HATTEN TERRY P.
Form 4
June 13, 2018

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
HATTEN TERRY P.

(Last) (First) (Middle)

200 PEACH STREET

(Street)

EL DORADO, AR 71730

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Murphy USA Inc. [MUSA]

3. Date of Earliest Transaction (Month/Day/Year)
06/12/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Restricted Stock Unit	(1)	06/12/2018		A		1,000		(1)	(1)	Common Stock	1,000
Performance Stock Unit	(1)	06/12/2018		A		2,000		(1)	(1)	Common Stock	2,000
Stock Option	$ 72.8	06/12/2018		A		4,000		(2)	06/12/2025	Common Stock	4,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HATTEN TERRY P. 200 PEACH STREET EL DORADO, AR 71730			SVP	

Signatures

/s/ Gregory L. Smith, attorney-in-fact	06/13/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These Securities generally do not carry a Conversion Price, Exercisable Date, or Expiration Date.

(2) The option vests in two equal installments, the first half two years after the grant date and the final half three years after the grant date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. MARGIN-LEFT: 0pt; MARGIN-RIGHT: 0pt" align="right">5,107

3,096

Total current liabilities

604,951

571,822

Net current liabilities		(184,223)	(198,812)
Total assets less current liabilities		824,592	811,094
Non-current liabilities			
Long-term debts	26	97,431	107,234
Loans from Sinopec Group Company and fellow subsidiaries	26	37,991	38,356
Deferred tax liabilities	25	9,224	7,977
Provisions	29	27,141	26,080
Other long-term liabilities			

11,262

9,821

Total non-current liabilities

183,049

189,468

641,543

621,626

Equity

Share capital

30

116,795

116,565

Reserves

469,315

452,238

Total equity attributable to owners of the Company

586,110

568,803

Non-controlling interests

	55,433
	52,823
Total equity	
	641,543
	621,626

Approved and authorised for issue by the board of directors on 22 August 2014.

Fu Chengyu	Li Chunguang	Wang Xinhua
Chairman	President	Chief Financial Officer
(Legal representative)		

The notes on pages 100 to 140 form part of these interim financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six-month period ended 30 June 2014
(Amounts in million)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to owners of the Company RMB	Non controlling interests RMB	Total equity RMB
Balance at 1 January 2013	86,820	(33,307)	25,752	67,603	117,000	3,305	243,741	510,914	37,122	548,036
Profit for the period	—	—	—	—	—	—	30,281	30,281	2,126	32,407
Other comprehensive income (Note 12)	—	—	—	—	—	444	—	444	(101)	343
Total comprehensive income for the period	—	—	—	—	—	444	30,281	30,725	2,025	32,750
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2012 (Note 11)	—	—	—	—	—	—	(17,933)	(17,933)	—	(17,933)
Appropriation (Note (a))	—	—	—	2,493	—	—	(2,493)	—	—	—
Rights issue of H shares, net of issuance costs (Note 30)	2,845	—	16,561	—	—	—	—	19,406	—	19,406
Contributions to subsidiaries from non-controlling interests	—	618	—	—	—	—	—	618	2,235	2,853
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(463)	(463)

Total contributions by and distributions to owners	2,845	618	16,561	2,493	—	—	(20,426)	2,091	1,772	3,863
Bonus issues (Note 30)	17,933	—	—	—	—	—	(17,933)	—	—	—
Capitalisation (Note 30)	8,967	—	(8,967)	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Acquisitions of non-controlling interests of subsidiaries	—	(13)	—	—	—	—	—	(13)	(27)	(40)
Total transactions with owners	29,745	605	7,594	2,493	—	—	(38,359)	2,078	1,745	3,823
Others (Note f)	—	—	—	—	—	1,073	(1,073)	—	—	—
Balance at 30 June 2013	116,565	(32,702)	33,346	70,096	117,000	4,822	234,590	543,717	40,892	584,609

The notes on pages 100 to 140 form part of these interim financial statements.

Explanation of Responses:

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to owners of the Company RMB	Non controlling interests RMB	Total equity RMB
Balance at 1 January 2014	116,565	(33,713)	33,347	73,337	117,000	2,491	259,776	568,803	52,823	621,626
Profit for the period	—	—	—	—	—	—	32,543	32,543	1,308	33,851
Other comprehensive income (Note 12)	—	—	—	—	—	1,022	—	1,022	168	1,190
Total comprehensive income for the period	—	—	—	—	—	1,022	32,543	33,565	1,476	35,041
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Exercise of Conversion of Convertible Bonds (Note 26)	230	—	1,021	—	—	—	—	1,251	—	1,251
Final dividend for 2013 (Note 11)	—	—	—	—	—	—	(17,519)	(17,519)	—	(17,519)
Contributions to subsidiaries from non-controlling interests	—	—	—	—	—	—	—	—	2,456	2,456
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(1,312)	(1,312)
Total contributions by and distributions to owners	230	—	1,021	—	—	—	(17,519)	(16,268)	1,144	(15,124)

Changes in ownership interests in subsidiaries that do not result ina loss of control:										
Acquisitions of on-controlling interests of subsidiaries	—	(8)	—	—	—	—	—	(8)	(10)	(18)
Total transactions with owners	230	(8)	1,021	—	—	—	(17,519)	(16,276)	1,134	(15,142)
Others (Note (f))	—	18	—	—	—	1,064	(1,064)	18	—	18
Balance at 30 June 2014	116,795	(33,703)	34,368	73,337	117,000	4,577	273,736	586,110	55,433	641,543

Note:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit determined in accordance with the accounting policies complying with Accounting Standards for Business Enterprises ("ASBE"), adopted by the Group to statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is required. The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by issuing of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

The reserve balance has reached 50% of the registered capital, therefore during the six-month period ended 30 June 2014, the Company decided not to transferred statutory surplus reserve (2013: RMB 2,493 million).

(b) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.

(c) According to the Company's Articles of Association, the amount of retained earnings available for distribution to owners of the Company is the lower of the amount determined in accordance with the accounting policies complying with ASBE and the amount determined in accordance with the accounting policies complying with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. At 30 June 2014, the amount of retained earnings available for distribution was RMB 168,834 million (2013: RMB 164,698 million), being the amount determined in accordance with the accounting policies complying with IFRS. Interim dividend for the six-month period ended 30 June 2014 of RMB 10,512 million (2013: RMB 10,491 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(d) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation; and (ii) the difference between the considerations paid over the amount of the net assets of entities and related operations acquired from Sinopec Group Company and non-controlling interests.

(e) The application of the share premium account is governed by Sections 167 and 168 of the PRC Company Law.

(f) According to relevant PRC regulations, the Group is required to transfer an amount to other reserves for the safety production fund based on the turnover of certain refining and chemicals products or based on the production volume of crude oil and natural gas. During the six-month period ended 30 June 2014, the Group transferred RMB 1,064 million (2013: RMB 1,073 million) from retained earnings to other reserves for the safety production fund.

The notes on pages 100 to 140 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the six-month period ended 30 June 2014
(Amounts in million)

	Note	Six-month periods ended 30 June 2014 RMB	2013 RMB
Net cash generated from operating activities	(a)	58,214	32,903
Investing activities			
Capital expenditure		(56,470)	(58,941)
Exploratory wells expenditure		(2,796)	(3,929)
Purchase of investments, investments in associates and investments in joint ventures		(5,030)	(6,450)
Proceeds from disposal of investments and investments in associates		435	156
Proceeds from disposal of property, plant, equipment and other non-current assets		494	902
(Increase)/decrease in time deposits with maturities over three months		(1,071)	213
Interest received		806	592
Investment and dividend income received		979	447
(Purchase)/disposal of derivative financial instruments, net		—	(12)
Net cash used in investing activities		(62,653)	(67,022)
Financing activities			
Proceeds from bank and other loans		551,031	550,958
Repayments of bank and other loans		(527,717)	(519,985)
Proceeds from issuing shares		—	19,406
Contributions to subsidiaries from non-controlling interests		2,441	2,853
Dividends paid by the Company		(17,519)	(12,552)
Distributions by subsidiaries to non-controlling interests		(582)	(785)
Interest paid		(5,105)	(5,219)
Acquisitions of non-controlling interests of subsidiaries		(18)	(22)
Net cash generated from financing activities		2,531	34,654
Net (decrease)/increase in cash and cash equivalents		(1,908)	535
Cash and cash equivalents at 1 January		15,046	10,456
Effect of foreign currency exchange rate changes		82	199
Cash and cash equivalents at 30 June		13,220	11,190

The notes on pages 100 to 140 form part of these interim financial statements.

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NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS
for the six-month period ended 30 June 2014
(Amounts in million)

(A) RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATING ACTIVITIES

	Six-month periods ended 30 June	
	2014	2013
	RMB	RMB
Operating activities		
Profit before taxation	45,759	45,134
Adjustments for:		
Depreciation, depletion and amortisation	43,233	38,969
Dry hole costs written off	3,492	3,335
Share of profits from associates and joint ventures	(1,976)	(874)
Investment income	(276)	(50)
Interest income	(876)	(592)
Interest expense	6,140	5,201
Loss/(gain) on foreign currency exchange rate changes and derivative financial instruments	761	(1,276)
Loss on disposal of property, plant, equipment and other non-currents assets, net	561	95
Impairment losses on assets	1,112	73
Unrealised loss/(gain) on embedded derivative component of the convertible bonds, net	2,222	(761)
	100,152	89,254
Accounts receivable and other current assets	(26,799)	(11,151)
(Increase)/decrease inventories	(22,421)	2,183
Accounts payable and other current liabilities	17,614	(33,097)
	68,546	47,189
Income tax paid	(10,332)	(14,286)
Net cash generated from operating activities	58,214	32,903

The notes on pages 100 to 140 form part of these interim financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
for the six-month period ended 30 June 2014

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

Principal activities
China Petroleum & Chemical Corporation (the “Company”) is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the “Group”), engages in oil and gas and chemical operations in the People’s Republic of China (the “PRC”). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil and natural gas by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Organisation
The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of the reorganisation (the “Reorganisation”) of China Petrochemical Corporation (“Sinopec Group Company”), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganisation, certain of Sinopec Group Company’s core oil and gas and chemical operations and businesses together with the related assets and liabilities were transferred to the Company. On 25 February 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 2000 represented the entire registered and issued share capital of the Company on that date. The oil and gas and chemical operations and businesses transferred to the Company were related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sales of chemicals.

