中国石化
SINOPEC

2017
Annual Report and Accounts

(STOCK CODE
A Share : 600028 ; H Share : 00386 ; ADR : SNP)

中国石油化工股份有限公司
SINOPEC CORP.

CONTENTS

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 23 March 2018 and unless required by regulatory authorities, the Company undertakes no obligation to update these statements.

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. JIAO FANGZHENG AND MR. MA YONGSHENG, DIRECTORS, MR. FAN GANG, INDEPENDENT NON-EXECUTIVE DIRECTOR, DID NOT ATTEND THE SEVENTEENTH MEETING OF THE SIXTH SESSION OF THE BOARD DUE TO OFFICIAL DUTIES. MR. JIAO FANGZHENG AUTHORISED MR. DAI HOULIANG, VICE CHAIRMAN AND PRESIDENT, MR. MA YONGSHENG AUTHORISED MR. LI YUNPENG, DIRECTOR, AND MR. FAN GANG AUTHORISED MR. TANG MIN, INDEPENDENT NON-EXECUTIVE DIRECTOR, TO VOTE ON THEIR BEHALVES IN RESPECT OF THE RESOLUTIONS PUT FORWARD AT THE MEETING. MR. DAI HOULIANG, VICE CHAIRMAN AND PRESIDENT, MR. WANG DEHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE FINACIAL 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 2017.

THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 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 17TH MEETING OF THE SIXTH SESSION OF THE BOARD OF DIRECTORS OF SINOPEC CORP., THE BOARD PROPOSED A FINAL CASH DIVIDEND OF RMB 0.40 (TAX INCLUSIVE) PER SHARE FOR 2017, COMBINING WITH THE INTERIM CASH DIVIDEND OF RMB 0.10 (TAX INCLUSIVE) PER SHARE, THE TOTAL CASH DIVIDEND FOR 2017 WILL BE RMB 0.50 (TAX INCLUSIVE) PER SHARE. THE DIVIDEND PROPOSAL IS SUBJECT TO THE SHAREHOLDERS' APPROVAL AT THE ANNUAL GENERAL MEETING FOR THE YEAR 2017.

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;
Shanghai SECCO: Shanghai SECCO Petrochemical Company Limited;
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: 2017, 1 tonne = 7.21 barrels; 2016, 1 tonne = 7.20 barrels; 2015, 1 tonne = 7.21 barrels;
For production of natural gas, 1 cubic meter = 35.31 cubic feet;
Refinery throughput is converted at 1 tonne = 7.35 barrels.

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ASBE

(1) Principal financial data

Items	For the year ended 31 December **2017** **RMB million**	2016 RMB million	Change %	2015 RMB million
Operating income	**2,360,193**	1,930,911	22.2	2,020,375
Operating profit	**86,965**	77,389	12.4	51,553
Profit before taxation	**86,573**	79,877	8.4	56,093
Net profit attributable to equity shareholders of the Company	**51,119**	46,416	10.1	32,281
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	**45,582**	29,713	53.4	28,901
Net cash flow from operating activities	**190,935**	214,543	(11.0)	165,740

Items	For the year of 2017 First Quarter RMB million	Second Quarter RMB million	Third Quarter RMB million	Fourth Quarter RMB million	Total RMB million
Operating income	582,185	583,652	579,118	615,238	2,360,193
Net profit attributable to equity shareholders of the Company	16,633	10,459	11,281	12,746	51,119
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	16,540	9,559	10,619	8,864	45,582
Net cash flow from operating activities	13,276	47,571	50,346	79,742	190,935

Items	As of 31 December **2017** **RMB million**	2016 RMB million	Change %	2015 RMB million
Total assets	**1,595,504**	1,498,609	6.5	1,447,268
Total liabilities	**741,434**	666,084	11.3	657,703
Total equity attributable to equity shareholders of the Company	**727,244**	712,232	2.1	677,538
Total number of shares (1,000 shares)	**121,071,210**	121,071,210	—	121,071,210

(2) Principal financial indicators

Items	For the year ended 31 December **2017** **RMB**	2016 RMB	Change %	2015 RMB
Basic earnings per share	**0.422**	0.383	10.2	0.267
Diluted earnings per share	**0.422**	0.383	10.2	0.267
Basic earnings per share (excluding extraordinary gains and losses)	**0.376**	0.245	53.5	0.239
Weighted average return on net assets (%)	**7.14**	6.68	0.46 percentage points	5.07
Weighted average return (excluding extraordinary gains and losses) on net assets (%)	**6.37**	4.33	2.04 percentage points	4.52
Net cash flow from operating activities per share	**1.577**	1.772	(11.0)	1.371

Items	As of 31 December **2017** **RMB**	2016 RMB	Change %	2015 RMB
Net assets attributable to equity shareholders of the Company per share	**6.007**	5.883	2.1	5.606
Liabilities to assets ratio (%)	**46.47**	44.45	2.02 percentage points	45.44

(3) Extraordinary items and corresponding amounts

Items	For the year ended 31 December (Income)/expenses 2017 RMB million	2016 RMB million	2015 RMB million
Net loss on disposal of non-current assets	**1,518**	1,489	665
Donations	**152**	133	112
Government grants	**(4,783)**	(3,987)	(5,002)
Gain on holding and disposal of various investments	**(148)**	(518)	(943)
Investment income on loss of control and remeasuring interests in pipeline company	**—**	(20,562)	—
Gain on remeasurement of interests in Shanghai SECCO	**(3,941)**	—	—
Other non-operating expenses, net	**690**	1,367	387
Gain on business combination under the same control	**—**	(86)	(134)
Subtotal	**(6,512)**	(22,164)	(4,915)
Tax effect	**976**	5,578	1,060
Total	**(5,536)**	(16,586)	(3,855)
Attributable to: Equity shareholders of the Company	**(5,537)**	(16,703)	(3,380)
Minority interests	**1**	117	(475)

(4) Items measured by fair values

Unit: RMB million

Items	Beginning of the year	End of the year	Changes	Influence on the profit of the year
Available-for-sale financial assets	262	178	(84)	41
Derivative financial instruments	314	(522)	(836)	(1,105)
Cash flow hedging	(4,024)	(1,617)	2,407	(1,486)
Financial assets at fair value through profit and loss	—	51,196	51,196	196
Total	(3,448)	49,235	52,683	(2,354)

(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:

Items	As of 31 December 2017 RMB million	2016 RMB million	Increase/(decrease) Amount RMB million	Percentage (%)	Reasons for change
Accounts receivable	**68,494**	50,289	18,205	36.2	Mainly due to the increase in crude oil price and refined oil products export.
Other receivables	**16,467**	25,596	(9,129)	(35.7)	Mainly due to the decrease of crude oil trade deposit and internal borrowings received from the Sichuan-to-East China Pipeline Co.
Available-for-sale financial assets	**1,676**	11,408	(9,732)	(85.3)	The Company dispatched an executive to the Board of SIBUR in 2017 and it is able to exercise significant influence in SIBUR. So the Company turned the available for-sale financial assets to long term equity investment.
Taxes payable	**71,940**	52,886	19,054	36.0	Mainly due to increase in profit as well as the impact of timing of tax payment.
Debentures payable	**31,370**	54,985	(23,615)	(42.9)	Parts of debentures payable are converted to non-current liabilities due within one year.
Financial expenses	**1,560**	6,611	(5,051)	(76.4)	Mainly due to increase in profit, sufficient capital reserve and increase in interest revenue
Income of investment	**19,060**	30,779	(11,719)	(38.1)	Mainly due to the income from restructuring of pipeline assets in 2016 and the impact of equity acquisition of Shanghai SECCO in 2017.

2 FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS

Unit: RMB million

Items	For the year ended 31 December **2017**	2016	2015	2014	2013
Turnover and other operating revenues	**2,360,193**	1,930,911	2,020,375	2,827,566	2,881,928
Operating profit	**71,470**	77,193	56,822	73,439	96,763
Profit before taxation	**86,697**	80,151	56,411	65,818	95,444
Profit attributable to owners of the Company	**51,244**	46,672	32,512	46,639	66,348
Basic earnings per share (RMB)	**0.423**	0.385	0.269	0.399	0.571
Diluted earnings per share (RMB)	**0.423**	0.385	0.269	0.399	0.536
Return on capital employed (%)	**8.26**	7.30	5.23	6.06	8.03
Return on net assets (%)	**7.06**	6.56	4.81	7.84	11.62
Net cash generated from operating activities per share (RMB)	**1.577**	1.772	1.371	1.267	1.305

Unit: RMB million

Items	As of 31 December **2017**	2016	2015	2014	2013
Non-current assets	**1,066,455**	1,086,348	1,113,611	1,094,035	1,012,703
Net current liabilities	**50,397**	73,282	129,175	242,892	197,440
Non-current liabilities	**163,168**	181,831	196,275	201,540	189,485
Non-controlling interests	**126,770**	120,241	111,964	54,348	54,691
Total equity attributable to owners of the Company	**726,120**	710,994	676,197	595,255	571,087
Net assets per share (RMB)	**5.997**	5.873	5.585	5.033	4.899
Adjusted net assets per share (RMB)	**5.868**	5.808	5.517	4.969	4.860

3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS PLEASE REFER TO PAGE 206 OF THE REPORT.

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 2017, the total number of shareholders of Sinopec Corp. was 508,659 including 502,590 holders of domestic A shares and 6,069 holders of overseas H shares. As of 28 February 2018, the total number of shareholders of Sinopec Corp. was 496,137. 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 2017 are listed as below:

Unit: Share

Name of shareholders	Nature of Shareholders	Percentage of shareholdings %	Total number of shares held	Changes of shareholding[1]	Number of shares subject to pledges or lock-up
China Petrochemical Corporation	State-owned Share	70.86	85,792,671,101	0	0
HKSCC Nominees Limited[2]	H Share	20.96	25,379,806,872	153,819	Unknown
中國證券金融股份有限公司	A Share	2.75	3,331,730,143	1,470,304,825	0
HKSCC Nominees Limited	A Share	0.33	400,982,945	39,831,541	0
中央匯金資產管理有限責任公司	A Share	0.27	322,037,900	0	0
長江證券股份有限公司	A Share	0.07	88,458,695	17,261,400	0
中國工商銀行-上證50交易型開放式指數證券投資基金	A Share	0.07	80,551,930	2,693,300	0
交通銀行股份有限公司-滙豐晉信大盤股票型證券投資基金	A Share	0.06	68,970,054	23,033,290	0
國泰君安證券股份有限公司	A Share	0.05	54,884,077	(76,251,129)	0
全國社保基金一一五組合	A Share	0.04	54,190,722	54,190,722	0

Note 1: As compared with the number of shares held as of 31 December 2016.

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.

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

Name of shareholders	Status of shareholders	Number of shares interests held or regarded as held (H Share)	Approximate percentage of Sinopec Corp.'s issued share capital (H Share) (%)
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	2,280,210,944(L) 4,080,000(S)	8.94(L) 0.02(S)
JPMorgan Chase & Co.	Beneficial owner	463,731,470(L) 226,733,320(S)	1.82(L) 0.89(S)
	Investment manager	17,001,962(L)	0.07(L)
	Trustee (exclusive of passive trustee)	20,400(L)	0.00(L)
	Custodian corporation/approved lending agent	984,349,338(L)	3.86(L)
Schroders Plc.	Investment manager	1,278,173,372(L)	5.01(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-authorised 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

Name of Company	Number of Shares Held	Shareholding Percentage
Sinopec Engineering (Group) Co. Ltd	2,907,856,000	65.67%
Sinopec Oilfield Service Corporation	9,224,327,662	65.22%
Sinopec Oilfield Equipment Corporation	351,351,000	58.74%
China Merchants Energy Shipping Co., Ltd	912,886,426	17.23%

(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

China Petrochemical Corporation

71.32% *

Sinopec Corp.

*: 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.

Mr. Dai Houliang, Vice Chairman & President

Dear Shareholders and Friends:

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders and the wider community for their interest and support.

In 2017, international oil prices fluctuated and showed upward movement in the midst of a complex and changeable global political and economic environment. Domestic demand for natural gas and chemicals remained robust as the Chinese economy maintained its steady growth. Competition in the domestic refined oil market was fierce. As it made major decisions, the Board of Directors (the "Board") focused on steady and firm improvement, and adhered to its overarching strategies of promoting value-oriented growth, innovation-driven development, integrated resource allocation, openness to cooperation, and green and low-carbon development. With an emphasis on delivering returns to shareholders, we continued to focus on supply-side structural reform and stepped up our efforts to enhance the Company's efficiency, profitability and corporate governance.

Over the past year, under the leadership of our management, the entire staff focused on optimisation, cost reduction, market expansion, structural adjustment, reform, foundation building, and risk management. As a result, our operating results were better than expected, and we met all performance targets for the year. In our upstream business, we emphasized high-efficiency exploration activities and cost-effective development. Our crude oil reserve replacement ratio reached 116%. At the same time, we worked hard to ensure a stable gas supply for the winter season, with gas production and sales volume hitting record highs. Taking advantage of our integrated value chain, which extends from refining to marketing and distribution, we actively responded to competitive market conditions. We achieved satisfactory results and further strengthened our competitive advantage. In our chemical operations, we adopted a customer-focused approach and enhanced the adjustments in our product and feedstock mix. Both the sales volume and profitability of the chemicals segment reached record highs.

In accordance with IFRS, the Company's turnover and other operating revenues reached RMB 2.36 trillion in 2017, up by 22.2% from the previous year. Profit attributable to equity shareholders of the Company was RMB 51.244 billion. Basic earnings per share were RMB 0.423, up by 9.9% from year on year. Taking into account the Company's profitability, cash position, shareholder return and future business development, the Board proposed a final dividend of RMB 0.40 per share, which combined with the interim dividend of RMB 0.10 per share, brought the full-year dividend to RMB 0.50 per share, up by 100.8% from the previous year.

During the three years of the sixth session of the Board, the global economy recovered slowly, and China's economy entered a "new normal" phase. International oil prices fluctuated at low levels, with heavy repercussions for the upstream sector. At the same time, competition in the refined oil market intensified, with the government introducing a series of far-reaching policies in the oil and petrochemical industries. In the face of a complex and challenging operating environment, the Board emphasised on its principles of innovation, coordination, green development, openness and shared growth. We formulated our five major development strategies, 13th Five-Year Development Plan and Three-Year Rolling Development Program, taking advantage of our integrated value chain to accelerate the Company's transformation and structural adjustments, eventually we achieved excellent operating performance. At the same time, we made outstanding progress in our corporate governance, corporate development, reforms and adjustments, and technological innovation, as well as in the fulfillment of our social responsibilities.

