

CHINA PETROLEUM & CHEMICAL CORP  
Form 6-K  
April 07, 2017

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 6-K  
Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
The Securities Exchange Act of 1934

For the month of March, 2017

CHINA PETROLEUM & CHEMICAL CORPORATION  
22 Chaoyangmen North Street,  
Chaoyang District, Beijing, 100728  
People's Republic of China  
Tel: (8610) 59960114

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b):  
82-\_\_\_\_\_.)

N/A

This Form 6-K consists of:

A copy of 2016 annual report of China Petroleum & Chemical Corporation (the “Registrant”) filed with the Hong Kong Exchanges and Clearing Limited.

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: Vice President and Secretary to the Board of Directors

Date: March 28, 2017

3

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Document 1

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## CONTENTS

2	Company Profile
3	Principal Financial Data and Indicators
6	Changes in Share Capital and Shareholdings of Principal Shareholders
8	Chairman's Statement
11	Business Review and Prospects
19	Management's Discussion and Analysis
29	Significant Events
39	Connected Transactions
43	Corporate Governance
50	Report of the Board of Directors
58	Report of the Board of Supervisors
60	Directors, Supervisors, Senior Management and Employees
74	Principal Wholly-owned and Controlled Subsidiaries
75	Financial Statements
209	Corporate Information
210	Documents for Inspection

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, reserve and other estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward- looking statements referred to herein as at 24 March 2017 and unless required by regulatory

authorities, the Company undertakes no obligation to update these statements.

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## COMPANY PROFILE

IMPORTANT NOTICE: THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF SINOPEC CORP. WARRANT THAT THERE ARE NO FALSE REPRESENTATIONS, MISLEADING STATEMENTS OR MATERIAL OMISSIONS IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON- OPERATING FUNDS BY THE CONTROLLING SHAREHOLDERS OF SINOPEC CORP. MR. WANG YUPU, CHAIRMAN OF THE BOARD OF DIRECTORS, MR. DAI HOULIANG, VICE CHAIRMAN AND PRESIDENT, MR. WANG DEHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE FINANCIAL DEPARTMENT OF SINOPEC CORP. WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THE ANNUAL RESULTS OF SINOPEC CORP. FOR THE YEAR ENDED 31 DECEMBER 2016.

THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 OF THE COMPANY PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (ASBE) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) HAVE BEEN AUDITED BY PRICEWATERHOUSECOOPERS ZHONG TIAN LLP AND PRICEWATERHOUSECOOPERS RESPECTIVELY. BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED AUDITOR'S REPORT.

AS APPROVED BY THE 12TH MEETING OF THE SIXTH SESSION OF THE BOARD OF DIRECTORS OF SINOPEC CORP., THE BOARD PROPOSED A FINAL CASH DIVIDEND OF RMB 0.17 (TAX INCLUSIVE) PER SHARE FOR 2016, COMBINING WITH THE INTERIM CASH DIVIDEND OF RMB 0.079 (TAX INCLUSIVE) PER SHARE, THE TOTAL CASH DIVIDEND FOR 2016 WILL BE RMB 0.249 (TAX INCLUSIVE) PER SHARE. THE DIVIDEND PROPOSAL IS SUBJECT TO THE SHAREHOLDERS' APPROVAL AT THE ANNUAL GENERAL MEETING FOR THE YEAR 2016.

Exploration and Production Refining Marketing and Distribution Chemicals

## COMPANY PROFILE

Sinopec Corp. is one of the largest integrated energy and chemical companies in China. Its principal operations include the exploration and production, pipeline transportation and sale of petroleum and natural gas; the production, sale, storage and transportation of refinery products, petrochemical products, coal chemical products, synthetic fibre, and other chemical products; the import and export, including an import and export agency business, of petroleum, natural gas, petroleum products, petrochemical and chemical products, and other commodities and technologies; and research, development and application of technologies and information.



DEFINITIONS:

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:

Sinopec Corp.: China Petroleum & Chemical Corporation;

Company: Sinopec Corp. and its subsidiaries;

China Petrochemical Corporation: our controlling shareholder, China Petrochemical Corporation;

Sinopec group: China Petrochemical Corporation and its subsidiaries;

Sichuan-to-East China Pipeline Co.: Sinopec Sichuan-to-East China Natural Gas Pipeline Co., Ltd;

RMC: Oil and Natural Gas Reserves Management Committee of the Company;

CSRC: China Securities Regulatory Commission.

Hong Kong Stock Exchange: The Stock Exchange of Hong Kong Limited Hong Kong Listing Rules: Listing Rules of the Hong Kong Stock Exchange

Conversion:

For domestic production of crude oil, 1 tonne = 7.1 barrels;

For overseas production of crude oil: 2016, 1 tonne = 7.20 barrels; 2015, 1 tonne = 7.21 barrels; 2014, 1 tonne = 7.22 barrels;

For production of natural gas, 1 cubic meter = 35.31 cubic feet;

Refinery throughput is converted at 1 tonne = 7.35 barrels.

## PRINCIPAL FINANCIAL DATA AND INDICATORS

## 1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ASBE

## (1) Principal financial data

Items	For the year ended 31 December			
	2016 RMB Million	2015 RMB Million	Change (%)	2014 RMB Million
Operating income	1,930,911	2,020,375	(4.4)	2,827,566
Operating profit	78,876	52,246	51.0	65,798
Profit before taxation	79,877	56,093	42.4	66,795
Net profit attributable to equity shareholders of the Company	46,416	32,281	43.8	47,603
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	29,713	28,901	2.8	43,238
Net cash flow from operating activities	214,543	165,740	29.4	148,019

Items	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Operating income	414,061	465,159	484,725	566,966	1,930,911
Net profit attributable to equity shareholders of the Company	6,190	13,060	9,916	17,250	46,416
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	6,403	11,887	10,047	1,376	29,713
Net cash flow from operating activities	34,285	41,827	55,588	82,843	214,543

Items	2016	2015	Change	2014
	RMB million	RMB million	%	RMB million
Total assets	1,498,609	1,447,268	3.5	1,455,594
Total liabilities	666,084	657,703	1.3	804,473
Total equity attributable to equity shareholders of the Company	712,232	677,538	5.1	596,697
Total number of shares (1,000 shares)	121,071,210	121,071,210	—	118,280,396

## (2) Principal financial indicators

Items	For the year ended 31 December			
	2016	2015	Change	2014
	RMB	RMB	%	RMB
Basic earnings per share	0.383	0.267	43.4	0.407

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Diluted earnings per share	0.3830.26743.4	0.406
Basic earnings per share (excluding extraordinary gains and losses)	0.2450.2392.5	0.370
Weighted average return on net assets (%)	6.68 5.07	1.61 percentage8.14 points
Weighted average return (excluding extraordinary gains and losses) on net assets (%)	4.33 4.52	(0.19) percentage7.42 points
Net cash flow from operating activities per share	1.7721.37129.2	1.267

Items	2016 RMB	2015 RMB	Change %	2014 RMB
Net assets attributable to equity shareholders of the Company per share	5.8835.6064.9	5.108	(0.99)	
Liabilities to assets ratio (%)	44.4545.44	percentage55.27	points	

## (3) Extraordinary items and corresponding amounts

Items	For the year ended 31 December		
	2016	2015	2014
	RMB	RMB	RMB
	million	million	million
Net loss on disposal of non-current assets	1,528	721	1,622
Donations	133	112	125
Government grants	(3,987)	(5,002)	(3,165)
Gain on holding and disposal of various investments	(518)	(943)	(4,680)
Investment income in Sichuan-to-East China Pipeline Co. recalculated after losing control	(20,562)	—	—
Other non-operating expenses, net	1,328	331	419
Gain on business combination under the same control	(86)	(134)	(314)
Subtotal	(22,164)	(4,915)	(5,993)
Tax effect	5,578	1,060	1,420
Total	(16,586)	(3,855)	(4,573)
Attributable to: Equity shareholders of the Company	(16,703)	(3,380)	(4,365)
Minority interests	117	(475)	(208)

## (4) Items measured by fair values

Unit: RMB million

Items	Beginning of the year	End of the year	Influence on the profit	
			Changes of the year	of the year
Available-for-sale financial assets	261	262	1	10
Derivative financial instruments	403	314	(89)	195
Cash flow hedging	4,722	(4,024)	(8,746)	(5,975)
Total	5,386	(3,448)	(8,834)	(5,770)

## (5) Significant changes of items in the financial statements

The table below sets forth reasons for those changes where the fluctuation was more than 30% during the reporting period, or such changes which constituted 5% or more of total assets at the balance sheet date or more than 10% of profit before taxation:

Items	As of 31 December		Increase/(decrease) Percentage Amount (%)	Reasons for change
	2016	2015		
	RMB	RMB		
	Million	Million		

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Cash at bank and on hand	142,497	69,666	72,831	104.5	Significant Improvement on operating cash flow and decreased investment as compared with 2015, resulted in surplus cash
Long term equity investment	116,812	84,293	32,519	38.6	Mainly due to sale of equity in Sichuan-to-East China Pipeline Co., resulted in RMB 22.8 billion increase in long term equity in associates.
Short-term borrowings	30,374	74,729	(44,355)	(59.4)	Mainly due to increase in profits and decrease in demand for external funds, and the repayment of part of the short-term borrowings
Notes payable	5,828	3,566	2,262	63.4	The Company optimised its operating funds, and based on its trust worthy creditability, increased its credit line in using the notes
Accounts payable	174,301	130,558	43,743	33.5	Mainly due to the increase in trading volume of the trading business, resulted in an increase of RMB 30.5 billion in the accounts payable to the third parties.
Tax payable	52,886	32,492	20,394	62.8	Mainly due to significant increase in profit from refineries as well as the impact of timing of the taxes submitted by enterprises
Short term bonds payable	6,000	30,000	(24,000)	(80.0)	Mainly due to the maturity of RMB 30 billion super short term financing papers, and issuance of RMB 12 billion super short term papers in 2016, with the year-end balance of RMB 6 billion
Income of investment	30,779	8,876	21,903	246.8	Mainly due to increased income from reorganisation of pipeline assets

<sup>2</sup> FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS

Unit: RMB million

Items	For the year ended 31 December				
	2016	2015	2014	2013	2012
Turnover and other operating revenues	1,930,911	2,020,375	2,827,566	2,881,928	2,787,684
Operating profit	77,193	56,822	73,439	96,763	98,604
Profit before taxation	80,151	56,411	65,818	95,444	91,012
Profit attributable to owners of the Company	46,672	32,512	46,639	66,348	64,082
Basic earnings per share (RMB)	0.385	0.269	0.399	0.571	0.568
Diluted earnings per share (RMB)	0.385	0.269	0.399	0.536	0.546
Return on capital employed (%)	7.30	5.23	6.06	8.03	9.10
Return on net assets (%)	6.56	4.81	7.84	11.62	12.48
Net cash generated from operating activities per share (RMB)	1.772	1.371	1.267	1.305	1.264

Unit: RMB million

Items	As of 31 December				
	2016	2015	2014	2013	2012
Non-current assets	1,086,348	1,113,611	1,094,035	1,012,703	895,761
Net current liabilities	73,282	129,175	242,892	197,440	146,743
Non-current liabilities	181,831	196,275	201,540	189,485	196,617
Non-controlling interests	120,241	111,964	54,348	54,691	39,086
Total equity attributable to owners of the Company	710,994	676,197	595,255	571,087	513,315
Net assets per share (RMB)	5.873	5.585	5.033	4.899	5.912
Adjusted net assets per share (RMB)	5.808	5.517	4.969	4.860	5.846

<sup>3</sup> MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS PLEASE REFER TO PAGE 202 OF THE REPORT.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

### 1 CHANGES IN THE SHARE CAPITAL

There is no change on the number and nature of shares of Sinopec Corp. during the reporting period

### 2 NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS

As of 31 December 2016, the total number of shareholders of Sinopec Corp. was 609,380 including 603,151 holders of domestic A shares and 6,229 holders of overseas H shares. As of 28 February 2017, the total number of shareholders of Sinopec Corp. was 579,998. Sinopec Corp. has complied with requirement for minimum public float under the Hong Kong Listing Rules.

