas Project commenced formal production. We had new breakthroughs in our exploration of Northern rim of the Junggar Basin, western Sichuan Basin trough, North slope of Central Tarim, New area of South Songhuajiang, Eastern Hainan Province and the South Sea area. We achieved initial success in exploring non-conventional shale oil and gas and established construction area for coal bed methane. We made two-dimensional seismic exploration of 23,436 kilometers, three-dimensional seismic exploration of 11,813 square kilometers, and drill footage of 2,546 kilometers in 2012. In addition, our domestic reserves for oil and gas in China increased by 6 million boe in 2012. We continued to increase our domestic crude oil production through an enhanced oil recovery rate. We have stabilized our crude oil output in eastern China, increased crude oil output in western China and continued our accelerated development in blocks in southern China. We made rapid progress in research and experimentation in relation to staged fracturing of horizontal wells. We kept rapid growth in natural gas development. We developed most of our natural gas in Sichuan Basin and Erdos Basin and improved our production capacity.

We significantly expanded our exploration and development activities overseas. In March 2012, we completed our acquisition of 30% of the share capital of the Brazilian division of GALP, Portugal's largest oil company for a consideration of approximately US\$5.2 billion. In April 2012, we acquired one third interest of five shale oil blocks from Devon Energy Corporation for approximately US\$2.4 billion. In July 2012, we purchased 15% equity interest in APLNG of Australia for US\$2.1 billion and increased our ownership in APLNG to 25%. APLNG operates one of the largest coalbed methane and LNG integrated projects in Australia. In December 2012, we acquired 49% equity interest of Talisman UK from Talisman Energy Inc. for US\$1.5 billion. In June 2013, we acquired a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion from Chesapeake Energy. In June 2013, we entered into an agreement to acquire Marathon Oil Corp.'s 10% equity interest in deepwater Block 31 offshore Angola for US\$1.52 billion. The acquisition, which will increase our stake in Block 31 to 15%, will also increase our share of production to 14,600 barrels of oil per day. Block 31 is estimated to have proved and probable reserves of 533 million barrels. The

transaction is pending necessary government approvals. In August 2013, we launched a global strategic partnership with Apache Corporation. As the first step in this partnership, we agreed to acquire a 33.3% stake in Apache's oil and gas business in Egypt, for US\$3.1 billion in cash. The transaction is pending necessary government approvals.

### *Oil and Natural Gas Reserves*

As of December 31, 2012, our estimated proved reserves of crude oil and natural gas were 6,001 million boe, including 4,615 million barrels of crude oil and 8,316 billion cubic feet of natural gas, representing an increase of 2.8% from December 31, 2011. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 122%, 227% and 126% in 2010, 2011 and 2012, respectively.

The following table sets forth our estimated proved reserves of crude oil and natural gas as of December 31, 2010, 2011, 2012, respectively.

	<u>Crude Oil</u>	<u>Natural Gas</u>	<u>Combined</u>
	(million barrels)	(billion cubic feet)	(million boe)
<b>Proved reserves</b>			
As of December 31, 2010			
<b>Total</b> .....	4,035	6,479	5,114
PRC .....	2,794	6,447	3,869
Overseas .....	1,241	32	1,246
As of December 31, 2011			
<b>Total</b> .....	4,551	7,702	5,835
PRC .....	2,769	6,709	3,887
Overseas .....	1,782	993	1,948
As of December 31, 2012			
<b>Total</b> .....	4,615	8,316	6,001
PRC .....	2,771	6,730	3,893
Overseas .....	1,844	1,586	2,108

We manage our domestic and overseas reserves estimation internally, with support from external technical experts. Please refer to the section in this offering memorandum entitled "Presentation of Information" for further information.

### *Oil and Gas Fields*

#### *PRC*

We currently operate 16 oil and gas operating units managing our oil and gas fields across China, each of which consists of many oil and gas producing blocks. As of December 31, 2012, the total acreage of our oil and gas producing fields and blocks in China was 8,709 square kilometers, including 6,026 square kilometers of developed acreage, all of which were net developed acreage; and 2,683 square kilometers of gross undeveloped acreage, all of which were net undeveloped acreage.

Shengli production field is our most important crude oil production field in China. It consists of 70 producing blocks of various sizes extending over an area of 2,564 square kilometers in northern Shandong province, all of which are our net developed acreage. Most of Shengli's blocks are located in the Jiyang trough with various oil producing layers. In 2012, Shengli production field produced 196 million barrels of crude oil and 17.7 billion cubic feet of natural gas, with an average daily production of 544 thousand boe, accounting for approximately 33% of our total crude oil and natural gas production for the year.

Northwest oilfield is our second largest oilfield, with proved crude oil reserve of 319 million boe and proved natural gas reserve of 366 billion cubic feet as of December 31, 2012. Northwest oilfield has an annual output exceeding 63 million boe in 2012. It is the first, large, Paleozoic marine oilfields with up to hundred-million tonnes and one of the top ten onshore fields in China.

Puguang gas field is the deepest buried and largest unitized marine-based carbonate gas field discovered in China. It is also the source for the nation's gas transmission project from Sichuan to the eastern regions. Its cumulative proved gas reserves were 36 trillion cubic feet as of December 31, 2012. Its production for 2012 was 267 billion cubic feet.

### *Overseas*

Our overseas oil and gas production fields and blocks are located in 26 countries in six international regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific.

Through our 49% equity interest in OAO Udmurt Oil Company, we have successfully made the entry into Russia oil and gas exploration market, realizing continuous growth in reserves and output.

Our presence in Africa includes the conventional oil and gas assets in Nigeria and Gabon of Addax Petroleum Corporation, one of our wholly owned subsidiaries, and our interest in Angola Blocks 15, 18, 31 and 32, all of which are mature deepwater oil and gas blocks in Angola.

We have acquired unconventional oil and gas assets in North America. We have a 9.03% equity interest in Syncrude Canada Ltd., which operates the Syncrude project in Canada, the world's largest oil sands production project. Through our wholly owned subsidiary, Daylight Energy Ltd., we have gained oil sands assets in Western Canada. In the United States, we have a 33.3% interest in certain of Devon's shale oil and gas properties.

We have strong presence in South America. In Columbia, we have a 50% equity interest in onshore oil and gas producer Ecopetrol S.A. In Brazil, we have formed an alliance with Repsol to jointly develop the projects of Repsol Brazil, the upstream subsidiary of Repsol in Brazil. We hold a 40% equity interest in Repsol Brazil and are the first Chinese company to enter Brazil's pre-salt deep-water sector, capturing the largest oil and gas resources discovery of the century. We further expanded our pre-salt oil and gas reserves in Brazil with an agreement with GALP, Portugal's largest oil company, to acquire 30% of the share capital of GALP's Brazilian division. We also have onshore oil and gas reserves and production base in Argentina, which were acquired from Occidental Petroleum Corporation.

In the Middle East, we own oil and gas assets in Iraq through our wholly owned subsidiary, Addax Petroleum Corporation.

In Asia-Pacific, we have a 25% equity interest in APLNG, which operates one of the largest coalbed methane and liquefied natural gas integrated projects in Australia.

Through our pending 49% equity interest in Talisman Energy Inc.'s Aberdeen, Scotland-based North Sea business, Talisman Energy (UK) Limited, we expect to make an entry into the United Kingdom oil and gas exploration market, which will contribute to our continuous growth in reserves and output.

### ***Oil and Natural Gas Production***

The following tables set forth our average daily production of crude oil and natural gas sold for the periods indicated. The production of crude oil includes condensed oil.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
<b>Crude oil production</b>					
Daily production (thousand barrels) . . . . .	1,225	1,301	1,380	1,336	1,430
Total production (million barrels).	447	475	504	242	259
Average realized sales price (US\$ per barrel) . . . . .	69.9	95.0	101.5	104.5	96.4
<b>Natural gas production<sup>(1)</sup></b>					
Daily production (mmcf) . . . . .	1,208	1,512	1,955	1,766	2,093
Total production (bcf) . . . . .	441	552	714	320	379
Average realized sales price (US\$ per mcf) . . . . .	4.9	5.5 <sup>(2)</sup>	5.9	5.7	6.0
<b>Total crude oil and natural gas production</b>					
Daily production (thousand boe) . . . . .	1,425	1,553	1,721	1,630	1,778
Total production (million boe) . . . . .	520	567	628	295	322

(1) Represents production of natural gas for sale.

(2) Reflects domestic sales price only as overseas sales amount is minimal.

### ***New Energy Development***

The development and utilization of new energy play an increasingly important role in optimizing energy resources, coping with energy and environment challenges and achieving sustainable development. We are exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, oil sands, LNG and other unconventional energies. For example, we built a pilot plant in China to produce biojet fuel using vegetable oils as feedstock in 2011.

We also seek to gain access to new technology and operational expertise with regard to unconventional resources through international partnerships and acquisitions. In 2011 and 2012, we acquired an aggregate of 25% equity interest in APLNG, which operates one of the largest coalbed methane and liquefied natural gas integrated projects in Australia. The acquisition was completed in July 2012. See “— Recent Overseas Investments.” In October 2011, we acquired 100% of the equity of Daylight Energy Ltd., an Alberta, Canada-based oil and natural gas producer with oil sands assets in western Canada. In March 2012, we acquired 30% equity interest in the Brazilian division of Galp Energia SGPS SA, Portugal’s largest oil company, expanding our pre-salt oil and gas resources and reserves in Brazil. In April 2012, we acquired a 33.3% interest in certain of Devon’s shale oil and gas properties in the United States. In June 2013, we acquired a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion from Chesapeake Energy.

## Refining

### Overview

In 2010, 2011 and 2012, our refinery throughputs were approximately 213 million tonnes, 219 million tonnes, 223 million tonnes, respectively, representing a market share of approximately 50%, 49% and 48% of the total crude oil processed in China for 2010, 2011 and 2012, respectively. We produce a full range of refined oil products. The following table sets forth the production of our principal refined oil products for periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in million tonnes)				
Gasoline . . . . .	36.4	37.6	41.1	19.9	23.0
Diesel . . . . .	76.6	77.5	77.8	39.3	38.7
Kerosene (including jet fuel) . . . . .	12.4	13.7	15.0	7.3	8.4
Light chemical feedstock . . . . .	35.1	37.5	36.5	18.6	18.9
Lubricant . . . . .	1.4	1.4	1.1	0.5	0.6
Liquefied petroleum gas . . . . .	10.5	10.9	11.2	5.6	6.0
Fuel oil . . . . .	4.1	3.6	3.2	1.4	2.1

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

On March 26, 2013, NDRC promulgated the *Circular on Further Improving Price Formation Mechanism of Refined Oil (Fa Gai Jia Ge[2013]No.624)*. Since the implementation date of the circular, the prices of refined oil products are adjusted every 10 business days instead of the previous 22 business days, and the price adjustments are no longer limited by the 4% cap. If the price changes in the international oil markets are less than 50 yuan per ton in a certain price-adjustment period, then the domestic refined oil products prices will not be adjusted, and the

initial prices will be carried over to the next period. The circular also adjusted the varieties of crude oil used to calculate the price changes for PRC domestic oil products. In special situations, such as sharp rises in PRC domestic inflation, emergencies or dramatic swings in global oil prices, the new price adjustment mechanism may be suspended, postponed or downsized.

On September 16, 2013, the NDRC promulgated the *Circular of Relevant Opinions on Pricing Policies in Relation to the Oil Quality Upgrades (Fa Gai Jia Ge[2013]No.1845)*. The Circular provides that, in relation to the upgrades of gasoline and diesel quality from National III standards to National IV standards, and from National IV standards to National V standards, the retail prices of gasoline and diesel can be raised accordingly. From National III to National IV, the prices of gasoline and diesel can be raised by no more than RMB 290 per tonne and RMB 370 per tonne, respectively; from National IV to National V, the prices of gasoline and diesel can be raised by no more than RMB 170 per tonne and RMB 160 per tonne, respectively.

### ***Refining Facilities***

Currently we operate 35 refineries in China and have invested in one refinery overseas. Our refineries in China are mainly located in China's coastal regions, including the Bohai Rim cluster, the Yangtze River Delta cluster and the Pan-Pearl River Delta cluster, which have more developed economies, higher population densities and larger numbers of oil product consumers than the other regions of China. The strategic locations of our coastal refineries also reduce the transportation costs on shipments from the crude oil import markets. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques, which we believe represent the most advanced technology in use in China.

As December 31, 2012, our total primary distillation capacity in China was 275 million tonnes per annum. In line with the global oil and gas industry's focus on large-scale, base-load and integrated refinery developments, our refineries have an average capacity of 7.8 million tonnes, significantly higher than the average capacity of any stand-alone refinery in the world and in China. In 2012, 13 of our refineries in China reached a primary distillation capacity of ten million tonnes or more per annum, while our largest refinery, Zhenhai refinery, had a primary distillation capacity of 23.0 million tonnes per annum. In addition, we own 10 integrated refining and chemical production facilities. Our refinery throughputs were 110.7 million tonnes and 116.5 million tonnes for the six months ended June 30, 2012 and 2013, respectively.

The following table sets forth our total primary distillation capacity per annum of crude oil and refinery throughputs as of and for the periods indicated.

	As of and for the Year Ended December 31,		
	2010	2011	2012
	(in million tonnes)		
Primary distillation capacity per annum <sup>(1)</sup> . . . . .	237.0	249.0	275.2
Refinery throughputs . . . . .	213.0	219.0	223.0

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

For the years ended December 31, 2010, 2011 and 2012, our overall yield for all refined oil products at our refineries was 94.5%, 94.8% and 95.1%, respectively.

### *Sources of Crude Oil*

Crude oil is our most important raw material. The following table sets forth the sources of our crude oil supply for the periods indicated.

	Year ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in million tonnes)				
<b>Source of Supply</b>					
Self-supply in China . . . . .	35.1	34.8	34.7	17.2	17.1
PetroChina Company Ltd. . . . .	5.1	5.7	5.2	2.8	2.3
CNOOC Ltd. . . . .	8.6	8.1	6.9	3.4	2.9
Import . . . . .	165.3	171.3	176.4	88.3	94.8
Total . . . . .	<u>214.1</u>	<u>220.0</u>	<u>223.1</u>	<u>111.7</u>	<u>117.0</u>

### **Chemicals**

#### *Overview*

We are the largest chemicals producer in China measured by production. We produce a full range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fibers, synthetic rubber and chemical fertilizers. Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other chemical products. Our chemicals operations are integrated with our refining businesses, which supply a significant portion of our chemical feedstock such as naphtha. Our total sales volume of chemical products was 44 million tonnes, 51 million tonnes, and 54 million tonnes and 24 million tonnes in 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Because of the strong domestic demand, most of our chemical products are sold in China's domestic market.

## Products

### Intermediate petrochemicals

We are the largest ethylene producer in China. We have developed our proprietary technology to design and construct one-million tpa ethylene production facilities which we believe are among the most technologically advanced ethylene production facilities in the world. For the years ended December 31, 2010, 2011 and 2012, we produced approximately 9.2 million tonnes, 10.0 million tonnes and 9.5 million tonnes of ethylene, respectively, representing a market share of 65%, 66% and 64% with respect to domestic ethylene production in the corresponding years. Nearly all of our ethylene produced are used as feedstock for our chemicals production.

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

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

The following table sets forth our production volume for each of our principal intermediate petrochemical products for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Ethylene .....	9,190	10,038	9,542	4,876	4,841
Propylene .....	7,530	8,200	8,088	4,075	4,211
<b>Total</b> .....	<b>16,719</b>	<b>18,237</b>	<b>17,630</b>	<b>8,951</b>	<b>9,052</b>

### Synthetic resins

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

The following table sets forth our production volumes for each of our principal synthetic resins for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Polyethylene .....	6,200	6,551	6,202	3,120	3,182
Polypropylene .....	5,202	5,573	5,551	2,784	2,871
Polyvinyl chloride .....	596	589	578	278	168
Polystyrene .....	692	669	672	358	335
Others .....	707	695	763	378	367
<b>Total</b> .....	<b>13,398</b>	<b>14,077</b>	<b>13,766</b>	<b>6,918</b>	<b>6,923</b>

### *Synthetic fiber monomers and polymers*

Our principal synthetic fiber monomers and polymers are purified terephthalic acid, ethylene glycol, acrylonitrile, caprolactam, polyester, polyethylene glycol and polyamide fiber. Based on our 2012 production, we are the largest producer of purified terephthalic acid, ethylene glycol, caprolactam and polyester in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

The following table sets forth our production volume for each of our principal synthetic fiber monomers and polymers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Purified terephthalic acid . . . . .	3,383	3,477	3,125	1,634	1,444
Ethylene glycol . . . . .	1,708	2,082	1,974	1,018	971
Acrylonitrile . . . . .	570	536	613	307	343
Caprolactam . . . . .	293	309	305	153	273
Polyester . . . . .	3,049	3,104	3,018	1,521	1,547
Others . . . . .	231	256	369	198	170
<b>Total</b> . . . . .	<u>9,234</u>	<u>9,764</u>	<u>9,404</u>	<u>4,831</u>	<u>4,748</u>

### *Synthetic fibers*

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

The following table sets forth our production volume for each of our principal synthetic fibers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Polyester fiber . . . . .	1,077	1,084	1,044	527	548
Acrylic fiber . . . . .	310	299	289	144	147
Others . . . . .	19	21	20	10	13
<b>Total</b> . . . . .	<u>1,406</u>	<u>1,403</u>	<u>1,353</u>	<u>681</u>	<u>708</u>

### *Synthetic rubbers*

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber (“SBR”), styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber (“IIR”). Based on our production in 2012, we are the largest producer of SBR and cis-polybutadiene rubber and the only producer of IIR in China.

The following table sets forth our production volume for each of our principal synthetic rubbers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Cis-polybutadiene rubber . . . . .	356	340	343	170	206
Styrene butadiene rubber . . . . .	532	597	571	294	224
Styrene-butadiene-styrene thermoplastic elastomers . . . . .	15	19	25	12	15
Isobutylene isoprene rubber . . . . .	36	36	32	19	17
Others . . . . .	<u>353</u>	<u>280</u>	<u>270</u>	<u>131</u>	<u>155</u>
<b>Total</b> . . . . .	<u><u>1,290</u></u>	<u><u>1,272</u></u>	<u><u>1,241</u></u>	<u><u>626</u></u>	<u><u>617</u></u>

### *Chemical fertilizers*

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

The following table sets forth our production volume for each of our principal chemical fertilizers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
	(in thousand tonnes)				
Synthetic ammonia . . . . .	1,191	1,111	1,264	635	506
Urea . . . . .	1,223	780	1,052	472	466
Nitrogen . . . . .	<u>711</u>	<u>545</u>	<u>663</u>	<u>305</u>	<u>339</u>
<b>Total</b> . . . . .	<u><u>3,126</u></u>	<u><u>2,436</u></u>	<u><u>2,979</u></u>	<u><u>1,412</u></u>	<u><u>1,311</u></u>

### *Marketing and Sales of Chemical Products*

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

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

## Marketing and Distribution

### Overview

We operate the largest sales and distribution network for refined oil products in China. The total amount of gasoline, diesel and kerosene (including jet fuel) that we distributed and sold in China was 140.5 million tonnes, 151.2 million tonnes, and 159.0 million tonnes in 2010, 2011 and 2012, respectively, representing a market share of approximately 61%, 62% and 63% of refined oil products distributed and sold in China, respectively. Most of the refined oil products sold by us are produced internally.

We have a dominant position in the oil and gas fueling market in China.

- We have expanded our CNG business by leveraging our extensive service station network.
- We have 9,416 kilometers of refined oil pipelines in China, which cover 18 provinces and municipalities and are directly connected to 20 large-scale refineries with a pipeline ratio of 45%.
- We have 15.2 million cubic meters of refined oil product storage capacity.
- Our loyalty fuel cards had over 83.2 million end users and can be used in over 27,000 of our service stations.
- The Great Wall lubricant oil is one of our high-tech and premium quality signature products. It was named as the designated oil in the Beijing Olympic Games 2008, enhancing our brand name.

The table below sets forth a summary of key data in the marketing and sales of refined oil products for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011	2012	2012	2013
<b>Total sales volume of refined oil products</b>					
(in million tonnes) . . . . .	149.2	162.3	173.2	82.7	88.1
<b>Sales volume of refined oil products in China</b>					
(in million tonnes) . . . . .	140.5	151.2	159.0	77.0	80.8
Of which: Retail . . . . .	87.6	100.2	107.9	53.2	55.5
Direct Sales . . . . .	32.4	33.2	33.3	15.7	16.1
Wholesale . . . . .	20.5	17.7	17.9	8.2	9.2
<b>Average annual throughput of service stations</b>					
(in tonnes per station). . . . .	2,960	3,330	3,498	3,487	3,620

	As of December 31,			As of
	2010	2011	2012	June 30,
				2013
<b>Total number of service stations under Sinopec brand</b> . . . . .	30,116	30,121	30,836	30,682
Of which: Self-operated service stations . . . . .	29,601	30,106	30,823	30,669
Franchised service stations . . . . .	515	15	13	13

**Retail**

In 2010, 2011 and 2012, we sold approximately 87.6 million tonnes, 100.2 million tonnes and 107.9 million tonnes of gasoline, diesel and kerosene (including jet fuel) in China, respectively, through our retail network, representing approximately 62.4%, 66.3% and 67.8% of our total gasoline, diesel and kerosene (including jet fuel) sales volume for 2010, 2011 and 2012, respectively. In the six months ended June 30, 2013, we sold approximately 55.5 million tonnes of gasoline, diesel and kerosene (including jet fuel) in China, respectively, through our retail network, representing approximately 63.0% of our total gasoline, diesel and kerosene (including jet fuel) sales volume for the same period.

All of our retail sales are made through a network of service stations and petroleum shops operated under the “Sinopec” brand. As of June 30, 2013, we had a total of 30,682 service stations, far exceeding our competitors. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently deploy our retail network.

Though we franchise the Sinopec brand to third-party service stations, service stations that are wholly owned and operated by us account for 99.9% of the Sinopec-branded service stations. The locations and brand advantages of our service stations are increasingly being evident, with rising throughput per station enhancing profitability of our retail business. The average annual throughput per station for 2010, 2011 and 2012 and the six months ended June 30, 2013 was 2,960 tonnes, 3,330 tonnes, 3,498 tonnes and 3,620 tonnes, respectively.

Our strong retail network provides extensive geographic coverage of retail sales across China. We continue optimizing the coverage of and accelerating the development of retail outlets, especially service stations in expressway service areas, urban centers, new urban areas, transportation hubs and other key locations. Our retail network occupies a dominant position in China’s eastern and southern regions, which consist of the more densely populated and economically developed provinces in China. As of December 31, 2012, we had more than 1,000 service stations in each of 13 provinces, which are all located in China’s eastern and southern regions. These 13 provinces accounted for 63% of China’s GDP, 64% of China’s population, 59% of China’s total length of expressway and 70% of China’s highway in 2011.

We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines “fueling, shopping, dining and car services.” The number of our Easy Joy convenience stores which are located in our service stations reached approximately 21,300 in 2012, providing more than 20,000 products in 200 product categories. Our revenue from non-fuel businesses has grown rapidly, with a CAGR of 76.7% between 2008 and 2012.

We are a leader in China in building self-service petrol stations, the number of which reached 3,112 as of December 31, 2012. We are also a leader in China in promoting the use of pre-paid fuel cards to enhance our customer loyalty. As of June 30, 2013, we have over 83 million end users of our pre-paid fuel cards, and the consumption based on fuel cards accounted for approximately 35% of total consumption of our customers. We have worked with commercial banks, telecom companies and network payment service providers to enable our customers to make convenient prepayments on our fuel cards.

### ***Direct Sales***

In 2010, 2011 and 2012 and the six months ended June 30, 2013, we sold approximately 32.4 million tonnes, 33.2 million tonnes and 33.3 million tonnes and 16.1 million tonnes of major refined oil products, respectively, through direct sales to commercial customers such as industrial enterprises, hotels, restaurants and agricultural producers in China.

### ***Wholesale***

In 2010, 2011 and 2012 and the six months ended June 30, 2013, we sold approximately 20.5 million tonnes, 17.7 million tonnes and 17.9 million tonnes and 9.2 million tonnes, respectively, of major refined oil products through wholesale channels, representing approximately 14.6%, 11.7%, and 11.3% and 11.4% of our total sales volume of major refined oil products for 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our wholesale sales include sales to large commercial or industrial customers and independent distributors as well as sales to certain long-term customers such as railway, airlines, shipping and public utilities.

Through our wholesale centers, we operate 399 storage facilities with a total capacity of approximately 15.2 million cubic meters, substantially all of which are wholly owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own dedicated railways, oil wharfs and oil barges, as well as rail tankers and oil trucks.

## **Oil and Petrochemical Engineering Technical Services**

### ***Refining and Chemical Engineering Technical Services***

We believe we are the largest refining and chemical engineering technical service provider in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. We have successfully developed technologies in clean fuel production, heavy oil and sulfur-bearing crude oil processing and refining and petrochemical integration. With a team of top-calibre, highly experienced professionals, we provide high-quality and comprehensive engineering services for domestic and international clients. A total of 22 refinery facilities that we constructed went into operation in China in 2012. In addition, we won biddings with respect to 11 refinery engineering technology service projects outside China with a total contract value of US\$2.0 billion in 2012.

Some of our landmark projects include the Qingdao 10 million tonnes per annum refinery project; the Shanghai SECCO 900,000 tonnes per annum ethylene project; the Puguang natural gas purification plant/EPC project; the Sinopec-SABIC (Tianjin) project with production of one million tonnes per annum of ethylene; the Zhenhai refining project with production of one million tonnes per annum of ethylene; and the Hainan refining project with production of 8 million tonnes per annum of refined oil products.

In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$2.0 billion and US\$1.0 billion, respectively.

### ***Oil Engineering Technical Services***

Our well-trained service teams are equipped with specialty techniques and skills to provide a number of oilfield services, including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions of land, including tidal zones, shallow water areas, mountains, plateaus, deserts and swamps. More than 200 oil and gas projects that we undertook in China have commenced production since 2010. Our oil engineering technical service team also helped complete two long-distance pipelines in China in 2011. We also actively explore overseas markets to expand our service reach. As of December 31, 2012, our engineering technical service teams provided services in 43 countries and regions outside China in relation to more than 500 oil engineering technical service contracts.

In 2012, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$4.3 billion and US\$3.0 billion, respectively.

### **Others**

#### ***International Trade***

Our international trade business primarily consists of the international trading activities of our subsidiary, China International United Petroleum & Chemical Co., Ltd. Major items that we import and export include crude oil, refined oil, petrochemicals and equipment and we have a global distribution plan for each product line. We were China's largest crude oil trading company in terms of annual crude oil import and export volume in 2012, with total crude oil trade volume reaching 256 million tonnes. In addition, we have entered into the market of catalyzers trading and our trading volume of catalyzers in overseas market has significantly increased over 2012.

#### ***Research and Development***

Our research and development division comprises research and development institutes focusing on research and development in the upstream, refining and chemicals segments as well as production safety. The PRC government has granted us a special fund to support our research and development on technological innovation, energy conservation and emission reduction.

With respect to exploration and production, we established an assessment system for selecting shale gas blocks in South China, strengthened research into hydrocarbon accumulation in the periphery of the Tahe and the deep layer of Jiyang, Yuanba, Western Sichuan and other regions, and provided scientific and technological support to increase our reserves. We made significant progress in developing our own unconventional exploration and development technologies, and the application of our proprietary subparagraph fracturing technology to horizontal wells has produced remarkable results.

With respect to the refining and chemicals segments, we broadened the use of adsorptive desulfurization for FCC gasoline and applied the technology in a number of our subsidiaries. We implemented the initial industrial application of a fully developed process for liquid phase cyclical diesel hydrogenation. We also developed our own one-million tpa ethylene complex technology, 150-thousand tpa ethylene-cracker technology and 650-thousand tpa ethyl-benzene technology and have applied these technologies in our operations. In addition, we built a pilot plant to produce qualified products using our own aromatics adsorptive separation technology in 2011, making us the world's third company with a proprietary aromatics technology.

With respect to new energy technologies, we built a pilot plant to produce bio-jet fuel using vegetable oils as feedstock. Our self-developed MTO technology is being commercialized.

As of December 31, 2012, we owned more than 13,000 patents in China. One of our employees won the Top National Science and Technology Award in 2008. In 2012, we applied for 4,865 patents in total (with 247 applied outside the PRC), of which 1,855 were granted, including 102 granted outside the PRC. Thirteen of our research and development projects were awarded the National Scientific Technology Progress and Technological Invention Prize. Our full-vulcanized controllable particle-size powdered rubber and its manufacturing process and application won the Gold Award in the 13th China Patent Competition. In addition, six of our research and development projects won the China Patent Merit Award.

## **Property**

We own land use rights, buildings, service stations and other properties across China. Our corporate headquarters are located at 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, PRC.

## **Employees**

As of December 31, 2012, we had over 600,000 employees. Our employees participate in various basic social insurance plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees' salary as stipulated by relevant local regulations. Expenses incurred by us in connection with the retirement benefit plans were approximately RMB 4,414 million, RMB 4,895 million, RMB 5,154 million and RMB 2,666 million, respectively, for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013.

Since 2009, we and our subsidiaries have not experienced any strikes, work stoppages, labor disputes or actions which adversely affected the operation of any of their respective businesses in all material aspects. We believe that we and our subsidiaries maintain good relationships with our and their respective employees in all material aspects.

## **Risk Management**

We are exposed to a variety of risks associated with oil and gas and other business operations and financing activities. Our goal in risk management is to ensure that we understand, measure, monitor and mitigate the various risks that arise in connection with our operations. We have established an integrated risk management system through which we seek to manage the risks. Policies and guidelines have been developed to identify, analyze, appraise and monitor the changing risks that we face. We have established a Risk Management Committee to supervise the overall risk management work. Under the Risk Management Committee, there is an Internal Control and Risk Management Department to formulate key internal control and risk management policies, design risk management systems, organize risk assessment work, provide training on risk control and management as well as oversee the implementation of the risk management policies of each of our departments and subsidiaries.

*Crude Oil Resource and Sustainable Development Policy:* We intend to proactively identify, monitor and manage crude oil supply risk to achieve sustainable development of our business operations. We pursue sustainability through increasing our crude oil supply, strengthening our resource base, acquiring unconventional resources, shaping an integrated value chain and developing cutting-edge technologies.

*Debt Management Policy:* We have centralized the financing management of our group entities and have diversified our financing sources to include international debt capital markets. Consistent with our internal policies, our total debt/total capitalization ratio was lower than 41%, and our total debt/EBITDA ratio was lower than 3, as of December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. We believe that such ratios will continue to remain at a reasonable level in the foreseeable future. We also endeavor to maintain reasonable debt maturities and currency structure.

*Working Capital Policy:* We maintain sufficient cash flow to meet our payment needs. We also maintain a centralized management of funds in order to operate the cash pools of our group entities in an efficient manner.

*Investment Policy:* The key factors we take into consideration when making investment decisions include investment return, resources acquisition, synergy and integration with our existing key businesses, improvement of service and technical capabilities as well as the various investment risks involved. In addition, we have internal guidelines that specify the minimum return rates for each type of investment.

*Health, Safety and Environmental Policy:* We have developed a Health, Safety and Environmental (“HSE”) management system to strengthen accountability and adopt measures to target root causes rather than symptoms. In accordance with our HSE guideline and strategic goals, we provide HSE training throughout the entire organization, which covers the whole production process and everyone from top management to grassroots operators. We have also issued the Principles of HSE Management, outlining the basic requirements and behavior codes for all managers and organized annual HSE examination and ad hoc inspection to review HSE performance of key subsidiaries.

*Legal Risk Management Policy:* Our legal risk management system aims to identify and manage risk relating to the entering into and performance of contracts, risk relating to intellectual property rights, employment-related risk and other regulatory risks. The Legal Affairs Department is charged with direct responsibility to oversee and manage legal risk.

## **Insurance**

Through our Safety Production Insurance Fund and other insurance arrangements, we have insurance coverage for our property, plant, equipment and certain assets that are subject to significant operating risks, third-party liability insurance against claims relating to personal injury, property and environmental damages that result from accidents and employer liabilities insurance. We believe that our insurance coverage is comparable to that of other companies engaged in similar businesses. Our oil and gas operations are subject to hazards and risks inherent in the trading, drilling and production of petroleum products. As protection against these operational risks, we maintain insurance coverage against most potential losses, including the loss of wells, as well as liabilities related to costs of pollution control and environmental compliance. Additionally, we purchase insurance to cover credit risks relating to our international trading business.

## **Intellectual Property**

We rely on a variety of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position. As of December 31, 2012, we owned more than 13,000 patents in China and other jurisdictions, which was the largest number of patents owned by any of China's SOEs. We do not believe that any individual property right or related group of intellectual property rights is of such importance that its expiration or termination would materially affect our business.

## **Legal Proceedings**

We and our subsidiaries are involved in certain legal proceedings concerning matters arising in the ordinary course of their business. We believe, based on currently available information, that these proceedings, individually or in the aggregate, will not have a material adverse effect on our results of operations or financial condition.

## **Environmental Matters**

We are subject to various PRC national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water and disposal, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials. The environmental regulations require us to register or file an environmental impact report with the relevant environmental bureau for approval before we undertake any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that the environmental equipment installed in the facility satisfies environmental requirements. Our Health, Safety and Environment Department is responsible for the management and monitoring of environmental matters directly.

We believe that our businesses are in compliance with currently applicable national, local and foreign environmental laws and regulations in all material aspects. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we had not encountered any material issues relating to environmental matters or been subject to any material administrative penalties due to any activities that may cause pollution to the environment.

## SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

### Overview

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

#### *National Development and Reform Commission*

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

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

#### *The Ministry of Commerce*

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

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

#### *Ministry of Land and Resources*

The Ministry of Land and Resources ("MLR") is responsible for approving, issuing and registering the licenses that are required to explore and produce crude oil and natural gas in China and approving the transfer of these exploration rights and production rights.

### Regulation of Exploration and Production

#### *Exploration and Production Rights*

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1986, the Standing Committee of the National People's Congress passed the Mineral Resources Law (amended in 1996) which authorizes the MLR to exercise administrative authority over the

exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The MLR has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only we, CNPC, CNOOC and Shanxi Yanchang Petroleum Group Ltd. have obtained such approval. In addition, pursuant to the Regulation on the Administration of Geological Survey Qualifications promulgated by the State Council, which became effective from July 1, 2008, any entity engaging in geological survey activities shall obtain a geological survey qualification certificate. Oil and natural gas survey qualifications, among others, shall be examined, approved and granted by the MLR.

Applicants for exploration licenses must first register with the MLR blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make an annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB 2,000 per square kilometer for the initial year to RMB 5,000 for the second year and to RMB 10,000 for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee of RMB 100 per square kilometer for each of the first three years. Afterwards, the annual fee increases by an additional RMB 100 per square kilometer per year up to a maximum of RMB 500 per square kilometer. The maximum term of an exploration license for petroleum or natural gas is 7 years. The exploration license may be renewed upon application by the holder at least 30 days prior to expiration date, with each renewal for a maximum two-year term.

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

The MLR issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license for a large-scale mine is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 80 years. The full production license is renewable upon application by the holder at least 30 days prior to expiration of the original term. A holder of the full production license has to pay an annual full production right usage fee of RMB 1,000 per square kilometer.

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

### ***Price Controls on Crude Oil***

According to the Measures for Administration of Petroleum Products Price (Trial) issued by the NDRC on March 26, 2013, the crude oil price shall be determined by the enterprises on their own accord, by reference to the international market price. The price for supplying crude oil by us and

CNPC to each other shall be determined by both the parties upon consultation in accordance with the principle that the cost for transporting domestic crude oil to the refinery is equal to the cost for importing crude oil from international market to the refinery. The price for providing crude oil by us and the CNPC to local refineries shall be determined in reference to the supply prices between the two corporations. The price of crude oil manufactured by CNOOC or other enterprises shall be determined on their own accord by reference to the international market price.

### ***Volume and Price of Natural Gas***

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

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

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

On December 26, 2011, the NDRC decided to implement the reform of natural gas price formation mechanism in Guangdong Province and Guangxi Autonomous Region. The purpose of such reform is to cause the ex-factory price of natural gas to be decided by the market and the government would only interfere with the price of natural gas pipeline transmission with the nature of natural monopoly. Such reform is proposed to be carried out in the following aspects: first, change the prevailing pricing method (cost plus pricing) to “net back pricing,” decide the pricing reference point and the types of alternative energy, and establish the connection between the prices of natural gas and alternative energy; second, determine the price of natural gas at city gate in each province (region and city), based on the pricing reference point and taken into consideration the major consumers of natural gas resources and pipeline transmission costs; third, the price of natural gas at city gate will be dynamic and adjusted annually based on the changes of alternative energy prices, and will be adjusted semiannually or quarterly in the future; and fourth, a market-oriented pricing mechanism will also be implemented to set the prices of unconventional natural gas such as shale gas, coal bed methane and coal-to-gas.

On June 28, 2013, NDRC released the *Circular on Adjustment of the Price of Natural Gas (Fa Gai Jia Ge[2013]No.1246)*. Pursuant to the circular, the NDRC expanded the above-mentioned reform nation-wide. Prices of natural gas will be linked to the prices of alternative energy, and the prices will be determined at city gates, by the market (i.e., by natural gas suppliers and consumers themselves), subject to a ceiling price set by the government. The natural gas prices slightly

increased, but caps were set for the prices increase. Price of natural gas used to make fertilizer cannot increase by more than 0.25 yuan per cubic meter and prices of other non-residential natural gas cannot increase by more than 0.4 yuan per cubic meter. Gas prices for residential users will remain unchanged.

## **Regulation of Refining and Marketing of Refined Oil Products**

### ***Volume and Price Controls on Gasoline Diesel and Jet Fuels***

The PRC government continues to exercise control over the prices of gasoline, diesel and jet fuels.

According to the Notice on Implementing Reforms on Prices of Refined Oil Products and Tax promulgated by the State Council on December 18, 2008 and the Measures for Administration of Petroleum Products Price (Trial) issued by the NDRC on March 26, 2013, the sale price for refined oil products in the PRC market shall be adjusted with reference to international crude oil price fluctuations, subject to governmental control. The NDRC will set the maximum retail price and the provincial price bureaus have the authority to set the maximum wholesale prices for gasoline and diesel. As a principle, the maximum retail price for gasoline and diesel in the Chinese market shall be decided with reference to the international crude oil price plus the average domestic processing costs, tax levies, reasonable sales and marketing expenses and appropriate profit. Gasoline and diesel prices shall be adjusted once every 10 business days according to the changes in crude oil prices on the international market. Price adjustments shall come into effect at 24:00 on the date when such adjustments are announced. If the international crude oil prices experience sustained increase or radical fluctuation, the price of refined oil products, including gasoline and diesel products, will be controlled by the government to reduce the oil price fluctuation impact upon the PRC market. In addition, the ex-factory price of the jet fuels (standard) will be determined by the buyers and the sellers, subject to a limit of no more than the import parity price in the Singapore market. The NDRC will regularly release the import parity price for jet fuels in the Singapore market. On September 16, 2013, a *Circular of Relevant Opinions on Price Policies for Upgrading Oil Quality* was promulgated by the NDRC, pursuant to which the upper limit of the prices for automotive gasoline and diesel that meet the National IV standards and National V standards can be raised respectively.

## **Regulation of Crude Oil and Refined Oil Products Market**

On December 4, 2006, the Ministry of Commerce of the PRC promulgated the Administrative Rules for Crude Oil Market and Administrative Rules for Refined Oil Products Market to open the wholesale market of crude oil and refined oil products to new market entrants, respectively. Foreign enterprises' rapid entrance into Chinese petroleum and chemical products markets will change the current market status for petroleum and chemical products market.

On March 26, 2013, the NDRC announced adjustments to the existing refined oil pricing mechanism, which include, among other things, (i) shortening the price adjustment period from 22 business days to 10 business days; (ii) lifting the 4% downward and upward fluctuation cap of the price adjustments; (iii) adjusting the composition of domestic benchmark crude oil types in response to changes of types of imported crude oil and crude oil trading in the overseas market. Under certain extreme circumstances, such as sharp rises in domestic inflation or dramatic fluctuations of international crude oil prices, NDRC may issue additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustments upon the approval by the State Council.

## ***Investment***

Under the State Council's Decision on Investment System Reform, investments without the use of government funds are only subject to a licensing system or a registration system, as the case may be. Under the current system, only significant projects involved in the Catalogue of Investment Projects Approved by the Government (2004) are subject to approval so as to maintain social and public interests. The scope to which the government approval system is applicable shall be observed and adjusted where necessary. All other projects of any investment scale are only subject to a registration system.

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

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

## ***Taxation, Fees and Royalties***

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

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

Effective from January 1, 2009, China has adjusted the consumption tax rates of refined oil products under the country's refined oil tax reform plan.

On October 28, 2011, the Rules for Implementation of Interim Regulations of the Resource Tax was promulgated by the Ministry of Finance and State Administration of Taxation, under which the implementation of resource taxes reform will cover oil and gas enterprises nationwide from November 1, 2011. Any person who is involved in the production of crude oil and natural gas, and is qualified to pay resource taxes, shall pay 5% of the price of crude oil or natural gas as the resource tax. Qualified tax payers may enjoy an exemption or reduction of resource taxes.

Effective from November 1, 2011, the Ministry of Finance increased the threshold of the special oil income levy to US\$55 per barrel, and a five-level progressive rate will still be applicable to special oil income levy collection based on the sale prices, which is calculated monthly and paid quarterly.

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

<u>Tax Item</u>	<u>Tax Base</u>	<u>Tax Rate</u>
Enterprise income tax	Taxable income	25% effective from January 1, 2008.
Value-added tax	Revenue	13% for liquefied petroleum gas, natural gas and low density polyethylene for production of agricultural film and fertilizers and 17% for other items. We generally charge value-added tax to our customers at the time of settlement on top of the selling prices of our products on behalf of the taxation authority. We may directly claim a refund from the value-added tax collected from our customers of any value-added tax that we paid for (i) purchasing materials consumed during the production process; (ii) charges paid for drilling and other engineering services; and (iii) labor consumed during the production process.
Business tax	Revenue from pipeline transportation services	3% and 5%.
Consumption tax	Aggregate volume sold or self-consumed	Since January 1, 2009, the consumption tax rates are RMB 1,388.0 for gasoline per ton, RMB 940.8 for diesel per ton, RMB 1,385.0 for naphtha per ton, RMB 1,282.0 for solvent oil per ton, RMB 1,126.0 for lubricant oil per ton, RMB 812.0 for fuel oil per ton, and RMB 996.8 for jet fuel per ton, respectively. The consumption tax for jet fuel is currently exempted. Since October 1, 2011, the consumption tax is reinstated for naphtha and fuel oil if the enterprises producing such products make external sale for purposes of producing ethylene and aromatic hydrocarbon; whereas it is currently exempted, based on the actual consumption quantity, if such products are produced for the internal production of ethylene and aromatic hydrocarbon. Furthermore, the consumption tax will be refunded, based on the actual consumption quantity, to qualified enterprises if they purchase such products for the internal production of ethylene and aromatic hydrocarbon.

<b>Tax Item</b>	<b>Tax Base</b>	<b>Tax Rate</b>
Import tariff	CIF China price	5% for gasoline, 6% for diesel, 9% for jet kerosene and 6% for fuel oil. Beginning on July 1, 2011, the applicable tax rates for gasoline, fuel oil, diesel and jet kerosene are 1%, 1%, 0% and 0%, respectively.
Resource tax	Aggregate volume sold or self-consumed or sales price	Beginning on November 1, 2011, for domestic production of crude oil and natural gas, the applicable tax rate is 5% of the sales price.
Compensatory fee for mineral resources	Revenue of crude oil and natural gas	1%
Exploration license fee	Area	RMB 100 to RMB 500 per square kilometer per annum.
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee <sup>(1)</sup>	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	Total amount of value-added tax, consumption tax and business tax	1%, 5% and 7%.
Education surcharge and local education surcharge	Total amount of value-added tax, consumption tax and business tax	3% and 2%.
Special oil income levy	Any revenue derived from sale of domestically produced crude oil when the realized crude oil price exceeds US\$55 per barrel.	Progressive rate of 20% to 40% for revenue derived from crude oil with realized price in excess of US\$55 per barrel.