Over the past three years, we consistently enhanced the composition and operation of the Board and the Supervisory Committee. The effort of confirming the role of the Chinese Communist Party in the Company's corporate governance facilitated a better corporate governance mechanism featuring scientific decision-making and effective implementation and supervision.

We focused on improving product quality, enhancing our efficiency and upgrading our businesses, thus driving the Company's sustainable development. In our upstream business, we implemented a low-cost strategy to address the challenge of low oil prices, focused on high-efficiency exploration and development, and enlarged our proved reserves to lay a stronger foundation for sustainable development. We also developed our natural gas business as a new driver for profit growth. We built up the production capacity of the Fuling shale gas field to 10 billion cubic meters per year, laying a solid resource foundation for promoting natural gas consumption in the Yangtze River Economic Belt. Moreover, we made continuous efforts to drive development of four world-class regional refining centers, sharpening our competitive edge. We took a market-driven approach to our refining and chemicals operations, vigorously promoting structural adjustments and increasing the production of high-value-added products to develop these businesses into our profit growth drivers. We actively coped with market competition, leading to steady growth in the sales volume of our refined oil products and the sustained rapid development of our non-fuel operations. We achieved record-breaking performance in various key operating indicators of the chemicals segment. As we continued to deepen our reform programs, the Company brought in new investors for the Sichuan-to-East China Pipeline Co., and introduced RMB 22.8 billion. The mixed-ownership reform of Sinopec Marketing Company went smoothly, and we successfully introduced a flattened organisation structure in upstream enterprises. With an emphasis on innovation, we enhanced our mechanisms for commecializing scientific and technological achievements and focused on the development of core technologies in our key businesses. Technological innovations have become a pillar of our development. The Company won eight National Technology Invention Awards and five National Science and Technology Progress Awards, remaining a leading domestic company in the number of invention patents granted. Moreover, we capitalised on the opportunities created by the Belt and Road Initiative by investing in refining and chemical projects, and increasing our trade volumes.

We actively fulfilled our social responsibilities, and green and low-carbon development strategy. We successfully concluded the Clear Water, Blue Sky environmental project while smoothly implemented the Efficiency Doubling Plan. Our major pollutant emissions were lower than government criterias. Meanwhile, we made further achievements in our partnership assistance and targeted poverty alleviation programs. For the period of 2016 through 2017, we donated an aggregate amount of RMB 284 million to these causes. The Company actively participated in social and philanthropic activities. The Lifeline Express hospital train has provided free cataract surgeries for more than 40,000 impoverished people and is widely acclaimed throughout the country.

Over the past three years, the Company's turnover and total assets have grown steadily. Our businesses have expanded rapidly, and our overall performance has continued to improve. In accordance with IFRS, the Company's total assets increased by 9.9% and our shareholders' equity increased by 22.4% compared with 2014. In addition, we delivered good returns to our shareholders, with total dividends declared for the three-year period amounting to RMB 108.8 billion.

These achievements are the product of the joint efforts of the Board, the management and the entire staff, reflecting their hard work and their determination to reform. The support of our shareholders and the wider community has also been indispensable. In accordance with regulatory requirements, the terms of office of the current Board of Directors and the Supervisory Committee will soon expire. Mr. Jiang Xiaoming and Mr. Andrew Y. Yan will step down as directors. They have demonstrated dedication and diligence throughout their terms of office and have made outstanding contribution to the Company's decision-making, standardised operations, reforms and development. On behalf of the Board, I would also like to express my heartfelt gratitude to all independent directors and supervisors for their hard work and contribution.

In 2018, the global economy will continue to recover. While China's economic development model will shift from high-speed growth to high-quality development, domestic demand for oil and chemical products will remain robust. This year is an important link between the preceding and the following for carrying out the Company's 13th Five-year Development Plan. In view of the new requirements in the new era, the Company will adhere to an underlying principle of progressing at a steady pace and under a new development model that makes quality and efficiency our top priorities. We will deepen supply-side structural reforms and enhance our corporate governance with China's characteristics. We will also strive diligently to improve our production and operational standards, reinforce our management and ensure the Company's sustainable development.

In our upstream operations, we will pursue opportunities for high-efficiency exploration and cost-effective development, maintain the stability of our oil output, increase our gas supplies and reduce costs. At the same time, we will optimize our resource structure and drive the rapid development of the natural-gas business. In the refining, we will further optimize structure and implement a lean management model, optimise refining layout, and increase concentration ratio. We will continue to revamp our refining projects and upgrade our refined oil products. In the oil products marketing business, we will coordinate efforts to enhance market development and efficiency and expand our domestic and overseas businesses. In addition, we will strengthen our network and logistics system, accelerate the development of our non-fuel operations, and intensify efforts to boost our sales volume and profitability. In the chemicals business, we will improve quality and profitability and focus on transformation and development. We emphasise on the high end of our value chain, with more attention on the development of fine chemicals, bio-chemicals and new materials. In 2018, the capital expenditure of the Company will be RMB 117 billion.

Looking ahead, the petroleum and chemical sectors are set to undergo significant and profound transformation. China's economy will see remarkable progress in its move towards high-quality development. Both opportunities and challenges lie ahead of us. It is our mission to build Sinopec Corp. into a world-class energy and chemical company and to drive its sustainable growth. We will adjust to overall market trends, adapt as our development warrants, and optimize our strategies and planning. In addition, we will adhere to our corporate strategy of reform, management, innovation and development, stressing the importance of quality development in our core businesses and accelerating the development of new businesses. We will strengthen efforts to make reforms that improve the Company's quality, efficiency and dynamism, and that enable sustainable and high-quality development.

The Board has nominated an exceptional group of new members to join it. They include outstanding managers and leading experts in the academic, macro-economic, corporate management and petrochemical fields. Drawing on their far-ranging professional backgrounds and extensive work experience, they will share their insights with and add vitality to the Board, thus enhancing the Board's decision-making capabilities. The new session of the Board will help the Company keep pace with overall market trends through their comprehensive view of our businesses and their pragmatic approach to market developments. We will redouble our efforts to develop Sinopec Corp. into a world-class energy and chemical company and to build a better community, delivering superior operating results to our shareholders and giving back to society and our employees.

Dai Houliang
Vice Chairman & President

Beijing, China
23 March 2018

SINOPEC
中国石化
SINOPEC
TAXI

BUSINESS REVIEW

In 2017, global economy recovered gradually, while China maintained stable and favourable economic growth with gross domestic product (GDP) up by 6.9%. International oil prices fluctuated and climbed from the low level, and domestic natural gas demand increased rapidly. With fast development of independent refineries, 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 the improvement of assets quality and profitability, as well as operation upgrades. We pressed ahead with measures for specialised business development, market-oriented operation and overall coordination. Following the supply-side structural reform, we focused on optimisation, cost reduction, market expansion, structural adjustment, reform promotion, foundation building and risk management, coordinating all aspects of our work, which helped deliver solid operating results.

Trend of International Crude Oil Prices

1 MARKET REVIEW

(1) Crude Oil & Natural Gas Market

In 2017, international crude oil prices fluctuated at low level among the first three quarters, and rapidly went up in the 4th quarter. The average spot price of Platt's Brent for the year was USD 54.19 per barrel, up by 23.9% from the previous year. Along with the adjustments of China's energy structure, domestic demand for natural gas became robust. Domestic apparent consumption of natural gas reached 237.3 billion cubic meters, up by 15.3% year on year.

(2) Refined Oil Products Market

In 2017, domestic demand for refined oil products maintained its growth while market supply was in surplus. According to the statistics, apparent consumption of refined oil products (including gasoline, diesel and kerosene) was 306 million tonnes, up by 6.6% from the previous year, with gasoline up by 10.1% and kerosene up by 11.7%, and diesel made a turnaround, up by 2.9%. Prices for domestic refined oil products were adjusted in line with international oil prices trend. In 2017, the government made 17 times of price adjustments with 11 increases and 6 decreases.

(3) Chemical Products Market

In 2017, domestic demand for chemicals grew fast. According to our statistics, domestic consumption of ethylene equivalent was up by 11.3% from the previous year, and the apparent consumption of synthetic resin, synthetic fibre and synthetic rubber rose by 8.6%, 5.0% and 6.4%, respectively. Domestic average chemical product prices increased compared with the previous year, in line with movements of international chemical product prices.

2 PRODUCTION & OPERATIONS REVIEW

(1) Exploration and Production

In 2017, faced with low oil prices, we constantly strengthened measures to increase proved reserves and rein in development costs, which helped achieving better results. We gave priority to high-efficiency exploration activities and made new discoveries in the Xinjiang Tahe Basin and the Sichuan Basin. The Company's newly added proved reserve reached 462.73 million barrels of oil equivalent, with crude oil reserve replacement ratio reaching 116.0%. In crude oil development, we constantly adopted a profit-oriented approach, deepened structural adjustment, focused on cost control, reduced natural decline rate and ensured steady production. In natural gas development, we actively pushed forward capacity building in Hangjinqi of Nei Mongol and Dongpo of west Sichuan, and completed 10 bcm(billion cubic meter) per year shale gas capacity building in Fuling. The Company's production of oil and gas was 448.79 million barrels of oil equivalent, with domestic crude production down by 3.2% from the previous year and natural gas production up by 19.1%.

Summary of Operations for the Exploration and Production Segment

	2017	2016	2015	Change from 2016 to 2017 (%)
Oil and gas production (mmboe)	448.79	431.29	471.91	4.1
Crude oil production (mmbbls)	293.66	303.51	349.47	(3.2)
China	248.88	253.15	296.34	(1.7)
Overseas	44.78	50.36	53.13	(11.1)
Natural gas production (bcf)	912.50	766.12	734.79	19.1

Summary of Reserves of Crude Oil and Natural Gas

	Crude oil reserves (mmbbls)	
Items	**31 December 2017**	31 December 2016
Proved reserves	1,599	1,552
Proved developed reserves	1,429	1,393
China	1,124	1,080
Consolidated subsidiaries	1,124	1,080
Shengli	811	801
Others	313	279
Overseas	305	313
Consolidated subsidiaries	32	40
Equity accounted entities	273	273
Proved undeveloped reserves	170	159
China	137	136
Consolidated subsidiaries	137	136
Shengli	49	37
Others	88	99
Overseas	33	23
Consolidated subsidiaries	0	0
Equity accounted entities	33	23

Items	Natural gas reserves (bcf) 31 December 2017	31 December 2016
Proved reserves	6,997	7,178
Proved developed reserves	6,012	6,454
China	6,000	6,436
Consolidated subsidiaries	6,000	6,436
Puguang	2,127	2,330
Fuling	1,121	1,226
Others	2,752	2,880
Overseas	12	18
Consolidated subsidiaries	0	0
Equity accounted entities	12	18
Proved developed reserves	985	724
China	985	724
Consolidated subsidiaries	985	724
Fuling	187	0
Others	798	724

Exploration and Production Activities

	Wells drilled (as of 31 December)							
	2017				2016			
	Exploratory		**Development**		Exploratory		Development	
	Productive	**Dry**	**Productive**	**Dry**	Productive	Dry	Productive	Dry
China	266	149	1,442	9	266	149	801	6
Consolidated subsidiaries	266	149	1,442	9	266	149	801	6
Shengli	151	71	845	1	166	73	462	5
Others	115	78	597	8	100	76	339	1
Overseas	2	1	119	0	2	1	99	0
Consolidated subsidiaries	0	0	0	0	0	0	0	0
Equity accounted entities	2	1	119	0	2	1	99	0
Total	268	150	1,561	9	268	150	900	6

	Wells drilling (as of 31 December)							
	2017				2016			
	Gross		**Net**		Gross		Net	
	Exploratory	**Development**	**Exploratory**	**Development**	Exploratory	Development	Exploratory	Development
China	62	147	62	147	78	138	78	138
Consolidated subsidiaries	62	147	62	147	78	138	78	138
Shengli	19	0	19	0	28	21	28	21
Others	43	147	43	147	50	117	50	117
Overseas	0	5	0	5	0	2	0	2
Consolidated subsidiaries	0	0	0	0	0	0	0	0
Equity accounted entities	0	5	0	5	0	2	0	2
Total	62	152	62	152	78	140	78	140

	Oil productive wells (as of 31 December)			
	2017		2016	
	Gross	**Net**	Gross	Net
China	50,121	50,121	49,921	49,921
Consolidated subsidiaries	50,121	50,121	49,921	49,921
Shengli	32,105	32,105	32,019	32,019
Others	18,016	18,016	17,902	17,902
Overseas	7,350	3,968	7,432	3,614
Consolidated subsidiaries	28	14	28	14
Equity accounted entities	7,322	3,954	7,404	3,600
Total	57,471	54,089	57,353	53,535

Region	Natural gas productive wells (as of 31 December) 2017 Gross	Net	2016 Gross	Net
China	4,800	4,762	4,966	4,932
Consolidated subsidiaries	4,800	4,762	4,966	4,932
Puguang	57	57	57	57
Fuling	266	266	253	253
Others	4,477	4,439	4,656	4,622
Total	4,800	4,762	4,966	4,932

Unit: Square kilometers

	Area under license (as of 31 December) 2017	2016
Acreage with exploration licenses	621,529	742,588
China	621,529	742,588
Acreage with development licenses	36,604	33,305
China	31,498	28,436
Overseas	5,106	4,869

(2) Refining

In 2017, with the market-oriented approach, we optimised product mix to produce more gasoline and jet fuel, and the production volume of high-value-added products have been further increased, with the diesel-to-gasoline ratio further declined to 1.17. The Company actively promoted refined oil products quality upgrading, the GB V standard diesel quality upgrading completed, and advanced the refined oil products quality upgrading of GB VI standard. We adapted to market changes by taking full advantages of our integrated business, and moderately increasing export volume of refined oil products. We comprehensively optimised our production plans to ensure safe and reliable operations. The advantages of centralised marketing took full play, and profitability of LPG, asphalt and other products were further improved. In 2017, the Company processed 239 million tonnes of crude, up by 1.3% from the previous year, and produced 151 million tonnes of refined oil products, with gasoline up by 1.2% and kerosene up by 5.5% from the previous year.