#### (1) Shareholdings of top ten shareholders

The shareholdings of top ten shareholders as of 31 December 2016 are listed as below:

Unit: Share

Name of shareholders

China Petrochemical Corporation

HKSCC Nominees Limited<sup>2</sup>

HKSCC Nominees Limited

- - &#23450;&#23458;&#25142;

&#27888;&#21531;&#23433;

&#20132;&#36890;

&#25237;

-&#19978; 50&#20132;&#26131;&#22411;&#38283;&#25918;&#24335;&#25351;&#25976; &#25237;

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Note 1: As compared with the number of shares held as of 31 December 2015.

Note 2: Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of China Petrochemical Corporation, holds 553,150,000 H shares, accounting for 0.46% of the total issued share capital of Sinopec Crop. Those shareholdings are included in the total number of the shares held by HKSCC Nominees Limited.

Statement on the connected relationship or acting in concert among the above-mentioned shareholders:

We are not aware of any connected relationship or acting in concert among or between the above-mentioned shareholders.

6

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(2) Information disclosed by the shareholders of H shares in accordance with the Securities and Futures Ordinance (SFO)

BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	2,278,374,418(L)	8.93(L)
		1,558,000(S)	0.01(S)
JPMorgan Chase & Co.	Beneficial owner	492,573,324(L)	1.93(L)
		158,634,692(S)	0.62(S)
	Investment manager	31,602,000(L)	0.12(L)
	Trustee (exclusive of passive trustee)	20,400(L)	0.00(L)
	Custodian corporation/approved lending agent	908,006,153(L)	3.56(L)
Schroders Plc	Investment manager	1,275,857,318(L)	5.00(L)

(L): Long position, (S): Short position

### 3 ISSUANCE AND LISTING OF SECURITIES

(1) Issuance of securities in reporting period

There is no issuance of shares of Sinopec Corp. during the reporting period

(2) Existing employee shares

As at the end of the reporting period, there were no employee shares.

#### 4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

There was no change in the controlling shareholder and the de facto controller of Sinopec Corp. during the reporting period.

(1) Controlling shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation. Established in July 1998, China Petrochemical Corporation is a state-authorized investment organisation and a state-owned enterprise. The legal representative is Mr. Wang Yupu. Through re-organisation in 2000, China

Petrochemical Corporation injected its principal petroleum and petrochemical businesses into Sinopec Corp. and retained certain petrochemical facilities. It provides well-drilling services, well-logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services including water and power and social services.

Shares of other listed companies directly held by China Petrochemical Corporation

(2) Other than HKSCC Nominees Limited, there was no other legal person shareholder holding 10% or more of the total issued share capital of Sinopec Corp.

(3) Basic information of the de facto controller  
China Petrochemical Corporation is the de facto controller of Sinopec Corp.

(4) Diagram of the equity and controlling relationship between Sinopec Corp. and its de facto controller

\*: Inclusive of 553,150,000 H shares held by Sinopec Century Bright Capital Investment Ltd. (overseas wholly-owned subsidiary of China Petrochemical Corporation) through HKSCC Nominees Limited.



CHAIRMAN'S STATEMENT

Mr. Wang Yupu, Chairman

Dear Shareholders and Friends:

On behalf of the Board of Directors, the management and all the staff of Sinopec Corp., I would like to express my sincere gratitude to our shareholders and the wider community for your interest and support.

In 2016, as a result of low oil prices, the Company faced a challenging and complex operating environment. Given those conditions, on one hand, in light of the government's new thinking about the country's development, the Company took a visionary approach to the future. Guided by our strategies of value-oriented growth, innovation-driven development, integrated resource allocation, openness to cooperation, and green, low-carbon development, we formulated our 13th Five-Year Plan and has been continuously creating new and sustainable competitive advantages. On the

other hand, in view of the difficulties that low oil prices created for our upstream operations, along with slower growth in downstream demand and structural changes in the external environment, we intensified our reform initiatives and implemented stricter controls over our investment plans in tandem with a series of major reforms on the supply side. Over the past year, our focus on transformation of growth mode and structural adjustments allowed us to improve the quality and efficiency of our assets as well as upgrade our operations. Under the management's leadership, the entire staff united to advance these goals. We achieved significant improvement in our operating results through unremitting joint efforts to explore new markets, optimise our operations, reduce costs and improve risk management. Together, these achievements

represented an exceptional start to our 13th Five-Year Plan.

In 2016, in accordance with the IFRS, the Company recorded a turnover and other operating revenue of RMB 1,930.9 billion. Profit before taxation was RMB80.2 billion, represented a 42.1% increase year on year, of which profit attributable to owners of the Company amounted to RMB46.7 billion, represented a 43.6% increase year on year.

Taking into account the Company's profitability, shareholders return and the need for future development, the Board of Directors proposed a final dividend of RMB 0.17 per share, which, combined with the interim dividend of RMB 0.079 per share, brought the full-year dividend to RMB 0.249 per share. The dividend payout ratio reaches 64.6%.

Over the past year, in its efforts to implement supply-side structural reform, the Company benefited from its integrated value chain, which allows our businesses to complement each other well. As we increased the effective supply of petroleum and petrochemical products and related services to the community, we reaped economic benefits and improved our asset utilisation. To cope with harsh conditions in the upstream sector, we strengthened measures to rein in costs and address our weaknesses. At the same time, we gave priority to high-efficiency exploration activities and made a number of important new discoveries. In line with our emphasis on profitability, we made continuous improvements in our oil production and trimmed production of high-cost oilfields, thereby effectively controlling our production costs. The Company also continuously improves its energy structure by increasing production of shale gas. As a result, domestic gas production for the year reached 21.6 billion cubic meters, while we further developed Fuling shale gas field, China's first large-scale shale gas project, to an annual capacity of 7 billion cubic meters. Our energy structure improved steadily as our gas supply in the Yangtze River Economic Belt and the Beijing-Tianjin-Hebei region continued to grow. In

downstream operations, the Company achieved robust results by taking advantage of market opportunities to expand the effective supply of mid-range and high-end products. We optimised the structure of our refinery products according to market demand and vigorously promoted applications of new technologies, leading to a lower diesel- to-gasoline ratio. Moreover, we pressed ahead with upgrading of our oil product specification to ensure implementation of GB V standards for automobile gasoline and diesel fuels and the GB VI standards for Beijing. At the same time, we eliminated obsolete and low-efficiency production

facilities. In the chemical business, we adhered to development of basic and high-end chemicals. We further increased the proportion of high end products from three major synthetic materials. As we enhanced our efforts in new product development, we pressed ahead with integration of production, sales, research and consumption, striving to offer comprehensive solutions to customers. Meanwhile, we continuously adapted our marketing initiatives to reflect the latest market trends. With our superior network, we delivered more environmentally friendly premium gasoline products to the market. In addition, we complemented our marketing activities by growing our emerging businesses. We continuously expanded our business types and product varieties in an aim to provide one- stop service to our customers. Transaction value of our emerging business surged by 41%. These results mark an important milestone for us in our development as an comprehensive service provider.

In 2016, the Company further enhanced cooperation with our business partners. In our overseas operations, we were actively involved in expanding projects across the Belt and Road region and we continued to make progress in developing a number of major projects, such as the Yanbu refinery in Saudi Arabia, which commenced operations during the year. In our domestic businesses, the Company further strengthened its mixed-ownership operations and partnered with 14 provinces and cities in China to drive the development of our natural gas business. We brought in new investors to Sichuan-to-East China Pipeline Co.,

a result, we achieved effective control over our expenses and kept inventories at reasonable levels. Moreover, we enjoyed abundant free cash flow and maintained the ratio of liabilities to assets at a low level.

Over the past year, the Company actively fulfilled its social responsibilities and firmly established itself as a good corporate citizen. We advanced our green, low-carbon development initiatives as we delivered more environmentally friendly products. We also successfully concluded our Clear Water, Blue Sky environmental campaign, achieving further declines in the emissions of major pollutants. We stressed the importance of biodiversity and strove to minimise the environmental impact of our operations. Meanwhile, we continued to open up the Company to public scrutiny. As a people-oriented enterprise, we reinforced workplace safety for our employees and secured their legitimate rights and interests. In 2016, we earmarked a total of RMB 6.584 billion to promote social, educational, medical and healthcare development in the areas where we have operations. In addition, we stepped up targeted measures to combat poverty, reduce privation in impoverished areas in Qinghai and Tibet, with total donations amounted to RMB 133 million to help local residents achieve sustainable development.

Looking ahead to 2017, we expect the global political and economic landscape to become more complex, with international oil prices hovering at low levels. Meanwhile, we believe that more positive trends will emerge in China's economy, driving faster growth in domestic demand for petroleum and petrochemical products. The Company will adhere to its development strategies of value-oriented growth, innovation-driven development,

assets. We will take advantage of opportunities that arise from the government's support policies, including reforms in the oil and gas sector and in state-owned enterprises as well as the Belt and Road initiative, to enhance the quality and profitability of our business.

In 2017, under the Company's 13th Five-Year Plan, our planned capital expenditures will be RMB 110.2 billion. We will strive to increase our upstream reserves and resource base. We will also expand natural gas, especially shale gas, businesses to promote gas consumption in the Yangtze River Economic Belt. In the refining and chemical businesses, we will build four world- class refining bases, in Mao Zhan, Zhenhai, Shanghai and Nanjing. We will promote further upgrades in oil products and improve our capability to deliver high-end, high-value-added products. At the same time, we will give full play of our advantages in the marketing network and brand name to supply the market with cleaner oil products and reinforce our efforts to tap potentials in our emerging businesses and transform into an comprehensive services provider. Through the implementation of Energy Efficiency Doubling Plan and Green Enterprises Action Plan, we will endeavor to become the leading green, low-carbon operators in the industry.

raising RMB 22.8 billion. Meanwhile, Sinopec Marketing Co. Ltd.'s shareholding reform progressed smoothly. While we have continued developing our refining and chemical production bases and shifting our focus towards mid-range and high-end products, we increased our efforts to find additional opportunities for cooperation in various sectors with the aim of enabling all participants to enjoy the benefits of shared development.

In 2016, the Company continued to improve its management and operating efficiency. We diligently promoted a corporate culture of rigorousness, meticulousness and pragmatism, thus ensuring that we conducted our operations in compliance with applicable laws and regulations. At the same time, we integrated our internal control and risk management systems and further improved our controls on investment and financial management. We also increased our efforts to promote information-based, intelligent operations throughout the Company and to develop our data sharing platform. As

integrated resource allocation, openness to cooperation, and green, low-carbon development. In accordance with our objective of progressing at a steady pace, we will strive to achieve safety and environmental friendly goals, stable production and operations, and steady improvements in operating results. On top of that, we will actively pursue market opportunities and further deepen supply-side structural reform. While redoubling efforts to implement structural adjustments, we will promote technological innovations and prudently implement mixed-ownership reforms. In addition, we will explore ways to create a new business model that will capitalise on our finance business to support development of core physical operations. These measures will help us rejuvenate our operations, enhance our operating efficiency and augment the profitability of our

The Board of Directors and I believe that through the joint efforts of the Board, the management and all the staff, coupled with the support of our shareholders and the wider community, Sinopec Corp. will continue to make progress in its various businesses, growing stronger and bigger and delivering greater value to our shareholders and our society.

Wang Yupu  
Chairman

Beijing, China 24 March 2017

## BUSINESS REVIEW AND PROSPECTS

### BUSINESS REVIEW

In 2016, global economic recovery continued to be weak, while China's economy maintained its stable growth, with gross domestic product (GDP) up by 6.7%. International oil prices fluctuated above their lowest levels. With abundant supply, domestic oil products market witnessed strong competition. Demand for chemicals grew steadily, and China's environmental regulations became more stringent. The Company actively addressed market changes through a focus on growth quality, profitability and restructuring. We pressed ahead with measures to address market development, optimisation, cost reduction and risk control, coordinating all aspects of our work, which helped deliver operating results that were better than expected.

#### 1 MARKET REVIEW

##### (1) Crude Oil Market

In 2016, international crude oil prices bottomed out and fluctuated upwards, yet still remained at a low level. The average spot price of Platt's Brent for the year was USD 43.69 per barrel, down by 16.7% from the previous year.

##### (2) Refined Oil Products Market

In 2016, domestic demand for refined oil products maintained its growth while the structure of consumption continued to change, and market supply was in surplus. According to our statistics, apparent consumption of refined oil products (including gasoline, diesel and kerosene) was 288 million tonnes, up by 4.3% from the previous year, with gasoline up by 11.9%, kerosene up by 11.0% and diesel down by 2.2%. The government further improved the pricing mechanism for refined oil products by setting the floor price. In 2016, the government made 15 price adjustments with 10 increases and 5 decreases.