Basis of preparation
The accompanying interim financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board. IFRS includes International Accounting Standards (“IAS”) and related interpretations. These interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group are set out in Note 2.

The following relevant IFRSs, amendments to existing IFRSs and interpretation of IFRS have been published and are mandatory for accounting period beginning on or after January 1, 2014 or later periods and have been adopted by the Group in current accounting period:

Amendment to IAS 32, ‘Financial instruments: Presentation’, regarding the asset and liability offsetting. The main changes are to the application guidance in IAS 32, ‘Financial instruments: Presentation’, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

Amendment to IAS 36, 'Impairment of assets' regarding recoverable amount disclosures. The main change addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement'. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

Adoption of IFRIC 21, 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions, contingent liabilities and contingent assets'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The accounting treatment of levy of the Group conforms to the requirement of IFRIC 21. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial statements for the period ended 30 June 2014. The group does not expect IFRIC 21 to have a significant effect on the results for the financial year ending 31 December 2014.

There have been no significant changes to the accounting policies applied in these interim financial statements for the periods presented as a result of these developments.

The following relevant IFRSs, amendments to existing IFRSs and interpretation of IFRS have been published and are mandatory for accounting periods beginning on or after January 1, 2015 or later periods and have not been early adopted by the Group:

IFRS 15, 'Revenue from contracts with customers'. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group is currently evaluating the impact of the IFRS on the consolidated financial statements but it is not expected to have any significant impact.

The accompanying interim financial statements are prepared on the historical cost basis except for the remeasurement of available-for-sale securities (Note 2(k)), securities held for trading (Note 2(k)), derivative financial instruments (Note 2(l) and (m)) and derivative component of the convertible bonds (Note 2(q)) to their fair values.

Basis of preparation (Continued)

The preparation of the interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the interim financial statements and the major sources of estimation uncertainty are disclosed in Note 37.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated interim financial statements comprise the Company and its subsidiaries, and interest in associates and joint ventures.

(i) Subsidiaries and non-controlling interests

Subsidiaries are those entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The interim financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control effectively commences until the date that control effectively ceases.

Non-controlling interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the owners of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(k)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 2(a) (ii)).

(ii) Associates and joint ventures

An associate is an entity, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for in the consolidated interim financial statements using the equity method from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(j) and (n)).

The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(k)) or, when appropriate, the cost on initial recognition of an investment in an associate (Note 2(a) (ii)).

In the Company's balance sheet, investments in associates and joint ventures are stated at cost less impairment losses (Note 2(n)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Translation of foreign currencies

The presentation currency of the Group is Renminbi. Foreign currency transactions during the period are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC's rates at the balance sheet date.

Exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in the "finance costs" section of the consolidated income statement.

The results of foreign operations are translated into Renminbi at the applicable rates quoted by the PBOC prevailing on the transaction dates. Balance sheet items, including goodwill arising on consolidation of foreign operations are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated in equity in the other reserves.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated income statement when the profit or loss on disposal is recognised.

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(d) Trade, bills and other receivables

Trade, bills and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts (Note 2(n)). Trade, bills and other receivables are derecognised if the Group's contractual rights to the cash flows from these financial assets expire or if the Group transfers these financial assets to another party without retaining control or substantially all risks and rewards of the assets.

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses (Note 2(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, when it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the consolidated income statement in the year in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised as income or expense in the consolidated income statement on the date of retirement or disposal.

Depreciation is provided to write off the cost amount of items of property, plant and equipment, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	12 to 50 years
Equipment, machinery and others	4 to 30 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells, the related support equipment and proved mineral interests in properties are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. The exploratory well costs are usually not carried as an asset for more than one year following completion of drilling, unless (i) the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made; (ii) drilling of the additional exploratory wells is under way or firmly planned for the near future; or (iii) other activities are being undertaken to sufficiently progress the assessing of the reserves and the economic and operating viability of the project. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalised costs relating to proved properties are amortised at the field level on a unit-of-production method. The amortisation rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Management estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices and the future cash flows are adjusted to reflect such risks specific to the liability, as appropriate. These estimated future dismantlement costs are discounted at pre-tax risk-free rate and are capitalised as oil and gas properties, which are subsequently amortised as part of the costs of the oil and gas properties.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amount charged to expense and impairment losses (Note 2(n)). The cost of lease prepayments are charged to expense on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (Note 2(n)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates or joint ventures. Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

Prior to 1 January 2008, the acquisition of the non-controlling interests of a consolidated subsidiary was accounted using the acquisition method whereby the difference between the cost of acquisition and the fair value of the net identifiable assets acquired (on a proportionate share) was recognised as goodwill. From 1 January 2008, any difference between the amount by which the non-controlling interest is adjusted (such as through an acquisition of the non-controlling interests) and the cash or other considerations paid is recognised in equity.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit the synergies of the combination and is tested annually for impairment (Note 2(n)). In respect of associates or joint ventures, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(n)).

(k) Investments

Investment in available-for-sale securities are carried at fair value with any change in fair value recognised in other comprehensive income and accumulated separately in equity in other reserve. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to the consolidated income statement. Investments in equity securities, other than investments in associates and joint ventures, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (Note 2(n)).

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At each balance sheet date, the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement.

(l) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (Note 2(m)).

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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on re-measurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in other reserves. The ineffective portion of any gain or loss is recognised immediately in the consolidated income statement.

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 reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

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 reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

When a hedging instrument expires or is sold, terminated, exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated income statement immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on re-measurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the other reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to the consolidated income statement. The ineffective portion is recognised immediately in the consolidated income statement. In this period no hedge of net investment in foreign operations was hold by the Group.

(n) Impairment of assets

(i) Trade accounts receivable, other receivables and investment in equity securities that do not have a quoted market price in an active market are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised.

The impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognised as an expense in the consolidated income statement. Impairment losses for trade and other receivables are reversed through the consolidated income statement if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

For investments in associates and joint ventures accounted under the equity method (Note 2(a) (ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with the accounting policy set out in Note 2(n) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with the accounting policy set out in Note 2(n) (ii).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets is accounted as follows:

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayments and other assets, are reviewed at each balance sheet date to identify indicators that the assets may be impaired. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

The amount of the reduction is recognised as an expense in the consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Management assesses at each balance sheet date whether there is any indication that an impairment loss recognised for a long-lived asset, except in the case of goodwill, which in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as an income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed.

(o) Trade, bills and other payables

Trade, bills and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of borrowings using the effective interest method.

(q) Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments that contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds 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. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is transferred to share premium.

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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Convertible bonds (Continued)

(ii) Other convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are accounted for as compound financial instruments that contain a liability component and a derivative component.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately as an expense in the consolidated income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognised in the consolidated income statement. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. The interest expense recognised in the consolidated income statement on the liability component is calculated using the effective interest method. Both the liability and the related derivative components are presented together for financial statements reporting purposes.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the consolidated income statement.

(r) Provisions and contingent liability

A provision is recognised for liability of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

(s) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and ancillary materials are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognised in the consolidated income statement upon performance of the services. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred with no future related costs is recognised as income in the period in which it becomes receivable.

(t) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(u) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(v) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Research and development expense

Research and development expenditures are expensed in the period in which they are incurred. Research and development expense amounted to RMB 1,901 million for the six-month period ended 30 June 2014 (2013: RMB 1,858 million).

(x) Operating leases

Operating lease payments are charged to the consolidated income statement on a straight-line basis over the period of the respective leases.

(y) Employee benefits

The contributions payable under the Group's retirement plans are recognised as an expense in the consolidated income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 33.

Termination benefits, such as employee reduction expenses, are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(z) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes only to the extent that it is probable that future taxable income will be available against which the assets can be utilised. Deferred tax is calculated on the basis of the enacted tax rates or substantially enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the consolidated income statement, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously charged or credited to other comprehensive income or directly in equity.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set off against the taxable profit of another legal tax unit. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(aa) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group’s chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group’s various lines of business.

3 TURNOVER

Turnover primarily represents revenue from the sales of crude oil, natural gas, petroleum and chemical products.

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4 OTHER OPERATING REVENUES

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Sale of materials, service and others	17,731	19,034
Rental income	277	276
	18,008	19,310

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Operating lease charges	7,140	7,127
Impairment losses:		
– trade accounts receivable	—	5
– other receivables	4	6

6 PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Salaries, wages and other benefits	22,844	21,226
Contributions to retirement schemes (Note 33)	3,910	3,617
	26,754	24,843

7 TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Consumption tax (i)	65,447	66,004
Special oil income levy (ii)	12,448	12,938
City construction tax (iii)	6,642	6,459
Education surcharge	4,952	4,849
Resources tax	3,727	3,658
Other	551	543
	93,767	94,451

Note:

(i) The consumption tax rates on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil are RMB 1,388.0 per tonne, RMB 940.8 per tonne, RMB 1,385.0 per tonne, RMB 1,282.0 per tonne, RMB 1,126.0 per tonne, RMB 812.0 per tonne and RMB 996.8 per tonne, respectively.

(ii)

Special oil income levy is levied on oil exploration and production entities based on the progressive rates ranging from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil produced in the PRC exceeding USD 55 per barrel.

(iii) City construction tax is levied on an entity based on its total paid amount of value-added tax, consumption tax and business tax.