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(1) Sino-foreign oil and gas exploration and development cooperative projects whose contracts were signed prior to November 1, 2011 and have not yet expired are still subject to royalty fee, and the project companies of those cooperative projects are not subject to any other resource taxes or fees. Sino-foreign oil and gas exploration cooperative projects whose contracts are signed after November 1, 2011 are not subject to royalty fee, but are subject to resource taxes.

## MANAGEMENT

### General

Our business and operations are managed by our senior management through an executive committee (“Executive Committee”). Our board (“Board”) of directors has been established pursuant to the approval of the SASAC dated April 13, 2012. In connection with the establishment of our Board, we have submitted our revised Articles of Association to the SASAC and relevant governmental agencies for approval.

### Directors and Senior Management

The table below sets forth information regarding our Directors and their concurrent positions at Sinopec Corp.

Name	Age	Position
Fu Chengyu . . . . .	61	Chairman of the Company Chairman of Sinopec Corp.
Wang Tianpu . . . . .	50	Director and President of the Company Vice Chairman and President of Sinopec Corp.
Xu Bin . . . . .	56	Director of the Company
Ding Zhongzhi . . . . .	63	External Director of the Company
Ma Zhigeng . . . . .	68	External Director of the Company
Victor K. Fung . . . . .	68	External Director of the Company
Wu Xiaohua . . . . .	68	External Director of the Company
Cai Hongbin . . . . .	46	External Director of the Company

The table below sets forth information regarding our other senior management and their concurrent positions at Sinopec Corp.

Name	Age	Position
Zhang Yaocang . . . . .	59	Vice President of the Company Vice Chairman of Sinopec Corp.
Li Chunguang . . . . .	57	Vice President of the Company Director and President of Sinopec Corp.
Zhang Jianhua . . . . .	48	Director and Senior Vice President of Sinopec Corp.
Wang Zhigang . . . . .	55	Director and Senior Vice President of Sinopec Corp.
Cai Xiyu . . . . .	51	Director and Senior Vice President of Sinopec Corp.
Cao Yaofeng . . . . .	59	Vice President of the Company Director of Sinopec Corp.
Dai Houliang . . . . .	49	Director and Senior Vice President of Sinopec Corp.
Liu Yun . . . . .	56	Chief Accountant of the Company Director of Sinopec Corp.

The business address of our Directors is 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, China.

**Fu Chengyu**, aged 61, is Chairman of the Company and Chairman of Sinopec Corp. Mr. Fu is a professor level senior engineer and obtained a master’s degree. In 1983, he successively served as chairman of the joint management committee of the joint venture projects established between China National Offshore Oil Corporation (CNOOC) and foreign oil giants such as Amoco, Chevron, Texaco, Phillips, Shell and Agip, etc. From 1994 to 1995, he served as Deputy General Manager of China Offshore Oil Nanhai East Corporation. In December 1995, he served as vice president of USA Phillips International Petroleum Company (Asia), and

concurrently as General Manager of the Xijiang Development Project. In April 1999, he was appointed as General Manager of China National Offshore Oil Nanhai East Corporation. In September 1999, he was appointed as Executive Director, Executive Vice President and Chief Operating Officer of China National Offshore Oil Co., Ltd. In October 2000, he was appointed as Deputy General Manager of CNOOC; and in December 2000, he concurrently served as President of China National Offshore Oil Co., Ltd. In August 2002, he served as Chairman and Chief Executive Officer of China Oilfield Services Co., Ltd., a subsidiary of CNOOC. In October 2003, he served as General Manager of CNOOC, and concurrently as Chairman and Chief Executive Officer of China National Offshore Oil Co., Ltd. In September 2010, Mr. Fu resigned the post of Chief Executive Officer of China National Offshore Oil Co., Ltd. and continued to serve as Chairman. In April 2011, Mr. Fu was appointed Chairman of our Company; and in May 2011, he was appointed Chairman of Sinopec Corp.

**Wang Tianpu**, aged 50, is a Director and President of the Company and Vice Chairman and President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute in July 1985 majoring in basic organic chemistry. He obtained his MBA degree in Dalian University of Science & Technology in July 1996 and Ph.D. degree in Zhejiang University in August 2003 majoring in chemical engineering. He is a professor level senior engineer. In March 1999, Mr. Wang was appointed as Vice President of Qilu Petrochemical Company, one of our subsidiaries. In February 2000, he was appointed as Vice President of Sinopec Corp. Qilu Branch Company. In September 2000, he was promoted to President of Sinopec Corp. Qilu Branch Company. In August 2001, Mr. Wang was appointed as Vice President of Sinopec Corp. In April 2003, he was appointed as Senior Vice President of Sinopec Corp. In March 2005, Mr. Wang was appointed as President of Sinopec Corp. In May 2006, Mr. Wang was elected as a Director and appointed President of Sinopec Corp. In May 2009, Mr. Wang was elected as Vice Chairman and appointed President of Sinopec Corp. In August 2011, Mr. Wang was elected as our Director and appointed as our President.

**Xu Bin**, aged 56, is a Director of the Company. Mr. Xu obtained a bachelor of law degree. He became Deputy Director of No. 6 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection in June 1996. In April 2000, he became Deputy Director of No. 3 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection. He was appointed as Director and Ombudsman of No. 3 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection in November 2004. In November 2006, he was designated as Director of Petitions Office of the Communist Party of China Central Commission of Discipline Inspection. In May 2011, he was appointed as the Chief of Discipline Inspection of the Company. Mr. Xu has been our Director since April 2012.

**Ding Zhongzhi**, aged 63, is an External Director of the Company. He also serves as an external director of China Mobile Communications Group Corporation. Mr. Ding graduated from Hunan University in 1974 majoring in electronic system and automation, and received his master's degree in management engineering from Central South University of Technology in 1997. Mr. Ding started his working career in 1968 and had served as Director General of Changsha Power Industry Bureau; Deputy Director General and a member of the CPC Committee of Hunan Provincial Power Industry Bureau; Deputy Director General (Vice President) and a member of the Party Committee of Central China Power Administration Bureau; Director General (President) and Secretary of the Party Committee of Northwest Power Administration Bureau; President of China Power Investment Limited; Executive Vice Chairman, President, and Secretary of the Party Committee of China Power International Corporation; and a member of the preparatory team of China Power Investment Corporation. In December 2002, he was appointed as Vice President and

a member of the Party Committee of China Power Investment Corporation. In September 2007, he served as a director of State Nuclear Power Technology Corporation. In August 2011, he was elected as an external director of China Mobile Communications Corporation. Mr. Ding has been an External Director of our Company since April 2012.

**Ma Zhigeng**, aged 68, is an External Director of the Company. He is also an external director of each of China Three Gorges Corporation and Dongfeng Motor Corporation. Mr. Ma is an alternate member of the 16<sup>th</sup> Communist Party of China Central Committee and a member of the fiscal and economic committee of the 11<sup>th</sup> National People's Congress. Mr. Ma graduated from Yangzhou Institute of Technology majoring in machinery manufacturing in 1968. He had served as Deputy Director General and a member of the Party Committee of Sichuan Ordnance Bureau under the Ministry of Ordnance Industry, Deputy Director General and a member of the CPC Committee of Sichuan Ordnance Bureau under the State Machinery Commission, Deputy Director and a member of the Party Committee of the Southwest Area Department under China North Industries (Group) Corporation ("NORINCO"), Deputy Director General and a member of the CPC Committee of Southwest Ordnance Bureau under NORINCO, and Chief Economist of NORINCO. In August 1993, he was appointed as Vice President and a member of the Party Committee of NORINCO. In June 1997, he served as Deputy Secretary of the Party Committee of NORINCO. In June 1999, he was appointed as President and Secretary of the CPC Committee of NORINCO. Mr. Ma was elected as an external director of each of Shanghai Electric Group, China Three Gorges Corporation and Dongfeng Motor Corporation in June 2010, December 2010 and March 2011, respectively. Mr. Ma has been an External Director of our Company since April 2012.

**Victor K. Fung**, aged 68, is an External Director of the Company. He also serves as an external director of Baosteel Group Corporation. He is a member of the 10<sup>th</sup> and 11<sup>th</sup> Chinese People's Political Consultative Conference. He currently serves as Chairman of Hong Kong Li & Fung Group. Mr. Fung holds bachelor and master degrees in electrical engineering from Massachusetts Institute of Technology, and a doctorate degree in business economics from Harvard University. He had taught as a professor at Harvard Business School, and served as President and Director, Vice Chairman and Chairman of Hong Kong Li & Fung Group. He holds a number of civic and professional appointments, including Chairman of the Hong Kong Trade Development Council, Chairman of the Airport Authority Hong Kong, Chairman of the Greater Pearl River Delta Business Council, Chairman of the Council of the University of Hong Kong, the Hong Kong representative on the APEC Business Advisory Council, and Chairman of International Chamber of Commerce. He also serves as an independent non-executive director of each of BOC Hong Kong (Holdings) Limited, PCCW Mobile Limited, Sun Hung Kai Properties Limited and Orient Overseas (International) Limited. In May 2005, Mr. Fung was elected as an external director of Baosteel Group Corporation. Mr. Fung has been an External Director of our Company since April 2012.

**Wu Xiaohua**, aged 68, is an External Director of the Company. He is a member of the Law Committee of the 11<sup>th</sup> National People's Congress. Mr. Wu graduated from the University of Science and Technology of China majoring in semiconductor in 1968. He has served successively as Deputy Director General of the First Equipment Department under the Ministry of Machinery and Electronics Industry; Deputy General Manager and a standing member of the Party Committee of Xi'an Electric-Driven Machinery Corporation (Exchange Cadre); Director General of the Major Equipment Department under the Ministry of Machine-Building Industry; Vice President and a member of the Party Committee of China National Machinery and Equipment (Group) Corporation and concurrently Secretary of the Party Committee and First Deputy General Manager of China National Machinery and Equipment Import and Export Corporation; Vice Chairman, Vice President and a member of the CPC Committee of China National Machinery and Equipment (Group)

Corporation and concurrently Secretary of the Party Committee and General Manager of China National Machinery and Equipment Import and Export Corporation. In April 1999, Mr. Wu was appointed as Deputy Director General and a member of the Party Committee of State Bureau of Machine-Building Industry, and promoted to Director General and Secretary of the Party Committee of the same bureau in September 1999. Mr. Wu was appointed as Deputy Secretary of the Central Work Committee of Large Enterprises in February 2001, Deputy Director and a member of the Party Committee of the State-Owned Assets Supervision and Administration Commission in March 2003, and President of China Electrotechnical Society in August 2006. Mr. Wu has been an External Director of our Company since April 2012.

**Cai Hongbin**, aged 46, is an External Director of the Company. He is also the Dean of Guanghua School of Management at Peking University. Mr. Cai received his PhD in economics from Stanford University in 1997. He had served as an assistant professor of the economics department at University of California, Los Angeles; a visiting assistant professor at the economics department of Yale University; and a professor and Assistant Dean of Guanghua School of Management at Peking University. He also serves as Deputy Director of the central economic committee of Chinese Democratic League, Director of J. Mirrlees Institute of Economic Policy Research at Peking University, an associate director of Center of Poverty Research at Peking University, advisor to the World Bank and Asia Development Bank, and independent director of China Everbright Bank Co., Ltd. and China Unicom (Hong Kong) Limited. Mr. Cai has been an External Director of our Company since April 2012.

**Zhang Yaocang**, aged 59, is Vice President of the Company and Vice Chairman of Sinopec Corp. Mr. Zhang is a professor-level senior engineer and obtained a graduate degree from Graduate School. In November 1990, he was appointed as Deputy Director General of the Bureau of Petroleum Geology and Marine Geology, Ministry of Geology and Mineral Resources. In February 1994, he was appointed as Secretary of the CPC Committee and Deputy Director General of that Bureau. He became Deputy Secretary of the CPC Leading Group and Executive Vice President of Sinopec Star Petroleum Co., Ltd. in June 1997. In April 2000, he was appointed as Assistant to President of the Company and concurrently President of Sinopec Star Petroleum Co., Ltd. In August 2000, he was appointed concurrently as Secretary of the Party Committee of Sinopec Star Petroleum Co., Ltd. In July 2001, he was appointed as Vice President of the Company. In May 2009, he was elected as Vice Chairman of Sinopec Corp.

**Li Chunguang**, aged 57, is Vice President of the Company and Director and President of Sinopec Corp. Mr. Li is a professor-level senior engineer and obtained a university diploma. He was Deputy General Manager of Sinopec Sales Company North China Branch in August 1991. In October 1995, he was appointed as Deputy General Manager of Sinopec Sales Company. In June 2001, he became General Manager of Sinopec Sales Co., Ltd. In December 2001, he was appointed as Director General of Oil Product Sales Department of Sinopec Corp. In April 2002, he was elected as Chairman of the Board of Directors and General Manager of Sinopec Sales Co., Ltd. In April 2003, he was appointed Vice President of Sinopec Corp. and in May 2009, he was elected as a Director of Sinopec Corp. Mr. Li has been our Vice President since November 2005.

**Zhang Jianhua**, aged 48, is a Director and Senior Vice President of Sinopec Corp. Mr. Zhang is a professor-level senior engineer and obtained a PhD degree. He was appointed as Vice President of Shanghai Gaoqiao Petrochemical Company, a subsidiary of the Company in April 1999. In February 2000, he became Vice President of Sinopec Shanghai Gaoqiao Branch Company, which is a branch of Sinopec Corp. In September 2000, he was appointed as President of Sinopec Shanghai Gaoqiao Branch Company. In April 2003, Mr. Zhang was elected as Vice President of Sinopec

Corp. In November 2003, we was appointed concurrently as the Director General of the Production & Operation Management Department of Sinopec Corp. In March 2005, he was appointed as Senior Vice President of Sinopec Corp. In May 2006, Mr. Zhang was elected as a Director and appointed Senior Vice President of Sinopec Corp.

**Wang Zhigang**, aged 55, is a Director and Senior Vice President of Sinopec Corp. Mr. Wang is a professor-level senior engineer and obtained a PhD degree. In February 2000, he was appointed as Vice President of Sinopec Shengli Oilfield Company Limited. In June 2000, Mr. Wang served as Director and President of Sinopec Shengli Oilfield Company Limited. In November 2001, he was appointed temporarily as Deputy Director General and Deputy Secretary of CPC Leading Group of Economic and Trade Committee of Ningxia Hui Autonomous Region. In April 2003, he was appointed as Vice President of Sinopec Corp. In June 2003, he was appointed the Director General of Sinopec Exploration and Production Department. In March 2005, he was appointed as Senior Vice President of Sinopec Corp. In May 2006, he was elected as a Director and appointed as Senior Vice President of Sinopec Corp.

**Cai Xiyou**, aged 51, is a Director and Senior Vice President of Sinopec Corp. Mr. Cai is a professor-level senior economist and obtained a master's degree. In June 1995, he was appointed as Vice President of Jinzhou Petrochemical Company of the former China Petrochemical Corporation. In May 1996, he was appointed as Vice President of Dalian Western Pacific Petrochemical Co., Ltd. In December 1998, he was appointed as Vice President of Sinopec Sales Co., Ltd., and in June 2001, he was Executive Deputy Manager of Sinopec Sales Co., Ltd. He was appointed as Director and President of China International United Petrochemical Company Limited (UNIPEC) in December 2001. He was appointed as Vice President of Sinopec Corp. in April 2003. Mr. Cai has been Senior Vice President of Sinopec Corp. since November 2005. Mr. Cai was elected as a Director and appointed as Senior Vice President of Sinopec Corp. in May 2009.

**Cao Yaofeng**, aged 59, is Vice President of the Company and a Director of Sinopec Corp. Mr. Cao is a professor-level senior engineer and obtained a master's degree. Mr. Cao was appointed as Deputy Director General of Sinopec Shengli Petroleum Administration Bureau in April 1997. In May 2000, following the establishment of Sinopec Corp., he served concurrently as Vice Chairman of Sinopec Shengli Oilfield Company, a subsidiary of Sinopec Corp. In December 2001, he became a Director and President of Sinopec Shengli Oilfield Company. He was appointed as Director General of Sinopec Shengli Petroleum Administration Bureau and Chairman of Sinopec Shengli Oilfield Company in December 2002. From April 2003 to May 2006, he served as Employee Representative Director of Sinopec Corp. In October 2004, he was appointed as Assistant to President of the Company. In May 2009, he was elected as a Director of Sinopec Corp. Mr. Cao has been Vice President of our Company since November 2005.

**Dai Houliang**, aged 49, is a Director and Senior Vice President of Sinopec Corp. Mr. Dai is a professor-level senior engineer and obtained a PhD degree. Mr. Dai was appointed as Vice President of Sinopec Yangzi Petrochemical Company in December 1997. In April 1998, he was appointed as Director and Vice President of Yangzi Petrochemical Co., Ltd. In July 2002, he was appointed as Vice Chairman and President of Yangzi Petrochemical Co., Ltd. and Director of Sinopec Yangzi Petrochemical Company. In December 2003, he was appointed as Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Chairman of Sinopec Yangzi Petrochemical Company. In December 2004, he was also appointed as Chairman of BASF-YPC Company Limited. He was appointed as the Deputy Chief Financial Officer of Sinopec Corp. in

September 2005. Mr. Dai was appointed as Vice President of Sinopec Corp. in November 2005. In May 2006, he was elected as a Director and was appointed Senior Vice President and Chief Financial Officer of Sinopec Corp. Mr. Dai was elected as a Director and appointed as Senior Vice President of Sinopec Corp. in May 2009.

*Liu Yun*, aged 56, is Chief Accountant of the Company and a Director of Sinopec Corp. Mr. Liu is a senior accountant with a master's degree. Mr. Liu was appointed as Deputy Director General of Financial Department of the Company in December 1998. In February 2000, he was appointed as Deputy Director General of Financial Department of Sinopec Corp. In January 2001, he was appointed as Director General of Financial Department of Sinopec Corp. In June 2006, he was appointed as Deputy Chief Financial Officer of Sinopec Corp. In February 2009, he was appointed as Chief Accountant of the Company. In May 2009, he was elected as a Director of Sinopec Corp.

## DESCRIPTION OF THE DOLLAR NOTES AND GUARANTEES

The Dollar Notes will be issued pursuant to separate Indentures (each an “Indenture” and together the “Indentures”) to be dated as of October 17, 2013 among the Guarantor, the Issuer and Citicorp International Limited as trustee (the “Trustee”) and Citibank N.A., London Branch as paying agent, transfer agent and registrar. A copy of the Dollar Notes, the Guarantees and the Indentures will be available for inspection at the registered office of the Trustee. The holders of a series of the Dollar Notes will be bound by, and be deemed to have notice of, all the provisions of the related Indenture.

*The following summaries of certain provisions of the Dollar Notes, the Guarantees and the Indentures are subject to, and are qualified in their entirety by reference to, the detailed provisions of the Dollar Notes, the Guarantees and the Indentures. Terms and expressions used in this section and not otherwise defined shall have the meanings given to such terms in the Notes and the Indentures. This section does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indentures not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.*

### General

The 2018 Notes will be issued in an initial aggregate principal amount of US\$750,000,000 and will mature on October 17, 2018, the 2023 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000 and will mature on October 17, 2023 and the 2043 Notes will be issued in an initial aggregate principal amount of US\$500,000,000 and will mature on October 17, 2043, unless the 2018 Notes, the 2023 Notes and the 2043 Notes are redeemed earlier pursuant to the terms thereof and of the respective Indenture.

The 2018 Notes will bear interest at the rate of 2.500% per annum. The 2023 Notes will bear interest at the rate of 4.375% per annum. The 2043 Notes will bear interest at the rate of 5.375% per annum. Interest on the Dollar Notes will accrue from October 17, 2013 or from and including the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next Interest Payment Date or the maturity date, payable semi-annually in arrears on October 17 and April 17 in each year (each, an “Interest Payment Date”), commencing on April 17, 2014, to the persons in whose names the Dollar Notes are registered at the close of business (whether or not a Business Day) on April 2 and October 2, respectively (each an “Interest Record Date”) immediately preceding an Interest Payment Date. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

In any case where the due date of payment of the principal of or interest on the Dollar Notes or the date fixed for redemption of the Dollar Notes is not a Business Day (as defined below), then payment of principal or interest shall be made on the next succeeding Business Day, with the same force and effect as if made on the due date of payment or the date fixed for redemption, as the case may be, and no interest shall accrue for the period after such date. “Business Day” means a day in The City of New York, Hong Kong and the applicable place of payment other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed.

The Dollar Notes will not be entitled to the benefit of any sinking fund. The Dollar Notes shall be denominated in minimum principal amounts of US\$200,000 and in integral multiples of US\$1,000 in excess thereof.

The Dollar Notes will be the direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other indebtedness of the Issuer that is designated as subordinate or junior in right of payment to the Dollar Notes.

The Dollar Notes are unconditionally guaranteed as to the payment of the principal and interest in respect thereof and all other amounts payable thereunder as evidenced by the Guarantees and related provisions set forth in the respective Indenture. The Guarantees are the Guarantor's direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* with all of the Guarantor's other unsecured and unsubordinated obligations (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all the Guarantor's other indebtedness that is designated as subordinate or junior in right of payment to the Guarantees.

The principal of, interest on, and all other amounts payable under, the Dollar Notes will be payable, and the Dollar Notes may be exchanged or transferred, at the office or agency of the Issuer, which initially will be the corporate trust office of the Trustee currently located at 56/F One Island East, 18 Westlands Road, Island East, Hong Kong, or at such other location or locations as the Issuer, in consultation with the Trustee, may designate.

The principal of and interest on the Dollar Notes will be made by wire transfer or otherwise in immediately available funds and payable in U.S. dollars or in such other coin or currency of the United States of America as of the time of payment is legal tender for the payment of public and private debts.

Payment of the principal of and interest on the Dollar Notes held through the Depository Trust Company ("DTC") will be credited to the respective accounts of the holders of the Dollar Notes with DTC or its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme Luxembourg* ("Clearstream, Luxembourg"). See "— Notes; Delivery and Form."

## **Guarantees**

Under the Indentures, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Notes when and as the same shall become due and payable, whether on the stated maturity, upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantees will be as if the Guarantor were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Dollar Notes or the Indentures (other than in respect of the Guarantees) and (ii) waived the Guarantor's right to require the Trustee and the holders of the Dollar Notes to pursue or exhaust their legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantees. The Guarantees will not be discharged with respect to any Dollar Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Dollar Note is rescinded or must otherwise be restored, the rights of the holder of the Dollar Note under the Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Guarantees will be made in U.S. dollars.

*Guarantees of foreign indebtedness arising from offshore bond issuances by a PRC-incorporated entity are subject to approval by the State Administration of Foreign Exchange of the PRC (“SAFE”). On September 29, 2013, the Guarantor obtained approval from SAFE to guarantee indebtedness payable by the Issuer under the Notes. The Guarantor will rely on the SAFE approval to discharge its obligations under the Guarantee.*

*The Guarantor understands from its discussion with the SAFE and receipt of the SAFE approval that under PRC law:*

- (i) the Guarantees will be legal, valid and binding obligations of the Guarantor upon execution;*
- (ii) the Guarantor is required to register the Guarantees with the Beijing Branch of SAFE (the “Beijing Branch”) as soon as possible and in any event before the date 15 days after the execution of the Guarantees. The Guarantees will be enforceable within the PRC against the assets of the Guarantor only upon the completion of administrative registration procedures with the Beijing Branch. See “Risk Factors — Risks Relating to the Notes and the Guarantees — There is uncertainty relating to the enforceability of the Guarantees of the Notes” and “Enforceability of Foreign Judgments and Civil Liabilities”; and*
- (iii) the Guarantees will cover all sums due under the Notes (including any principal, interest and related financial obligations).*

*Pursuant to the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by the SAFE on July 30, 2010, all proceeds raised by the Issuer under the Notes outside the PRC may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. In addition, the Guarantor is responsible for ensuring that the proceeds obtained by the Issuer will be used outside the PRC.*

*Under the Indentures, upon completion of registration of the Guarantees with the Beijing Branch, the Guarantor is required to deliver an officer’s certificate attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is a true and correct copy. If the registration is not completed by 45 Beijing Business Days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase, as described below under “— Repurchase upon Occurrence of Certain Events.”*

*The Guarantees will be governed by the laws of the State of New York.*

*The Guarantor intends to execute and register the Guarantees as soon as reasonably practicable after the closing date of the offering. Prior to the performance or discharge of its obligations under the Guarantees, the Guarantor is also required to complete a verification process with the Beijing Branch for each remittance under the Guarantees.*

## Further Issues

The 2018 Notes will be issued in an initial aggregate principal amount of US\$750,000,000, the 2023 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000 and the 2043 Notes will be issued in an initial aggregate principal amount of US\$500,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Dollar Notes, create and issue pursuant to the Indentures, additional notes of a series having the same terms and conditions under the respective Indenture as the previously outstanding Dollar Notes of a relevant series in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Dollar Notes of the relevant series; *provided, however*, that such additional notes may have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Dollar Notes of the relevant series only if (i) such additional notes are fungible with such Dollar Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

## Additional Amounts

All payments of principal, premium and interest in respect of the Dollar Notes and/or the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC, Hong Kong, the Cayman Islands or any other jurisdiction in which the Guarantor or the Issuer (or any successor to the Guarantor or the Issuer) is organized or tax resident, in each case including any political subdivision, territory or possession thereof, any authority therein having power to tax or any area subject to its jurisdiction (each, a “Relevant Jurisdiction”) or any jurisdiction from or through which any payment is made (together with Relevant Jurisdictions, each, a “Relevant Taxing Jurisdiction”) unless such Taxes are required by law to be withheld or deducted. If any deduction or withholding for any present or future Taxes of the applicable Relevant Taxing Jurisdiction shall at any time be so required, the Guarantor or the Issuer, as the case may be, shall pay such additional amounts (“Additional Amounts”) as will result (after deduction of such Taxes, including Taxes payable in respect of such Additional Amounts) in receipt by each holder of any Dollar Note of such amounts as would have been received by such holder with respect to such Dollar Note or Guarantee, as applicable, had no such withholding or deduction been required; *provided, however*, that no Additional Amounts shall be payable in respect of any Dollar Note:

- (i) to a holder (or to a third party on behalf of a holder) who is liable to such Taxes in respect of such Dollar Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Dollar Note;
- (ii) which is surrendered (where required to be surrendered) more than 30 calendar days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Amounts on surrender of such Dollar Note for payment on the last day of such period of 30 calendar days. “Relevant Date” means whichever is the later of (a) the date on

which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Dollar Notes;

- (iii) to a holder (or to a third party on behalf of a holder) who would have been able to avoid such withholding or deduction by duly presenting the Dollar Note (where presentation is required) to another paying agent;
- (iv) with respect to any Taxes that would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the holder to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of the Dollar Note, if compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge under the laws (not including treaties) of the Relevant Taxing Jurisdiction;
- (v) with respect to any withholding or deduction that is imposed or levied on a payment pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (vi) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge;
- (vii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Dollar Note or Guarantee; or
- (viii) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (i) through (vii) above.

Additional Amounts will not be paid with respect to any payment of the principal of or any interest on any Dollar Note or under the respective Guarantee to any holder of a Dollar Note who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income of a beneficiary or settlor with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

Whenever there is mentioned, in any context, the payment of principal or interest in respect of any Dollar Note or Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in the respective Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

### **Redemption**

Unless earlier redeemed in the limited circumstances set forth below under “— Optional Redemption” and “— Optional Tax Redemption,” the 2018 Notes will mature on October 17, 2018, the 2023 Notes will mature on October 17, 2023 and the 2043 Notes will mature on October 17, 2043, at a price equal to 100% of the principal amount thereof and the Dollar Notes will not be otherwise redeemable at the option of the Issuer.

### ***Optional Redemption***

The Guarantor or the Issuer may, at the Guarantor's option, at any time and from time to time redeem any of the 2018 Notes, the 2023 Notes and the 2043 Notes, in whole or in part, on not less than 30 nor more than 60 days' prior notice. The applicable Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Dollar Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Dollar Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2018 Notes, 20 basis points in the case of the 2023 Notes and 30 basis points in the case of 2043 Notes, in each case plus, accrued and unpaid interest on the applicable Dollar Notes to be redeemed, if any, to the date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Dollar Notes to be redeemed. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Guarantor.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the Guarantor obtains fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by the Guarantor in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Guarantor, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Guarantor by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the third Business Day preceding such date of redemption.

"Treasury Rate" means, with respect to any date of redemption, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding such redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such date of redemption.

### ***Optional Tax Redemption***

Each series of the Dollar Notes may be redeemed, at the option of the Issuer, in whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Jurisdiction or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment (i) in the case of the Guarantor or the Issuer becomes effective on or after the date of this offering

memorandum and (ii) in the case of any successor to the Guarantor or the Issuer that is organized or tax resident in a jurisdiction that is not a Relevant Jurisdiction as of the original issue date of the Dollar Notes becomes effective on or after the date such successor assumes the Guarantor's or the Issuer's obligations, as applicable, under the Dollar Notes and the Indentures,

- (1) the Issuer is or would be required on the next succeeding due date for a payment with respect to such Dollar Notes, to pay Additional Amounts with respect to the Dollar Notes as described above under “— Additional Amounts;” or
- (2) the Guarantor is or would be unable, for reasons outside its control, on the next succeeding due date for a payment with respect to such Dollar Notes to procure payment by the Issuer, and with respect to a payment due or to become due under the relevant Guarantee or the Indenture, as the case may be, the Guarantor is or would be required on the next succeeding due date for a payment with respect to such Dollar Notes to pay Additional Amounts as described above under “— Additional Amounts.”

and such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer or any successor person, as the case may be.

Notwithstanding anything to the contrary herein, the Guarantor, the Issuer or any successor person may not redeem any series of the Dollar Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer, or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

Notice of redemption of the relevant series of the Dollar Notes as provided above shall be given not less than 30 nor more than 60 calendar days prior to the date fixed for redemption. Notice having been given, the Dollar Notes of such series shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys sufficient for the redemption of such Dollar Notes shall have been made available as provided in the respective Indenture for redemption on the date fixed for redemption, the Dollar Notes shall cease to bear interest, and the only right of the holders of the Dollar Notes shall be to receive payment of the redemption price, interest accrued to the date fixed for redemption and Additional Amounts, if any.

### **Repurchase upon a Change of Control Triggering Event**

Upon a Change of Control Triggering Event (as defined below), the Issuer will be required to make an offer to repurchase all of the Dollar Notes at a price in cash equal to 101% of the principal amount of the Dollar Notes repurchased, plus accrued and unpaid interest on the principal amount of Dollar Notes being repurchased to but excluding the date of repurchase (a “Change of Control Offer”).

Within 30 calendar days following any Change of Control Triggering Event, the Issuer will be required to give written notice to holders describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase all of the Dollar Notes on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Dollar Notes properly tendered and not withdrawn under its offer.

A holder of Dollar Notes will have no right to require the Issuer to repurchase portions of Dollar Notes if it would result in the issuance of new Dollar Notes, representing the portion not repurchased, in an amount of less than US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Dollar Notes pursuant to this covenant.

“Change of Control” means the occurrence, at any time, of any of the following:

- (i) the Guarantor ceasing to own and control directly or indirectly 100% of the Voting Shares of the Issuer; or
- (ii) the government of the People’s Republic of China or Persons controlled by the government of the People’s Republic of China ceasing to own and control directly or indirectly or in combination (through controlled entities) 100% of the Voting Shares of the Guarantor.

“Change of Control Triggering Event” means a Change of Control, *provided that*, in the event that the Dollar Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any United States nationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be.

“Rating Agencies” means (i) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“S&P”); (ii) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“Moody’s”); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors (“Fitch”); and (iv) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Dollar Notes publicly available, any United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.

“Rating Date” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

“Rating Decline” means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Dollar Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: (i) in the event the Dollar Notes are (a) on the Rating Date (x) rated by three Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; or (ii) in the event the Dollar Notes are (a) on the Rating Date (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies.

### **Repurchase upon Occurrence of Certain Events**

Upon completion by the Guarantor of registration of the Guarantees with the Beijing Branch, the Guarantor will be required to deliver an officer’s certificate in a form set forth in the Indentures attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is true and correct (such registration and delivery of an officer’s certificate attaching the Beijing Branch certificate referred to collectively as the “SAFE Completion Event”). If, on the date that is 45 Beijing Business Days after the closing date of the offering, the SAFE Completion Event shall not have occurred (such nonoccurrence, a “SAFE Noncompliance Event”), the Issuer will be required to make an offer to repurchase all of the Dollar Notes at a price in cash equal to 100% of the principal amount of the Dollar Notes repurchased, plus accrued and unpaid interest on the principal amount of the Dollar Notes being repurchased to but excluding the date of repurchase (a “SAFE Noncompliance Offer”).

Within 10 calendar days following a SAFE Noncompliance Event, the Issuer will be required to give written notice of the SAFE Noncompliance Offer to holders of the Dollar Notes offering to repurchase all of the Dollar Notes on the date specified in the notice, which date will be no earlier than 25 calendar days and no later than 35 calendar days from the date such notice is given.

A holder of Dollar Notes will have no right to require the Issuer to repurchase portions of Notes if it would result in the issuance of new Dollar Notes, representing the portion not repurchased, in an amount of less than US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of the Dollar Notes pursuant to this covenant.

### **Certain Covenants**

#### ***Limitation on Liens***

The Indentures provide that the Guarantor will not, and will not permit the Issuer or any Principal Subsidiary to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or such Principal Subsidiary (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Dollar Notes and the Guarantees will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Lien

as shall have been approved by the holders of the Dollar Notes as provided in the Indentures, for so long as such Relevant Indebtedness will be so secured; *provided that*, the Guarantor may permit its Principal Subsidiaries to issue secured Relevant Indebtedness so long as (x) such Relevant Indebtedness is not issued or guaranteed by the Guarantor and (y) after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness of Principal Subsidiaries entered into after the date of the Indentures does not exceed 10% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

- (i) any Lien which is in existence prior to the date of the Indentures and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);
- (ii) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (iii) any Lien either over any asset acquired after the date of the Indentures which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary or which merges with and into the Guarantor after the date of the Indentures which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); *provided that* any such Lien was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;
- (iv) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Indentures; *provided, however*, that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired); and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
- (v) any Lien created or outstanding in favor of the Guarantor or any of the Guarantor's Subsidiaries;
- (vi) any Lien on any property or asset to secure all or part of the cost of exploration, drilling, development, production, gathering, processing, marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;
- (vii) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);
- (viii) any Lien in respect of Relevant Indebtedness of the Guarantor or any of the Guarantor's Subsidiaries with respect to which the Guarantor or such Subsidiary has paid money or

deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Guarantor and the Guarantor's Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or

- (ix) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; *provided that* such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

### ***Consolidation, Merger and Sale of Assets***

The Indentures provide that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease our properties and assets (computed on a consolidated basis) substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation validly existing under the laws of the People's Republic of China, Hong Kong, the Cayman Islands or the British Virgin Islands and such Person expressly assumes by indentures supplemental to the Indentures all the obligations of the Guarantor or the Issuer under the Indentures, the Dollar Notes or the Guarantees, as the case may be;
- (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- (iii) any such Person not organized and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) the People's Republic of China (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental indenture that its jurisdiction of organization or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions; and
- (iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Principal Subsidiaries would become subject to a Lien that would not be permitted under "— Certain Covenants — Limitation on Liens" above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Dollar Notes and the Guarantees at least equally and ratably with the Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Dollar Notes pursuant to the Indentures.

### ***Further Limitation on Issuer's Activities and Related Matters***

For so long as the Dollar Notes are outstanding:

- (i) the Issuer will conduct no business or any other activities other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offering, sale or issuance of securities and borrowings of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, and any other activities in connection therewith;
- (ii) the Guarantor will cause Sinopec Group Overseas Development Limited (“Holdings”) to remain a “company controlled by the parent company” with respect to the Guarantor as such term is defined in Rule 3a-5 under the U.S. Investment Company Act of 1940, as amended;
- (iii) the Guarantor will cause Holdings to maintain 100% equity ownership of the Issuer; and
- (iv) the Guarantor will cause the Issuer to elect to be treated as a disregarded entity for U.S. federal income tax purposes effective as of the original issue date of the Dollar Notes and will ensure that Holdings’ previous election to be treated as a disregarded entity for U.S. federal income tax purposes continues to be in effect, and neither Issuer, Holdings nor the Guarantor will take any action that is inconsistent with the Issuer or Holdings being treated as a disregarded entity for U.S. federal income tax purposes.

### ***Reports, Statements as to Compliance, and Notices of Default***

For so long as the Dollar Notes are outstanding, the Guarantor will agree in the Indentures to file with the Trustee:

- (i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Guarantor, copies of its financial statements in the English language (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of independent accountants; and
- (ii) as soon as they are available, but in any event within 120 calendar days after the end of each first semi-annual fiscal period of the Guarantor, copies of its unaudited financial statements in the English language (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period;

*provided that*, if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognized exchange on which the Guarantor’s capital stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in the English language.

So long as any of the Dollar Notes remain outstanding, the Guarantor will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer's certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

The Guarantor will agree in the Indentures that, so long as the Dollar Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or it is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, will furnish, upon the request of any holder of a Dollar Note or of a beneficial interest in a Dollar Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of a Dollar Note or a beneficial interest in a Dollar Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Dollar Note or beneficial interest in the Dollar Note in reliance on Rule 144A.

#### ***Other Covenants***

In addition, the Indentures will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding the Issuer's and Guarantor's payment of taxes and other claims and the maintenance of an agent for service of process in the Borough of Manhattan, The City of New York.

#### **Events of Default**

Each of the following shall constitute an "Event of Default" under the Indentures for the Dollar Notes:

- (i) failure to pay principal of or premium on any Dollar Note of that series on the date such amount is due and payable, upon optional redemption, acceleration or otherwise;
- (ii) failure to pay interest on any Dollar Note of that series within 30 calendar days after the due date for such payment;
- (iii) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described under "— Certain Covenants — Consolidation, Merger and Sale of Assets", "— Repurchase upon a Change of Control Triggering Event" or "— Repurchase upon Occurrence of Certain Events";
- (iv) failure to perform any other covenant or agreement of the Guarantor or the Issuer under the Indentures, and such failure continues for 60 calendar days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture;

- (v) the Guarantees shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantees;
- (vi) if any regulatory, legislative, executive, judicial or constitutional authorization necessary to enable the Issuer or the Guarantor to perform their respective obligations under the Dollar Notes and the Guarantees or the Indentures cease to remain in full force and effect or at any time it otherwise becomes unlawful for the Guarantor or the Issuer to perform any of its payment obligations under the Indentures, the Guarantees or the Dollar Notes;
- (vii) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (b) acceleration of the maturity of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Guarantor or the Issuer as provided in the respective Indenture, or (c) failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in the respective Indenture; *provided, however*, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$100,000,000 (or its equivalent in any other currency);
- (viii) one or more final judgments or orders for the payment of money are rendered against the Guarantor, the Issuer or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$100,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (ix) certain events in bankruptcy, insolvency or reorganization in respect of the Guarantor, the Issuer or any Principal Subsidiary as provided in the respective Indenture;

If an Event of Default (other than an Event of Default described in clause (ix) above) with respect to the Dollar Notes of that series shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding by notice as provided in the respective Indenture may declare the principal amount of the Dollar Notes and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (ix) above with respect to the Dollar Notes shall occur, the unpaid principal amount of all the Dollar Notes of that series and any accrued and unpaid interest thereon will automatically, and without any action by the Trustee or any holder of Dollar Notes of that series, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of at least a majority in aggregate principal amount of the Dollar Notes of that series then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, have been cured or waived as provided in the respective Indenture.

Subject to the provisions of the Indentures relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any

of its rights or powers under the Indentures at the request or direction of any of the holders of Dollar Notes unless such holders shall have offered to the Trustee security and/or indemnity satisfactory to the Trustee. Subject to certain provisions, including those requiring security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Dollar Notes of a series then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Dollar Notes. However, the Trustee may refuse to follow any direction that conflicts with applicable law or the Indentures, that may involve the Trustee in personal liability or cause it to expend or risk its own funds or otherwise incur any financial liability in following such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders. No holder of any Dollar Notes of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the Indentures, or for the appointment of a receiver or a trustee, or for any other remedy thereunder unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Dollar Notes of that series, (ii) the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding have made written request, and such holder or holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee, to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Dollar Notes of that series then outstanding a direction inconsistent with such request, within 60 days after such notice, request or offer. However, such limitations do not apply to a suit instituted by a holder of a Dollar Note for the enforcement of the right to receive payment of the principal of or interest on such Dollar Note on or after the applicable due date specified in such Dollar Note.

The Trustee need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so, and the Trustee may assume that no such event has occurred and that each of the Guarantor and the Issuer is performing all their respective obligations under the Indentures and the related Dollar Notes and Guarantees unless the Trustee has received written notice of the occurrence of such event or facts establishing that the Guarantor or the Issuer, as the case may be, is not performing all of its obligations under the Indentures, the Dollar Notes and the Guarantees, as the case may be.

### **Payments for Consent**

Neither the Guarantor nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Dollar Notes of any series for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Dollar Notes of that series unless such consideration is offered to be paid or agreed to be paid to all holders of the Dollar Notes of that series that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

### **Modification and Waiver**

The Indentures contain provisions permitting the Guarantor, the Issuer and the Trustee, without the consent of the holders of Dollar Notes, to execute supplemental indentures for certain enumerated purposes, including any amendment solely to conform the Indentures to this offering memorandum (as amended and supplemented) and, with the consent of the holders of not less than a majority in

aggregate principal amount of the applicable series of Dollar Notes then outstanding under the respective Indenture, to change or modify in any manner the rights of the holders of the Dollar Notes of the applicable series, *provided that* no such modification or amendment may, without the consent of all holders of the Dollar Notes, among other things:

- (i) change the stated maturity of the Dollar Notes;
- (ii) reduce the principal amount of or payments of interest on any such Dollar Note;
- (iii) change any obligation of the Guarantor or the Issuer to pay Additional Amounts;
- (iv) change the currency or place of payment of the principal of or interest on any such Dollar Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any such Dollar Note;
- (vi) reduce the above stated percentage of outstanding Dollar Notes necessary to modify or amend the respective Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Dollar Notes necessary for waiver of compliance with certain provisions of the Indentures or for waiver of certain defaults;
- (viii) change, in any manner adverse to the interest of holders of the Dollar Notes, the terms and provisions of the Guarantees in respect of the due and punctual payment of principal of and interest on the Dollar Notes;
- (ix) reduce the premium payable upon the redemption or repurchase of any Dollar Note;
- (x) modify such provisions with respect to limitations on the Issuer's activities; or
- (xi) modify such provisions with respect to modification and waiver, which require the consent of the holders of the Dollar Notes as provided in the respective Indenture.

The holders of not less than a majority in aggregate principal amount of the Dollar Notes then outstanding of a series may, on behalf of holders of all the Dollar Notes of that series, waive compliance by the Guarantor or the Issuer with certain restrictive provisions of the respective Indenture. The holders of not less than a majority in aggregate principal amount of the Dollar Notes of a series may on behalf of all holders of Dollar Notes waive any existing or past default under the respective Indenture for the Dollar Notes, except a continuing default in the payment of principal of, or interest on, any Dollar Note then outstanding or in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each Dollar Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Dollar Notes of a series, whether or not they have given consent to such waivers, and on all future holders of such Dollar Notes, whether or not notation of such waivers is made upon such Dollar Notes. Any instrument given by or on behalf of any holder of a Dollar Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Dollar Note.

The consent of the holders of any series of the Dollar Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment described in the preceding paragraph becomes effective, the Issuer or the Guarantor will deliver to the holders of such Dollar Notes and the Trustee a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Dollar Notes, or any defect therein, will not impair or affect the validity of the amendment.

### **Defeasance and Discharge**

The Indentures provide that, upon the conditions set forth therein, the Guarantor and the Issuer (i) may each be discharged from all their respective obligations with respect to Dollar Notes (except for certain obligations to exchange or register the transfer of Dollar Notes, to replace stolen, lost or mutilated Dollar Notes, to maintain paying agencies and to hold moneys for payment in trust and to pay Additional Amounts), or (ii) need not comply with certain restrictive covenants of the Dollar Notes (including those described under “— Certain Covenants” (other than as described in “— Further Limitations on Issuer’s Activities and Related Matters”) and the events under paragraphs (iii), (iv), (vii) and (viii) under “— Events of Default”) shall not constitute an Event of Default under the Indenture), in each case upon the deposit in trust with the Trustee for the benefit of the holders of such Dollar Notes of money in U.S. dollars or U.S. Government Obligations (as defined below), or both, which, through the payment of principal and interest thereon in accordance with their terms, will provide money in an amount sufficient to pay the principal of and interest on the Dollar Notes (and any Additional Amounts in respect thereof) in accordance with the terms of the Indentures and the Dollar Notes. Such defeasance or discharge pursuant to clauses (i) and (ii) above may occur only if, among other things, the Guarantor and the Issuer have delivered to the Trustee an opinion of independent legal counsel of recognized standing licensed to practice law in the United States to the effect that holders of such Dollar Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance or discharge and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit, defeasance or discharge had not occurred, which opinion of counsel in the case of defeasance described in (i) above must be based on a ruling received by the Guarantor or the Issuer from the U.S. Internal Revenue Service or a published ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law after the original issue date of the Dollar Notes.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer’s option.

