



Mr. Chen Tonghai, Chairman

### Dear shareholders,

On behalf of the Board of Directors of Sinopec Corp., I extend my sincere gratitude for your continued support for the Company.

In 2006, following the guidelines of “reform, restructuring, innovation and development”, the Company further expanded operations, improved asset quality, enhanced profitability and achieved significant growth and earnings. Through our continued efforts over many years and the use of innovative marine facies exploration theories, we discovered a significant natural gas field in northeast Sichuan, solidifying the resources foundation for the future growth of the Company. In 2006, the Company increased both its reserves and

production of crude oil and natural gas, with crude oil production exceeding 40 million tonnes for the year. As of December 31, 2006, the Company's refining capacity was the third largest in the world and its ethylene production capacity was fourth. In addition, the Company further improved its sales network for gasoline and diesel products, which, with approximately 28,000 company-operated service stations as of December 31, 2006, is the third largest gasoline and diesel retail network in the world in terms of the number of service stations. Overall, the Company's competitive advantages as an integrated energy and chemical company have been further enhanced. In 2006, our turnover and other operating revenues surpassed RMB1,000 billion for the first time and our Return on Capital Employed (ROCE)

was above 13%. Under PRC Accounting Rules and Regulations, the Company's profit for the year after deducting the amount attributable to minority interests was RMB 50.664 billion in 2006, up 28% over 2005. Under International Financial Reporting Standards (IFRS), the profit for the year after deducting the amount attributable to minority interests was RMB53.912 billion, up 30% over 2005. Given the Company's 2006 earnings and its long-term sustainable growth, the Board of Directors has proposed a dividend of RMB0.15 per share for the full year 2006. After deducting the interim dividend of RMB0.04 that has been paid, the final dividend for 2006 is RMB0.11 per share.

At the 2006 Annual General Meeting of the Company' shareholders, the third session of the Board of Directors and the Supervisory Board were elected. The Board of Directors appointed Senior Management and set the objectives and defined the implementation plan for 2006 to 2008. During 2006, the Company completed its domestic A-Share Reform in compliance with the government's requirements and aligned the interests of all shareholders. Consequently, the H Shares of the Company became a Hang Seng Index constituent. In addition, the Company continued to implement and improve its internal controls to achieve standardized and systematic internal management systems to reduce operating risks and enhance management skills.

In 2006, the Company continued to carry out various reforms. In particular, the Company consolidated some subsidiaries, acquired certain oil field assets from Sinopec Group and became a majority owner in the Hainan Refinery. The Company deepened management reforms in refining operations, chemicals sales, material procurement and international trade, centralised operation, reduced cost and reinforced its market position. Meanwhile, the Company continued to streamline its work force to enhance efficiency and reduced headcount by 24,000.

In 2006, the Company made further asset portfolio adjustments. In response to market changes, the Company increased capital expenditure, which reached approximately RMB80 billion for the year. After the major discovery in northeast Sichuan resulting from a breakthrough in innovative marine facies exploration theory and technology, the Company started the preparation work for the “Sichuan-

to-East China Gas Project". The Company also strengthened its logistics system through the construction of crude oil wharves and pipelines for crude and refined oil products. Moreover, the Company further improved its sales network for refined oil products and chemical products, increased its refining and production capacity for chemical products, and improved refining facilities in order to process lower-quality crude oil.

In 2006, the Company made great efforts to facilitate technological innovation. The exploration areas were extended with the development of new marine facies exploration theories and technologies for oil and gas. After years of endeavors, the Company has successfully developed the technology to upgrade its gasoline and diesel quality to levels equivalent to the European IV specification. In addition, the Company is capable of building ethylene facilities and refining facilities with production capacities of one million tonnes and ten million tonnes per annum, respectively. The Company has implemented an array of information management applications based on its ERP system, and has begun to enhance its research and development efforts on alternative energies. In 2006, the Company applied for 842 patents in China, of which 703 patents were granted and won 9 National Science & Technology Progress Awards and National Technology Invention Awards.

As the largest integrated energy and chemical company in China the Company has consciously fulfilled its social responsibilities. In recent years, the Company has implemented relevant government control policies on certain refined oil products and substantially contributed to the stable supply of refined oil products as well as a stable CPI level in China. The Company paid special attention to employees' health, safety, environmental protection and energy conservation. The Company realised stable and safe production under high-load and complex production conditions to deliver high quality products to its customers while increasing energy and water savings and reducing emissions. Compared with 2005, the comprehensive energy consumption for every RMB10,000 of production value decreased by 1.2%, and despite the growth in the Company's production, total industrial water consumption decreased by 4.9% and total COD emission

decreased by 6.3%. The Company has also been an active participant in philanthropic activities contributing to the harmonious development of enterprise, society and environment. Such activities included disaster relief, financing "Spring Buds Program", which helps drop-out girl students return to school, and "Health Express", a program that provides medical treatment to cataract patients in remote and poverty-stricken areas.

All of the Company's accomplishments were underpinned by the rapid development of China's economy, the trust of its shareholders and the support from the community and the government as well as the effective guidance of the Company's Board of Directors. I hereby express my heartfelt gratitude for the trust and support of our shareholders, the contributions of management and of all the employees. I also want to thank the former Directors and Supervisors for their outstanding contribution to reforms and to the development of the Company.

Looking forward, the Company will have tremendous market opportunities brought by the rapid development of China's economy, but will also face competition and challenges with the opening of China's markets. After years of reforms, the Company has developed a corporate governance and internal management structure that allow it to adapt rapidly to changing market conditions. Its operational strengths and overall competitiveness have been reinforced substantially, raising the Company's overall operational capabilities to a higher level. As the Company moves forward, the Board of Directors has decided to further strengthen the centralisation of its operational management in order to consolidate and extend the achievements of past reforms. The Board of Directors also decided to reaffirm the Company's focus on "reform, restructuring, management, innovation and development", to realise sustainable, effective and harmonious development for the Company by deepening reforms, accelerating restructuring, enhancing management and promoting innovation.

In 2007, the Company will continue to enhance its management and further advance various reforms. The Company will reinforce production safety, energy conservation and environmental protection, improve its advance warning system for emergencies and strengthen the supervision

and management of production safety. In addition, the Company will further strengthen fundamental management by focusing on internal controls. The Company will also seek to improve standardization and internal management systems through the implementation of various internal rules, and to uphold a scientific approach to increase operational and managerial skills.

In 2007, in response to market demand and in order to meet the targets of its overall development plan, the Company will increase its investments in its upstream business and start the "Sichuan-to-East China Gas Project". The Company will also accelerate the construction of a number of key oil refining and chemical projects and further improve its logistics system to support the rapid growth in refined oil products and chemicals sales. The Company has budgeted RMB110 billion in capital expenditure for the year.

In 2007, the Company will rationalize its operational strategies in line with market dynamics. In addition, the Company intends to further optimise its operations, expand its market share, reduce costs, and further improve operating results.

The Board of Directors and I firmly believe that with the continuous endeavors of our management and employees, the Company will make further strides in delivering sound results to our shareholders, customers, employees and society.



**Chen Tonghai**  
Chairman

Beijing, China  
April 6, 2007