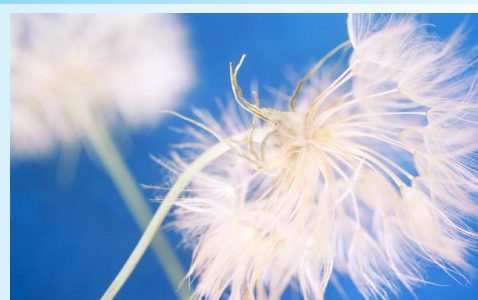




**China Petroleum &
Chemical Corporation**
Sustainable
Development
Report 2006



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About this Report

China Petroleum & Chemical Corporation (hereafter referred to as "Sinopec Corp." or "the Company") is committed to implementing the United Nations (UN) Global Compact within its energy and petrochemical businesses. We consider that the principles and concept of sustainable development should be carried out through the efforts of business and society and directed towards environment protection and harmonious development. We are aware that shareholders, employees, customers, suppliers and contractors, peer businesses, partners, governments, communities, as well as the public are interested in these activities. This Report intends to illustrate our efforts in promoting the UN Global Compact and implementing our sustainable development philosophy.

This is our first Sustainable Development Report and outlines our contribution to the economy, environment and society in the following five aspects:

1. Our sustainable development philosophy
2. Corporate governance
3. Safety and environment
4. Society and the Company
5. Products and services

1.1 Reporting Framework and Data

This report focuses on the Company's activities during 2006 and endeavors to apply the four key reporting principles of the Global Reporting Initiative (GRI) G3 Guidelines, namely materiality, stakeholder inclusiveness, sustainability context, and completeness, along with the six defining principles of balance, comparability, accuracy, timeliness, clarity and reliability. The Report however does not include **all** core indicators, which will be provided in our future reports. For more information about the GRI please visit <http://www.globalreporting.org>.

Business and financial data is extracted from our 2006 Annual Report and accounts. Our financial statements, prepared under International Financial Reporting Standards, have been audited by KPMG. ERM assisted in the review and finalization of our first Sustainable Development Report.

An electronic version of this Report can be obtained from our website <http://www.sinopec.com>.

The Report has been submitted to the United Nation's Global Compact Office and is published on its website.

1.2 Business Overview

With headquarters in Beijing, Sinopec Corp. is an energy and petrochemical company with integrated upstream, midstream and downstream operations. Our core business covers the exploration, development, production and trading of crude oil and natural gas, oil refining, and the production, trading, transportation, distribution and marketing of petroleum and petrochemical products. We operate mostly in mainland China and have opened overseas offices in the Hong Kong Special Administrative Region, the United States, the United Kingdom, Singapore, Japan, Germany and Ecuador. Sinopec Corp. is the first Chinese company listed on the Hong Kong, New York, London and Shanghai Stock Exchanges.



Our Products and Services

- We are the second largest producer of crude oil and natural gas in China.
- We are the third largest refiner in the world. Our main products include: gasoline, diesel, kerosene, jet fuel, lubricants, wax, asphalt, chemical feedstock, and other petroleum products. At present, our products have been used in China's Space Program, at the Formula One race track in Shanghai, and in the construction of gymnasia for the Beijing 2008 Olympic Games.
- With 28,000 service stations, we own the largest retail network of oil products in China. Through this network we also provide non-fuel value-added services, such as convenience stores and vehicle repair services.
- We are the fourth largest ethylene manufacturer in the world. Our chemical products include: intermediate petrochemical products, synthetic resin, monomers and polymers for synthetic fiber, synthetic fiber, synthetic rubber and chemical fertilizer.



Controlling Shareholder

China Petrochemical Corporation is the parent company of Sinopec Corp. Established in July 1998, China Petrochemical Corporation is a state authorised investment organisation and a state-owned company. Its registered capital is RMB 104.9 billion. Through reorganization in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical operations into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, well logging services, down-hole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services and social services.



1.3 Statement from the President

As a large energy and petrochemical company, Sinopec Corp. has long held a philosophy of sustainable development and a scientific view towards development. We also conscientiously fulfil our social responsibilities. We have done this by providing energy resources, protecting the environment, caring for our staff, contributing to social welfare, and participating or taking the lead in activities to promote local economic development. At the same time we have also realized rapid organic growth, as well as, improved our profitability and competitiveness.

The Company has actively participated in the activities advocated by the United Nations Global Compact since joining in November 2004. We have respected and cared for our employees without discrimination, prevented the employment of children and protected the environment throughout our operations. The Company has also established a prevention and penalty system against corruption, reinforced internal auditing, initiated education programs against corruption, and undertaken anti-corruption measures.



Since Sinopec Corp.'s public listing in 2000, we have sought to invigorate our business through a policy of "reform, adjustment, innovation and development". In doing so, we have expanded our resource base and markets, reduced costs and improved efficiency, and endeavoured to promote technological innovation to change the mode of our growth. As a result, our resource volumes, scale of operations, as well as, asset quality and profitability have improved. The Company's output of crude oil surpassed 40 million tons and the refining capacity is the third largest worldwide. We also have the fourth largest ethylene production capacity in the world and our oil products distribution network continues to improve. With 28,000 company owned and operated service stations, Sinopec Corp. has the third largest network in the world. In total our sales revenue exceeded one trillion RMB, and Sinopec Corp. has transformed into an international scale integrated energy and petrochemical company.

As its economic strength grows, so does Sinopec Corp.'s contributions to its shareholders, society and China. In recent years, international prices of crude oil have continued to rise. Under the Government's control over domestic pricing of oil products, the Company overcame difficulties arising from serious losses suffered by refineries to ensure refinery production remained at full capacity. We carefully deployed our oil resources to ensure their stable supply to the market and made significant contribution to the stabilization of domestic Consumer Price Index. In 2006, sales volume of oil products reached 112 million tons, accounting for 64 percent of domestic apparent consumption volume. Output of petrochemical products reached 29.56 million tons, contributing to the continuous growth of the Chinese economy. In 2006, our capital expenditure was RMB 79.82 billion contributing to our sustained and fast development, as well as, the development of national prosperity and progress. In 2006, various taxes paid by the Company totalled RMB 50.805 billion and dividends distributed to shareholders amounted to RMB 13.005 billion.

As a consequence of the company's rapid development and long-term full-capacity operations, production safety risks have grown. Sinopec has always placed a high priority on developing and implementing strict safety and environmental management systems, which has resulted in stable and safe production. The company's safety management system incorporates extensive supervision and inspection, training and awareness building, and contingency plans at all levels to ensure effective emergency response and hidden danger governance. In recent years, the company has enjoyed a period of stable and safe production. Meanwhile, the company's environmental management system continues to strengthen its environmental protection activities, in particular improvements in the prevention and control of water pollution. In 2006, industrial water consumption dropped by 4.9 percent and chemical oxygen demand (COD) in wastewater reduced by 6.3 percent.