### **Prescription**

Any moneys deposited with or paid to the Trustee or any paying agent of the Dollar Notes, or then held by the Issuer, in trust, for the payment of the principal of or interest on (or any Additional Amount payable in respect of) any Dollar Note and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Guarantor or the Issuer be repaid to the Guarantor or the Issuer, as the case may be, by the Trustee or such paying agent or (if then held by the Issuer) be discharged from such trust, unless otherwise required by mandatory provisions of

applicable escheat or abandoned or unclaimed property law, and the holder of such Dollar Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Guarantor or the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent of the Dollar Notes with respect to such moneys shall thereupon cease.

Under New York law, any legal action upon the Dollar Notes or Guarantees must be commenced within six years after the payment thereof is due. Thereafter, the Dollar Notes or Guarantees will generally become unenforceable.

### **Concerning the Trustee**

Citicorp International Limited will be the Trustee under the Indentures. The Corporate Trust Office of Citicorp International Limited is currently located at 56/F One Island East, 18 Westlands Road, Island East, Hong Kong. The Issuer will appoint Citibank, N.A., London Branch as Paying Agent, Transfer Agent and Registrar, located at c/o Citibank, N.A., Dublin, DUB-01-11, Ground Floor, 1 North Wall Quay Dublin 1, Ireland.

The Indentures provide that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indentures. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the Indentures as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Indentures also provide that the Trustee and any paying or other agent of the Dollar Notes, in their individual or any other capacity, may become the owner or pledgee of Dollar Notes with the same rights it would have if it were not the trustee or such agent and may otherwise deal with the Guarantor and the Issuer and receive, collect, hold and retain collections from the Guarantor and the Issuer with the same rights it would have if it were not the trustee or such agent. All moneys received by the Trustee shall, until used or applied as provided in the Indentures, be held in trust thereunder for the purposes for which they were received and need not be segregated from other funds except to the extent required by law.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indentures for the benefit of the holders unless such holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the calculation or computation of any amount payable under the Dollar Notes and the Guarantees or the verification of any such calculations or computations or any verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Issuer or the Guarantor.

### **Indemnification for Judgment Currency Fluctuations**

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of Dollar Notes under the Indentures, the Guarantees or the Dollar Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as

a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess; *provided that* such holder or the Trustee, as the case may be, shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indentures or the Dollar Notes has occurred and is continuing, in which case such excess may be applied by such holder or the Trustee, as the case may be, to such obligations.

### **Governing Law and Consent to Jurisdiction**

The Dollar Notes, the Guarantees and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.

The Guarantor and the Issuer will each irrevocably submit to the non-exclusive jurisdiction of any New York state or United States federal court located in the Borough of Manhattan, The City of New York, New York (each a “New York Court”) in any suit, action or proceeding arising out of or relating to the Indentures, the Dollar Notes, the Guarantees or any transaction contemplated thereby, and will irrevocably waive, to the fullest extent permitted by applicable law, any objection to the venue of any such suit, action or proceeding in any such New York Court and any claim of an inconvenient forum.

The Guarantor and the Issuer has appointed China Petroleum & Chemical Corporation USA Representative Office, Suite 610, 410 Park Avenue, New York, NY, 10022, USA, as agent for service of process with respect of any such suit, action or proceeding.

### **Waiver of Immunity**

To the extent that the Guarantor or the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its assets or properties, the Guarantor and the Issuer each irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Dollar Notes, the Guarantees or the Indentures.

### **Notices**

Notices to holders of the Dollar Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and will be deemed to have been given on the fourth Business Day after the date of mailing. So long as and to the extent that the Dollar Notes are represented by global notes and such global notes are held by DTC, notices to owners of beneficial interests in the global notes may be given by delivery of the relevant notice to DTC for communication by it to entitled account holders.

## **Notes; Delivery and Form**

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg which will affect transfers of interests in the global notes.

The Dollar Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially in the form of one or more Regulation S global notes, fully registered without interest coupons, which will be deposited with Citibank N.A., London Branch, as custodian for DTC (in such capacity, the “Custodian”) and registered in the name of Cede & Co., as nominee of DTC, for the accounts of Euroclear and Clearstream, Luxembourg, as participants in DTC.

The Dollar Notes sold to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the Securities Act will be issued initially in the form of one or more Rule 144A global notes, fully registered without interest coupons, which will be deposited with the Custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Dollar Notes will be issued in minimum denominations of US\$200,000 and in integral multiples of US\$1,000 in excess of that amount.

The Dollar Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indentures and will bear a legend regarding such restrictions as set forth under “Transfer Restrictions.” Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indentures) from the transferor to the effect that such transfer is being made to a non-U.S. person as defined in Rule 904 of Regulation S or pursuant to Rule 144 under the Securities Act (if available).

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Investors may hold their interests in the global notes directly through DTC, Clearstream, Luxembourg or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the Regulation S global notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the “Participants”) will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream, Luxembourg and Euroclear (“Clearstream Participants” and “Euroclear Participants,” respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Persons who are not Participants may beneficially own interests in the global notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream, Luxembourg). So long as Cede & Co., as the nominee of DTC, is the registered owner of the global notes, Cede & Co., for all purposes will be considered the sole holder of such Notes.

Payment of interest on and principal of the global notes will be made to Cede & Co., the nominee for DTC, as the registered owner of the global notes by wire transfer of immediately available funds. None of the Guarantor, the Issuer nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, upon receipt of any payment of interest on or the redemption price of the global notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global notes as shown on the records of DTC. Payments of interest on and principal of the Dollar Notes held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the global notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the global notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Dollar Notes are represented by global notes and such global notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Dollar Notes represented by the applicable global notes for all purposes under the Indentures, including, without limitation, obtaining consents and waivers thereunder, and none of the Guarantor, the Issuer or the Trustee shall be affected by any notice to the contrary. None of the Guarantor, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable global note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Dollar Notes (including, without limitation, the presentation of Dollar Notes for exchange) only at the direction of one or more Participants and only in respect of the principal amount of the Dollar Notes represented by the global note as to which such Participant or Participants has or have given such direction.

Clearstream, Luxembourg or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Dollar Notes (including, without limitation, the presentation of Dollar Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures and subject to its ability to effect such actions through DTC.

DTC has advised the Issuer as follows:

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (“Indirect Participants”).

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer or the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

### **Individual Notes**

If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 calendar days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Dollar Notes, the Issuer will issue individual notes in certificated, fully registered form in exchange for the global notes.

Subject to the transfer restrictions set forth on the individual notes in certificated form, the holder of such individual notes in certificated form may transfer or exchange such Dollar Notes by surrendering them at the Corporate Trust Office of the Trustee. Prior to any proposed transfer of individual notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as described under “Notes; Delivery and Form” above. Upon the transfer, exchange or replacement of individual notes in certificated form not bearing the legend referred to under “Transfer Restrictions,” the Trustee will deliver individual notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual note in certificated form, the Trustee will deliver only individual notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Guarantor

or the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Guarantor or the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

### **Certain Definitions**

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“*Adjusted Consolidated Net Worth*” means the sum of the Guarantor’s (a) shareholders’ equity as determined under PRC GAAP and (b) Subordinated Indebtedness.

“*Beijing Business Day*” means a day other than a Saturday, Sunday or a day on which the Beijing Branch is authorized or obligated by law or executive order to remain closed.

“*Capital Stock*” means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

“*Indebtedness*” of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all noncontingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) all Indebtedness of others guaranteed by such Person.

“*Issuer*” means Sinopec Group Overseas Development (2013) Limited.

“*Lien*” means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“*PRC GAAP*” means generally accepted accounting principles in the PRC consistently applied as in effect from time to time.

“*Principal Subsidiary*” at any time shall mean one of the Guarantor’s Subsidiaries

- (i) as to which one or more of the following conditions is/are satisfied:
  - (a) its net profit or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor’s consolidated net profit (before taxation and exceptional items); or

- (b) its net assets or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor's Subsidiary and the Guarantor's then latest consolidated financial statements, *provided that*: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, *provided that*, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Guarantor's auditors as to whether or not the Guarantor's Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

"*Relevant Indebtedness*" of any Person means, at any date, Indebtedness (x) that has a final maturity date of one year or more from the date of incurrence or issuance of such Indebtedness and (y) is in the form of, is represented or embodied by, bonds, notes, debentures or other securities which are, or are intended to be, commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter securities market.

"*Subordinated Indebtedness*" means the Guarantor's indebtedness (including perpetual debt, which the Guarantor is not required to repay) which (i) has a final maturity and a weighted average life to maturity longer than the remaining life to maturity of the Dollar Notes and (ii) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Dollar Notes including (a) a provision that in the event of the Guarantor's bankruptcy, insolvency or other similar proceeding, the holders of the Dollar Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Dollar Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or

holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon, (b) a provision that, if an Event of Default has occurred and is continuing under the Indentures, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such Event of Default shall have been cured or waived or shall have ceased to exist, and (c) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Dollar Note is outstanding.

“*Subsidiary*” means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person.

“*Voting Shares*” means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

## DESCRIPTION OF THE EURO NOTES AND GUARANTEES

The Euro Notes will be issued pursuant to an Indenture (the “Indenture”) to be dated as of October 17, 2013 among the Guarantor, the Issuer and Citicorp International Limited as trustee (the “Trustee”) and Citibank N.A., London Branch as paying agent, transfer agent and registrar. A copy of the Euro Notes, the Guarantees, the articles of association of the Issuer, the financial statements of the Company and the Indenture will be available for inspection in electronic format, or in physical format at the registered office of the Trustee, for the life of this offering memorandum. The holders of the Euro Notes will be bound by, and be deemed to have notice of, all the provisions of the Indenture.

*The following summaries of certain provisions of the Euro Notes, the Guarantees and the Indenture are subject to, and are qualified in their entirety by reference to, the detailed provisions of the Euro Notes, the Guarantees and the Indenture. Terms and expressions used in this section and not otherwise defined shall have the meanings given to such terms in the Euro Notes and the Indenture. This section does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.*

### **General**

The Euro Notes will be issued in an initial aggregate principal amount of €550,000,000 and will mature on October 17, 2020, unless the Euro Notes are redeemed earlier pursuant to the terms thereof and of the Indenture.

The Euro Notes will bear interest at the rate of 2.625% per annum. Interest on the Euro Notes will accrue from October 17, 2013 or from and including the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next Interest Payment Date or the maturity date, payable annually in arrears on October 17 in each year (the “Interest Payment Date”), commencing on October 17, 2014, to the persons in whose names the Euro Notes are registered at the close of business (whether or not a Business Day) on October 2 (the “Interest Record Date”) immediately preceding an Interest Payment Date. If interest shall be calculated for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed divided by 365 or (in the case of a leap year) 366.

In any case where the due date of payment of the principal of or interest on the Euro Notes or the date fixed for redemption of the Euro Notes is not a Business Day (as defined below), then payment of principal or interest shall be made on the next succeeding Business Day with the same force and effect as if made on the due date of payment or the date fixed for redemption, as case may be, and no interest shall accrue for the period after such date. “Business Day” means a day in London, Hong Kong and the applicable place of payment other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed and, in relation to a transaction involving euros, any day the TARGET2 System is open.

The Euro Notes will not be entitled to the benefit of any sinking fund. The Euro Notes shall be denominated in minimum principal amounts of €100,000 and in integral multiples of €1,000 in excess thereof.

The Euro Notes will be the direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other indebtedness of the Issuer that is designated as subordinate or junior in right of payment to the Euro Notes.

The Euro Notes are unconditionally guaranteed as to the payment of the principal and interest in respect thereof and all other amounts payable thereunder as evidenced by the Guarantees and related provisions set forth in the Indenture. The Guarantees are the Guarantor's direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* with all of the Guarantor's other unsecured and unsubordinated obligations (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all the Guarantor's other indebtedness that is designated as subordinate or junior in right of payment to the Guarantees.

The principal of, interest on, and all other amounts payable under, the Euro Notes will be payable, and the Euro Notes may be exchanged or transferred, at the office or agency of the Issuer, which initially will be the corporate trust office of the Trustee currently located at 56/F One Island East, 18 Westlands Road, Island East, Hong Kong, or at such other location or locations as the Issuer, in consultation with the Trustee, may designate.

The principal of and interest on the Euro Notes will be made by wire transfer or otherwise in immediately available funds and payable in euro or in such other coin or currency of the European Union as of the time of payment is legal tender for the payment of public and private debts.

Payment of the principal of and interest on the Euro Notes will be credited to the respective accounts of the holders of the Euro Notes with Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream, Luxembourg"). See "— Notes; Delivery and Form."

## **Guarantees**

Under the Indenture, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Euro Notes when and as the same shall become due and payable, whether on the stated maturity, upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantees will be as if the Guarantor were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Euro Notes or the Indenture (other than in respect of the Guarantees) and (ii) waived the Guarantor's right to require the Trustee and the holders of the Euro Notes to pursue or exhaust their legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantees. The Guarantees will not be discharged with respect to any Euro Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Euro Note is rescinded or must otherwise be restored, the rights of the holder of the Euro Note under the Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Guarantees will be made in euro.

*Guarantees of foreign indebtedness arising from offshore bond issuances by a PRC-incorporated entity are subject to approval by the State Administration of Foreign Exchange of the PRC (“SAFE”). On September 29, 2013, the Guarantor obtained approval from SAFE to guarantee indebtedness payable by the Issuer under the Notes. The Guarantor will rely on the SAFE approval to discharge its obligations under the Guarantees.*

*The Guarantor understands from its discussion with the SAFE and receipt of the SAFE approval that under PRC law:*

- (i) the Guarantees will be legal, valid and binding obligations of the Guarantor upon execution;*
- (ii) the Guarantor is required to register the Guarantees with the Beijing Branch of SAFE (the “Beijing Branch”) as soon as possible and in any event before the date 15 days after the execution of the Guarantees. The Guarantees will be enforceable within the PRC against the assets of the Guarantor only upon the completion of administrative registration procedures with the Beijing Branch. See “Risk Factors — Risks Relating to the Euro Notes and the Guarantees — There is uncertainty relating to the enforceability of the Guarantees of the Notes” and “Enforceability of Foreign Judgments and Civil Liabilities”; and*
- (iii) the Guarantees will cover all sums due under the Notes (including any principal, interest and related financial obligations).*

*Pursuant to the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by the SAFE on July 30, 2010, all proceeds raised by the Issuer under the Notes outside the PRC may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. In addition, the Guarantor is responsible for ensuring that the proceeds obtained by the Issuer will be used outside the PRC.*

*Under the Indentures, upon completion of registration of the Guarantees with the Beijing Branch, the Guarantor is required to deliver an officer’s certificate attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is a true and correct copy. If the registration is not completed by 45 Beijing Business Days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase, as described below under “— Repurchase upon Occurrence of Certain Events.”*

*The Guarantees will be governed by the laws of the State of New York.*

*The Guarantor intends to execute and register the Guarantees as soon as reasonably practicable after the closing date of the offering. Prior to the performance or discharge of its obligations under the Guarantees, the Guarantor is also required to complete a verification process with the Beijing Branch for each remittance under the Guarantees.*

## **Further Issues**

The Euro Notes will be issued in an initial aggregate principal amount of €550,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Euro Notes, create and issue pursuant to the Indenture, additional notes having the same terms and conditions under the Indenture as the previously outstanding Euro Notes in all respects, except

for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional Euro Notes issued may be consolidated with and form a single series with the previously outstanding Euro Notes; *provided, however*, that such additional notes may have the same ISIN, Common Code or other identifying number as the outstanding Euro Notes only if (i) such additional notes are fungible with the Euro Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same ISIN, Common Code or other identifying number.

### **Additional Amounts**

All payments of principal, premium and interest in respect of the Euro Notes and/or the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC, Hong Kong, the Cayman Islands or any other jurisdiction in which the Guarantor or the Issuer (or any successor to the Guarantor or the Issuer) is organized or tax resident, in each case including any political subdivision, territory or possession thereof, any authority therein having power to tax or any area subject to its jurisdiction (each, a “Relevant Jurisdiction”) or any jurisdiction from or through which any payment is made (together with Relevant Jurisdictions, each, a “Relevant Taxing Jurisdiction”) unless such Taxes are required by law to be withheld or deducted. If any deduction or withholding for any present or future Taxes of the applicable Relevant Taxing Jurisdiction shall at any time be so required, the Guarantor or the Issuer, as the case may be, shall pay such additional amounts (“Additional Amounts”) as will result (after deduction of such Taxes, including Taxes payable in respect of such Additional Amounts) in receipt by each holder of any Euro Note of such amounts as would have been received by such holder with respect to such Euro Note or Guarantee, as applicable, had no such withholding or deduction been required; *provided, however*, that no Additional Amounts shall be payable in respect of any Euro Note:

- (i) to a holder (or to a third party on behalf of a holder) who is liable to such Taxes in respect of such Euro Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Euro Note; or
- (ii) which is surrendered (where required to be surrendered) more than 30 calendar days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Amounts on surrender of such Euro Note for payment on the last day of such period of 30 calendar days. “Relevant Date” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Euro Notes; or
- (iii) to a holder (or to a third party on behalf of a holder) who would have been able to avoid such withholding or deduction by duly presenting the Euro Note (where presentation is required) to another paying agent; or

- (iv) with respect to any Taxes that would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the holder to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of the Euro Note, if compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge under the laws (not including treaties) of the Relevant Taxing Jurisdiction; or
- (v) with respect to any withholding or deduction that is imposed or levied on a payment pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge; or
- (vii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Euro Note or Guarantee; or
- (viii) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (i) through (vii) above.

Additional Amounts will not be paid with respect to any payment of the principal of or any interest on the Euro Note or under the Guarantees to any holder of a Euro Note who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income of a beneficiary or settlor with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

Whenever there is mentioned, in any context, the payment of principal or interest in respect of any Euro Note or Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

## **Redemption**

Unless earlier redeemed in the limited circumstances set forth below under “— Optional Redemption” and “— Optional Tax Redemption,” the Euro Notes will mature on October 17, 2020 at a price equal to 100% of the principal amount thereof and the Euro Notes will not be otherwise redeemable at the option of the Issuer.

### ***Optional Redemption***

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem the Euro Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Euro Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the Euro Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Euro Notes to be

redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on an annual basis at the Comparable Government Bond Rate plus 20 basis points, plus, accrued and unpaid interest on the applicable Euro Notes to be redeemed, if any, to the date of redemption.

“*Comparable Government Bond*” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German Bundesanleihe security whose maturity is closest to the maturity of the Euro Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German Bundesanleihe security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German Bundesanleihe securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate.

“*Comparable Government Bond Rate*” means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Euro Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank.

“*Independent Investment Bank*” means an investment bank of recognized standing that is a primary dealer in German Bundesanleihe securities, selected by the Guarantor in good faith.

“*London Business Day*” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London.

### ***Optional Tax Redemption***

The Euro Notes may be redeemed, at the option of the Issuer, in whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Jurisdiction or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment (i) in the case of the Guarantor or the Issuer becomes effective on or after the date of this offering memorandum and (ii) in the case of any successor to the Guarantor or the Issuer that is organized or tax resident in a jurisdiction that is not a Relevant Jurisdiction as of the original issue date of the Euro Notes becomes effective on or after the date such successor assumes the Guarantor’s or the Issuer’s obligations, as applicable, under the Euro Notes and the Indenture,

- (1) the Issuer is or would be required on the next succeeding due date for a payment with respect to the Euro Notes to pay Additional Amounts with respect to the Euro Notes as described above under “— Additional Amounts”; or
- (2) the Guarantor is or would be unable, for reasons outside its control, on the next succeeding due date for a payment with respect to the Euro Notes to procure payment by the Issuer, and

with respect to a payment due or to become due under the Guarantees or the Indenture, as the case may be, the Guarantor is or would be required on the next succeeding due date for a payment with respect to the Euro Notes to pay Additional Amounts as described above under “— Additional Amounts.”

and such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer or any successor person, as the case may be.

Notwithstanding anything to the contrary herein, the Guarantor, the Issuer or any successor person may not redeem the Euro Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer, or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

Notice of redemption of the Euro Notes as provided above shall be given not less than 30 nor more than 60 calendar days prior to the date fixed for redemption. Notice having been given, the Euro Notes shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys sufficient for the redemption of the Euro Notes shall have been made available as provided in the Indenture for redemption on the date fixed for redemption, the Euro Notes shall cease to bear interest, and the only right of the holders of the Euro Notes shall be to receive payment of the redemption price, interest accrued to the date fixed for redemption and Additional Amounts, if any.

#### **Repurchase upon a Change of Control Triggering Event**

Upon a Change of Control Triggering Event (as defined below), the Issuer will be required to make an offer to repurchase all of the Euro Notes at a price in cash equal to 101% of the principal amount of the Euro Notes repurchased, plus accrued and unpaid interest on the principal amount of Euro Notes being repurchased to but excluding the date of repurchase (a “Change of Control Offer”).

Within 30 calendar days following any Change of Control Triggering Event, the Issuer will be required to give written notice to holders describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase all of the Euro Notes on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Euro Notes properly tendered and not withdrawn under its offer.

A holder of Euro Notes will have no right to require the Issuer to repurchase portions of Euro Notes if it would result in the issuance of new Euro Notes, representing the portion not repurchased, in an amount of less than €100,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Euro Notes pursuant to this covenant.

“Change of Control” means the occurrence, at any time, of any of the following:

- (i) the Guarantor ceasing to own and control directly or indirectly 100% of the Voting Shares of the Issuer; or
- (ii) the government of the People’s Republic of China or Persons controlled by the government of the People’s Republic of China ceasing to own and control directly or indirectly or in combination (through controlled entities) 100% of the Voting Shares of the Guarantor.

“Change of Control Triggering Event” means a Change of Control, *provided that*, in the event that the Euro Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any United States nationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be.

“Rating Agencies” means (i) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“S&P”); (ii) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“Moody’s”); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors (“Fitch”); and (iv) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Euro Notes publicly available, any United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.

“Rating Date” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

“Rating Decline” means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Euro Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: (i) in the event the Euro Notes are (a) on the Rating Date (x) rated by three Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; or (ii) in the event the Euro Notes are (a) on the Rating Date (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies.

## **Repurchase upon Occurrence of Certain Events**

Upon completion by the Guarantor of registration of the Guarantees with the Beijing Branch, the Guarantor will be required to deliver an officer's certificate in a form set forth in the Indenture attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is true and correct (such registration and delivery of an officer's certificate attaching the Beijing Branch certificate referred to collectively as the "SAFE Completion Event"). If, on the date that is 45 Beijing Business Days after the closing date of the offering, the SAFE Completion Event shall not have occurred (such nonoccurrence, a "SAFE Noncompliance Event"), the Issuer will be required to make an offer to repurchase all of the Euro Notes at a price in cash equal to 100% of the principal amount of the Euro Notes repurchased, plus accrued and unpaid interest on the principal amount of the Euro Notes being repurchased to but excluding the date of repurchase (a "SAFE Noncompliance Offer").

Within 10 calendar days following a SAFE Noncompliance Event, the Issuer will be required to give written notice of the SAFE Noncompliance Offer to holders of the Euro Notes offering to repurchase all of the Euro Notes on the date specified in the notice, which date will be no earlier than 25 calendar days and no later than 35 calendar days from the date such notice is given.

A holder of Euro Notes will have no right to require the Issuer to repurchase portions of Euro Notes if it would result in the issuance of new Euro Notes, representing the portion not repurchased, in an amount of less than €100,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of the Euro Notes pursuant to this covenant.

## **Certain Covenants**

### ***Limitation on Liens***

The Indenture provides that the Guarantor will not, and will not permit the Issuer or any Principal Subsidiary to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or such Principal Subsidiary (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Euro Notes and the Guarantees will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Lien as shall have been approved by the holders of the Euro Notes as provided in the Indenture, for so long as such Relevant Indebtedness will be so secured; *provided that*, the Guarantor may permit its Principal Subsidiaries to issue secured Relevant Indebtedness so long as (x) such Relevant Indebtedness is not issued or guaranteed by the Guarantor and (y) after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness of Principal Subsidiaries entered into after the date of the Indenture does not exceed 10% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

- (i) any Lien which is in existence prior to the date of the Indenture and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);

- (ii) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (iii) any Lien either over any asset acquired after the date of the Indenture which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary or which merges with and into the Guarantor after the date of the Indenture which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); *provided that* any such Lien was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;
- (iv) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Indenture; *provided, however,* that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired); and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
- (v) any Lien created or outstanding in favor of the Guarantor or any of the Guarantor's Subsidiaries;
- (vi) any Lien on any property or asset to secure all or part of the cost of exploration, drilling, development, production, gathering, processing, marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;
- (vii) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);
- (viii) any Lien in respect of Relevant Indebtedness of the Guarantor or any of the Guarantor's Subsidiaries with respect to which the Guarantor or such Subsidiary has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Guarantor and the Guarantor's Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or
- (ix) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; *provided that* such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

#### ***Consolidation, Merger and Sale of Assets***

The Indenture provides that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease our properties and assets (computed on a consolidated basis) substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation validly existing under the laws of the People's Republic of China, Hong Kong, the Cayman Islands or the British Virgin Islands and such Person expressly assumes by an indenture supplemental to the Indenture all the obligations of the Guarantor or the Issuer under the Indenture, the Euro Notes or the Guarantees, as the case may be;
- (ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- (iii) any such Person not organized and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) the People's Republic of China (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental indenture that its jurisdiction of organization or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions; and
- (iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Principal Subsidiaries would become subject to a Lien that would not be permitted under "— Certain Covenants — Limitation on Liens" above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Euro Notes and the Guarantees at least equally and ratably with the Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Euro Notes pursuant to the Indenture.

***Further Limitation on Issuer's Activities and Related Matters***

For so long as the Euro Notes are outstanding:

- (i) the Issuer will conduct no business or any other activities other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offering, sale or issuance of securities and borrowings of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, and any other activities in connection therewith;
- (ii) the Guarantor will cause Sinopec Group Overseas Development Limited ("Holdings") to remain a "company controlled by the parent company" with respect to the Guarantor as such term is defined in Rule 3a-5 under the U.S. Investment Company Act of 1940, as amended;
- (iii) the Guarantor will cause Holdings to maintain 100% equity ownership of the Issuer; and
- (iv) the Guarantor will cause the Issuer to elect to be treated as a disregarded entity for U.S. federal income tax purposes effective as of the original issue date of the Euro Notes and will ensure that Holdings' previous election to be treated as a disregarded entity for U.S. federal income tax purposes continues to be in effect, and neither Issuer, Holdings nor the Guarantor will take any action that is inconsistent with the Issuer or Holdings being treated as a disregarded entity for U.S. federal income tax purposes.

### ***Reports, Statements as to Compliance, and Notices of Default***

For so long as the Euro Notes are outstanding, the Guarantor will agree in the Indenture to file with the Trustee:

- (i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Guarantor, copies of its financial statements in the English language (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of independent accountants; and
- (ii) as soon as they are available, but in any event within 120 calendar days after the end of each first semi-annual fiscal period of the Guarantor, copies of its unaudited financial statements in the English language (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period;

*provided that*, if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognized exchange on which the Guarantor's capital stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in English language.

So long as any of the Euro Notes remain outstanding, the Guarantor will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer's certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

The Guarantor will agree in the Indenture that, so long as the Euro Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or it is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, will furnish, upon the request of any holder of a Euro Note or of a beneficial interest in a Euro Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of a Euro Note or a beneficial interest in a Euro Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Euro Note or beneficial interest in the Euro Note in reliance on Rule 144A.

### ***Other Covenants***

In addition, the Indenture will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding the Issuer's and Guarantor's payment of taxes and other claims and the maintenance of an agent for service of process in the Borough of Manhattan, The City of New York.

## Events of Default

Each of the following shall constitute an “Event of Default” under the Indenture for the Euro Notes:

- (i) failure to pay principal of or premium on any Euro Note on the date such amount is due and payable, upon optional redemption, acceleration or otherwise;
- (ii) failure to pay interest on any Euro Note within 30 calendar days after the due date for such payment;
- (iii) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described under “— Certain Covenants — Consolidation, Merger and Sale of Assets”, “— Repurchase upon a Change of Control Triggering Event” or “— Repurchase upon Occurrence of Certain Events”;
- (iv) failure to perform any other covenant or agreement of the Guarantor or the Issuer under the Indenture, and such failure continues for 60 calendar days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25% in aggregate principal amount of the Euro Notes then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a “Notice of Default” under the Indenture;
- (v) the Guarantees shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantees;
- (vi) if any regulatory, legislative, executive, judicial or constitutional authorization necessary to enable the Issuer or Guarantor to perform their respective obligations under the Euro Notes and the Guarantees or the Indenture ceases to remain in full force and effect or at any time it otherwise becomes unlawful for the Guarantor or the Issuer to perform any of its payment obligations under the Indenture, the Guarantees or the Euro Notes;
- (vii) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (b) acceleration of the maturity of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Guarantor or the Issuer as provided in the Indenture, or (c) failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in the Indenture; *provided, however*, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$100,000,000 (or its equivalent in any other currency);
- (viii) one or more final judgments or orders for the payment of money are rendered against the Guarantor, the Issuer or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes

the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$100,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or

- (ix) certain events in bankruptcy, insolvency or reorganization in respect of the Guarantor, the Issuer or any Principal Subsidiary as provided in the Indenture;

If an Event of Default (other than an Event of Default described in clause (ix) above) with respect to the Euro Notes shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Euro Notes then outstanding by notice as provided in the Indenture may declare the principal amount of the Euro Notes and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (ix) above with respect to the Euro Notes shall occur, the unpaid principal amount of all the Euro Notes and any accrued and unpaid interest thereon will automatically, and without any action by the Trustee or any holder of Euro Notes, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of at least a majority in aggregate principal amount of the Euro Notes then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, have been cured or waived as provided in the Indenture.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of Euro Notes unless such holders shall have offered to the Trustee security and/or indemnity satisfactory to the Trustee. Subject to certain provisions, including those requiring security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Euro Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Euro Notes. However, the Trustee may refuse to follow any direction that conflicts with applicable law or the Indenture, that may involve the Trustee in personal liability or cause it to expend or risk its own funds or otherwise incur any financial liability in following such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders. No holder of any Euro Notes will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy thereunder unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Euro Notes, (ii) the holders of at least 25% in aggregate principal amount of the Euro Notes then outstanding have made written request, and such holder or holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee, to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Euro Notes then outstanding a direction inconsistent with such request, within 60 days after such notice, request or offer. However, such limitations do not apply to a suit instituted by a holder of a Euro Note for the enforcement of the right to receive payment of the principal of or interest on such Euro Note on or after the applicable due date specified in such Euro Note.

The Trustee need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so, and the Trustee may assume that no such event has occurred and that

each of the Guarantor and the Issuer is performing all their respective obligations under the Indenture and the Euro Notes and Guarantees unless the Trustee has received written notice of the occurrence of such event or facts establishing that the Guarantor or the Issuer, as the case may be, is not performing all of its obligations under the Indenture and the Euro Notes and the Guarantees, as the case may be.

### **Payments for Consent**

Neither the Guarantor nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Euro Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Euro Notes unless such consideration is offered to be paid or agreed to be paid to all holders of the Euro Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

### **Modification and Waiver**

The Indenture contains provisions permitting the Guarantor, the Issuer and the Trustee, without the consent of the holders of Euro Notes, to execute a supplemental indenture for certain enumerated purposes, including any amendment solely to conform the Indenture to this offering memorandum (as amended and supplemented) and, with the consent of the holders of not less than a majority in aggregate principal amount of the Euro Notes then outstanding under the Indenture, to change or modify in any manner the rights of the holders of the Euro Notes of the applicable series, *provided that* no such modification or amendment may, without the consent of all holders of the Euro Notes, among other things:

- (i) change the stated maturity of the Euro Notes;
- (ii) reduce the principal amount of or payments of interest on any Euro Note;
- (iii) change any obligation of the Guarantor or the Issuer to pay Additional Amounts;
- (iv) change the currency or place of payment of the principal of or interest on any Euro Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any such Euro Note;
- (vi) reduce the above stated percentage of outstanding Euro Notes necessary to modify or amend the Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Euro Notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (viii) change, in any manner adverse to the interest of holders of the Euro Notes, the terms and provisions of the Guarantees in respect of the due and punctual payment of principal of and interest on the Euro Notes;
- (ix) reduce the premium payable upon the redemption or repurchase of any Euro Note;
- (x) modify such provisions with respect to limitations on the Issuer's activities; or

- (xi) modify such provisions with respect to modification and waiver, which require the consent of the holders of the Euro Notes as provided in the Indenture.

The holders of not less than a majority in aggregate principal amount of the Euro Notes then outstanding may, on behalf of holders of all the Euro Notes of that series, waive compliance by the Guarantor or the Issuer with certain restrictive provisions of the Indenture. The holders of not less than a majority in aggregate principal amount of the Euro Notes of a series may on behalf of all holders of Euro Notes waive any existing or past default under the Indenture for the Euro Notes, except a continuing default in the payment of principal of, or interest on, any Euro Note then outstanding or in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Euro Notes of a series, whether or not they have given consent to such waivers, and on all future holders of such Euro Notes, whether or not notation of such waivers is made upon such Euro Notes. Any instrument given by or on behalf of any holder of a Euro Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Euro Note.

The consent of the holders of the Euro Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment described in the preceding paragraph becomes effective, the Issuer or the Guarantor will deliver to the holders of the Euro Notes and the Trustee a notice briefly describing such amendment. However, the failure to give such notice to all holders of the Euro Notes, or any defect therein, will not impair or affect the validity of the amendment.

### **Prescription**

Any moneys deposited with or paid to the Trustee or any paying agent of the Euro Notes, or then held by the Issuer, in trust, for the payment of the principal of or interest on (or any Additional Amount payable in respect of) any Euro Note and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Guarantor or the Issuer be repaid to the Guarantor or the Issuer, as the case may be, by the Trustee or such paying agent or (if then held by the Issuer) be discharged from such trust, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, and the holder of such Euro Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Guarantor or the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent of the Euro Notes with respect to such moneys shall thereupon cease.

Under New York law, any legal action upon the Euro Notes or Guarantees must be commenced within six years after the payment thereof is due. Thereafter, the Euro Notes or Guarantees will generally become unenforceable.

### **Concerning the Trustee**

Citicorp International Limited will be the Trustee under the Indenture. The Corporate Trust Office of Citicorp International Limited is currently located at 56/F One Island East, 18 Westlands Road, Island East, Hong Kong. The Issuer will appoint Citibank, N.A., London Branch as Paying Agent, Transfer Agent and Registrar, located at c/o Citibank, N.A., Dublin, DUB-01-11, Ground Floor, 1 North Wall Quay Dublin 1, Ireland.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Indenture also provides that the Trustee and any paying or other agent of the Euro Notes, in their individual or any other capacity, may become the owner or pledgee of Euro Notes with the same rights it would have if it were not the trustee or such agent and may otherwise deal with the Guarantor and the Issuer and receive, collect, hold and retain collections from the Guarantor and the Issuer with the same rights it would have if it were not the trustee or such agent. All moneys received by the Trustee shall, until used or applied as provided in the Indenture, be held in trust thereunder for the purposes for which they were received and need not be segregated from other funds except to the extent required by law.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the holders unless such holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the calculation or computation of any amount payable under the Euro Notes and the Guarantees or the verification of any such calculations or computations or any verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Issuer or the Guarantor.

#### **Indemnification for Judgment Currency Fluctuations**

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of Euro Notes under the Indenture, the Guarantees or the Euro Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than euro (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess; *provided that* such holder or the Trustee, as the case may be, shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indenture or the Euro Notes has occurred and is continuing, in which case such excess may be applied by such holder or the Trustee, as the case may be, to such obligations.

#### **Governing Law and Consent to Jurisdiction**

The Euro Notes, the Guarantees and the Indenture are governed by and will be construed in accordance with the laws of the State of New York.

The Guarantor and the Issuer will each irrevocably submit to the non-exclusive jurisdiction of any New York state or United States federal court located in the Borough of Manhattan, The City of New York, New York (each a "New York Court") in any suit, action or proceeding arising out of

or relating to the Indenture, the Euro Notes, the Guarantees or any transaction contemplated thereby, and will irrevocably waive, to the fullest extent permitted by applicable law, any objection to the venue of any such suit, action or proceeding in any such New York Court and any claim of an inconvenient forum.

The Guarantor and the Issuer has appointed China Petroleum & Chemical Corporation USA Representative Office, Suite 610, 410 Park Avenue, New York, NY, 10022, USA, as agent for service of process with respect of any such suit, action or proceeding.

### **Waiver of Immunity**

To the extent that the Guarantor or the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its assets or properties, the Guarantor and the Issuer each irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Euro Notes, the Guarantees or the Indenture.

### **Notices**

Notices to holders of the Euro Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and will be deemed to have been given on the fourth Business Day after the date of mailing. So long as and to the extent that the Euro Notes are represented by global notes and such global notes are held by Euroclear or Clearstream, Luxembourg, notices to owners of beneficial interests in the global notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, as the case may be, for communication by it to entitled account holders.

### **Notes; Delivery and Form**

The statements set forth herein include summaries of certain rules and operating procedures of Euroclear and Clearstream, Luxembourg which will affect transfers of interests in the global notes.

The Euro Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially in the form of one or more Regulation S global notes, fully registered without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg.

The Euro Notes sold to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the Securities Act will be issued initially in the form of one or more Rule 144A global notes, fully registered without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg.

The Euro Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess of that amount.

The Euro Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under “Transfer Restrictions.” Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor to the effect that such transfer is being made to a non-U.S. person as defined in Rule 904 of Regulation S or pursuant to Rule 144 under the Securities Act (if available).

Prior to the expiration of the period through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the “Restricted Period”), beneficial interests in a Regulation S global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor to the effect that such transfer is being made to a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Investors may hold their interests in the global notes directly through Clearstream, Luxembourg or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems.

Transfers between participants in Clearstream, Luxembourg and Euroclear (“Clearstream Participants” and “Euroclear Participants,” respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Payment of interest on and principal of the global notes will be made to a nominee of Euroclear or Clearstream, Luxembourg, as the registered owner of the global notes by wire transfer of immediately available funds. None of the Guarantor, the Issuer nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

So long as the Euro Notes are represented by global notes and such global notes are held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Euro Notes represented by the applicable

global notes for all purposes under the Indenture, including, without limitation, obtaining consents and waivers thereunder, and none of the Guarantor, the Issuer or the Trustee shall be affected by any notice to the contrary. None of the Guarantor, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable global note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

Clearstream, Luxembourg or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Euro Notes (including, without limitation, the presentation of Euro Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures.

Although Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer or the Trustee will have any responsibility for the performance by Clearstream, Luxembourg and Euroclear, or their respective Participants, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream, Luxembourg hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective Participants through electronic book-entry changes in the accounts of such Participants. Euroclear and Clearstream, Luxembourg provide various services to their Participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream Participant, either directly or indirectly.

### **Individual Notes**

If Euroclear or Clearstream, Luxembourg, as the case may be, is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Issuer within 90 calendar days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Euro Notes, the Issuer will issue individual notes in certificated, fully registered form in exchange for the global notes.

Subject to the transfer restrictions set forth on the individual notes in certificated form, the holder of such individual notes in certificated form may transfer or exchange such Euro Notes by surrendering them at the Corporate Trust Office of the Trustee. Prior to any proposed transfer of individual notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as described under “Notes; Delivery and Form” above. Upon the transfer, exchange or replacement of

individual notes in certificated form not bearing the legend referred to under “Transfer Restrictions,” the Trustee will deliver individual notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual note in certificated form, the Trustee will deliver only individual notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Guarantor or the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Guarantor or the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

### **Certain Definitions**

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“*Adjusted Consolidated Net Worth*” means the sum of the Guarantor’s (a) shareholders’ equity as determined under PRC GAAP and (b) Subordinated Indebtedness.

“*Beijing Business Day*” means a day other than a Saturday, Sunday or a day on which the Beijing Branch is authorized or obligated by law or executive order to remain closed.

“*Capital Stock*” means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

“*Indebtedness*” of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all noncontingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) all Indebtedness of others guaranteed by such Person.

“*Issuer*” means Sinopec Group Overseas Development (2013) Limited.

“*Lien*” means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“*PRC GAAP*” means generally accepted accounting principles in the PRC consistently applied as in effect from time to time.

“Principal Subsidiary” at any time shall mean one of the Guarantor’s Subsidiaries

- (i) as to which one or more of the following conditions is/are satisfied:
  - (a) its net profit or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor’s consolidated net profit (before taxation and exceptional items); or
  - (b) its net assets or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor’s consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor’s Subsidiary and the Guarantor’s then latest consolidated financial statements, provided that: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor’s Subsidiary which immediately prior to the transfer was a Principal Subsidiary, *provided that*, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor’s Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Guarantor’s auditors as to whether or not the Guarantor’s Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

“Relevant Indebtedness” of any Person means, at any date, Indebtedness (x) that has a final maturity date of one year or more from the date of incurrence or issuance of such Indebtedness and (y) is in the form of, is represented or embodied by, bonds, notes, debentures or other securities which are, or are intended to be, commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter securities market.

“*Subordinated Indebtedness*” means the Guarantor’s indebtedness (including perpetual debt, which the Guarantor is not required to repay) which (i) has a final maturity and a weighted average life to maturity longer than the remaining life to maturity of the Euro Notes and (ii) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Euro Notes including (a) a provision that in the event of the Guarantor’s bankruptcy, insolvency or other similar proceeding, the holders of the Euro Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Euro Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon, (b) a provision that, if an Event of Default has occurred and is continuing under the Indenture, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such Event of Default shall have been cured or waived or shall have ceased to exist, and (c) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Euro Note is outstanding.

“*Subsidiary*” means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person.

“*TARGET2 System*” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System or any successor thereto.

“*Voting Shares*” means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S under the Securities Act are used herein as defined therein):

- (1) it is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Company or the Issuer or acting on behalf of the Company or the Issuer and (A)(i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or the account of a Qualified Institutional Buyer, or (B)(i) is outside the United States and (ii) is not a U.S. person;
- (2) it acknowledges that the Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
- (3) (A) it understands and agrees that if it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than a Regulation S global note within the time period referred to in Rule 144(d) under the Securities Act with respect to such resale, pledge or transfer, such Notes may be resold, pledged, or transferred only, (a) if such purchaser is an initial investor, (i) to the Company or the Issuer or any subsidiary thereof, (ii) to a person whom the seller reasonably believes is a Qualified Institutional Buyer that purchases for its own account or for the account of a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available); (b) if such purchaser is a subsequent investor, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in a(i), (a)(ii) or (a)(iii) above or (c) below, the Company, the Issuer, the Trustee, the Paying Agent or the Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction;
- (B) if it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it acknowledges that until the expiration of the 40-day distribution compliance period, it shall not make any offer or sale of the Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a Rule 144A global note;
- (4) it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 3 above, if then applicable;

- (5) it understands and agrees that (A) the Notes initially offered in the United States to Qualified Institutional Buyers will be represented by Rule 144A global notes and (B) the Notes offered outside the United States in reliance on Regulation S will be represented by Regulation S global notes;
- (6) it understands that the Notes will bear a legend to the following effect, unless otherwise agreed to by the Company and the Issuer:

*[IN THE CASE OF RULE 144A GLOBAL NOTES]* THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

*[IN THE CASE OF REGULATION S GLOBAL NOTES]* THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION, AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN.

- (7) it acknowledges that the Company, the Issuer and the Initial Purchasers, the Trustee, the Paying Agent, the Registrar and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify the Company and the Issuer, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges of transfer of interests in the global notes and of the Notes in certificated form, see “Description of the Dollar Notes and Guarantee—Notes; Delivery and Form” and “Description of the Euro Notes and Guarantees — Notes; Delivery and Form.”