Summary of Operations for the Refining Segment

Unit: million tonnes

	2017	2016	2015	Change from 2016 to 2017 (%)
Refinery throughput	238.50	235.53	236.49	1.3
Gasoline, diesel and kerosene production	150.67	149.17	148.38	1.0
Gasoline	57.03	56.36	53.98	1.2
Diesel	66.76	67.34	70.05	(0.9)
Kerosene	26.88	25.47	24.35	5.5
Light chemical feedstock production	38.60	38.54	38.81	0.2
Light product yield (%)	75.85	76.33	76.50	(0.48) percentage points
Refinery yield (%)	94.88	94.70	94.75	0.18 percentage points

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

(3) Marketing and Distribution

In 2017, confronted with stronger competition, the Company brought our advantages in integrated business and distribution network into full play, optimised internal and external resources, intensified market efforts and achieved sustained growth in both total sales volume and retail scale. We innovated operational models, optimised layout of service stations, and expedited revamping of storage and transportation facilities of refined oil products to further improve our distribution network. In addition, we proactively promoted and cultivated vehicle natural gas business. In 2017, the total sales volume of oil products was 199 million tonnes, of which domestic sales accounted for 178 million tonnes, up by 2.9% year on year. We strengthened self-owned brand development and marketing, and non-fuel business maintained its rapid growth with increased scale and profits.

Summary of Operations for the Marketing and Distribution Segment

	2017	2016	2015	Change from 2016 to 2017 (%)
Total sales volume of oil products (million tonnes)	198.75	194.84	189.33	2.0
Total domestic sales volume of oil products (million tonnes)	177.76	172.70	171.37	2.9
Retail sales (million tonnes)	121.56	120.14	119.03	1.2
Direct sales and distribution (million tonnes)	56.20	52.56	52.34	6.9
Annual average throughput per station (tonne/station)	3,969	3,926	3,896	1.1

	31 December 2017	31 December 2016	31 December 2015	Change from the end of the previous year to the end of the reporting period (%)
Total number of service stations under the Sinopec brand	30,633	30,603	30,560	0.1
Number of company-operated stations	30,627	30,597	30,547	0.1

(4) Chemicals

In 2017, the Company continued the "basic and high-end" chemical business development concept to promote effective supply. We fine-tuned chemical feedstock mix to lower costs, optimised product mix and increased high-value-added products production based on the customer demand. We optimised production and operation based on market conditions and intensified dynamic modelling and monitoring of profit to increase profitability. Ethylene output was 11.61 million tonnes, up by 5.0% from the previous year. The Company intensified its efforts to enhance research and development, production, marketing and sales of new high-value-added products. Our differential ratio of synthetic fibre reached 89.0% and the specialty and new products as a percentage of synthetic resin reached 63%. By fully exerting our network advantage, implementing precision marketing and further expanding the market, our full-year chemical sales volume increased by 12.2% from the previous year to 78.5 million tonnes, marking a historic record.

Summary of Operations for the Chemicals Segment **Unit: thousand tonnes**

	2017	2016	2015	Change from 2016 to 2017 (%)
Ethylene	11,610	11,059	11,118	5.0
Synthetic resin	15,938	15,201	15,065	4.8
Synthetic rubber	848	857	843	(1.1)
Synthetic fiber monomer and polymer	9,439	9,275	8,994	1.8
Synthetic fiber	1,220	1,242	1,282	(1.8)

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

(5) Research and Development

In 2017, the Company pushed ahead with its innovation-driven strategy, deepened reform of R&D mechanism, and accomplished notable results driven by R&D progresses. In upstream business, further breakthroughs in geological evaluation and exploration technologies of deep carbonate and deep shale gas reservoirs underpinned the growing resources base of Shunbei oilfield and south Sichuan as well as discoveries of new formations in Sichuan Basin. We improved development technologies for Tahe fractured-vuggy carbonate reservoir, bringing down the natural decline rate. In refining, our demonstration unit of fluidised bed residue hydro-treating achieved long-cycle operation at its full capacity, and we completed the industrial test of super solid-acid C5 and C6 isomerisation technology. In chemicals, the syngas to ethylene glycol demonstration unit ran smoothly, and we accomplished commercial production of low-volatility polypropylene for automobile use and high-transparency & low-extraction polypropylene. Our on-line trading platform developed rapidly, as a result of the integration of IT application and industrialisation. In 2017, the Company filed 5,876 patent applications at home and abroad, 3,640 patents granted. The Company also won two first prizes and one second prize in the National Scientific and Technological Progress Awards, two second prizes in the National Technology and Innovation Awards, and eight excellent patent awards in China's Patent Award competition.

(6) Health, Safety and the Environment

In 2017, the Company pressed ahead the formation of a long-term safe production scheme, strengthened safety measures at basic levels to control risks and remove potential hazards in all aspects. We promoted on-site safety supervision and management to continuously improve our safety management level. The Company actively implemented its green and low-carbon strategy to integrate energy conservation, emissions cutting and carbon reduction. We comprehensively strengthened environmental risk and air pollution control, steadily pushed forward our "Efficiency Doubling Plan", continuously consolidated our carbon asset management, and accomplished all emissions reduction targets. For more detailed information, please refer to our Communication on Progress for Sustainable Development.

(7) Capital Expenditures

In 2017, focusing on quality and profitability of investment, the Company continuously optimised its investment projects. Total capital expenditures were RMB 99.384 billion. Capital expenditures for the exploration and production segment were RMB 31.344 billion, mainly for Fuling shale gas and Hangjinqi natural gas field development projects, Shengli and Northwest crude development projects, LNG terminals in Tianjin, Wen-23 gas storage and phase I of Xinjiang gas pipeline, as well as overseas projects. Capital expenditures for the refining segment were RMB 21.075 billion, mainly for Zhongke Refining and Petrochemical project, adjustments in the product mix of Zhenhai and Maoming refineries, and gasoline and diesel GB VI quality upgrading projects. Capital expenditures for the marketing and distribution segment were RMB 21.539 billion, mainly for construction of service stations and refined oil product pipelines, depots and storage facilities. Capital expenditures for the chemicals segment were RMB 23.028 billion, mainly for Zhongke Refining and Petrochemical project, phase II of Hainan high-efficiency and environment-friendly aromatics project, Gulei and Zhong'an projects, acquisition of interest in Shanghai SECCO, as well as projects regarding resource comprehensive utilisation and product structure adjustments. Capital expenditures for the corporate and others segment were RMB 2.398 billion, mainly for R&D facilities and information technology application projects.

BUSINESS PROSPECTS

(1) Market Outlook

Looking ahead to 2018, we expect world economy continuing to recover, and China's economy would maintain steady growth. Meanwhile, the constant stream of reform measures by Chinese government to revitalise its substantial economy, the further development of the Belt and Road Initiative, the synergic development of Beijing-Tianjin-Hebei and the growth along Yangtze River Economic Belt will bring up demand for refined oil products and petrochemicals. Natural gas as clean energy will see rapid growth with structural adjustment of domestic energy mix. International oil price in 2018 is expected to maintain its stabilising momentum.

(2) Operations

In 2018, the Company will persist with our objective of progressing at a steady pace to continually focus on growth stabilisation, adhere to the principle of quality first and profitability prioritised. The Company will deepen the supply-side structural reform as main direction to further implement the operation objectives of reform, management, innovation and development, to fully improve operational performance. We will undertake the following work during the year:

Exploration and Production: We will maintain high-efficiency exploration and profitable production activities to continually increase proved reserve and expand resource base. In oil development, we will enhance refined reservoir characterisation, deepen the structural adjustments of mature fields, control natural decline rate, lower operational cost and improve economic recovery rate. In natural gas development, we will keep advancing key projects for capacity construction, optimise production and marketing operations, and promote the coordinated development along the value chain. In 2018, we plan to produce 290 million barrels of crude oil, of which overseas production will account for 41 million barrels. We plan to produce 974.1 billion cubic feet of natural gas.

Refining: We will comprehensively optimise our production plans along with market changes to consolidate the competitive advantage of refining business. We will continue to adjust our product structure by further lowering the diesel-to-gasoline ratio and increasing the production of naphtha and jet fuel. The quality upgrading of GB VI standard refined oil products will complete on time with strengthened coordination. We will fine-tune crude oil procurement and resource allocation to reduce procurement cost. We will optimise our marketing mechanism to enlarge the trading volume of other refined oil products. In 2018, we plan to process 239 million tonnes of crude and produce 152 million tonnes of refined oil products.

Marketing and Distribution: We will intensify our marketing strategy of balancing profits and volume by optimising resources allocation and operational efficiency. We will put effort to expand markets and our business scale. We will further improve our marketing network to reinforce existing advantages.

We will accelerate the construction of oil products export infrastructure and amplify the profitability of overseas oil products marketing. We will deepen the integration of fuel and non-fuel business, so to create a new mode of coordinating oil products retailing, non-fuel products marketing and third-party vendors cooperation, and thus step up the growth of non-fuel business. In 2018, we plan to sell 179 million tonnes of oil products in the domestic market.

Chemicals: We will further optimise feedstock mix and product slate. The constant feedstock optimisation would further lower feedstock costs. We will put more efforts on optimising product mix, enhancing the dynamic evaluation and monitoring of profitability of facilities and product chains, increasing more popular and profitable products production and advancing the R&D, production and sales of high-end chemicals. We will step up research on the industrial chain and optimise the rapid response mechanism combining production, marketing and research. Internal and external resources will be fully tapped to actively expand sales volume and market share. Meanwhile, refined marketing and tailor-made services will be adopted to provide our customers with full process solutions and value-added services. In 2018, we plan to produce 11.6 million tonnes of ethylene.

Research and Development: We will continue to deeply implement our strategy of development driven by innovation and reform of mechanisms for technological innovation.
We will accelerate key technical breakthroughs, reinforce research on leading technologies, and step up the commercial application of technological achievements to highlight the prominent role of technologies. In key technical breakthroughs, focus will be given to new discoveries of oil and gas resources, low-cost development of oil and gas resources, high-efficiency conversion of heavy crude, refined oil products quality upgrading, cost reduction and efficiency enhancement of chemical business, new products development of high-value-added materials, energy conservation and environmental protection. In leading technologies, priorities lie in the basic and prospective research of ultra-deep and deepwater oil and gas exploration and production, molecular-level intelligent refining and new energies. In innovative development, the Company plans to establish a joint R&D centre for cutting-edge technologies to facilitate the innovation from basic research to commercialisation. Meanwhile, the integration of information technologies and industrialisation will carry on by further enhancing integration of information systems and the application of intelligent pipeline management systems.

Capital Expenditures: In 2018, we will devote attention to the quality and profitability of investments, and constantly optimise our investment projects. Capital expenditures for the year are budgeted at RMB 117 billion. The exploration and production segment will account for expenditures of RMB 48.5 billion, mainly for the shale gas development in southwest China, the natural gas project in north China and crude capacity building in northwest China, as well as natural gas pipelines and storage projects, and overseas oil and gas projects. The refining segment will account for RMB 28.8 billion, mainly for Zhongke Refining and Petrochemical Project, the structural adjustments of refining business in Zhenhai, Maoming and Tianjin subsidiaries, and the quality upgrading of GB VI standard gasoline and diesel. The marketing and distribution segment will account for RMB 18.5 billion, mainly for construction of depots and storage facilities, pipelines and service stations. The chemicals segment will account for RMB 17.7 billion, mainly for Zhongke Refining and Petrochemical Project, the high-efficiency and phase II of Hainan high-efficiency and environmental-friendly aromatics project, the integrated refining and petrochemical project in Gulei and the resource utilisation and structural adjustment projects in Zhenhai, Yangzi, Jinling, Maoming and Wuhan subsidiaries. The corporate and others segment will account for RMB 3.5 billion, mainly for R&D facilities and information technology projects.

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 2017, the Company's turnover and other operating revenues were RMB 2,360.2 billion, increased by 22.2% compared with that of 2016. The profit before taxation was RMB 86.7 billion, representing a year on year increase of 8.2%.

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

	Year ended 31 December		
	2017 RMB million	2016 RMB million	Change (%)
Turnover and other operating revenues	**2,360,193**	**1,930,911**	**22.2**
Turnover	2,300,470	1,880,190	22.4
Other operating revenues	59,723	50,721	17.7
Operating expenses	**(2,288,723)**	**(1,853,718)**	**23.5**
Purchased crude oil, product and operating supplies and expenses	(1,770,651)	(1,379,691)	28.3
Selling, general and administrative expenses	(64,973)	(64,360)	1.0
Depreciation, depletion and amortisation	(115,310)	(108,425)	6.4
Exploration expenses, including dry holes	(11,089)	(11,035)	0.5
Personnel expenses	(74,854)	(63,887)	17.2
Taxes other than income tax	(235,292)	(232,006)	1.4
Other operating (expense)/income, net	(16,554)	5,686	—
Operating profit	**71,470**	**77,193**	**(7.4)**
Net finance costs	(1,560)	(6,611)	(76.4)
Investment income and share of profits less losses from associates and joint ventures	16,787	9,569	75.4
Profit before taxation	**86,697**	**80,151**	**8.2**
Tax expense	(16,279)	(20,707)	(21.4)
Profit for the year	**70,418**	**59,444**	**18.5**
Attributable to:			
Owners of the Company	51,244	46,672	9.8
Non-controlling interests	19,174	12,772	50.1

(1) Turnover and other operating revenues

In 2017, the Company's turnover was RMB 2,300.5 billion, representing an increase of 22.4% over 2016. This was mainly attributed to the increase in crude oil prices. Meanwhile, major petroleum and petrochemical products prices and sales volume also increased as a result of the Company's efforts in seizing opportunities to expand the market and sales volume.

The following table sets forth the external sales volume, average realised prices and respective rates of change of the Company's major products in 2017 and 2016:

	Sales volume (thousand tonnes) Year ended 31 December			Average realised price (RMB/tonne, RMB/thousand cubic meters Year ended 31 December		
	2017	2016	Change (%)	**2017**	2016	Change (%)
Crude oil	6,567	6,808	(3.5)	2,390	1,628	46.8
Natural gas (million cubic meters)	22,529	19,008	18.5	1,290	1,258	2.5
Gasoline	83,933	77,480	8.3	6,941	6,386	8.7
Diesel	88,848	91,492	(2.9)	5,038	4,482	12.4
Kerosene	25,557	25,164	1.6	3,531	2,807	25.8
Basic chemical feedstock	35,964	32,248	11.5	4,855	4,054	19.8
Monomer and polymer for synthetic fibre	10,267	7,146	43.7	6,038	5,325	13.4
Synthetic resin	13,199	12,223	8.0	8,155	7,488	8.9
Synthetic fibre	1,304	1,369	(4.7)	8,556	7,113	20.3
Synthetic rubber	1,128	1,098	2.7	11,913	9,608	24.0
Chemical fertiliser	698	714	(2.2)	2,010	1,612	24.7

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 2017, the turnover from crude oil, natural gas and other upstream products sold externally amounted to RMB 69.2 billion, an increase of 45.8% over 2016. The change was mainly due to the increase in crude oil prices and sales volume of natural gas in 2017.