Sinopec Corp. bears the dual responsibility of energy development and conservation. As such we develop high-quality and cleaner energies like natural gas and have increased natural gas reserves and output each year. Through applying the latest scientific and technological innovations we also work to upgrade the quality of oil products and are developing alternative and renewable energies. For our own operations, we adhere to the principles of cleaner production by striving to build resource-saving and environmentally-friendly enterprises. More specifically, we implement the values of content development, active implementation of new technology, promotion of large-scale installations, improvement of industrial concentration and reduction in energy consumption. We also closed down a group of small refineries and petrochemical factories that were consuming too much energy. At the end of 2006, whilst production continued to rise, Sinopec's overall energy consumption continued to fall, year-on-year; compared to the previous year, energy consumption per unit of production decreased by 1.2%.

Sinopec Corp. is a people-oriented and caring employer providing employees with opportunities and support for developing their professional capabilities and career paths, as well as supporting their contributions to society. We also work to provide better social services and amenities and have also established an assistance fund for employees with living difficulties that receives donations from employees, and funds from administrative offices and the labour union. At the same time we continue to improve working conditions by providing overall production safety and insurance systems.

Active support for social welfare initiatives is important to Sinopec, focusing on disadvantaged groups in society. Initiatives include helping in disaster areas, the "Chun Lei" program to sponsor out-of-school girls to return to school, the "Health Express" plan for cataract patients in remote areas and other charitable work. We also participate in the Tibet Assistance Plan, Project Hope, provide donations to the "Earth Love, Mother Cistern" program, as well as supporting a variety of science and technology, and cultural education charities. Additionally, Sinopec is also a sponsor of the 2008 Beijing Olympics aiming to promote harmonious development between the company and society.

The Company actively participates in international sustainable development initiatives, such as the China Business Council for Sustainable Development (CBCSD), which we helped to establish. The CBCSD effectively stimulates Chinese enterprises to shoulder their social responsibility towards achieving sustainable development.

As a member of the United Nations Global Compact, Sinopec Corp. supports the ten principles and carries out the principles throughout the reform and development of the Company. Sinopec Corp. will continue to explore opportunities for sustainable development by providing safe, environment friendly and cleaner products to the society. The Company will operate with integrity, care for the employees, create job opportunities in the community, assist disadvantaged groups, participate in activities to promote public welfare, and make a contribution to the harmonious development between business and society.

A handwritten signature in black ink, consisting of stylized Chinese characters, likely representing the President of Sinopec Corp. mentioned in the text below.

President
Beijing, China
June, 2007

Sustainable Development for Sinopec Corp. - Strategic Objectives and Risks

2.1 What Does Sustainable Development Mean To Sinopec Corp.?

Sinopec Corp. will strive for harmony by contributing to the growth of the economy, whilst protecting the environment and fulfilling its social responsibilities.

To achieve this, Sinopec Corp. will balance its challenges towards a sustainable future....



2.2 Strategic Challenge

Our challenge is being able to continue to grow our organization and improve its competitiveness in order to satisfy domestic demand for energy and chemical products, and contribute to the development of China and the protection of its environment.

2.3 Our Stakeholders

We understand that by improving our capacity to listen we also improve our capacity to learn and grow. Recognizing issues which can affect our business and responding effectively can only be achieved through effective two-way communications with those we work with and those with an interest in what we do.

Investor relations

As a public company, we pay close attention to developing relationships with our investors based on fair information disclosure. This disclosure underlies our good faith and transparency and is part of our ongoing improvements to corporate governance and realizing fair enterprise value.

Customer Satisfaction

Our focus on customer satisfaction has influenced our unique enterprise culture which places high quality service and our customers at its center. Our communications inform us of our customers' needs and help to build long-term relationships. This ensures that we can meet expectations for quality and thereby strengthen our brand and our reputation.

Case Study: Establishing a Customer Relationship Management System

We are building a comprehensive Customer Relationship Management System to serve our customers effectively. This will be a more convenient and effective service system for our products. A key measurement indicator is complaints received and resolved. We employ a third party to review our customer satisfaction index, to help us better understand customer expectations and improvement needs.

Case Study: Service Center for Refueling Card Holders

Our customer service centers for refueling card holders were set up to ensure that a consistently high level of service could be provided throughout China. We now have 19 centers in provinces and cities across the nation (contact them on: 9510 5888/9510 5988). This allows customers to make account inquiries and consult with our service staff and provides an excellent communication channel with our 13 million card holders.

Society

Fulfilling social responsibilities has always been at the heart of what we do. With this in mind we submitted our application to the United Nations Global Compact in November 2004. Since then, we have established a company system to ensure the fulfillment of corporate social responsibilities as described by the ten principles, including human rights, labor standards, environmental protection and anti-corruption. In 2005, we joined the Chinese advisory panel for the preparation of the Global Compact's China Summit. We also work to promote sustainable development among businesses, and provide leadership in China. In doing so, we have helped to establish the China Business Council for Sustainable Development (CBCSD). We fully supported the activities of CBCSD and have undertaken activities in safe operation, environment protection, recycling economy, energy conservation and effluent reduction.