##### (3) Chemical Products Market

In 2016, domestic demand for chemicals grew steadily. According to our statistics, domestic apparent consumption of ethylene equivalent was up by 3.0% from the previous year, and consumption of synthetic resin, synthetic fiber and synthetic rubber rose by 5.1%, 2.6% and 7.5%, respectively. Domestic chemical product prices decreased compared with the previous year, but experienced an upward trend, in line with movements of international chemical product prices.

## 2 PRODUCTION &amp; OPERATIONS REVIEW

## (1) Exploration and Production

In 2016, faced with low oil prices and coped with harsh conditions in the upstream sector, we strengthened measures to rein in costs and address our weaknesses. At the same time, we gave priority to high-efficiency exploration activities and made a number of important new discoveries in the Xinjiang Tahe Basin, the Beibu Gulf in Guangxi and the Yin-E Basin in Neimongol, along with new shale gas findings in the Yongchuan block in Sichuan. In development, we adopted a profit-oriented approach, adjusting the development structure, enhancing cost discipline, and cutting low-efficiency oil production and high-cost EOR operations. We implemented Phase Two of Fuling Shale Gas development project and increased our production of natural gas. We also completed the mixed ownership reform of Sichuan-to-East China Pipeline Co. and improved our asset profitability. The Company's production of oil and gas declined to 431.29 million barrels of oil equivalent, with domestic crude production down by 14.6% from the previous year and natural gas production up by 4.3%.

## Summary of Operations for the Exploration and Production Segment

	2016	2015	2014	Change from 2015 to 2016 (%)
Oil and gas production (mmboe)	431.29	471.91	480.22	(8.6)
Crude oil production (mmbbls)	303.51	349.47	360.73	(13.2)
China	253.15	296.34	310.87	(14.6)
Overseas	50.36	53.13	49.86	(5.2)
Natural gas production (bcf)	766.12	734.79	716.35	4.3

## Summary of Reserves of Crude Oil and Natural Gas

Items	Crude oil reserves (mmbbls)	
	31 December 2016	31 December 2015
Proved reserves	1,552	2,243
Proved developed reserves	1,393	2,013
China	1,080	1,701
Consolidated subsidiaries	1,080	1,701
Shengli	801	1,326
Others	279	375
Overseas	313	312
Consolidated subsidiaries	40	52
Equity accounted entities	273	260
Proved undeveloped reserves	159	230
China	136	201
Consolidated subsidiaries	136	201
Shengli	37	116
Others	99	85
Overseas	23	29
Consolidated subsidiaries	0	3
Equity accounted entities	23	26



Items	Natural gas reserves (bcf)	
	31 December 2016	31 December 2015
Proved reserves	7,178	7,570
Proved developed reserves	6,454	6,457
China	6,436	6,439
Consolidated subsidiaries	6,436	6,439
Puguang	2,330	2,470
Fuling	1,226	1,016
Others	2,880	2,953
Overseas	18	18
Consolidated subsidiaries	0	0
Equity accounted entities	18	18
Proved developed reserves	724	1,113
China	724	1,112
Consolidated subsidiaries	724	1,112
Fuling	0	181
Others	724	931
Overseas	0	1
Consolidated subsidiaries	0	0
Equity accounted entities	0	1

## Exploration and Production Activities

Region	Wells completed (as of 31 December)							
	2016				2015			
	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry
China	266	149 801	6	373	195	1,801	25	
Consolidated subsidiaries	266	149 801	6	373	195	1,801	25	
Shengli	166	73 462	5	150	73	1,020	18	
Others	100	76 339	1	223	122	781	7	
Overseas	2	1 99	0	0	1	149	1	
Consolidated subsidiaries	0	0 0	0	0	0	5	0	
Equity accounted entities	2	1 99	0	0	1	144	1	
Total	268	150 900	6	373	196	1,950	26	

Region	Wells being drilled (as of 31 December)							
	2016				2015			
	Gross		Net		Gross		Net	
	Exploratory	Development	Exploratory	Development	Exploratory	Development	Exploratory	Development
China	78	138	78	138	110	152	110	152
Consolidated subsidiaries	78	138	78	138	110	152	110	152
Shengli	28	21	28	21	35	23	35	23
Others	50	117	50	117	75	129	75	129
Overseas	0	2	0	2	0	3	0	1
Consolidated subsidiaries	0	0	0	0	0	0	0	0
Equity accounted entities	0	2	0	2	0	3	0	1
Total	78	140	78	140	110	155	110	153

Region	Oil production wells (as of 31 December)			
	2016		2015	
	Gross	Net	Gross	Net
China	49,921	49,921	49,662	49,662
Consolidated subsidiaries	49,921	49,921	49,662	49,662
Shengli	32,019	32,019	31,547	31,547
Others	17,902	17,902	18,115	18,115
Overseas	7,432	3,614	6,913	3,122
Consolidated subsidiaries	28	14	28	15
Equity accounted entities	7,404	3,600	6,885	3,107
Total	57,353	53,535	56,575	52,784

Region	Natural gas production wells (as of 31 December)			
	2016		2015	
	Gross	Net	Gross	Net
China	49,921	49,921	49,662	49,662
Consolidated subsidiaries	49,921	49,921	49,662	49,662
Shengli	32,019	32,019	31,547	31,547
Others	17,902	17,902	18,115	18,115
Overseas	7,432	3,614	6,913	3,122
Consolidated subsidiaries	28	14	28	15
Equity accounted entities	7,404	3,600	6,885	3,107
Total	57,353	53,535	56,575	52,784

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China	4,966	4,932	4,758	4,727
Consolidated subsidiaries	4,966	4,932	4,758	4,727
Puguang	57	57	55	55
Fuling	253	253	175	175
Others	4,656	4,622	4,528	4,497
Total	4,966	4,932	4,758	4,727

12

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Unit: Square kilometers

	Area under license (as of 31 December)	
	2016	2015
Regions with exploration licenses	742,588	857,420
China	742,588	857,420
Regions with development licenses	33,305	30,730
China	28,436	25,748
Overseas	4,869	4,982

### (2) Refining

In 2016, the Company completed GB V automobile gasoline and diesel quality upgrading program ahead of schedule and actively promoting VI automobile gasoline and diesel quality upgrading in Beijing. We advanced the adjustment of our product structure and increased output of gasoline (especially premium gasoline) and kerosene, with the diesel-to-gasoline ratio further declining to 1.19. We actively responded to the challenges of abundant market supply, and succeeded in maintaining the utilisation rate at a high level. Meanwhile, through superior feedstock optimisation by our international trading business, we further cut crude procurement costs and achieved moderate increases in product exports. We brought our centralised marketing advantages fully into play to further improve margins for LPG, asphalt and other products. In 2016, the company processed 236 million tonnes of crude and produced 149 million tonnes of refined oil products, up by 0.53% from the previous year, with gasoline up by 4.4% and kerosene up by 4.6%.

### Summary of Operations for the Refining Segment Unit: million tonnes

	2016	2015	2014	Change from 2015 to 2016 (%)
Refinery throughput	235.53	236.49	235.38	(0.4)
Gasoline, diesel and kerosene production	149.17	148.38	146.23	0.5
Gasoline	56.36	53.98	51.22	4.4
Diesel	67.34	70.05	74.26	(3.9)
Kerosene	25.47	24.35	20.75	4.6
Light chemical feedstock production	38.54	38.81	39.17	(0.7)
Light product yield (%)	76.33	76.50	76.52	(0.17) percentage points
Refinery yield (%)	94.70	94.75	94.66	(0.05) percentage points

Note: Includes 100% of the production of domestic joint ventures.

### (3) Marketing and Distribution

In 2016, the company actively responded to changes in the market environment to bring our advantages in integrated business and distribution network into full play, achieving solid operating results. We optimised internal and external resources and achieved growth in both total sales volume and retail scale. We made timely adjustments to our marketing strategies, promoted effective supply and further expanded the retail volume of premium gasoline. We also improved our marketing network by accelerating the planning and construction of service stations and refined oil product pipelines. We expanded natural gas retail business for automobiles by expediting the construction and operation of CNG/LNG stations, achieving 25% growth in sales volume of natural gas for automobiles. In 2016, the total sales volume of oil products was 195 million tonnes, of which domestic sales accounted for 173 million tonnes. Our emerging business maintained its rapid growth with increased scale and profits. Emerging business transaction volume reached RMB 35.1 billion, up by 41.4% from the previous year.



## Summary of Operations for the Marketing and Distribution Segment

	2016	2015	2014	Change from 2015 to 2016 (%)
Total sales volume of oil products (million tonnes)	194.84	189.33	189.17	2.9
Total domestic sales volume of oil products (million tonnes)	172.70	171.37	170.97	0.8
Retail sales (million tonnes)	120.14	119.03	117.84	0.9
Direct sales and distribution (million tonnes)	52.56	52.34	53.13	0.4
Annual average throughput per station (tonne/station)	3,926	3,896	3,858	0.8

	31 December 2016	31 December 2015	31 December 2014	Change from the end of the previous year to the end of the reporting period (%)
Total number of service stations under the Sinopec brand	30,603	30,560	30,551	0.1
Number of company-operated stations	30,597	30,547	30,538	0.2

## (4) Chemicals

In 2016, we accelerated development of basic and high-end chemicals to promote effective supply, and we optimised the operations of our facilities based on their profit margins. The Company fine-tuned its chemical feedstock mix to lower costs, optimised product mix by maximising production of high-value-added products tailored to market demands, and intensified its efforts to enhance research and development, production, marketing and sales of high value added new products, achieving good results. Ethylene output was 11.059 million tonnes, with the differential ratio of synthetic fiber reaching 86.5% and the specialty and new products as a percentage of synthetic resins reaching 61.4%. By implementing low-inventory and differentiated marketing strategies, our full-year chemical sales volume increased by 11.3% from the previous year to 69.96 million tonnes, with all produced chemicals sold.

## Summary of Operations for the Chemicals Segment

Unit: thousand tonnes

	2016	2015	2014	Change from 2015 to 2016 (%)
Ethylene	11,059	11,118	10,698	(0.5)
Synthetic resin	15,201	15,065	14,639	0.9
Synthetic rubber	857	843	939	1.7
Synthetic fiber monomer and polymer	9,275	8,994	8,383	3.1
Synthetic fiber	1,242	1,282	1,315	(3.1)

Note: Includes 100% of the production of domestic joint ventures.

## (5) Research and Development

In 2016, the Company pushed ahead with its innovation-driven strategy, continuing to advance its R&D activities with notable results. In our upstream business, our development in shale gas exploration technologies enabled us to make breakthroughs in shale gas exploration in Yongchuan, Chongqing, the breakthrough in Ordovician oil and gas reservoir formation theory and exploration technologies led us to the discovery of the Shunbei field. In refining, we applied technologies such as for production of high-octane gasoline from FCC diesel. In chemicals, we commercialised the production of ethylene glycol from syngas, adopted butadiene tail-gas selective hydrogenation technologies, employed technologies to produce light olefins from coal as well as olefin catalytic cracking technologies, and developed new products including environmentally friendly polypropylene resin with high stiffness and tenacity, and a specialty resin used in high-performance medical spun-bond non-woven fabrics. In 2016, the Company filed 5,612 patent applications at home and abroad, of which 3,942 were granted. The Company also won

four second prizes in the National Technology and Innovation Awards and one golden award and nine excellent patent awards in China's Patent Award competition.

(6) Health, Safety and the Environment

In 2016, the Company fully followed its safe production and accountability scheme, strengthened the identification and control of risks, completed the rectification of potential hazards from oil and gas pipelines, further push forward management on potential hazards from oil storage tanks, reinforced on-site supervision and management, and achieved overall safe production and operations. We standardised measures to enhance worker protection and improved occupational health safeguards for our employees. By implementing its green, low-carbon strategy, the Company established a more stringent environmental protection management system, completed Clear Water, Blue Sky environmental protection project, and met emission reduction targets for major pollutants. Compared with last year, energy intensity was reduced by 1.59%, industrial water consumption was down by 1.1%, COD in discharged water was down by 3.86%, sulfur dioxide emissions were down by 4.84%, and all hazardous chemicals, discharged water, gas, and solid wastes were properly treated. For more detailed information, please refer to our Communication on Progress for Sustainable Development.