## EXCHANGE RATES

This offering memorandum contains translations of certain RMB amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the translations of RMB into U.S. dollars have been made at the Noon Buying Rate, as of June 28, 2013, which was RMB 6.1374 to US\$1.00 and the translations from euros into U.S. dollars have been made at the Noon Buying Rate, as of June 28, 2013, which was US\$1.3010 to €1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this offering memorandum could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. See “Risk Factors — Risks Related to Doing Business in the PRC — Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results.” For discussions of the effects of fluctuating exchange rates and currency control on the value of your investment in the Notes.

The following table sets forth (1) the Noon Buying Rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for and as of the period ends indicated through December 31, 2008 and (2) the Noon Buying Rate as set forth in the H.10 statistical release of the Federal Reserve Board for and as of the period ends indicated from and after January 1, 2009:

Period	Period end	Average <sup>(1)</sup>	High	Low
		(RMB per US\$1.00)		
2008 .....	6.8225	6.9193	6.7800	7.2946
2009 .....	6.8259	6.8295	6.8176	6.8470
2010 .....	6.6000	6.7603	6.6000	6.8330
2011 .....	6.2939	6.4475	6.6364	6.2939
2012 .....	6.2301	6.2990	6.3879	6.2221
2013				
April .....	6.1647	6.1861	6.1647	6.2078
May .....	6.1340	6.1416	6.1665	6.1213
June .....	6.1374	6.1342	6.1248	6.1488
July .....	6.1284	6.1343	6.1284	6.1408
August .....	6.1193	6.1213	6.1123	6.1302
September .....	6.1200	6.1198	6.1213	6.1178
October (through October 4, 2013) .....	6.1200	6.1200	6.1200	6.1200

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

## EURO

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in euros as certified for customs purposes by the Federal Reserve Bank of New York for the period indicated:

Period	Noon buying rate			
	Period end	Average <sup>(1)</sup>	High	Low
		(US\$ per €1.00)		
2008 .....	1.3919	1.4695	1.6010	1.2446
2009 .....	1.4332	1.3955	1.5100	1.2547
2010 .....	1.3269	1.3216	1.4536	1.1959
2011 .....	1.2973	1.4002	1.4875	1.2926
2012 .....	1.3186	1.2909	1.3463	1.2062
2013 .....				
April .....	1.3168	1.3025	1.3168	1.2836
May .....	1.2988	1.2983	1.3192	1.2818
June .....	1.3010	1.3197	1.3407	1.3006
July .....	1.3282	1.3088	1.3282	1.2774
August .....	1.3196	1.3314	1.3426	1.3196
September .....	1.3535	1.3364	1.3537	1.3120
October (through October 4, 2013) .....	1.3582	1.3586	1.3642	1.3534

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for the months in 2013, which are determined by averaging the daily rates during the respective periods.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including any possible consequences under the laws of their country of citizenship, residence or domicile.*

### PRC

#### *Taxation on Interest*

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income from sources both within and outside PRC.

The EIT Law, its implementation regulations impose withholding tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on PRC-source income paid to a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant income is not effectively connected therewith. Pursuant to these provisions of the EIT Law, in the event the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, interest payable to non-resident enterprise holders of the Notes may be treated as income derived from sources within China and be subject to such PRC withholding tax. Further, in accordance with the Individual Income Tax Law of the PRC which took effect on September 1, 2011 and its implementation regulations which took effect on September 1, 2011, if the Issuer is considered a PRC tax resident enterprise, interest payable to non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to a 20% individual income tax; accordingly, if the Issuer is treated as a PRC tax resident enterprise, the Issuer would be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Notes. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

As confirmed by the Issuer, as of the date of this offering memorandum, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, non-resident enterprise holders of the

Notes will not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

In addition, as the Guarantor is a PRC resident enterprise, in the event that the Guarantor is required to fulfill its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10% on such payments of interest to non-PRC resident enterprise holders of the Notes and 20% for non-resident individual holders of the Notes if such interest payments are deemed to be derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, which allows a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes. Repayment of the principal will not be subject to PRC withholding tax.

### ***Taxation on Capital Gains***

The EIT Law and its implementation regulations impose a tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on income derived from sources within the PRC realized by a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant gain is not effectively connected therewith. The Individual Income Tax Law and its implementation regulations impose a tax at the rate of 20% on income derived from sources within the PRC realized by non-resident individuals. If the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, and if the capital gains realized by holders of the Notes are treated as income derived from sources within China, such gains will be subject to PRC tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified non-resident holders of the Notes, if both the Issuer and the investors qualify for benefits under the applicable tax treaty.

### ***Stamp Duty***

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.

### **British Virgin Islands**

A British Virgin Islands business company is exempt from all provisions of the Income Tax Act of the British Virgin Islands including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the company to persons who are not resident in the British Virgin Islands. There are no capital gains tax, estate or inheritance tax in the British Virgin Islands.

### **Hong Kong**

Under current Hong Kong legislation, no Hong Kong taxes are required to be withheld from or chargeable on payments of principal, premium or interest in respect of the Notes. No Hong Kong stamp duty is payable on the sale and purchase or other disposal of bonds or notes denominated otherwise than in the currency of Hong Kong provided that the bonds or notes are not redeemable,

and may not at the option of any person be redeemed, in the currency of Hong Kong. Therefore, a sale or purchase or other disposal of the Notes will not be subject to Hong Kong stamp duty. Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance of Hong Kong (Chapter 112, Laws of Hong Kong)) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Any capital gains from the sale of the Notes will not be subject to taxes in Hong Kong, except that Hong Kong profits tax may be chargeable in the case of owners of Notes who carry on a trade, profession or business in Hong Kong and such gains form part of the revenue or profits of such trade, profession or business.

#### ***United States Federal Income Tax Considerations***

The following is a summary of certain United States federal income tax considerations of the purchase, ownership and disposition of Notes by a “U.S. holder” (as defined below) who acquired our Notes upon original issuance at their initial offering price and who hold their Notes as “capital assets” (generally, property held for investment) for United States federal income tax purposes. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, partnerships and their partners, tax-exempt organizations (including private foundations), investors who are not U.S. holders, investors who are traders in securities that have elected the mark-to-market method of accounting, investors who hold Notes as part of a hedge, straddle, constructive sale, conversion, or other integrated security transaction, or investors whose functional currency is not the United States dollar), all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local or non-United States tax considerations or the Medicare tax. You are urged to consult your tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our Notes.

For purposes of this summary, a “U.S. holder” is a beneficial owner of our Notes that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation created in, or organized under the law of, the United States any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership is a beneficial owner of our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our Notes, you are urged to consult your tax advisors regarding the United States federal income tax considerations of an investment in our Notes.

**TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF NOTES ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF NOTES FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF NOTES UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTION OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF NOTES SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT ADVISOR.**

## **Dollar Notes**

### *Payments of Interest*

Stated interest on the Dollar Notes will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes. In addition to stated interest on the Dollar Notes, you will be required to include in income any PRC or other foreign taxes withheld from the interest payments you receive and any Additional Amounts paid in respect of such foreign taxes withheld.

### *Sale, Exchange or Other Disposition of the Dollar Notes*

Your basis in a Dollar Note will, in general, be your cost for that Dollar Note. Upon the sale, exchange or other taxable disposition of a Dollar Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in income) and your adjusted tax basis in the Dollar Note. Such gain or loss will be capital gain or loss and will generally be treated as United States source gain or loss for foreign tax credit purposes. Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates of United States federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations.

## **Euro Notes**

### *Payments of Interest — Cash Method U.S. Holders*

A U.S. holder who uses the cash method of accounting for United States federal income tax purposes and who receives a payment of interest (including any PRC or other foreign taxes

withheld from the interest payments and any Additional Amounts paid with respect thereto) in Euros will be required to include in income the U.S. dollar value of the payment (determined at the spot rate on the date such payment is received) regardless of whether the payment is in fact converted to U.S. dollars at that time, and such U.S. dollar value will be the U.S. holder's tax basis in the Euros received on such date. No exchange gain or loss will be recognized with respect to the receipt of such payment.

#### ***Payments of Interest — Accrual Method U.S. Holders***

A U.S. holder who uses the accrual method of accounting for United States federal income tax purposes, or who otherwise is required to accrue interest (including Additional Amounts) prior to receipt, will be required to include in income the U.S. dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a Euro Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. holder may elect, however, to translate such accrued interest income using the rate of exchange on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the spot rate on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. holder may translate such interest using the spot rate on the date of receipt. The above election will apply to other debt obligations held by the U.S. holder and may not be changed without the consent of the Internal Revenue Service ("IRS"). A U.S. holder is urged to consult a tax advisor before making the above election. A U.S. holder will recognize exchange gain or loss (which will be treated as U.S. source ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of exchange gain or loss recognized as ordinary income will equal the difference, if any, between the U.S. dollar value of the Euro payment received (determined at the spot rate on the date such payment is received) in respect of such accrual period and the U.S. dollar value of interest income that has accrued during such accrual period (as determined above).

#### ***Sale, Exchange or Other Disposition of the Euro Notes***

A U.S. holder who purchases a Euro Note with previously owned Euros will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. holder's tax basis in the Euros and the U.S. dollar fair market value of the Euros used to purchase the Euro Note, determined on the date of purchase.

For purposes of determining the amount of any gain or loss recognized by a U.S. holder on the sale, exchange, retirement or other disposition of a Euro Note, the amount realized will be based on the U.S. dollar value of the Euros on the date the payment is received or the Euro Note is disposed of. Subject to the discussion below, such gain or loss will generally be U.S. source capital gain or loss. To the extent the amount realized upon the disposition of a Euro Note represents accrued but unpaid interest, however, such amounts must be taken into account as interest income (in the case of accrual method U.S. holders, with exchange gain or loss computed as described in "— Payments of Interest — Accrual Method U.S. Holders" above). If a Euro Note is traded on an established securities market as defined in the applicable Treasury regulations, a cash basis U.S. holder (or, upon election, an accrual basis U.S. holder) will determine the U.S. dollar value of the amount realized by translating the Euro payment at the spot rate of exchange on the settlement date of the sale. Such an election by an accrual basis U.S. holder must be

applied consistently from year to year and cannot be revoked without the consent of the IRS. A U.S. holder's tax basis in a Euro Note, and the amount of any subsequent adjustments to such U.S. holder's tax basis, will be the U.S. dollar value of the Euro amount paid for such Euro Note and the Euro amount of the adjustment, determined on the date of such purchase or adjustment.

Gain or loss realized upon the sale, exchange or retirement of a Euro Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss, which will not be treated as interest income or expense. Such gain or loss generally will be United States source gain or loss. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. dollar value of the Euro principal amount of the Euro Note, generally determined on the date such payment is received or the Euro Note is disposed of, and the U.S. dollar value of the Euro principal amount of the Euro Note, determined on the date the U.S. holder acquired the Euro Note. Such exchange gain or loss will be recognized only to the extent of the total gain or loss realized by the U.S. holder on the sale, exchange or retirement of the Euro Note.

Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates of United States federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations. Any capital gain or loss recognized by a U.S. holder on a disposition of the Euro Notes will generally be treated as United States source gain or loss for United States foreign tax credit purposes.

### ***Exchange of Euros***

A U.S. holder will have a tax basis in any Euros received as interest or on the sale, exchange or retirement of a Euro Note equal to the U.S. dollar value of such Euros, determined at the time the interest is received or at the time of the sale, exchange or retirement. As discussed above, if the Euro Notes are traded on an established securities market, a cash basis U.S. holder (or, upon election, an accrual basis U.S. holder) will determine the U.S. dollar value of the Euros by translating the Euros received at the spot rate of exchange on the settlement date of the sale, exchange or retirement. In such case, a U.S. holder's basis in the Euros received would be equal to the U.S. dollar value of the Euros at the spot rate of exchange on the settlement date. The election described above available to an accrual basis U.S. holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Any gain or loss realized by a U.S. holder on a sale or other disposition of Euros (including its exchange for U.S. dollars or its use to purchase Euro Notes) will be ordinary income or loss and will generally be United States source income or loss.

### **Foreign Tax Credit**

If any foreign taxes are withheld in respect of any payments on the Notes, a U.S. holder may be entitled to claim either a deduction or a foreign tax credit for United States federal income tax purposes, subject to certain limitations (including that the election to deduct non-U.S. taxes in lieu of claiming foreign tax credits must apply to all of the holder's non-U.S. taxes for a particular tax year). Interest income (including any Additional Amounts) on a Note generally will be considered foreign source income and, for purposes of the foreign tax credit, generally will be considered "passive income" or, in certain cases, "general category income".

Because gain or loss on a sale or disposition of a Note generally will be U.S. source gain or loss, a U.S. holder may not be able to claim a credit for any foreign taxes imposed upon a disposition of a Note unless such credit can be applied (subject to certain limitations) against tax due on other income treated as derived from foreign source. If, however, any PRC tax is imposed upon a

disposition of a Note and the U.S. holder is eligible for the benefits of the U.S.-China income tax treaty, any gain or loss (or a portion thereof) from such disposition might be resourced as non-U.S. source gain or loss. U.S. holders are urged to consult their tax advisors regarding the tax consequences if PRC tax is imposed on the disposition of a Note, including the application of the foreign tax credit rules to their particular circumstances.

A U.S. holder will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where the holder does not meet a minimum holding period requirement during which the holder is not protected from risk of loss. The rules governing the foreign tax credit are complex. U.S. holders are urged to consult their tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

### **Information Reporting and Backup Withholding**

Certain U.S. holders may be required, subject to certain exceptions, to file Internal Revenue Service Form 8938 (Statement of Specified Foreign Financial Assets) with respect to their interest in the Notes. A U.S. holder who fails to timely furnish the required information may be subject to a penalty.

In addition, information reporting requirements may apply to certain payments of principal and interest on a Note and to the proceeds of a sale of a Note paid to you unless you are an exempt recipient (such as a corporation). Backup withholding may apply to such payments if you fail to provide, among other things, your taxpayer identification number on Internal Revenue Service Form W-9 (or substitute form) or otherwise fail to establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement relating to the Dollar Notes among the Issuer, the Company and Citigroup Global Markets Inc., J.P. Morgan Securities plc, The Hongkong and Shanghai Banking Corporation Limited, Société Générale and Goldman Sachs (Asia) L.L.C. as representatives for the Initial Purchasers named below, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Dollar Notes set forth opposite its name below.

### Dollar Notes

Initial Purchaser	Principal Amount of 2018 Notes	Principal Amount of 2023 Notes	Principal Amount of 2043 Notes
Citigroup Global Markets Inc. . . . .	US\$148,466,000	US\$296,932,000	US\$98,977,000
J.P. Morgan Securities plc . . . . .	US\$148,466,000	US\$296,932,000	US\$98,977,000
The Hongkong and Shanghai Banking Corporation Limited . . . . .	US\$102,061,000	US\$204,122,000	US\$68,040,000
Société Générale . . . . .	US\$111,238,000	US\$222,475,000	US\$74,158,000
Goldman Sachs (Asia) L.L.C. . . . .	US\$102,060,000	US\$204,122,000	US\$68,041,000
CCB International Capital Limited . . . .	US\$37,617,000	US\$75,234,000	US\$25,078,000
Merrill Lynch International . . . . .	US\$25,803,000	US\$51,605,000	US\$17,202,000
BOCI Asia Limited . . . . .	US\$24,763,000	US\$49,526,000	US\$16,509,000
Mizuho Securities USA Inc. . . . .	US\$24,763,000	US\$49,526,000	US\$16,509,000
ICBC International Securities Limited . .	US\$24,763,000	US\$49,526,000	US\$16,509,000
<b>Total</b> . . . . .	<b>US\$750,000,000</b>	<b>US\$1,500,000,000</b>	<b>US\$500,000,000</b>

Subject to the terms and conditions set forth in a purchase agreement relating to the Euro Notes among the Issuer, the Company and Citigroup Global Markets Inc., J.P. Morgan Securities plc, The Hongkong and Shanghai Banking Corporation Limited, Société Générale and Goldman Sachs (Asia) L.L.C. as representatives for the Initial Purchasers named below, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Euro Notes set forth opposite its name below.

### Euro Notes

Initial Purchaser	Principal Amount of Euro Notes
Citigroup Global Markets Inc. . . . .	€111,660,000
J.P. Morgan Securities plc . . . . .	€111,660,000
The Hongkong and Shanghai Banking Corporation Limited . . . . .	€76,759,000
Société Générale . . . . .	€83,660,000
Goldman Sachs (Asia) L.L.C. . . . .	€76,759,000
Deutsche Bank AG, Singapore Branch . . . . .	€29,834,000
UBS AG, Hong Kong Branch . . . . .	€29,834,000
Standard Chartered Bank . . . . .	€29,834,000
<b>Total</b> . . . . .	<b>€550,000,000</b>

Subject to the terms and conditions set forth in the relevant purchase agreements, the relevant Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement. The purchase agreements also provide that the obligations of the relevant Initial Purchasers to purchase the Notes are subject to, among other things, the receipt by the relevant Initial Purchasers of documentation related to the issuance and sale of the Notes, officers' certificates and legal opinions and to other conditions.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed. The separate Dollar Notes and Euro Notes offerings, respectively, contemplated hereby will also not be cross conditioned with one another. Accordingly, it is possible that one of the offerings will proceed to completion while the other offering will not do so.

### **Notes Are Not Being Registered**

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales in reliance on the exemption provided by Rule 144A and Regulation S under the Securities Act. The Initial Purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act). Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

### **New Issue of Notes**

The Notes are a new issue of securities with no established trading market. An application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of selectively marketed securities (as defined in the Listing Rules) and application has been made for the Euro Notes to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market. We cannot assure you that the Notes will be or remain listed. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price that you receive when you sell your Notes will be favorable. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company's operating performance and financial condition, general economic conditions and other factors.

## **Settlement**

The Issuer expects that delivery of the Dollar Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Dollar Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Dollar Notes initially will settle on or about T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Dollar Notes who wish to trade the Dollar Notes prior to their date of delivery hereunder should consult their advisors.

The Issuer expects that delivery of the Euro Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the sixth business day following the date of this offering memorandum (such settlement being referred to as “T+6”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Euro Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Euro Notes initially will settle on or about T+6, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Euro Notes who wish to trade the Euro Notes prior to their date of delivery hereunder should consult their advisors.

## **No Sales of Similar Securities**

Each of the Issuer and the Company has agreed that it will not, for a period of 60 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Issuer, the Company or any affiliate of the Issuer or the Company or any person in privity with the Issuer, the Company or any affiliate of the Issuer or the Company, directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by the Issuer or the Company having a tenor of more than one year (other than (i) the offerings of the Notes contemplated hereby, (ii) any loans, including bilateral or syndicated loans or club deals and (iii) any securities denominated in Renminbi that are sold exclusively within the PRC after the closing date). The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

## **Short Positions and Stabilizing Transactions**

In connection with the offering, Citigroup Global Markets Inc., J.P. Morgan Securities plc, The Hongkong and Shanghai Banking Corporation Limited, Société Générale and Goldman Sachs (Asia) L.L.C. as the Stabilizing Managers, may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are

concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer, the Company or any of the Initial Purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer, the Company or any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

#### **Notice to Prospective Investors in the United States**

The Notes and the Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantees are being offered and sold outside of the United States in reliance on Regulation S. The Purchase Agreement provides that the Initial Purchasers may arrange for the offer and resale of Notes and the Guarantees within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantees, an offer or sale of Notes and the Guarantees within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

#### **Notice to Prospective Investors in Italy**

The Notes have not been registered with the Italian Securities and Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, the "CONSOB") pursuant to Italian securities legislation and, accordingly, the Notes may not be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the Notes be distributed in the Republic of Italy ("Italy"), except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no.58 of February 24, as amended (the "Financial Services Act) and Article 34-*ter*, first paragraph, letter (b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time ("Regulation No. 11971); or
- (b) in any other circumstances which are exempted from the rules of public offerings pursuant to Article 100 of the Financial Services Act and Article 34-*ter* of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the “Banking Act”);
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on issue or the offer of securities in Italy; and
- (c) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or other Italian authority.

Any investor purchasing the Notes in the offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in the offering occurs in compliance with applicable Italian laws and regulations.

#### **Notice to Prospective Investors in the United Kingdom**

This offering memorandum is only being distributed in the United Kingdom to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). This offering memorandum and its contents should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

#### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer of Notes which are the subject of the offering contemplated by this offering memorandum may not be made to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression (i) an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and (iii) “2010 PD Amending Directive” means Directive 2010/73/EU.

### **Notice to Prospective Investors in Hong Kong**

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### **Notice to Prospective Investors in Japan**

The Notes offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

### **Notice to Prospective Investors in the PRC**

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

## **Notice to Prospective Investors in Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

## **Notice to Prospective Investors in Australia**

This offering memorandum is not, and is not intended to be, a disclosure document within the meaning of Section 9 of the Corporations Act 2001 (Cth) (the “Australian Corporations Act”) or a product disclosure statement for the purposes of Chapter 7 of the Australian Corporations Act. No action has been taken by us that would permit a public offering of the Notes in Australia. In particular, no prospectus or other disclosure document in relation to the Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“ASIC”) or the Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691) (“ASX”).

Each Initial Purchaser has represented and agreed, or will be required to represent and agree, that it:

- (a) has not offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of any Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this offering memorandum or any other offering material or advertisement relating to any Notes in Australia,

unless in either case (a) or (b),

- (i) the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least A\$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the person offering the Notes or making the invitation or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Australian Corporations Act and is not made to a person who is a “retail client” within the meaning of section 761G of the Australian Corporations Act;
- (ii) the offer, invitation or distribution complied with the conditions of the Australian financial services license of the person making the offer, invitation or distribution or an applicable exemption from the requirement to hold such license;
- (iii) the offer, invitation or distribution complies with all applicable laws, regulations and directives relating to the offer, sale and resale of the Notes in the jurisdiction in which such offer, sale and resale occurs; and
- (iv) such action does not require any document to be lodged with ASIC or the ASX;
- (c) will not offer any of the Notes purchased in this offering for resale in Australia within 12 months of those Notes being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 or 708A of the Australian Corporations Act.

Each Initial Purchaser, severally and not jointly, represents and warrants to and agrees with the Issuer and the Guarantor that, in connection with the primary distributions of the Notes, it will not offer or sell any of the Notes to any person if, at the time of such offer or sale, the employees or officers of the Initial Purchaser directly involved in the offer or sale know or have reasonable grounds to suspect that those Notes (or an interest in or right in respect of them) are being (or would be) acquired (directly or indirectly) by an associate of the Issuer within the meaning of section 128F(9) of the Tax Act, except as permitted in section 128F(5) of the Tax Act.

#### **Notice to Prospective Investors in Switzerland**

Neither the offering memorandum nor any other document relating to the sale of the Notes and the Guarantee constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Notes and the Guarantee may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither the offering memorandum nor any other document relating to the Notes and the Guarantee may be publicly distributed or

otherwise made publicly available in or from Switzerland. The offering memorandum is not intended as an offer or solicitation with respect to the purchase or sale of the Notes and the Guarantee by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Notes and the Guarantee.

### **Notice to Prospective Investors in Taiwan**

The Notes and the Guarantee have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

### **Other Relationships**

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking and financial advisory and investment banking services, for the Issuer, the Company and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Issuer, the Company and their respective affiliates may enter into hedging or other derivative transactions as part of their risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to its obligations under the Notes. The Issuer's and the Company's obligations under these transactions may be secured by cash or other collateral.

In connection with the offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Guarantor or Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

## **RATINGS**

The Notes are expected to be assigned a rating of “Aa3” by Moody’s and “A+” by S&P. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us. See “Risk Factors — Risks Relating to the Notes and the Guarantees — The ratings of the Notes may be lowered, suspended or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.”

## **LEGAL MATTERS**

Certain legal matters in connection with this offering as to Hong Kong law and United States federal and New York law will be passed upon for the Issuer and the Company by Skadden, Arps, Slate, Meagher & Flom and for the Initial Purchasers as to United States federal and New York law by Davis Polk & Wardwell. Certain legal matters in connection with this offering as to PRC law will be passed upon for the Issuer and the Company by Haiwen & Partners. Certain legal matters in connection with this offering as to British Virgin Islands law will be passed upon for the Issuer by Conyers Dill & Pearman.

## **INDEPENDENT AUDITORS**

Our consolidated financial statements as of and for the years ended December 31, 2010, 2011 and 2012 included in this offering memorandum have been audited, and our consolidated financial statements for each of the six months ended June 30, 2012 and 2013, and our balance sheet as of June 30, 2013 have been reviewed, by Grant Thornton China, Certified Public Accountants, our independent auditors, as indicated in their report with respect thereto, included herein.

## DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND U.S. GAAP

### Introduction

Our consolidated financial statements included in this offering memorandum have been prepared and presented in accordance with PRC GAAP. Certain differences exist between PRC GAAP and U.S. GAAP which might be relevant to our financial information included herein.

The following is a general summary of certain differences between PRC GAAP and U.S. GAAP as applicable to us. The differences identified below are limited to those significant differences that are appropriate to our financial statements. We are responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the summary. We have not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between PRC GAAP and U.S. GAAP and have not quantified such differences. Had any such quantification or reconciliation been undertaken by us, other potentially significant accounting and disclosure differences may be required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and U.S. GAAP as a result of prescribed changes in accounting standard. Regulatory bodies that promulgate PRC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between PRC GAAP and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and U.S. GAAP is complete.

In making an investment decision, you must rely upon your own examination of our financial information, the terms of the offering and other disclosure contained herein.

### Inventories

PRC GAAP only permits reversal when the circumstances where previously caused inventories to be written down below cost no longer exist. PRC GAAP requires the reversal to be recognized under asset impairment loss.

Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed. If inventory value is written down to lower amount, the reduced amount becomes new cost for subsequent periods. Inventories may be stated above cost only in exceptional cases (e.g., precious metals).

### Intangible Assets

Under PRC GAAP, when an intangible asset arises from the development phase and the entity can demonstrate that all of the five criteria are met, the intangible shall be recognized:

- (a) it is feasible technically to finish intangible assets for use or sale;
- (b) it is intended to finish and use or sale the intangible assets;
- (c) the usefulness of methods for intangible assets to generate economic benefits shall be proved;
- (d) it is able to finish the development of the intangible assets; and

- (e) the development of expenditures of the intangible assets can be reliably measured.

Under U.S. GAAP, all research and development (“R&D”) expenditures (except those acquired in business combination) shall be charged to expenses and disclosed in notes when incurred, because FASB considers future benefits from R&D to have too much uncertainty, and costs and benefits to be lack of necessary causal relationship. However, U.S. GAAP requires costs of producing software masters (for products to be sold, leased or otherwise marketed) subsequent to establishing technological feasibility to be capitalized. The capitalization ceases when the product is available for general release to customers.

PRC GAAP requires an intangible asset to be measured initially at cost. The initial measurement includes its purchase price and any directly attributable cost of preparing the asset for its intended use (e.g., import duties, professional fees).

U.S. GAAP requires initial measurement at fair value, however it goes on to refer the general concept of asset acquisition to D2-D7 of FAS 141(R), which states that assets are initially recognized based on their cost to the acquiring entity (generally including the transaction costs of the asset acquisition).

### **Contingency**

Under PRC GAAP, a provision shall be recognized when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Under U.S. GAAP, an estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

- (a) information available before the financial statements are issued or are available to be issued indicates that it is probable an asset had been impaired or a liability had been incurred at the date of the financial statements; and
- (b) the amount of loss can be reasonably estimated.

When a loss from contingency is charged to income, U.S. GAAP records either an increase in liability or a decrease in asset, while PRC GAAP records a provision (a liability) although sometimes it takes the form of allowance against an asset (e.g., in the case of uncollectible receivables). However the basic principles as to whether and when a loss from contingency should be recognized are the same under these two systems.

Although these two systems use probable, what they mean by probable is different. PRC GAAP uses probable as “more likely than not to occur,” which is defined as greater than 50%. U.S. GAAP uses probable as “likely to occur.” Although a numeric standard does not exist, practice generally considers an event that has 75% or greater likelihood of occurrence to be probable.

Because of the uncertainties surrounding contingencies, these two systems require “best estimate” as the amount to be recognized. However, they differ in practices as to what is a best estimate. PRC GAAP adopts a more statistical view on this matter. Although they consider the most likely outcome the anchor, they also weight-in the influence of other outcomes to reach the best estimate. U.S. GAAP accept the most likely outcome as the best estimate.

When no amount within the range of outcome is a best estimate:

- (a) under PRC GAAP, when there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range (i.e., the statistically correct point) is used.
- (b) when no amount within the range of outcome is a best estimate, U.S. GAAP chooses the minimum amount in the range to be the recognized amount.

PRC GAAP requires time value of money to be included when its effect is material. Under U.S. GAAP, only when the amount and timing of payments are fixed or reliably determinable, or when the obligation is a fair value obligation, time value of money may be included.

### **Borrowing Costs**

Under PRC GAAP, borrowing costs may include exchange differences that arise from foreign currency borrowings if they are regarded as an adjustment to interest costs.

Under U.S. GAAP, the exchange differences resulting from foreign currency borrowings are not capitalized and interest earned on the temporary investment of the funds borrowed to finance the production of the asset would not be netted against the borrowing costs.

### **Statement of Cash Flows**

Under PRC GAAP, the direct method together with a supporting note reconciling operating result to cash flows arising from operations is the only permitted method.

U.S. GAAP requires an enterprise should report cash flows from operating activities using either: the direct method or the indirect method. If the direct method is used, then a reconciliation of net income and operating cash flow must be presented.

### **Government Grants**

Under PRC GAAP, government grants and subsidies are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions have been complied with. When the grantor or subsidy relates to a specifically identifiable expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in current liabilities as deferred income and are credited to the statement of income on a straight line basis over the expected useful lives of the relevant asset.

Under U.S. GAAP, there is no pronouncement that specifically covers government grants and subsidies.

## GENERAL INFORMATION

1. **Authorizations:** The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes and the Indenture. The issue of the Notes was authorized by resolutions of the Board of Directors of the Issuer passed on October 2, 2013.

The Company has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Guarantee and the Indenture. The issue of the Guarantee was authorized by resolutions of the Executive Committee of the Company passed on September 29, 2013.

2. **Litigation:** Except as disclosed in this offering memorandum, none of the Issuer, the Company or any of the Company's subsidiaries is involved in any litigation, arbitration, or governmental proceedings which may have, or have had during the 12 months preceding the date of this offering memorandum, a material adverse effect on the financial position of the Issuer or the Company, nor is the Issuer or the Company aware that any such proceedings are pending or threatened.
3. **Reporting Accountants:** The consolidated financial statements of the Company as of and for each of the years ended December 31, 2010, 2011 and 2012 set out in this offering memorandum have been audited, and the consolidated financial statements of the Company for each of the six months ended June 30, 2012 and 2013, and the balance sheet of the Company as of June 30, 2013 have been reviewed, by Grant Thornton China, as stated in their reports appearing herein. Grant Thornton China is a member firm of Grant Thornton International Ltd. and is a group member of the Chinese Institute of Certified Public Accountants.
4. **Clearing Systems and Settlement:** The Dollar Notes have been accepted for clearance through the facilities of Euroclear, Clearstream, Luxembourg and DTC. Certain trading information with respect to the Dollar Notes is set forth below:

	ISIN	CUSIP
2018 Rule 144A global note . . . . .	US82937VAA52	82937V AA5
2018 Regulation S global note . . . . .	USG8200QAA43	G8200Q AA4
2023 Rule 144A global note . . . . .	US82937VAB36	82937V AB3
2023 Regulation S global note . . . . .	USG8200QAB26	G8200Q AB2
2043 Rule 144A global note . . . . .	US82937VAC19	82937V AC1
2043 Regulation S global note . . . . .	USG8200QAC09	G8200Q AC0

The Euro Notes have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. Certain trading information with respect to the Euro Notes is set forth below:

	ISIN	Common Code
Euro Rule 144A global note . . . . .	XS0982303868	098230386
Euro Regulation S global note . . . . .	XS0982303785	098230378

Only Notes evidenced by a global note have been accepted for clearance through Euroclear, Clearstream, Luxembourg or DTC, as the case may be.

5. **Arthur Cox Listing Services Limited:** Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Euro Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.
6. **Expenses in relation to the admission to trading:** The expenses in relation to the admission of the notes to the Official List of the Irish Stock Exchange will be approximately €5,041.20.

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## Auditors' Report

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GTCNZZ (2013) No. 110ZC1578

### To the Board of China Petrochemical Corporation

We have audited the accompanying balance sheet of China Petrochemical Corporation (“the Company”) for the year ended 31 December 2010, 2011 and 2012, its income statement, cash flow statement, statement of changes in owners' equity and notes to the financial statements for the year then ended.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company for the year ended 31 December 2010, 2011 and 2012, and the results of its operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Grant Thornton China  
Beijing, China

April 27, 2013

Certified Public Accountants: /s/ Zhongjun Feng

Certified Public Accountants: /s/ Yaxu Zhang

### Consolidated Balance Sheets

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>Current assets</b>				
Cash	8,(1)	42,573	77,261	35,398
Bills receivables	8,(2)	22,684	30,737	18,327
Accounts receivable	8,(3)	101,925	76,337	58,362
Advance to suppliers	8,(4)	12,617	16,882	20,266
Other receivable	8,(5)	7,371	7,999	9,323
Inventories	8,(6)	281,065	245,080	187,158
Non-current assets due within 1 year	8,(7)	9,456	13,524	5,463
Other current assets	8,(8)	3,990	13,810	5,333
<b>Total current assets</b>		<b>481,681</b>	<b>481,630</b>	<b>339,630</b>
<b>Non-current assets</b>				
Available-for-sale financial assets	8,(9)	5,675	4,319	9,207
Long-term receivable	8,(10)	23,416	16,621	37,224
Long-term equity investment	8,(11)	189,448	142,233	111,221
Fixed assets	8,(12)	508,574	492,258	435,313
Oil and gas assets	8,(13)	374,691	330,688	327,084
Project goods and material		3,005	2,354	1,438
Construction in progress	8,(14)	222,368	152,360	109,258
Intangible assets	8,(15)	74,737	59,388	50,392
Goodwill	8,(16)	38,298	36,996	33,414
Long-term deferred expenses	8,(17)	14,933	13,490	12,494
Deferred tax assets	8,(18)	17,900	14,807	16,638
Other non-current assets		2,100	1,535	3,014
<b>Total non-current assets</b>		<b>1,475,145</b>	<b>1,267,049</b>	<b>1,146,697</b>
<b>Total assets</b>		<b>1,956,826</b>	<b>1,748,679</b>	<b>1,486,327</b>
<b>Current liabilities</b>				
Short-term loans	8,(20)	81,055	70,153	88,237
Bills payable	8,(21)	9,018	7,713	5,896
Accounts payable	8,(22)	258,675	210,779	162,292
Advance from customers	8,(23)	90,020	88,313	79,331
Employee benefits payable	8,(24)	20,638	25,183	35,693
Taxes and fees payable	8,(25)	28,609	49,370	39,838
Interest payable		2,876	2,234	2,007
Other payable	8,(26)	71,893	69,118	67,218
Non-current liabilities due within 1 year	8,(27)	30,480	51,370	6,403

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
Other current liabilities	8,(28)	65,920	37,907	17,762
<b>Total current liabilities</b>		<b>659,184</b>	<b>612,140</b>	<b>504,677</b>
<b>Non-current liabilities</b>				
Long-term loans	8,(29)	236,484	203,626	157,926
Bonds payable	8,(30)	143,308	102,023	121,160
Long-term payable	8,(31)	36,653	29,692	9,103
Estimated liabilities	8,(32)	30,820	26,109	18,821
Deferred tax liabilities	8,(18)	52,723	50,833	48,998
Other non-current liabilities		4,855	3,917	3,171
<b>Total non-current liabilities</b>		<b>504,843</b>	<b>416,200</b>	<b>359,179</b>
<b>Total liabilities</b>		<b>1,164,027</b>	<b>1,028,340</b>	<b>863,856</b>
<b>Owner's equity</b>				
Paid in capital	8,(33)	249,595	231,621	206,998
Capital surplus	8,(34)	46,526	46,401	42,172
Special reserve	8,(35)	3,284	2,716	1,049
Surplus reserve	8,(36)	169,466	161,911	131,219
General risk reserve	8,(37)	640	582	568
Retained earnings	8,(38)	174,211	138,216	114,807
Translation difference in foreign currency statements		(7,204)	(7,048)	(3,570)
<b>Total owner's equity attributable to parent company</b>		<b>636,518</b>	<b>574,399</b>	<b>493,243</b>
Minority interest		156,281	145,940	129,228
<b>Total owner's equity</b>		<b>792,799</b>	<b>720,339</b>	<b>622,471</b>
<b>Total liabilities and owner's equity</b>		<b>1,956,826</b>	<b>1,748,679</b>	<b>1,486,327</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Consolidated Income Statements

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>1.Operating revenue</b>	8,(39)	<b>2,830,609</b>	<b>2,551,951</b>	<b>1,969,042</b>
<b>2.Operating total cost</b>		<b>2,735,080</b>	<b>2,445,252</b>	<b>1,872,743</b>
Less: Operating cost	8,(39)	2,365,265	2,087,537	1,556,407
Business taxes and surcharges	8,(40)	205,828	201,375	166,615
Selling and distribution expenses		42,645	40,525	33,682
General and administrative expenses		76,899	78,237	70,615
Exploration cost		20,643	20,931	17,484
Financial expenses	8,(41)	15,953	10,463	10,124
Assets impairment loss	8,(42)	7,847	6,184	17,816
Add: Gain from changes of fair value (loss)	8,(43)	207	1,420	(166)
Investment income (loss)	8,(44)	6,212	9,330	8,693
<b>3.Operating profit (loss)</b>		<b>101,948</b>	<b>117,449</b>	<b>104,826</b>
Add: Non-operating income	8,(45)	6,573	7,034	3,681
Less: Non-operating expenses	8,(46)	3,859	4,392	2,833
<b>4.Total profit (loss)</b>		<b>104,662</b>	<b>120,091</b>	<b>105,674</b>
Less: Income tax expenses	8,(47)	34,871	36,972	33,094
<b>5.Net profit(loss)</b>		<b>69,791</b>	<b>83,119</b>	<b>72,580</b>
Including: net profit of the acquiree entity in a business combination involving enterprises under common control before the combination date				
Less: Minority interest		17,922	22,027	20,480
<b>6.Net profit attributed to shareholders of parent company</b>		<b>51,869</b>	<b>61,092</b>	<b>52,100</b>
<b>7.Other comprehensive income(loss)</b>	8,(48)	<b>(121)</b>	<b>(4,200)</b>	<b>(4,570)</b>
<b>8.Total comprehensive income(loss)</b>		<b>69,670</b>	<b>78,919</b>	<b>68,010</b>
Less: Total comprehensive income(total lost) attributable to minority shareholder		17,876	21,725	19,880
<b>9.Total comprehensive income(total lost) attributable to shareholders of the parent company</b>		<b>51,794</b>	<b>57,194</b>	<b>48,130</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Consolidated Cash Flow Statement

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>1.Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services		3,288,264	2,944,313	2,239,554
Refund of tax and levy		1,998	1,042	445
Other cash received relating to operating activities		42,263	37,457	19,810
<b>Subtotal of cash inflows</b>		<b>3,332,525</b>	<b>2,982,812</b>	<b>2,259,809</b>
Cash paid for goods and services		2,681,017	2,343,607	1,710,514
Cash paid to and on behalf of employees		93,044	82,225	61,539
Cash paid on taxes and levy		333,917	306,684	256,493
Other cash paid relating to operating activities		54,184	47,562	38,064
<b>Subtotal of cash outflows</b>		<b>3,162,162</b>	<b>2,780,078</b>	<b>2,066,610</b>
<b>Net cash flows from operating activities</b>	8,(49)	<b>170,363</b>	<b>202,734</b>	<b>193,199</b>
<b>2.Cash flows from investing activities</b>				
Cash received from disposal of investments		15,724	38,163	36,480
Cash received from investment income		4,830	7,759	2,222
Net cash received from disposal fixed assets, oil and gas assets, intangible assets and other long-term assets		1,053	3,627	16,716
Net cash received from disposal of subsidiaries and other operating units		36		24
Other cash received relating to investing activities		58,910	74,230	5,466
<b>Subtotal of cash inflows</b>		<b>80,553</b>	<b>123,779</b>	<b>60,908</b>
Cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets		211,322	174,410	137,408
Cash paid for investment		81,484	69,364	114,338
Net cash paid to acquire subsidiaries and other operating units		1,441	20,809	31,567
Other cash paid relating to investing activities		66,370	90,225	16,518
<b>Subtotal of cash outflows</b>		<b>360,617</b>	<b>354,808</b>	<b>299,831</b>
<b>Net cash flows from investing activities</b>		<b>(280,064)</b>	<b>(231,029)</b>	<b>(238,923)</b>

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>3.Cash flows from financing activities</b>				
Cash received from investment		18,538	24,741	25,439
Cash received from borrowings		825,111	597,372	460,544
Other cash received relating to financing activities		588	27,974	21,192
<b>Subtotal of cash inflows from financing activities</b>		<b>844,237</b>	<b>650,087</b>	<b>507,175</b>
Cash repayments of amounts borrowed		738,103	555,890	438,042
Cash payments for distribution of dividends, profit or interest expenses		30,688	22,752	17,937
Other cash payments relating to financing activities		677	654	441
<b>Subtotal of cash outflows from financing activities</b>		<b>769,468</b>	<b>579,296</b>	<b>456,420</b>
<b>Net cash flows from financing activities</b>		<b>74,769</b>	<b>70,791</b>	<b>50,755</b>
<b>4.Effect of foreign exchange rate changes on cash</b>		153	(553)	(444)
<b>5.Net increase in cash and cash equivalents</b>		<b>(34,779)</b>	<b>41,943</b>	<b>4,587</b>
Add: Cash and cash equivalents at the beginning of the period		77,430	35,487	30,900
<b>6.Cash and cash equivalents at the end of the period</b>		<b>42,651</b>	<b>77,430</b>	<b>35,487</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Consolidated Changes in Equity

for the year ended December 31, 2012

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total owner's equity
	Paid in Capital	Capital surplus	Special reserve	Surplus reserve	General risk provision	Undistrib uted profit	Others		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
1.Beginning balance	231,621	46,401	2,716	161,911	582	138,216	(7,048)	145,940	720,339
2.Amount of increase (decrease) of this year	17,974	125	568	7,555	58	35,995	(156)	10,341	72,460
(1)Net profit						51,869		17,922	69,791
(2) Gain and loss recognized directly in owner's equity "		81					(156)	(46)	(121)
Subtotal of (1) and (2)		81				51,869	(156)	17,876	69,670
(3)Owner's devotion and decreased capital	17,974	44					(3)	2,140	20,155
1.Owner's devotion capital	17,974							2,538	20,512
2.Others		44					(3)	(398)	(357)
(4)Special reserve			568					95	663
1.Appropriation of special reserve			6,249					1,394	7,643
2.Use of special reserve			(5,681)					(1,299)	(6,980)
(5)Profit Distribution(decrease)				7,555	58	(15,871)		(9,770)	(18,028)
1.Appropriation to surplus reserve				7,555		(7,555)			
Including : Withdrawal Statutory surplus reserve				7,502		(7,502)			
Withdrawal other surplus				53		(53)			
2.Appropriation to general risk provisions					58	(58)			
3.Distribution to owner's						(8,250)		(9,759)	(18,009)
4.Others							(8)	(11)	(19)
(6)Internal transferring of owner's equity									
3.Balance at the end of this year	249,595	46,526	3,284	169,466	640	174,211	(7,204)	156,281	792,799

## Consolidated Changes in Equity

for the year ended December 31, 2011

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total owner's equity
	Paid in Capital	Capital surplus	Special reserve	Surplus reserve	General risk provision	Undistributed profit	Others		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
1.Beginning balance	206,998	42,172	1,049	131,219	568	114,807	(3,570)	129,228	622,471
2.Amount of increase and decrease of this year (decrease)	24,623	4,229	1,667	30,692	14	23,409	(3,478)	16,712	97,868
(1)Net profit						61,092		22,027	83,119
(2) Gain and loss recognized directly in owner's equity "		(420)					(3,478)	(302)	(4,200)
Subtotal of (1) and (2)		(420)				61,092	(3,478)	21,725	78,919
(3)Owner's devotion and decreased capital	24,623	4,649						1,155	30,427
1.Owner's devotion capital	24,623							(168)	24,455
2.Others		4,649						1,323	5,972
(4)Special reserve			1,667					432	2,099
1.Appropriation of special reserve			4,146					526	4,672
2.Use of special reserve			(2,479)					(94)	(2,573)
(5)Profit Distribution (decrease)				30,692	14	(37,683)		(6,600)	(13,577)
1.Appropriation to surplus reserve				30,692		(30,692)			
Including :									
Withdrawal Statutory surplus reserve				7,490		(7,490)			
Withdrawal other surplus				23,202		(23,202)			
2.Appropriation to general risk provisions					14	(14)			
3.Distribution to owner's						(6,971)		(6,600)	(13,571)
4.Others						(6)			(6)
3.Balance at the end of this year	231,621	46,401	2,716	161,911	582	138,216	(7,048)	145,940	720,339