8 OTHER OPERATING (EXPENSE)/INCOME, NET

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Government grant	846	596
Loss on disposal of property, plant, equipment and other non-currents assets, net	(561)	(95)
Ineffective portion of change in fair value of cash flow hedges	243	23
Net realised and unrealised gain/(loss) on derivative financial instruments not qualified as hedging	6	(64)
Donations	(46)	(103)
Fines, penalties and compensations	(52)	(13)
Impairment losses on long-lived assets	(1,072)	(44)
Others	(438)	(49)
	(1,074)	251

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9 INTEREST EXPENSE

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Interest expense incurred	6,358	5,643
Less: Interest expense capitalised*	(715)	(811)
	5,643	4,832
Accretion expenses (Note 29)	497	369
Interest expense	6,140	5,201
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	1.4% to 5.9%	0.9% to 6.2%

10 TAX EXPENSE

Tax expense in the consolidated income statement represents:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Current tax		
– Provision for the period	11,762	11,151
– Adjustment of prior years	581	453
Deferred taxation (Note 25)	(435)	1,123
	11,908	12,727

Reconciliation between actual tax expense and the expected income tax expense at applicable statutory tax rates is as follows:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Profit before taxation	45,759	45,134
Expected PRC income tax expense at a statutory tax rate of 25%	11,440	11,284
Tax effect of non-deductible expenses	262	133
Tax effect of non-taxable income	(785)	(365)
Tax effect of preferential tax rate (i)	(970)	(1,028)
Effect of difference between income taxes at foreign operations tax rate and the PRC statutory tax rate (ii)	482	1,276
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(21)	(95)
Tax effect of tax losses not recognised	889	296
Write-down of deferred tax assets	30	773
Adjustment of prior years	581	453
Actual income tax expense	11,908	12,727

Note:

(i) The provision for PRC current income tax is based on a statutory income tax rate of 25% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain entities of the Group in western regions in the PRC are taxed at preferential income tax rate of 15% through the year 2020.

(ii) It is mainly due to the foreign operation in the Republic of Angola ("Angola") that is taxed at 50% of the assessable income as determined in accordance with the relevant income tax rules and regulations of Angola.

11 DIVIDENDS

Dividends payable to owners of the Company attributable to the period represent:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Interim dividends declared after the balance sheet date of RMB 0.09 per share (2013: RMB 0.09 per share)	10,512	10,491

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 22 August 2014, the directors authorised to declare the interim dividends for the year ending 31 December 2014 of RMB 0.09 (2013: RMB 0.09) per share totaling RMB 10,512 million (2013: RMB 10,491 million). Dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

Dividends payable to owners of the Company attributable to the previous financial year, approved during the period represent:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Final cash dividends in respect of the previous financial year, approved during the period of RMB 0.15 per share (2013: RMB 0.20 per share)	17,519	17,933

Pursuant to the shareholders' approval at the Annual General Meeting on 9 May 2014, a final dividend of RMB 0.15 per share totaling RMB 17,519 million was approved (Note 30). All dividends have been paid in the six-month period ended 30 June 2014 (2013: RMB 12,552 million).

Pursuant to the shareholders' approval at the Annual General Meeting on 29 May 2013, a final dividend of RMB 0.20 per share and with bonus issues of 2 shares converted from the retained earnings for every 10 existing shares in respect of the year ended 31 December 2013 was declared (Note 30). Cash dividends have been paid on 25 June 2013.

12 OTHER COMPREHENSIVE INCOME

	Six-month period ended 30 June 2014			Six-month period ended 30 June 2013		
	Before-tax amount RMB million	Tax effect RMB million	Net-of-tax amount RMB million	Before-tax amount RMB million	Tax effect RMB million	Net-of-tax amount RMB million
Cash flow hedges:						
Effective portion of changes in fair value of hedging instruments recognised during the period	525	(73)	452	(135)	22	(113)
Amounts transferred to initial carrying amount of hedged items	(69)	10	(59)	(39)	6	(33)
	(298)	41	(257)	272	(44)	228

Reclassification adjustments for amounts transferred to the consolidated income statement						
Net movement during the period recognised in other comprehensive income	158	(22)	136	98	(16)	82
Available-for-sale securities:						
Changes in fair value recongnised during the period	827	(200)	627	1,188	(298)	890
Net movement during the period recognised in other comprehensive income	827	(200)	627	1,188	(298)	890
Share of other comprehensive income of associates	36	—	36	(241)	—	(241)
Foreign currency translation differences	391	—	391	(388)	—	(388)
Other comprehensive income	1,412	(222)	1,190	657	(314)	343

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13 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2014 is based on the profit attributable to ordinary owners of the Company of RMB 32,543 million (2013: RMB 30,281 million) and the weighted average number of shares of 116,725,537,824 (2013: 115,639,886,505) during the period.

The calculation of diluted earnings per share for the six-month period ended 30 June 2014 is based on the profit attributable to ordinary owners of the Company of RMB 32,677 million (2013: RMB 29,851 million) and the weighted average number of shares of 117,805,304,491 (2013: 121,321,406,189) calculated as follows:

(i) Profit attributable to ordinary owners of the Company (diluted)

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Profit attributable to ordinary owners of the Company	32,543	30,281
After tax effect of interest expenses (net of exchange gain) of the 2007 Convertible Bonds and the 2011 Convertible Bonds	133	141
After tax effect of unrealised gain (net of unrealised loss) on embedded derivative components of the 2007 Convertible Bonds and the 2011 Convertible Bonds	1	(571)
Profit attributable to ordinary owners of the Company (diluted)	32,677	29,851

(ii) Weighted average number of shares (diluted)

	Six-month periods ended 30 June	
	2014	2013
	Number of shares	Number of shares
Weighted average number of shares at 30 June	116,725,537,824	115,639,886,505
Effect of conversion of the 2007 Convertible Bonds	1,079,766,667	1,439,688,889
Effect of conversion of the 2011 Convertible Bonds	—	4,241,830,795
Weighted average number of shares (diluted) at 30 June	117,805,304,491	121,321,406,189

14 PROPERTY, PLANT AND EQUIPMENT

By asset class

	Plants and buildings RMB million	Oil and gas, properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2013	86,215	451,288	693,583	1,231,086
Additions	92	1,440	110	1,642
Transferred from construction in progress	1,123	20,414	23,153	44,690
Reclassification	380	7	(387)	—
Exchange adjustments	(29)	(525)	(39)	(593)
Contributed to a joint venture	(1)	—	(45)	(46)
Reclassification to lease prepayments and other long-term assets	(78)	—	(683)	(761)
Disposals	(157)	—	(1,918)	(2,075)
Balance at 30 June 2013	87,545	472,624	713,774	1,273,943
Balance at 1 January 2014	96,787	515,701	768,102	1,380,590
Additions	23	603	214	840
Transferred from construction in progress	2,411	10,813	17,372	30,596
Reclassification	224	—	(224)	—
Exchange adjustments	17	304	24	345
Contributed to a joint venture	(36)	—	(221)	(257)
Reclassification to lease prepayments and other long-term assets	(599)	—	(7,380)	(7,979)
Disposals	(304)	(4)	(2,848)	(3,156)
Balance at 30 June 2014	98,523	527,417	775,039	1,400,979
Accumulated depreciation:				
Balance at 1 January 2013	34,490	252,214	355,413	642,117
Depreciation charge for the period	1,492	16,377	18,385	36,254
Impairment losses for the period	1	—	43	44
Reclassification	95	5	(100)	—
Exchange adjustments	(10)	(277)	(16)	(303)
Contributed to a joint venture	—	—	(32)	(32)
Reclassification to lease prepayments and other long-term assets	(6)	—	(88)	(94)
Written back on disposals	(119)	—	(1,669)	(1,788)
Balance at 30 June 2013	35,943	268,319	371,936	676,198
Balance at 1 January 2014	37,680	288,594	384,721	710,995
Depreciation charge for the period	1,655	17,909	20,330	39,894
Impairment losses for the period	11	—	882	893
Reclassification	100	—	(100)	—
Exchange adjustments	6	175	10	191
Reclassification to lease prepayments and other long-term assets	(135)	—	(1,692)	(1,827)
Written back on disposals	(244)	(2)	(2,156)	(2,402)
Balance at 30 June 2014	39,073	306,676	401,995	747,744

Net book value:				
Balance at 1 January 2013	51,725	199,074	338,170	588,969
Balance at 30 June 2013	51,602	204,305	341,838	597,745
Balance at 1 January 2014	59,107	227,107	383,381	669,595
Balance at 30 June 2014	59,450	220,741	373,044	653,235

The additions to the exploration and development segment and oil and gas properties for the six-month period ended 30 June 2014 included RMB 603 million (2013: RMB 1,440 million) of the estimated dismantlement costs for oil and gas properties (Note 29).

15 CONSTRUCTION IN PROGRESS

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Balance at 1 January	160,630	168,977
Additions	39,309	50,030
Exchange adjustments	7	(20)
Disposal	(493)	—
Dry hole costs written off	(3,492)	(3,335)
Transferred to property, plant and equipment	(30,596)	(44,690)
Reclassification to lease prepayments and other assets	(4,541)	(4,006)
Balance at 30 June	160,824	166,956

As at 30 June 2014, the amount of capitalised cost of exploratory wells included in construction in progress related to the exploration and development segment was RMB 17,378 million (2013: RMB 16,380 million). The geological and geophysical costs paid during the six-month period ended 30 June 2014 were RMB 2,017 million (2013: RMB 4,265 million).

16 GOODWILL

	30 June 2014	31 December 2013
	RMB million	RMB million
Cost	13,912	13,912
Less: Accumulated impairment losses	(7,657)	(7,657)
	6,255	6,255

Impairment tests for cash-generating units containing goodwill
Goodwill is allocated to the following Group's cash-generating units:

	30 June 2014	31 December 2013
	RMB million	RMB million
Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")	1,157	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	4,043	4,043
Sinopec (Hong Kong) Limited	853	853
Multiple units without individually significant goodwill	202	202
	6,255	6,255

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 11.6% to 12.4% (2013: 11.5% to 12.7%). Cash flows beyond the one-year period are maintained constant. Based on the estimated recoverable amount, no impairment loss was recognised. However, as key assumptions on which management has made in respect of future cash projections are subject to change, management believes that any adverse change in the assumptions could cause the carrying amount to exceed its recoverable amount.

Key assumptions used for cash flow forecasts for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and management's expectation on the future trend of the prices of crude oil and petrochemical products. The sales volume was based on the production capacity and/or the sales volume in the period immediately before the budget period.

17 INTEREST IN ASSOCIATES

The Group's investments in associates are with companies primarily engaged in the oil and gas, petrochemical, and marketing and distribution operations in the PRC.