(7) Capital Expenditures

In 2016, focusing on quality and profitability of investment, the Company continuously optimised its investment projects. Total capital expenditures were RMB 76.456 billion. Capital expenditures for the exploration and production segment were RMB 32.187 billion, mainly for Fuling shale gas and Yuanba gas field development projects and LNG terminal projects in Guangxi and Tianjin, as well as overseas projects. Capital expenditures for the refining segment were RMB 14.347 billion, mainly for gasoline and diesel quality upgrading projects, adjustments in the product mix and refinery revamping projects. Capital expenditures for the marketing and distribution segment were RMB 18.493 billion, mainly for constructing and renovating service stations and building refined oil product pipelines, depots and storage facilities, as well as for rectification of safety hazards. Capital expenditures for the chemicals segment were RMB 8.849 billion, mainly for adjustment of the feedstock and product structure, the Ningdong coal chemical project and the Zhongtianhechuang coal to chemical project. Capital expenditures for the corporate and others segment were RMB 2.58 billion, mainly for R&D facilities and information technology application projects.

BUSINESS PROSPECTS

(1) Market Outlook

Looking ahead to 2017, we expect even more uncertainty in the global economy while China's economy maintains its steady growth. International oil prices are expected to fluctuate at a low level, with domestic demand for refined oil products continuing to grow as the consumption structure undergoes further adjustments. Domestic demand for petrochemical products will increase steadily as the consumption structure gradually shifts towards the high end.

(2) Operations

In 2017, bearing in mind structural reforms on the supply side, the Company will focus on enhancing quality and profitability of our assets, cost reduction, market expansion, structural adjustments, reforms, and consolidating the basis for further growth. We will undertake the following work during the year:

**Exploration and Production:** We will maintain exploration activities, optimising our plans to achieve high-efficiency exploration. Our goal will be discovery of low-cost, large-scale reserves to expand our resources. In oil development, we will fine-tune development plans based on oil price trends and promote oilfield development by increasing the volume and profitability of both incremental and existing reserves. In gas development, we will advance key projects for capacity construction, refine the management of developed gas fields and optimise gas production and marketing plans. In 2017, we plan to produce 294 million barrels of crude oil, of which overseas production will account for 46 million barrels. We plan to produce 879.9 billion cubic feet of natural gas.

**Refining:** We will continue with our market-oriented, profitability-driven strategy to optimise crude oil procurement and resource allocation and to lower our purchasing costs. We will comprehensively adjust our production plans to ensure safe and reliable operations. We will enhance our product structure by increasing the production of jet fuel and gasoline (especially premium gasoline) and further lowering the diesel-to-gasoline ratio. We will accelerate the quality and supply of GB VI gasoline and diesel in Beijing and GB V regular diesel in other area. In 2017, we plan to process 240 million tonnes of crude and produce 150 million tonnes of oil products.



**Marketing and Distribution:** We will intensify our marketing strategy of balancing profits and volume, with the priority on profits. We will undertake measures to fully explore markets, expand our retail volume and increase our market share. We will further improve our marketing network to reinforce our advantages. We will accelerate construction of gas stations to strengthen our presence in the CNG/LNG market. We will step up the promotion of key merchandise and self-branding and boost the growth of our emerging business. We will explore building a new type of customer service center, employ techniques of Big Data analysis to conduct precision marketing and further our transformation into a modern comprehensive services provider. In 2017, we plan to sell 175 million tonnes of oil products in the domestic market.

**Chemicals:** We will continue to adjust our feedstock mix to lower costs, fine-tune our product slate to deliver more popular, profitable and high-value-added products, optimise our facility utilisation rate, shut down facilities which have no marginal contributions. We will deepen the adjustment on sector structure, through advancing the development of fine chemicals and biochemicals, and improving operations of our coal-chemical projects. Meanwhile, we will enhance our strategies of product differentiation and precision marketing, and provide our customers with full process solutions and value-added services. In 2017, we plan to produce 11.66 million tonnes of ethylene.

**Research and Development:** We will continue to implement our strategy of development driven by innovation, improving mechanisms for technological innovation and fast-tracking key technical breakthroughs. In exploration and production, we will focus on increasing reserves and production and pushing ahead with breakthroughs in enhanced oil recovery technologies and development of difficult-to-tap reserves. In refining, R&D initiatives will address processing of heavy crude oil, quality upgrading of oil products and optimisation of product slate. In chemicals we will focus on adjustments in our product mix along with further progress in R&D for basic chemicals, synthetic materials, coal-chemicals, fine chemicals and bio-chemicals. We also expect to make progress in safety, environmental and energy-conserving technologies as well as prospective and basic research to enhance our capabilities for innovation and to achieve new R&D breakthroughs.

**Capital Expenditures:** In 2017, we will devote attention to the quality and profitability of investments, and optimise our investment projects. Capital expenditures for the year are budgeted at RMB 110.2 billion. The exploration and production segment will account for expenditures of RMB 50.5 billion, mainly for Phase II of Fuling shale gas development, Tianjin LNG project, and gas storage project, and overseas oil and gas project development. The refining segment will account for RMB 22.8 billion, mainly for building of refining bases, structural adjustments in the refining business, and revamping of refineries as well as GB VI quality upgrading of oil products. The marketing and distribution segment will account for RMB 18 billion, mainly for revamping service stations, improving pipeline network, building oil tank farms and removing safety hazards. The chemicals segment will account for RMB 15.1 billion, mainly for the integrated refining and chemical project in Zhanjiang of Guangdong Province, the integrated refining and chemical project in Gulei of Fujian Province and the high-efficiency and environmentally friendly aromatics project in Hainan refinery. The corporate and others segment will account for RMB 3.8 billion, mainly for R&D and Information technology projects.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES. PARTS OF THE FOLLOWING FINANCIAL DATA WERE ABSTRACTED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED ACCORDING TO THE IFRS, UNLESS OTHERWISE STATED. THE PRICES IN THE FOLLOWING DISCUSSION DO NOT INCLUDE VALUE-ADDED TAX.

## 1 CONSOLIDATED RESULTS OF OPERATIONS

In 2016, the Company's turnover and other operating revenues were RMB 1,930.9 billion, decreased by 4.4% compared with that of 2015. The operating profit was RMB 77.2 billion, representing a year on year increase of 35.9%.

The following table sets forth the main revenue and expenses from the Company's consolidated financial statements:

	Year ended 31 December		
	2016	2015	Change
	RMB million	RMB million	(%)
Turnover and other operating revenues	1,930,911	2,020,375	(4.4)
Turnover	1,880,190	1,977,877	(4.9)
Other operating revenues	50,721	42,498	19.3
Operating expenses	(1,853,718)	(1,963,553)	(5.6)
Purchased crude oil, product and operating supplies and expenses	(1,379,691)	(1,494,046)	(7.7)
Selling, general and administrative expenses	(64,360)	(69,491)	(7.4)
Depreciation, depletion and amortisation	(108,425)	(96,460)	12.4
Exploration expenses, including dry holes	(11,035)	(10,459)	5.5
Personnel expenses	(63,887)	(56,619)	12.8
Taxes other than income tax	(232,006)	(236,349)	(1.8)
Other operating income/(expense), net	5,686	(129)	—
Operating profit	77,193	56,822	35.9
Net finance costs	(6,611)	(9,239)	(28.4)
Investment income and share of profits less losses from associates and joint ventures	9,569	8,828	8.4
Profit before taxation	80,151	56,411	42.1
Tax expense	(20,707)	(12,613)	64.2
Profit for the year	59,444	43,798	35.7
Attributable to:			
Owners of the Company	46,672	32,512	43.6
Non-controlling interests	12,772	11,286	13.2

## (1) Turnover and other operating revenues

In 2016, the Company's turnover was RMB 1,880.2 billion, representing a decrease of 4.9% over 2015. This was mainly attributable to the decline of crude oil and petrochemical products prices.

The following table sets forth the external sales volume, average realised prices and respective rates of change of the Company's major products in 2016 and 2015:

Sales volume (thousand tonnes)	Average realised price
--------------------------------	------------------------

				(RMB/tonne, RMB/thousand cubic meters)			
	Year ended 31 December				Year ended 31 December		
	2016	2015	Change (%)	2016	2015	Change (%)	
Crude oil	6,808	9,674	(29.6)	1,628	2,019	(19.4)	
Natural gas (million cubic meters)	19,008	18,440	3.1	1,258	1,519	(17.2)	
Gasoline	77,480	69,749	11.1	6,386	6,749	(5.4)	
Diesel	91,492	95,472	(4.2)	4,482	4,937	(9.2)	
Kerosene	25,164	23,028	9.3	2,807	3,387	(17.1)	
Basic chemical feedstock	32,248	29,608	8.9	4,054	4,175	(2.9)	
Monomer and polymer for synthetic fibre	7,146	6,071	17.7	5,325	5,796	(8.1)	
Synthetic resin	12,223	11,989	2.0	7,488	7,771	(3.6)	
Synthetic fibre	1,369	1,380	(0.8)	7,113	7,740	(8.1)	
Synthetic rubber	1,098	1,104	(0.5)	9,608	8,778	9.5	
Chemical fertiliser	714	243	193.8	1,612	1,823	(11.6)	

Most crude oil and a small portion of natural gas produced by the Company were internally used for refining and chemical production, with the remaining sold to external customers. In 2016, the turnover from crude oil, natural gas and other upstream products sold externally amounted to RMB 47.4 billion, a decrease of 17.8% over 2015. The change was mainly due to the decrease of crude oil prices and sales volume in 2016.

In 2016, petroleum products (mainly consisting of oil products and other refined petroleum products) sold by Refining Segment and Marketing and Distribution Segment achieved external sales revenues of RMB 1,130.4 billion, accounting for 58.5% of the Company's turnover and other operating revenues, representing a decrease of 6.3% over 2015 mainly due to the decline of various refined oil products prices. The sales revenue of gasoline, diesel and kerosene was RMB 975.6 billion, representing a decrease of 4.4% over 2015, and accounting for 86.3% of the total sales revenue of petroleum products. Turnover of other refined petroleum products was RMB 154.8 billion, representing a decrease of 17.0% compared with 2015, accounting for 13.7% of the total sales revenue of petroleum products.

The Company's external sales revenue of chemical products was RMB 284.3 billion, representing an increase of 2.8% over 2015, accounting for 14.7% of the Company's total turnover and other operating revenues. This was mainly due to the increase of chemical products sales volume.

## (2) Operating expenses

In 2016, the Company's operating expenses were RMB 1,853.7 billion, decreased by 5.6% compared with 2015. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 1,379.7 billion, representing a decrease of 7.7% over the same period of 2015, accounting for 74.4% of the total operating expenses, of which:

Crude oil purchasing expenses were RMB 373.7 billion, representing a decrease of 20.4% over the same period of 2015. Throughput of crude oil purchased externally in 2016 was 202.40 million tonnes (excluding the volume processed for third parties), representing a decrease of 1.9% over the same period of 2015. The average cost of crude oil purchased externally was RMB 2,084 per tonne, representing a drop of 19.6% over 2015.

The Company's other purchasing expenses were RMB 1,006.0 billion, representing a decrease of 1.8% over the same period of 2015. This was mainly due to the decline in prices of externally purchased raw materials.

Selling, general and administrative expenses were RMB 64.4 billion, representing an decrease of 7.4% over 2015. That was mainly due to that the Company promoted the reform of employment system, adjusted the cost and tax accounting, and continuously enhanced cost control.

Depreciation, depletion and amortisation were RMB 108.4 billion, representing an increase of 12.4% as compared with 2015. That was mainly due to the significant increase in depreciation and depletion rate as a result of oil and gas reserve revision in the exploration and production segment corresponding to decreased oil price.

Exploration expenses were RMB 11.0 billion, representing an increase of 5.5% year on year. That was mainly due to that the Company maintained its exploration intensity in low oil price environment.

Personnel expenses were RMB 63.9 billion, representing an increase of 12.8% over 2015. That was mainly due to that the Company promoted the reform of employment system since 2016.

Taxes other than income tax were RMB 232.0 billion, representing a decrease of 1.8% compared with 2015. Mainly due to the decrease in consumption tax by RMB 4.9 billion as a result of decreased production of diesel, and decrease in resource tax by RMB 1.0 billion as a result of drop in crude prices over the same period of 2015.