Table 2.1 Stakeholder Communications

Stakeholders	Communications	Concern	Key Performance Indicators	Goals
Shareholders	<ul style="list-style-type: none"> Financial reports Company announcements Road shows One-on-one meetings 	<ul style="list-style-type: none"> Shareholder returns Accuracy and timeliness of disclosure 	<ul style="list-style-type: none"> Profit attributable to shareholders Return on capital employed Owner interests Dividends 	<ul style="list-style-type: none"> Realize fair enterprise value
Customers	<ul style="list-style-type: none"> Customer meetings Routine customer communications Customer feedback Hot-line service On-line services 	<ul style="list-style-type: none"> Speed of response Service quality Special requirements Complaint processing 	<ul style="list-style-type: none"> Customer satisfaction Processing rates 	<ul style="list-style-type: none"> Determine customer expectations Undertake market analysis Develop and implement marketing plan Improve product and process activities
Employees	<ul style="list-style-type: none"> Suggestion and complaint mailbox Employee conversation 	<ul style="list-style-type: none"> Professional development programs Employee welfare Complaint processing 	<ul style="list-style-type: none"> Employee training Customer feedback Rate of employee retention Rate of complaints closed 	<ul style="list-style-type: none"> Determine employee expectations Undertake effective communications Improve employee welfare Improve human resource management
Suppliers	<ul style="list-style-type: none"> Contract negotiation Real-time exchange Tender conference 	<ul style="list-style-type: none"> Product and price Distribution and service quality Timely payments Long-term partnership 	<ul style="list-style-type: none"> Cost and payment contract. 	<ul style="list-style-type: none"> Confirm service requests Develop supplier evaluation and selection criteria
Financial and insurance companies	<ul style="list-style-type: none"> Contract negotiation Routine business communications 	<ul style="list-style-type: none"> Financial cost reduction Risk reduction Timely payments 	<ul style="list-style-type: none"> Payment schedule Compensation rates 	<ul style="list-style-type: none"> Study financial and insurance policies Optimize company strategies to reduce financial risks
Labor unions	<ul style="list-style-type: none"> Collective bargaining Regular communication Congress of Employee representatives 	<ul style="list-style-type: none"> Employee's rights and interests Democratic management Transparency of business operations 	<ul style="list-style-type: none"> Congress of employee representatives Establishment of grass-root labor union organizations Rate of signing collective contracts Disclosure of business operations 	<ul style="list-style-type: none"> Strengthen communications Improve democratic management
Business partners	<ul style="list-style-type: none"> Contract negotiations Regular conferences High level meetings Communication exchange Routine business communications 	<ul style="list-style-type: none"> Profit distribution Information exchange Good faith and mutual benefit 	<ul style="list-style-type: none"> Revenue Return of capital Market share 	<ul style="list-style-type: none"> Understand the industry and competitors Establish effective business partnerships
Government	<ul style="list-style-type: none"> Laws and regulations Visits and exchange 	<ul style="list-style-type: none"> Safety, environment and compliance Supply security Employment opportunities Development of local economies 	<ul style="list-style-type: none"> Taxation Creating jobs Rate of industrial accidents Social contributions 	<ul style="list-style-type: none"> Ensure regulatory compliance Implement development strategies Improve internal management.
Community	<ul style="list-style-type: none"> Public welfare agreements Volunteer activities Regular conferences 	<ul style="list-style-type: none"> Environmental protection Harmonious communities 	<ul style="list-style-type: none"> Pollution complaint cases Social welfare spending 	<ul style="list-style-type: none"> Institutionalize communication mechanism Improve spending in public welfare
Non-governmental organizations (NGOs)	<ul style="list-style-type: none"> Membership contributions Participate in conferences Routine communications 	<ul style="list-style-type: none"> Initiate sustainable development in partnership Resources for establishing industrial standards 	<ul style="list-style-type: none"> Promotion of the Company's business 	<ul style="list-style-type: none"> Understand the industry and competitors Establish effective business partnerships

2.4 Future Plans

In consideration of our stakeholder's views, our goals are outlined here with the following sections of this report presenting our work so far as we take this first step towards sustainable development in Sinopec Corp..

2.4.1 Improve Corporate Governance

We shall continue to improve corporate governance and accept supervision from stakeholders. In addition, we shall progressively improve our corporate management and internal control systems, further increase the Company's transparency, conduct connected transactions for the benefit of the Company and our shareholders.

2.4.2 Accelerate Adjustment of Industry Layout, Asset Portfolio and Enterprises

The focus of our development is expanding our resource base and exploring new markets. From a strategic perspective, the Company will take measures to maintain stability in production and proved reserves in the existing blocks in Eastern China and build production capacity in northeast Sichuan and the Tahe area, where new reserves have been discovered. Further work will also be done to explore other promising locations. It is expected that by 2008, production of crude oil will reach 42 million tonnes and natural gas will reach 10 billion cubic meters.

We will shall expand markets extensively, rationalize our marketing network and consolidate our position in the market. Brand value will be exploited through marketing and distribution of refined oil products. Both retail and direct sales volume will be expanded, and the percentage of retail and direct sales improved. In the marketing of chemicals, advantages of unified marketing will be employed, with direct sales expanded and customer services improved to enhance our competitiveness. We expect that by 2008, the sales volume of refined oil products will reach 120 million tonnes, which will include a retail sales volume of 75 million tonnes. We also expected that chemical products sold through direct sales shall account for 65 percent of total sales volume by 2008.

As an important value-added link between resources and markets, our refining and chemical business will operate on a large-scale basis through resources optimization, improvement in quality, product mix, and economic returns, along with a consistent adjustment to our portfolio of assets, and intensified industrial concentration. As a result, three regional refining and chemical groups shall take shape in the Yangtze and Pearl River Deltas, and the Bohai Bay Area. It is estimated that by 2008, crude oil processing capacity will reach 196 million tonnes and ethylene capacity will reach 7.1 million tonnes.



We will also accelerate the construction of modern transportation systems, such as pipelines and jetties for crude oil, refined oil products and natural gas. We will optimize resource flow with modern information technology, so as to ensure safe and efficient handling and shipping of resources. We expect that by 2008, the receiving and unloading capacity of major crude oil jetties will reach 150 million tonnes, and crude oil and refined oil products pipelines will extend to 6,300 km and 7,200 km respectively. This will allow us to transport around 92 percent of crude oil and 40 percent of refined oil products by pipelines.

Global operations and trading will be expanded through further leveraging synergies in our integrated operations, which will play important roles in ensuring the safe and stable supply of oil and gas resources for China.



2.4.3 Innovation and Efficiency

We recognize the application of research and development as a key means of maximizing the value of our assets. In particular, we will focus our key technologies on exploration and production and resources utilization. We are also researching and developing alternative energies.

2.4.4 Human Resources

Our aim to create a world-class organization will depend on attracting and retaining world-class talent. We will continue to focus on science and technology and provide strong human development resources for career advancement based on performance.

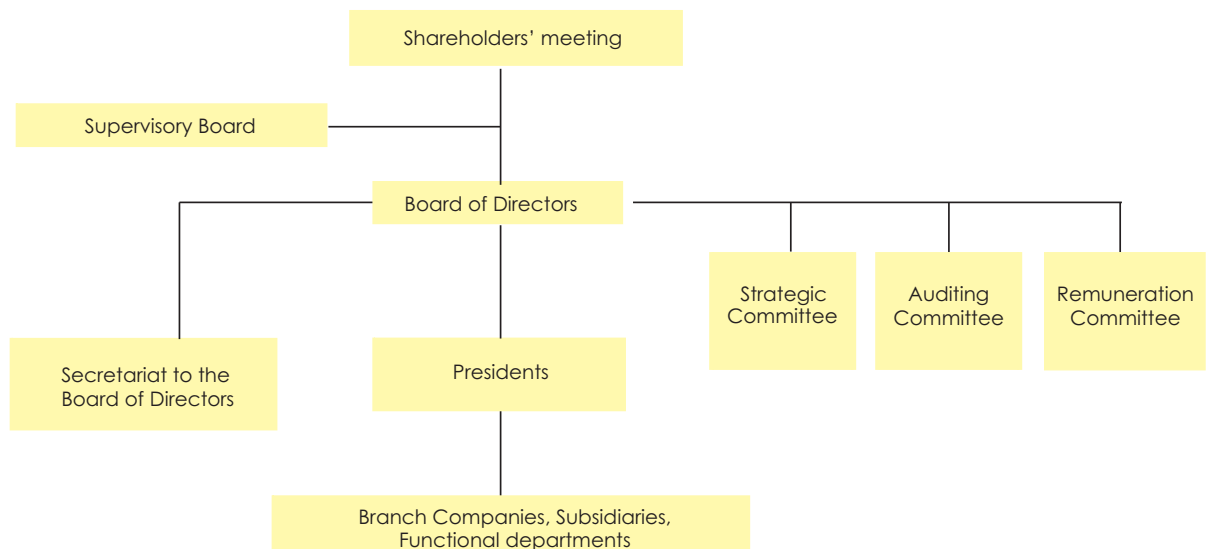
2.4.5 Improve Health, Safety and Environmental (HSE) Management