The Group's principal associates, all of which are unlisted companies incorporated and operating their business principally in the PRC, are as follows:

Name of company	% of ownership interests	Principal activities	Measurement method
Sinopec Finance Company Limited ("Sinopec Finance")	49.00	Provision of non-banking financial services	Equity method
China Aviation Oil Supply Company Limited ("China Aviation Oil")	29.00	Marketing and distribution of refined petroleum products	Equity method
Zhongtian Synergetic Energy Company Limited ("Zhongtian Synergetic Energy")	38.75	Manufacturing of coal-chemical products	Equity method
Shanghai Chemical Industry Park Development Company Limited ("Shanghai Chemical")	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC	Equity method
Shanghai Petroleum Company Limited ("Shanghai Petroleum")	30.00	Exploration and production of crude oil and natural gas	Equity method

Summarised financial information in respect of the Group's principal associates and reconciliation to carrying amounts:

	Sinopec Finance		China Aviation Oil		Zhongtian Synergetic Energy		Shanghai Chemical		Shanghai Petroleum	
	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million
Current assets	112,934	104,477	17,051	15,410	5,732	4,474	2,812	3,094	2,880	2,849
Non-current assets	17,402	17,490	4,762	4,830	8,223	6,987	3,185	3,069	941	1,058
Current liabilities	(112,835)	(102,112)	(13,819)	(12,249)	(821)	(335)	(922)	(1,183)	(258)	(281)
Non-current liabilities	(297)	(3,271)	(237)	(233)	(1,500)	(1,330)	(1,097)	(1,102)	(361)	(354)
Net assets	17,204	16,584	7,757	7,758	11,634	9,796	3,978	3,878	3,202	3,272
Net assets attributable to non-controlling interests	—	—	1,031	899	—	—	—	—	—	—
Net assets attributable to owners of the	17,204	16,584	6,726	6,859	11,634	9,796	3,978	3,878	3,202	3,272

Company										
Share of net assets from associates	8,430	8,126	1,951	1,989	3,796	3,796	1,183	1,158	961	982
Carrying Amounts	8,430	8,126	1,951	1,989	3,796	3,796	1,183	1,158	961	982

Summarised statement of comprehensive income

Six-month periods ended 30 June	Sinopec Finance		China Aviation Oil		Zhongtian Synergetic Energy*		Shanghai Chemical		Shanghai Petroleum	
	2014 RMB million	2013 RMB million	2014 RMB million	2013 RMB million	2014 RMB million	2013 RMB million	2014 RMB million	2013 RMB million	2014 RMB million	2013 RMB million
Turnover	1,415	1,514	57,160	52,915	—	—	—	1	355	320
Profits/(losses) for the periods	552	631	1,065	805	—	—	94	42	50	(37)
Other comprehensive income/(losses)	69	(491)	—	—	—	—	—	—	—	—
Total comprehensive income/(losses)	621	140	1,065	805	—	—	94	42	50	(37)
Dividends declared by associates	—	—	309	—	—	—	11	—	36	—
Share of profit/(loss) from associates	270	309	271	201	—	—	36	16	15	(11)
Share of other comprehensive income/(loss) from associates	34	(241)	—	—	—	—	—	—	—	—

* Zhongtian Synergetic Energy was under construction during the period ended 30 June 2014.

The share of profit and other comprehensive income for the six-month period ended 30 June 2014 in all individually immaterial associates accounted for using equity method in aggregate was RMB 517 million (2013: RMB 369 million) and 1 million (2013: nil) respectively.

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18 INTEREST IN JOINT VENTURES

The Group's principal interests in joint ventures are as follows:

Name of entity	% of ownership Interests	Principal activities	Measurement method	Country of incorporation	Principal place of business
Fujian Refining and Petrochemical Company Limited ("Fujian Refining and Petrochemical")	50.00	Manufacturing and distribution of petrochemical products	Equity method	PRC	PRC
BASF-YPC Company Limited ("BASF-YPC")	40.00	Manufacturing and distribution of petrochemical products	Equity method	PRC	PRC
Caspian Investments Resources Ltd. ("CIR") (i)	50.00	Crude oil and natural gas extraction	Equity method	British Virgin Islands	Kazakhstan
Taihu Limited ("Taihu") (i)	49.00	Crude oil and natural gas extraction	Equity method	Cyprus	Russia
Mansarovar Energy Colombia Ltd. ("Mansarovar ") (i)	50.00	Crude oil and natural gas extraction	Equity method	British Bermuda	Colombia

Summarised balance sheet in respect of the Group's principal joint ventures and reconciliation to carrying amounts:

	Fujian Refining and Petrochemical		BASF-YPC	
	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million
Current assets				
Cash and cash equivalents	1,087	1,016	535	550
Other current assets	13,403	14,072	6,365	6,727
Total current assets	14,490	15,088	6,900	7,277
Non-current assets	29,423	29,818	18,384	18,496
Current liabilities				
Current financial liabilities (ii)	(6,270)	(5,493)	(2,894)	(2,990)
Other current liabilities	(8,248)	(10,191)	(3,144)	(2,027)
Total current liabilities	(14,518)	(15,684)	(6,038)	(5,017)
Non-current liabilities				
Non-current financial liabilities	(22,411)	(21,952)	(4,439)	(4,904)
Other non-current liabilities (iii)	(285)	(298)	(1)	(1)
Total non-current liabilities	(22,696)	(22,250)	(4,440)	(4,905)
Net assets	6,699	6,972	14,806	15,851
Share of net assets from joint ventures	3,350	3,486	5,922	6,340
Carrying Amounts	3,350	3,486	5,922	6,340

Note:

(i) Pursuant to the resolutions passed at the Directors' meeting held on 22 March 2013 and the purchase agreements entered into with relevant vendors on 28 March 2013, the Group acquired from the Sinopec Group Company 50% of equity interests of Mansarovar and at the same time provided a shareholder loan (USD 263 million) for a total consideration of approximately USD 775 million in November 2013 and 50% of equity interests of CIR for a consideration of approximately USD 1,486 million as well as 49% of equity interests of Taihu and the respective vendor's special dividend (USD 94 million) for a total consideration of approximately USD 807 million, both acquisitions were completed in December 2013.

As the purchase price allocation has not been completed, the summarised financial information for CIR, Taihu and Mansarovar is not disclosed. For the six months period ended 30 June 2014, the share profit after tax for the above three joint ventures is RMB 1,302 million.

(ii) Excluding trade accounts payable, other payables.

(iii) Excluding provisions.

Summarised statement of comprehensive income

Six-month periods ended 30 June	Fujian Refining and Petrochemical		BASF-YPC	
	2014	2013	2014	2013
	RMB million	RMB million	RMB million	RMB million
Turnover	34,220	33,053	11,138	11,868
Depreciation, depletion and amortisation	(1,279)	(1,018)	(1,140)	(949)
Interest income	14	10	11	9
Interest expense	(640)	(270)	(175)	(172)
Profits/(losses) before taxation	(729)	(411)	87	591
Tax expense	204	125	(18)	(157)
Profits/(losses) for the periods	(525)	(286)	69	434
Total comprehensive income/(losses)	(525)	(286)	69	434
Dividends declared from joint venture	—	—	528	—
Share of profit/(loss) from joint ventures	(263)	(143)	28	174

The share of loss and other comprehensive income for the six-month period ended 30 June 2014 in all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 200 million (2013: loss of RMB 41 million) and RMB 1 million (2013: nil) respectively.

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19 INVESTMENTS

	The Group	
	30 June 2014 RMB million	31 December 2013 RMB million
Available-for-sale financial assets		
– Equity securities, listed and at quoted market price	2,791	1,964
Investments in equity securities, unlisted and at cost	1,548	1,834
	4,339	3,798
Less: Impairment loss for investments	(68)	(68)
	4,271	3,730

Unlisted investments represent the Group's interests in PRC privately owned enterprises which are mainly engaged in non-oil and gas activities and operations.

20 LEASE PREPAYMENTS

	Six-month periods ended 30 June	
	2014 RMB million	2013 RMB million
Cost:		
Balance at 1 January	51,417	43,002
Additions	51	140
Transferred from construction in progress	2,494	1,970
Transferred from property, plant and equipment and other long-term assets	3,253	293
Exchange adjustments	28	(54)
Reclassification to other assets	(484)	(5)
Disposals	(52)	(12)
Balance at 30 June	56,707	45,334
Accumulated amortisation:		
Balance at 1 January	8,147	6,762
Amortisation charge for the period	731	602
Transferred from property, plant and equipment and other long-term assets	841	37
Exchange adjustments	7	(12)
Reclassification to other assets	(91)	—
Written back on disposals	(10)	(8)
Balance at 30 June	9,625	7,381
Net book value:	47,082	37,953

21 LONG-TERM PREPAYMENTS AND OTHER ASSETS

Long-term prepayments and other assets primarily represent prepaid rental expenses over one year, catalysts, operating rights of service stations.

22 TRADE ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

	30 June 2014 RMB million	31 December 2013 RMB million
Amounts due from third parties	82,938	50,638
Amounts due from Sinopec Group Company and fellow subsidiaries	4,419	9,311
Amounts due from associates and joint ventures	9,902	9,091
	97,259	69,040
Less: Impairment losses for bad and doubtful debts	(556)	(574)
Trade accounts receivable, net	96,703	68,466
Bills receivable	20,456	28,771
	117,159	97,237

The ageing analysis of trade accounts and bills receivables (net of impairment losses for bad and doubtful debts) is as follows:

	30 June 2014 RMB million	31 December 2013 RMB million
Within one year	117,009	97,066
Between one and two years	121	112
Between two and three years	20	46
Over three years	9	13
	117,159	97,237

Impairment losses for bad and doubtful debts are analysed as follows:

	2014 RMB million	2013 RMB million
Balance at 1 January	574	699
Impairment losses recognised for the period	—	5
Reversal of impairment losses	(10)	(6)
Written off	(8)	(4)
Others	—	1
Balance at 30 June	556	695

Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and fellow subsidiaries are repayable under the same terms.

Trade accounts and bills receivables (net of impairment losses for bad and doubtful debts) primarily represent receivables that are neither past due nor impaired. These receivables relate to a wide range of customers for whom there is no recent history of default.

23 INVENTORIES

	30 June	31 December

	2014 RMB million	2013 RMB million
Crude oil and other raw materials	131,937	124,198
Work in progress	23,624	21,181
Finished goods	86,745	76,289
Spare parts and consumables	2,521	1,989
	244,827	223,657
Less: Allowance for diminution in value of inventories	(552)	(1,751)
	244,275	221,906

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 1,136,336 million for the six-month period ended 30 June 2014 (2013: RMB 1,205,115 million), which includes the write-down of inventories of RMB 86 million (2013: RMB 51million) that is primarily related to the finished goods in others segments and the reversal of write-down of inventories made in prior years of RMB 34 million (2013: nil). The write-down of inventories and the reversal of write-down of inventories were recorded in purchased crude oil, products and operating supplies and expenses in the consolidated income statement. The write-down of inventories of RMB 1,246 million for the period ended 30 June 2014 (2013: 53 million) was realized.