In 2017, petroleum products (mainly consisting of refined oil products and other refined petroleum products) sold by Refining Segment and Marketing and Distribution Segment achieved external sales revenues of RMB 1,324.4 billion, accounting for 56.1% of the Company's turnover and other operating revenues, representing an increase of 17.2% over 2016, mainly due to the increase in various refined oil products' prices. The sales revenue of gasoline, diesel and kerosene was RMB 1120.4 billion, representing an increase of 14.8% over 2016, and accounting for 84.6% of the total sales revenue of petroleum products. Turnover of other refined petroleum products was RMB 204.0 billion, representing an increase of 31.8% compared with 2016, accounting for 15.4% of the total sales revenue of petroleum products.

Chemical products sold by Chemicals Segment achieved external sales revenue of RMB 373.8 billion, representing an increase of 31.5% over 2016, accounting for 15.8% of the Company's total turnover and other operating revenues. This was mainly due to the increase in price and sales volume of chemical products.

(2) Operating expenses

In 2017, the Company's operating expenses were RMB 2,288.7 billion, increased by 23.5% compared with 2016, and it is mainly due to the increase in prices of crude oil and other related petroleum and chemical products. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 1,770.7 billion, representing an increase of 28.3% over the same period of 2016, accounting for 77.4% of the total operating expenses, of which:

Crude oil purchasing expenses were RMB 497.1 billion, representing an increase of 33.0% over the same period of 2016. Throughput of crude oil purchased externally in 2017 was 211.03 million tonnes (excluding the volume processed for third parties), representing an increase of 4.3% over the same period of 2016. The average cost of crude oil purchased externally was RMB 2,655 per tonne, representing an increase by 27.4% over 2016.

The Company's purchasing expenses of refined oil products were RMB 300.5 billion, representing an increase of 23.3% over the same period of 2016. This was mainly due to the increase in prices of externally purchased refined oil products, which were in line with the increase in prices of crude oil.

The Company's purchasing expense related to trading activities were RMB 503.9 billion, representing an increase of 27.7% over the same period of 2016. This was mainly due to the increase in prices of externally purchased crude oil and refined oil products in the trading business.

The Company's other purchasing expenses were RMB 469.2 billion, representing an increase of 27.6% over the same period of 2016. This was mainly due to the increase in prices of externally purchased oil related products in line with the increase in prices of crude oil.

Selling, general and administrative expenses were RMB 65.0 billion, representing an increase of 1.0% over 2016.

Depreciation, depletion and amortisation were RMB 115.3 billion, representing an increase of RMB 6.9 billion and 6.4% as compared with 2016. That was mainly due to the depreciation, depletion and amortisation of the Exploration & Development Segment, which increased by RMB 4.9 billion over 2016.

Exploration expenses were RMB 11.1 billion, representing an increase of 0.5% year on year.

Personnel expenses were RMB 74.9 billion, representing an increase of 17.2% over 2016. That was mainly because the Company promoted the reform of employment system, transferred some labours into contracted employees, which increased salary and other expenses. To implement the requirement of deepening the reform as required by the Central government, the Company handed over parts of its subsidiaries' social insurance to local government, and paid relevant fees according to the local government's requirements. As the Company improved its profit in 2017, income of employee was increased accordingly in line with its incentive mechanism.

Taxes other than income tax were RMB 235.3 billion, representing an increase of 1.4% compared with 2016.

Other operating (expense)/income, net were RMB 16.6 billion, increased by RMB 22.2 billion over the same period of 2016. That was mainly due to the non-operating income from capital injection of Sichuan-to-East China Pipeline Co.

(3) Operating profit was RMB 71.5 billion, representing a decrease of 7.4% compared with 2016. After eliminating the impact of capital injection of Sichuan-to-East China Pipeline Co. in 2016 and acquisition of interest in Shanghai SECCO in 2017, operating profit increased by 19.2% year on year.

(4) Net finance costs were RMB 1.6 billion, representing a decrease of 76.4% over 2016, of which: interest expense decreased by RMB 2.1 billion over 2016 as a result of significant reduction in interest bearing debt; net income from foreign exchange was RMB 0.3 billion, increased by RMB 0.9 billion as compared with 2016; interest income increased by RMB 2.0 billion as a result of increased cash reserve as compared with the same period of 2016.

(5) Profit before taxation was RMB 86.7 billion, after eliminating the impact of capital injection of the Sichuan-to-East China Pipeline Co. in 2016 and acquisition of interest in Shanghai SECCO in 2017, it represents an increase of 38.9% compared with 2016.

(6) Tax expense was RMB 16.3 billion, representing a decrease of 21.4% year on year. That was mainly due to the increase in exempt investment income.

(7) Profit attributable to non-controlling interests was RMB 19.2 billion, representing an increase of RMB 6.4 billion compared with 2016.

(8) Profit attributable to owners of the Company was RMB 51.2 billion, representing an increase of 9.8% 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 Year ended 31 December		As a percentage of consolidated operating revenue before elimination of inter-segment sales Year ended 31 December		As a percentage of consolidated operating revenue after elimination of inter-segment sales Year ended 31 December	
	2017 RMB million	2016 RMB million	**2017 (%)**	2016 (%)	**2017 (%)**	2016 (%)
Exploration and Production Segment						
External sales*	79,701	56,985	2.1	1.8	3.4	3.0
Inter-segment sales	77,804	58,954	2.0	1.9		
Operating revenues	**157,505**	**115,939**	**4.1**	**3.7**		
Refining Segment						
External sales*	137,582	108,469	3.6	3.5	5.8	5.6
Inter-segment sales	874,271	747,317	23.0	24.2		
Operating revenues	**1,011,853**	**855,786**	**26.6**	**27.7**		
Marketing and Distribution Segment						
External sales*	1,220,235	1,049,377	32.1	33.9	51.7	54.3
Inter-segment sales	3,962	3,480	0.1	0.1		
Operating revenues	**1,224,197**	**1,052,857**	**32.2**	**34.0**		
Chemicals Segment						
External sales*	388,128	296,500	10.2	9.6	16.5	15.4
Inter-segment sales	49,615	38,614	1.3	1.2		
Operating revenues	**437,743**	**335,114**	**11.5**	**10.8**		
Corporate and Others						
External sales*	534,547	419,580	14.0	13.5	22.6	21.7
Inter-segment sales	440,303	320,367	11.6	10.3		
Operating revenues	**974,850**	**739,947**	**25.6**	**23.8**		
Operating revenue before elimination of inter-segment sales	**3,806,148**	**3,099,643**	**100.0**	**100.0**		
Elimination of inter-segment sales	**(1,445,955)**	**(1,168,732)**				
Consolidated operating revenue	**2,360,193**	**1,930,911**			**100.0**	**100.0**

*: Other operating revenues are included.

Management's Discussion and Analysis

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 2017 compared to 2016.

	Year ended 31 December		
	2017 RMB million	2016 RMB million	Change (%)
Exploration and Production Segment			
Operating revenues	157,505	115,939	35.9
Operating expenses	203,449	152,580	33.3
Operating loss	**(45,944)**	**(36,641)**	**—**
Refining Segment			
Operating revenues	1,011,853	855,786	18.2
Operating expenses	946,846	799,521	18.4
Operating profit	**65,007**	**56,265**	**15.5**
Marketing and Distribution Segment			
Operating revenues	1,224,197	1,052,857	16.3
Operating expenses	1,192,628	1,020,704	16.8
Operating profit	**31,569**	**32,153**	**(1.8)**
Chemicals Segment			
Operating revenues	437,743	335,114	30.6
Operating expenses	410,766	314,491	30.6
Operating profit	**26,977**	**20,623**	**30.8**
Corporate and Others			
Operating revenues	974,850	739,947	31.7
Operating expenses	979,334	736,735	32.9
Operating (loss)/profit	**(4,484)**	**3,212**	**—**
Elimination of inter-segment (loss)/profit	**(1,655)**	**1,581**	**—**

(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 production. Most of the natural gas and a small portion of crude oil were sold externally to other customers.

In 2017, the operating revenues of this segment were RMB 157.5 billion, representing an increase of 35.9% over 2016. This was mainly attributed to the rise of realised price of crude oil and natural gas as well as expansion of LNG business.

In 2017, the segment sold 35.31 million tonnes of crude oil, representing a decrease of 2.9% over 2016. Natural gas sales volume was 24.48 bcm, representing an increase of 19.1% over 2016. Regased LNG sales volume was 4.82 bcm, representing an increase of 118.9% over 2016. LNG sales volume was 2.283 million tonnes, representing an increase of 43.7% over 2016. Average realised prices of crude oil, natural gas, regased LNG, and LNG were RMB 2,341 per tonne, RMB 1,296 per thousand cubic meters, RMB 1,742 per thousand cubic meters, and RMB 3,056 per tonne, representing increase of 35.0%, 2.3%, 2.0%, and 24.0% respectively over 2016.

In 2017, the operating expenses of this segment were RMB 203.4 billion, representing an increase of 33.3% over 2016. That was mainly due to the following:

- Depreciation, depletion and amortisation increased by RMB 4.9 billion year on year;
- Impairment loss increased by RMB 2.0 billion year on year;
- Personnel expenses increased by 1.7 billion year on year;
- Resource Tax increased by RMB 1.0 billion year on year, as a result of increase in crude oil price;
- Procurement cost increased by RMB 15.1 billion year on year, as a result of expansion of LNG business;
- With the restructuring of Sichuan-to-East China Pipeline Co. in 2016, other expenses (net) increased by RMB 20.6 billion.

In 2017, the oil and gas lifting cost was RMB 788.3 per tonne, representing a year on year increase of 0.3%.

In 2017, the operating loss of the exploration and production segment were RMB 45.9 billion, representing an expanded loss by RMB 9.3 billion as compared with 2016. By deducting the non-operating income from capital injection of Sichuan-to-East China Pipeline Co. in 2016, the Company realized a significant reduction in loss by RMB 11.3 billion in 2017.

(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 2017, the operating revenues of this segment were RMB 1,011.9 billion, representing an increase of 18.2% over 2016. This was mainly attributed to the increase in 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 2017 and 2016.

	Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Year ended 31 December			Year ended 31 December		
	2017	2016	Change (%)	**2017**	2016	Change (%)
Gasoline	54,273	52,461	3.5	6,538	5,904	10.7
Diesel	60,680	58,734	3.3	4,962	4,505	10.1
Kerosene	17,080	14,529	17.6	3,527	2,814	25.3
Chemical feedstock	36,951	36,408	1.5	3,204	2,584	24.0
Other refined petroleum products	58,801	55,742	5.5	2,929	2,529	15.8

In 2017, domestic gasoline and diesel prices were adjusted 17 times with 11 increases and 6 decreases. The aggregate price increased (tax inclusive) of 90# gasoline and 0# diesel in 2017 were RMB 435 per tonne and 420 per tonne respectively.

In 2017, sales revenues of gasoline were RMB 354.8 billion, representing an increase of 14.6% over 2016.

The sales revenues of diesel were RMB 301.1 billion, representing an increase of 13.8% over 2016.

The sales revenues of kerosene were RMB 60.2 billion, representing an increase of 47.3% over 2016.

The sales revenues of chemical feedstock were RMB 118.4 billion, representing an increase of 25.8% over 2016.

The sales revenues of refined petroleum products other than gasoline, diesel, kerosene and chemical feedstock were RMB 172.2 billion, representing an increase of 22.2% over 2016.

In 2017, the segment's operating expenses were RMB 946.8 billion, representing an increase of 18.4% over 2016. This is mainly attributed to the increase in procurement cost of crude oil.

In 2017, the average processing cost for crude oil was RMB 2,774 per tonne, representing an increase of 26.4% over 2016. Total crude oil processed was 230.30 million tonnes (excluding volume processed for third parties), representing an increase of 4.2% over 2016. The total cost of crude oil processed was RMB 638.8 billion, representing an increase of 31.8% over 2016.

In 2017, refining gross margin was RMB 510.7 per tonne, representing an increase of RMB 38.8 per tonne compared with 2016. This is mainly due to the increased proportion of high value added products (volume of gasoline with high octane number and jet fuel increased by 0.7% and 5.6% over 2016 and diesel to gasoline ratio down to 1.17), the promotion of quality upgrading of refined oil products (output of gasoline and diesel with GB V standard or above increased by 58% over 2016), enlarged total refinery throughput by increasing the export volume, and further improved margins for LPG, asphalt and other refined oil products by our centralized marketing advantages brought fully into play.

In 2017, the unit refining cash operating cost (defined as operating expenses less the processing cost of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax and other operating expenses, then divided by the throughput of crude oil and refining feedstock) was RMB 175.2 per tonne, an increase of RMB 9.5 per tonne over 2016, mainly because of increased operating expenses resulting from newly operated facilities related to quality upgrading of refined oil products as well as safety enhancement and environment protection.

In 2017, the operating profit of the segment totaled RMB 65.0 billion, representing an increase of RMB 8.7 billion or 15.5% as compared with 2016.

(3) Marketing and Distribution Segment

The business activities of the marketing and distribution segment include purchasing refined oil products from the refining segment and third parties, conducting wholesale and direct sales to domestic customers and distributing oil products through the segment's retail and distribution network, as well as providing related services.

In 2017, the operating revenues of this segment were RMB 1,224.2 billion, representing an increase of 16.3% over 2016, of which: the sales revenues of gasoline totaled RMB 582.9 billion, representing an increase of 17.7% compared with 2016; the sales revenues of diesel were RMB 449.2 billion, representing an increase of 9.0% over 2016, and the sales revenues of kerosene were RMB 90.2 billion, representing an increase of 27.8% over 2016.

The following table sets forth the sales volumes, average realised prices, and the respective percentage changes of the segment's four major refined oil products in 2017 and 2016, including breakdown in retail, direct sales and wholesale of gasoline and diesel:

	Sales Volume (Thousand tonnes) Year ended 31 December			Average realised price (RMB/tonne) Year ended 31 December		
	2017	2016	Change (%)	**2017**	2016	Change (%)
Gasoline	**83,980**	**77,613**	**8.2**	**6,941**	**6,380**	**8.8**
Retail	66,364	63,718	4.2	7,346	6,722	9.3
Direct sales and wholesale	17,616	13,895	26.8	5,412	4,812	12.5
Diesel	**89,146**	**91,998**	**(3.1)**	**5,039**	**4,478**	**12.5**
Retail	44,736	46,656	(4.1)	5,588	5,088	9.8
Direct sales and wholesale	44,410	45,342	(2.1)	4,486	3,851	16.5
Kerosene	**25,555**	**25,164**	**1.6**	**3,531**	**2,807**	**25.8**
Fuel	**23,299**	**22,034**	**5.7**	**2,251**	**1,703**	**32.2**

In 2017, the operating expenses of the segment were RMB 1,192.6 billion, representing an increase of RMB 171.9 billion or 16.8% as compared with that of 2016. This was mainly due to increased procurement prices of refined oil products and volume of gasoline.