**Consolidated Changes in Equity**  
for the year ended December 31, 2010

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total owner's equity
	Paid in Capital	Capital surplus	Special reserve	Surplus reserve	General risk provision	Undistributed profit	Others		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
<b>1.Beginning balance</b>	<b>182,029</b>	<b>42,387</b>		<b>109,155</b>	<b>557</b>	<b>88,328</b>	<b>(1,806)</b>	<b>117,811</b>	<b>538,461</b>
<b>2.Amount of increase and decrease of this year(decrease)</b>	<b>24,969</b>	<b>(215)</b>	<b>1,049</b>	<b>22,064</b>	<b>11</b>	<b>26,479</b>	<b>(1,764)</b>	<b>11,417</b>	<b>84,010</b>
(1)Net profit						<b>52,100</b>		<b>20,480</b>	<b>72,580</b>
(2) Gain and loss recognized directly in owner's equity "		<b>(2,206)</b>					<b>(1,764)</b>	<b>(600)</b>	<b>(4,570)</b>
Subtotal of (1) and (2)		<b>(2,206)</b>				<b>52,100</b>	<b>(1,764)</b>	<b>19,880</b>	<b>68,010</b>
(3)Owner's devotion and decreased capital	<b>24,969</b>	<b>1,991</b>						<b>(1,793)</b>	<b>25,167</b>
1.Owner's devotion capital	24,969	1						34	25,004
2.Others		1,990						(1,827)	163
(4)Special reserve			<b>1,049</b>					<b>354</b>	<b>1,403</b>
1.Appropriation of special reserve			3,041					612	3,653
2.Use of special reserve			(1,992)					(258)	(2,250)
(5)Profit Distribution (decrease)				<b>22,064</b>	<b>11</b>	<b>(25,621)</b>		<b>(7,024)</b>	<b>(10,570)</b>
1.Appropriation to surplus reserve				22,064		(22,064)			
Including :									
Withdrawal Statutory surplus reserve				6,814		(6,814)			
Withdrawal other surplus				15,250		(15,250)			
2.Appropriation to general risk provisions					11	(11)			
3.Distribution to owner's						(3,538)		(4,930)	(8,468)
4.Others						(8)		(2,094)	(2,102)
<b>3.Balance at the end of this year</b>	<b>206,998</b>	<b>42,172</b>	<b>1,049</b>	<b>131,219</b>	<b>568</b>	<b>114,807</b>	<b>(3,570)</b>	<b>129,228</b>	<b>622,471</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Company Balance Sheets

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>Current assets</b>				
Cash		15,350	27,110	13,778
Accounts receivable		11	3	
Advance to suppliers		19	16	
Dividend receivable			429	356
Other receivable		9,976	21,413	17,613
<b>Total current assets</b>		<b>25,356</b>	<b>48,971</b>	<b>31,747</b>
<b>Non-current assets</b>				
Available-for-sale financial assets		75		
Long-term equity investment	14,(1)	380,078	349,688	312,664
Fixed assets		434	463	485
Construction in progress		416	424	134
Intangible assets		19,036	19,554	20,095
Other non-current assets		35,560	35,561	35,560
<b>Total non-current assets</b>		<b>435,599</b>	<b>405,690</b>	<b>368,938</b>
<b>Total assets</b>		<b>460,955</b>	<b>454,661</b>	<b>400,685</b>
<b>Current liabilities</b>				
Short-term loans		10,488	20,643	21,706
Accounts payable		8		
Advance from customers		12	59	
Employee benefits payable		9,601	9,848	10,749
Taxes and fees payable		524	440	171
Other payable		7,675	14,844	5,036
Non-current liabilities due within 1 year		8,812	5,300	
Other current liabilities		5,026	10,056	10,086
<b>Total current liabilities</b>		<b>42,146</b>	<b>61,190</b>	<b>47,748</b>
<b>Non-current liabilities</b>				
Long-term loans		13,621	20,346	29,104
Long-term payable		8,425	7,763	7,179
Deferred tax liabilities		15		
<b>Total non-current liabilities</b>		<b>22,061</b>	<b>28,109</b>	<b>36,283</b>
<b>Total liabilities</b>		<b>64,207</b>	<b>89,299</b>	<b>84,031</b>
<b>Owner's equity</b>				
Paid in capital		249,595	231,621	206,998

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
Capital surplus		50,378	50,343	45,810
Surplus reserve		23,623	21,460	19,817
Retained earnings		73,152	61,938	44,029
Translation difference in foreign currency statements				
<b>Total owner's equity attributable to parent company</b>		<b>396,748</b>	<b>365,362</b>	<b>316,654</b>
<b>Total owner's equity</b>		<b>396,748</b>	<b>365,362</b>	<b>316,654</b>
<b>Total liabilities and owner's equity</b>		<b>460,955</b>	<b>454,661</b>	<b>400,685</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Company Income Statements

Items	Note	2012	2011	2010
		RMB million	RMB million	RMB million
<b>1.Operating revenue</b>	14,(2)	<b>5,816</b>	<b>5,797</b>	5,797
<b>2.Operating total cost</b>	14,(2)	<b>3,749</b>	<b>3,727</b>	3,806
Less: Operating cost		18		
Business taxes and surcharges		325	324	321
General and administrative expenses		1,483	1,393	1,304
Financial expenses		1,923	2,010	1,981
Assets impairment loss				200
Add: Investment income (“-“ for loss)	14,(3)	20,083	26,819	12,828
<b>3.Operating profit (“-“ for loss)</b>		<b>22,150</b>	<b>28,889</b>	<b>14,819</b>
Add: Non-operating income		93		3
Less: Non-operating expenses		31	1,826	92
<b>4.Total profit (“-“ for loss)</b>		<b>22,212</b>	<b>27,063</b>	<b>14,730</b>
Less: Income tax expenses		582	540	152
<b>5.Net profit (“-“ for loss)</b>		<b>21,630</b>	<b>26,523</b>	<b>14,578</b>
Less: Minority interest				
<b>6.Net profit attributed to shareholders of parent company</b>		<b>21,630</b>	<b>26,523</b>	<b>14,578</b>
<b>7.Other comprehensive income (“-“ for loss)</b>		<b>89</b>	<b>44</b>	<b>(2)</b>
<b>8.Total comprehensive income (“-“ for loss)</b>		<b>21,719</b>	<b>26,567</b>	<b>14,576</b>
Less: Total comprehensive income(total lost) attributable to minority shareholder				
<b>9.Total comprehensive income(total lost) attributable to shareholders of the parent company</b>		<b>21,719</b>	<b>26,567</b>	<b>14,576</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Company Cash Flow Statements

Items	Note	2012 RMB million	2011 RMB million	2010 RMB million
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services		5,454	5,435	6,191
Refund of tax and levy				
Other cash received relating to operating activities		44,855	35,495	37,506
<b>Subtotal of cash inflows</b>		<b>50,309</b>	<b>40,930</b>	<b>43,697</b>
Cash paid for goods and services			10	
Cash paid to and on behalf of employees		381	515	191
Cash paid on taxes and levy		501	314	20
Other cash paid relating to operating activities		46,017	32,990	28,146
<b>Subtotal of cash outflows</b>		<b>46,899</b>	<b>33,829</b>	<b>28,357</b>
<b>Net cash flows from operating activities</b>	14,(4)	<b>3,410</b>	<b>7,101</b>	<b>15,340</b>
<b>2. Cash flows from investing activities</b>				
Cash received from disposal of investments		34,387	50,147	5,743
Cash received from investment income		20,470	16,011	13,118
Other cash received relating to investing activities			2	30
<b>Subtotal of cash inflows</b>		<b>54,857</b>	<b>66,160</b>	<b>18,891</b>
Cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets		28	339	196
Cash paid for investment		58,621	70,455	31,967
Other cash paid relating to investing activities		2	4	7,300
<b>Subtotal of cash outflows</b>		<b>58,651</b>	<b>70,798</b>	<b>39,463</b>
<b>Net cash flows from investing activities</b>		<b>(3,794)</b>	<b>(4,638)</b>	<b>(20,572)</b>
<b>3. Cash flows from financing activities</b>				
Cash received from investment		17,637	24,623	24,962
Cash received from borrowings		41,323	48,083	54,386
Other cash received relating to financing activities				
<b>Subtotal of cash inflows from financing activities</b>		<b>58,960</b>	<b>72,706</b>	<b>79,348</b>
Cash repayments of amounts borrowed		59,681	52,391	61,502
Cash payments for distribution of dividends, profit or interest expenses		10,625	9,425	5,880
Other cash payments relating to financing activities		30	21	26
<b>Subtotal of cash outflows from financing activities</b>		<b>70,336</b>	<b>61,837</b>	<b>67,408</b>
<b>Net cash flows from financing activities</b>		<b>(11,376)</b>	<b>10,869</b>	<b>11,940</b>
<b>4. Net increase in cash and cash equivalents</b>		<b>(11,760)</b>	<b>13,332</b>	<b>6,708</b>
Add: Cash and cash equivalents at the beginning of the period		27,110	13,778	7,070
<b>5. Cash and cash equivalents at the end of the period</b>		<b>15,350</b>	<b>27,110</b>	<b>13,778</b>

The notes on pages F-19 to F-77 form part of these financial statements.

## Company Changes in Equity

for the year ended December 31, 2012

Items	Paid in Capital	Capital surplus	Surplus reserve	Undistributed profit	Total owner's equity
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>1.Beginning balance</b>	231,621	50,343	21,460	61,938	365,362
<b>2.Amount of increase and decrease of this year(decrease)</b>	17,974	35	2,163	11,214	31,386
(1)Net profit				21,630	21,630
(2) Gain and loss recognized directly in owner's equity ”		89			89
Subtotal of (1) and (2)		89		21,630	21,719
<b>(3)Owner's devotion and decreased capital</b>	17,974	(54)		(3)	17,917
1.Owner's devotion capital	17,974				17,974
2.Others		(54)		(3)	(57)
<b>(4)Profit Distribution(decrease)</b>			2,163	(10,413)	(8,250)
1.Appropriation to surplus reserve			2,163	(2,163)	
Including : Withdrawal Statutory surplus reserve			2,163	(2,163)	
2.Distribution to owner's				(8,250)	(8,250)
<b>3.Balance at the end of this year</b>	<b>249,595</b>	<b>50,378</b>	<b>23,623</b>	<b>73,152</b>	<b>396,748</b>

## Company Changes in Equity

for the year ended December 31, 2011

Items	Paid in Capital	Capital surplus	Surplus reserve	Undistributed profit	Total owner's equity
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>1.Beginning balance</b>	206,998	45,810	19,817	44,029	316,654
<b>2.Amount of increase and decrease of this year(decrease)</b>	24,623	4,533	1,643	17,909	48,708
(1)Net profit				26,523	26,523
(2) Gain and loss recognized directly in owner's equity ”		44			44
Subtotal of (1) and (2)		44		26,523	26,567
<b>(3)Owner's devotion and decreased capital</b>	24,623	4,489			29,112
1.Owner's devotion capital	24,623				24,623
2.Others		4,489			4,489
<b>(4)Profit Distribution(decrease)</b>			1,643	(8,614)	(6,971)
1.Appropriation to surplus reserve			1,643	(1,643)	
Including : Withdrawal Statutory surplus reserve			1,643	(1,643)	
2.Distribution to owner's				(6,971)	(6,971)
<b>3.Balance at the end of this year</b>	<b>231,621</b>	<b>50,343</b>	<b>21,460</b>	<b>61,938</b>	<b>365,362</b>

## Company Changes in Equity

for the year ended December 31, 2010

Items	Paid in Capital	Capital surplus	Surplus reserve	Undistributed profit	Total owner's equity
	RMB million	RMB million	RMB million	RMB million	RMB million
<b>1.Beginning balance</b>	182,030	45,826	18,581	34,226	280,663
<b>2.Amount of increase and decrease of this year(decrease)</b>	24,968	(16)	1,236	9,803	35,991
(1)Net profit				14,578	14,578
(2) Gain and loss recognized directly in owner's equity ”		(2)			(2)
Subtotal of (1) and (2)		(2)		14,578	14,576
<b>(3)Owner's devotion and decreased capital</b>	24,968	(14)			24,954
1.Owner's devotion capital	24,968	(14)			24,954
2.Others					
<b>(4)Profit Distribution(decrease)</b>			1,236	(4,775)	(3,539)
1.Appropriation to surplus reserve			1,236	(1,236)	
Including : Withdrawal Statutory surplus reserve			1,236	(1,236)	
2.Distribution to owner's				(3,539)	(3,539)
<b>3.Balance at the end of this year</b>	<b>206,998</b>	<b>45,810</b>	<b>19,817</b>	<b>44,029</b>	<b>316,654</b>

The notes on pages F-19 to F-77 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2010, 2011 and 2012**

**1. COMPANY PROFILE**

As one of the largest integrated energy and chemical companies with upstream, midstream and downstream operations in China, China Petrochemical Corporation (“The Group”) was established on July 27, 1998 according to Circular on Establishment Program of Sinopec Group by the State Economic and Trade Commission and Announcement on the articles of association of Sinopec Group (Guo Jing Mao Wei [1998] No.458). The Group’s predecessor is China Petrochemical Corporation established in 1983 as the economic entity with the qualification of a legal person under direct control by the State Council and is responsible for the national petrochemical production construction and import and export business planning. In July, 1998, China carried on major reform and restructuring on the petroleum and petrochemical industry, Sinopec Group completely merged China Eastern United Petrochemical (Group) Company Limited and finished transfer with China National Petroleum Corporation and hand-over with provincial/ municipal as well as specifically designated municipal petroleum companies, hence, it became a state-owned company solely invested by the State, functioning as a state-authorized investment organization in which the state holds the controlling share. The business license of enterprise legal person is numbered 100000000001244, the legal representative is Fu Chengyu, and Sinopec Group has a registered capital of RMB 231,621 million. The address of the Group is 22 Chaoyangmen North Street, Chaoyang District Beijing, China. Its principal operations include: exploration and development of petroleum and natural gas, petroleum refining, petrochemical, petroleum products wholesale and retail, exploration and designing, construction and installation of petroleum and petrochemical projects.

Sinopec Group has 33 wholly-owned companies and holding subsidiary companies, including China Petroleum & Chemical Company (Sinopec Corp.) listed on stock markets in Hong Kong, New York, London and Shanghai, as well as 32 wholly-owned unlisted companies.

Sinopec Group ranked the 5th in Fortune Global 500 in 2012.

As of December 31, 2012, the assets of Sinopec Group totaled RMB 1,956,826 million, the shareholders’ equity attributable to parent company totaled RMB 636,518million.

**2. THE BASIS OF THE PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises - Basic Standards” and 38 specific standards promulgated by the Ministry of Finance in February 2006, the application guidance and interpretations issued thereafter, and other relevant requirements (hereafter referred to as “the China Accounting Standards” or “CAS”).

The financial statements of Sinopec Group have been prepared on a going concern basis.

**3. STATEMENT OF COMPLIANCE TO THE CHINA ENTERPRISE ACCOUNTING STANDARD**

The financial statements of Sinopec Group for the year ended December 31, 2010, 2011 and 2012 truly and completely present the financial position for the period of 2010-2012 and the operating results, cash flows and other information for the year then ended of the Group in compliance with the Accounting Standards for Business Enterprises.

**4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

(1). Accounting period

The Group’s accounting year starts on January 1st and ends on December 31th.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2010, 2011 and 2012**

(2). Reporting currency

The Group uses the Renminbi as reporting currency.

The Group's subsidiaries, joint ventures and associated enterprises shall determine their own reporting currency according to their primary economic environment and translate the reporting currency into RMB when preparing financial statements.

(3). Attribution of accounting measurement

The financial statements of the Group have been prepared under the historical cost convention. Financial assets or liabilities at fair value upon initial recognition, available-for-sale financial assets and derivative financial instruments are measured at fair value; the inventories and fixed assets beyond the normal credit conditions for late payment are measured at the present value of the purchase price; the inventories suffering an impairment loss are measured at the net realizable value; others are measured at the recoverable amount (the higher between the fair value and the present value); the overage assets are measured at the replacement cost.

(4). Foreign currency translation

1) Foreign currency transactions

Transactions denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the dates of the transactions or at the date of the last month-end day. Foreign exchange transactions or others related shall be translated into functional currency at the actual exchange rate which is bid price or selling price of the bank.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at rates different from those at which they were translated on initial recognition during the period in previous financial statements should be recognized in profit or loss for the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency should be translated into the reporting currency using the spot exchange rate at the date of the transaction. Accordingly, at each balance sheet date, the reporting currency amount of non-monetary items remains the same in the transaction. At each balance sheet date, non-monetary items that are measured at fair value in a foreign currency should be translated into the reporting currency using the spot exchange rates at the date when the fair value was determined.

2) Translation of financial statements presented in foreign currency

For subsidiaries that use foreign currency as their reporting currency, when financial statements are translated from the foreign currency into RMB, all asset and liability accounts should be translated into RMB using the market exchange rates on the consolidation date. All equity accounts, except for the "undistributed profit" account, should be translated into RMB using the market exchange rates when the transactions take place. All accounts in the income statement and those items relating to profit distribution should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. All accounts in the cash flow statement should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. Exchange differences arising from the translation of financial statements are accounted for separately as "Foreign currency translation differences" of undistributed profit accounts in the balance sheet.

(5). Recognition basis of cash and cash equivalents

Cash and cash equivalents include cash, bank deposit, other monetary assets and short-term non-equity investment. Non-equity investment that can be recognized as cash equivalents shall conform to the following: short-term (expiring within 3 months from purchase date), highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6). Financial asset and financial liability

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1) Classification of financial assets

The Group classified its financial assets on initial recognition into the following categories:

- A. financial assets at fair value through profit or loss;
- B. held-to-maturity investments;
- C. loans and receivables;
- D. available-for-sale financial assets; and
- E. other financial liability

2) Recognition and measurement of financial assets and financial liability

- A. Financial assets are measured at fair value upon initial recognition

In the case of financial assets at fair value through profit or loss, associated transaction costs should be included in profit or loss for the current period when incurred. In the case of other categories of financial assets, associated transaction costs should be included in the amount recognized initially.

- B. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity whereby the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method, and gains or losses arising from the derecognition, impairment or amortization thereof should be recognized in profit or loss for the current period.

- C. Loans and receivables

The credit receivable arising from external sales or rendering of services of the Group shall be recognized as initial recognition amount according to buyer's contract or agreed price.

When the amount is reversed or disposed, the difference between the purchase price and book value of receivables shall be recorded into current profit and loss.

- D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated upon initial recognition as available-for-sale or financial assets that are not classified as the above categories. Available-for-sale financial assets are subsequently measured at fair value. Premium or discount is amortized using effective interest method and recognized as interest income. Except impairment losses and exchange differences on foreign currency monetary financial assets that are recognized in profit or loss for the current period, variation in fair value of available-for-sale financial assets are recognized separately under Capital Surplus. When the financial assets are derecognized or impairment takes place cumulative gains or losses previously recorded under Capital Surplus are taken into profit or loss for the period. Dividends or interest incomes associated with available-for-sale financial assets are recognized in profit or loss for the period.

- E. Other financial liabilities

Other financial liabilities should be measured subsequently at amortized cost using effective interest method.

3) Transfer of Financial Assets

Transfer of financial assets refers to when the Group (the transferor) transfers or delivers a financial asset to a party (the transferee) other than the issuer of the financial asset.

When the Group transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset should be derecognized. When the Group retains substantially all the

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risks and rewards of ownership of a financial asset, the Group should continue to recognize the financial asset.

When, in the transfer, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group should determine whether it has retained control of the financial asset.

4) Fair Value of Financial Instrument

Financial assets and financial liabilities initially recognized by an enterprise shall be measured at fair value.

5) Impairment of Financial Assets

A. Bad debts provision against receivables

a. Bad debts provision method: The bad debts provision against accounts receivable adopts allowance method, when bad debts loss incurs, bad debts provision shall be made as written-off provision after approval from internal management authority.

b. Bad debts provision method and percentage: where there is objective evidence that a financial asset is impaired, impairment shall be recognized as the difference between the carrying amounts and expected future cash flows. The bad debts provision scope includes accounts receivable, other receivables, advances to suppliers, long-term receivables, bills receivable, interest receivable and dividend receivable.

Bad debts provision against accounts receivable adopts individual test and aging analysis method. Long-term receivables, bills receivable, interest receivable and dividend receivable, as well as accounts receivable from group company and its subsidiaries, accounts receivable from associates and joint ventures, shall adopt single test, and need not make bad debts provision. Where there is objective evidence that the amount has little collectability, bad debts provision shall be made.

Besides the above receivables, if the individual receivables account for 10% of total receivables or above, or below 10% but there is obvious evidence that creditor's right is hard to collect, the debtor has serious financial difficulty, and has not been able to continue with the operation, or the business has been closed or will be closed down, individual test shall be applied. The rate of provision for bad and doubtful debts in aging analysis method is as follows:

Aging	Proportion % of accounts receivable	Proportion % of Other receivables
Within 1 year (incl. 1 year)	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

B. Held-to-maturity investment

The Group should carry out the individual impairment test for held-to-maturity investment; if objective evidence of impairment exists the Group should recognize impairment loss and impairment provision should be made, basing on the difference between future cash flows with the book value.

C. Available-for-sale financial assets

For available-for-sale liability instruments for which impairment loss was recognized, if in a subsequent accounting period its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss should be reversed with the amount of the reversal recognized in profit or loss for the current period. Impairment losses recognized in profit or loss for investment in available-for-sale equity instruments should not be reversed through profit or loss.

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D. Impairment loss reversed

If impairment loss is recognized for financial assets measured at amortized cost, if objective evidence of recovery of this financial asset exists, and it can be objectively related to an event occurring after the impairment loss, and the debtor's credit rating has been improved, the previous recognized impairment loss should be reversed with the amount of the reversal recognized in profit or loss for the current period. The reversed carrying amount shall not exceed the amortized cost on reversal date under the assumption that no provision for impairment loss happens.

(7). Inventory

1) Classification of inventories

The Group classified the inventory as raw materials, turnover materials, commissioned materials, material in transit, product in process, inventory merchandise, finished goods issued, unsettled finished project and unfinished laboring service costs.

2) Measurement of inventories issued from storage

Inventories were recorded at actual cost when acquired, goods issued from storage or upon requisition is determined on a weighted-average basis. For inventory that can not be replaced, inventory that specifically purchased for specific project or laboring cost, are determined on specific identification method.

Turnover materials and auxiliary materials are recorded at cost, the difference between planned cost and actual cost shall be individually accounted in item of "cost difference". At month-end, the cost difference shall be carried forward and the planned cost shall be adjusted into actual cost.

3) Turn over materials amortization

Turnover materials include low value consumables, packaging and the turnover materials at construction work site. Turnover materials are amortized using one-off amortization method/amortization method. Turnover materials with high value and long period of use shall be amortized according to benefit period.

4) Provision for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realisable value, a provision for decline in value of inventories is recognized. If the circumstances that previously caused inventories to be written down no longer exist which results in the net realisable value being higher than the carrying amount, the amount of the write-down is reversed in income statement. The reversal is limited to the amount originally provided for the decline in value of inventories.

5) Measurement of net realisable value

Net realisable value is the estimated selling price in the ordinary course of business, unless the estimated costs to completion and estimated costs necessary to make the sale.

6) Inventory system

The inventories are counted with a perpetual inventory system.

(8). Long-term equity investments

1) Initial measurement of long-term equity investments

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is different from not involving enterprises under common control. The initial investment cost of the long-term equity investments acquired through otherwise than through a business combination are recognized by the purchase cost which is actually paid, in fair value of the issued equity securities or the value agreed in the investment contract or agreement,

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according to their own obtaining ways. The cash dividend or profit announced and distributed which have already included in the actual payment or consideration of offer should be recognized as an accounts receivable, not the investment cost of the long-term equity investments.

2) Subsequent measurement and recognition of profit

A. Long-term equity investment accounted for using the cost method

Where the Company is able to exercise control over the investee, and where the Company does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably measured, the long-term equity investment is accounted for using the cost method. The long-term equity investments which are accounted for using the cost method are measured at its initial investment cost. When additional investment is made or the investment is recouped, the cost of the long-term equity investments should be adjusted accordingly. Investment income is recognized in profit or loss for the current period as the cash dividend or profit announced and distributed, except for those cash dividend or profit which have already included in the actual payment or consideration of offer when the investment was made.

B. Long-term equity investment accounted for using the equity method

Where the Company has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method. Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets, no adjustment is made to the initial investment cost; where the initial investment cost is less than the Company's interest in the fair values of the investee's identifiable net assets, the difference is charged to profit or loss for the current period, and the carrying amount of the long-term equity investment is adjusted accordingly.

After the acquisition of the investment, the Group recognizes its share of the investee's net profits or losses, as investment income or losses, and adjusts the carrying amount of the investment accordingly. The Group partakes the losses of investee according to the following order: firstly, offset against the carrying value of the long-term equity investment; secondly, recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero; thirdly, after the above treatments, if the Group should undertake extra losses according to the investment contract or agreement, recognize the estimated liabilities according to the planed obligation and account the losses for the current period. If the invested entity realizes any net profits later, the investing enterprise shall, after offsetting against its attributable share of the un-recognized losses, write-downing the estimated liabilities having been recognized and restoring the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity according to the reverse order, resume to recognize its attributable share of profits.

The Group shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. The investment income should be recognized according to its share of carrying amount of net profit or loss of the investee and disclosed when the fair value of the investee's identifiable net assets cannot be reliably measured, or the differences between the fair value and the carrying value of the investee's identifiable net assets are insignificant.

Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity.

C. The transform between the cost method and the equity method in the measurement

For a long-term equity investment for which there is no offer in the active market and of which the fair value cannot be reliably measured, if the investing enterprise has no joint control or significant

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influence over the invested entity any more as a result of the decrease of investment or other reasons, the cost method shall be employed in the measurement.

If an enterprise is able to have joint control or significant influence, which does not constitute control, over the invested entity as a result of additional investment or other reasons, the equity method shall be employed in the measurement.

**D. Disposition of the long-term equity investment**

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses.

If any change other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion.

**E. Impairment provision of the long-term equity investment**

At each balance sheet date, long-term equity investments are assessed for impairment on an individual basis under the condition that the invested entity has serious financial difficulties and will collapse or carry other financial recognition. The amount of the impairment loss is measured as the difference between the recoverable amount and the carrying amount of the investment. Such impairment loss is not reversed.

**3) Basis for recognition of joint control or significant influence over an investee**

The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions; The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies.

**(9). Fixed assets and depreciation**

**1) Recognition of fixed assets**

Fixed assets refer to tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and have a useful life of more than one year.

An item of fixed asset should be recognized if, and only if:

It is probable that future economic benefits associated with the asset will flow to the Group; and

The cost of the asset can be measured reliably.

**2) Fixed assets measurement**

Fixed assets are initially measured at actual costs of acquisition.

**3) Classification of fixed assets and depreciation policy**

The Group classifies the fixed assets and recognizes the expected useful lives, estimated net residual values rates and the depreciation method of the fixed assets.

All the fixed assets are depreciated, except the fixed assets that are depreciated fully but be used continually or the land that is valued individually as fixed asset according to the rules of audit of assets.

The Company uses the straight line method for depreciation. Without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

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<b>Category</b>	<b>Estimated useful lives</b>	<b>Residual percentage%</b>	<b>Annual depreciation rates</b>
Plant and buildings	12-40	3	2.43-8.08
General equipment	4-20	3	4.85-24.25
Special equipment for oil and gas	8-18	3	5.39-12.13
Special equipment for petroleum and chemical industry	10-20	3	4.85-9.70
others	4-30	0-3	2.23-25.00

For the fixed assets that have been provided for impairment loss, and the fixed assets that the estimated useful life and the estimated net residual value have been changed, the related depreciation charge and depreciation rate is recalculated based upon the adjusted carrying amounts over their remaining useful lives. But the accumulated depreciation having been provided previously will not be adjusted when the amount of depreciation is adjusted due to depreciation reserve incurred.

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

For fixed assets that are held under finance leases, if it can be reasonably determined that the ownership of the leased assets can be obtained at the end of the lease period, the leased assets are depreciated over their useful lives.

Fixed assets under finance lease should be depreciated over the remaining useful life if there is reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term. If there is no reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term the asset should be depreciated over the shorter of the lease term and its remaining useful life.

4) Subsequent expenditure of the fixed assets

Subsequent expenditure of the fixed assets includes the renovation spending and the cost of repairs in the using progress.

The renovation spending should be recognized in in the carrying amount of the item if the recognition criteria are satisfied and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets nor satisfying the recognition criteria are recognised in profit or loss as incurred.

5) Depreciation reserve of the fixed assets

At each balance sheet date, the Group inspects all the fixed assets. Some of the fixed assets may be assessed for impairment on an individual basis due to the market price falling substantially, or obsolescence, damage, idle for a long time. The amount of the impairment loss is measured and the depreciation reserve is provided as the difference between the recoverable amount and the carrying amount of the fixed assets. Such impairment loss is not reversed.

6) Held-for-sale fixed assets

The fixed assets are classified as held-for-sale assets when the following conditions are satisfied at the same time:

- A. The Company has already made a resolution of the disposal of fixed assets;
- B. The Company has signed an irrevocable transfer agreement with the transferee;
- C. The transfer is likely to be completed within a year.

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Held-for-sale fixed assets include single assets and disposal groups. In specific circumstances, the disposal groups include goodwill acquired in business combinations.

Held-for-sale fixed assets will not be depreciated; they are measured at the lower of the carrying amount and fair value deducting disposal costs.

When an asset or disposal group is classified as held for sale, but no longer satisfies the recognition criteria subsequently, the Group shall stop classifying it as held for sale, and measure it at the lower of the two amounts:

- A. The asset or disposal group's adjusted carrying amount prior to the classification of held for sale, which is adjusted according to the original depreciation, amortization or impairment under the assumption of not being classified as held for sale; and
- B. The resell recoverable amount of the date of deciding not to sell.

For intangible assets and other illiquid assets which satisfy the criteria of held for sale, treat it as to the above-mentioned principles.

(10). Oil and gas properties

1) Classification, recognition and measurement of oil and gas properties

The oil and gas properties of the Group include drilling activities and other relevant activities, the rights and interests of proved and unproved mining areas. An item of oil and gas properties should be recognized and be measured initially according to the actual cost occurred if:

it is probable that future economic benefits associated with the asset will flow to the Group; and

B. the cost of the asset can be measured reliably.

After the obtainment of the rights and interests of proved and unproved mining areas, the initial costs of the oil and gas properties shall be measured according to the costs of obtainment.

Where an enterprise eventually abandons an unproved mining area due to its failure to discover and prove any economically exploitable reserve therein, its book value at the time of abandonment shall be recorded in the profits and losses of the current period.

With a view to the drilling exploration disbursements, after a well is completed if:

It is sure that an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling this well shall be carried forward as cost of the well and relevant facilities;

If it is sure that no economically exploitable reserve is discovered and proved in the well, the result of the disbursements for drilling this well less the net salvage value shall be recorded in the profits and losses of the current period.

C. If it is not sure whether or not an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling the well shall be temporarily capitalized within 1 year after it is completed. If one year has lapsed since the completion of the well, it is still impossible to make sure whether or not an economically exploitable reserve is discovered and proved in a well, if the following conditions are satisfied simultaneously, the capitalized disbursements for drilling the well shall continue to be temporarily capitalized, otherwise they shall be recorded in the profits and losses of the current period:

a. A sufficient reserve has been discovered in the well, but in order to make sure whether or not it is an economically exploitable reserve, it is necessary to carry out further exploration activities in order to make sure whether or not it is an proved economically exploitable reserve; and

b. Further exploration activities are being implemented or are about to be implemented under a specific plan.

D. Where a new economically exploitable reserve is discovered and proved in a well for which the drilling exploration disbursements have been expensed, no adjustment may be made to the expensed

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drilling exploration disbursements and the disbursements for re-drilling exploration and for the completion of the well shall be capitalized.

The disbursements for drilling exploration and the related auxiliary equipment shall be capitalized.

The non-drilling exploration disbursements shall be recorded in the profits and losses of the current period at the time of incurrence.

The disbursements for the development of oil and gas shall be transferred into the costs of the oil and gas properties, when they reach the condition for its intended use (or a well is completed).

2) Depletion policy of the oil and gas properties

The companies of oil and gas exploration affiliated the Group compute the depletion of oil and gas properties by adopting the output method.

3) The disposal costs of the oil and gas properties

For the Group's obligation to do the discarded dispose for any mining area, if this obligation satisfies the conditions for the recognition of the expected liabilities, it shall increase the corresponding book value of oil and gas properties and recognize this obligation as an expected liability. The disposal costs of oil and gas properties are amortized by instalment according to the depletion policy of the related properties. The differences between the present value and the estimated future dismantlement are recorded in the financial expenses of the current period and recognized the expected liabilities over their estimated useful lives.

(11). Accounting methods of the construction in progress

1) Valuation of construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including interest costs that shall be determined in light of the actual cost incurred of the specially borrowed loan and a general borrowing used for the acquisition and construction of assets eligible for capitalization.

2) The standards and point in time of the construction in progress is transferred to fixed assets

All the expenditure incurred for the construction in progress before the construction reaching the condition for intended use, should be included in the recorded value of fixed assets. Construction in progress is transferred to fixed assets using the estimated value according to the actual cost of the project budget, cost, or engineering when the asset is ready for its intended use, having not been handled the completion of final accounts. After handling the final account, the provisional estimate of value should be adjusted according to the actual cost under the provision for depreciation of fixed assets of the Group, but the original provision for depreciation is not necessary to adjust.

3) Depreciation reserve of the construction in progress

At each balance sheet date, for the construction in progress existing indication of impairment, the Group conducts a comprehensive inspection. If the recoverable amount is less than the carrying amount of the intangible assets on an individual, the difference should be recognized the impairment loss and provide the depreciation reserve. Such impairment loss is not reversed.

(12). Borrowing costs

1) Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of the asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

2) Borrowing costs capitalization

Borrowing costs should be capitalized only if all of the three conditions are satisfied:

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Expenditures for the asset are being incurred, including expenditures incurred in the form of cash disbursement, transfer of non-monetary assets or assuming interest-bearing liabilities for acquisition, construction or production of a qualifying asset;

Borrowing costs are being incurred; and

Acquisition, construction and production activities necessary to prepare the asset for its intended use or sale have commenced.

Capitalization of borrowing costs should be suspended when the acquisition, construction or production of qualified asset is abnormally interrupted for a consecutive period of more than three months.

The capitalization of borrowing costs should cease when the acquisition, construction or production of qualified asset is prepared for its intended use or sale.

The capitalization of borrowing costs should cease when the individual component parts of the acquisition, construction or production of qualified asset have been finished and can be used alone.

3) Capitalization period of borrowing costs

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

4) Calculation of the amount of capitalization of borrowing costs

As for specifically borrowed loans, the to-be-capitalized amount of interest costs and auxiliary costs shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment, before the acquisition, construction or production of qualified asset preparing for its intended use or sale.

Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

(13). Intangible assets

1) Valuation and amortization method of intangible assets

The Company initially measures the intangible asset at cost, and analyzes and judges its service life when obtained. An intangible asset with a finite useful life is amortized on a straight-line basis over the expected useful lives when the asset is available for use.

2) Useful life and Amortization period

A. Being derived from any contractual right or other statutory rights, the useful life of intangible assets is no more than the period of the contractual rights or other legal rights; if the contractual rights or other statutory rights can continue due to renewal and it can be proved that the Group do not need to pay a large cost for the renewal, the renewal period should be credited in the useful life.

B. When there are no rules about the useful life in the contract or the law, the Group recognizes the period of intangible assets that bring economic benefit to the enterprise, by hiring experts to conduct

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feasibility studies, comparing the condition with the same industry and referring to the historical experience under various aspects.

C. After these efforts above, if it is still unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

3) Depreciation reserve of the intangible assets

At each balance sheet date, for an intangible asset with a finite useful life, the Group tests possible depreciation on an individual basis. If the recoverable amount is less than the carrying amount of the intangible assets, the difference should be recognized the impairment loss and provide the depreciation reserve. Such impairment loss is not reversed.

An intangible asset with an indefinite useful life is not amortized. The Group carries the depreciation test at the end of each financial year, and redetermines the cost at the fair value. The difference between the fair value and the original book value is recognized the impairment loss and provide the depreciation reserve.

4) Classification criteria between expenditure on the research phase and expenditure on the development phase.

Expenditure on the development phase is capitalized only when the Company can satisfy all of the following conditions:

- A. The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. Its intention to complete the intangible asset is to use or sell it;
- C. How the intangible asset will generate economic benefits; and

The development expenditures of the intangible assets can be reliably measured.

(14). Amortization of long-term prepaid expense

Long-term prepaid expenses of the Group is recorded at actual cost and amortized evenly over their expected beneficial periods. For long-term prepaid expenses that cannot bring benefit to the Group in the subsequent accounting periods the amortized value of the expenses should be charged completely to profits and losses for current period.

(15). Employee compensation

Employee compensation such as salaries, bonuses, allowances, subsidies, welfare benefits, social insurances and housing fund should be recognized in the period when employees provide service to the Group. Employee compensation that is payable more than one year after the balance sheet date should be presented at its present value if discounting effect is material.

Employees of the Group were insured endowment insurance which is managed by the local government and the endowment insurance was included into the current profit and loss when it occurs.

(16). Pension plan

According to the national Enterprise Pension Pilot Plan, the Group established enterprise pension plan for the employees, which means to provide employees with supplementary pension insurance system of retirement income security besides the basic endowment insurance and. The implementation scope is the formal employees who have entered labor contract with the Group. The part paid by the Group was recorded into current profit and loss. Besides, the Group has no other significant employee social security commitments.

(17). Accrued liabilities

The accrued liabilities are the present obligation likely incurred due to external guarantee, trade acceptance discounts, pending litigations, product quality, disposal costs of oil and gas properties, loss of contracts and restructuring obligations, etc. The Group shall record the obligations satisfying the

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following conditions into the liabilities of the balance sheet: the obligation is the Company's current obligations; the fulfillment of the obligation may possibly result in an outflow of economic benefits; and the amounts of the obligations can be measured reliably.

(18). Revenue recognition

1) Sale of goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

Related payments are received or supporting documents for cash collection exist; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

When the outcome of a transaction involving the rendering of service can be estimated reliably the service revenue should be recognized based on a percentage-of-completion method at the balance sheet date.

3) Use by others of enterprise assets

Revenue from use by others of enterprise assets should be recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably

(19). Construction contracts

1) Recognition principles of contract revenue and contract costs

If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method on the date of the balance sheet.

If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: if the contract costs can be recovered, the contract revenue shall be acknowledged in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period they are incurred; if the contract costs cannot be recovered, these costs shall be acknowledged as contract expenses immediately when incurred and no contract revenue shall be acknowledged.

2) The methods of ascertaining schedule of construction contracts

The methods of ascertaining schedule of construction contracts is that the proportion of the completed contract work against the expected total contract work.

3) The recognition standard and the accrual method of contract losses

At the end of each year, the Group conducts a comprehensive inspection of the construction contract. If the total expected contract costs exceed the total expected contract revenue, the difference between them shall be recorded in the profits and losses.

(20). Government grant

A government grant is recognized when the Group complies with the conditions attaching to the grant and when the Group is able to receive the grant. If a government grant is in the form of a transfer of a monetary asset, the item is measured at the amount received or receivable. If a government grant is in

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the form of a transfer of a non-monetary asset, the item is measured at fair value. If fair value is not reliably determinable, the item is measured at a nominal amount of REM 1 Yuan.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the current period

(21). Leases

The Group has classified a lease as a financing lease or an operating lease.

1) Operating lease:

The rents from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a lessee shall be recognized as the profits and losses of the current period.

2) Financing lease:

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs such as commissions, attorneys' fees and travelling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The unrecognized financing charge shall be amortized to each period during the lease term according to the effective interest rate method and the Group recognizes the financing charge in the current period. Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

(22) Accounting treatment method of income tax

The treatment method of income tax of the Group is the balance sheet liability method.

Where an enterprise obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the Group should classify them into taxable temporary differences and deductible temporary differences, and conduct accounting treatment respectively. The term "deductible temporary difference" shall refer to temporary differences that will result in amounts that are deductible in the future pursuant to the tax law. The taxable temporary differences shall be recognized as a deferred income tax liability according to the applicable tax rate. As for any deductible loss or deductible temporary differences, the corresponding deferred income tax assets shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, where there is any exact evidence showing that it is likely to acquire sufficient amount of taxable income tax in a future period to offset against the deductible temporary difference, the deferred income tax assets unrecognized in prior periods shall be recognized.

The carrying amount of deferred income tax assets shall be re-examined on balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

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Our income tax is paid monthly or quarterly in advance. In the final settlement ended the year the Group will pay the income tax unpaid and offset the income tax more than the amount of tax payable in the next year.

(23) Hedge accounting

Hedge accounting is a method which recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item in the same accounting period(s).

Hedged items are the items that expose the Group to risks of changes in fair value or future cash flows and that are designated as being hedged the Group's hedged items include fixed-rate borrowings that expose the Group to risk of changes in fair values, floating rate borrowings that expose the Group to risk of variability in cash flows, and a forecast transaction that is settled with a fixed amount of foreign currency and expose the Group to foreign currency risk.

A hedging instrument is a designated derivative whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item. For a hedge of foreign currency risk, a non-derivative financial asset or non-derivative financial liability may also be used as a hedging instrument.

The hedge is assessed by the Group for effectiveness on an ongoing basis and determined to have been highly effective throughout the accounting periods for which the hedging relationship was designated. The Group uses a ratio analysis to assess the subsequent effectiveness of a cash flow hedge, and uses a regression analysis to assess the subsequent effectiveness of a fair value hedge.

1) Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity as a separate component. That effective portion is adjusted to the lesser of the following (in absolute amounts): (1) the cumulative gain or loss on the hedging instrument from inception of the hedge; and (2) the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from shareholders' equity, included in the initial cost of the non-financial asset or liability, and recognised in profit or loss in the same year during which the financial asset or financial liability affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period during which the financial asset or financial liability affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from shareholders' equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the Group will discontinue the hedge accounting treatments prospectively. In this case, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall not be reclassified into

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profit or loss and is recognised in accordance with the above policy when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall be reclassified into profit or loss immediately.

2) Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment.

The gain or loss from re-measuring the hedging instrument at fair value is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, the Group discontinues prospectively the hedge accounting treatments. If the hedged item is a financial instrument measured at amortised cost, any adjustment to the carrying amount of the hedged item is amortised to profit or loss from the adjustment date to the maturity date using the recalculated effective interest rate at the adjustment date.

3) Hedge of net investment in foreign operation

A hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised directly in equity as a separate component until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in profit or loss. The ineffective portion is recognised immediately in profit or loss.

(24). Safety costs and maintenance funds

According to the Circular of Interim Measures for Finance Management of Safety Costs and Maintenance Funds of High-risk Industries and Enterprises issued by the Ministry of Finance, and the State Administration of Work Safety (Cai Qi[2006] No. 478), the Group provides the safety costs and maintenance funds.

Safety costs and maintenance funds are included in the costs of related products when provided, at the same time included in the "special reserve" account.

When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognized as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods.

(25).Segment reporting

The Company determines its operating segments based on the internal organizational structure, management requirements, and the internal reporting system, and determine the reportable segments based on the operating segments.

Operating segments refer to the components of the Company which satisfy the following conditions at the same time:

- A. The components can generate income and incur expenses in daily activities;
- B. The management can periodically evaluate the operating results of the component to determine its allocation of resources and evaluate their performance;

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C. The Company can obtain the financial position, operating results and cash flows and other relevant accounting information of the components.

The Company's reportable segments include:

- A. Exploration and Production Segment
- B. Refining Segment
- C. Chemicals Segment
- D. Marketing and Distribution Segment
- E. Oil & Petrochemical Engineering Technical Services Segment
- F. Others Segment

The accounting policies of the operating segments are the same as significant accounting policies of the Company.

(26). Business combination

1) Business combinations under the same control

A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary.

As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital shall be adjusted. If the additional paid-in capital is not sufficient to be offset, the retained earnings shall be adjusted.