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24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30 June 2014 RMB million	31 December 2013 RMB million
Receivables	14,182	10,130
Advances to suppliers	5,691	4,216
Value-added tax input tax deduction to stay	15,671	19,756
Derivative financial instruments	9,404	4,664
	44,948	38,766

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities before offset are attributable to the items detailed in the table below:

	Assets		Liabilities		Net balance	
	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million	30 June 2014 RMB million	31 December 2013 RMB million
Current						
Receivables and inventories	3,165	3,315	—	—	3,165	3,315
Accruals	374	357	—	—	374	357
Cash flow hedges	20	34	(128)	(120)	(108)	(86)
Non-current						
Property, plant and equipment	6,915	7,200	(15,950)	(15,590)	(9,035)	(8,390)
Tax losses carried forward	2,861	2,261	—	—	2,861	2,261
Embedded derivative component of the convertible bonds	—	—	(315)	(870)	(315)	(870)
Available-for-sale-securities	—	—	(636)	(436)	(636)	(436)
Others	96	99	(63)	(86)	33	13
Deferred tax assets/(liabilities)	13,431	13,266	(17,092)	(17,102)	(3,661)	(3,836)

At 30 June 2014, certain subsidiaries of the Company did not recognise deferred tax of deductable loss carried forward of RMB 14,283 million (2013: RMB 10,809 million), of which RMB 3,557 million (2013: RMB 1,185 million) was incurred for the period ended 30 June 2014, because it was not probable that the future taxable profits will be realised. These deductable losses carried forward of RMB 670 million, RMB 287 million, RMB 3,344 million, RMB 3,787 million, RMB 2,638 million and RMB 3,557 million will expire in 2014, 2015, 2016, 2017, 2018 and 2019, respectively.

Periodically, management performed assessment on the probability that future taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have sufficient future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. During the six-month period ended 30 June 2014, write-down of deferred tax assets amounted to RMB 30 million (2013: RMB 773 million).

Movements in the deferred tax assets and liabilities are as follows:

	Balance at 1 January 2013 RMB million	Recognised in consolidated income statement RMB million	Recognised in other comprehensive income RMB million	Balance at 30 June 2013 RMB million
Current				
Receivables and inventories	3,292	194	—	3,486
Accruals	421	(19)	—	402
Cash flow hedges	36	(2)	(16)	18
Non-current				
Property, plant and equipment	(8,194)	(515)	111	(8,598)
Tax losses carried forward	3,051	(590)	—	2,461
Embedded derivative component of the convertible bonds	(364)	(190)	—	(554)
Available-for-sale securities	(3)	—	(298)	(301)
Others	6	(1)	—	5
Net deferred tax liabilities	(1,755)	(1,123)	(203)	(3,081)

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25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	Balance at 1 January 2014 RMB million	Recognised in consolidated income statement RMB million	Recognised in other comprehensive income RMB million	Balance at 30 June 2014 RMB million
Current				
Receivables and inventories	3,315	(150)	—	3,165
Accruals	357	17	—	374
Cash flow hedges	(86)	—	(22)	(108)
Non-current				
Property, plant and equipment	(8,390)	(607)	(38)	(9,035)
Tax losses carried forward	2,261	600	—	2,861
Embedded derivative component of the convertible bonds	(870)	555	—	(315)
Available-for-sale securities	(436)	—	(200)	(636)
Others	13	20	—	33
Net deferred tax liabilities	(3,836)	435	(260)	(3,661)

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	30 June 2014 RMB million	31 December 2013 RMB million
Third parties' debts		
Short-term bank loans	86,547	54,640
Current portion of long-term bank loans	1,128	1,093
Current portion of long-term corporate bonds	11,000	3,500
Current portion of convertible bonds	—	40,573
	12,128	45,166
Corporate bonds (Note (i))	10,000	10,000
	108,675	109,806
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	90,814	53,481
Current portion of long-term loans	340	583
	91,154	54,064
	199,829	163,870

The Group's weighted average interest rate on short-term loans was 2.4% (2013: 2.2%) at 30 June 2014. The above borrowings are unsecured.

Explanation of Responses:

26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

Long-term debts comprise:

	Interest rate and final maturity	30 June 2014 RMB million	31 December 2013 RMB million
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 6.90% per annum at 30 June 2014 with maturities through 2025	7,151	7,712
Japanese Yen denominated	Interest rates at 2.60 % per annum at 30 June 2014 with maturities in 2023	559	561
US Dollar denominated	Interest rates ranging from interest free to 4.29 % per annum at 30 June 2014 with maturities through 2031	1,144	916
		8,854	9,189
Corporate bonds (Note (ii))			
Renminbi denominated	Fixed interest rate ranging from 3.75 % to 5.68 % per annum at 30 June 2014 with maturity through 2022	56,500	60,000
US Dollar denominated	Fixed interest rate ranging from 1.25% to 4.25 % per annum at 30 June 2014 with maturities through 2043	21,386	21,177
		77,886	81,177
Convertible bonds			
Hong Kong Dollar denominated	Convertible bonds with maturity in 2014 (Note(iii))	—	10,948
Renminbi denominated	Bonds with Warrants with maturity in 2014 (Note(iv))	—	29,625
	Convertible bonds with maturity in 2017 (Note(v))	22,819	21,461
		22,819	62,034
Total third parties' long-term debts		109,559	152,400
Less: Current portion		(12,128)	(45,166)
		97,431	107,234
Long-term loans from Sinopec Group Company and fellow subsidiaries			
Renminbi denominated	Interest rates ranging from interest free to 6.46 % per	38,269	38,911

	annum at 30 June 2013 with maturities through 2020		
US Dollar denominated	Interest rates at 1.84 % per annum at 30 June 2014 with maturities in 2015	62	28
Less: Current portion		(340)	(583)
		37,991	38,356
		135,422	145,590

Short-term and long-term bank loans, long-term other loans and loans from Sinopec Group Company and fellow subsidiaries are primarily unsecured and carried at amortised cost.

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26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

Note:

(i) The Company issued 180-day corporate bonds of face value RMB 10 billion to corporate investors in the PRC debenture market on 19 May 2014 at par value of RMB 100. The effective yield of the 180-day corporate bonds is 4.40% per annum.

(ii) These corporate bonds are guaranteed by Sinopec Group Company and carried at amortised cost.

(iii) On 24 April 2007, the Company issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HKD 11.7 billion (the “2007 Convertible Bonds”). The holders can convert the 2007 Convertible Bonds into shares of the Company from 4 June 2007 onwards at a price of HKD 10.76 per share, subject to adjustment for, amongst other things, 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 the Company (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. The Company 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 2011, the Company redeemed part of the 2007 Convertible Bonds upon certain holders’ request, with the principal amount of HKD 39 million.

As at 30 June 2014, the carrying amounts of the liability component and the derivative component, representing the Conversion Option, the Early Redemption Option and the Cash Settlement Option, of the 2007 Convertible Bonds were RMB 0 million (2013: RMB 10,948 million) and RMB 0 million (2013: RMB 0 million), respectively.

The changes in the fair value of the derivative component from 31 December 2013 to 30 June 2014 resulted in an realised loss of RMB 1 million (2013: an unrealised gain of RMB 79 million), which has been recorded under “finance costs” in the consolidated income statement for the six-month period ended 30 June 2014.

The initial carrying amount of the liability component of the 2007 Convertible Bonds is the residual amount, which is after deducting the allocated issuance cost of the 2007 Convertible Bonds relating to the liability component and the fair value of the derivative component as at 24

April 2007. Interest expense is calculated using the effective interest method by applying the effective interest rate of 4.19% to the adjusted liability component.

2007 Convertible Bonds due on 24 April 2014 and have been fully paid by the Group at maturity.

(iv) On 26 February 2008, the Company issued 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 are guaranteed by Sinopec Group Company.

The initial recognition of the liability component of the Bond with Warrants is measured at 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. Interest expense is calculated using the effective interest method by applying the market interest rate of 5.40% to the liability component. On 4 March 2010, warrants of the bonds have already expired.

Bonds with Warrants due on 20 February 2014 and have been fully paid by the Group at maturity.

(v) On 1 March 2011, the Company 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, payable annually. The holders can convert the 2011 Convertible Bonds into shares of the Company 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 the Company (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 the Company'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 the Company's A Shares for the twenty trading days prior to the shareholders' approval, (b) the average trading price of the Company'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.

As at 30 June 2014, the carrying amounts of the liability component and the derivative component were RMB 20,178 million (2013: RMB 20,913million) and RMB 2,641 million (2013: RMB 548 million), respectively.

During the six-month period ended 30 June 2014, the conversion price of the 2011 Convertible Bonds was adjusted to RMB 4.98 per share as a result of cash dividends, bonus issues and capitalisation.

During the six-month period ended 30 June 2014, RMB 1,181 million of the 2011 Convertible Bonds were converted into 230,228,853 A shares of the Company.

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26 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

Note: (Continued)

(v) (Continued)

As at 30 June 2014 and 31 December 2013, the fair value of the derivative component of the 2011 Convertible Bonds was calculated using the Binomial Model. The followings are the major inputs used in the Binomial Model:

	At 30 June 2014	At 31 December 2013
Stock price of A shares	RMB 5.27	RMB 4.48
Conversion price	RMB 4.98	RMB 5.13
Credit spread	162 basis points	95 basis points
RMB onshore swap rate	3.90%	5.23%

Any change in the major inputs into the Binomial Model will result in changes in the fair value of the derivative component. The changes in the fair value of the derivative component from 31 December 2013 to 30 June 2014 resulted in an unrealised loss of RMB 2,221 million (2013: unrealised gain of RMB 682 million), which has been recorded in the "finance costs" section of the consolidated income statement for the six-month period ended 30 June 2014.

The initial carrying amount of the liability component of the 2011 Convertible Bonds is the residual amount, after deducting the allocated issuance cost of the 2011 Convertible Bonds relating to the liability component and the fair value of the derivative component as at 1 March 2011. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.10% to the adjusted liability component.