In 2017, 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 198.7 per tonne, representing an increase of 0.7% compared with that of 2016.

In 2017, the operating revenues of non-fuel business was RMB 27.6 billion, representing an increase of RMB 6.2 billion compared with 2016; the profit of non-fuel business was RMB 2.2 billion, representing an increase of RMB 0.7 billion compared with 2016.

In 2017, the operating profit of this segment was RMB 31.6 billion, representing a decrease of 1.8% compared with 2016.

(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 2017, the operating revenues of the chemicals segment were RMB 437.7 billion, representing an increase of 30.6% as compared with that of 2016, This was mainly due to increase in sales volume and price of chemical products as compared with 2016.

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 413.5 billion, representing an increase of 30.8% as compared with 2016, and accounted for 94.5% 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 2017 and 2016.

	Sales Volume (Thousand tonnes) Year ended 31 December			Average realised price (RMB/tonne) Year ended 31 December		
	2017	2016	Change (%)	**2017**	2016	Change (%)
Basic organic chemicals	46,351	41,605	11.4	4,684	3,963	18.2
Synthetic fibre monomer and polymer	10,332	7,169	44.1	6,047	5,328	13.5
Synthetic resin	13,215	12,250	7.9	8,153	7,482	9.0
Synthetic fibre	1,304	1,369	(4.7)	8,556	7,113	20.3
Synthetic rubber	1,138	1,099	3.5	11,957	9,609	24.4
Chemical fertiliser	700	714	(2.0)	2,008	1,612	24.6

In 2017, the operating expenses of the chemicals segment were RMB 410.8 billion, representing an increase of 30.6% over 2016, mainly because of the significant increase in the price of externally procured raw materials.

In 2017, the segment seized the opportunities of the improving market conditions, coordinated production with sales, intensified structural adjustment, increased the production of synthetic resin, rubber and some organic products which were more profitable, positively expanded the market, strictly controlled costs and expenses, thus, resulting in remarkable profits.

In 2017, the operating profit of this segment was RMB 27.0 billion, representing an increase of RMB 6.4 billion or 30.8% as compared with 2016.

(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 2017, the operating revenues generated from corporate and others were RMB 974.9 billion, representing an increase of 31.8% over 2016. This was mainly attributed to the increase in international crude oil prices as well as increased revenue from crude oil trading business as compared with 2016.

In 2017, the operating expenses of corporate and others were RMB 979.3 billion, representing an increase of 32.9% over 2016.

In 2017, the operating losses from corporate and others was RMB 4.48 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 2017	As of 31 December 2016	Change
Total assets	1,595,504	1,498,609	96,895
Current assets	529,049	412,261	116,788
Non-current assets	1,066,455	1,086,348	(19,893)
Total liabilities	742,614	667,374	75,240
Current liabilities	579,446	485,543	93,903
Non-current liabilities	163,168	181,831	(18,663)
Total equity attributable to owners of the Company	726,120	710,994	15,126
Share capital	121,071	121,071	0
Reserves	605,049	589,923	15,126
Non-controlling interests	126,770	120,241	6,529
Total equity	852,890	831,235	21,655

As of 31 December 2017, the Company's total assets were RMB 1,595.5 billion, representing an increase of RMB 96.9 billion compared with that of the end of 2016, of which:

Current assets were RMB 529.0 billion, representing an increase of RMB 116.8 billion compared with that of the end of 2016, of which, inventory and accounts receivable increased by RMB 30.2 billion and RMB 18.2 billion respectively, mainly due to the increase in crude oil prices, cash flow improved further, structural deposit increased by RMB 51.2 billion and time deposit at financial institutions increased by RMB 33.8 billion.

Non-current assets were RMB 1,066.5 billion, representing a decrease of RMB 19.9 billion as compared with that of the end of 2016. This was mainly due to optimisation of investment scale, which decreased the property, plant and equipment (net) by RMB 39.8 billion, construction in progress decreased by RMB 10.9 billion. Equity of associates and joint ventures increased by RMB 13.6 billion, long-term prepayment and other assets increased by RMB 11.8 billion.

The Company's total liabilities were RMB 742.6 billion, representing an increase of RMB 75.2 billion compared with that of the end of 2016, of which:

Current liabilities were RMB 579.4 billion, representing an increase of RMB 93.9 billion as compared with that of the end of 2016. This was mainly due to increase in crude oil price, which resulted in account payable increased by RMB 25.8 billion, accrued expenses and other payable increased by RMB 54.7 billion.

Non-current liabilities were RMB 163.2 billion, representing a decrease of RMB 18.7 billion compared with that of the end of 2016. This was mainly due to long-term debts decreased by RMB 16.9 billion.

Total equity attributable to owners of the Company was RMB 726.1 billion, representing an increase of RMB 15.1 billion compared with that of the end of 2016, which was mainly due to the increase in profit during the year.

(2) Cash Flow

The following table sets forth the major items in the consolidated cash flow statements for 2017 and 2016.

Unit: RMB million

Major items of cash flows	Year ended 31 December **2017**	2016
Net cash generated from operating activities	190,935	214,543
Net cash used in investing activities	(145,323)	(66,217)
Net cash generated used financing activities	(56,509)	(93,047)

In 2017, the net cash generated from operating activities of the company was RMB 190.9 billion, representing a decrease of RMB 23.6 billion as compared with 2016. This was mainly due to the increase in crude oil price and volume of inventory, which resulted in increase in inventory and accounts receivable.

In 2017, the net cash used in investing activities was RMB 145.3 billion, representing an increase of RMB 79.1 billion over 2016. This was mainly due to the increase in time deposit with maturities over 3 months and the increase in purchase of investments, investments in associates and investments in joint ventures.

In 2017, the net cash used in the Company's financing activities was RMB 56.5 billion, representing a decrease of cash out flow by RMB 36.5 billion over 2016. This was mainly due to the decrease in borrowing repayment.

At the end of 2017, the cash and cash equivalents were RMB 113.2 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 2017, the expenditure for research & development was RMB 6.423 billion.

Environmental expenditures refer to the normal routine pollutant discharge fees paid by the Company, excluding capitalised cost of pollutant treatment properties. In 2017, the Company paid environmental expenditures of RMB 7.851 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 fair values in the current year	Accumulated variation of fair values recorded as equity	Impairment loss provision of the current year	Funding source
Financial assets at fair value through profit or loss of the reporting period	—	51,196	196	—	—	Self-owned fund
Structured Deposit	—	51,196	196	—	—	
available for sale financial assets	262	178	—	(9)	—	Self-owned fund
Stock	262	178	—	(9)	—	
Derivative financial instruments	314	(522)	(353)	—	—	Self-owned fund
Cash flow hedges	(4,024)	(1,617)	103	(1,314)	—	Self-owned fund
Total	(3,448)	49,235	(54)	(1,323)	—	

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 206 of this report.

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

	Year ended 31 December **2017** **RMB million**	2016 RMB million
Operating income		
Exploration and Production Segment	157,505	115,939
Refining Segment	1,011,853	855,786
Marketing and Distribution Segment	1,224,197	1,052,857
Chemicals Segment	437,743	335,114
Corporate and Others	974,850	739,947
Elimination of inter-segment sales	(1,445,955)	(1,168,732)
Consolidated operating income	**2,360,193**	**1,930,911**
Operating (loss)/profit		
Exploration and Production Segment	(47,399)	(58,531)
Refining Segment	64,047	55,808
Marketing and Distribution Segment	32,011	32,385
Chemicals Segment	22,796	20,769
Corporate and Others	(3,160)	2,912
Elimination of inter-segment sales	(1,655)	1,581
Financial expenses, investment income, loss from changes in fair value, asset disposal income and other income	20,325	22,465
Consolidated operating profit	**86,965**	**77,389**
Net profit attributable to equity shareholders of the Company	**51,119**	**46,416**

Operating profit: In 2017, the operating profit of the Company was RMB 87.0 billion, representing an increase of RMB 9.6 billion as compared with 2016.

Net profit: In 2017, the net profit attributable to the equity shareholders of the Company was RMB 51.1 billion, representing an increase of RMB 4.7 billion or 10.1% comparing with 2016.

(2) Financial data prepared under ASBE

	As of 31 December 2017 RMB million	As of 31 December 2016 RMB million	Change
Total assets	1,595,504	1,498,609	96,895
Non-current liabilities	161,988	180,541	(18,553)
Shareholders' equity	854,070	832,525	21,545

At the end of 2017, the Company's total assets were RMB 1,595.5 billion, representing an increase of RMB 96.9 billion compared with that of the end of 2016. This was mainly due to the combined results of increase in crude oil price and improved cash flow, which resulted in an increase of current assets by RMB 116.8 billion.

As the end of 2017, the Company's non-current liabilities were RMB 162.0 billion, representing a decrease of RMB 18.6 billion compared with that of the end of 2016. This was mainly due to the repayment of matured long term bonds payable and parts of the bond turned to non-current liabilities due within one year.

At the end of 2017, the shareholders' equity of the Company was RMB 854.1 billion, representing an increase of RMB 21.5 billion compared with that of the end of 2016. This was mainly due to the increasing in the profit of the Company.

(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	157,505	154,224	(3.5)	35.9	20.0	11.8
Refining	1,011,853	703,743	8.7	18.2	26.6	(0.4)
Marketing and Distribution	1,224,197	1,127,374	7.6	16.3	17.2	(0.8)
Chemicals	437,743	386,111	11.2	30.6	33.3	(1.8)
Corporate and Others	974,850	963,246	1.2	31.7	32.6	(0.6)
Elimination of inter-segment sales	(1,445,955)	(1,444,300)	N/A	N/A	N/A	N/A
Total	**2,360,193**	**1,890,398**	**9.9**	**22.2**	**26.7**	**(0.8)**

*: 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

Ministry of Finance issued "No.42 Accounting Standards for Business Enterprises – non-current assets held for sale, disposition and discontinuing operation", revised "No.16 Accounting Standards for Business Enterprises-government grants" and Cai Kuai [2017] No. 30 "Announcement of the revision of general enterprise financial statements format." the Company has adopted the above guidelines to prepare financial statements of 2017 and adjusted the 2016 and 2015 comparative financial statements retrospectively. The impact to the Company's financial statements is presented as below:

Content and Reasons for Changes of Accounting Policy	Items affected	Amount affected in 2016 (RMB in millions)	Amount affected in 2015 (RMB in millions)
Gains and losses on disposal of fixed assets and intangible assets of the Company in 2017 are under the item of asset disposal. The 2016 and 2015 comparative financial statements have been adjusted.	Loss of asset disposal	1,487	693
	Non-operating income	Less 258	Less 264
	Non-business expenses	Less 1,745	Less 957

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.

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 2017. The Company's self-owned fund accounts for 30% of the project investment and bank loan is the main source of the remaining 70%. By the end of 2017, the aggregate realised investment was RMB 33.152 billion and total production capacity was 10 billion cubic meters per year.

(2) Tianjin LNG project
The first phase of 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 was completed and put into operation at the end of January 2018. The Company's self-owned fund accounts for approximately 40% of the project investment and bank loan is the main source of the remaining 60%. By the end of 2017, the aggregate investment was RMB 10.651 billion.

(3) Zhongke integrated refining and chemical project
Zhongke integrated refining and petrochemical project consists mainly of a 10,000,000 tpa refinery, 800,000 tpa ethylene unit, 300,000- tonne jetty and relevant utilities. The mechanical completion is expected to be achieved in June 2020. The Company's self-owned fund accounts for 30% of the project investment, bank loan is the main source for the remaining 70%. By the end of 2017, the aggregate investment was RMB 6.99 billion.

(4) Xinqi pipeline project
The first phase of Xinqi gas pipeline project mainly consists of pipeline from Qianjiang to Shaoguan with total length of 839.5 kilometres and designed transmission capacity of 6 billion cubic meters per year. It is expected to be completed and put into operation in July 2020. The Company's self-owned fund accounts for 38% of the project investment and bank loan is the main source of the remaining 62%. By the end of 2017, the aggregate investment was RMB 1.692 billion.

(5) E-An-Cang gas pipeline project
The first phase of E-An-Cang gas pipeline project mainly consists of the main pipeline from Luquan to Cangzhou and two branch pipeline named Puyang and Baoding respectively. Total length of pipeline is 736 kilometres and designed transmission capacity is 9 billion cubic meters per year. It is expected to be completed and put into operation in December 2019. The Company's self-owned fund accounts for 30% of the project investment and bank loan is the main source of the remaining 70%. By the end of 2017, the aggregate investment was RMB 107 million.

(6) Wen 23 gas storage project
The first phase of Wen 23 gas storage project mainly consists of construction of injection and production wells and surface facilities with storage capacity of 8.431 billion cubic meters. The Company's self-owned fund accounts for 30% of the project investment and bank loan is the main source of the remaining 70%. By the end of 2017, the aggregate investment was RMB 1.329 billion.

2 CORPORATE BONDS ISSUED AND INTEREST PAYMENTS

Basic information of corporate bonds

Bond name	Sinopec Corp. 2010 Corporate bond	Sinopec Corp. 2012 Corporate bond		Sinopec Corp. 2015 Corporate bond (first issue)	
Abbreviation	10石化02	12石化01	12石化02	15石化01	15石化02
Code	122052	122149	122150	136039	136040
Issuance date	21 May 2010	1 June 2012		19 November 2015	
Maturity date	21 May 2020	1 June 2017	1 June 2022	19 November 2018	19 November 2020
Amount issued (RMB billion)	9	13	7	16	4
Outstanding balance (RMB billion)	9	0	7	16	4
Interest rate (%)	4.05	4.26	4.90	3.30	3.70
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 and「12石化01」had been repaid and delisted from the Shanghai Stock Exchange.				
Investor Qualification Arrangement	15石化01 and 15石化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				
	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.				
Credit rating agency	During the reporting period, United Credit ratings Co., Ltd. provided continuing credit rating for 10石化02, 12石化01, 12石化02, 15石化01 and 15石化02and reaffirmed AAA credit rating. The long term credit rating and outlook of the. remained at AAA and stable respectively. Pursuant to relevant regulations, the Company will publish latest credit rating results through medias designated by regulators within two months commencing from the announcement date of annual report.				
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 (http://www.sse.com.cn)				

Principal accounting data and financial indicators for the two years ended 31 December 2017

Principal data	2017	2016	Change	Reasons for change
EBITDA (RMB million)	207,528	196,464	5.63%	Mainly due to the increase of earnings compared with last year
Current ratio	0.91	0.85	0.06	Mainly due to the increase of cash at bank and on hand, structured deposit and inventories compared with last year
Quick ratio	0.59	0.53	0.06	Mainly due to the increase of cash at bank and on hand and structured deposit compared with last year
Liability-to-asset ratio (%)	46.47	44.45	2.02 percentage points	Mainly due to the increase of non-interest-bearing debts compared with last year
EBITDA to total debt ratio	1.11	0.99	0.12	Mainly due to the increase of earnings
Interest coverage ratio	14.60	9.85	4.74	Mainly due to the increase of non-interest-bearing debts compared with last year
Cash flow interest coverage ratio	39.11	35.13	3.99	Mainly due to the decrease of interest expense in cash.
EBITDA-to-interest coverage ratio	32.59	21.78	10.81	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 2017, the standby credit line provided by several domestic financial institutions to the Company was RMB 361.9 billion in total, facilitating the Company to get such amount of unsecured loans. During the reporting period, the Company fulfilled relevant undertakings in the offering circular 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% and had been repaid and delisted; 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 current-period interests of all notes with maturity of 5 years, 10 years and 30 years.