2) Business combination not under the same control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination.

The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation.

The acquirer shall, pursuant to the following provisions, treat the balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree.

If, after the re-examination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, it shall record the balance into the profits and losses of the current period

(27). Consolidated financial statements

A parent company shall incorporate all its subsidiaries into the consolidation scope of consolidated financial statements.

Consolidated financial statements shall be prepared by a parent company on the basis of the financial statements of the parent company and its subsidiaries and in accordance with other relevant data after the long-term equity investments of the subsidiaries are adjusted in accordance with the equity method. A parent company shall unify the accounting policies used by its subsidiaries to make them consistent with the accounting policy used by it. The influence of other internal transactions between a parent company and subsidiaries and between subsidiaries on consolidated balance sheets shall offset.

Where a parent company prepares a consolidated cash flow statement due to increase in subsidiaries caused by the merger of the enterprises under same control within the reporting period, it shall incorporate the cash flows of the subsidiary incurred from the beginning of the period of merger to the end of the accounting period into the consolidated cash flow statement.

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Where a parent company prepares a consolidated cash flow statement due to increase in subsidiaries caused by the merger of the enterprises not under same control, it shall incorporate the cash flows of the subsidiary incurred from the date of purchase to the end of the reporting period into the consolidated income statement.

Where a parent company disposes of a subsidiary within the reporting period, it shall incorporate the cash flows of the subsidiary incurred from the beginning of the subsidiary to the date of disposal into the consolidated cash flow statement.

**5. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND PRE-ERROR CORRECTION AND OTHER MATTERS NECESSARY TO ADJUST**

(1) . Changes in accounting policies

There are no significant changes in accounting policies necessary to disclose during the reporting period.

(2) . Changes in accounting estimates

There are no significant changes in accounting estimates necessary to disclose during the reporting period.

(3) . Corrections of accounting errors in prior periods

There are no significant corrections of accounting errors in prior periods necessary to disclose during the reporting period.

**6. TAXATION**

(1). Taxes and tax rates

<b>Taxes</b>	<b>Tax Basis</b>	<b>Tax Rates</b>
Value added tax	Income subject to VAT	17、13、6、3
Consumption tax	Amount issued from production enterprises	812.0-1,388.0 Yuan/Ton
Business tax	Sales subject VAT	5、3
City maintenances & construction tax	Subject to turnover tax	0-7
Enterprise income tax	Taxable income	25
Education surcharges	Subject to turnover tax	0-3
Resource tax	Tax levies on fixed amount—sales and amount for self-use Tax levied on fixed price—tax revenue	14-30 Yuan/Ton, 7-15 Yuan/ m <sup>3</sup> 5%
Real estate tax	70%-90% of original value of real estate, Rent income	1.20%、12%
Compensatory fee for mineral resources	Crude oil, natural gas sales	1%
Exploration license fee	Exploration area	100-500 Yuan/km <sup>2</sup> year
Mining license fee	Mining area	1000 Yuan/km <sup>2</sup>
Special oil income levy	Domestic oil sales	Excess progressive tax rate

The value-added tax rate for liquefied petroleum gas, natural gas and some agricultural products is 13%, other products of 17%.

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The consumption tax rates on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil are RMB 1,388.0 Yuan per tonne, RMB 940.8 Yuan per tonne, RMB 1,385.0 Yuan per tonne, RMB 1,282.0 Yuan per tonne, RMB 1,126.0 Yuan per tonne, RMB 812.0 Yuan per tonne and RMB 996.8 Yuan per tonne, respectively.

Resource tax rate shall be collected from fixed amount levy to fixed price levy on the previous crude oil (RMB 14-30 Yuan/ton) and natural gas (RMB 7-15 Yuan/m<sup>3</sup>). Since June 1, 2010, Xinjiang crude oil, natural gas resource tax was levied from a fixed amount to fixed price levy, with the tax rate of 5%; since December 1, 2010, resource tax on crude oil and natural gas in western region was levied from a fixed amount to fixed price levy, with the tax rate of 5%. Since November 1, 2011, the resource tax on nationwide crude oil and natural gas resource tax was levied from a fixed amount to fixed price levy. The resource tax rates on crude oil and natural gas was 5%-10% of the sales volume, temporarily levied by 5%. At the same time, crude oil, heavy oil, three oil recovery, “three low” oil and gas field, and deep water oil and gas fields used for production heating were exempted from tax levy or adopted 20%-40% tax relief.

A special petroleum proceeds is tax levied by the Ministry of finance on the excess income tax, which is because that the domestic crude oil (sold by petroleum exploitation enterprises) price is above a certain level. The starting point before November 1, 2011 was 40 USD per barrel, and 55 USD since Nov 2011, with the tax rate change from 20% to 40%.

(2). Tax incentives and approval

1) VAT

According to the Circular on Continuing the Implementation of Preferential Policies of Value-added Tax, Housing Property Tax, and Tax on Using Urban Land for Heat-supply Enterprises (Cai Shui [2009] No. 11, Cai Shui [2011] No.118) issued by the Ministry of finance, and the State Administration of Taxation, from 2009 to December 31, 2015, the heating fee income (including heating fee income directly collected from residents by heating enterprises or through other units or paid by residents' company) collected from individual residents (hereinafter referred to as the residents) by heating enterprises of North China shall be exempted from VAT.

According to the Circular on value-added tax exemption policy on a certain number of agricultural production materials (Cai Shui [2001] No.112), the Compound fertilizer etc agricultural production materials produced and sold by Nanjing Chemical Industry Company Limited, subsidiary of Asset Management Company, shall enjoy value-added tax exemption policy.

According to Implementing Rules for the Interim Regulations of the People's Republic of China on Value-added Tax, Sinopec Publishing Company Limited carries on preferential policy of VAT tax-levy-rebate policy on science and technology books.

According to the “Hu Shui Pu Huo Zeng [2012] No. 145” issued by Pudong New Area sub-bureau of State Administration of Taxation, China Petrochemical Consulting Corporation are exempted from VAT levied on the contract energy management projects.

Assets Management Co., Ltd. GaoQiao Branch enjoys the policy of exemption, credit and refund of VAT levied on the export production income since 1999. According to the Circular on Promoting the Conversion of High-tech Achievements (Hu Cai San 4 [2006] No. 2), Assets Management Co., Ltd. GaoQiao Branch enjoys the value-added tax and enterprise income tax rebate policies.

2) Consumption tax

According to the Circular of the Ministry of Finance and the State Administration of Taxation on the Relevant Tax Policies Concerning Product Oil Consumption after the Increase of the Consumption Tax Rates for Product Oil issued by the Ministry of finance, and the State Administration of Taxation (Cai Shui [2008] No. 168), from 1 Jan 2009 to December 31, 2010, the domestic naphtha used as raw materials for ethylene, aromatic products exempted from VAT, the consumption tax that has been levied on imported naphtha used as raw materials for ethylene, aromatic products was rebated.

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According to the Circular on Adjustment of Consumption Tax on Partial Fuel Oil issued the Ministry of finance, and the State Administration of Taxation (Cai Shui [2010] No. 66), from January 1, 2010 to December 31, 2010, the domestic fuel oil used as raw materials for production of ethylene, aromatic hydrocarbons and other chemical products exempted from VAT, the consumption tax that has been levied on imported fuel oil used as raw materials for production of ethylene, aromatic hydrocarbons and other chemical products was rebated.

According to the Circular on Exempting Consumption Tax on Oil Products by Product Oil Manufacturing Enterprises for Their Own Use (Cai Shui [2010] No. 98) issued the Ministry of finance, and the State Administration of Taxation, since January 1, 2009, the self-produced refined oil consumed and used as fuel, power and raw materials exempted from consumption tax.

According to the Circular on Levy-Rebate of Consumption Tax on Self-use Product Oil of Oil (Gas) Field Enterprises (Cai Shui [2011] No.7) issued the Ministry of finance, and the State Administration of Taxation, since January 1, 2009, the domestically purchased refined oil consumed during the crude oil exploitation process of oil (gas) field enterprises, was temporarily rebated all the consumption tax based on the amount actually paid.

3) Business tax

According to the Circular on Implementing the CPC Central Committee and the State Council decision on technical innovation strengthening, high-tech development and industrialization realization by Ministry of Finance and the State Administration of Taxation (Cai Shui Zi [1999] No.273), the income from technology transfer, technology development business and related technology consulting and technology services engaged by companies and individuals shall be exempted from business tax. The research income of the Group enjoyed the above tax preferential policy.

4) Resource tax

Resource tax is levied on crude oil and natural gas at rates ranging from RMB 14 per tonne to RMB 30 per tonne and RMB 7 to RMB 15 per 1000 cubic metre, respectively. Effective from 1 June 2010, the resource tax rate of crude oil and natural gas in Xinjiang adopted rate on value method with tax rate of 5%, instead of the previous amount on volume method, and effective from 1 December 2010, the resource tax rate of crude oil and natural gas in the western region adopted rate on value method with tax rate of 5%, instead of the previous amount on volume method. Effective from 1 November 2011, the resource tax rate of crude oil and natural gas adopted rate on value method with tax rate of 5%-10%, temporarily with 5%, instead of the previous amount on volume method, and the production of heating crude oil, heavy oil, tertiary oil recovery, "three lows" oil and gas fields, deep-water oil and gas fields is tax exempted or tax relief of 20% -40%.

5) Corporate income tax

The high-tech enterprises registered partly in the special economic zone, economic and Technological Development Zone and western area, or partly recognized by government, adopts 15% income tax rate, mainly including: Sinopec Ningbo Engineering Co., Ltd (SNEC), Sinopec consultation company, the Fifth Construction Company of SINOPEC, Northwest Petroleum Bureau, Southwest China Petroleum Bureau, its subsidiary Sichuan Star gas limited liability Company, North China Petroleum Bureau subsidiary San Pu Oil Engineering Company, Shanghai Engineering Company, Luoyang Petrochemical Engineering Company and its subsidiary Luoyang Gaoxin Longpu Petrochemical Development Corporation, Guangzhou Zhongyuan Petroleum Chemical Industry Limited Company, Shanghai Luo Peck EnergyTechnology Development Limited Company, Jiangnan Petroleum Administration Bureau subsidiary Jiangnan Petroleum Drill Company Limited, SJS Limited, Asset Management Company subsidiary Sichuan Vinylon factory, Sheng Li Petroleum Administration Bureau subsidiary Sheng Li exploration and Design Institute Limited, Northwest Branch of Sinopec Corp., and SINOPEC Tahe Company.

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According to the Provisions of the State Council on Encouraging Investment in and the Development of the Hainan Island (Guo Fa [1988] No.26), and the Reply to enterprise income tax reduction and exemption of Hainan ShengZhiYe Hi-Tech. Inc. by Haikou City State Taxation Bureau (Hai Guo Shui Han [2008] No.36), Hainan ShengZhiYe Hi-Tech. Inc., the subsidiary of Asset management company was exempted from enterprise income tax from 2008-2009, and enjoyed half reduction on enterprise income tax from 2010-2012.

Sino-foreign joint ventures affiliated to the Group enjoyed tax preferential policy of "two exemptions and three half", which will gradually transit to enterprise income tax rate of 25%. Including: companies enjoying enterprise income tax rate of 15% shall adopt 20% tax rate in 2009, 22% tax rate in 2010, 24% tax rate in 2011 and 25% tax rate in 2012; companies enjoying enterprise income tax rate of 24%, shall adopt 25% tax rate since 2008.

According to the Circular of the State Council on Implementing Transitional Preferential Enterprise Income Tax Policy for Newly-established High-tech Enterprises in Special Economic Zones and the Pudong New Area of Shanghai (Guo Fa [2007] No. 40) issued by State Administration of Taxation, Waigaoqiao Bonded Zone Branch of the Inland Revenue regulated that non- foreign investment production enterprises in bonded zone shall adopt 22% tax rate for prepayment of enterprise income tax declaration. Shanghai Offshore Petroleum Bureau and its subsidiary, Nanjing Engineering Company Limited and its subsidiary Jiangsu Industrial Civil Construction Design Institute Shanghai Branch, Shanghai Engineering Company subsidiary Shanghai Pharmaceutical Industry Design and Research, and Sinopec Consultation Company subsidiary Sinopec Shanghai Consulting Firm etc enjoy the tax preferential policy for domestic enterprises in Pudong New Area, i.e. 22% enterprise income tax.

According to the Circular of Ministry of Finance and the State Administration of Taxation on Enterprise income tax collection for institutions and social groups and related issues (Cai Shui Zi [1997] No. 075), the administrative fees of the institutions of the Group shall be exempted from enterprise income tax.

According to the Circular on the deepening of system reform of publishing house affiliated with various central departments (Zhong Ban Fa [2009] No.16), and Tax policy on supporting the development of cultural enterprises (Cai Shui [2009] No. 31), China Petrochemical Press enjoyed income tax exemption policy from January 1, 2009 to December 31, 2013.

(3).Overseas corporate taxes, rates and preferential policy

Overseas enterprise enjoys the preferential policies according to the the relevant legal provisions in country or regions.

## 7. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### (1).Subsidiaries information

The Group's main subsidiaries are limited companies operating in China and included in the consolidated scope in 2012. The detailed information of the subsidiaries that have significant impact on the results, assets and liabilities of the Group are as follow:

Subsidiaries name	Share holding %	Voting rights%	Registered capital	Investment amount	Main business
Sinopec Corp.*1	76.0334	76.2755	86,703	105,009	Production and sales of petroleum and chemical products
Assets Management Co., Ltd.	100	100	30,000	63,173	The state-owned assets management, education and community service
Shengli Petroleum Administration Bureau	100	100	11,376	24,987	Oil and gas production and service

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Subsidiaries name	Share holding %	Voting rights%	Registered capital	Investment amount	Main business
Zhongyuan Petroleum Exploration Bureau	100	100	4,206	4,528	Oil and gas production and service
Henan Petroleum Exploration Bureau	100	100	1,625	2,969	Oil and gas production and service
Jiangnan Petroleum Administration Bureau	100	100	2,213	3,924	Oil and gas production and service
Jiangsu Petroleum Exploration Bureau	100	100	1,526	2,053	Oil and gas production and service
China Star Petroleum Co. Ltd.	100	100	1,354	1,596	Engineering and construction, technical services
North China Petroleum Bureau	100	100	343	-169	Oil and gas production and service
East China Petroleum Bureau	100	100	183	595	Oil and gas production and service
Southwest China Petroleum Bureau	100	100	2,018	2,411	Oil and gas production and service
SINOPEC Engineering (Group) Co., Ltd	100	100	3,100	6,400	Petrochemical Engineering Design and construction
Sinopec Finance Co.,Ltd. <sup>2</sup>	88.26	100	10,000	5,110	Deposits, loans and other financial business
Sinopec Century Bright Capital Investment Ltd.	100	100	81	10,007	Investment, financing
International Petroleum Exploration and Development Co., Ltd.	100	100	82,406	93,483	Petroleum and natural gas exploitation
Sinopec Petroleum Engineering Technology Co., Ltd	100	100	4,000	23,796	Exploratory drilling, well logging
Petroleum Commercial Reserves Co. Ltd.	100	100	18,483	22,483	Crude oil reserve and wholesale

\*1. Explanation on the difference between nominal ownership and actual ownership held by Sinopec Corp:

The equity ratio of the Group by Sinopec Corp is 76.2755% detailed in the financial statements of 2012, amongst 75.5433% direct holding by the parent company of the Group, the equity ratio of 0.4901% H share was held and purchased from the secondary market by Sinopec Century Bright Capital Investment Limited (wholly owned Subsidiary company of the Group) after authorized by the Group. The difference between the equity ratio published by Sinopec Corp and the direct holding by the parent company of the Group is because that the equity ratio published includes the followings:

According to Henan province agreement on 10% equity shares in Luoyang refinery (Zhong Guo Shi Hua [2000] Qi Zi No. 298), 10% equity share of the listed Luoyang refinery owned by Henan Natural Gas Development Corporation of RMB 110 million has been converted to 77.07 million shares of Sinopec Corp according to the same conversion price of the Group, accounting for 0.0888% of Sinopec Corp's shares.

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According to the Anqing Petrochemical Acrylic limited assets equity disposal agreement (Zhong Guo Shi Hua [2000] Qi Zi No.402), Anhui Investment Group hold equity of RMB 190 million of Anqing Petrochemical Acrylic limited, converting to 133.12 million shares of Sinopec Corp according to the same conversion price of the Group, accounting for 0.1533% of Sinopec Corp's shares.

\*2. Explanation on the difference between ownership and voting rights held by Sinopec Finance Co., Ltd.:

The parent company of the Group held equity ratio of 51% of Sinopec Finance Co., Ltd., Sinopec Corp held 49% equity ratio. The actual equity ratio of Sinopec Corp by the Group is 76.0334%, hence, the Group has indirect 37.26% equity ratio of Sinopec Finance Co., Ltd., and total equity ratio held is 88.26%.

**8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(1).Monetary fund

Item	2012-12-31		2011-12-31		2010-12-31	
	Original Currency million	Translated into RMB million	Original Currency million	Translated into RMB million	Original Currency Million	Translated into RMB million
Cash		72		63		59
Incl.: RMB		21		21		20
USD	2	12	2	15	2	14
Cash in bank		39,824		75,205		34,474
Incl.: RMB		24,584		63,284		30,004
USD	2,041	12,795	1,587	9,997	399	2,641
HKD	97	79	46	37	34	29
JPY	177	13	97	12	124	10
EUR	44	367	48	389	46	403
GRP	3	29	1	5	3	28
Other monetary fund		2,755		2,162		954
<b>Subtotal</b>		<b>42,651</b>		<b>77,430</b>		<b>35,487</b>
less: Impairment provision		78		169		89
<b>Total</b>		<b>42,573</b>		<b>77,261</b>		<b>35,398</b>

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(2).Bills receivables

Categories	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Bank acceptance bills	22,517	30,577	18,086
Trade acceptance bills	167	160	241
<b>Total</b>	<b>22,684</b>	<b>30,737</b>	<b>18,327</b>

Note: As at December 31, 2012, the Group has no pledged major notes receivable and discounted trade acceptance bills.

(3).Accounts receivable

1) Category analysis

Categories	2012-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Accounts receivable, of which bad debts was provided using specific identification method	30,284	29.19	305	1.01
Accounts receivable, of which bad debts was provided using aging analysis method	73,462	70.81	1,516	2.06
<b>Total</b>	<b>103,746</b>	<b>100.00</b>	<b>1,821</b>	<b>—</b>

Categories	2011-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Accounts receivable, of which bad debts was provided using specific identification method	21,506	27.43	288	1.34
Accounts receivable, of which bad debts was provided using aging analysis method	56,887	72.57	1,768	3.11
<b>Total</b>	<b>78,393</b>	<b>100.00</b>	<b>2,056</b>	<b>—</b>

Categories	2010-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Accounts receivable, of which bad debts was provided using specific identification method	41,919	68.77	443	1.06
Accounts receivable, of which bad debts was provided using aging analysis method	19,037	31.23	2,151	11.30
<b>Total</b>	<b>60,956</b>	<b>100.00</b>	<b>2,594</b>	<b>—</b>

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2) Aging analysis

Aging	2012-12-31		2011-12-31		2010-12-31		2010-12-31		Provision for bad debts RMB million
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	
Within 1 yr	71,164	96.87	54,455	95.73			16,579	87.08	13
1-2 yrs	973	1.32	292	0.53	703	1.23	204	1.98	112
2-3 yrs	250	0.34	150	0.27	198	0.35	114	0.74	84
Over 3 yrs	1,075	1.47	1,074	1.93	1,531	2.69	1,450	10.20	1,942
<b>Total</b>	<b>73,462</b>	<b>100</b>	<b>1,516</b>	<b>2.73</b>	<b>56,887</b>	<b>100</b>	<b>1,768</b>	<b>19,037</b>	<b>2,151</b>

3) As at December 31, 2012, the accounts receivable with evidence for the analysis, of which bad debts was provided using specific identification method, totaled RMB305million.

(4).Advance to suppliers

Aging	2012-12-31		2011-12-31		2010-12-31	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 yr	12,140	94.77	15,799	93.05	20,066	98.27
1-2 yrs	541	4.22	1,040	6.12	248	1.21
2-3 yrs	78	0.61	97	0.57	55	0.27
Over 3 yrs	51	0.4	45	0.26	51	0.25
<b>subtotal</b>	<b>12,810</b>	<b>100</b>	<b>16,981</b>	<b>100</b>	<b>20,420</b>	<b>100</b>
less: Provision for bad debts	193		99		154	
<b>Total</b>	<b>12,617</b>		<b>16,882</b>		<b>20,266</b>	

Note: As at December 31, 2012, there was no significant advances to suppliers with aging over 1 year need to be disclosed.

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(5).Other receivables

1) Category analysis

Categories	2012-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Other receivables, of which bad debts was provided using specific identification method	4,000	35.77	1,038	25.96
Other receivables, of which bad debts was provided using aging analysis method	7,183	64.23	2,773	38.61
<b>Total</b>	<b>11,183</b>	<b>100</b>	<b>3,812</b>	

Categories	2011-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Other receivables, of which bad debts was provided using specific identification method	1,403	11.55	1,070	76.27
Other receivables, of which bad debts was provided using aging analysis method	10,749	88.45	3,083	28.68
<b>Total</b>	<b>12,152</b>	<b>100</b>	<b>4,153</b>	

Categories	2010-12-31			
	Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%
Other receivables, of which bad debts was provided using specific identification method	3,236	22.96	769	23.76
Other receivables, of which bad debts was provided using aging analysis method	10,861	77.04	4,005	36.87
<b>Total</b>	<b>14,097</b>	<b>100</b>	<b>4,774</b>	

2) Aging analysis

Aging	2012-12-31			2011-12-31			2010-12-31		
	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts	Amount	%	Provision for bad debts
	RMB million		RMB million	RMB million		RMB million	RMB million		RMB million
Within 1 yr	4,259	59.29		7,203	67.01		6,748	62.14	1
1-2 yrs	151	2.11	46	383	3.56	70	94	0.86	28
2-3 yrs	113	1.57	67	103	0.96	40	107	0.98	64
Over 3 yrs	2,660	37.03	2,660	3,060	28.47	2,973	3,912	36.02	3,912
<b>Total</b>	<b>7,183</b>	<b>100</b>	<b>2,773</b>	<b>10,749</b>	<b>100</b>	<b>3,083</b>	<b>10,861</b>	<b>100</b>	<b>4,005</b>

3) As at December 31, 2012, the other receivables with evidence for the analysis, of which bad debts was provided using specific identification method, totalled RMB 1,038million.

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(6).Inventory

1) Breakdown of inventories

Categories	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Raw material	66,597	62,965	49,700
Goods in process	25,541	19,159	15,460
Goods on hand (Finished goods)	113,434	92,625	74,410
Turnover materials	167	155	124
Materials in transit	58,453	59,457	41,788
Inventory arising from construction contract of construction enterprise	11,223	9,088	3,928
Labor cost	6,145	2,921	1,882
Other	111	241	1,137
<b>Total</b>	<b>281,671</b>	<b>246,611</b>	<b>188,429</b>
<b>Less: Inventory impairment provisions</b>	<b>606</b>	<b>1,531</b>	<b>1,271</b>
Book value	<b>281,065</b>	<b>245,080</b>	<b>187,158</b>

2) As at December 31, 2012, there is no capitalized amount amongst inventory balance.

(7). Non-current assets due within 1 year

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Bond investments			83
Long - term prepaid expenses due within 1 year	2,138	1,749	1,163
Discounted assets of financial companies	7,073	11,325	4,171
Other non-current assets maturing within one year	245	450	46
<b>Total</b>	<b>9,456</b>	<b>13,524</b>	<b>5,463</b>

(8).Other current assets

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Foreign exchange structured deposits		13,010	2,487
Credit linked notes deposits	3,142		
Entrusted with financial management of financial companies	528	566	103
Interests receivable	320	234	2,743
<b>Total</b>	<b>3,990</b>	<b>13,810</b>	<b>5,333</b>

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(9). Available-for-sale financial assets

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Available-for-sale bonds	30	30	4,022
Available-for-sale equity instruments	5,115	4,137	5,028
Others	530	152	157
<b>Total</b>	<b>5,675</b>	<b>4,319</b>	<b>9,207</b>

(10). Long-term receivables

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Offshore development project loans	26,012	19,175	40,123
Others	248	340	143
<b>subtotal</b>	<b>26,260</b>	<b>19,515</b>	<b>40,266</b>
Less: provision for bad debts	2,844	2,894	3,042
<b>Total</b>	<b>23,416</b>	<b>16,621</b>	<b>37,224</b>

(11). Long term equity investment

Item	2011-1-1 RMB million	Current year increase RMB million	Current year decrease RMB million	2011-12-31 RMB million
Investment in subsidiaries	131	15,809	24	15,916
Investment in joint ventures	23,690	4,975	3,137	25,528
Investment in associates	82,925	20,376	6,899	96,402
Investment in others	5,009	575	677	4,907
<b>subtotal</b>	<b>111,755</b>	<b>41,735</b>	<b>10,737</b>	<b>142,753</b>
Less: long-term investments impairment	534	13	27	520
<b>Total</b>	<b>111,221</b>	<b>41,722</b>	<b>10,710</b>	<b>142,233</b>

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Item	2012-1-1 RMB million	Current year increase RMB million	Current year decrease RMB million	2012-12-31 RMB million
Investment in subsidiaries	15,916	2,528	16,686	1,758
Investment in joint ventures	25,528	11,083	4,927	31,684
Investment in associates	96,402	62,211	6,959	151,654
Investment in others	4,907	442	498	4,851
<b>subtotal</b>	<b>142,753</b>	<b>76,264</b>	<b>29,070</b>	<b>189,947</b>
Less: long-term investments impairment	520		21	499
<b>Total</b>	<b>142,233</b>	<b>76,264</b>	<b>29,049</b>	<b>189,448</b>

1) Investment in subsidiaries

Sinopec Group's principal subsidiaries are included in the scope of consolidation.

2) Investment in significant joint ventures

2012

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Fujian Refining and Petrochemical Company Limited	50	50	44,863	69,237	(2,216)
Shanghai Secco Petrochemical Company Limited	50	50	14,291	27,158	(349)
BASF-YPC Company Limited	50	50	25,480	22,938	707
SINOPEC SABIC TianJin Petrochemical Company Limited	50	50	22,745	23,756	(723)
Caspian Investment Resources Ltd.	50	50	23,624	12,359	1,055

2011

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Fujian Refining and Petrochemical Company Limited	50	50	10,496	58,429	(850)
Shanghai Secco Petrochemical Company Limited	50	50	7,619	27,693	17
BASF-YPC Company Limited	50	50	17,024	24,775	2,829
CIR	50	50	17,654	13,247	2,200
Taihu Company	50	50	7,215	29,627	1,110

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2010

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Fujian Refining and Petrochemical Company Limited	50	50	11,346	58,571	936
Shanghai Secco Petrochemical Company Limited	50	50	10,270	29,169	2,722
BASF-YPC Company Limited	50	50	15,094	17,304	2,656
CIR	50	50	19,450	9,065	1,076
Tianjin Nisseki Lubricants & Grease Company Limited	50	50	319	1,134	35

3) Investment in significant associates

2012

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
China Aviation Oil Supply Company Limited	29.00	29.00	18,607	102,467	1,790
Portugal Galp Energy Brazil	30.00	30.00	6,640	1,723	1,081
Talisman	49.00	49.00	41,327		(99)
Pudong International Airport APLNG.	25.00	25.00	132,033	2,330	588
REPSOL	40.00	40.00	56,384	1,662	(2)

2011

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Andean Petroleum Company Limited	45	45	3,839	3,985	1,163
China Aviation Oil Supply Company Limited	29	29	7,335	88,182	1,850
Sichuan Meifeng Chemical Co., Ltd.	14.42	14.42	2,113	5,247	284
Pudong International Airport Aviation Fuel Supply Co., Ltd.	26.41	26.41	3,045	21,246	830
REPSOL	40	40	52,725	2,076	323

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2010

Investee	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Andean Petroleum Company Limited	45	45	3,029	6,140	607
China Aviation Oil Supply Company Limited	29	29	6,722	62,854	1,596
Sichuan Meifeng Chemical Co., Ltd.	14.42	14.42	1,895	3,366	90
Pudong International Airport Aviation Fuel Supply Co., Ltd.	26.41	26.41	2,596	15,080	757
Shanghai Chemical Development Co.Ltd.	38	38	4,533	1,421	277

4) Significant Long-term equity investments on cost method

Investee	Share holding%	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Huatai Insurance Co., Ltd.	18.84	356	356	356
Shanghai Chemical Industry Park Development Co., Ltd.	11.74	278	278	278
Shanghai BASF Polyurethane Co.,Ltd.	14.00	234	234	234
Sunshine Property and Casualty Insurance Company	5.34	350	350	350
Anbang Property Insurance Co. , Ltd.	2.82	338	338	338

(12). Fixed assets

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
<b>1. Cost</b>	<b>990,286</b>	<b>936,843</b>	<b>816,715</b>
Incl. : Land assets	8,727	8,844	7,710
Plant & buildings	140,143	131,446	114,592
Temporary facilities	408	346	302
General equipment	94,562	87,526	76,303
Special equipment for oil and gas	142,745	130,302	113,594
Special equipment for petroleum and chemical industry	579,895	557,726	486,210
Others	23,806	20,653	18,004
<b>2. Accumulated depreciation</b>	<b>457,001</b>	<b>418,692</b>	<b>359,253</b>
Incl. : Plant & buildings	52,297	47,487	40,746
Temporary facilities	257	195	167
General equipment	52,221	47,191	40,492
Special equipment for oil and gas	60,609	53,657	46,039
Special equipment for petroleum and chemical industry	280,818	261,268	224,177
Others	10,799	8,894	7,632
<b>3. Impairment provision</b>	<b>24,711</b>	<b>25,893</b>	<b>22,149</b>

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Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Incl. : Land assets	29	29	
Plant & buildings	4,396	4,397	3,765
General equipment	1,403	1,456	1,247
Special equipment for oil and gas	1,058	1,152	987
Special equipment for petroleum and chemical industry	17,504	18,533	15,871
Others	321	326	279
<b>4.Book value</b>	<b>508,574</b>	<b>492,258</b>	<b>435,313</b>
Incl. : Land assets	8,698	8,815	7,710
Plant & buildings	83,450	79,562	70,081
Temporary facilities	151	151	135
General equipment	40,938	38,879	34,564
Special equipment for oil and gas	81,078	75,493	66,568
Special equipment for petroleum and chemical industry	281,573	277,925	246,162
Others	12,686	11,433	10,093

A. In current year, amongst the accumulative depreciation, the depreciation expense totaled RMB48,161 million.

B. In current year, the fixed asset increase transferred from construction in progress totaled RMB 56,977million.

(13). Oil and gas assets

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
<b>1.Cost</b>	<b>701,748</b>	<b>612,541</b>	<b>593,523</b>
Incl. : Mineral interests	82,633	171,629	128,571
Unproved Mineral interests	40,185	15,480	16,146
Wells and related facilities	578,930	425,432	448,806
<b>2. Cumulative depletion</b>	<b>311,121</b>	<b>266,911</b>	<b>252,281</b>
Incl. : Mineral interests	10,532	47,491	31,418
Wells and related facilities	300,589	219,420	220,863
<b>3. Impairment provision</b>	<b>15,936</b>	<b>14,942</b>	<b>14,158</b>
Incl. : Mineral interests	2,286	2,292	2,409
Unproved Mineral interests			
Wells and related facilities	13,650	12,650	11,749
<b>4. Book value</b>	<b>374,691</b>	<b>330,688</b>	<b>327,084</b>
Incl. : Mineral interests	69,814	121,846	94,744
Unproved Mineral interests	40,185	15,480	16,146
Wells and related facilities	264,692	193,362	216,194

Note: The amount of depletion totalled RMB 53,633 million.

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In current year, the acquisition of increased oil and gas assets totalled RMB 8,737million and Completion of construction of oil and gas assets totalled RMB 54,455 million.

(14).Construction in progress

1) Breakdown of construction in progress

Project name	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Infrastructure projects spending	120,949	81,638	60,426
Technological transformation project	22,398	19,090	13,460
Geological exploration expenditures	30,900	23,446	16,457
Disbursements for oil and gas development	45,086	26,867	17,997
Others	3,969	2,261	1,955
<b>Total</b>	<b>223,302</b>	<b>153,302</b>	<b>110,295</b>
Less: Impairment provision	934	942	1,037
<b>Book value</b>	<b>222,368</b>	<b>152,360</b>	<b>109,258</b>

2) Significant items

Item	2012-1-1		Current year increase		Current year decrease	
	Book balance RMB million	Incl: capitalized interest RMB million	Book balance RMB million	Incl: capitalized interest RMB million	Incl: converting to fixed asset (oil and gas) RMB million	Other decrease RMB million
<b>Total</b>	<b>153,302</b>	<b>1,757</b>	<b>218,708</b>	<b>1,989</b>	<b>111,432</b>	<b>37,276</b>
Incl:1.Wuhan 800,000 tons / year Ethylene Project	5,066		8,478	197		
2. Yangzi Oil Quality Upgrading and Inferior Crude Oil Reconstruction Project	114		2,330	23	60	
3. Anqing Sour Crude Oil Processing Adaptation Revamping and Oil Quality Upgrading Project y	1,772	18	3,346	153		
4. Jinling Oil Quality Upgrading Project	1,647	11	2,591	59	633	
5. Maoming Oil Quality Upgrading Project and oil quality upgrade	631	19	2,517	72	22	15
6. Yong (Shao) Jinqi Refined Oil Transmission pipeline project	488		695		0	539
7.Shandong Liquefied Natural Gas (LNG) Project	460		1,137		2	
8.Zhongke Refining and Petrochemical Integrated Project			1,615			
9. Jiangxi Refined Oil Transmission pipeline project	10		212			

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Item	2012-1-1		Current year increase		Current year decrease	
	Book balance RMB million	Incl: capitalized interest RMB million	Book balance RMB million	Incl: capitalized interest RMB million	Incl: converting to fixed asset (oil and gas) RMB million	Other decrease RMB million
10. Beihai Refinery off-site to transform the petrochemical project	172	16	266		81	120

Item	2012-12-31		Budget RMB million	%	Capital source
	Book balance RMB million	Incl: capitalized interest RMB million			
<b>Total</b>	<b>223,302</b>	<b>3,073</b>			
Incl:1.Wuhan 800,000 tons / year Ethylene Project	13,544	197	16,563	51	Bank loans & self-financing
2. Yangzi Oil Quality Upgrading and Inferior Crude Oil Reconstruction Project	2,383	23	7,865	30	Bank loans & self-financing
3. Anqing Sour Crude Oil Processing Adaptation Revamping and Oil Quality Upgrading Project y	5,118	170	6,769	49	Bank loans & self-financing
4. Jinling Oil Quality Upgrading Project	3,606	69	4,989	52	Bank loans & self-financing
5. Maoming Oil Quality Upgrading Project and oil quality upgrade	3,110	91	4,414	57	Bank loans & self-financing
6. Yong (Shao) Jinqu Refined Oil Transmission pipeline project	645		1,367	51	Bank loans & self-financing
7.Shandong Liquefied Natural Gas (LNG) Project	1,595		7,674	15	Bank loans & self-financing
8.Zhongke Refining and Petrochemical Integrated Project	1,615		52,535	3	Bank loans & self-financing
9. Jiangxi Refined Oil Transmission pipeline project	212		1,870	11	Bank loans & self-financing
10. Beihai Refinery off-site to transform the petrochemical project	237		6,113	4	Bank loans & self-financing

(15).Intangible assets

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
<b>1.Cost</b>	<b>96,860</b>	<b>76,340</b>	<b>64,937</b>
inc: patent right	4,241	4,169	3,601
Land use right	74,793	60,645	52,317
Computer software	591	535	442
Others	17,235	10,991	8,577
<b>2.Accumulated amortization</b>	<b>21,370</b>	<b>16,315</b>	<b>14,279</b>
inc: patent right	2,791	2,553	2,612
Land use right	14,197	10,664	9,276
Computer software	384	306	202

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Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Others	3,998	2,792	2,189
<b>3.Impairment provision</b>	<b>753</b>	<b>637</b>	<b>266</b>
inc: patent right	320	320	72
Land use right	346	202	157
Others	87	115	37
<b>4.Book value</b>	<b>74,737</b>	<b>59,388</b>	<b>50,392</b>
inc: patent right	1,130	1,296	917
Land use right	60,250	49,779	42,884
Computer software	207	229	240
Others	13,150	8,084	6,351

(16).Goodwill

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Book balance	47,323	45,576	41,995
Less: goodwill impairment provision	9,025	8,580	8,581
<b>Book value</b>	<b>38,298</b>	<b>36,996</b>	<b>33,414</b>

1) The recognition of the main goodwill items:

A. On December 23, 2011, the International Petroleum Exploration and Development Co., Ltd. acquired Sinopec Daylight Energy Ltd, and had paid the purchase price of CAD \$ 2,414 million, which was above the fair value of identifiable assets and liabilities of Sinopec Daylight Energy Ltd CAD \$ 570 million, i.e. RMB 3,621 million.

B. The Australian subsidiary of International Petroleum Exploration and Development Co., Ltd., acquired PFL from Ashmore to release the liability caused by the early termination of the FPSO lease contract. The price of the acquisition is USD 670 million, which was above the fair value of identifiable assets and liabilities of PFL USD 710 million, i.e. RMB 445 million.

C. International Petroleum Exploration and Development Co., Ltd. adjusted the goodwill of the Pecton Project according to the re-evaluation of the fair value of assets and liabilities on the acquisition date according to the updated reserve reports. The adjustment reduced the goodwill RMB 328 million.

D. Other decrease is caused by exchange rate movements for the translation.

2) The main provision for impairment of goodwill

Name of investee or goodwill items	Amount RMB million
Sinopec Qilu Branch (“Sinopec Qilu”)	2,161
Sinopec Shengli Oil Field Dynamic Company Limited (“Dynamic”)	1,361
Sinopec Zhongyuan Petroleum Company Limited (“Zhongyuan Petroleum”)	1,391
Sinopec Yangzi Petrochemical Company Limited (“Sinopec Yangzi”)	2,744
Puffin FPSO Limited	445

The International Petroleum Exploration and Development Co., Ltd., acquired PFL and recognized the goodwill of RMB 445 million. After the acquisition of the company, a series of tax disputes liabilities of approximately \$ 71 million, caused by the early termination of the FPSO lease contract by SIPC

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Company's subsidiaries in Australia, will be waived. Since PFL has no other assets and liabilities in addition to undertaking part of tax liability on the delivery date, the impairment loss recognized on the goodwill was RMB 445 million.

(17). Long-term prepaid expenses

Item	2012-12-31	2011-12-31	2010-12-31
	RMB million	RMB million	RMB million
1. Expenses on improvement of operating leased fixed assets	530	288	129
2. Site rent	199	174	93
3. Amortization of mobile house	378	469	628
4. Catalyst	3,051	2,638	2,515
5. Drilling tools	2,536	2,738	3,091
6. Lease	118	25	24
7. Stations and depots rent	6,491	5,971	4,766
8. Others	1,630	1,187	1,248
<b>Total</b>	<b>14,933</b>	<b>13,490</b>	<b>12,494</b>

(18). Deferred income tax assets and liabilities

1) Deferred income tax assets and liabilities recognized

Item	2012-12-31	2011-12-31	2010-12-31
	RMB million	RMB million	RMB million
<b>Deferred income tax assets</b>			
Receivables and inventory	3,160	2,948	3,251
Fixed assets and oil & gas assets	6,769	5,353	7,387
Accrued item	2,034	3,601	3,076
Deductible loss	3,200	1,640	2,152
Other items	2,737	1,265	772
<b>subtotal</b>	<b>17,900</b>	<b>14,807</b>	<b>16,638</b>
<b>Deferred income tax liabilities</b>			
Fixed assets and oil & gas assets	42,671	42,299	40,849
Available for sale financial assets	671	606	834
Other items	9,381	7,928	7,315
<b>subtotal</b>	<b>52,723</b>	<b>50,833</b>	<b>48,998</b>

2) Deferred income tax assets unrecognized

As of December 31, 2012, the deductible temporary differences can not be expected to generate sufficient taxable income to offset the deductible temporary differences in the prospective period, the deductible temporary difference of the deficit enterprise's unrecognized deferred income tax assets totaled RMB42,206 million, of which the deductible losses in the operation was RMB 25,116million. These deductible losses will be due respectively in 2013, 2014, 2015, 2016 and 2017, and the amounts are RMB 6,902million, RMB 6,740 million, RMB 1,190 million, RMB 5,104 million and RMB 5,179 million, respectively.

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(19).Provision for Assets impairment

Item	2011-1-1 RMB million	Current year increase		Current year decrease			2011-12-31 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	10,564	(7)	24		1,093	286	9,202
Inventory impairment provisions	1,271	3,277	14	128	2,825	78	1,531
Provision for impairment of long term equity investment	534	3	10		19	8	520
Provision for impairment of fix asset	22,148	702	4,820		2,010	836	24,824
Provision for impairment of oil and gas assets	14,158	2,153	1			253	16,059
Provision for impairment of engineering materials	72	13				3	82
Provision for impairment of construction in progress	1,037	28	1		115	9	942
Provision for impairment of intangible assets	265	1	384		2	2	646
Provision for impairment of goodwill	8,580						8,580
Other	228	142	1		3	4	364
<b>Total</b>	<b>58,857</b>	<b>6,312</b>	<b>5,255</b>	<b>128</b>	<b>6,067</b>	<b>1,479</b>	<b>62,750</b>

Item	2012-1-1 RMB million	Current year increase		Current year decrease			2012-12-31 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	9,202	(67)	96		534	26	8,671
Inventory impairment provisions	1,531	7,420	54	380	7,829	190	606
Provision for impairment of long term equity investment	520				15	6	499
Provision for impairment of fix asset	24,824	8	1,370		1,063	428	24,711
Provision for impairment of oil and gas assets	16,059	1,006	42			1,171	15,936
Provision for impairment of engineering materials	82						82
Provision for impairment of construction in progress	942					9	933
Provision for impairment of intangible assets	646		176		66	2	754
Provision for impairment of goodwill	8,580		445				9,025
Other	364	(137)	13	3			237
<b>Total</b>	<b>62,750</b>	<b>8,230</b>	<b>2,196</b>	<b>383</b>	<b>9,507</b>	<b>1,832</b>	<b>61,454</b>

(20).Short-term loans

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Credit loans	79,372	68,324	87,400
Mortgage loans	111	89	575
Guarantee loans	1,562	1,740	229
Pledge loan	10		33
<b>Total</b>	<b>81,055</b>	<b>70,153</b>	<b>88,237</b>

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(21). Bills payable

Categories	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Bank acceptance draft	9,018	7,713	5,896
<b>Total</b>	<b>9,018</b>	<b>7,713</b>	<b>5,896</b>

Note: the notes payable shall be due in 2013.

(22). Accounts payable

1) Aging analysis

Aging	2012-12-31		2011-12-31		2010-12-31	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 yr	248,240	95.96	188,579	89.47	149,340	92.01
1-2 yrs	6,369	2.46	15,558	7.38	11,633	7.17
2-3 yrs	2,601	1.01	5,611	2.66	690	0.43
Over 3 yrs	1,465	0.57	1,031	0.49	629	0.39
<b>Total</b>	<b>258,675</b>	<b>100</b>	<b>210,779</b>	<b>100</b>	<b>162,292</b>	<b>100</b>

2) No significant accounts payable of the Group aged over 3 years need to be disclosed.

(23). Advances from customers

1) Aging analysis

Aging	2012-12-31		2011-12-31		2010-12-31	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 yr	79,635	88.46	79,427	89.94	76,774	96.78
Above 1 year	10,385	11.54	8,886	10.06	2,557	3.22
<b>Total</b>	<b>90,020</b>	<b>100</b>	<b>88,313</b>	<b>100</b>	<b>79,331</b>	<b>100</b>

2) No significant advances from customers of the Group aged over 3 years need to be disclosed.