27 TRADE ACCOUNTS AND BILLS PAYABLES

	30 June 2014 RMB million	31 December 2013 RMB million
Amounts due to third parties	204,393	192,082
Amounts due to Sinopec Group Company and fellow subsidiaries	12,097	8,114
Amounts due to associates and joint ventures	4,756	2,528
	221,246	202,724
Bills payable	3,550	4,526
Trade accounts and bills payables measured at amortised cost	224,796	207,250

The aging analysis of trade accounts and bills payables are as follows:

	30 June	31 December

	2014	2013
	RMB million	RMB million
Within 1 month	209,420	194,108
After 1 month but within 6 months	9,977	8,548
After 6 months	5,399	4,594
	224,796	207,250

28 ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2014	31 December 2013
	RMB million	RMB million
Salaries and welfare payable	3,120	818
Interest payable	1,122	2,290
Other payables	59,522	78,003
Financial liabilities carried at amortised costs	63,764	81,111
Taxes other than income tax	28,120	32,792
Receipts in advance	75,879	81,079
Derivative financial instruments	7,456	2,624
	175,219	197,606

29 PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has mainly committed to the PRC government to established certain standardised measures for the dismantlement of its oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its oil and gas properties.

Movement of provision of the Group's obligations for the dismantlement of its oil and gas properties is as follow:

	2014 RMB million	2013 RMB million
Balance at 1 January	26,004	21,525
Provision for the period	603	1,440
Accretion expenses	497	369
Utilised	(44)	(3)
Exchange adjustment	(15)	(16)
Balance at 30 June	27,045	23,315

30 SHARE CAPITAL

	30 June 2014 RMB million	31 December 2013 RMB million
Issued and fully paid		
91,282,104,040 listed A shares (2013: 91,051,875,187) of RMB 1.00 each	91,282	91,052
25,513,438,600 listed H shares (2013: 25,513,438,600) of RMB 1.00 each	25,513	25,513
	116,795	116,565

The Company was established on 25 February 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorised to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HKD 1.59 per H share and USD 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

During the year ended 31 December 2011, the Company issued 34,662 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2012, the Company issued 117,724,450 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

On 14 February 2013, the Company issued 2,845,234,000 listed H shares (the "Placing") with a par value of RMB 1.00 each at the Placing Price of HKD 8.45 per share. The aggregate gross proceeds from the Placing amounted to approximately HKD 24,042,227,300 and the aggregate net proceeds (after deduction of the commissions and estimated expenses) amounted to approximately HKD 23,970,100,618.

30 SHARE CAPITAL (Continued)

In June 2013, the Company issued 21,011,962,225 listed A shares and 5,887,716,600 listed H shares as a result of bonus issues of 2 shares converted from the retained earnings (note 11), and 1 share transferred from the share premium for every 10 existing shares.

During the six-month period ended 30 June 2014, the Company issued 230,228,853 listed A shares (2013: 114,076 listed A shares) with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

All A shares and H shares rank pari passu in all material aspects.

Capital management
Management optimises the structure of the Group's capital, which comprises of equity and debts. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of the debt-to-capital ratio, which is calculated by dividing long-term loans (excluding current portion), including long-term debts and loans from Sinopec Group Company and fellow subsidiaries, by the total of equity attributable to owners of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio of the Group at a range considered reasonable. As at 30 June 2014, the debt-to-capital ratio and the liability-to-asset ratio of the Group were 18.8% (2013: 20.4%) and 55.1% (2013: 55.1%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 26 and 31, respectively.

There were no changes in the management's approach to capital management of the Group during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments
The Group leases land and buildings, service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 30 June 2014 and 31 December 2013, the future minimum lease payments under operating leases are as follows:

	30 June 2014 RMB million	31 December 2013 RMB million
Within one year	12,394	13,507
Between one and two years	12,134	13,064
Between two and three years	11,934	12,850
Between three and four years	11,774	12,742
Between four and five years	11,762	12,656
Thereafter	297,219	307,268

	357,217	372,087

Capital commitments
At 30 June 2014 and 31 December 2013, capital commitments are as follows:

	30 June 2014 RMB million	31 December 2013 RMB million
Authorised and contracted for	124,003	181,428
Authorised but not contracted for	120,677	111,169
	244,680	292,597

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects and the construction of service stations and oil depots.

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31 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the 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.

Estimated future annual payments are as follows:

	30 June 2014 RMB million	31 December 2013 RMB million
Within one year	305	318
Between one and two years	118	140
Between two and three years	31	38
Between three and four years	21	24
Between four and five years	19	19
Thereafter	817	835
	1,311	1,374

Contingent liabilities

At 30 June 2014 and 31 December 2013, guarantees in respect of facilities granted to the parties below were as follows:

	30 June 2014 RMB million	31 December 2013 RMB million
Joint ventures	382	438
Others	5,528	5,425
	5,910	5,863

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 30 June 2014 and 31 December 2013, it was not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for the Group's obligation under these guarantees arrangements.

Environmental contingencies

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect management's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 1,979 million for the six-month period ended 30 June 2014 (2013: RMB 2,267 million).

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 unfavourable 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.

32 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to control or common control. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and joint ventures

The Group is part of a larger group of companies under Sinopec Group Company, which is controlled by the PRC government, and has significant transactions and relationships with Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The principal related party transactions with Sinopec Group Company and fellow subsidiaries, associates and joint ventures, which were carried out in the ordinary course of business, are as follows:

	Note	2014 RMB million	2013 RMB million
Sales of goods	(i)	157,629	155,431
Purchases	(ii)	66,374	75,026
Transportation and storage	(iii)	743	676
Exploration and development services	(iv)	12,654	17,536
Production related services	(v)	3,411	4,589
Ancillary and social services	(vi)	3,269	3,216
Operating lease charges	(vii)	5,752	5,520
Agency commission income	(viii)	66	63
Interest income	(ix)	58	73
Interest expense	(x)	690	726
Net deposits withdrawn from related parties	(ix)	453	2,271
Net loans obtained from related parties	(xi)	36,725	13,439

The amounts set out in the table above in respect of the six-month periods ended 30 June 2014 and 2013 represent the relevant costs and income as determined by the corresponding contracts with the related parties.

At 30 June 2014 and 31 December 2013, there were no guarantees given to banks by the Group in respect of banking facilities to related parties, except for the guarantees disclosed in Note 31.

Note:

(i)

Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.

(ii) Purchases represent the purchase of materials and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.

(iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.

(iv) Exploration and development services comprise direct costs incurred in the exploration and development such as geophysical, drilling, well testing and well measurement services.

(v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, firefighting, security, product quality testing and analysis, information technology, design and engineering, construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.

(vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.

(vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and equipment.

(viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of materials for certain entities owned by Sinopec Group Company.

(ix) Interest income represents interest received from deposits placed with Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 30 June 2014 was RMB 6,087 million (2013: RMB 6,540 million).

(x) Interest expense represents interest charges on the loans and advances obtained from Sinopec Group Company and fellow subsidiaries.

(xi) The Group obtained or repaid loans from or to Sinopec Group Company and fellow subsidiaries.

Explanation of Responses:

32 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and joint ventures (Continued)

In connection with the Reorganisation effective form 1 January 2013, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the six-month period ended 30 June 2014. The terms of these agreements are summarised as follows:

(a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

the government-prescribed price;

where there is no government-prescribed price, the government-guidance price;

where there is neither a government-prescribed price nor a government-guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

(b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as described in the above Mutual Provision Agreement.

(c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain lands and buildings effective on 1 January 2000. The lease term is 40 or 50 years for lands and 20 years for buildings, respectively. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and the rental amount is approximately RMB 10,800 million per annum (2013: RMB 10,800 million). The Company and Sinopec Group Company can renegotiate the rental amount for buildings every year. However such amount cannot exceed the market price as determined by an independent third party.

(d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company.

(e) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and joint ventures included in the following accounts captions are summarised as follows:

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Trade accounts receivable	14,321	18,402
Prepaid expenses and other current assets	3,906	2,276
Long-term prepayments and other assets	13,422	11,378
Total	31,649	32,056
Trade accounts payable	16,853	10,642
Accrued expenses and other payables	15,540	22,369
Other long-term liabilities	5,222	4,102
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	91,154	54,064
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	37,991	38,356
Total	166,760	129,533

32 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and joint ventures (Continued)

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 26.

The long-term borrowings mainly include an interest-free loan with a maturity period of 20 years amounting to RMB 35,560 million from the Sinopec Group Company (a state-owned enterprise) through the Sinopec Finance. This borrowing is a special arrangement to reduce financing costs and improve liquidity of the Company during its initial global offering in 2000.

As at and for the six-month period ended 30 June 2014, and as at and for the year ended 31 December 2013, no individually significant impairment losses for bad and doubtful debts were recognised in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and joint ventures.

(b) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensation is as follows:

	Six-month periods ended 30 June	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	5,010	5,530
Retirement scheme contributions	275	286
	5,285	5,816

Total emoluments are included in "personnel expenses" as disclosed in Note 6.

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 33. As at 30 June 2014 and 31 December 2013, the accrual for the contribution to post-employment benefit plans was not material.

(d) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled energy and chemical enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations (collectively referred as “state-controlled entities”).

Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group has transactions with other state-controlled entities, include but not limited to the followings:

sales and purchases of goods and ancillary materials;

rendering and receiving services;

lease of assets;

depositing and borrowing money; and

uses of public utilities.

These transactions are conducted in the ordinary course of the Group’s business on terms comparable to those with other entities that are not state-controlled.

33 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 18.0% to 23.0% of the salaries, bonuses and certain allowances of its staff. In addition, the Group provides a supplementary retirement plan for its staff at rates not exceeding 5% of the salaries. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six-month period ended 30 June 2014 were RMB 3,910 million (2013: RMB 3,617 million).

34 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

(i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.

(ii) Refining, which processes and purifies crude oil, that is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.

(iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.

(iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.

(v) Corporate and others, which largely comprises the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production, refining, marketing and distribution, chemicals, and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics.

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34 SEGMENT REPORTING (Continued)

(1) Information of reportable segmental revenues, profits or losses, assets and liabilities

The Group's chief operating decision maker evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. Inter-segment transfer pricing is based on the market price or cost plus an appropriate margin, as specified by the Group's policy.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for interest in associates and joint ventures, investments, deferred tax assets, cash and cash equivalents, time deposits with financial institutions and other unallocated assets. Segment liabilities exclude short-term, income tax payable, long-term debts, loans from Sinopec Group Company and fellow subsidiaries, deferred tax liabilities and other unallocated liabilities.