3 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 the date of the 2017 annual report of Shanghai Petro, the number of the underlying shares of the share options to be exercised by Shanghai Petro to the participants was 8,946,900 A shares, which represents 0.08% of the total share capital of Shanghai Petro (10,823,813,500 shares). As of the date of the 2017 annual report of Shanghai Petro, the number of the underlying shares of the share options to be granted by Shanghai Petro to the participants was 691,740,000 A shares, which represents 6.4% of the total share capital of Shanghai Petro (10,823,813,500 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 and the basis for the exercise price, please refer to page 31-33 of Sinopec Corp's 2015 Annual Report published on 29 March 2016.

(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) The exercise condition of the first grant of first exercise schedule of share option

Exercise date: 29 August 2017
Number of exercisable share option: 14,212,500 options
Number of lapsed share option: 5,228,900 options
Number of exercised share option: 14,176,600 options
Date of completing registration for newly increased shares: 27 September 2017
Number of participants who exercised the option: 199
Exercise price: RMB3.85/share

(iii) Outstanding share options of Directors, chief executive and substantial shareholder as at the end of the Reporting Period

As at the end of the Reporting Period, the total number of outstanding A shares share options held by the following 4 persons, Vice Chairman and Vice President of Shanghai Petro Mr. Gao Jinping, Director and Vice President of Shanghai Petro Mr. Jin Qiang, Director, Vice President and Secretary to the Board of Shanghai Petro Mr. Guo Xiaojun and Vice President of Shanghai Petro Mr. Jin Wenmin were 966,000 options. Former Director, Vice President and Chief Financial Officer of Shanghai Petro Mr. Ye Guohua resigned on 26 January 2017. Pursuant to the Share Option Incentive Scheme, 430,000 outstanding A share options granted to him have lapsed. Former Chairman and President of Shanghai Petro Mr. Wang Zhiqing resigned on 4 Decemeber 2017. Pursuant to the Share Option Incentive Scheme, 300,000 outstanding A share options granted to him have lapsed. Please refer to Shanghai Petro's Annual Report for details of "Share options held by the Directors, Supervisors and senior management during the Reporting Period".

(iv) Outstanding share options granted to employees other than the persons mentioned in item (iii)

At the beginning of the report period, a total number of 35,970,000 outstanding A shares share options were held by Shanghai Petro's key business personnel.

During the reporting period, a total number of 13,332,600 share options had been exercised by Shanghai Petro's key business personnel during the first exercise period.

During the reporting period, a total of 4,498,900 A shares share options granted to Shanghai Petro's key business personnel had been lapsed due to their resignations and etc,.

At the end of the Reporting Period, the number of outstanding A shares share options held by Shanghai Petro's key business personnel was 18,138,500.

(v) Exercise price of the initial grant and exercise price adjustment

According to the principle disclosed by Shanghai Petro on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalisation of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Share Option Incentive Scheme). On 15 June 2016, the 2015 annual profit distribution plan was considered and passed at Shanghai Petro's 2015 annual general meeting, whereby cash dividend of RMB1.00 was paid for each 10 shares. On 15 June 2017, the 2016 annual profit distribution plan was considered and passed at Shanghai Petro's 2016 annual general meeting, whereby cash dividend of RMB2.50 was paid for each 10 shares and the exercise price was adjusted to RMB3.85 per share accordingly.

(vi) Validity of and exercise arrangements for 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.

(vii) The progress of share option incentive up to the date of Shanghai Petro's 2017 annual report

On 8 January, 2018, Shanghai Petro deliberated and approved proposal on Adjustment of the Participants List and Numbers of Share option for A-share Share option Incentive Scheme of Shanghai Petro and the proposal on the Satisfaction of the Conditions of the Second Exercise Period of Share option Granted under First Grant and Determination of the Exercise Arrangement (e.g. Exercise Date.,etc) for A-share Share option Incentive Scheme of Shanghai Petro on the 9th meeting of the sixth session of the board of Shanghai Petro. The non-exercised share options which were granted to 4 participants shall be lapsed and cancelled due to their resignations; The non-exercised share options for the second exercising period which were granted to 2 participants shall be cancelled due to their failing in the performance appraisals in 2016; and the share options granted to 8 participants has been adjusted and cancelled by resolutions on the third meeting of the ninth session of the board of Shanghai Petro held on on 23 August 2017 due to their changes of internal positions. After adjustment, the total amount of share option for cancellation shall be 820,700 and the total amount of granted non-exercised share options shall be 18,583,800. 185 participants can exercise the share option in second exercising period; and the number of exercisable share options in the second exercising period is 9,636,900. On 14 February 2018, Shanghai Petro completed registration for newly increased 9,636,900 A shares and the total issued shares Shanghai Petro were increased to 10,823,813,500. As of the date of Shanghai Petro's 2017 annual report, the total number of issued shares of Shanghai Petro is 10,823,813,500 shares.

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 lapsed.

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) (IPOs)	Initial Public Offerings (IPOs)	China Petrochemical Corporation	1 Compliance with the connected transaction agreements; 2 Solving the issues regarding the legality of land-use rights certificates and property ownership rights certificates within a specified period of time; 3 Implementation of the Reorganisation Agreement (please refer to the definition of Reorganisation Agreement in the H share prospectus of Sinopec Corp.); 4 Granting licenses for intellectual property rights; 5 Avoiding competition within the same industry; 6 Abandonment of business competition and conflicts of interest with Sinopec Corp.	From 22 June 2001	No	Yes
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, 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.	Within 10 years after 29 April 2014 or the date when China Petrochemical Corporation acquires the assets	Yes	Yes

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 ANALYSIS OF INVESTMENT

(1) General analysis of external equity investment

In 2017, the external equity investment of the Company totalled RMB 10.369 billion, mainly for acquisition of interest in Shanghai SECCO and subscribing for shareholding interest in China Boqi Environmental (Holding) Co., Ltd, by way of capital injection.

(2) Significant equity investment

On 27 April 2017, Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. (Gaoqiao Petrochemical) and BP Chemicals East China Investments Limited (BP Chemicals) entered into an equity interest purchase agreement. Pursuant to which, Gaoqiao Petrochemical aquired 50% shareholdings of Shanghai SECCO from BP Chemicals (Acquisition). Upon the completion of the acquisition, Shanghai SECCO is held as to 50% by Gaoqiao Petrochemical, 30% by Sinopec Corp. and 20% by Shanghai Petro. For more details, please refer to the announcement published in China Securities Journal, Shanghai Securities News and Securities Times by Sinopec Corp. on 28 April 2017 and the announcement on the website of Hong Kong Stock Exchange on 27 April 2017.

6 SIGNIFICANT ASSETS AND EQUITY SALE

During the reporting period, there is no significant assets or equity sale of the Company.

7 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	Counter-guaranteed	Whether guaranteed for connected parties (yes or no)*1
Sinopec Corp.	The listed company itself	Zhongtian Hechuang Energy Co., Ltd	13,520	25 May 2016	25 May 2016 - 31 December 2023 (the mature date is estimated)	Joint liability guarantee	No	No	—	No	Yes
Sinopec Corp.	The listed company itself	Yanbu Aramco Sinopec Refining Company(YASREF) Limited	no specific amount agreed, gurarantee on contract performance	31 December 2014	30 years from the date YASRFE requires supply of hydrogen from Air Liquedie Arabia LLC.	Joint liability guarantee	No	No	—	No	No
Sinopec Great Wall Energy and Chemical Industry Co., LTD	Wholly owned subsidiary	Zhong An United Coal Chemical Co., Ltd.	940	18 April 2014	18 April 2014 – 17 April 2026	Joint liability guarantee	No	No	—	No	No
SSI	Controlled subsidiary	New Bright International Development Ltd./ Sonangol E.P./SSI15	9,732			Joint liability guarantee	No	No	—	Yes	No

Total amount of guarantees provided during the reporting period*2	2,325
Total amount of guarantees outstanding at the end of reporting period*2 (A)	19,813
Guarantees by the Company to the controlled subsidiaries	
Total amount of guarantee provided to controlled subsidiaries during the reporting period	5,881
Total amount of guarantee for controlled subsidiaries outstanding at the end of the reporting period (B)	23,783
Total amount of guarantees for the Company (including those provided for controlled subsidiaries)	
Total amount of guarantees(A+B)	43,596
The proportion of the total amount of guarantees to the Sinopec Corp.'s net assets	5.99%
Guarantees provided for shareholder, de facto controller and its related parties (C)	1,794
Amount of debt guarantees provided directly or indirectly to the companies with liabilities to assets ratio over 70% (D)	2,491
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)	4,285
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 outstanding balance of guarantees amount 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.

8 SPECIFIC STATEMENTS AND INDEPENDENT OPINIONS FROM INDEPENDENT NON-EXECUTIVE DIRECTORS REGARDING EXTERNAL GUARANTEES PROVIDED BY SINOPEC CORP. DURING AND BY THE END OF 2017:

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 2017 in accordance with the requirements of the domestic regulatory authorities:

The external guarantees prior to 2017 had been disclosed in previous annual report. The aggregate balance of external guarantees provided by Sinopec Corp. for the year 2017 was RMB 43.596 billion, accounting for approximately 5.99% 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.

9 SIGNIFICANT LITIGATION, ARBITRATION RELATING TO SINOPEC CORP.

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

10 INSOLVENCY AND RESTRUCTURING

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

11 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.

12 CREDIBILITY FOR THE COMPANY, CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

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

13 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.

14 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

Unit:RMB billion

Categories	Source of fund	Amount	Outstanding balance	Overdue and uncollected amount
Used for project construction.	Self-owned fund	0.6	0.6	None
Used for working capital	Self-owned fund	0.215	0.215	None

(3) Other asset management and derivative investment

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

15 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 between 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.

16 APPROPRIATION OF NONOPERATIONAL FUNDS BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES AND THE PROGRESS FOR CLEARING UP

Not applicable

17 STRUCTURED ENTITY CONTROLLED BY THE COMPANY

None

18 DETAILED IMPLEMENTATION OF THE SHARE INCENTIVE SCHEME DURING THE REPORTING PERIOD

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

19 ENVIROMENTAL PROTECTION BY SINOPEC CORP AND ITS SUBSIDIARIES

In 2017, the Company further improved environment protection management of projects construction, enhanced evaluation and examination of projects environment protection, as well as ensuring the environment protection facilities to be designed, built and put into operation with the main project simultaneously. All of the new projects of the Company obtained environmental evaluation approvals by governments. The Company, pursuant to new standards in respect of oil refining and petrochemicals, completed the treatment of effluents, actively pushed forward the comprehensive treatment of volatile organic compounds, and ensured all of pollution prevention and control facilities operated effectively and stably. The Company revised the self-monitoring scheme in accordance with the national pollutants discharge license and guidance for self-monitoring technology of relevant industries, promoted relevant work in accordance with new requirements for monitoring effluents, and disclosed environmental monitoring information publicly in accordance with relevant requirements; revised the contingency schemes in respects of environmental emergencies and severe pollution weather and others in accordance with requirements of national environmental emergencies contingency schemes. For more detailed information, please refer to our Communication on Progress for Sustainable Development. Certain branches and subsidiaries of Sinopec Corp. are major pollutant discharging companies as stipulated by China's environment protection authorities. Pursuant to relevant regulations and specific requirements of local related authorities, environmental information of those companies has been disclosed publicly. For more details, please refer to the website of local government.

20 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, and the fundamental principles of poverty alleviation and elimination. The Company focused on increasing fund input, enhancing fund management, targeted poverty alleviation, innovation, supervision, guaranteeing work efficiency to ensure the effectiveness of the targeted poverty alleviation plan.

(2) Overview on 2017 Targeted Poverty Alleviations

In 2017, the Company implemented 44 targeted poverty elimination programs in Yingshang county, Yuexi county, Fenghuang county, Luxi county, Yuepuhu county and Dongxiang county, mainly including rural industry development, village tourism development, labor output trainings and education assistance. We input RMB 128.22 million in targeted poverty alleviation, helped 27,759 registered people out of poverty and funded the education of 3,146 students.

(3) 2017 Targeted Poverty Alleviation Work Statistics

Unit: RMB million

Index	Data
I. Overview	
1. Funds	124.53
2. Value of goods and materials	3.69
3. Number of people lifted out of poverty	27,759
II. Input breakdowns	
1. Poverty elimination through industrial development	
1.1 Categories of poverty alleviation programs through industrial development	☑ Poverty alleviation through agriculture and forestry development
	☑ Poverty alleviation through tourism development
	☑ Poverty alleviation through e-commerce
	☑ Poverty alleviation through assets income
	☑ Poverty alleviation through science and technology development
	☑ Others
1.2 Number of poverty alleviation programs	275
1.3 Input in poverty alleviation projects through industrial development	32.02
1.4 Number of people lifted out of poverty	13,907
2. Poverty elimination through provision of employment	
2.1 Input in professional skill training	0.62
2.2 Participants of professional skill trainings (person time)	4,316
2.3 Number of people employed	1,669
3. Poverty elimination through relocation	
3.1 Number of relocated people provided with employment	4,275
4. Poverty elimination through education	
4.1 Input in students funding	3.05
4.2 Number of students who received funding assistance	3,146
4.3 Input in education resources in poverty-stricken areas	5.96
5. Poverty alleviation through healthcare	
5.1 Input in medical and health care resources in proverty-striken areas	8.65
6. Poverty alleviation through ecological protection	
6.1 Items	☑ Conduct ecological protection and construction
	☑ Develop ways for ecological protection and compensation
	☑ Set up ecological public welfare positions
	☑ Others
6.2 Input in ecological protection	1.05
7. Guarantee basic living standard	
7.1 Input in left-behind children, women and senior people	0.27
7.2 Number of left-behind children, women and senior people assisted	386
7.3 Input in assisting the disabled	0.48
7.4 Number of the disabled helped	513
8. Poverty alleviation through social projects	
8.1 Input in coordinated poverty alleviation in East and West China	0.01
8.2 Input in targeted poverty alleviation programs	49.26
8.3 Public Welfare funds for poverty alleviation	1.58
9. Other projects	
9.1 Number of projects	261
9.2 Total input	21.57
9.3 Number of people lifted out of poverty	13,852

(4) 2018 Targeted Poverty Alleviation Plan

In 2018, we will further enhance our efforts on targeted poverty alleviation and elimination, continual focusing on poverty alleviation in extreme poverty areas, targeted assistance for special people in poverty, and solving the most urgent problems of the people in poverty. We will optimise the measures of poverty alleviation by strengthening education and training, industrial development and expanding local products trade through EasyJoy convenience stores etc., to eliminate poverty and enhance people's sense of satisfaction.