Our HSE management system is an important part of our business and our efforts to save resources, and protect the environment. We will be identifying opportunities to further integrate clean production principles into our operations and develop a recycling economy. Key to this will be strengthening our resources-saving management to achieve low-consumption, low emission, and high efficiency operations.

Corporate Governance

We have strictly complied with the supervisory regulations of the Hong Kong, New York, London and Shanghai Stock Exchanges and a series of internal documents, including Articles of Association and the working rules of our three committees, etc. We have established and continue to improve the internal control systems and practices and procedures for shareholder meetings, Board of Directors, Board of Supervisors, and Team of Presidents. All of these efforts ensured the Company a coordinated, effective and standardized corporate governance structure. In the meantime, we have applied international practices in establishing four business divisions: exploration and production; oil refining; chemicals; and sales. Transparency relating to our investors has also been improved and our achievements acknowledged with a number of awards.

Figure 3.1 Company Structure



3.1.1 The Board of Directors

The Board is responsible to the shareholder's meeting. All the significant proceedings including the Company's operation plan, investment plan and dividend appropriation plan are proposed by the Board and approved at the shareholder's meeting. Our Board consists of ten members, including three independent directors, who have a wealth of professional management experience. The Strategic Committee, Audit Committee and Remuneration Committee are all composed of directors and are established under the Board to provide them with advice.

1. Strategic Committee: Responsible for conducting research in long-term development strategies, including sustainable development, major investment decisions, and providing business proposals.

2. Audit Committee: Responsible for the nomination of external auditors, review of the company's financial statements in annual reports, interim reports, quarterly reports, and internal control checking systems.

3. Remuneration Committee: Responsible for suggesting the remuneration scheme of directors and senior management.

3.1.2 Supervisory Board

The Supervisory Board is responsible to the shareholder's meeting. Their primary role is to supervise corporate finances and the responsibilities of directors and senior management. As such, they uphold the legal rights and interests of the Company and its shareholders. Currently, the Board is made up of nine supervisors, two are independent and four are employee representatives.

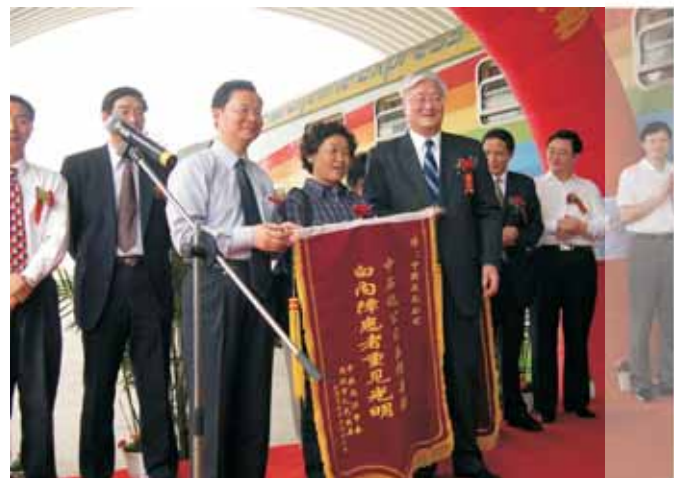
3.1.3 Presidents

Sinopec Corp. has one president that reports to the Board of Directors. The president's main responsibility is to preside over the company's operation and administrative activities, implement the Company's annual operation plan, investment plan and the decisions made by the Board of Directors. The president is supported by a number of vice presidents that assist the president in his work.



Table 3.1 Recent Achievements

Awards	From
First of ten most charitable enterprises	China Charity Federation
China Mother Assistance Action Heart-to-Heart Enterprise	China Mother Assistance Operation Committee
57 th and top Chinese company in Fortune Magazine's Most Responsible Company	Fortune Magazine, 2005
Outstanding Contribution to China Philanthropy Award	China Charity Federation
"China Charity Award" nomination	Ministry of Civil Affairs
Best Investor Relations Award	Investor Relations Magazine
Best Company Management Award	
"China Striding to the World" Award for company achievements	Chinese Academy of Social Science



3.2 Anti-Corruption

We attach great importance to ensuring an environment of anti-corruption. We have a punishment, prevention and security system in place to eliminate corruption and promote a healthy, stable and harmonious company, including:

- Operating an anonymous anti-corruption reporting hotline and mechanism for accepting and hearing accusations of illegal actions. We also have in place a periodical verification system.
- Strengthening anti-corruption education and advocating integrity throughout our corporate culture.
- Monitoring performance to strengthen the management of operations and ensure value creation and preservation of assets.
- Implementing penalties against corruption.

3.3 Auditing

Sinopec Corp. attaches great emphasis to manage auditing activities under a standard auditing system. The auditing committee under the Board of Directors is responsible for the nomination of external auditors for the verification of financial reports and our internal control system. The Company established an auditing department, which is responsible for planning, drafting, revising, editing, supervising and checking our internal auditing system.

In 2006, we established four auditing branches in Beijing, Nanjing, Wuhan, and Guangzhou, to improve the independence and authority of the auditing work. We will focus on improving our internal auditing practices through the following measures:

- Reinforce financial accountability to ensure senior managers implement financial responsibilities carefully;
- Reinforce administrative efficiency auditing to examine overhead expenditure and budgeting. We will also audit the consumption of fuel and energy of enterprises.
- Adopt independent auditing in accordance with internal controls to appraise work with an aim to enhance the enforcement of internal controls.