(24). Employees compensation payable

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
1. Wages, bonuses, allowances and subsidies	12,530	12,260	12,442
2. Welfare expense	293	284	312
3. Social insurances	1,171	698	426
4. Housing reserve fund	728	251	99
5. Labor union expenditure and employee education expenses	308	297	253
6. Employee education expenses	257	423	559
7. Labor cost	184	179	3,317
8. Dismiss welfare	3,172	3,690	4,245
9. Housing subsidies	820	5,776	13,752
10. Other	1,175	1,325	288
<b>Total</b>	<b>20,638</b>	<b>25,183</b>	<b>35,693</b>

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(25). Taxes payable

Item	2012-12-31	2011-12-31	2010-12-31
	RMB million	RMB million	RMB million
Value added tax	(19,560)	(9,535)	(4,921)
Consumption tax	16,797	18,575	17,265
Business tax	572	615	670
Resource tax	1,147	734	311
Enterprise income tax	11,923	10,639	14,271
Land value added tax	830	832	904
City maintenance and construction tax	1,494	2,230	2,105
Land use tax	446	530	449
Individual income tax	9,539	19,117	1,019
Special petroleum proceeds	1,351	1,843	5,263
Education surcharges	1,025	1,127	1,322
Others	3,045	2,663	1,180
<b>Total</b>	<b>28,609</b>	<b>49,370</b>	<b>39,838</b>

(26). Other accounts payable

1) Aging analysis

Aging	2012-12-31		2011-12-31		2010-12-31	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 yr	57,082	79.40	53,694	77.68	54,739	81.43
1-2 yrs	6,941	9.65	8,054	11.65	6,145	9.14
2-3 yrs	3,283	4.57	2,610	3.78	2,062	3.07
Over 3 yrs	4,587	6.38	4,760	6.89	4,272	6.36
<b>Total</b>	<b>71,893</b>	<b>100</b>	<b>69,118</b>	<b>100</b>	<b>67,218</b>	<b>100</b>

2) Note : No significant other payables of the Group aged over 3 years needs to be disclosed.

(27). Non-current liabilities due within 1 year

Item	2012-12-31	2011-12-31	2010-12-31
	RMB million	RMB million	RMB million
Long-term loan due within 1 year	30,103	12,554	6,363
(1) Credit loans	27,600	9,812	5,628
(2) mortgage loans	5	5	475
(3) Guarantee loans	2,498	2,737	260
Bonds payable due within 1 year		38,500	
Long-term payable due within 1 year	31	32	40
Other long-term liability due within 1 year	346	284	
<b>Total</b>	<b>30,480</b>	<b>51,370</b>	<b>6,403</b>

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(28). Other current liabilities

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Short-term financing bonds issued by the Group	35,025	10,056	10,086
Borrowed capital of the financial company	10,000	10,000	2,500
Bank overdraft of the financial company		4,000	
Financial company deposits	3,585	3,597	3,821
Sale of repurchased financial assets by financial company	16,902	9,488	31
Other current liabilities	408	766	1,324
<b>Total</b>	<b>65,920</b>	<b>37,907</b>	<b>17,762</b>

(29). Long-term loan

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Credit loans	235,317	202,330	156,341
Mortgage loans	1	21	30
Guarantee loans	1,166	1,275	1,555
<b>Total</b>	<b>236,484</b>	<b>203,626</b>	<b>157,926</b>

(30). Bonds payable

Item	2012-12-31 RMB million	2011-12-31 RMB million	2010-12-31 RMB million
Corporate bond	78,464	35,897	78,500
Convertible bond	33,522	33,042	10,667
Convertible bonds with warrants	28,327	27,095	26,013
Financial bond	2,995	5,989	5,980
<b>Total</b>	<b>143,308</b>	<b>102,023</b>	<b>121,160</b>

A. On February 24, 2004, Sinopec Corp. issued ten-year corporate bonds of RMB 3,500 million, with an effective yield of 4.61% and paid annually; on May 10, 2007, Sinopec Corp. issued ten-year corporate bonds of RMB 5,000 million with an effective yield of 4.20% and paid annually; on November 13, 2007, Sinopec Corp. issued corporate bonds of RMB 20,000 million with two combination way, which includes ten-year corporate bond of RMB 11,500 million with a fixed interest rate of 5.68% and five-year bond of RMB 8,500 million with a fixed interest rate of 5.40%; on March 27, 2009, Sinopec Corp. issued three-year corporate bonds of RMB 10 billion with an effective yield of 2.25% and paid annually; on June 26, 2009, Sinopec Corp. issued three-year corporate bonds of RMB 20,000 million with an effective yield of 2.48% and paid annually; on May 21, 2010, Sinopec Corp. issued to the Chinese domestic institutional investors five-year corporate bonds of RMB 11,000 million with an effective yield of 3.75% and paid annually; on May 21, 2010, Sinopec Corp. issued to

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the Chinese domestic institutional investors ten-year corporate bonds of RMB 9,000 million with a effective yield of 4.05% and paid annually. In 2009, Sinopec Corp. repaid the five-year bond of RMB 8,500 million issued in 2007 and the three-year bond of RMB 30,000 million issued in 2009.

On June 5, 2012, Sinopec Corp. issued corporate bonds of RMB 2,000 million, which includes five-year corporate bond of RMB 1,300 million with a fixed interest rate of 4.26% and ten-year corporate bond of RMB 700 million with a fixed interest rate of 4.90%.

On May 17, 2012, Sinopec Group Overseas Development (2012) Co., Ltd. wholly owned by the group, issued \$3,000 million corporate bonds with the period of 5 years, 10 years and 30 years for each \$1,000 million. The coupon rate of five-year bond, ten-year band and thirty-year bond is 2.75%, 3.9% and 4.875% respectively.

B. On 24 April 2007, Sinopec Corp. issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HKD 11.7 billion (the “2007 Convertible Bonds”). The 2007 Convertible Bonds are convertible into shares of Sinopec Corp. from 4 June 2007 onwards at a price of HKD 10.76 per share, subject to adjustment for subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have a dilutive effect on the issued share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2007 Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. Sinopec Corp. has an early redemption option at any time after 24 April 2011 (subject to certain criteria) (the “Early Redemption Option”) and a cash settlement option when the holders exercise their conversion right (the “Cash Settlement Option”). During the year ended 31 December 2012, the conversion price of the 2007 Convertible Bonds was adjusted to HKD 10.60 per share as the result of dividend distribution. At 31 December 2012, the carrying amounts of liability and derivative components, representing the Conversion Option, the Early Redemption Option and the Cash Settlement Option, of the 2007 Convertible Bonds were RMB 10,842 million (2011: RMB 10,345 million) and RMB 114 million (2011: RMB 70 million), respectively. No conversion of the 2007 Convertible Bonds occurred up to 31 December 2012.

C. On 26 February 2008, Sinopec Corp. issued convertible bonds with stock warrants due 2014 with an aggregate principal amount of RMB 30 billion in the PRC (the “Bonds with Warrants”). The Bonds with Warrants, which bear a fixed interest rate of 0.80% per annum payable annually, were issued at par value of RMB 100. The Bonds with Warrants were guaranteed by the Group. The initial recognition of the liability component of the Bond with Warrants is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option or other derivative components. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.40% to the liability component.

D. On 1 March 2011, Sinopec Corp. issued convertible bonds due 2017 with an aggregate principal amount of RMB 23 billion in the PRC (the “2011 Convertible Bonds”). The 2011 Convertible Bonds are issued at par value of RMB 100 and bear a fixed interest rate of 0.5% per annum for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year. The holders can convert the 2011 Convertible Bonds into shares of Sinopec Corp. from 24 August 2011 onwards at an initial conversion price of RMB 9.73 per share, subject to adjustment for, amongst other things, cash dividends, subdivision or consolidation of shares, bonus issues, issue of new shares, rights issues, capital distribution, change of control and other events which have an effect on the issued share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2011 Convertible Bonds will be redeemed within 5 trading days after maturity at 107% of the principal amount, including interest for the sixth year. The initial carrying amounts of the liability component and the derivative component, representing the Conversion Option of the 2011 Convertible Bonds, were RMB 19,279 million and RMB 3,610 million, respectively. During the term of the 2011 Convertible Bonds, the conversion

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price may be subject to downward adjustment that if the closing prices of Sinopec Corp.'s A Shares in any fifteen trading days out of any thirty consecutive trading days are lower than 80% of the prevailing conversion price, the board of directors may propose downward adjustment to the conversion price subject to the shareholders' approval. The adjusted conversion price shall be not less than (a) the average trading price of Sinopec Corp.'s A Shares for the twenty trading days prior to the shareholders' approval, (b) the average trading price of Sinopec Corp.'s A Shares on the day immediately before the shareholders' approval, (c) the net asset value per share based on the latest audited financial statements prepared under ASBE, and (d) the nominal value per share. At 31 December 2012, the carrying amounts of the liability component and the derivative component were RMB 20,104 million (2011: RMB 20,017 million) and RMB 2,462 million (2011: RMB 2,610 million), respectively. During the year ended 31 December 2012, the conversion price of the 2011 Convertible Bonds was adjusted to RMB 6.98 per share as a result of the final dividends for the year ended 31 December 2011 and the interim dividends for the year ended 31 December 2012 declared and paid during the year. During the year ended 31 December 2012, RMB 857,033 thousand of the 2011 Convertible Bonds was converted into 117,724,450 A shares of Sinopec Corp.

E. Pursuant to the notice (CBRC fu [2007] No. 441), (CBRC fu [2009] No. 101) "Reply to the issue regarding issuance of financial bonds in Sinopec Corp. approved by CBRC" issued by China Banking Regulatory Commission (CBRC), and Administrative license granted by the People's Bank of China (the silver market grant [2007] No. 30), (the silver market grant [2007] No. 25). Sinopec Corp. was approved the issuance of financial bonds of Sinopec Finance Company Limited in 2009. The financial bonds issued by China Sinopec Finance Company Limited in 2009 were respectively as follows: the total amount of RMB 3,000 million, the effective yield is 3.46%, the holding period is 5 years from June 8, 2009 to June 8, 2014; total amount of RMB 3,000 million, the effective yield is 2.45%, the holding period is 3 years from June 8, 2009 to June 8, 2012. Interest on bonds issued by financial companies was paid on the interest payment date after the end of each interest period, the last interest payment would be together with the payment of principal and the bonds issued by Sinopec Corp. has unconditionally and irrevocably in full Guarantee of joint and several liability. Bonds payable of the Chinese Sinopec Finance Company Limited are recognized at amortized cost using the effective interest method, the commissions and underwriting fees to issue bonds are RMB 33 million, and amortized RMB 9 million in this period. The principal and interest of the three-year financial bonds were repaid in 2012.

(31). Long-term payables

<b>Item</b>	<b>2012-12-31</b> RMB million	<b>2011-12-31</b> RMB million	<b>2010-12-31</b> RMB million
Financing installments payable	64	149	129
Finance lease payment payable	480	479	518
Other long-term payable	36,123	29,075	8,472
Less: Unrealized financing costs	14	11	16
<b>Total</b>	<b>36,653</b>	<b>29,692</b>	<b>9,103</b>

A. Pursuant to the notice Cai Gong Zi [1997] No. 268 "The Issue Regarding production safety management Fund of China Petroleum & Chemical Corporation" issued by the Ministry of Finance, the Group established a security guarantee fund. The accumulated balance of security funds in the end of 2012 is RMB 8,759 million, of which: bank deposit RMB 8,423 million, security guarantees technological transformation turnover RMB 4,336 million. The production safety management fund balance in the end of 2011 totalled RMB 8,251million, net increase of RMB 508 million in 2012.

B. Other long-term payables are mainly Repsol's return loan of RMB 7,837 million, and payable to Indonesia Chevron of RMB 3,458 million.

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(32). Estimated liabilities

<b>Item</b>	<b>2012-12-31</b> RMB million	<b>2011-12-31</b> RMB million	<b>2010-12-31</b> RMB million
Foreign guaranty	62	62	62
Asset retirement obligations	29,005	24,436	18,230
Other foreseeable liabilities	1,753	1,611	529
<b>Total</b>	<b>30,820</b>	<b>26,109</b>	<b>18,821</b>

Note: The asset retirement obligation represent provision for future dismantlement costs of oil and gas properties. The Group has established certain standardized measures for the dismantlement of its retired oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. On December 31, 2012, the accumulated provision for the removal obligations of oil and gas assets disposed is RMB 29,005 million, of which: International Petroleum Exploration and Development Co., Ltd., RMB 7,451 million, Sinopec Corp. RMB 21,554 million.

(33). Paid-in Capital

<b>Investor</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
Beginning balance	231,621	206,998	182,029
Appropriation increase from Ministry of Finance	17,974	24,623	24,969
<b>Closing balance</b>	<b>249,595</b>	<b>231,621</b>	<b>206,998</b>

(34). Capital surplus

<b>Item</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
Beginning balance	46,401	42,172	42,387
(1) Other equity change in investees	31	(97)	(935)
(2) Fair value change of available for sale financial assets	131	(944)	(1,596)
(3) Cash flow hedging gains or losses	(137)	126	(199)
(4) Income tax effects related with items recorded in the owner's equity	(62)	127	410
(5) Other	162	5,017	2,105
<b>Closing balance</b>	<b>46,526</b>	<b>46,401</b>	<b>42,172</b>

(35). Special reserve

<b>Item</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
Beginning balance	2,716	1,049	0
Current year Increase	6,249	4,146	3,041
Current year Decrease	(5,681)	(2,479)	(1,992)
<b>Closing balance</b>	<b>3,284</b>	<b>2,716</b>	<b>1,049</b>

According to the Circular on Interim Measures for Financial Management of Safety Production Costs in High risk Industry Enterprise (Cai Qi [2006] No. 478) issued by the Ministry of finance, and the

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State Administration of Production Safety Supervision and Management, The Group's safety cost is levied according to crude oil RMB 17/ton, natural gas RMB 5/1000m<sup>3</sup>, 2% of the operating income of the petroleum engineering, 1% of the project cost of installation construction, 0.2% -4% of goods sales of which are included in "the national standards of Dangerous Goods Name List "(GB12268) and "toxic chemicals directory product" issued by the National relevant departments.

(36). Surplus reserve

Item	2012 RMB million	2011 RMB million	2010 RMB million
Beginning balance	161,911	131,219	109,155
Statutory reserve fund	7,502	7,490	6,814
Voluntary reserve fund	53	23,202	15,250
<b>Closing balance</b>	<b>169,466</b>	<b>161,911</b>	<b>131,219</b>

Note: Provision of surplus reserve of the Group and its subsidiaries is made basing on 10% of net profit; voluntary surplus reserve can be made after approval from the shareholders' meeting or the general manager of office.

(37). General risk reserve

Item	2012 RMB million	2011 RMB million	2010 RMB million
Beginning balance	582	568	557
General risk reserve	58	14	11
<b>Closing balance</b>	<b>640</b>	<b>582</b>	<b>568</b>

Note: General risk reserve refer to accrual of affiliated financial enterprises (Sinopec Finance Co., Ltd. and Sinopec Shanghai Zheshi Futures Co., Ltd.), which increased RMB 58 million in 2012.

(38). Retained earnings

Item	2012 RMB million	2011 RMB million	2010 RMB million
Beginning balance of undistributed profit	138,216	114,807	88,328
Add: current year net profit	51,869	61,092	52,100
Less: Extraction surplus reserve	7,555	30,692	22,064
Cash dividend distribution	8,250	6,971	3,538
Other decrease	69	20	19
<b>Closing balance of undistributed profit</b>	<b>174,211</b>	<b>138,216</b>	<b>114,807</b>

Other decrease mainly refers to the provision of general risk by affiliated financial enterprises, staff bonus accrued by joint ventures and decrease of bonus and welfare.

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(39). Operating revenue and operations cost

Item	2012		2011		2010	
	Revenues RMB million	Cost RMB million	Revenues RMB million	Cost RMB million	Revenues RMB million	Cost RMB million
<b>1.Main operations subtotal</b>	<b>4,992,406</b>	<b>4,512,684</b>	<b>4,625,612</b>	<b>4,077,620</b>	<b>3,589,046</b>	<b>3,165,832</b>
Exploitation of oil and gas	318,601	114,496	293,378	97,259	220,594	114,857
Oil refining	1,282,825	1,129,290	1,222,035	1,088,015	981,583	822,260
Chemical production	459,666	431,407	461,546	362,656	361,067	312,501
Sales of refined oil	1,471,882	1,372,333	1,347,628	1,251,253	1,041,508	962,967
Petroleum and petrochemical engineering	135,347	118,532	124,292	110,188	110,301	99,609
Others	1,324,085	1,346,626	1,176,733	1,168,249	873,993	853,638
<b>2.Other operations subtotal</b>	<b>36,399</b>	<b>32,685</b>	<b>26,770</b>	<b>22,837</b>	<b>21,173</b>	<b>17,150</b>
<b>Subtotal</b>	<b>5,028,805</b>	<b>4,545,369</b>	<b>4,652,382</b>	<b>4,100,457</b>	<b>3,610,219</b>	<b>3,182,982</b>
<b>Offset</b>	<b>2,198,196</b>	<b>2,180,104</b>	<b>2,100,431</b>	<b>2,012,920</b>	<b>1,641,177</b>	<b>1,626,575</b>
<b>Total</b>	<b>2,830,609</b>	<b>2,365,265</b>	<b>2,551,951</b>	<b>2,087,537</b>	<b>1,969,042</b>	<b>1,556,407</b>

(40). Business taxes and surcharges

Item	2012	2011	2010
	RMB million	RMB million	RMB million
Business tax	3,355	3,025	2,700
Consumption tax	129,185	126,171	118,197
Special Petroleum Proceeds	29,203	37,713	19,716
Resource tax	17,281	9,643	5,976
The tax on city maintenance and construction	13,212	13,666	11,882
Educational expenses to add	10,013	9,915	6,687
other	3,579	1,242	1,457
<b>Total</b>	<b>205,828</b>	<b>201,375</b>	<b>166,615</b>

Note: The tax basis for business tax and surcharge is detailed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS  
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(41). Financial expenses

<b>Categories</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
(1) The net interest expenses	14,814	10,413	8,920
Inc: The interest payments	16,575	11,935	9,781
Interest income	1,761	1,522	861
(2) Exchange net loss	(318)	(1,330)	(55)
(3) Other expenses	1,457	1,380	1,259
Inc: poundage spending	531	353	867
<b>Total</b>	<b>15,953</b>	<b>10,463</b>	<b>10,124</b>

(42). Assets impairment loss

<b>Item</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
Impairment loss for bad and doubtful accounts	(67)	(7)	124
Allowance for diminution in value of inventories	7,040	3,149	1,023
Held-to-maturity investments impairment loss	(3)	0	(16)
Long term equity investment impairment loss		3	22
Fixed assets impairment loss	8	702	6,612
Oil and gas assets impairment loss	1,006	2,153	3,149
Intangible assets impairment loss		1	2
Construction supplies impairment loss		13	72
Construction in progress impairment loss		28	650
Goodwill impairment loss			6,266
Other impairment loss	(137)	142	(88)
<b>Total</b>	<b>7,847</b>	<b>6,184</b>	<b>17,816</b>

(43). Gain from changes of fair value (loss)

<b>Item</b>	<b>2012</b> RMB million	<b>2011</b> RMB million	<b>2010</b> RMB million
1.Trading financial assets	1	(4)	10
2.Trading financial liabilities	152	70	
3. Derivative financial instruments	31	1,336	(186)
4.The hedging losses	5	(8)	8
5.Other	18	26	2
<b>Total</b>	<b>207</b>	<b>1,420</b>	<b>(166)</b>

NOTES TO THE FINANCIAL STATEMENTS  
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(44). Investment income (loss)

Categories	2012	2011	2010
	RMB million	RMB million	RMB million
Income from trading financial assets	4	17	(9)
Income from long-term equity investment	5,997	8,705	8218
Inc: Equity investments measured at cost	210	294	307
Equity investments in equity method	5,610	8,079	7609
Gains from equity disposal	177	332	302
Income from held-to-maturity investments	66	287	17
Income from available-for-sale financial assets	284	288	470
Income from Trading financial liabilities			5
Other investment income	(139)	33	(8)
<b>Total</b>	<b>6,212</b>	<b>9,330</b>	<b>8,693</b>

(45). Non-operating income

Categories	2012	2011	2010
	RMB million	RMB million	RMB million
Profit from disposal of non-current assets	1,340	2,966	823
Inc: profit from disposal of fixed assets	628	543	640
profit from disposal of contract in progress	630	1,145	163
Non monetary assets exchange gains	3	3	140
Debt restructuring gains	1	2	21
Penalty income	22	29	20
Government subsidy	3,981	3,038	1,795
Donations gains	3	1	89
Accounts payable that can not be paid	437	431	270
Revenue from penalty compensation	14	5	45
Others	772	559	478
<b>Total</b>	<b>6,573</b>	<b>7,034</b>	<b>3,681</b>

(46). Non-operating expenses

Categories	2012	2011	2010
	RMB million	RMB million	RMB million
Subtotal losses on disposal of non-current assets	1,082	743	374
Incl.: Losses on disposal of fixed assets	1,020	698	363
Losses on assets retirement/ damages	31	132	111
Losses on debt restructuring	26	5	1
Fines	197	89	50
Donation	272	129	245
Extraordinary losses	20	1	9

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Categories	2012 RMB million	2011 RMB million	2010 RMB million
Losses on inventory shortage			1
Expected losses on pending litigation	17		4
Losses on liquidated damages /compensations	70	206	12
Others	2,144	3,087	2,026
<b>Total</b>	<b>3,859</b>	<b>4,392</b>	<b>2,833</b>

(47). Income tax expenses

Item	2012 RMB million	2011 RMB million	2010 RMB million
Current income tax	36,363	34,761	31,165
Deferred income tax (profit)	(1,492)	2,211	1,929
<b>Total</b>	<b>34,871</b>	<b>36,972</b>	<b>33,094</b>

(48). Other comprehensive income

Item	2012 RMB million	2011 RMB million	2010 RMB million
1. Gain/(loss) on available-for-sale financial assts	221	(953)	(1,713)
Less: Effect of income tax arising from available-for-sale financial assets	65	(230)	(422)
Net amount recognized in other comprehensive income in prior period transferred to profit or loss in current period	76		57
<b>subtotal</b>	<b>80</b>	<b>(723)</b>	<b>(1,348)</b>
2. Shares of other comprehensive income of investee accounted by equity method	50	(139)	(933)
<b>subtotal</b>	<b>50</b>	<b>(139)</b>	<b>(933)</b>
3. Gain(or loss) on cash flow hedges financial instrument	(53)	(17)	(262)
Less: Effect of income tax arising from cash flow hedges financial instrument	(29)	24	(41)
Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period	127	(196)	
Transfer to adjusted amounts of initial recognized amounts of hedged item		14	
<b>subtotal</b>	<b>(151)</b>	<b>141</b>	<b>(221)</b>
4. Effect of changes in foreign currency exchange rate	(192)	(3,763)	(2,181)
<b>subtotal</b>	<b>(192)</b>	<b>(3,763)</b>	<b>(2,181)</b>
5. Others	92	284	113
<b>Total</b>	<b>(121)</b>	<b>(4,200)</b>	<b>(4,570)</b>

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(49). Notes to cash flow statements

1) Supplementary Information of cash flow statement

Supplementary Information	2012 RMB million	2011 RMB million	2010 RMB million
<b>1.Reconciliation of net profit to cash flows from operating activities</b>			
<b>Net profit</b>	<b>69,791</b>	<b>83,119</b>	<b>72,580</b>
Add: Provision for asset impairment	7,847	6,184	17,816
Depreciation of fixed assets, oil and gas assets depletion, productive living assets depreciation	101,826	90,177	79,561
Amortization of intangible assets	2,976	2,297	1,975
Amortization of long-term prepaid expenses	7,078	6,317	5,476
Losses on disposal of fixed assets, intangible assets and other long-term assets	(257)	(2,223)	(610)
Fixed assets disposal loss	31	132	113
Fair value change loss	(207)	(1,420)	167
Financial expenses	17,221	10,171	9,902
Exploration costs	13,099	13,569	17,484
Losses arising from investments	(6,212)	(9,330)	(8,693)
Decrease in deferred tax income assets	(3,076)	1,993	(1,955)
Increase in deferred tax income liabilities	1,583	225	3,884
Decrease in inventories	(35,060)	(60,847)	(19,773)
Decrease in operating receivables	(15,681)	(36,666)	(30,653)
Increase in operating payables	9,404	99,036	45,925
<b>Net cash flows from operating activities</b>	<b>170,363</b>	<b>202,734</b>	<b>193,199</b>
<b>2. Net increase in cash and cash equivalents</b>			
<b>Cash at end of year</b>	<b>42,651</b>	<b>77,430</b>	<b>35,487</b>
Less: cash at beginning of year	77,430	35,487	30,900
Plus: cash equivalents at end of year			
Less: cash equivalents at beginning of year			
<b>Net increase in cash and cash equivalents</b>	<b>(34,779)</b>	<b>41,943</b>	<b>4,587</b>

2) Information on acquisition of subsidiaries and other business units during the year

Item	2012 RMB million	2011 RMB million	2010 RMB million
1.Consideration for acquiring subsidiaries and other business units	1,609	20,849	31,567
2.Cash and cash equivalents paid for acquiring subsidiaries and other business units	1,708	20,812	31,567
Less: Cash and cash equivalents	267	3	
3.Net cash paid for the acquisition	1,441	20,809	31,567

NOTES TO THE FINANCIAL STATEMENTS  
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Item	2012 RMB million	2011 RMB million	2010 RMB million
4. Net assets held by the acquired subsidiaries and other business units	275	12,447	11,869
Current assets	293	3,414	300
Non-current assets	4	10,650	13,286
Current liabilities		1,255	743
Non-current liabilities	21	362	973

3) Cash and cash equivalents

Item	2012 RMB million	2011 RMB million	2010 RMB million
<b>1. Cash</b>	<b>42,651</b>	<b>77,430</b>	<b>35,487</b>
Incl.: Cash on hand	72	63	59
Bank deposit readily available for payment	39,824	75,205	34,474
Other monetary fund readily available for payment	2,755	2,162	954
<b>2. Closing balance of cash and cash equivalents</b>	<b>42,651</b>	<b>77,430</b>	<b>35,487</b>

(50). Segment information

2012:

Item	Exploration and Production RMB million	Refining RMB million	Chemicals RMB million	Marketing and Distribution RMB million
1. Operating revenue	318,601	1,282,825	459,666	1,471,882
Incl: external transaction revenue	142,885	210,862	404,064	1,462,244
Divisional transaction revenue	175,716	1,071,963	55,602	9,638
2. Operating total cost	244,682	1,300,179	462,611	1,429,560
3. Operating profit/(loss)	78,038	(17,354)	(2,349)	42,322
4. Total assets	780,489	304,354	189,441	259,223
5. Total liabilities	423,129	59,674	49,333	85,281

2012(continued) :

Item	Oil & Petrochemical Engineering Technical Services RMB million	Others RMB million	Elimination of inter- segment RMB million	Total RMB million
1. Operating revenue	135,347	1,367,040	(2,204,752)	<b>2,830,609</b>
Incl: external transaction revenue	135,347	722,901	(247,694)	<b>2,830,609</b>
Divisional transaction revenue		644,139	(1,957,058)	
2. Operating total cost	131,080	1,370,415	(2,203,447)	<b>2,735,080</b>
3. Operating profit/(loss)	4,801	(1,716)	(1,794)	<b>101,948</b>
4. Total assets	122,504	320,182	(19,367)	<b>1,956,826</b>
5. Total liabilities	88,101	447,804	10,705	<b>1,164,027</b>

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2011:

Item	Exploration and Production	Refining	Chemicals	Marketing and Distribution
	RMB million	RMB million	RMB million	RMB million
1. Operating revenue	293,378	1,222,035	461,546	1,347,628
Incl: external transaction revenue	118,412	205,279	415,846	1,341,861
Divisional transaction revenue	174,966	1,016,756	45,700	5,767
2. Operating total cost	212,934	1,260,141	435,908	1,302,561
3. Operating profit/(loss)	83,647	(38,106)	26,000	45,067
4. Total assets	664,954	271,829	177,595	228,548
5. Total liabilities	353,705	62,792	46,148	80,508

2011(continued) :

Item	Oil & Petrochemical Engineering Technical Services	Others	Elimination of inter- segment	Total
	RMB million	RMB million	RMB million	RMB million
1. Operating revenue	124,292	1,193,566	(2,090,494)	<b>2,551,951</b>
Incl: external transaction revenue	116,248	569,258	(214,953)	<b>2,551,951</b>
Divisional transaction revenue	8,044	624,308	(1,875,541)	
2. Operating cost	119,438	1,206,643	(2,092,373)	<b>2,445,252</b>
3. Operating profit/(loss)	5,477	(3,841)	(795)	<b>117,449</b>
4. Total assets	132,718	300,095	(27,060)	<b>1,748,679</b>
5. Total liabilities	88,650	423,597	(27,060)	<b>1,028,340</b>

2010

Item	Exploration and Production	Refining	Chemicals	Marketing and Distribution
	RMB million	RMB million	RMB million	RMB million
1. Operating revenue	220,594	981,583	361,067	1,041,508
Incl: external transaction revenue	96,933	175,006	324,825	1,038,208
Divisional transaction revenue	123,661	806,577	36,242	3,300
2. Operating cost	179,566	969,494	346,566	1,011,640
3. Operating profit/(loss)	55,927	12,655	17,636	30,959
4. Total assets	582,575	229,909	156,222	188,801
5. Total liabilities	291,235	50,518	48,204	75,303

NOTES TO THE FINANCIAL STATEMENTS  
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2010(continued) :

Item	Oil & Petrochemical Engineering Technical Services RMB million	Others RMB million	Elimination of inter-segment RMB million	Total RMB million
1. Operating revenue	110,301	873,626	(1,619,637)	<b>1,969,042</b>
Incl: external transaction revenue	107,587	428,988	(202,505)	<b>1,969,042</b>
Divisional transaction revenue	2,714	444,638	(1,417,132)	
2. Operating cost	106,948	877,547	(1,619,018)	<b>1,872,743</b>
3. Operating profit/(loss)	3,187	12,749	(28,287)	<b>104,826</b>
4. Total assets	115,657	232,195	(19,032)	<b>1,486,327</b>
5. Total liabilities	85,691	331,937	(19,032)	<b>863,856</b>

Note: For better understanding, the Group consolidated business segments that mainly provide services for internal production departments, and adjusted them to other business segments.

## 9. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

### (1). Related parties

Related parties that are in control relationship with the Group

Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
Sinopec Corp.	Beijing	Production and sales of petrochemical products	Subsidiary	State- holed	Fu Chengyu
Sinopec Assets Management Corporation	Beijing	Management of State-owned assets and Cultural, educational health and community services	Subsidiary	State-owned	Leng Taimin
Shengli Petroleum Administration Bureau	Dongying	Oil & gas exploration and Services	Subsidiary	State-owned	Wang Lixin
Zhongyuan Petroleum Exploration Bureau	Puyang	Oil & gas exploration and Services	Subsidiary	State-owned	Kong Fanqun
Henan Petroleum Exploration Bureau	Nanyang	Oil & gas exploration and Services	Subsidiary	State-owned	Li Lianwu
Jiangnan Petroleum Administration Bureau	Qianjiang	Oil & gas exploration and Services	Subsidiary	State-owned	Zhang Zhaoping

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Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
Jiangsu Petroleum Exploration Bureau	Yangzhou	Oil & gas exploration and Services	Subsidiary	State-owned	Zhu Ping
China Star Petroleum Co. Ltd.	Beijing	Construction and technical services	Subsidiary	State-owned	Yuan Qing
Northwest Petroleum Bureau	Wulumuqi	Oil & gas exploration and Services	Subsidiary	State-owned	Liu Yunzhong
North China Petroleum Bureau	Zhengzhou	Oil & gas exploration and Services	Subsidiary	State-owned	Zhou Liqing
East China Petroleum Bureau	Nanjing	Oil & gas exploration and Services	Subsidiary	State-owned	Fang Zhixiong
Southwest China Petroleum Bureau	Chengdu	Oil & gas exploration and Services	Subsidiary	State-owned	Xue Wandong
Northeast China Petroleum Bureau	Changchun	Oil & gas exploration and Services	Subsidiary	State-owned	Lei Qingliang
Shanghai Offshore Petroleum Bureau	Shanghai	Oil & gas exploration and Services	Subsidiary	State-owned	Zuo Wenqi
Pipeline Storage and Transportation Company	Xuzhou	Operation and maintenance of oil and gas pipelines	Subsidiary	State-owned	Gao Hedong
Sinopec Finance Company Ltd.	Beijing	Financial services	Subsidiary	State-held	Li Chunguang
Sinopec Engineering Construction Corporation	Beijing	EPC of projects	Subsidiary	State-owned	Liu Jiaming
Luoyang Petrochemical Engineering Corporation	Luoyang	Engineering and technical advice	Subsidiary	State-owned	Yan Shaochun
Ningbo Engineering Co., Ltd.	Ningbo	Petrochemical engineering and construction	Subsidiary	State-owned	Shao Jianxiong
Shanghai Engineering Co., Ltd.	Shanghai	Engineering and exploration	Subsidiary	State-owned	Wu Derong
International Petroleum Exploration and Development Co., Ltd.	Beijing	import /export of goods and technology	Subsidiary	State-owned	Zhang Yaocang
International Petroleum Engineering Ltd.	Beijing	Overseas engineering	Subsidiary	State-owned	Zhang Yaocang
Najing Engineering Co., Ltd.	Nanjing	Construction and installation	Subsidiary	State-owned	Xiang Wenwu

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Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
The Fourth Construction Company	Tianjin	Construction and installation	Subsidiary	State-owned	Xiao Gang
The Fifth Construction Company	Lanzhou	Construction and installation	Subsidiary	State-owned	Tian Jianjun
The Tenth Construction Company	Zibo	Construction and installation	Subsidiary	State-owned	Fan Jixian
Refining & Chemical Engineering Co., Ltd.	Beijing	Petrochemical engineering and construction	Subsidiary	State-owned	Zhu Haixing
Sinopec Century Bright Capital Investment Ltd.	Beijing	Investing and financing Evaluation	Subsidiary	State-owned	Li chunguang
China Petrochemical Consulting Corporation	Beijing	and counselling of investment Management of real estate and Sales of construction materials	Subsidiary	State-owned	Li Xihong
Sinopec Baichuan Economic and Trade Company	Beijing	Management and technical supports	Subsidiary	State-owned	Cui Guoqi
Economic & Technology Research Institute	Beijing	Training and academic exchanges	Subsidiary	State-owned	Li Xihong
Petroleum and Chemical Management Institute	Beijing	Publication	Subsidiary	State-owned	Qi Yutai
China Petrochemical Newspaper	Beijing	Publication and distribution	Subsidiary	State-owned	Lv Dapeng
China Petrochemical Press	Beijing	Logistics services	Subsidiary	State-owned	Wang Zikang
Authority Service Center	Beijing	Bidding agents and consulting	Subsidiary	State-owned	Cui Guoqi
Tendering Co., Ltd.	Beijing	Inspection, testing and management	Subsidiary	State-owned	Zhang Kehua
Petroleum & Chemical Engineering Quality Supervision Station	Beijing	Monitoring and testing of petrochemical engineering quality	Subsidiary	State-owned	Zhou Guo
Sinopec Engineering Quality Inspection Center	Beijing		Subsidiary	State-owned	Zhou Guo

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Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
Ningbo Institute of Technology	Ningbo	Technology research and development	Subsidiary	State-owned	Zhu Haixing
Petroleum Commercial Reserves Co. Ltd.	Beijing	Crude oil reserves and wholesales	Subsidiary	State-owned	Zhou Liwei
Research Institute of Petroleum Engineering Technology	Beijing	Petroleum machinery fabrication	Subsidiary	State-owned	Lu Baoping

Related parties that are not in control relationship with the Group

None

(2). Related transaction

None

**10. CONTINGENCE**

(1). Contingent liability from guarantee

As of December 31, 2012, Sinopec Group has been provided several guarantees as below

A. Assets Management Co., Ltd. has been provided 134 guarantees, which amounted to RMB 581 million. Those guarantees are mainly involved for its associates and joint ventures, such as providing Joint liability loan guarantee to its associate named Yangzijiang Petrochemical Acetyl Co.,Ltd, which amounted to RMB 78 million (not overdue); providing Joint liability loan guarantee to its joint venture named Xinjiang Weimei Chemical Co., Ltd., which amounted to RMB 312 million (not overdue); providing Joint liability loan guarantee to its associate named BASF Polyurethane Co., Ltd., which amounted to RMB 29 million (not overdue).

Assets Management Co., Ltd. has been provided 127 overdue guarantees, which amounted to RMB 162 million. Those guarantees are mainly involved for its subsidiaries before they were incorporated in Sinopec Group. For judgment and potential liable guarantees, Sinopec Group has provision for RMB 62 million estimated liabilities. The rest are not involved in litigation or cannot be recognized the scope of liability.

B. Sinopec Corp. has been provided loan guarantees of RMB 6,145 million. Those guarantees are mainly involved for its associates and joint ventures (not overdue), which include RMB 5,496 million loan guarantee for New Bright International Development Limited, RMB 245 million loan guarantee for Yueyang Sinopec Corp. Shell Coal Gasification Corporation. Sinopec Yangzi Petrochemical Company Limited has been provided RMB 329 million loan guarantee for Sinopec Corp. Yangzi BP Petrochemical Acetyl Co., Ltd. Sinopec Sales Company Limited has been provided RMB 75 million loan guarantee for Xiamen Botan Warehouse Co., Ltd.

(2). Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavorable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of The Group.

(3). Contingent liabilities caused by discounted commercial acceptance bills

As of December 31, 2012, there is no contingent liabilities caused by discounted commercial acceptance bills that need to be disclosed.

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(4).Contingent liabilities regarding environmental protection

According to the current laws and regulations, the management believes that there is no possibility that significant liability that has adverse impact on the Group's financial position or results of operations. However, the Chinese government has begun the implementation of applicable regulations and may intensify the implementation, and adopt more stringent environmental standards. There are some uncertain factors exist in the liabilities of environmental aspects, which will affect the final cost ability of remedial measures estimates of the Group. These uncertainties include: i) the various venues, including but not limited to oil refineries, oil fields, gas station, wharf and Land Development Zone ( whether it is in operation, have been closed or sold out), pollution nature and degree; ii ) range needs clear measures; iii ) remedial strategies available generate different cost; iv) environmental remediation requirements changes; and v) new remediation site. Because of the unknown possible contamination degree and implementation time and range of unknown required corrective action, it is unable to determine the future cost amount. Therefore, it is unable to reasonably estimate the environmental liabilities consequences arising from the proposed or future environmental regulations. In 2012, Sinopec Corp. paid standard pollutant cleanup costs of RMB 4,813 million (2011: RMB 4,228 million)

(5).The other contingent liabilities

As of December 31, 2012, there is no other contingent liabilities that need to be disclosed.

11. COMMITMENTS

(1).Operating lease commitments

Operating lease categories	2012-12-31			2011-12-31		
	Original value RMB million	Accumulated depreciation RMB million	Provision RMB million	Original value RMB million	Accumulated depreciation RMB million	Provision RMB million
Special equipment	936	437	21	1,297	506	25
General equipment	16	7		28	10	
Others						
Special equipment	18	4	2	20	3	2
<b>Total</b>	<b>970</b>	<b>448</b>	<b>23</b>	<b>1,345</b>	<b>519</b>	<b>27</b>

2).Minimum lease payments to be paid in later years

Remaining lease period	Minimum lease payments RMB million	Notes
Within 1 year (Incl. 1 year)	1,111	
Over 1 year	9,316	
<b>Total</b>	<b>10,427</b>	

Note: Non-recognized operating lease is RMB 19 million in 2012.

(2).Other significant financial commitments

A. Capital commitments

**NOTES TO THE FINANCIAL STATEMENTS**  
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As of December 31, 2012, capital commitments of Sinopec group is capital expenditures amounted to RMB 219,548 million regarding oil and gas assets of exploration and production, refining and petrochemical production capacity expansion projects, and the construction of oil depots and gas stations. These capital commitments of RMB 202,745 million were authorized and contracted, and of RMB 16,803 million were authorized and non-contracted. The commitments above were only for Sinopec Corp. issues.

**B. Exploration and production licenses**

Sinopec Group has been acquired exploration licenses authorized by Ministry of Land and Resources and approved by State Council. The maximum term of production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration. The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 424 million for the year ended December 31, 2012. The estimated future payments will be RMB1,266 million.

**12. EVENTS AFTER THE BALANCE SHEET DATE**

On 4 February 2013, the Company announced a schedule of placing new H shares to certain independent investors. Pursuant to the schedule and on 14 February 2013, the Company issued 2,845,234,000 H Shares with a par value of RMB 1.00 each at the placing price of HKD 8.45 per share to these independent investors, with the aggregate net proceeds of HKD 23,970 million.

Pursuant to a resolution passed at the director's meeting on 22 March 2013, the Company proposed to transfer capital reserve (share premium) to share capital in the proportion of 1 for every 10 shares, subject to the shareholders' approval at the Annual General Meeting.

**13. BUSINESS COMBINATIONS**

**Significant investment, equity merger & acquisition**

The main significant investment, equity merger & acquisition incurred in 2012 was that the International Petroleum Exploration and Production Corporation (SIPC) purchased mining field equity and acquired their shares as follow:

A. The purchase of Amodaimi-oil Company: On September 21, 2012, the SIPC signed share subscription agreement with Repsol and subscribed 20% shares of Amodaimi-oil Company, which holds 20% shares of Ecuador Block 16 and Block Tivacuno. The subscription finished on September 26, 2012, and the price was USD 1,460 million.

B. The purchase of Galp: On November 11, 2012, the SIPC signed purchase agreement with Galp Energia Netherlands B.V. and acquired 30% shares of Brazil Services B.V., and signed purchase agreement with Petrogal S.A and acquired 30% shares of Petrogal Brasil S.A. by the Winland International Petroleum S.A., Newly established subsidiaries of SIPC in Luxembourg. The purchase finished on March 28, 2013, and the price was USD 4,798 million.

C. The purchase of Puffin FPSO Limited: On March 8, 2012, Caterham subsidiary of SIPC acquired the Puffin FPSO Limited (PFL company), and paid price of USD 67 million.

D. The purchase of Talisman UK: On July 23, 2012, Addax, the affiliated company of the SIPC, signed purchase agreement with Talisman Energy Inc., and purchased 49% share equity of Talisman UK, and paid USD \$ 1,069 million. The merge finished on December 17, 2012.

E. The purchase of Devon: On December 30, 2011, the newly established subsidiaries of SIPC in America signed AAA agreement with Devon, and acquired 33.3% working interest of five shale oil blocks in Niobrara, Mississippi, UticaOhio, Utica Michigan and Tuscaloosa. On April 30, 2012, the development agreement was signed. According to the agreement, the acquisition price was USD 2,436

**NOTES TO THE FINANCIAL STATEMENTS**  
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million, 30% of which was paid in cash, 70% of which was settled in the form of subsequent exploration and development payment on behalf of the transferor from 2012 to 2017.

F. The purchase of Astec Projects: In 2012, SIPC acquired 15% shares of Astec Projects held by the Yalian and paid USD 26 million. After the acquisition, SIPC held 100% shares of Astec Projects, and the repayment obligations of advance development funds by Yalian was exempted.

G. The purchase of APLNG: On January 20, 2012, SIPC signed increased equity purchase agreement with Australia APLNG and increased 10% shares of APLNG to 25%. The subscription finished on July 12, 2012, and the price was USD 2,111 million.

H. The purchase of Angola 15/06 Block: On March 5, 2012, Angola Block 15 Company of SIPC increased 5% equity of Angola 15/06 Block to 25% and paid USD 222 million.

I. The purchase of Canada Wapiti asset: On February 2, 2012, Daylight Energy Company of SIPC signed asset purchase agreement with Canada's Progress Energy and Omers Company to purchase assets of Wapiti which are located in the core area of Alberta Wapiti oil and gas fields and the area of the oil field is about 167 square kilometres. The price was USD 75 million.