Information of the Group's reportable segments is as follows:

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Turnover		
Exploration and production		
External sales	34,744	27,992
Inter-segment sales	73,381	81,651
	108,125	109,643
Refining		
External sales	90,486	95,953
Inter-segment sales	559,040	545,502
	649,526	641,455
Marketing and distribution		
External sales	718,961	724,184
Inter-segment sales	2,377	3,507
	721,338	727,691
Chemicals		
External sales	177,223	180,264
Inter-segment sales	32,541	27,854
	209,764	208,118
Corporate and others		
External sales	316,750	367,541
Inter-segment sales	328,294	313,914
	645,044	681,455
Elimination of inter-segment sales	(995,633)	(972,428)
Turnover	1,338,164	1,395,934

Other operating revenues		
Exploration and production	5,702	7,599
Refining	2,443	2,791
Marketing and distribution	5,589	5,061
Chemicals	3,628	3,403
Corporate and others	646	456
Other operating revenues	18,008	19,310
Turnover and other operating revenues	1,356,172	1,415,244

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34 SEGMENT REPORTING (Continued)

(1) Information of reportable segmental revenues, profits or losses, assets and liabilities (Continued)

	Six-month periods ended 30 June 2014 RMB million	2013 RMB million
Result		
Operating profit/(loss)		
By segment		
– Exploration and production	28,263	30,949
– Refining	9,755	213
– Marketing and distribution	18,794	16,852
– Chemicals	(3,968)	(409)
– Corporate and others	(261)	(1,014)
– Elimination	(315)	150
Total segment operating profit	52,268	46,741
Share of profits from associates and joint ventures		
– Exploration and production	1,513	109
– Refining	(66)	(266)
– Marketing and distribution	447	195
– Chemicals	(484)	286
– Corporate and others	566	550
Aggregate share of profits from associates and joint ventures	1,976	874
Investment income		
– Exploration and production	1	—
– Refining	3	3
– Marketing and distribution	98	33
– Corporate and others	174	14
Aggregate investment income	276	50
Net finance costs	(8,761)	(2,531)
Profit before taxation	45,759	45,134

	At 30 June 2014 RMB million	At 31 December 2013 RMB million
Assets		
Segment assets		
– Exploration and production	417,026	406,237
– Refining	323,649	329,236
– Marketing and distribution	281,530	273,872
– Chemicals	145,487	156,373
– Corporate and others	145,791	107,197
Total segment assets	1,313,483	1,272,915
Interest in associates and joint ventures	78,004	75,318
Investments	4,271	3,730

Deferred tax assets	5,563	4,141
Cash and cash equivalents and time deposits with financial institutions	14,346	15,101
Other unallocated assets	13,876	11,711
Total assets	1,429,543	1,382,916
Liabilities		
Segment liabilities		
– Exploration and production	76,526	104,233
– Refining	67,706	69,029
– Marketing and distribution	95,389	101,564
– Chemicals	22,008	23,670
– Corporate and others	163,503	129,816
Total segment liabilities	425,132	428,312
Short-term debts	108,675	109,806
Income tax payable	5,107	3,096
Long-term debts	97,431	107,234
Loans from Sinopec Group Company and fellow subsidiaries	129,145	92,420
Deferred tax liabilities	9,224	7,977
Other unallocated liabilities	13,286	12,445
Total liabilities	788,000	761,290

34 SEGMENT REPORTING (Continued)

(1) Information of reportable segmental revenues, profits or losses, assets and liabilities (Continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
Capital expenditure		
Exploration and production	20,743	24,996
Refining	6,592	7,710
Marketing and distribution	5,830	11,612
Chemicals	4,670	5,283
Corporate and others	1,351	2,374
	39,186	51,975
Depreciation, depletion and amortisation		
Exploration and production	23,164	21,186
Refining	7,333	6,661
Marketing and distribution	6,007	5,353
Chemicals	5,970	5,113
Corporate and others	759	656
	43,233	38,969
Impairment losses on long-lived assets		
Refining	8	44
Marketing and distribution	39	—
Chemicals	1,025	—
	1,072	44

(2) Geographical information

The following tables set out information about the geographical information of the Group's external sales and the Group's non-current assets, excluding financial instruments and deferred tax assets. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

	Six-month periods ended 30 June	
	2014	2013
	RMB million	RMB million
External sales		
Mainland China	1,023,133	1,034,044
Others	333,039	381,200
	1,356,172	1,415,244

	30 June	31 December
	2014	2013
	RMB million	RMB million

Non-current assets		
Mainland China	931,221	941,046
Others	56,098	51,181
	987,319	992,227

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35 PRINCIPAL SUBSIDIARIES

At 30 June 2014, the following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Particulars of issued capital (million)	Interests held by the Company %	Interests held by non-controlling interests %	Principal activities
China Petrochemical International Company Limited	RMB 1,400	100.00	—	Trading of petrochemical products
Sinopec Sales Company Limited (i)	RMB 20,000	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 13,203	100.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited ("Fujian Petrochemical") (ii)	RMB 5,745	50.00	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	60.00	40.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	60.00	40.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 5,000	85.00	15.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum and Chemical Company Limited	RMB 3,000	100.00	—	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petroleum Limited	RMB 1,840	55.00	45.00	Marketing and distribution of refined petroleum products
Sinopec (Hong Kong) Limited	HKD 13,277	100.00	—	Trading of crude oil and petrochemical products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	75.00	25.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical")	RMB 7,200	50.56	49.44	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited ("Sinopec Kantons")	HKD 248	60.34	39.66	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng Chemical Fibre") (ii)	RMB 4,000	40.25	59.75	Production and sale of polyester chips and polyester fibres
Sinopec Qingdao Petrochemical Company Limited	RMB 1,595	100.00	—	Manufacturing of intermediate petrochemical products and

				petroleum products
Sinopec Chemical Sales Company Limited	RMB 1,000	100.00	—	Marketing and distribution of petrochemical products
Sinopec International Petroleum Exploration and Production Limited (“SIPL”)	RMB 8,000	100.00	—	Investment in exploration, production and sales of petroleumand natural gas
Sinopec Fuel Oil Sales Company Limited	RMB 2,200	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Great Wall Energy & Chemical Co., Ltd	RMB 17,710	100.00	—	Coal chemical industry investment management, and production and sales of coal chemical products

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35 PRINCIPAL SUBSIDIARIES (Continued)

Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the above principal subsidiaries are incorporated and operate their businesses principally in the PRC. All of the above principal subsidiaries are limited companies.

Note:

(i) According to the resolution of the company's Meeting of Board of Directors held on 19 February 2014, the management and control of the assets under the marketing and distribution segment of the Group have been transferred to Sinopec Sales company Limited, a wholly-owned subsidiary of the Group as of 1 April 2014.

(ii) The Group consolidated the financial statements of these entities because it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Summarised financial information on subsidiaries with material non-controlling interests
Set out below are the summarised financial information which the amount before inter-company eliminations for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Fujian Petrochemical		Shanghai Petrochemical (iii)	Sinopec Kantons (iii)	Yizheng Chemical Fibre (iii)	SIPL	
	At 30 June 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2013 RMB million	At 31 December 2013 RMB million	At 31 December 2013 RMB million	At 30 June 2014 RMB million	At 31 December 2013 RMB
Current assets	464	281	14,486	1,887	4,320	15,004	13,983
Current liabilities	(320)	(197)	(18,017)	(972)	(3,505)	(2,477)	(2,414)
Total current net assets/(liabilities)	144	84	(3,531)	915	815	12,527	11,569
Non-current assets	4,509	4,596	22,151	6,911	6,309	49,495	46,143
Non-current liabilities	(946)	(796)	(628)	(77)	(61)	(34,450)	(32,831)
Total non-current net assets	3,563	3,800	21,523	6,834	6,248	15,045	13,312
Net assets	3,707	3,884	17,992	7,749	7,063	27,572	24,881
Attributable to owners of the Company	1,854	1,942	8,399	4,692	2,822	8,776	7,494
Attributable to non-controlling interests	1,853	1,942	9,593	3,057	4,241	18,796	17,387

Note:

(iii) These three listed companies will announce their financial information for the year ended 30 June 2014 later than the Company, therefore their 2014 financial information is not currently disclosed.

Summarised statement of comprehensive income

Period ended 30 June	Fujian Petrochemical		Shanghai Petrochemical	Sinopec Kantons	Yizheng Chemical Fibre	SIPL	
	2014	2013		2013	2013	2014	2013
	RMB million	RMB million	2013 RMB million	RMB million	RMB million	RMB million	RMB million
Turnover	3,377	3,182	57,086	10,497	8,718	4,803	7,695
Profit/(loss) for the year	(304)	(178)	477	186	(491)	2,455	2,476
Total comprehensive income/(loss)	(303)	(178)	477	274	(491)	2,691	2,246
Profit/(loss) attributable to non-controlling interests	(152)	(89)	215	110	(285)	1,410	1,008
Dividends paid to non-controlling interests	—	—	18	28	—	—	—

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35 PRINCIPAL SUBSIDIARIES (Continued)

Summarised statement of cash flows

Period ended 30 June	Fujian Petrochemical 2014 RMB million	Fujian Petrochemical 2013 RMB million	Shanghai Petrochemical 2013 RMB million	Sinopec Kantons 2013 RMB million	Yizheng Chemical Fibre 2013 RMB million	SIPL 2014 RMB million	SIPL 2013 RMB million
Net cash generated from/(used in) operating activities	58	415	3,192	49	(725)	2,210	4,519
Net cash used in investing activities	(342)	(319)	(542)	(2,634)	(140)	(2,930)	(26,796)
Net cash generated from/(used in) financing activities	271	73	(2,521)	2,135	742	773	21,678
Net (decrease)/increase in cash and cash equivalents	(13)	169	129	(450)	(123)	53	(599)
Cash and cash equivalents at 1 January	222	28	161	1,950	162	2,467	824
Effect of foreign currency exchange rate changes	—	—	2	17	2	26	(44)
Cash and cash equivalents at 30 June	209	197	292	1,517	41	2,546	181

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Overview

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, amounts due from associates and joint ventures, available-for-sale financial assets, derivative financial instruments and other receivables. Financial liabilities of the Group include short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, derivative financial instruments and other payables.