3.4 Anti-Monopoly Practices

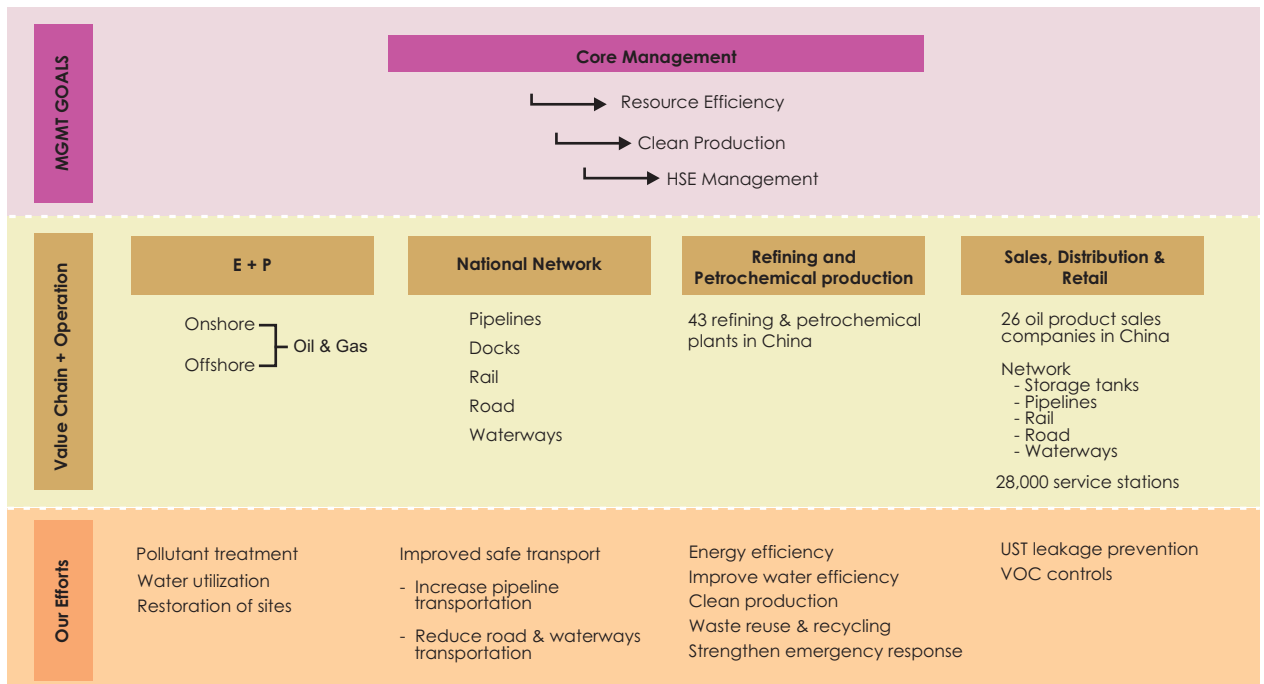
Sinopec Corp. welcomes fair competition and objects to market control resting in few hands. As such, we adhere to China's regulations related to anti-monopoly and anti-unfair competition laws and advocate and participate in the development of China's anti-monopoly legislation.

As a large multinational company involved in international trade, Sinopec Corp. inevitably encounters international anti-monopoly legislation. The Company always applies fair trade principles, observes anti-monopoly codes and insists on fair competition. We comply with anti-monopoly legislation in all countries we hold contacts with and work on a win-win cooperative basis to protect stakeholders' rights.

Sinopec Corp. and its employees prevent improper means to resist fair competition from competitors and do not participate in slander that could harm to the goodwill of our competitors. We do not adopt illegal means to obtain our competitors' business secrets and do not harm our consumers through taking advantage of our market position.

Health, Safety and Environmental (HSE) Performance

4.1 Overview of Health, Safety and Environment (HSE) Issues



4.2 Health, Safety and Environmental (HSE) Strategy

Based on our HSE policy of “safety first, prevention foremost, participation of all employees, comprehensive treatment, environment improvement, health protection, scientific management and sustainable development”, we herein make the following commitments:

- (1) Anywhere in the world, we observe the laws and regulations of the country or region, respect their culture and customs, and maintain a consistent attitude to HSE in all areas of our business.
- (2) Our top managers at all levels are the first responsible people for HSE, each employee has a duty to our HSE commitment, HSE performance is an important criteria when we hire or award employees and when we select contractors.
- (3) We protect the natural environment, promote clean production, and realize sustainable development goals.
- (4) We make our HSE performance available to our stakeholders, solicit their opinions and constantly enhance our HSE management.
- (5) We provide essential human and financial resources to ensure the realization of our goals.



4.3 Our Goals

Health and Safety: strive to avoid accidents, reduce risks and avoid harm to human health whilst providing society with high quality products.

Environment: utilize resources efficiently, implement HSE management systems, and carry out clean production to realize the harmony of the environment.

4.4 Our HSE Issues

Exploration and production: We typically work in large and remote areas of China exploring for potential reserves. These areas generally lack infrastructure thereby presenting challenges in the recovery and treatment of wastes.

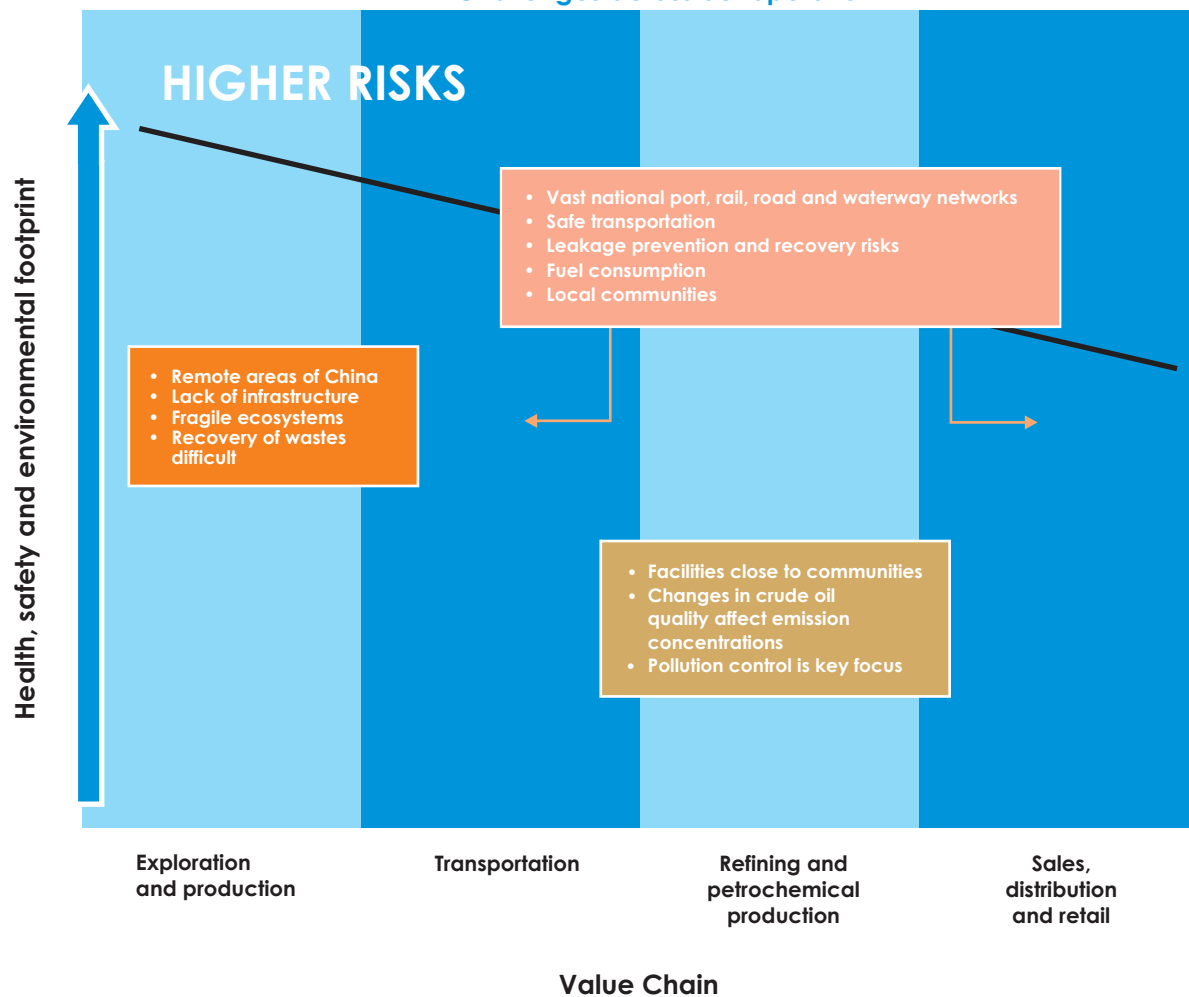
Transportation: We import crude oil through ocean transportation. We also transport energy and chemical products via pipelines, railways, roads and inland waterways, stretching across China. This makes leakage prevention and emergency handling a difficult challenge.