Other operating income/(expense), net were RMB 5.7 billion, decreasing 5.8 billion over the same period of 2015. That was mainly due to the non-operating income from reorganisation and capital injection of Sichuan-to-East China Pipeline Co., and the increase of impairment of assets.

Operating profit was RMB 77.2 billion, representing an increase of 35.9% compared with 2015. This is mainly due (3) to outstanding performance of the Company's downstream business as we fully tapped potential from our integrated business. It effectively offset the negative impact of low oil prices.

Net finance costs were RMB 6.6 billion, representing a decrease of 28.4% over 2015, of which: interest expense increased by RMB 1.1 billion over 2015 as a result of the replacement of debt denominated in US dollars by debt denominated in RMB (inclusive of replacing borrowings in US dollars and decrease exposure to US dollars); net (4) losses from foreign exchange was RMB 600 million, decreased by RMB 3.2 billion as compared with 2015; interest income increased by RMB 200 million as a result of increased interest income compared with the same period of 2015.

(5) Profit before taxation was RMB 80.2 billion, representing an increase of 42.1% year on year.

(6) Tax expense was RMB 20.7 billion, representing an increase of 64.2% year on year. That was mainly due to a substantial increase in profit over the same period of 2015.

(7) Profit attributable to non-controlling interests was RMB 12.8 billion, representing an increase of RMB 1.5 billion comparing with 2015.

(8) Profit attributable to owners of the Company was RMB 46.7 billion, representing an increase of 43.6% year on year.

## 2 RESULTS OF SEGMENT OPERATIONS

The Company manages its operations through four business segments, namely exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, and corporate and others. Unless otherwise specified, the inter-segment transactions have not been eliminated from financial data discussed in this section. In addition, the operating revenue data of each segment include other operating revenues.

The following table shows the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e. after elimination of inter-segment sales) for the periods indicated.

	Operating revenues		As a percentage of consolidated operating revenue before elimination of inter-segment sales		As a percentage of consolidated operating revenue after elimination of inter-segment sales	
			Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
	2016	2015	(%)	(%)	(%)	(%)
Exploration and Production Segment						
External sales*	56,985	67,634	1.8	2.1	3.0	3.3
Inter-segment sales	58,954	71,019	1.9	2.2		
Operating revenues	115,939	138,653	3.7	4.3		
Refining Segment						
External sales*	108,469	125,654	3.5	3.8	5.6	6.2
Inter-segment sales	747,317	800,962	24.2	24.4		
Operating revenues	855,786	926,616	27.7	28.2		
Marketing and Distribution Segment						
External sales*	1,049,377	1,103,610	33.9	33.6	54.3	54.6
Inter-segment sales	3,480	3,056	0.1	0.1		
Operating revenues	1,052,857	1,106,666	34.0	33.7		
Chemicals Segment						
External sales*	296,500	285,057	9.6	8.7	15.4	14.2
Inter-segment sales	38,614	43,814	1.2	1.3		
Operating revenues	335,114	328,871	10.8	10.0		
Corporate and Others						
External sales*	419,580	438,420	13.5	13.3	21.7	21.7
Inter-segment sales	320,367	345,454	10.3	10.5		
Operating revenues	739,947	783,874	23.8	23.8		
Operating revenue before elimination of inter-segment sales	3,099,643	3,284,680	100.0	100.0		
Elimination of inter-segment sales	(1,168,732)	(1,264,305)				
Consolidated operating revenue	1,930,911	2,020,375			100.0	100.0

\*: Other operating revenues are included.

The following table sets forth the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change of 2016 compared to 2015.

	Year ended 31 December		Change
	2016	2015	

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	RMB million	RMB million	(%)
Exploration and Production Segment			
Operating revenues	115,939	138,653	(16.4)
Operating expenses	152,580	156,071	(2.2)
Operating (loss)/profit	(36,641)	(17,418)	—
Refining Segment			
Operating revenues	855,786	926,616	(7.6)
Operating expenses	799,521	905,657	(11.7)
Operating profit/(loss)	56,265	20,959	168.5
Marketing and Distribution Segment			
Operating revenues	1,052,857	1,106,666	(4.9)
Operating expenses	1,020,704	1,077,811	(5.3)
Operating profit	32,153	28,855	11.4
Chemicals Segment			
Operating revenues	335,114	328,871	1.9
Operating expenses	314,491	309,395	1.6
Operating profit/(loss)	20,623	19,476	5.9
Corporate and Others			
Operating revenues	739,947	783,874	(5.6)
Operating expenses	736,735	783,490	(6.0)
Operating profit/(loss)	3,212	384	736.5
Elimination of inter-segment profit	1,581	4,566	—

(1) Exploration and Production Segment

Most crude oil and a small portion of the natural gas produced by the exploration and production segment were used for the Company's refining and chemical operations. Most of the natural gas and a small portion of crude oil were sold externally to other customers.

In 2016, the operating revenues of this segment were RMB 115.9 billion, representing a decrease of 16.4% over 2015. This was mainly attributable to the decline of realised price of crude oil and natural gas as well as decrease in sales volume of crude oil.

In 2016, the segment sold 36.38 million tonnes of crude oil, representing a decrease of 13.8% over 2015. Natural gas sales volume was 20.56 billion cubic meters, representing an increase of 3.7% over 2015. Average realised prices of crude oil and natural gas were RMB 1,734 per tonne and RMB 1,267 per thousand cubic meters, representing decreases of 13.9% and 17.5% respectively over 2015.

In 2016, the operating expenses of this segment were RMB 152.6 billion, representing a decrease of 2.2% over 2015. That was mainly due to the following:

• Depreciation, depletion and amortisation increased by RMB 9.8 billion year on year.

• Impairment loss on oil and gas related assets increased by RMB 6.7 billion year on year;

• The Company with the restructuring of Sichuan-to-East China Pipeline Co., other expenses (net) decreased by RMB 20.6 billion.

In 2016, the oil and gas lifting cost was RMB 786 per tonne, representing a moderate year-on-year increase of 0.8%, under the backdrop of a 13.2% decrease in crude oil production.

In 2016, the segment made every effort to optimise resource mix, attached great emphasis on cash flow contributions, and proactively controlled costs. Due to the drop in crude oil and natural gas prices, the operating loss of the exploration and production segment were RMB 36.6 billion, representing an expanded losses as compared with 2015.

(2) Refining Segment

Business activities of the refining segment include purchasing crude oil from third parties and the exploration and production segment of the Company, as well as processing crude oil into refined petroleum products. Gasoline, diesel and kerosene are sold internally to the marketing and distribution segment of the Company; part of the chemical feedstock is sold to the chemicals segment of the Company; and other refined petroleum products are sold externally to both domestic and overseas customers.

In 2016, the operating revenues of this segment were RMB 855.8 billion, representing a decrease of 7.6% over 2015. This was mainly attributable to the decreased in refined oil products prices.

The following table sets forth the sales volumes, average realised prices and the respective changes of the Company's major refined oil products of the segment in 2016 and 2015.

Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)	
Year ended 31 December			Year ended 31 December	
2016	2015	Change (%)	2016	2015



					Change (%)
Gasoline	52,461	50,921	3.0	5,904	6,191 (4.6)
Diesel	58,734	63,359	(7.3)	4,505	4,797 (6.1)
Kerosene	14,529	13,518	7.5	2,814	3,420 (17.7)
Chemical feedstock	36,408	35,945	1.3	2,584	2,984 (13.4)
Other refined petroleum products	55,742	52,418	6.3	2,529	2,842 (11.0)

In 2016, sales revenues of gasoline were RMB 309.7 billion, representing a decrease of 1.8% over 2015.

The sales revenues of diesel were RMB 264.6 billion, representing a decrease of 12.9% over 2015.

The sales revenues of kerosene were RMB 40.9 billion, representing a decrease of 11.6% over 2015.

The sales revenues of chemical feedstock were RMB 94.1 billion, representing a decrease of 12.3% over 2015.

The sales revenues of refined petroleum products other than gasoline, diesel, kerosene and chemical feedstock were RMB 141.0 billion, representing a decrease of 5.4% over 2015.

In 2016, the segment's operating expenses were RMB 799.5 billion, representing a decrease of 11.7% over 2015, mainly attributable to the decline in procurement cost of crude oil.

In 2016, the average processing cost for crude oil was RMB 2,194 per tonne, representing a decrease of 18.5% over 2015. Total crude oil processed was 220.98 million tonnes (excluding volume processed for third parties), representing a decrease of 1.1% over 2015. The total cost of crude oil processed was RMB 484.8 billion, representing a decrease of 19.4% over 2015.

In 2016, refining gross margin was RMB 471.9 per tonne, representing an increase of RMB 153.8 per tonne compared with 2015. This is mainly due to widened price spread between product and feedstocks as a result of the Company's effort in product mix optimisation, upward movement of crude oil price during the period as well as floor price policy announced by the Chinese government.



In 2016, the operating expenses of the segment were RMB 1,020.7 billion, representing a decrease of RMB 57.1 billion or 5.3% as compared with that of 2015. This was mainly due to decreased procurement volume and prices of diesel and fuel oil.

In 2016, the segment's marketing cash operating cost (defined as the operating expenses less purchase costs, taxes other than income tax, depreciation and amortisation, and then divided by the sales volume) was RMB 197.3 per tonne, representing an increase of 4.3% compared with that of 2015.

In 2016, facing abundant domestic supply of refined oil products and strong market competition, the segment made full use of the advantages of end user marketing network, actively expanded the gasoline market, increased the sales volume of high octane number gasoline, made efforts to improve total sales volume, coordinate internal and external resources, increased the spread between sales and procurement prices as compared with 2015, and achieved better performance.

In 2016, the operating profit of this segment was RMB 32.2 billion, representing an increase of 11.4% compared with 2015.

#### (4) Chemicals Segment

The business activities of the chemicals segment include purchasing chemical feedstock from the refining segment and third parties, producing, marketing and distributing petrochemical and inorganic chemical products.

In 2016, the operating revenues of the chemicals segment were RMB 335.1 billion, representing an increase of 1.9% as compared with that of 2015. This was mainly due to increase in sales volume of chemical products as compared with 2015.

The sales revenues generated by the segment's six major categories of chemical products (namely basic organic chemicals, synthetic resin, synthetic fibre monomer and polymer, synthetic fibre, synthetic rubber, and chemical fertiliser) totaled RMB 316.2 billion, representing an increase of 2.1% as compared with 2015, and accounting for 94.3% of the operating revenues of the segment.

The following table sets forth the sales volume, average realised prices and respective percentage changes of each of the segment's six major categories of chemical products in 2016 and 2015.

	Sales Volume (Thousand tonnes)			Average realised price (RMB/tonne)		
	Year ended 31 December			Year ended 31 December		
	2016	2015	Change (%)	2016	2015	Change (%)
Basic organic chemicals	41,605	38,903	6.9	3,963	4,121	(3.8)
Synthetic fibre monomer and polymer	7,169	6,083	17.9	5,328	5,797	(8.1)
Synthetic resin	12,250	11,993	2.1	7,482	7,771	(3.7)
Synthetic fibre	1,369	1,380	(0.8)	7,113	7,739	(8.1)
Synthetic rubber	1,099	1,107	(0.7)	9,609	8,769	9.6
Chemical fertiliser	714	243	193.8	1,612	1,823	(11.6)

In 2016, the operating expenses of the chemicals segment were RMB 314.5 billion, representing an increase of 1.6% over 2015.

In 2016, the segment seized the favorable opportunities of the low feed stock price, further adjust feed stock and product mix, coordinated production with sales, strictly controlled costs and expenses, thus, resulting in remarkable profits.

In 2016, the operating profit of this segment was RMB 20.6 billion, representing an increase of RMB 1.1 billion as compared with 2015.

#### (5) Corporate and Others

The business activities of corporate and others mainly consist of import and export business activities of the Company's subsidiaries, research and development activities of the Company, and managerial activities of headquarters.

In 2016, the operating revenues generated from corporate and others were RMB 739.9 billion among which the sales revenues realised by trading companies were RMB 736.2 billion, representing a decrease of 5.6% over 2015 mainly attributed to the drop of international crude oil prices as well as less revenue from crude oil trading business as compared with 2015.

In 2016, the operating expenses of corporate and others were RMB 736.7 billion, among which operating expenses realised by trading companies were RMB 728.0 billion, representing a decrease of 6.0% over 2015.