The Group has exposure to the following risks from its uses of financial instruments:

credit risk;

liquidity risk;

market risk; and

equity price risk.

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management controls and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. Management performs ongoing credit evaluations of the Group's customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total trade accounts receivable. The details of the Group's credit policy and quantitative disclosures in respect of the Group's exposure on credit risk for trade receivables are set out in Note 22.

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, derivative financial instruments and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Management prepares monthly cash flow budget to ensure that the Group will always have sufficient liquidity to meet its financial obligations as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the Group's liquidity risk.

At 30 June 2014, the Group has standby credit facilities with several PRC financial institutions which provide borrowings up to RMB 299,123 million (2013: RMB 289,106 million) on an unsecured basis, at a weighted average interest rate of 3.40 % per annum (2013: 3.12%). At 30 June 2014, the Group's outstanding borrowings under these facilities were RMB 89,721 million (2013: RMB 44,966 million) and were included in debts.

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet date) and the earliest date the Group would be required to repay:

	30 June 2014					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Short-term debts	108,675	109,646	109,646	—	—	—
Long-term debts	97,431	114,349	3,477	10,093	68,162	32,617
Loans from Sinopec Group Company and fellow subsidiaries	129,145	130,148	91,920	122	2,546	35,560
Trade accounts payable	221,246	221,246	221,246	—	—	—
Bills payable	3,550	3,550	3,550	—	—	—
Accrued expenses and other payables	71,220	71,220	71,220	—	—	—
	631,267	650,159	501,059	10,215	70,708	68,177

	31 December 2013		
		Total contractual	Within

	Carrying amount RMB million	undiscounted cash flow RMB million	1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Short-term debts	109,806	111,753	111,753	—	—	—
Long-term debts	107,234	134,403	3,942	14,799	82,326	33,336
Loans from Sinopec Group Company and fellow subsidiaries	92,420	93,030	54,373	484	2,613	35,560
Trade accounts payable	202,724	202,724	202,724	—	—	—
Bills payable	4,526	4,526	4,526	—	—	—
Accrued expenses and other payables	83,735	83,735	83,735	—	—	—
	600,445	630,171	461,053	15,283	84,939	68,896

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's working capital requirements and repay its short-term debts and obligations when they become due.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts and loans from Sinopec Group Company and fellow subsidiaries denominated in US Dollars, Japanese Yen and Hong Kong Dollars. The Group enters into foreign exchange contracts to manage its currency risk exposure.

Included in short-term and long-term debts and loans from Sinopec Group Company and fellow subsidiaries of the Group are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	30 June 2014 million	31 December 2013 million
Gross exposure arising from loans and borrowings		
US Dollars	USD 8,747	USD 4,118
Japanese Yen	JPY 9,190	JPY 9,711
Hong Kong Dollars	HKD 6	HKD 13,931

A 5 percent strengthening of Renminbi against the following currencies at 30 June 2014 and 31 December 2013 would have increased profit for the period/year and retained earnings of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

	30 June 2014 RMB million	31 December 2013 RMB million
US Dollars	2,018	941
Japanese Yen	21	21
Hong Kong Dollars	—	411

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity within the Group.

Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of short-term and long-term debts, and loans from Sinopec Group Company and fellow subsidiaries of the Group are disclosed in Note 26.

As at 30 June 2014, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit for the period and retained earnings by approximately RMB 1,040 million (2013: RMB 411million). This sensitivity analysis has been determined assuming that the change of interest rates was applied to the Group's debts outstanding at the balance sheet date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2013.

Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil, refined oil products and chemical products. The fluctuations in prices of crude oil, refined oil products and chemical products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As at 30 June 2014, the Group had certain commodity contracts of crude oil, refined oil products and chemical products designated as qualified cash flow hedges and economic hedges. The fair values of these derivative financial instruments as at 30 June 2014 are set out in Notes 24 and 28.

As at 30 June 2014, it is estimated that a general increase/decrease of USD 10 per barrel in crude oil and refined oil products, with all other variables held constant, would decrease/increase the Group's profit for the period and retained earnings by approximately RMB 190 million (2013: decrease/increase RMB 123 million), and increase/decrease the Group's other reserves by approximately RMB 737 million (2013: increase/decrease RMB 36 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2013.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. At 30 June 2014, the Group's exposure to equity price risk is the derivatives embedded in the 2011 Convertible Bonds issued by the Company as disclosed in Note 26(v), respectively.

As at 30 June 2014, it is estimated that an increase of 20% in the Company's own share price would decrease the Group's profit for the period and retained earnings by approximately RMB 3,084 million (2013: RMB 1,333 million); a decrease of 20% in the Company's own share price would increase the Group's profit for the period and retained earnings by approximately RMB 1,676 million (2013: RMB 737million). This sensitivity analysis has been determined assuming that the changes in the Company's own share price had occurred at the balance sheet date and that all other variables remain constant. The analysis is performed on the same basis for 2013.

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, 'Financial Instruments: Disclosures', with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 30 June 2014

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	2,791	—	—	2,791
Derivative financial instruments:				

– Derivative financial assets	1,912	7,492	—	9,404
	4,703	7,492	—	12,195
Liabilities				
Derivative financial instruments:				
– Embedded derivative components of the convertible bonds	—	2,641	—	2,641
– Other derivative financial liabilities	1,823	5,634	—	7,457
	1,823	8,275	—	10,098

At 31 December 2013

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	1,964	—	—	1,964
Derivative financial instruments:				
– Derivative financial assets	348	4,316	—	4,664
	2,312	4,316	—	6,628
Liabilities				
Derivative financial instruments:				
– Embedded derivative components of the convertible bonds	—	548	—	548
– Other derivative financial liabilities	339	2,285	—	2,624
	339	2,833	—	3,172

During the six-month period ended 30 June 2014 there were no transfers between instruments in Level 1 and Level 2.

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36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

Fair values (Continued)

(ii) Fair values of financial instruments carried at other than fair value

The disclosures of the fair value estimates, and their methods and assumptions of the Group's financial instruments, are made to comply with the requirements of IFRS 7 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair values of the Group's financial instruments carried at other than fair value (other than long-term indebtedness and investments in unquoted equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group that range from 0.33% to 6.55 % (2013: 0.37% to 7.03%). The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 30 June 2014 and 31 December 2013:

	30 June 2014 RMB million	31 December 2013 RMB million
Carrying amount	106,918	151,852
Fair value	101,314	149,694

The Group has not developed an internal valuation model necessary to estimate the fair values of loans from Sinopec Group Company and fellow subsidiaries as it is not considered practicable to estimate their fair values because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganisation, the Group's existing capital structure and the terms of the borrowings.

Investments in unquoted equity securities are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs. The Group intends to hold these unquoted other investments in equity securities for long term purpose.

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values at 30 June 2014 and 31 December 2013.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the interim financial statements. Management bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of such policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the interim financial statements. The significant accounting policies are set forth in Note 2. Management believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated interim financial statements.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Oil and gas properties and reserves

The accounting for the exploration and development's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalised and written-off or depreciated over time.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements 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 relation to 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 capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews the estimated useful lives of the assets at least annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the Group's customers to make the required payments. Management bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Allowance for diminution in value of inventories

If the costs of inventories become higher than their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable 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. Management bases 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.

38 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 30 June 2014 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

(C) DIFFERENCES BETWEEN CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE ACCOUNTING POLICIES COMPLYING WITH ASBE AND IFRS (UNAUDITED)

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's consolidated financial statements prepared in accordance with the accounting policies complying with ASBE and IFRS. The reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, presentation or disclosures. Such information has not been subject to independent audit or review. The major differences are:

(I) GOVERNMENT GRANTS

Under ASBE, grants from the government are credited to capital reserve if required by relevant governmental regulations. Under IFRS, government grants relating to the purchase of fixed assets are recognised as deferred income and are transferred to the income statement over the useful life of these assets.

(II) SAFETY PRODUCTION FUND

Under ASBE, safety production fund should be recognised in profit or loss with a corresponding increase in reserve according to PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related fixed assets are purchased, is reduced by the purchased cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRS, payments are expensed as incurred, or capitalised as fixed assets and depreciated according to applicable depreciation methods.

Effects of major differences between the net profit under ASBE and the profit for the period under IFRS are analysed as follows:

	Note	Six-month periods ended 30 June	
		2014	2013
		RMB million	RMB million
Net profit under ASBE		32,694	31,504
Adjustments:			
Government grants	(i)	56	56
Safety production fund	(ii)	1,101	847
Profit for the period under IFRS*		33,851	32,407

Effects of major differences between the shareholders' equity under ASBE and the total equity under IFRS are analysed as follows:

	Note	At 30 June	At 31 December
		2014	2013
		RMB million	RMB million
Shareholders' equity under ASBE		643,121	623,260
Adjustments:			
Government grants	(i)	(1,578)	(1,634)
Safety production fund	(ii)	—	—
Total equity under IFRS*		641,543	621,626

* The figures are extracted from the consolidated financial statements prepared in accordance with the accounting policies complying with IFRS which have been audited by PricewaterhouseCoopers.

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DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours after 22 August 2014 (Friday) at the registered address of Sinopec Corp. upon requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and relevant laws and regulations:

1 The original interim report for the first half of 2014 signed by Mr. Fu Chengyu, Chairman of the Board;

2 The original audited financial statements and consolidated financial statements of Sinopec Corp. for the six-month period ended 30 June 2014 prepared in accordance with IFRS and/or the ASBE, signed by Mr. Fu Chengyu, Chairman of the Board, Mr. Li Chunguang, Director and President, Mr. Wang Xinhua, Chief Financial Officer and Mr. Wang Dehua, head of the Corporate Finance Department of Sinopec Corp.;

3 The original auditors' reports in respect of the above financial statements signed by the auditors; and

4 All original documents and announcements published by Sinopec Corp. in the newspapers specified by the CSRC during the reporting period.

By Order of the Board

Fu Chengyu
Chairman

Beijing, PRC, 22 August 2014

This report is published in both English and Chinese. Should any conflict regarding the meaning arises, the Chinese version shall prevail.

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SIGNATURE

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

China Petroleum & Chemical Corporation

By: /s/ Huang Wensheng

Name: Huang Wensheng

Title: Secretary to the Board of Directors

Date: August 23, 2014