1 AGREEMENTS CONCERNING CONTINUING CONNECTED TRANSACTIONS BETWEEN SINOPEC CORP. AND CHINA PETROCHEMICAL CORPORATION

Prior to Sinopec Corp.'s overseas listing, in order to ensure the smooth continuation of production and business conducted by the Company and China Petrochemical Corporation, the two parties entered into a number of agreements on continuing connected transactions, details of which are as follows:

(1) The Company and China Petrochemical Corporation will mutually supply ancillary services for products, production and construction services (Mutual Supply Agreement)

(2) China Petrochemical Corporation will provide trademarks, patents and computer software to the Company for use free of charge

(3) China Petrochemical Corporation will provide cultural and educational, hygienic and community services to the Company (Cultural and Educational Hygienic and Community Services Agreement)

(4) China Petrochemical Corporation will provide leasing services for lands and certain properties to the Company

(5) China Petrochemical Corporation will provide comprehensive insurance to the Company

(6) China Petrochemical Corporation will provide shareholders' loans to the Company and

(7) The Company will provide franchise licenses for service stations to China Petrochemical Corporation.

On 26 August 2015, Sinopec Corp. and China Petrochemical Corporation entered into a supplementary agreement of the continuing connected transactions, whereby the terms of the Mutual Supply Agreement and the Cultural and Educational, Hygienic and Community Services Agreement were extended from 1 January 2016 to 31 December 2018. The resolution relating to continuing connected transactions for the three years from 2016 to 2018 was approved at the first extraordinary general meeting for 2015 held on 23 October 2015. For details of the above continuing connected transactions, please refer to relevant announcements published on 27 August 2015 in the China Securities Journal, the Shanghai Securities News and the Securities Times and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange (dated 26 August 2015). The capitalised terms used in this section shall have the same meaning as that used in the above-mentioned announcements.

2 COMPLIANCE OF DISCLOSURES AND APPROVALS OF CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP WITH HONG KONG LISTING RULES AND THE SHANGHAI LISTING RULES

Pursuant to the Hong Kong Listing Rules and the Shanghai Listing Rules, the continuing connected transactions between the Company and Sinopec Group are generally subject to full disclosure based on the nature and the value of the transactions, and are also subject to approvals of independent non-executive directors and/or independent shareholders. The Hong Kong Stock Exchange and Shanghai Stock Exchange exempted Sinopec Corp. from full compliance with the relevant listing rules regarding the above continuing connected transactions and conditionally exempted Sinopec Corp. from complying with the continuous disclosure obligations.

There was no change to the above-mentioned supplementary agreements on continuing connected transactions during the reporting period. The aggregated amount of the continuing connected transactions for 2017 of the Company is in compliance with the relevant requirements of the Hong Kong Listing Rules and the Shanghai Listing Rules. For performance details of connected transaction agreements, please refer to Item 3 below.

3 ACTUAL CONTINUING CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THE YEAR

Sinopec Corp. and China Petrochemical Corporation have implemented the relevant framework agreements in relation to the continuing connected transactions, including Mutual Supply Agreement, Cultural, Educational, Hygiene and Community Services Agreement, Land Use Rights Leasing Agreement, Properties Leasing Agreement, Intellectual Property Licence Agreements and SPI Fund Document.

Pursuant to the above-mentioned agreements on continuing connected transactions, the aggregate amount of the continuing connected transactions of the Company during the year was RMB 340.543 billion. Among the transaction amount, purchases expenses amounted to RMB 226.600 billion, representing 9.45% of the total amount of this type of transaction for the reporting period, including purchases of products and services (procurement, storage and transportation, exploration and development services, and production-related services) of RMB 210.869 billion, purchases of auxiliary and community services of RMB 6.652 billion. The housing rent paid by the Company amounted to RMB 510 million. The rent for use of land was RMB 8.015 billion. Interest expenses amounted to RMB 554 million. The sales income amounted to RMB 113.943 billion, representing 4.63% of the total amount of this type of transaction for the reporting period, including RMB 113.096 billion for sales of products and services, RMB 41 million for agency commission income, and RMB 807 million for interest income.

The amounts of the above continuing connected transactions between the Company and Sinopec Group did not exceed the caps for the continuing connected transactions as approved by the general meeting of shareholders and the Board.

Principle of pricing for the continuing connected transactions:

(a) The government-prescribed price will apply;

(b) when there is no government-prescribed price but there is a government-guidance price, the government-guidance price will apply;

(c) when there is neither a government-prescribed price nor a government-guidance price, the market price will apply; or

(d) when none of the above is applicable, the price for the provision of the products or services is to be agreed upon by the relevant parties, and shall be the reasonable cost incurred in providing the products or services plus 6% or less of such cost.

For details of the pricing principle, please refer to relevant announcements published on 27 August 2015 in the China Securities Journal, the Shanghai Securities News and the Securities Times and on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

Decision-making procedures:

The major continuing connected transaction agreements were entered into in the ordinary course of the Company's business and in accordance with normal commercial terms that are fair and reasonable to the Company and its shareholders. The Company, according to internal control procedures, adjusts the scope and the caps of continuing connected transactions every three years, and will be announced and implemented upon the approval of the Board and/or independent shareholders. For the other connected transactions, Sinopec Corp., in strict compliance with domestic and overseas regulatory rules, will publish the announcement and implement the transactions only after submitting the relevant proposals of connected transactions to the Board and/or the general meeting of shareholders for consideration and approval according to internal control procedures.

Related party transactions with the Sinopec Group that occurred during the year, as set out in Note 36 to the financial statements prepared under the IFRS in this annual report, also fall under the definition of connected transactions under Chapter 14A of the Hong Kong Listing Rules.

The above-mentioned connected transactions between the Company and Sinopec Group in 2017 were reviewed at the 17th meeting of the sixth session of the Board and have complied with the requirements under Chapter 14A of the Hong Kong Listing Rules.

The external auditor of Sinopec Corp. was engaged to report on the Company's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000, Assurance Engagement Other Than Audits or Reviews of Historical Financial Information, and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules, issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its conclusions in respect of the above-mentioned continuing connected transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. Sinopec Corp. has submitted a copy of the auditor's letter to the Hong Kong Stock Exchange.

After reviewing the above-mentioned connected transactions, the independent non-executive directors of Sinopec Corp. have confirmed the following:

(a) The transactions have been conducted in the ordinary course of the Company's business.

(b) The transactions have been entered into based on either of the following terms:

i normal commercial terms; or

ii terms not less favorable than those available from or to independent third parties, where there is no available comparison to determine whether such terms are on normal commercial terms.

(c) The transactions were conducted pursuant to the terms of relevant agreements, and the terms were fair and reasonable and in the interests of Sinopec Corp. and its shareholders as a whole.

4 OTHER SIGNIFICANT CONNECTED TRANSACTIONS OCCURED THIS YEAR

There are no other significant connected transactions during the reporting period.

5 FUNDS PROVIDED BETWEEN RELATED PARTIES

Unit: RMB million

		Funds to related parties			Funds from related parties		
Related Parties	**Relations**	**Balance at the beginning of the year**	**Amount incurred**	**Balance at the end of the year**	**Balance at the beginning of the year**	**Amount incurred**	**Balance at the end of the year**
Sinopec Group	Parent company and affiliated companies*	26,464	(2,426)	24,038	29,541	(1,273)	28,268
Other related parties	Associates and joint ventures	6,008	(4,330)	1,678	55	(17)	38
Total		**32,472**	**(6,756)**	**25,716**	**29,596**	**(1,290)**	**28,306**
Reason for provision of funds between related parties		Loans and other accounts receivable and payable					
Impacts on the Company		No material negative impact					

*: affiliated companies include subsidiaries, associates and joint ventures.


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1 IMPROVEMENTS IN CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the Reporting Period, Sinopec Corp. was in full compliance with the Articles of Association as well as domestic and overseas laws and regulations and has not received any regulatory sanction imposed by securities regulatory authorities. There is no insider trading of the Company's shares discovered in the Company. Taking into account the actual situation, Sinopec Corp. amended the Articles of Association and Rules and Procedures for the Board Meetings. With the amendments, corporate governance mechanism in scientific decision-making, efficient implementation and supervision was promoted. When making decisions on significant matters such as directions for reform and development, key targets and projects arrangements, and nominations and employment of executives of the Company, the Board would seek advice from the Party organisation, which further strengthened the Company's democratic and scientific decision-making process. In respect of resolutions made by the Board, the Party organisations motivate party members to actively play an exemplary and leading role on implementations based on their responsibilities and inspires the initiative and enthusiasm of employees, which has helped the effective implementation of the Board's decisions by the management. In addition, the Party organisations have strengthened the supervision and accountability on anti-corruption and self-discipline of the Party members which promote the clean governance and risk-management level.

During the Reporting Period, the composition of the Board, the Board of Supervisors, and the Board Committees have been adjusted and optimised in a timely manner. The independent directors have played an active and good role with diligence. The internal control system has been further improved and effectively implemented. The work concerning investor relations has been further refined, and the required information has been disclosed in time. With the internal management and the transparency of operation improved, the capital market has positively recognised the Company. The Company's active performance of its social responsibilities has earned the appreciation from the whole society.

During the reporting period, there are no material inconsistency between Sinopec Corp.'s corporate governance and the requirements in the PRC Company Law and relevant regulations on securities of the CSRC. The Board of Supervisors of Sinopec Corp. agreed with all supervised matters. None of Sinopec Corp., the Board, directors, supervisors, senior management, controlling shareholders or de facto controllers of Sinopec Corp. were under the investigation by the CSRC or received any regulatory sanction or criticised publicly by the CSRC, the Hong Kong Securities and Futures Commission, the Securities and Exchange Commission of the United States, or received any public censure from Shanghai Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange or the London Stock Exchange.

2 GENERAL MEETINGS

During the reporting period, Sinopec Corp. convened the 2016 annual general meeting, 2017 first A shareholders class meeting and 2017 first H shareholder class meeting on 28 June 2017 in Beijing, China in accordance with the required procedures of noticing, convening and holding pursuant to the relevant laws and regulations and the Articles of Association. For meeting details, please refer to the poll results announcements published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Hong Kong Stock Exchange after the general meeting.

3 EQUITY INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

As of 31 December 2017, apart from 13,000 A shares of Sinopec Corp. held by Vice President Mr. Ling Yiqun, none of the directors, supervisors or other senior management of Sinopec Corp. held any shares of Sinopec Corp.

Save as disclosed above, during the reporting period, none of the directors, supervisors and senior management of Sinopec Corp. and their associates had any interests or short positions (including any interest or short position that is regarded or treated as being held in accordance with the Securities and Futures Ordinance (SFO)) in the shares, debentures and underlying shares of Sinopec Corp. or any associated corporations (as defined in Part XV of SFO) would fall to be disclosed to the Sinopec Corp. and the Hong Kong Stock Exchange under the Division 7 and 8 of Part XV of SFO or which was recorded in the register required to be kept under section 352 of SFO or otherwise notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Company under the Hong Kong Listing Rules.

4 PERFORMANCE OF THE INDEPENDENT DIRECTORS

During the reporting period, the independent non-executive directors of Sinopec Corp. fulfilled their duties in good faith as required by laws and regulations and the Articles of Association, and actively contributed to the development of the Company. They actively attended Board meetings and meetings of the Board committees (please refer to the Report of the Board of Directors in this annual report for details of their attendance), reviewed the relevant documents with due care and exercised their profession advantages to offer advice and suggestions to Sinopec Corp.'s development strategy, operations and reform. The independent non-executive directors gave their independent opinions on matters such as connected transactions, external guarantee, dividend distributions and appointments of senior management of the Company as required by relevant rules and regulations, and maintained timely and effective communications with the executive directors, management, external auditors and the internal auditing department. The independent non-executive directors strengthened the communications with the shareholders and independently and objectively protected the legitimate interests of the Company and the shareholders, especially the minority shareholders, when performing their duties.

5 COMPANY'S INDEPENDENCE FROM CONTROLLING SHAREHOLDER

The Company is independent from its controlling shareholder in terms of, among other matters, business, assets and finances. The Company has a well-integrated independent business and independent operational capabilities.

6 COMPETITION BETWEEN SINOPEC CORP AND ITS CONTROLLING SHAREHOLDER

Please refer to "Performance of Undertaking by China Petrochemical Corporation" under the section "Significant Events" in this annual report for details.

7 IMPROVEMENT AND IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

For details of internal control self-assessment and internal control auditing, please refer to the internal control assessment report and the internal control auditing report disclosed by the Company on the same day of this annual report.

8 SENIOR MANAGEMENT APPRAISAL AND INCENTIVE SCHEMES

Sinopec Corp. has established and is continuously improving the fairness and transparency of its performance appraisal standards, incentive schemes and requirements for directors, supervisors and other senior management. Sinopec Corp. has implemented a number of incentive policies, including the Measures of Sinopec Corp. for the Implementation of Remuneration for Senior Managers, the Measures of Sinopec Corp. for the Management of Annual Performance Evaluations and the Measures of the Leadership of Companies Directly under Sinopec Corp. and the Headquarters Departments for the Management of Performance Evaluation.