**14. NOTES TO THE MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS**

(1). Long term equity investment

<b>Item</b>	<b>2012-12-31</b>	<b>2011-12-31</b>
Investment in subsidiaries	376,541	348,766
Investment in associates	52	49
Investment in other enterprises	3,518	906
<b>Subtotal</b>	<b>380,111</b>	<b>349,721</b>
Less: Long term equity investment impairments	33	33
<b>Total</b>	<b>380,078</b>	<b>349,688</b>

(2). Revenue from operations and cost of operations

<b>Item</b>	<b>2012</b>		<b>2011</b>		<b>2010</b>	
	<b>Revenue</b>	<b>Cost</b>	<b>Revenue</b>	<b>Cost</b>	<b>Revenue</b>	<b>Cost</b>
(1) Intangible assets rental	5,797		5,797		5,797	
(2) Others	19	18				
<b>Total</b>	<b>5,816</b>	<b>18</b>	<b>5,797</b>		<b>5,797</b>	

(3). Investment income

<b>Item</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Long term equity investment gains	20,053	26,676	12,828
Incl.: Investment income recognized by the cost method	20,013	26,675	12,826
Investment income recognized by equity method	40	1	1
Other investment gains	30	143	
<b>Total</b>	<b>20,083</b>	<b>26,819</b>	<b>12,828</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2010, 2011 and 2012

(4).Supplementary Information of cash flow statement

<b>Supplementary Information</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>1.Reconciliation of net profit to cash flows from operating activities</b>			
<b>Net profit</b>	<b>21,631</b>	<b>26,522</b>	<b>14,578</b>
Add: Provision for asset impairment			200
Depreciation of fixed assets, oil and gas assets depletion, productive living assets depreciation	34	36	23
Amortization of intangible assets	518	551	522
Financial expenses	2,020	2,065	2,004
Losses arising from investments	(20,083)	(26,819)	(12,828)
Decrease in operating receivables	(21)	1,847	9,338
Increase in operating payables	(689)	2,899	1,503
<b>Net cash flows from operating activities</b>	<b>3,410</b>	<b>7,101</b>	<b>15,340</b>
<b>2. Investing and financing activities that do not involve cash receipts and payments</b>			
Conversion of debt into capital			
<b>3. Net increase in cash and cash equivalents</b>			
<b>Cash at end of year</b>	<b>15,350</b>	<b>27,110</b>	<b>13,778</b>
Less: cash at beginning of year	27,110	13,778	7,071
<b>Net increase in cash and cash equivalents</b>	<b>(11,760)</b>	<b>13,332</b>	<b>6,707</b>

1) Cash and cash equivalents

<b>Item</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
1. Cash	15,350	27,110	13,778
Incl.: Cash on hand	1	1	
Bank deposit readily available for payment	15,298	27,058	13,778
Other monetary fund readily available for payment	51	51	
2. Closing balance of cash and cash equivalents	15,350	27,110	13,778

**15. FINANCIAL STATEMENTS APPROVAL**

The office of general manager approved the financial statements and notes to the statements.

**China Petrochemical Corporation**

April 27, 2013



## Review Report

GTCNZZ(2013)NO.110ZC1254

### To the Board of China Petrochemical Corporation

We have reviewed the interim financial information of China Petrochemical Corporation (hereinafter “the Company”) set out on pages F-79 to F-99, which comprises the balance sheet of the Company as of 30 June 2013 and the related statements of income and cash flows for the six-month period ended 30 June, 2012 and 2013, and a summary of significant accounting policies and other explanatory notes. Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with China Standard on Review No. 2101, “Engagements to Review Financial Statements”. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements does not present fairly, in all material respects, the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the six-month period ended 30 June, 2012 and 2013 in accordance with the requirements of Accounting Standards for Business Enterprises.

Grant Thornton China  
Beijing, China

August 9, 2013

Certified Public Accountants: /s/ Lianmu Cheng

Certified Public Accountants: /s/ Yaxu Zhang

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The currency is in RMB million, except otherwise indicated

**Consolidated Balance Sheet**

for the six months ended 30 June 2013

Items	Notes	30 June 2013 RMB million (unaudited)	31 December 2012 RMB million (audited)
<b>Current assets</b>			
Cash	5.(1)	52,718	42,573
Bills receivables		21,080	22,684
Accounts receivable	5.(2)	106,044	101,925
Advance to suppliers		13,894	12,617
Other receivable		13,526	7,371
Inventories	5.(3)	281,006	281,065
Non-current assets due within 1 year		6,595	9,456
Other current assets		3,930	3,990
<b>Total current assets</b>		<b>498,793</b>	<b>481,681</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		6,723	5,675
Long-term receivable		31,889	23,416
Long-term equity investment		194,628	189,448
Fixed assets		508,617	508,574
Oil and gas assets		377,962	374,691
Project goods and material		2,993	3,005
Construction in progress		227,540	222,368
Intangible assets		77,600	74,737
Goodwill		37,870	38,298
Long-term deferred expenses		14,750	14,933
Deferred tax assets		8,081	17,900
Other non-current assets		2,655	2,100
<b>Total non-current assets</b>		<b>1,491,308</b>	<b>1,475,145</b>
<b>Total assets</b>		<b>1,990,101</b>	<b>1,956,826</b>
<b>Current liabilities</b>			
Short-term loans	5.(4)	128,398	81,055
Bills payable		8,043	9,018
Accounts payable		220,764	258,675
Advance from customers		79,969	90,020
Employee benefits payable		21,753	20,638
Taxes and fees payable		22,051	28,609
Interest payable		2,495	2,876

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Items	Notes	30 June 2013 RMB million (unaudited)	31 December 2012 RMB million (audited)
Other payable		65,588	71,893
Non-current liabilities due within 1 year	5.(5)	80,257	30,480
Other current liabilities		50,877	65,920
<b>Total current liabilities</b>		<b>680,195</b>	<b>659,184</b>
<b>Non-current liabilities</b>			
Long-term loans	5.(6)	217,234	236,484
Bonds payable	5.(7)	121,318	143,308
Long-term payable		36,276	36,653
Estimated liabilities		32,533	30,820
Deferred tax liabilities		42,546	52,723
Other non-current liabilities		5,294	4,855
<b>Total non-current liabilities</b>		<b>455,201</b>	<b>504,843</b>
<b>Total liabilities</b>		<b>1,135,396</b>	<b>1,164,027</b>
<b>Owner's equity</b>			
Paid in capital		251,140	249,595
Capital surplus		53,192	46,526
Special reserve		4,526	3,284
Surplus reserve		171,392	169,466
General risk reserve		640	640
Retained earnings		196,140	174,211
Translation difference in foreign currency statements		(10,548)	(7,204)
<b>Total owner's equity attributable to parent company</b>		<b>666,482</b>	<b>636,518</b>
Minority interest		188,223	156,281
<b>Total owner's equity</b>		<b>854,705</b>	<b>792,799</b>
<b>Total liabilities and owner's equity</b>		<b>1,990,101</b>	<b>1,956,826</b>

The notes on pages F-84 to F-99 form part of these financial statements.

FINANCIAL STATEMENTS  
for the six months ended 30 June, 2012 and 2013

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**Consolidated Income Statement**

for the six months ended 30 June 2012 and 2013

Items	Notes	Six months ended 30 June	
		2013 RMB million (unaudited)	2012 RMB million (unaudited)
<b>1.Operating revenue</b>		<b>1,452,453</b>	<b>1,366,664</b>
<b>2.Operating total cost</b>		<b>1,401,065</b>	<b>1,328,264</b>
Less: Operating cost		1,224,211	1,143,538
Business taxes and surcharges		103,203	103,532
Selling and distribution expenses		21,786	19,883
General and administrative expenses		35,083	35,802
Exploration cost		9,077	9,697
Financial expenses	5.(8)	7,601	8,750
Assets impairment loss		104	7,062
Add: Gain from changes of fair value (loss)		737	510
Investment income (loss)		3,260	3,030
<b>3.Operating profit (loss)</b>		<b>55,385</b>	<b>41,940</b>
Add: Non-operating income	5.(9)	1,840	1,826
Less: Non-operating expenses	5.(10)	2,686	1,010
<b>4.Total profit (loss)</b>		<b>54,539</b>	<b>42,756</b>
Less: Income tax expenses		18,244	14,781
<b>5.Net profit(loss)</b>		<b>36,295</b>	<b>27,975</b>
Including: net profit of the acquiree entity in a business combination involving enterprises under common control before the combination date			
Less: Minority interest		10,531	6,961
<b>6.Net profit attributed to shareholders of parent company</b>		<b>25,764</b>	<b>21,014</b>

The notes on pages F-84 to F-99 form part of these financial statements.

FINANCIAL STATEMENTS  
for the six months ended 30 June, 2012 and 2013

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**Consolidated Cash Flow Statement**

for the six months ended 30 June 2012 and 2013

Items	Notes	Six months ended 30 June	
		2013 RMB million (unaudited)	2012 RMB million (unaudited)
<b>1. Cash flows from operating activities</b>			
Cash received from sale of goods or rendering of services		1,582,818	1,532,387
Refund of tax and levy		1,158	1,189
Other cash received relating to operating activities		1,175	3,526
<b>Subtotal of cash inflows</b>		<b>1,585,151</b>	<b>1,537,102</b>
Cash paid for goods and services		1,307,641	1,289,474
Cash paid to and on behalf of employees		40,330	39,743
Cash paid on taxes and levy		173,928	178,990
Other cash paid relating to operating activities		27,871	23,561
<b>Subtotal of cash outflows</b>		<b>1,549,770</b>	<b>1,531,768</b>
<b>Net cash flows from operating activities</b>		<b>35,381</b>	<b>5,334</b>
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		3,621	12,305
Cash received from investment income		1,033	2,220
Net cash received from disposal fixed assets, oil and gas assets, intangible assets and other long-term assets		1,074	425
Net cash received from disposal of subsidiaries and other operating units			
Other cash received relating to investing activities		6,494	46,554
<b>Subtotal of cash inflows</b>		<b>12,222</b>	<b>61,504</b>
Cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets		89,793	91,893
Cash paid for investment		11,041	56,619
Net cash paid to acquire subsidiaries and other operating units		19	
Other cash paid relating to investing activities		8,965	43,566
<b>Subtotal of cash outflows</b>		<b>109,818</b>	<b>192,078</b>
<b>Net cash flows from investing activities</b>		<b>(97,596)</b>	<b>(130,574)</b>

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Items	Notes	Six months ended 30 June	
		2013 RMB million (unaudited)	2012 RMB million (unaudited)
<b>3.Cash flows from financing activities</b>			
Cash received from investment		34,987	5,980
Cash received from borrowings		512,175	381,859
Other cash received relating to financing activities		117	115
<b>Subtotal of cash inflows from financing activities</b>		<b>547,279</b>	<b>387,954</b>
Cash repayments of amounts borrowed		459,568	299,927
Cash payments for distribution of dividends, profit or interest expenses		14,321	11,274
Other cash payments relating to financing activities		658	843
<b>Subtotal of cash outflows from financing activities</b>		<b>474,547</b>	<b>312,044</b>
<b>Net cash flows from financing activities</b>		<b>72,732</b>	<b>75,910</b>
<b>4.Effect of foreign exchange rate changes on cash</b>		<b>(372)</b>	<b>(1,970)</b>
<b>5.Net increase in cash and cash equivalents</b>		<b>10,145</b>	<b>(51,300)</b>
Add: Cash and cash equivalents at the beginning of the period		42,651	77,430
<b>6.Cash and cash equivalents at the end of the period</b>		<b>52,796</b>	<b>26,130</b>

The notes on pages F-84 to F-99 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
for the six months ended 30 June, 2012 and 2013

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**NOTES TO THE FINANCIAL STATEMENTS**  
**for the six months ended 30 June, 2012 and 2013**

**1. COMPANY PROFILE**

As one of the largest integrated energy and chemical companies with upstream, midstream and downstream operations in China, China Petrochemical Corporation (“The Group” or “Sinopec Group”) was established on July 27, 1998 according to Circular on Establishment Program of Sinopec Group by the State Economic and Trade Commission and Announcement on the articles of association of Sinopec Group (Guo Jing Mao Wei [1998] No.458). The Group’s predecessor is China Petrochemical Corporation established in 1983 as the economic entity with the qualification of a legal person under direct control by the State Council and is responsible for the national petrochemical production construction and import and export business planning. In July, 1998, China carried on major reform and restructuring on the petroleum and petrochemical industry, Sinopec Group completely merged China Eastern United Petrochemical (Group) Company Limited and finished transfer with China National Petroleum Corporation and hand-over with provincial/ municipal as well as specifically designated municipal petroleum companies, hence, it became a state-owned company solely invested by the State, functioning as a state-authorized investment organization in which the state holds the controlling share. The business license of enterprise legal person is numbered 100000000001244, the legal representative is Fu Chengyu, and Sinopec Group has a registered capital of RMB 231,621 million. The address of the Group is 22 Chaoyangmen North Street, Chaoyang District Beijing, China. Its principal operations include: exploration and development of petroleum and natural gas, petroleum refining, petrochemical, petroleum products wholesale and retail, exploration and designing, construction and installation of petroleum and petrochemical projects.

Sinopec Group has 33 wholly-owned companies and holding subsidiary companies, including China Petroleum & Chemical Company (Sinopec Corp.) listed on stock markets in Hong Kong, New York, London and Shanghai, as well as 32 wholly-owned unlisted companies.

Sinopec Group ranked the 4th in Fortune Global 500 in 2013.

As of June 30, 2013, the assets of Sinopec Group totaled RMB 1,990,101 million, the shareholders’ equity attributable to parent company totaled RMB 666,482 million.

**2. THE BASIS OF THE PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises - Basic Standards” and 38 specific standards promulgated by the Ministry of Finance in February 2006, the application guidance and interpretations issued thereafter, and other relevant requirements (hereinafter referred to as “the China Accounting Standards” or “CAS”).

The financial statements of Sinopec Group have been prepared on a going concern basis.

**3. STATEMENT OF COMPLIANCE TO THE CHINA ENTERPRISE ACCOUNTING STANDARD**

The financial statements of Sinopec Group for the six-months period then ended June 30, 2012 and 2013 truly and completely present the financial position for the six-months period then ended June 30, 2013 and the operating results, cash flows and other information for the six-months period ended June 30, 2012 and 2013 of the Group in compliance with the Accounting Standards for Business Enterprises.

**4. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

The accounting policies adopted by the Group's interim condensed consolidated financial statements and accounting estimates consistent with the 2012 annual financial statements, accounting policies and accounting estimates. The significant accounting policies and accounting estimates are as follows:

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the six months ended 30 June, 2012 and 2013**

**The currency is in RMB million, except otherwise indicated**

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(1) Accounting period

The Group's accounting year starts on January 1st and ends on December 31th.

(2) Reporting currency

The Group uses the Renminbi as reporting currency.

The Group's subsidiaries, joint ventures and associated enterprises shall determine their own reporting currency according to their primary economic environment and translate the reporting currency into RMB when preparing financial statements.

(3) Attribution of accounting measurement

The financial statements of the Group have been prepared under the historical cost convention. Financial assets or liabilities at fair value upon initial recognition, available-for-sale financial assets and derivative financial instruments are measured at fair value; the inventories and fixed assets beyond the normal credit conditions for late payment are measured at the present value of the purchase price; the inventories suffering an impairment loss are measured at the net realizable value; others are measured at the recoverable amount (the higher between the fair value and the present value); the overage assets are measured at the replacement cost.

(4) Foreign currency translation

1) Foreign currency transactions

Transactions denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the dates of the transactions or at the date of the last month-end day. Foreign exchange transactions or others related shall be translated into functional currency at the actual exchange rate which is bid price or selling price of the bank.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at rates different from those at which they were translated on initial recognition during the period in previous financial statements should be recognized in profit or loss for the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency should be translated into the reporting currency using the spot exchange rate at the date of the transaction. Accordingly, at each balance sheet date, the reporting currency amount of non-monetary items remains the same in the transaction. At each balance sheet date, non-monetary items that are measured at fair value in a foreign currency should be translated into the reporting currency using the spot exchange rates at the date when the fair value was determined.

2) Translation of financial statements presented in foreign currency

For subsidiaries that use foreign currency as their reporting currency, when financial statements are translated from the foreign currency into RMB, all asset and liability accounts should be translated into RMB using the market exchange rates on the consolidation date. All equity accounts, except for the "undistributed profit" account, should be translated into RMB using the market exchange rates when the transactions take place. All accounts in the income statement and those items relating to profit distribution should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. All accounts in the cash flow statement should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. Exchange differences arising from the translation of financial statements are accounted for separately as "Foreign currency translation differences" of undistributed profit accounts in the balance sheet.

(5) Recognition basis of cash and cash equivalents

Cash and cash equivalents include cash, bank deposit, other monetary assets and short-term non-equity investment. Non-equity investment that can be recognized as cash equivalents shall conform to the following: short-term (expiring within 3 months from purchase date), highly-liquid investments that

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the six months ended 30 June, 2012 and 2013**

**The currency is in RMB million, except otherwise indicated**

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are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Financial asset and financial liability

1) Classification of financial assets

The Group classified its financial assets on initial recognition into the following categories:

A. financial assets at fair value through profit or loss;

B. held-to-maturity investments;

C. loans and receivables;

D. available-for-sale financial assets; and

E. other financial liability

2) Recognition and measurement of financial assets and financial liability

A. Financial assets are measured at fair value upon initial recognition

In the case of financial assets at fair value through profit or loss, associated transaction costs should be included in profit or loss for the current period when incurred. In the case of other categories of financial assets, associated transaction costs should be included in the amount recognized initially.

B. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity whereby the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method, and gains or losses arising from the derecognition, impairment or amortization thereof should be recognized in profit or loss for the current period.

C. Loans and receivables

The credit receivable arising from external sales or rendering of services of the Group shall be recognized as initial recognition amount according to buyer's contract or agreed price.

When the amount is reversed or disposed, the difference between the purchase price and book value of receivables shall be recorded into current profit and loss.

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated upon initial recognition as available-for-sale or financial assets that are not classified as the above categories. Available-for-sale financial assets are subsequently measured at fair value. Premium or discount is amortized using effective interest method and recognized as interest income. Except impairment losses and exchange differences on foreign currency monetary financial assets that are recognized in profit or loss for the current period, variation in fair value of available-for-sale financial assets are recognized separately under Capital Surplus. When the financial assets are derecognized or impairment takes place cumulative gains or losses previously recorded under Capital Surplus are taken into profit or loss for the period. Dividends or interest incomes associated with available-for-sale financial assets are recognized in profit or loss for the period.

E. Other financial liabilities

Other financial liabilities should be measured subsequently at amortized cost using effective interest method.

3) Transfer of Financial Assets

Transfer of financial assets refers to when the Group (the transferor) transfers or delivers a financial asset to a party (the transferee) other than the issuer of the financial asset.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the six months ended 30 June, 2012 and 2013

**The currency is in RMB million, except otherwise indicated**

When the Group transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset should be derecognized. When the Group retains substantially all the risks and rewards of ownership of a financial asset, the Group should continue to recognize the financial asset.

When, in the transfer, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group should determine whether it has retained control of the financial asset.

4) Fair Value of Financial Instrument

Financial assets and financial liabilities initially recognized by an enterprise shall be measured at fair value.

5) Impairment of Financial Assets

A. Bad debts provision against receivables

a. Bad debts provision method: The bad debts provision against accounts receivable adopts allowance method, when bad debts loss incurs, bad debts provision shall be made as written-off provision after approval from internal management authority.

b. Bad debts provision method and percentage: where there is objective evidence that a financial asset is impaired, impairment shall be recognized as the difference between the carrying amounts and expected future cash flows. The bad debts provision scope includes accounts receivable, other receivables, advances to suppliers, long-term receivables, bills receivable, interest receivable and dividend receivable.

Bad debts provision against accounts receivable adopts individual test and aging analysis method. Long-term receivables, bills receivable, interest receivable and dividend receivable, as well as accounts receivable from group company and its subsidiaries, accounts receivable from associates and joint ventures, shall adopt single test, and need not make bad debts provision. Where there is objective evidence that the amount has little collectability, bad debts provision shall be made.

Besides the above receivables, if the individual receivables account for 10% of total receivables or above, or below 10% but there is obvious evidence that creditor's right is hard to collect, the debtor has serious financial difficulty, and has not been able to continue with the operation, or the business has been closed or will be closed down, individual test shall be applied. The rate of provision for bad and doubtful debts in aging analysis method is as follows:

<b>Aging</b>	<b>Proportion % of accounts receivable</b>	<b>Proportion % of Other receivables</b>
Within 1 year (incl. 1 year)	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

B. Held-to-maturity investment

The Group should carry out the individual impairment test for held-to-maturity investment; if objective evidence of impairment exists the Group should recognize impairment loss and impairment provision should be made, basing on the difference between future cash flows with the book value.

C. Available-for-sale financial assets

For available-for-sale liability instruments for which impairment loss was recognized, if in a subsequent accounting period its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss should be reversed with the amount of the reversal recognized in profit or loss for the current period.

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Impairment losses recognized in profit or loss for investment in available-for-sale equity instruments should not be reversed through profit or loss.

**D. Impairment loss reversed**

If impairment loss is recognized for financial assets measured at amortized cost, if objective evidence of recovery of this financial asset exists, and it can be objectively related to an event occurring after the impairment loss, and the debtor's credit rating has been improved, the previous recognized impairment loss should be reversed with the amount of the reversal recognized in profit or loss for the current period. The reversed carrying amount shall not exceed the amortized cost on reversal date under the assumption that no provision for impairment loss happens.

**(7) Inventory**

**1) Classification of inventories**

The Group classified the inventory as raw materials, turnover materials, commissioned materials, material in transit, product in process, inventory merchandise, finished goods issued, unsettled finished project and unfinished labor service costs.

**2) Measurement of inventories issued from storage**

Inventories were recorded at actual cost when acquired, goods issued from storage or upon requisition is determined on a weighted-average basis. For inventory that can not be replaced, inventory that specifically purchased for specific project or labor cost, are determined on specific identification method.

Turnover materials and auxiliary materials are recorded at cost, the difference between planned cost and actual cost shall be individually accounted in item of "cost difference". At month-end, the cost difference shall be carried forward and the planned cost shall be adjusted into actual cost.

**3) Turn over materials amortization**

Turnover materials include low value consumables, packaging and the turnover materials at construction work site. Turnover materials are amortized using one-off amortization method/amortization method. Turnover materials with high value and long period of use shall be amortized according to benefit period.

**4) Provision for decline in value of inventories**

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realisable value, a provision for decline in value of inventories is recognized. If the circumstances that previously caused inventories to be written down no longer exist which results in the net realisable value being higher than the carrying amount, the amount of the write-down is reversed in income statement. The reversal is limited to the amount originally provided for the decline in value of inventories.

**5) Measurement of net realisable value**

Net realisable value is the estimated selling price in the ordinary course of business, unless the estimated costs to completion and estimated costs necessary to make the sale.

**6) Inventory system**

The inventories are counted with a perpetual inventory system.

**(8) Long-term equity investments**

**1) Initial measurement of long-term equity investments**

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is different from not involving enterprises under common control. The initial investment cost of the long-term equity investments acquired through otherwise

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than through a business combination are recognized by the purchase cost which is actually paid, in fair value of the issued equity securities or the value agreed in the investment contract or agreement, according to their own obtaining ways. The cash dividend or profit announced and distributed which have already included in the actual payment or consideration of offer should be recognized as an accounts receivable, not the investment cost of the long-term equity investments.

2) Subsequent measurement and recognition of profit

Where the Company is able to exercise control over the investee, and where the Company does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably measured, the long-term equity investment is accounted for using the cost method.

Where the Company has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

(9) Fixed assets and depreciation

1) Recognition of fixed assets

Fixed assets refer to tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and have a useful life of more than one year.

An item of fixed asset should be recognized if, and only if:

It is probable that future economic benefits associated with the asset will flow to the Group; and

The cost of the asset can be measured reliably.

2) Fixed assets measurement

Fixed assets are initially measured at actual costs of acquisition.

3) Classification of fixed assets and depreciation policy

The Group classifies the fixed assets and recognizes the expected useful lives, estimated net residual values rates and the depreciation method of the fixed assets.

All the fixed assets are depreciated, except the fixed assets that are depreciated fully but be used continually or the land that is valued individually as fixed asset according to the rules of audit of assets.

The Company uses the straight line method for depreciation. Without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

<b>Category</b>	<b>Estimated useful lives</b>	<b>Residual percentage%</b>	<b>Annual depreciation rates</b>
Office and buildings	12-40	3	2.43-8.08
Universal equipments	4-20	3	4.85-24.25
Special equipments for petroleum and gas exploitation	8-18	3	5.39-12.13
Special equipments for petroleum and chemical industry	10-20	3	4.85-9.70
Others	4-30	0-3	2.23-25.00

For the fixed assets that have been provided for impairment loss, and the fixed assets that the estimated useful life and the estimated net residual value have been changed, the related depreciation charge and depreciation rate is recalculated based upon the adjusted carrying amounts over their

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remaining useful lives. But the accumulated depreciation having been provided previously will not be adjusted when the amount of depreciation is adjusted due to depreciation reserve incurred.

4) Depreciation reserve of the fixed assets

At each balance sheet date, the Group inspects all the fixed assets. Some of the fixed assets may be assessed for impairment on an individual basis due to the market price falling substantially, or obsolescence, damage, idle for a long time. The amount of the impairment loss is measured and the depreciation reserve is provided as the difference between the recoverable amount and the carrying amount of the fixed assets. Such impairment loss is not reversed.

(10) Oil and gas properties

1) Classification, recognition and measurement of oil and gas properties

The oil and gas properties of the Group include drilling activities and other relevant activities, the rights and interests of proved and unproved mining areas. An item of oil and gas properties should be recognized and be measured initially according to the actual cost occurred if:

- A. it is probable that future economic benefits associated with the asset will flow to the Group; and
- B. the cost of the asset can be measured reliably.

2) Depletion policy of the oil and gas properties

The companies of oil and gas exploration affiliated the Group compute the depletion of oil and gas properties by adopting the output method.

3) The disposal costs of the oil and gas properties

For the Group's obligation to do the discarded dispose for any mining area, if this obligation satisfies the conditions for the recognition of the expected liabilities, it shall increase the corresponding book value of oil and gas properties and recognize this obligation as an expected liability. The disposal costs of oil and gas properties are amortized by installment according to the depletion policy of the related properties. The differences between the present value and the estimated future dismantlement are recorded in the financial expenses of the current period and recognized the expected liabilities over their estimated useful lives.

(11) Revenue recognition

1) Sale of goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

- A. the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- B. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- C. Related payments are received or supporting documents for cash collection exist; and
- D. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

When the outcome of a transaction involving the rendering of service can be estimated reliably the service revenue should be recognized based on a percentage-of-completion method at the balance sheet date.

3) Use by others of enterprise assets

Revenue from use by others of enterprise assets should be recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably

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(12) Safety costs and maintenance funds

According to the Circular of Management Measures for Enterprise Safety in Production Costs of Extraction and Use issued by the Ministry of Finance, and the State Administration of Work Safety (Cai Qi[2012] No. 16), the Group provides the safety costs and maintenance funds.

Safety costs and maintenance funds are included in the costs of related products when provided, at the same time included in the "special reserve" account.

When safety costs and maintenance funds provided are used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognized as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods.

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5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash

Item	2013-6-30		2012-12-31	
	Original Currency Million (unaudited)	Translated into RMB Million (unaudited)	Original Currency Million (audited)	Translated into RMB Million (audited)
Cash in hand		<b>104</b>		<b>73</b>
Incl.: RMB		28		21
USD	3	19	2	12
Cash in bank		<b>49,438</b>		<b>39,746</b>
Incl.: RMB		22,858		24,506
USD	3,582	22,256	2,041	12,795
HKD	1,928	1,535	97	79
JPY	692	43	177	13
EUR	42	340	44	367
GRP	4	39	3	29
Other foreign currency		2,367		1,957
Other monetary fund		<b>3,176</b>		<b>2,755</b>
<b>Total</b>		<b>52,718</b>		<b>42,573</b>

(2) Accounts receivable

Aging	2013-6-30			2012-12-31		
	Amount RMB million (unaudited)	%	Provision for bad debts RMB million (unaudited)	Amount RMB million (audited)	%	Provision for bad debts RMB million (unaudited)
Within 1 yr	102,691	96	4	98,602	96	4
1-2 yrs	2,480	2	319	2,458	2	320
2-3 yrs	1,400	1	306	1,386	1	301
Over 3 yrs	1,340	1	1,238	1,300	1	1,196
<b>Total</b>	<b>107,911</b>	<b>100</b>	<b>1,867</b>	<b>103,746</b>	<b>100</b>	<b>1,821</b>

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(3) Inventory

Categories	2013-6-30 RMB million (unaudited)	2012-12-31 RMB million (audited)
Raw material	66,898	66,597
Goods in process	26,663	25,541
Goods on hand (Finished goods)	102,850	113,434
Turnover materials	151	167
Materials in transit	61,973	58,453
Inventory arising from construction contract of construction enterprise	13,626	11,223
Labour cost	9,202	6,145
Other	237	111
<b>Total</b>	<b>281,600</b>	<b>281,671</b>
<b>Less: Inventory impairment provisions</b>	<b>594</b>	<b>606</b>
Book value	<b>281,006</b>	<b>281,065</b>

(4) Short-term loans

Item	2013-6-30 RMB million (unaudited)	2012-12-31 RMB million (audited)
Credit loans	126,357	79,372
Mortgage loans	71	111
Guarantee loans	28	10
Pledge loan	1,942	1,562
<b>Total</b>	<b>128,398</b>	<b>81,055</b>

(5) Non-current liabilities due within 1 year

Item	2013-6-30 RMB million (unaudited)	2012-12-31 RMB million (audited)
Long-term loan due within 1 year	36,706	30,103
(1)Credit loans	36,477	29,890
(2)mortgage loans	5	5
(3)Guarantee loans	224	208
Bonds payable due within 1 year	43,372	
Long-term payable due within 1 year	36	31
Other long-term liability due within 1 year	143	346
<b>Total</b>	<b>80,257</b>	<b>30,480</b>

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(6) Long-term loan

Item	2013-6-30 RMB million (unaudited)	2012-12-31 RMB million (audited)
Credit loans	216,237	235,318
Guarantee loans	997	1,166
<b>Total</b>	<b>217,234</b>	<b>236,484</b>

(7) Bonds payable

Item	2013-6-30 RMB million (unaudited)	2012-12-31 RMB million (audited)
Corporate bond(A)	96,033	78,464
Convertible bond(B/C)	22,289	33,522
Convertible bonds with warrants(D)		28,327
Financial bond(E)	2,996	2,995
<b>Total</b>	<b>121,318</b>	<b>143,308</b>

A. On February 24, 2004, Sinopec Corp. issued ten-year corporate bonds of RMB 3,500 million, with a effective yield of 4.61% and paid annually (the corporate bonds shall be mature in 2014 and transferred to the non-current liabilities due within 1 year); On May 10, 2007, Sinopec Corp. issued ten-year corporate bonds of RMB 5,000 million with a effective yield of 4.20% and paid annually. On November 13, 2007, Sinopec Corp. issued ten-year corporate bonds of RMB 11,500 million with a fixed interest rate of 5.68%. On May 21, 2010, Sinopec Corp. issued to the Chinese domestic institutional investors five-year corporate bonds of RMB 11,000 million with an effective yield of 3.75% and paid annually. On May 21, 2010, Sinopec Corp. issued to the Chinese domestic institutional investors ten-year corporate bonds of RMB 9,000 million with an effective yield of 4.05% and paid annually.

On June 5, 2012, Sinopec Corp. issued corporate bonds of RMB 20,000 million, which includes five-year corporate bonds of RMB 13,000 million with a fixed interest rate of 4.26% and ten-year corporate bonds of RMB 7,000 million with a fixed interest rate of 4.90%.

On May 17, 2012, Sinopec group overseas development (2012) Ltd Co., wholly owned by Sinopec Group, issued \$3,000 million Senior Notes with the period of 5 years, 10 years and 30 years for each \$1,000 million. The coupon rate of five-year Senior Notes, ten-year Senior Notes and thirty-year Senior Notes is 2.75%, 3.9% and 4.875% respectively. The Senior Notes are secured by the Group.

On 18 April 2013, Sinopec Capital Limited (2013), a wholly owned overseas subsidiary of Sinopec Corp., issued senior notes guaranteed by Sinopec Corp. with four different maturities—3 years, 5 years, 10 years and 30 years. The 3-year notes principal totalled \$750 million, with an annual interest rate of 1.250%; the 5-year notes principal totalled \$1,000 million, with an annual interest rate of 1.875%; the 10-year notes principal totaled \$1,250 million, with an annual interest rate of 3.125%; and the 30-year notes principal totaled \$500 million, with an annual interest rate of 4.250%. These notes were listed on the Hong Kong Stock Exchange on 25 April 2013.

B. On 24 April 2007, Sinopec Corp. issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HKD 11.7 billion (the “2007 Convertible Bonds”). The 2007 Convertible Bonds are convertible into shares of Sinopec Corp. from 4 June 2007 onwards at a price of HKD 10.76 per share, subject to adjustment for subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have a dilutive effect on the issued

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share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2007 Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. Sinopec Corp. has an early redemption option at any time after 24 April 2011 (subject to certain criteria) (the “Early Redemption Option”) and a cash settlement option when the holders exercise their conversion right (the “Cash Settlement Option”). During the six months ended 30 June 2013, the conversion price of the 2007 Convertible Bonds was adjusted to HKD 8.10 per share as a result of cash dividend, bonus issues and transfer of capital reserve to share capital. On 30 June 2013, the carrying amounts of liability and derivative components, representing the Conversion Option, the Early Redemption Option and the Cash Settlement Option, of the 2007 Convertible Bonds were RMB 10,869 million (2012: RMB 10,842 million) and RMB 33 million (2012: RMB 114 million), respectively.

The 2007 Convertible Bonds shall be mature in 2014 and reclassified to the non-current liabilities due within 1 year.

C. On 1 March 2011, Sinopec Corp. issued convertible bonds due 2017 with an aggregate principal amount of RMB 23 billion in the PRC (the “2011 Convertible Bonds”). The 2011 Convertible Bonds are issued at par value of RMB 100 and bear a fixed interest rate of 0.5% per annum for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year. The holders can convert the 2011 Convertible Bonds into shares of Sinopec Corp. from 24 August 2011 onwards at an initial conversion price of RMB 9.73 per share, subject to adjustment for, amongst other things, cash dividends, subdivision or consolidation of shares, bonus issues, issue of new shares, rights issues, capital distribution, change of control and other events which have an effect on the issued share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2011 Convertible Bonds will be redeemed within 5 trading days after maturity at 107% of the principal amount, including interest for the sixth year. The initial carrying amounts of the liability component and the derivative component, representing the Conversion Option of the 2011 Convertible Bonds, were RMB 19,279 million and RMB 3,610 million, respectively.

During the term of the 2011 Convertible Bonds, the conversion price may be subject to downward adjustment that if the closing prices of Sinopec Corp.’s A Shares in any fifteen trading days out of any thirty consecutive trading days are lower than 80% of the prevailing conversion price, the board of directors may propose downward adjustment to the conversion price subject to the shareholders’ approval. The adjusted conversion price shall be not less than (a) the average trading price of Sinopec Corp.’s A Shares for the twenty trading days prior to the shareholders’ approval, (b) the average trading price of Sinopec Corp.’s A Shares on the day immediately before the shareholders’ approval, (c) the net asset value per share based on the latest audited financial statements prepared under ASBE, and (d) the nominal value per share. At 30 June 2013, the carrying amounts of the liability component and the derivative component were RMB 20,509 million (2012: RMB 20,104 million) and RMB 1,780 million (2012: RMB 2,462 million), respectively. During the six months ended 30 June 2013, the conversion price of the 2011 Convertible Bonds was adjusted to RMB 5.22 per share as a result of cash dividends, bonus issues and transfer of capital reserve to share capital. During the six months ended 30 June 2013, RMB 541 thousand of the 2011 Convertible Bonds were converted into 78,261 A shares of Sinopec Corp..D. On February 26, 2008, Sinopec Corp. issued share options and debt-equity convertible bonds of RMB 30,000 million. The debt-equity convertible bonds will be due in 2014 and secured by the Group. Bonds with a face value of RMB 100 Yuan were issued at par; the effective yield is 0.8% and paid annually. The initial recognition of the liability component of the Bond with Warrants is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option or other derivative components. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.40% to the liability component.

The debt-equity convertible bonds shall be mature in 2014 and reclassified to the non-current liabilities due within 1 year.

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E. Pursuant to the notice (CBRC fu [2007] No. 441), (CBRC fu [2009] No. 101) "Reply to the issue regarding issuance of financial bonds in Sinopec Corp. approved by CBRC" issued by China Banking Regulatory Commission (CBRC), and Administrative license granted by the People's Bank of China (the silver market grant [2007] No. 30), (the silver market grant [2007] No. 25). Sinopec Corp. was approved the issuance of financial bonds of Sinopec Finance Company Limited in 2009. China Sinopec Finance Company Limited issued the five-year financial bonds of RMB 3,000 million with a effective yield of 3.46%. Interest on bonds issued by financial companies was paid on the interest payment date after the end of each interest period, the last interest payment would be together with the payment of principal and the bonds issued by Sinopec Corp. has unconditionally and irrevocably in full Guarantee of joint and several liability.

(8) Financial expenses

Categories	Six months ended 30 June	
	2013 RMB million (unaudited)	2012 RMB million (unaudited)
(1) The net interest expenses	8,385	8,033
Inc: The interest payments	9,016	8,677
Interest income	631	644
(2) Exchange net loss	(1,460)	238
(3) Other expenses	676	479
Inc: poundage spending	631	456
<b>Total</b>	<b>7,601</b>	<b>8,750</b>

(9) Non-operating income

Categories	Six months ended 30 June	
	2013 RMB million (unaudited)	2012 RMB million (unaudited)
Profit from disposal of non-current assets	101	703
Government subsidy	1,112	752
Accounts payable no need to be paid	85	151
Others	542	220
<b>Total</b>	<b>1,840</b>	<b>1,826</b>

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(10) Non-operating expenditures

Categories	Six months ended 30 June	
	2013 RMB million (unaudited)	2012 RMB million (unaudited)
Subtotal losses on disposal of non-current assets	264	200
Fines	21	49
Donation	158	64
Expected losses on pending litigation		21
Losses on liquidated damages /compensations	23	22
Others	2,220	654
<b>Total</b>	<b>2,686</b>	<b>1,010</b>

(11) Segment information

Item	Exploration and Production		Refining	
	Six months ended 30 June		Six months ended 30 June	
	2013 RMB million (unaudited)	2012 RMB million (unaudited)	2013 RMB million (unaudited)	2012 RMB million (unaudited)
1. Operating revenue	146,465	152,942	649,651	644,731
2. Operating total cost	111,886	108,306	650,088	664,601
3. Operating profit/(loss)	36,445	46,742	(437)	(19,870)

Continued:

Item	Chemical		Marketing and Distribution	
	Six months ended 30 June		Six months ended 30 June	
	2013 RMB million (unaudited)	2012 RMB million (unaudited)	2013 RMB million (unaudited)	2012 RMB million (unaudited)
1. Operating revenue	228,387	220,612	732,779	710,332
2. Operating total cost	230,160	223,459	716,358	690,051
3. Operating profit/(loss)	(1,674)	(2,647)	16,421	20,280

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Continued:

Item	Oil & Petrochemical Engineering Technical Services		Others	
	Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
1. Operating revenue	66,378	59,289	746,322	711,411
2. Operating total cost	61,973	56,208	748,295	719,125
3. Operating profit/(loss)	4,439	3,422	14,831	8,782

Continued:

Item	Elimination of inter-segment		Total	
	Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
1. Operating revenue	(1,117,529)	(1,132,653)	1,452,453	1,366,664
2. Operating total cost	(1,117,695)	(1,133,486)	1,401,065	1,328,264
3. Operating profit/(loss)	(14,640)	(14,769)	55,385	41,940

## 6. OTHER IMPORTANT MATTERS

### 1) Sinopec Engineering (Group) Co., LTD. to Be Listed in Hong Kong

The H shares of Sinopec Engineering (Group) Co., the holding subsidiary company of the Group, were listed on the Main Board of the Stock Exchange on May 23, 2013. 1,328,000,000 H Shares were issued at HK\$10.50 (equivalent to approximately RMB8.38) per H Share with a par value of RMB1.00 each. Sinopec Engineering (Group) Co., received net proceeds of approximately RMB10,927 million from the issuance of H Shares, of which paid up share capital was RMB1,328 million and share premium was approximately RMB9,599 million (net of share issue cost).

Shares held by the Group to Sinopec Engineering (Group) Co. changed to 67.01% from 100% after the issue.

### 2) The changes of the share capital of Sinopec Corp.

On 24 February 2013, Sinopec Corp. issued 2,845,234,000 new H shares to no more than ten places with a price of HKD 8.45 per share. The net amount of the placing is HKD 23,970,100,618.

Upon its approval at the annual general meeting of the Sinopec Corp. for the year 2012, Sinopec Corp. distributed the final dividend for 2012 which comprises of (i) a cash dividend of RMB 2.00 (tax inclusive), (ii) bonus issue of two shares by way of the capitalization of the retained earnings; and (iii) issuance of one share by way of the capitalization of share premium, for every 10 shares. The final dividend for 2012 has been distributed to shareholders on 25 June 2013 who were registered as existing shareholders as of 18 June 2013. Totally 26,899,678,825 new shares was issued.

In the first half year of 2013, the share capital of Sinopec Corp. increased 78,261 shares as a result of the convertible bonds of Sinopec Corp.

By the end of June 30, 2013, shares held by the Group to Sinopec Corp. had been changed to 73.62% from 76.03% which was the percentage at the beginning of the year.

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**3) Bonds Issuance**

A. On 18 April 2013, Sinopec Capital Limited (2013), a wholly owned overseas subsidiary of Sinopec Corp., issued senior notes guaranteed by Sinopec Corp. with four different maturities—3 years, 5 years, 10 years and 30 years. The 3-year notes principal totalled \$750 million, with an annual interest rate of 1.250%; the 5-year notes principal totalled \$1,000 million, with an annual interest rate of 1.875%; the 10-year notes principal totalled \$1,250 million, with an annual interest rate of 3.125%; and the 30-year notes principal totalled \$500 million, with an annual interest rate of 4.250%. These notes were listed on the Hong Kong Stock Exchange on 25 April 2013.

B. According to “the approval of Sinopec Corp. public offering of convertible bonds” issued by CSRC on 1 July 2013 (CSRC permission [2013] No. 852), Sinopec Corp. was approved to publicly offer a total amount of RMB 30 billion of A share convertible bonds with a term of six years. The approval is valid for six months.

**4) China Economic Publishing House Gratuitously Transferred into the Group**

According to “the agreement about CEPH wholly gratuitous transferred into Sinopec Group” signed by the Group and SASAC, “the letter about CEPH gratuitously transferred into Sinopec Group agreed by the Ministry of Finance ” and “the reply letter about CEPH transferred work defined by SASAC”, China Economic Publishing House (“CEPH”) was transferred into the Group with total assets RMB 94 million, the total liabilities RMB 49 million and the total owners’ equities RMB 45 million on the benchmark date of 31 December 2012.

**5) Overseas Investments, Equity mergers and Acquisitions**

In 2013, Sinopec International Petroleum Exploration and Production Corporation (SIPC), wholly owned by the Group, acquired 50% working interest of oil and gas blocks in Mississippi from Chesapeake Company. The delivery time is 28 June 2013 and the consideration is \$1,112 million.

**7. FINANCIAL STATEMENTS APPROVAL**

The board of directors approved the financial statements and notes to the statements.

**China Petrochemical Corporation**

August 9, 2013

## ANNEX A — GLOSSARY OF OIL AND GAS INDUSTRY TERMS

“barrel” — approximately 42 U.S. gallons.

“bbl” — barrel of oil. 1 metric ton is equivalent to approximately 7.33 barrels of oil.

“bcf” — billion cubic feet, which is equivalent to approximately 28.3 million cubic meters.

“boe” — barrels of oil equivalent. Conversion of gas reserves to barrels of oil equivalent is at the ratio of 6 billion standard cubic feet of gas to 1 million barrels of crude oil.

“bpd” — barrels per day.

“crude oil” — oil including condensate and natural gas liquids. Condensate means light hydrocarbon substances produced with natural gas that condense into liquid at normal temperatures and pressures associated with surface production equipment. Natural gas liquids mean hydrocarbons that can be extracted in liquid form together with natural gas production. Ethane and pentanes are the predominant components of natural gas liquids, with other heavier hydrocarbons also present in limited quantities.

“CSG” — coal seam gas

“gas” — natural gas.

“LNG” — liquefied natural gas.

“LPG” — liquefied petroleum gas. 1 metric ton is equivalent to approximately 8.5 barrels of oil.

“mcf” — thousand cubic feet.

“mmcf” — million cubic feet.

“mmbbl” — million barrels of oil.

“mmboe” — million barrels of oil equivalent.

“natural gas” — a mixture of hydrocarbons that originally exist in gaseous phase in natural underground reservoirs and is classified as either associated gas or non-associated gas.

“oil” — crude oil, condensate and natural gas liquids.

“primary distillation capacity” — at a given point in time, the maximum volume of crude oil a refinery is able to process in its basic distilling units.

“tcf” — trillion cubic feet

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