In 2016, the operating profit from corporate and others was RMB 3.2 billion, among which the operating profit realised by trading companies was RMB 8.2 billion.

### 3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

The major funding sources of the Company are its operating activities and short-term and long-term loans. The major use of funds includes operating expenses, capital expenditures, and repayment of the short-term and long-term debts.

#### (1) Assets, liabilities and equity

Unit: RMB million

	As of 31 December 2016	As of 31 December 2015	Change
Total assets	1,498,609	1,447,268	51,341
Current assets	412,261	333,657	78,604
Non-current assets	1,086,348	1,113,611	(27,263)
Total liabilities	667,374	659,107	8,267
Current liabilities	485,543	462,832	22,711
Non-current liabilities	181,831	196,275	(14,444)
Total equity attributable to owners of the Company	710,994	676,197	34,797
Share capital	121,071	121,071	—
Reserves	589,923	555,126	34,797
Non-controlling interests	120,241	111,964	8,277
Total equity	831,235	788,161	43,074

As of 31 December 2016, the Company's total assets were RMB 1,498.6 billion, representing an increase of RMB 51.3 billion compared with that of the end of 2015, of which:

Current assets were RMB 412.3 billion, representing an increase of RMB 78.6 billion compared with that of the end of 2015, of which, cash and cash equivalent, and time deposit in financial institutions increased by RMB 72.8 billion, mainly due to significant increase in cash flow from operating activities, decrease in investment, abundant surplus in cash, as well as increase in inventory by RMB 10.9 billion.

Non-current assets were RMB 1,086.3 billion, representing a decrease of RMB 27.3 billion as compared with that of the end of 2015. This was mainly due to the fact that property, plant and equipment (net) decreased by RMB 42.9 billion, construction in progress decreased by RMB 22.7 billion, equity of associates and joint ventures increased by RMB 32.5 billion (the Company sold 50% equity in Sichuan-to-East China Pipeline Co., with the remaining 50% equity corresponding to RMB 22.8 billion switched to item of interests in associates);

The Company's total liabilities were RMB 667.4 billion, representing an increase of RMB 8.3 billion compared with that of the end of 2015, of which:

Current liabilities were RMB 485.5 billion, representing an increase of RMB 22.7 billion as compared with that of the end of 2015. This was mainly due to increase in accounts payable by RMB 43.7 billion, short-term debts and borrowings from China Petrochemical Corp and its subsidiaries decreased by RMB 40.6 billion, other accounts payable and taxes payable increased by RMB 17.3 billion.

Non-current liabilities were RMB 181.8 billion, representing a decrease of RMB 14.4 billion compared with that of the end of 2015. This was mainly due to long-term debts decreased by RMB 22.8 billion, estimated liabilities increased by RMB 6.1 billion.

Total equity attributable to owners of the Company was RMB 711.0 billion, representing an increase of RMB 34.8 billion compared with that of the end of 2015, which was mainly due to the increase in reserves by RMB 34.8 billion.

## (2) Cash Flow

The following table sets forth the major items in the consolidated cash flow statements for 2016 and 2015.

Unit: RMB million

Major items of cash flows	Year ended 31	
	2016	2015
Net cash generated from operating activities	214,543	165,740
Net cash used in investing activities	(66,217)	(116,719)
Net cash generated from/(used in) financing activities	(93,047)	9,093

In 2016, the net cash generated from operating activities of the company was RMB 214.5 billion, representing an increase of RMB 48.8 billion as compared with 2015. This was mainly due to the increase in profit before tax by RMB 23.7 billion, depreciation, depletion and amortization increased by RMB 12.0 billion, and asset impairment increased by RMB 8.3 billion over the same period of 2015. Meanwhile, due to strict control on occupation of funds, occupation of working capital decreased significantly compared with 2015.

In 2016, the net cash used in investing activities was RMB 66.2 billion, representing a decrease of RMB 50.5 billion over 2015. This was mainly due to the decrease of RMB 30.0 billion in capital expenditure over the same period of 2015 as well as RMB 13.2 billion received as proceeds from the sale of equity in Sinopec Sichuan-to-East China

Pipeline Co., Ltd.

In 2016, the net cash used in the Company's financing activities was RMB 93.0 billion, representing an increase of RMB 102.1 billion over 2015. This was mainly due to the impact of RMB 105.0 billion from the capital introduction of Sinopec Marketing Co., Ltd. in 2015; the significant reduction in interest bearing debts for two consecutive years, of which, the Company repaid RMB 62.6 billion and RMB 63.0 billion in 2015 and 2016, respectively.

At the end of 2016, the cash and cash equivalents were RMB 124.5 billion.

(3)Contingent Liabilities

Please refer to "Material Guarantee Contracts and Their Performances" in the "Significant Events" section of this report.

(4)Capital Expenditures

Please refer to "Capital Expenditures" in the "Business Review and Prospects" section of this report.

(5)Research & development expenses and environmental expenditures

Research & development expenses refer to the expenses recognised as expenditures when they occur. In 2016, the expenditure for research & development was RMB 5.94 billion.

Environmental expenditures refer to the normal routine pollutant discharge fees paid by the Company, excluding capitalised cost of pollutant treatment properties. In 2016, the Company paid environmental expenditures of RMB 6.36 billion.

## (6) Measurement of fair values of derivatives and relevant system

The Company has established sound decision-making mechanism, business process and internal control systems relevant to financial instrument accounting and information disclosure.

Items relevant to measurement of fair values Unit: RMB million

Items	Beginning of the year	End of the year	Profits and losses from variation of values in the current year	Accumulated variation of fair values recorded as equity	Impairment loss provision of the current year	Funding source
Available-for-sale financial assets	261	262	—	56	—	Self-owned fund
Stock	261	262	—	56	—	
Derivative financial instruments	403	314	(160)	—	—	Self-owned fund
Cash flow hedging instruments	4,722	(4,024)	11	(3,813)	—	Self-owned fund
Total	5,386	(3,448)	(149)	(3,757)	—	

## 4 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER ASBE

The major differences between the Company's financial statements prepared under ASBE and IFRS are set out in Section C of the financial statements of the Company from page 202 of this report.

(1) Under ASBE, the operating income and operating profit or loss by reportable segments were as follows:

	Year ended 31 December	
	2016	2015
	RMB million	RMB million
Operating income		
Exploration and Production Segment	115,939	138,653
Refining Segment	855,786	926,616
Marketing and Distribution Segment	1,052,857	1,106,666
Chemicals Segment	335,114	328,871
Corporate and Others	739,947	783,874
Elimination of inter-segment sales	(1,168,732)	(1,264,305)
Consolidated operating income	1,930,911	2,020,375
Operating profit/(loss)		
Exploration and Production Segment	(58,531)	(18,511)
Refining Segment	55,808	19,423
Marketing and Distribution Segment	32,385	27,299
Chemicals Segment	20,769	19,516
Corporate and Others	2,912	(678)
Elimination of inter-segment sales	1,581	4,566
Financial expenses, investment income and loss from changes in fair value	23,952	631
Consolidated operating profit	78,876	52,246
Net profit attributable to equity shareholders of the Company	46,416	32,281

Operating profit: In 2016, the operating profit of the Company was RMB 78.9 billion, representing an increase of RMB 26.6 billion as compared with 2015.



Net profit: In 2016, the net profit attributable to the equity shareholders of the Company was RMB 46.4 billion, representing an increase of RMB 14.1 billion or 43.8% comparing with 2015.

## (2) Financial data prepared under ASBE

	As of 31 December 2016 RMB million	As of 31 December 2015 RMB million	Change
Total assets	1,498,609	1,447,268	51,341
Long-term liabilities	180,541	194,871	(14,330)
Shareholders' equity	832,525	789,565	42,960

At the end of 2016, the Company's total assets were RMB 1,498.6 billion, representing an increase of RMB 51.3 billion compared with that of the end of 2015. This was mainly due to the following factors: a) cash and cash equivalents increased by RMB 72.8 billion; b) long term equity investment increased by RMB 32.5 billion; c) intangible assets and other non-current assets increased by RMB 5.9 billion; d) fixed assets and construction in progress decreased by RMB 65.6 billion.

At the end of 2016, the Company's long-term liabilities were RMB 180.5 billion, representing a decrease of RMB 14.3 billion compared with that of the end of 2015. This was mainly due to the following factors: a) bonds payable decreased by RMB 28.3 billion; b) long-term loans increased by RMB 6.0 billion; c) provision increased by RMB 6.1 billion; d) other non-current liabilities increased by RMB 2.5 billion.

At the end of 2016, the shareholders' equity of the Company was RMB 832.5 billion, representing an increase of RMB 43.0 billion compared with that of the end of 2015. This was mainly due to the undistributed profit increased by RMB 29.5 billion, other comprehensive income increased by RMB 7.1 billion, capital reserve decreased by RMB 2.1 billion for this period.

## (3) The results of the principal operations by segments

Segments	Operation income RMB million	Operation cost RMB million	Gross profit margin* (%)	Increase/ (decrease) of operation income on a year-on-year basis (%)	Increase/ (decrease) of operation cost on a year-on-year basis (%)	Increase/ (decrease) of gross profit margin on a year-on-year basis (%)
Exploration and Production	115,939	128,469	(15.3)	(16.4)	9.8	(26.5)
Refining	855,786	556,081	9.1	(7.6)	(15.5)	4.6
Marketing and Distribution	1,052,857	961,907	8.4	(4.9)	(5.9)	1.0
Chemicals	335,114	289,572	13.0	1.9	(0.2)	1.7
Corporate and Others	739,947	726,449	1.8	(5.6)	(6.2)	0.7
Elimination of inter-segment sales	(1,168,732)	(1,170,313)	N/A	N/A	N/A	N/A
Total	1,930,911	1,492,165	10.7	(4.4)	(6.5)	1.3

\*: Gross profit margin = (operation income - operation cost, tax and surcharges)/operation income.

## 5 THE CAUSE AND IMPACT OF THE CHANGE IN THE COMPANY'S ACCOUNTING POLICY

In 2014, the International Accounting Standards Board published Amendments to International Accounting Standard 27 (IAS 27) - Separate Financial Statements. These amendments allowed entities to use equity method to account for

investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities wishing to change to the equity method must do so retrospectively. The amendment is effective from 1 January 2016.

In order to eliminate the difference regarding subsequent measurements on investments in joint ventures and associates between separate financial statements prepared in accordance with ASBE and IFRS, the Company changed its subsequent measurements on investments in associates and joint ventures from cost method to equity method in its separate financial statements prepared in accordance with IFRS from 1 January 2016.

By adopting the amendments to IAS 27-Separate Financial Statements, the balance of investments in associates, investments in joint ventures, retained earnings and other reserves as of 31 December 2015 would be increased by RMB 8,056 million, RMB 644 million, RMB 8,672 million and RMB 28 million in the separated financial statements prepared in accordance with IFRS due to the retrospective adjustment.

The change in accounting policy carries no impact on financial statements prepared in accordance with the ASBE as well as consolidated financial statements prepared in accordance with the IFRS.

#### 6 SIGNIFICANT CHANGES IN MAJOR ASSETS DURING THE REPORTING PERIOD

During the reporting period, there are no significant changes in the Company's major assets.

## SIGNIFICANT EVENTS

## 1 MAJOR PROJECTS

## (1) Fuling shale gas project

In accordance with the guidance of “overall deployment and stage-wise implementation”, the second phase of production capacity building was promoted comprehensively in 2016. The Company’s self-owned fund accounts for 50% of the project investment and bank loan is the main source of the other 50%. By the end of 2016, the cumulative realised investment was RMB 29.3 billion and total production capacity was 7 billion cubic meters per year. According to the plan, by the end of 2017, the total production capacity will be 10 billion cubic meters per year.

## (2) Yuanba gas field project

The production capacity building of Yuanba marine facies gas field with total production capacity of 3.4 billion cubic meters per year has been completed by the end of 2016. The Company’s self-owned fund accounts for 50% of the project investment and bank loan is the main source of the other 50%. By the end of 2016, the cumulative realised investment was RMB 12.8 billion.

## (3) Guangxi LNG project

The Guangxi LNG project with designed receiving capacity of 3 million tonnes per year consists mainly of the construction of wharf, terminal and transportation pipelines. It was put into operation in April 2016. The Company’s self-owned fund accounts for 40% of the project investment and bank loan is the main source of the other 60%. By the end of 2016, the cumulative investment was RMB 9.7 billion.