Refining and petrochemical and production: Quality of crude varies and pipeline transportation mixes crude from different sources, which exaggerates the fluctuation of crude oil quality. Such fluctuations affect our refining operations and impact our environment protection facilities, resulting in changing emission concentrations. Pollution control is a key focus, as many of our plants are close to communities and public service infrastructure.

Sales, distribution and retail: We manage an enormous network of distribution depots and retail sites across China, with the risk of leaks from pipelines and underground storage tanks and uncontrolled emissions of volatile organic compounds in urban areas.



Challenges across our operation



4.5 Health, Safety and Environmental (HSE) Management Systems

Our health, safety and environmental (HSE) management system focus on managing our HSE risks effectively. Our system outlines responsibilities and accountabilities for HSE protection, and effective prevention and control measures to reduce the risk of injury, property damage and pollution.

Our HSE management principles: We will strive to minimize or prevent personal harm, property losses and/or environment pollution and contribute to the harmonious development of the economy, environment and society.

Certification: Our environmental management system is ISO 14 001 certified, our health and safety management system obtained the anti-pollution certification issued by the International Safety Management (ISM), and our occupational health and safety system is OHSAS 18000 certified.

4.6 Emergency Response

We undertake regular safety inspections to track and assess our safety activities. In 2006, we organized two company-wide safety inspections, three safety supervisions and four safety investigations, which all resulted in the timely elimination of potential safety hazards. Every June, we conduct a month-long safe production program.

In order to handle emergencies, we have established two rescue centers in western China and northeast Sichuan Province. We also have seven other joint response networks to deal with emergencies.

4.7 Clean Production

In recent years we have promoted clean production processes and operations. We have established clean production models in 59 production units and 13 subsidiaries. We promoted the establishment of clean production enterprises in 2004, and evaluated the first group of these enterprises in 2006. Through the improvement of processes, technologies, equipment and operational management, we achieved our goal of energy conservation, consumption and effluent reduction. This includes reducing COD in our discharged wastewater by 6.3 percent and the rate of industrial water consumption by 4.9 percent compared to 2005. In 2006, our energy intensity decreased by 1.2%. Our refining energy consumption decreased by 7.8 kilograms of standard oil per tonne. Energy consumption for ethylene production also dropped by 64.54 kilograms of standard oil per tonne. Two of our subsidiaries, Zhenhai Refining & Chemical and Maoming Ethylene, were also recognized as national "environmentally-friendly enterprises".



4.8 Air Pollution

With the application of different technologies including closed collection and transportation, crude oil stabilization and light olefin recovery, we have reduced the leakage of oil and gas in upstream production, thereby realizing recovery of resources and reduction of greenhouse gas emissions. Many of our subsidiaries have implemented flue gas desulphurization in their coal-fired boilers to meet national goals to reduce SO₂ emissions by 10 percent. We have also invested approximately RMB 40 billion in the development of cleaner fuels and renewable energy technologies. Our part in efforts to make the 2008 Olympics Games the cleanest ever, includes providing clean fuels with Euro IV equivalent fuel standard in Beijing and top-quality services.

4.9 New Projects

Under relevant Chinese laws and regulations, environment protection facilities must be designed, constructed and commissioned in parallel with the process units. We have always ensured that pollutants discharged are kept within prescribed limits and several of our projects have been ranked among the top 100 environmentally-friendly projects in China.



Table 4.1 Summary of Discharges

Per Thousand RMB of Production	2003	2004	2005	2006
Waste gas (ten thousand m ³)	0.83	0.71	0.54	0.48
SO ₂ (kilogram)	1.198	1.014	0.821	0.718
Waste water (tonne)	1.551	1.162	0.820	0.604
COD (kilogram)	0.095	0.069	0.049	0.038
Solid waste (tonne)	0.017	0.018	0.012	0.011
Fresh water consumption (tonne)	2.781	2.094	1.552	1.198

4.10 Environment Protection Research and Technologies

We have dedicated environment protection and water treatment research divisions in our Fushun Research Institute of Petroleum and Petrochemicals, Research Institute of Petroleum Processing, and Beijing Research Institute of Chemical Industry. We also have a Clean Production Technology Center, a Flue Gas Desulphurization Technology Center and two Environment Protection Technology Centers in Shanghai and Beijing. Five of our departments have "Grade A" environment impact evaluation certificates. They provide strong technical support for environment protection and effluent treatment. Our experts and technicians work together in the following areas: clean production, treatment of process effluents, environment management and monitoring, and the recycling of wastes.



4.11 Safety Protection Fund

To ensure the safety of our employees and assets, we currently maintain with China Petroleum Corp. a Safety Production Insurance Fund. Based on the evaluation of risks and hazards, we use this fund to eliminate potential hazards and provide safety training to our employees.

4.12 Encouraging Resource Efficiency

We take various measures to control the discharge of effluents. Through our monitoring program, we appraise our operations and individuals and reward those with outstanding performance. On World Environment Day (5 June) we promote environmental awareness among our employees and encourage voluntary activities.

4.13 Occupational Health and Safety

Safeguard Procedures

To minimize work-related accidents we have developed and implemented guidelines and standards for the personal protection of our employees. We have also introduced training programs for each employee and safety license systems for special duties.

Occupational Health and Safety

We implement our occupational health and safety program in compliance with China's regulations in respect of hazardous work sites inspection, occupational health checks, construction of occupational health facilities, and incidence of occupational disease. We also maintain records for occupational hygiene, ensure occupational health supervision, distribute personal protection equipment and provide occupational health training.

Employees receive a health examination every year and we invite medical experts to provide training and information on common disease issues. Health clinics are provided in all business operations.

Improving the Working Environment

Human-orientation is essential to creating a harmonious working environment. At Sinopec Corp., we allow our employee to select their jobs freely and do not prevent them from leaving the company or hinder their efforts to find new jobs. We do not, in any way, restrict the freedom of our employees. We never use forced labor, withhold personal documents, certificates, or salary, nor monitor staff illegally.





4.14 Case Study: Climate Change

We recognize climate change as a global issue and we work to reduce our greenhouse gas emissions by improving our energy efficiency to minimize our impact on climate change.

Box 4.1 Alternative Energy

At Sinopec Corp., we actively promote renewable energies for the development of a recycling economy. From 2000, we started to study the addition of ethanol to motor gasoline, and launched a pilot ethanol gasoline program in three cities in Henan Province. Starting in 2004, the program expanded to 27 cities in Hubei, Hebei, Shandong and Jiangsu Provinces. We have also developed a high-pressure alcoholysis bio-diesel technology, which has lower effluent emissions.



Sinopec Corp. has reduced its impact on climate change via the following initiatives:

- During China's 10th Five Year Plan (2001 to 2005) period, we reduced our energy consumption by 20 million tonnes of coal equivalent every year thus reducing CO₂ emissions by approximately 14 million tonnes.
- Currently we are working to further increase the energy efficiency and reduce discharges.
- Reducing flaring, with 95% of flares already put out. This could result in a reduction of 4 million tonnes of CO₂ emissions each year.
- Providing more natural gas, a cleaner fuel, to meet China's energy needs.
- By adding bio-fuels to gasoline in the Henan, Hubei, Hebei, Shangdong and Jiangsu Provinces.



Social Responsibility

5.1 Our Mutual Outlook and Corporate Culture

Our reform, restructuring, management, innovation and development policies aim to foster common values to realize business goals and promote career development. Our efforts are intended to bring innovation and reform to China's industry and support our own efforts to mould our business into an integrated energy and chemical company. Sinopec Corp. advocates competitiveness, openness and integrity to bring our staff together with a common goal to enhance our value and reputation, and promote the Company's harmonious development.

5.2 Labor Relations

Employment

We have signed written employment contracts with our employees, which have been approved by local labor departments. Articles in our contracts are compliant with legislation and cover work duties, labor protection and conditions, remuneration, discipline, conditions for contract termination, and responsibilities in the event of contract violation. At the same time, we have stipulated administrative rules to support the strict implementation of contracts.

Remuneration

Our remuneration policy mainly consists of salaries based on individual performance. The total emolument for each of our business units is subject to adjustment according to the control of employee expenses and review of their performance. Based on the headquarters' remuneration guidelines, each business unit prepares its own remuneration policy within the total emolument specified by headquarters.



Performance Appraisal

All business operations establish and review their own employee appraisals, based on performance evaluation, as well as roles and responsibilities, work intensity and working conditions. Appraisal is undertaken regularly to continually enhance our employee evaluation process, linking salary with performance and strengthening our incentive systems.

Holiday and Vacation

We apply relevant regulations and guarantee workers the right of normal work leave and holidays. For workers who work for unfixed periods we adopt appropriate work and rest practices to guarantee their right to enjoy vacation.

Social Security

According to relevant laws and regulations, our business units participate in the local basic social security program covering pension, medical, work injury, maternity leave and unemployment insurance benefit. We have paid our contributions to the social security program in full. Some business units have established supplementary insurance in view of their specific conditions.

5.3 Management and Labor Relations

Labor Union Organization

We have established the Congress of Employee Representatives and Labor Union system. We also have a Labor Union Fund Review Committee and Labor Union Female Staff Committee, in line with union regulations. The Labor Union Chairman is the legal representative. The Labor Union Committee has established relevant Agencies and Branches.



Collective Bargaining

Our bargaining process allows our Labor Union to discuss matters of interest to employees on their behalf. Bargains are based on legal principles and consider equality, harmony and stability. Through collective bargaining, we build consensus on issues to protect the rights and interests of employees, as well as develop good partnerships and labor relations.

This bargaining process has helped us to determine actions for working hours, vacation allowance, insurance benefits and health and safety. We have also worked together on issues such as collective contract terms, lifting and suspension of collective contracts, rights and obligations of parties for the implementation of collective contracts, supervision and labor dispute mediation.

The introduction of welfare policies, rules and regulations affecting the interests of employees can only come into effect after negotiations with the Labor Union and approval of the Congress of Employee Representatives. In the case of labor disputes, the Labor Union will be commissioned by employees to mediate or provide legal services.

Democratic Management

Employees participate in democratic management and supervision. Business operations provide access to information based on employees' right to know. Their participation is welcomed as a way to improve decision-making. We also promote employee involvement in the management of operational affairs; as part of our "Sunshine Operation " and "Transparent Management" principles.

The Congress of Employee Representatives is the main body through which operational affairs are made transparent. The Congress also assists the Company appraise management leaders and provides advice relating to hospitality arrangements, management integrity and collective performance. The congress also elects representatives and supervisors, to ensure that worker rights are implemented effectively.



5.4 Human Rights

Child labor

We strictly abide by international and domestic law and provisions on the prohibition of the employment of child labor.

Non-Discrimination

We oppose discrimination in any form and incorporate human rights considerations into our investment and procurement decisions. On issues such as staff recruitment, wages, promotion, dismissal and retirement, the company does not have discrimination provisions on race, class, nationality, religion, physical disability, gender, sexual orientation, union membership, political affiliation or age. There is no discriminatory behavior in day-to-day activities.

Female Employee Protection

To assist and empower female employees and to meet our legal obligations we established a Women's Labor Union that provides special protection to female employees. Special interest provisions for female employees in collective contracts are considered. We also organize labor health and safety supervision and inspections to improve the working environment and conditions for female employees. We have also implemented maternity leave provisions and provide regular health checks.

Training

Our people are our greatest resource. For many years we have aimed to create a workplace where talent can thrive, by integrating training into professional development planning. All employees have training targets as they develop their careers. The program covers orientation and entry-level training, organizational and efficiency-related training, professional and technical knowledge, and special training. Our training includes long and short-term programs, on-the-job and classroom-based training, domestic and overseas training, and incorporates theory with practical needs.