## (4) Tianjin LNG project

The Tianjin LNG project with designed receiving capacity of 3 million tonnes per year consists mainly of the construction of wharf, terminal and transportation pipelines. It is expected to be completed and operational in December 2017. The Company’s self-owned fund accounts for 40% of the project investment and bank loan is the main source of the other 60%. By the end of 2016, the cumulative investment was RMB 8.2 billion.

## 2 CORPORATE BONDS ISSUED AND INTEREST PAYMENTS

## Basic information of corporate bonds

	Sinopec Corp. 2010 Corporate bond	Sinopec Corp. 2012 Corporate bond	Sinopec Corp. 2016 Corporate bond (first issue)	Sinopec Corp. 2016 Corporate bond (second issue)
Bond name	2010 Corporate bond	2012 Corporate bond	2016 Corporate bond (first issue)	2016 Corporate bond (second issue)
Abbreviation	10#30707;#21270;02	12#30707;#21270;01	15#30707;#21270;01	15#30707;#21270;02
Code	122052	122149	136039	136040
Issuance date	21 May 2010	1 June 2012	19 November 2015	19 November 2015
Maturity date	21 May 2020	1 June 2017	19 November 2018	19 November 2022
Amount issued (RMB9 billion)		13	16	4
Outstanding balance (RMB billion)	9	13	16	4
Interest rate (%)	4.05	4.26	3.3	3.7

Principal and interest repayment	Simple interest is calculated and paid on an annual basis without compounding interests. The principal will be paid at maturity with last installment of interest.
Payment of interests	Sinopec Corp. had paid in full the interest accrued for the current period interest payment year.
Investor Qualification Arrangement	15#30707;#21270;01 and 15#30707;#21270;02 were publicly offered to qualified investors in accordance with Administration of the Issuance and Trading of Corporate Bonds
Listing place	Shanghai Stock Exchange
Corporate bonds trustee	China International Capital Corporation Limited
#8239; #8239;	27th-28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing Huang Xu, Zhai Ying (010) 6505 1166
Credit rating agency	United Credit ratings Co., Ltd.  12th Floor, PICC building, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing
Use of proceeds	Proceeds from the above-mentioned corporate bonds have been used for their designated purpose disclosed in the relevant announcements. All the proceeds have been completely used. During the reporting period, United Credit ratings Co., Ltd. provided continuing credit rating for
Credit rating agency	10#30707;#21270;02, 12#30707;#21270;01, 12#30707;#21270;02, 15#30707;#21270;01 and 15#30707;#21270;02and reaffirmed AAA credit rating. The long term credit rating and outlook of Sinopec Corp. remained at AAA and stable respectively.
Credit addition mechanism, repayment scheme and other relative events for corporate bonds during the reporting period	During the reporting period, there is no credit addition mechanism and change of the repayment arrangement for the above-mentioned corporate bonds Sinopec Corp. strictly followed the provisions in the corporate bond prospectus to repay principals and interests of the corporate bonds.
Convening of corporate bond holders' meeting	During the reporting period, the bondholders' meeting has not been convened.
Performance of corporate bonds trustee	During the durations of the above-mentioned bonds, the bond trustee, China International Capital Corporation Limited, has strictly followed the Bond Trustee Management Agreement and continuously tracked the company's credit status, utilisation of bond proceeds and repayment of principals and interests of the bond. The bond trustee has also advised the company to satisfy obligations as described in the corporate bond prospectus and exercised its duty to protect the bondholders' legitimate rights and interests. The bond trustee is expected to disclose the Trustee Management Affairs Report after disclosure of the company's annual report. The full disclosure will be available on the website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> )

Principal accounting data and financial indicators for the two years ended 31 December 2016

Principal data	2016	2015	Change	Reasons for change
EBITDA (RMB million)	196,464	159,605	23.09%	Mainly due to the increase of earnings compared with last year
Current ratio	0.85	0.72	0.13	Mainly due to the significant increase of cash at bank and on hand
Quick ratio	0.53	0.41	0.12	Mainly due to the significant increase of cash at bank and on hand
Liability-to-asset ratio (%)	44.45	45.44	(0.99) percentage points	Mainly due to improvement of cash flow from operating activities
EBITDA to total debt ratio	0.99	0.62	0.37	Mainly due to the increase of earnings and decrease of debts
Interest coverage ratio	9.85	7.78	2.07	Mainly due to the increase of earnings
Cash flow interest coverage ratio	35.13	23.07	12.06	Mainly due to the improvement of the cash flow from operating activities
EBITDA-to-interest coverage ratio	21.78	19.29	2.49	Mainly due to the increase of earnings
Loan repayment rate (%)	100	100	—	
Interest payment rate (%)	100	100	—	

During the reporting period, the Company paid in full the interest accrued for the other bonds and debt financing instruments. As at 31 December 2016, the standby credit line provided by several domestic financial institutions to the Company was RMB 256.4 billion in total, facilitating the Company to get such amount of unsecured loans. During the reporting period, Sinopec Corp. fulfilled relevant undertakings in the prospectus of corporate bonds. During the reporting period, Sinopec Corp. had no significant matters which could influence the Company's operation and debt paying ability.

On 18 April 2013, Sinopec Capital (2013) Limited, a wholly-owned overseas subsidiary of Sinopec Corp., issued senior notes guaranteed by Sinopec Corp. with four different maturities, 3 years, 5 years, 10 years and 30 years. The 3-year notes principal totaled USD 750 million, with an annual interest rate of 1.250%; the 5-year notes principal totaled USD 1 billion, with an annual interest rate of 1.875%; the 10-year notes principal totaled USD 1.25 billion, with an annual interest rate of 3.125%; and the 30-year notes principal totaled USD 500 million, with an annual interest rate of 4.250%. These notes were listed on the Hong Kong Stock Exchange on 25 April 2013, with interest payable semi-annually. The first payment of interest was on 24 October 2013. During the reporting period, the Company has paid in full the interest and principal of notes with maturity of 3 years and the current-period interests of all notes with maturity of 5 years, 10 years and 30 years.

<sup>3</sup> SHARE OPTION INCENTIVE SCHEME OF SINOPEC CORP.'S SUBSIDIARY, SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED ("SHANGHAI PETRO"), DURING THE REPORTING PERIOD Pursuant to the requirements of the Hong Kong Listing Rules, the resolution relating to the Shanghai Petro A Share Option Incentive Scheme (Draft) was considered and passed at the 18th meeting of the fifth session of the Board and the first extraordinary general meeting of Sinopec Corp. for 2014. The Share Option Incentive Scheme (Scheme) came into effect on 23 December 2014 with a validity period of 10 years. The expiry date of the Scheme is 22 December 2024. Under the Scheme, the total number of underlying shares to be granted shall neither exceed 10% of the total share capital of Shanghai Petro (10,800 million shares) nor exceed 10% of the total A share capital of Shanghai Petro (7,305 million shares). As of 31 December 2016, the number of the underlying shares of the share options to be granted by Shanghai Petro to the participants represents 0.35% of the total share capital of Shanghai Petro (10,800 million shares). The vesting period for each grant under the Scheme shall be no less than two years.

(1) Summary of the Scheme

For the details of the purpose of the Scheme, eligible participants and maximum entitlement of each participant, underlying shares and incentive instrument, validity period, please refer to page 31-33 of Sinopec Corp's 2015 Annual Report published on 29 March 2016.

27

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## (2) Information on the Initial Grant of the Share Option

## (i) Initial Grant of the Share Option:

Grant Date: 6 January 2015

Number of Participants: 214 persons

Number of Share Options Granted: 38,760,000

## (ii) Unexercised share options granted to Directors, senior management and substantial shareholders of Shanghai Petro as of 31 December 2016

Name	Position	No. of share options held at the end of the reporting period	Percentage of total share capital (%)	Percentage of total H share capital (%)	Status
Wang Zhiqing	Chairman and President	500,000(L)	0.005	—	Beneficial owner
Gao Jinping	Vice Chairman and Vice President	500,000(L)	0.005	—	Beneficial owner
Ye Guohua*	Director, Vice President and Chief Financial Officer	430,000(L)	0.004	—	Beneficial owner
Jin Qiang	Director and Vice President	430,000(L)	0.004	—	Beneficial owner
Guo Xiaojun	Director and Vice President	430,000(L)	0.004	—	Beneficial owner
Jin Wenmin	Vice President	250,000(L)	0.002	—	Beneficial owner

(L): Long position;

\* Mr. Ye Guohua resigned as the executive director, vice president and chief financial officer of Shanghai Petro on 26 January 2017. According to the Scheme, his granted share options become invalid.

## (iii) Share options granted to employees of Shanghai Petro in addition to persons mentioned in item (ii) during the reporting period

As at the end of reporting period, Shanghai Petro granted 35,970,000 A share options to key business personnel.

## (iv) Exercise Price under the Initial Grant

According to the basis of determination on exercise price of share options disclosed by Shanghai Petro, the exercise price under the initial grant is RMB 4.20 per share (until the expiration of the validity period of the Share Options, in the case of, among others, payment of dividends, capitalisation of capital reserves, distribution of bonus shares, subdivision of shares or reduction of shares, and rights issue, an adjustment to the exercise price shall be made in accordance with Scheme. On 15 June 2016, The 2015 profit distribution plan of Shanghai Petro has been approved at its 2015 annual general meeting. Cash dividend was decided to be RMB 1 per 10 shares and the exercise price of the share option was adjusted to RMB 4.10 per share.

## (v) Validity Period and Exercise Arrangement under the Initial Grant



The validity period of the share options shall be five years commencing from the grant date, but is subject to exercise arrangement of the Scheme. Please refer to the section “Validity Period” on Page 32 of Sinopec Corp.’s 2015 annual report published on 29 March 2016.

Save as disclosed above, during the reporting period, Shanghai Petro granted no A share option in accordance with the Scheme, none of the share options was exercised by the Participant and none of the share option was cancelled or became invalid.

## 4 PERFORMANCE OF THE UNDERTAKINGS BY CHINA PETROCHEMICAL CORPORATION

Background	Type of Undertaking	Party	Contents	Term for performance	Whether bears deadline or not	Whether strictly performed or not
Undertakings related to Initial Public Offerings (IPOs)	Initial Public Offerings (IPOs)	China Petrochemical Corporation	1 Compliance with the connected transaction agreements;	From 22 June 2001	No	Yes
(IPOs)	&#8239;	&#8239;	2 Solving the issues regarding the legality of land-use rights certificates and property ownership rights certificates within a specified period of time;	&#8239;	&#8239;	&#8239;
&#8239;	&#8239;	&#8239;	3 Implementation of the Reorganisation Agreement (please refer to the definition of Reorganisation Agreement in the H share prospectus of Sinopec Corp.);	&#8239;	&#8239;	&#8239;
&#8239;	&#8239;	&#8239;	4 Granting licenses for intellectual property rights;	&#8239;	&#8239;	&#8239;
&#8239;	&#8239;	&#8239;	5 Avoiding competition within the same industry;	&#8239;	&#8239;	&#8239;
			6 Abandonment of business competition and conflicts of interest with Sinopec Corp.			
Other undertakings	Other	China Petrochemical Corporation	China Petrochemical Corporation would dispose of its minor remaining chemicals business within five years in order to avoid competition with Sinopec Corp. in the chemicals business.	Within five years, commencing from 15 March 2012	Yes	Yes
Other undertakings	Other	China Petrochemical Corporation	Given that China Petrochemical Corporation engages in the same or similar businesses as Sinopec Corp. with regard to the exploration and production of overseas petroleum and natural gas,	Within 10 years after 29 April 2014 or the date when China Petrochemical Corporation acquires the assets	Yes	Yes

China Petrochemical Corporation hereby grants a 10-year option to Sinopec Corp. with the following provisions: (i) after a thorough analysis from political, economic and other perspectives, Sinopec Corp. is entitled to require China Petrochemical Corporation to sell its overseas oil and gas assets owned as of the date of the undertaking and still in its possession upon Sinopec Corp.'s exercise of the option to Sinopec Corp.; (ii) in relation to the overseas oil and gas assets acquired by China Petrochemical Corporation after the issuance of the undertaking, within 10 years of the completion of such acquisition, after a thorough analysis from political, economic and other perspectives, Sinopec Corp. is entitled to require China Petrochemical Corporation to sell these assets to Sinopec Corp. China Petrochemical Corporation undertakes to transfer the assets as required by Sinopec Corp. under aforesaid items (i) and (ii) to Sinopec Corp., provided that the exercise of such option complies with applicable laws and regulations, contractual obligations and other procedural requirements.