Management can build their careers through the exchange/rotation of personnel. This introduces them to different aspects of our business, including key development projects, foreign joint-ventures and scientific research projects.

Recruitment

To continue enhancing our talent pool, we are broadening our talent search to become more open and competitive. We also publicize our recruitment requirements and have standardized our recruitment process, to control the quality of candidates. In recent years, outstanding personnel from overseas and domestic institutions have also joined our team.



Diversity

We work hard to build diversity in our workplace. The ratio of female employees has increased steadily and we are recruiting more people from ethnic groups. Currently, employees from ethnic groups account for 2.3% of our total workforce.

Right of Privacy

We respect the privacy of our employees. We do not divulge personal information, including employee salaries, performance evaluation and medical examinations. In addition, we do not divulge or sell customer information. We have received no complaints for privacy violations over the years.

Cultural Life

We provide opportunities for sports, singing, photography and other cultural activities. The Labor Union also provides cultural and sporting activities to build team spirit and enhance the cohesion of our business.

Retired Employees

We implement legal provisions for retired employees, provide a wide range of recreational and sporting activities, and help them to maintain their role in our society.

5.5 Social Contributions

Some recent programs in which we have participated include:

- The “Chun Lei” program which helps schoolgirls return to school, where they are otherwise unable to attend. During the three years of the program, we have donated RMB 23.226 million to approximately 60,000 schoolgirls who were unable to attend school, or had discontinued their studies.
- The “Illuminated Action of Health Express” which helps people with cataracts. In the last three years we have helped cure 5,734 sufferers. We also helped to establish a training center for micro ophthalmology operations in Xinjiang.
- China's poverty alleviation programs promote the development of regions needing help and support. From 1998 to 2006, Sinopec Corp. provided RMB 69.50 million to help poor communities in the Feng Huang and Lu Xi counties in Hunan Province and Ying Shang and Yue Xi Counties in Anhui Province. We have also provided RMB 67.06 million to Bange County in Tibet. In addition, we have helped the above five counties to construct infrastructure and develop rural enterprises. We have also carried out numerous disaster relief operations.
- We provide “Hope Schools” sponsorship and donate resources to disaster areas. From 2005 to 2006, we donated RMB 50 million to Jiangxi Province, to rebuild and reconstruct middle and elementary schools in poor areas. In 2006, we donated RMB 55 million to relieve disasters in Guangdong, Hunan and other provinces as a result of typhoon and drought.
- We provide “Earth Love, Mother Cistern” fund donations, which, in 2000, paid for the construction of ten small water supply works and provided drinking water for local households in Guizhou Province. To help promote the construction of harmonious companies, we established an internal aid fund in 2005 supported by employee donations with additional contributions from the Labor Union.
- In 2006, Sinopec Corp. pledged to donate RMB 10 million per year over five years to China's welfare fund for the disabled, with a specialized focus on child deafness. It is planned to aid 1,000 deaf children.
- We also participate in “Children's Love 2008” to aid poor children and has provided sponsorship of RMB 8.5 million.
- We support important sporting and cultural events. Most recently we became a co-partner of the Beijing 2008 Olympic Games, supplying an endowment and providing services to help Beijing to host the Games.
- We also support the development of China's ballet, foreign cultural exchanges, and donate to a number of foundations. These include “China's Police Heroes”, “China's Adolescent Technological Innovation Award Fund”, “China Children and Teenager's Fund” and “China Education Development Foundation”





Economic Performance

6.1 Our Objectives

- Enforce our global resources and diversification strategy and optimize utilization.
- Ensure budget capital expenditure is aligned with cash-flow conditions, total expenditure is controlled, decisions are made centrally, investment portfolios are adjusted, and project arrangements and rates of return are optimized.
- Integrate corporate brands, improve sales networks and explore domestic and international markets.
- Focus on technologies for application in our core business, and establish a platform for technical innovation and business breakthroughs.
- Enforce our human resources strategy by streamlining our headcount, optimizing the talent pool, strengthening competencies, innovating employee mechanisms.

In essence, we aim to maximize value by becoming a world-class integrated energy and petrochemical company with an outstanding core business and asset portfolio, equipped with innovative technologies, scientific-based management, and prudent financial management.



The following financial information is extracted from our consolidated financial statements prepared under International Financial Reporting Standards.

Table 6.1 Performance Summary

	2006	2005	2004
	RMB million	RMB million	RMB million
Turnover and other operating revenues	1 071 402	823 272	619 915
<i>of which:</i>			
Turnover	1 044 652	799 259	597 318
Other operating revenues	26 750	24 013	22 597
Operating expenses	992 582	764 441	557 024
Profit attributable to equity shareholders of the Company	53 912	41 455	35 335
Total assets	611 790	549 040	480 837
Personnel expenses	19 857	18 649	18 719
Share capital	86 702	86 702	86 702
Retained earnings	95 546	77 387	53 122
Cash dividend distributed for the year (RMB/share)	0.15	0.13	0.12
Government grant	5 000	9 415	–
Donations	98	203	291

Reference

Table 7.1 Ten Principles of the Global Compact

Global Compact Principles	Where can I find reference to these principles in this report?	
Human Rights		
1 Businesses should support and respect the protection of internationally proclaimed human rights	Section 5.4 Section 5.5	Human Rights Social Contributions
2 Business should make sure that they are not complicit in human rights abuse	Section 5.4	Human Rights
Labor		
3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Section 5.3	Management and Labor
4 Business should uphold the elimination of all forms of forced and compulsory labor	Section 5.4	Human Rights
5 Business should uphold the effective abolition of child labor	Section 5.4	Human Rights
6 Business should uphold the elimination of discrimination in respect of employment and occupation	Section 5.4	Human Rights
Environment		
7 Businesses should support a precautionary approach to environmental challenges	Section 1.3 Section 4	Statement from the President Health, Safety and Environmental (HSE) Performance
8 Business should undertake initiatives to promote greater environmental responsibility	Section 4 Section 4.12	Health, Safety and Environmental (HSE) Performance Encouraging Resource Efficiency
9 Business should encourage the development and diffusion of environmentally friendly technologies	Section 4 Section 4.10	Health, Safety and Environmental (HSE) Performance Environmental Protection Research and Technologies
Anti-corruption		
10 Businesses should work against corruption in all its forms, including extortion and bribery	Section 3 Section 3.2 Section 3.4	Corporate Governance Anti-Corruption Anti-Monopoly Practices

7.1 Legal Disclaimer

This report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, and other estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as in June 2007 and undertakes no obligation to update these statements.



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Places of Listing of Shares	Shanghai, Hong Kong, New York and London
Stock Name	SINOPEC CORP.
Stock Code	Shanghai: 600028 Hong Kong: 0386 New York and London: SNP