Since 2012, China Petrochemical Corporation has earnestly fulfilled its undertaking in eliminating competitions in chemical business with Sinopec Corp. through: (1) subscribing capital contribution of joint ventures controlled by Sinopec Corp., by way of injecting net assets of certain chemical business and cash; (2) authorising Sinopec Corp. to be in charge of production plan, management and sales of the remaining chemical business. The competition in chemical business between China Petrochemical Corporation and Sinopec Corp. has been eliminated.

As of the date of this report, Sinopec Corp. had no undertakings in respect of profits, asset injections or asset restructuring that had not been fulfilled, nor did Sinopec Corp. make any profit forecast in relation to any asset or project.

#### 5 SIGNIFICANT ASSETS AND EQUITY SALE

On 2 August 2016, the 7th meeting of sixth session of the board of directors of Sinopec Corp. considered and approved the proposal to introduce capital to invest in Sichuan-to-East China natural gas pipeline project, and agreed to take the Sichuan-to-East China Pipeline Co. as the platform to introduce capital publicly. On 12 December 2016, Sinopec Natural Gas Co., Ltd. (“Natural Gas Company”), a wholly-owned subsidiary of Sinopec Corp., entered into the capital injection agreement in relation to Sichuan-to-East China Pipeline Co. with China Life Insurance Company Limited (“China Life”) and SDIC Communications Holding Co., Ltd. (“SDIC Communications”). China life and SDIC Communications subscribed a total of 50% equity interest in Sichuan-to-East China Pipeline Co., a wholly-owned subsidiary of Natural Gas Company, in cash with an aggregate amount of RMB 22.8 billion, among which China Life paid RMB 20 billion and SDIC Communications paid RMB 2.8 billion. Upon the completion of capital injection, the registered capital of Sichuan-to-East China Pipeline Co. increased from RMB 100 million to RMB 200 million, and each of Natural Gas Company, China Life and SDIC Communication will hold 50%, 43.86% and 6.14% equity interest in Sichuan-to-East China Pipeline Co., respectively. For more details, please refer to the announcement published in the China Securities Journal, the Shanghai Securities News and the Securities Times by Sinopec Corp. on 13 December 2016 and the announcement published on the website of the Hong Kong Stock Exchange on 12 December 2016.

## 6 MATERIAL GUARANTEE CONTRACTS AND THEIR PERFORMANCE

UNIT: RMB MILLION

Major external guarantees (excluding guarantees for controlled subsidiaries)

Guarantor	Relationship with the Company	Name of guaranteed company	Amount	Transaction date (date of signing)	Period of guarantee	Type	Whether completed or not	Whether overdue or not	Amount of overdue guarantee
Sinopec Corp.	The listed company itself	Yueyang Sinopec Corp. Shell Coal Gasification Corporation	68	10 December 2003	10 December 2003; 10 December 2017	Joint obligations	No	No	—
Sinopec Corp.	The listed company itself	Zhongtian Hechuang Energy Co., Ltd	11,545	25 May 2016	25 May 2016; 31 December 2023 (the mature date is estimated) 10 December 2017	Joint obligations	No	No	—
Sinopec Corp.	The listed company itself	Yanbu Aramco Sinopec Refining Company (YASREF) Limited	no specific amount agreed, guarantee on contract performance	31 December 2014	30 years from the date YASREF requires supply of hydrogen from Air Liquefied Arabia LLC.	Joint obligations	No	No	—
Sinopec Great Wall Energy and Chemical Industry Co., LTD	Wholly owned subsidiary	Zhong An United Coal Chemical Co., Ltd.	590	18 April 2014	18 April 2014; 17 April 2026	Joint obligations	No	No	—
SSI	Controlled subsidiary	New Bright International Development Ltd./Sonangol E.P.	10,669			Joint obligations	No	No	—
Total amount of guarantees provided during the reporting period*2									14,108
Total amount of guarantees outstanding at the end of reporting period*2 (A)									18,071

Guarantees by the Company to the controlled subsidiaries	
Total amount of guarantee provided to controlled subsidiaries during the reporting period	None
Total amount of guarantee for controlled subsidiaries outstanding at the end of the reporting period (B)	18,985
Total amount of guarantees for the Company (including those provided for controlled subsidiaries)	
Total amount of guarantees(A+B)	37,056
The proportion of the total amount of guarantees to the Sinopec Corp.'s net assets	5.20%
Guarantees provided for shareholder, de facto controller and its related parties (C)	2,248
Amount of debt guarantees provided directly or indirectly to the companies with liabilities to assets ratio over 70% (D)	2,534
The amount of guarantees in excess of 50% of the net assets (E)	None
Total amount of the above three guarantee items (C+D+E)	4,782
Statement of guarantee undue that might be involved in any joint and several liabilities	None
Statement of guarantee status	None

\*1: As defined in the Listing Rules of the Shanghai Stock Exchange.

\*2: The amount of guarantees provided during the reporting period and the amount of guarantees outstanding at the end of the reporting period include the guarantees provided by the controlled subsidiaries to external parties. The amount of the guarantees provided by these subsidiaries is derived from multiplying the guarantees provided by Sinopec Corp.'s subsidiaries by the percentage of shareholding of Sinopec Corp. in such subsidiaries.

**SPECIFIC STATEMENTS AND INDEPENDENT OPINIONS FROM INDEPENDENT NON-EXECUTIVE DIRECTORS REGARDING EXTERNAL GUARANTEES PROVIDED BY SINOPEC CORP. DURING AND BY THE END OF 2016:**

We, as independent directors of Sinopec Corp., hereby make the following statements after conducting a thorough check of external guarantees provided by the Company accumulated up to and during 2016 in accordance with the requirements of the domestic regulatory authorities:

The external guarantees prior to 2016 had been disclosed in previous annual report. The aggregate balance of external guarantees provided by Sinopec Corp. for the year 2016 was RMB 37.056 billion, accounting for approximately 5.20% of the Company's net assets.

We hereby present the following opinions:

Sinopec Corp. shall continue to strengthen its management and actively monitor guarantee risks. It shall strictly follow the approval and disclosure procedures in relation to guarantee businesses for any new external guarantees provided thereafter.

**8 SIGNIFICANT LITIGATION, ARBITRATION RELATING TO SINOPEC CORP.**

No significant litigation, arbitration relating to the Company occurred during the reporting period.

**9 INSOLVENCY AND RESTRUCTURING**

During the reporting period, the Company was not involved in any insolvency or restructuring matters.

**10 OTHER MATERIAL CONTRACTS**

Saved as disclosed by Sinopec Corp., the Company did not enter into any significant contracts subject to disclosure obligations during the reporting period.

**11 CREDIBILITY FOR THE COMPANY, CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER**

During the reporting period, the Company and its controlling shareholder did not have any court's effective judgments which should be performed or any large amount of debt which should be repaid.

**12 TRUSTEESHIP, CONTRACTING AND LEASES**

During the reporting period, the Company was not involved in any events relating to significant trusteeship, contracting or leases for the assets of any other company, nor has it placed its assets with any other company under a trusteeship, contracting or lease agreement subject to disclosure obligations.

**13 ENTRUSTED ASSET MANAGEMENT AND ENTRUSTED LOANS**

**(1) Entrusted Asset Management**

During the reporting period, the Company has no entrusted asset management subject to disclosure obligation.

**(2) Entrusted loans**

Borrower	Amount (RMB billion)	Term	Interest Rate	Purpose	Mortgage or guarantor	Whether overdue or not	Whether connected transaction or not	Whether roll-over or not	Whether involved in lawsuit or not	Connected relationship	Gain or loss
Ningbo Gaotou Petroleum	0.2	5 years	6.00%	Working capital loan	None	No	No	No	No	Joint Venture	Gain

Development, Ltd. Maoming-BASF, Ltd.	0.6	5 years	4.75%	Project construction	None	No	No	No	No	Joint Venture	Gain
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(3) Other asset management and derivative investment

During the reporting period, the Company has no other asset management and derivative investment subject to disclosure obligation.



<sup>14</sup> DEPOSITS AT SINOPEC FINANCE CO., LTD. AND SINOPEC CENTURY BRIGHT CAPITAL INVESTMENT, LTD.

In order to regulate connected transactions between the Company and Sinopec Finance Co., Ltd. (Sinopec Corp.'s domestic settlement center, hereinafter referred to as the "Finance Company") and to ensure the safety and liquidity of the deposits of the Company in the Finance Company, Sinopec Corp. and the Finance Company formulated the Risk Control System on Connected Transactions of China Petroleum & Chemical Corporation and Sinopec Finance Co., Ltd., which covers the risk control system and the risk management plan of the Company to prevent financial risks and to ensure that the deposits of the Company in the Finance Company can be utilised at the Company's discretion. At the same time, as the controlling shareholder of the Finance Company, China Petrochemical Corporation undertakes that in case of an emergency where the Finance Company has difficulty in making payments, China Petrochemical Corporation will increase the capital of the Finance Company in accordance with the actual need for the purpose of making payment.

In order to regulate connected transactions between the Company and Sinopec Century Bright Capital Investment, Ltd. (Sinopec Corp.'s overseas settlement center, hereinafter referred to as the Century Bright Company), Century Bright Company ensures the safety of the deposits of the Company in Century Bright Company by strengthening internal risk controls and obtaining support from China Petrochemical Corporation. China Petrochemical Corporation has formulated a number of internal rules, including the Rules for the Internal Control System, the Rules for Implementation of Overseas Capital Management Methods, and the Provisional Methods for Overseas Fund Platform Management, to impose strict rules on Century Bright Company for providing overseas financial services. Century Bright Company has also established the Rules for the Implementation of the Internal Control System, which ensures the standardisation and safety of its corporate deposits business. At the same time, as the wholly controlling shareholder of Century Bright Company, China Petrochemical Corporation entered into a keep-well agreement with Century Bright Company in 2013, in which China Petrochemical Corporation undertakes that when Century Bright Company has difficulty in making payments, China Petrochemical Corporation will ensure that Century Bright Company will fulfill its repayment obligation through various channels.

The deposits of the Company in the Finance Company and Century Bright Company during the reporting period did not exceed the cap as approved at the general meeting of shareholders. During daily operations, Sinopec Corp. can withdraw the full amount of its deposits in the Finance Company and Century Bright Company.

<sup>15</sup> APPROPRIATION OF NONOPERATIONAL FUNDS BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES AND THE PROGRESS FOR CLEARING UP

Not applicable

<sup>16</sup> STRUCTURED ENTITY CONTROLLED BY THE COMPANY

None

<sup>17</sup> DETAILED IMPLEMENTATION OF THE SHARE INCENTIVE SCHEME DURING THE REPORTING PERIOD

Sinopec Corp. did not implement any share incentive scheme during the reporting period.

<sup>18</sup> ENVIRONMENTAL PROTECTION BY SINOPEC CORP AND ITS SUBSIDIARIES

Some branches and subsidiaries of Sinopec Corp. are major pollutant discharging companies stipulated by China's environmental protection agencies. Pursuant to relevant regulations and specific requirements of local related authorities, environmental information of these companies has been disclosed publicly. For more details, please refer to the website of local government.

<sup>19</sup> POVERTY ALLEVIATION PROGRAM LAUNCHED BY SINOPEC CORP

(1) Targeted Poverty Alleviation Plan

The Company has strictly followed the nation's poverty elimination program under the thirteenth five-year plan, persisted in targeted objects, targeted project planning, targeted utilisation of funds, targeted measures based on households, targeted personnel based on village and targeted poverty elimination effect, and uphold the principle of "blood-making style" and "blood&#8211;transfusion style" poverty alleviation. We also increased our investment, enhanced fund management, aimed at work innovation, emphasised supervision protocols and guaranteed work efficiency to ensure the effectiveness of the targeted poverty alleviation plan.

(2) Overview on 2016 Targeted Poverty Alleviations

In 2016, the Company focused on poor villages and households, implemented targeted poverty elimination plans in infrastructure construction, labor output trainings, rural industry development, poverty relief and education assistance. We invested RMB 105.45 million in targeted poverty alleviation, helped 27,775 registered people out of poverty and funded the education of 2,797 students.