9 CORPORATE GOVERNANCE REPORT (IN ACCORDANCE WITH HONG KONG LISTING RULES)

(1) Compliance with the Corporate Governance Code

Sinopec Corp. did not establish a Nomination Committee of the Board according to section A.5 of the Corporate Governance Code and Corporate Governance Report (Corporate Governance Code) as set out in Appendix 14 of the Hong Kong Listing Rules. Sinopec Corp. is of the view that the nomination of Director Candidates by all members of the Board would be better suited the actual situation of the Company. The board of directors of Sinopec Corp. (Board) performed the duties of the Nomination Committee prescribed in the Corporate Governance Code.

Save as disclosed above, Sinopec Corp. complied with all code provisions set out in the Corporate Governance Code during the reporting period.

A Board of Directors

A.1 Board of Directors

a. The Board is the decision-making body of Sinopec Corp. and abides by good corporate governance practices and procedures. All decisions made by the Board are implemented by the Management of Sinopec Corp.

b. The meeting of the Board is held at least once a quarter. The Board will usually communicate the time and proposals of the Board meeting 14 days before convening of the meeting. The relevant documents and materials for Board meetings are usually sent to each Director 10 days in advance. In 2017, Sinopec Corp. held five Board meetings. For details about the attendance of each Director, please refer to the Report of the Board of Directors in this annual report.

c. Each Director of the Board may submit proposals to be included in the agenda of Board meetings, and each Director is entitled to request other related information.

d. The Board has reviewed and evaluated its performance in 2017 and is of the view that the Board made decisions in compliance with domestic and overseas regulatory authorities' requirements and the Company's internal rules; that the Board have received the suggestions from the Board of Supervisors and Management during its decision making process; and that the Board safeguarded the rights and interests of Sinopec Corp. and its shareholders.

e. The Secretary to the Board assists the Directors in handling the daily work of the Board, continuously informs the Directors of any regulations, policies or other requirements of domestic or overseas regulatory bodies in relation to corporate governance and ensures that the Directors comply with domestic and overseas laws and regulations when performing their duties and responsibilities. Sinopec Corp. has purchased liability insurance for all Directors to minimise their risks that might incur, arising from the performance of their duties.

A.2 Chairman and President

a. The Chairman of the Board is elected by a majority vote of all Directors, and the President is nominated and appointed by the Board. The main duties and responsibilities of the Chairman and the President are clearly distinguished from each other, and the scope of their respective duties and responsibilities are set out in the Articles of Association. Mr. Wang Yupu serves as Chairman of the Board and tendered his resignation on 22 September 2017. Mr. Dai Houliang serves as Vice Chairman of the Board and President of Sinopec Corp. and performs duties as Chairman upon Mr. Wang Yupu's resignation.

b. The Chairman of the Board places great emphasis on communication with the Independent Directors. The Chairman independently held two meetings with the Independent Directors in respect of development strategy, corporate governance and operational management, etc. of Sinopec Corp.

c. The Chairman encourages open and active discussions. Directors have spoken freely at the Board meetings and actively and deeply participated in the discussions of significant decision made by the Board in the Board meetings.

A.3 Board composition

a. For details of the composition of the Board of Directors, please refer to the section "Directors, Supervisors, Other Senior Management and Employees" of this annual report. The Board has a fairly good diversity. The Chairman, Executive Directors and Non-executive Director of Sinopec Corp. have petroleum and petrochemical technical background and/or extensive management experience in large-scale enterprises. The Independent Non-executive Directors have rich experience in economics, capital management and investment.

b. Sinopec Corp. has received from each of the Independent Directors a letter of confirmation for 2017 regarding their compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. Sinopec Corp. considers that each of the Independent Non-executive Directors is independent.

A.4 Appointment, re-election and dismissal

a. The term of each session of the Directors of Sinopec Corp. is three years, and the consecutive term of office of an Independent Non-executive Director cannot exceed six years.

b. All Directors of Sinopec Corp. have been elected at the general meeting of shareholders. The Board has no power to appoint temporary Directors.

c. Sinopec Corp. engages professional consultants to prepare detailed materials for newly elected Directors, to notify them of the regulations of each listing place of Sinopec Corp. and to remind them of their rights, responsibilities and obligations as Directors.

A.5 Nomination Committee

a. Considering that the Board did not establish a Nomination Committee, the Board performs the duties of the Nomination Committee prescribed in the Corporate Governance Code. The rules in relation to the nomination of Directors has been prescribed clearly in the Articles of Association and Rules of Procedure for the Shareholders' Meeting. Nomination of Directors may be proposed by shareholders who individually or collectively hold 3% of the total voting shares of Sinopec Corp. (1% for the nomination of Independent Directors), by the Board or by the Board of Supervisors for approval at the general meeting of shareholders. When the Board nominates a candidate for Director, Independent Non-executive Directors shall give their independent opinions on the nomination in advance. Eleven out of total thirteen Directors of the Board were elected at the annual general meeting for the year 2014; one was elected at the first extraordinary general meeting for the year 2016; one was elected at the annual general meeting for the year 2016.

b. The Board establishes the Policy Concerning Diversity of Board Members which stipulates that the members of the Board shall be nominated and appointed based on the skills and experience required by the Board as well as the principles on diversity of the Board. When deciding the composition of the Board, Sinopec Corp. shall consider several factors in relation to the diversity of the Board, including but not limited to, gender, age, culture and background of education, locations, profession and experience, skills, knowledge and service term.

A.6 Responsibility of Directors

a. All Non-executive Directors have the same duties and powers as the Executive Directors. In addition, the Independent Non-executive Directors are entitled to certain specific powers. The Articles of Association and the Rules of Procedure for Boards Meetings clearly prescribe the duties and powers of Directors, Non-executive Directors including Independent Non-executive Directors. The above duties and powers are published on the Sinopec Corp.'s website at http://www.sinopec.com.

b. Each of the Directors was able to devote sufficient time and efforts to handling the matters of Sinopec Corp.

c. Each of the Directors confirmed that he has complied with the Model Code for Securities and Transactions by Directors of Listed Companies during the reporting period. In addition, Sinopec Corp. formulated the Rules Governing Shares Held by Company Directors, Supervisors and Senior Managers and Changes in Shares and the Model Code of Securities Transactions by Company Employees to regulate the purchase and sale of Sinopec Corp.'s securities by relevant personnel.

d. Sinopec Corp. organised and arranged training sessions for Directors and paid the relevant fees. The Directors actively participated in the trainings and continuing professional development program.

A.7 Provision of and access to information

a. The agenda and other reference documents for meetings of the Board and Board committees will be distributed prior to the meetings to give each Director sufficient time to review the materials so that Directors can make informed decisions.

b. Each Director can obtain all related information in a comprehensive and timely manner. The Secretary to the Board is responsible for organising and preparing the materials for the Board meetings, including preparation of explanations for each proposal to ensure fully understanding by the Directors. The Management is responsible for providing the Directors with necessary information and materials. The Director may ask the Management, or ask, via the Management, relevant departments to provide necessary information or explanations. The Directors may seek advices from professional consultants when necessary.

B Remuneration and Appraisal Committee

a. Remuneration and Appraisal Committee (Remuneration Committee) consists of Independent Non-executive Director Mr. Fan Gang, who serves as the Chairman, and the Vice Chairman of the Board & President Mr. Dai Houliang and Independent Non-executive Director Mr. Jiang Xiaoming, who serve as the members of the Remuneration Committee. The Remuneration Committee is responsible for reviewing the implementation of the annual remuneration plans for Directors, Supervisors and other senior Management as approved at the general meeting of the shareholders, and report to the Board.

b. The Remuneration Committee always consults the Chairman of the Board and the President about the remuneration plans for other Executive Directors. After the Remuneration Committee's review, it is of the view that all the Executive Directors of Sinopec Corp. have fulfilled the duty clauses in the service contracts of the Directors in 2017.

c. The members of the Remuneration Committee may engage independent professionals when performing its duties. Reasonable costs arising from such consultations are borne by Sinopec Corp. In the meantime, the Remuneration Committee has also appointed consultants to provide advices. The working expenses of the Remuneration Committee are included in the budget of Sinopec Corp. According to the policies of Sinopec Corp., the senior Management and relevant departments of Sinopec Corp. must actively cooperate with the Remuneration Committee.

C Accountability and Auditing

C.1 Financial reporting

a. Directors are responsible for supervising the preparation of accounts for each fiscal period to ensure that the accounts truly and fairly reflect the condition of the business, its performance and the cash flow of the Company during the period. The Board approved the Financial Report for 2017 and warranted that the annual report contained no false representations, no material omissions or misleading statements and jointly and severally accepted full responsibility for the authenticity, accuracy and completeness of the content.

b. Sinopec Corp. provides Directors with information about the financial, production and operating data of the Company every month to ensure that the Directors can learn about the latest developments of the Company in a timely manner.

c. Sinopec Corp. has adopted an internal control mechanism to ensure that the Management and relevant departments have provided the Board and the Audit Committee with sufficient financial data and related explanations and materials.

d. The external auditors of Sinopec Corp. made a statement about their reporting responsibilities in the auditor's report contained in the financial report.

C.2 Internal Control and Risk Management

a. Sinopec Corp. has formulated and implemented its internal control and risk management system. The Board as a decision-making body is responsible for evaluating and review the effectiveness of its internal control and risk management. The Board and Audit Committee periodically (at least annually) receive reports of the Company regarding internal control and risk management information from the Management. All major internal control and risk management issues are reported to the Board and Audit Committee. Sinopec Corp. has set up its internal control and risk management department and internal auditing departments, which are equipped with sufficient staff, and these departments periodically (at least twice per year) report to the Audit Committee. The internal control and risk management system of the Company are designed to manage rather than eliminate all the risks of the Company.

b. In terms of internal control, Sinopec Corp. adopted the internal control framework prescribed in the internationally accepted Committee of Sponsoring Organisations of the Treadway Commission Report (COSO). Based upon the Articles of Association and the applicable management policies currently in effect, as well as in accordance with relevant domestic and overseas applicable regulations, Sinopec Corp. formulated and continuously improves the Internal Control Manual to achieve internal control of all factors of internal environment, risk evaluation, control activities, information and communication, and internal supervision. At the same time, Sinopec Corp. has constantly supervised and evaluate its internal control, and conducted comprehensive and multi-level checks including regular test, enterprise self-examination and auditing check, and subsumed headquarters, branches and subsidiaries into the scope of internal control evaluation, with an internal control evaluation report being produced. The Board annually review the internal control evaluation report. For detailed information about the internal control during the reporting period, please refer to the report on internal control prepared by Sinopec Corp.

   Sinopec Corp. has formulated and implemented its information disclosure policy and insider information registration policy. The corporation regularly evaluates the policy implementation and makes disclosure in accordance with relevant regulations. Please refer to the website of Sinopec Corp. for the details of the information disclosure policy.

c. In terms of risk management, Sinopec Corp. adopted the enterprise risk management framework provided by COSO, and established its risk management policy and risk management organisation system. The Company annually conducts risk evaluation to identify major and important risks and perform risk management duties. It has designed major and important risks tackling measures combined with its internal control system and periodically monitor their implementation to ensure adequate care, monitor and tackling of major risks.

d. Based upon the review and evaluation of internal control and risk management of the reporting period, the Board is of the view that the internal control and risk management of the Company are effective.

C.3 Audit Committee

a. The Board has established an Audit Committee. The Audit Committee consists of Independent Non-executive Director Mr. Andrew Y. Yan, who serves as the Chairman, and Independent Non-executive Director Mr. Jiang Xiaoming and Independent Non-executive Director Mr. Tang Min, who serve as members. As verified, none of them has served as a partner or a former partner in our current auditing firm.

b. During the reporting period, the Audit Committee held four meetings (please refer to the section Meetings held by the special committees of the Board under the Report of the Board of Directors in this annual report). The review opinions were issued at each meeting and submitted to the Board after signed by the members of the Audit Committee. During the reporting period, the Board and the Audit Committee had no disagreement.

c. Audit Committee members may engage independent professionals when performing its duties. Reasonable costs arising from such consultations are borne by Sinopec Corp. In the meantime, the Audit Committee has appointed consultants to provide advices. The working expenses of the Audit Committee are included in the budget of Sinopec Corp. In accordance with the policies of Sinopec Corp., the senior Management and relevant departments of Sinopec Corp. shall actively cooperate with the Audit Committee.

d. The Audit Committee has reviewed the adequacy of the resources for accounting and financial reporting and the qualifications and experience of the employees as well as the sufficiency of the training courses provided to relevant employees. Audit Committee is of the view that the Management has fulfilled the duties to establish an effective internal control system. The Company established a whistle-blowing policy in its internal control system, providing several channels as online reporting, letter reporting, receipt of appeals and a complaint mailbox, etc. to employees to report behavior that violates the internal control system of the Company. The Audit Committee has reviewed and approved such policy.

D Delegation of power by the Board

a. The Board and the Management have clear terms of reference in writing. The Articles of Association and the Rules of Procedure for the General Meetings of Shareholders and the Rules of Procedure for the Board Meetings clearly set forth the scope of duties, powers and delegation of power of the Board and Management, which are published on the website of Sinopec Corp. at http://www.sinopec.com.

b. In addition to the Audit Committee and the Remuneration Committee, the Board had established the Strategy Committee and the Social Responsibility Management Committee. The Strategy Committee is responsible for overseeing long-term development strategies and significant investment decisions of the Company. The Strategy Committee consists of eight directors, including former Chairman of the Board Mr. Wang Yupu, who serves as Chairman, as well as Vice Chairman of the Board & President Mr. Dai Houliang, Executive Director Mr. Wang Zhigang, Mr. Zhang Haichao, Mr. Jiao Fangzheng, Mr. Ma Yongsheng and Independent Non-executive Directors Mr. Andrew Y. Yan and Mr. Fan Gang, who serve as members. The Social Responsibility Management is responsible for preparing policies, governance, strategies and plans for social responsibility management of the Company. The Social Responsibility Management Committee consists of three Directors, including former Chairman of the Board Mr. Wang Yupu, who serves as Chairman, Vice Chairman of the Board & President Mr. Dai Houliang and Independent Non-executive Director Mr. Tang Min, who serve as members.

c. Each Board Committee is required to report its decisions and recommendations to the Board. The terms of reference of the Audit Committee and the Remuneration Committee are published on the website of Sinopec Corp. at http://www.sinopec.com.

E Investor Relations

a. In order to further enhance corporate governance and satisfy business expansion needs of the Company, as being approved at the annual general meeting of shareholders for the year 2016, Sinopec Corp. amends the Articles of Association and its appendix Rules and Procedures for Board Meetings. 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 29 June 2017 and the announcement published on the website of the Hong Kong Stock Exchange on 28 June 2017.

b. Sinopec Corp. pays close attention to investor relations. The management conduct road shows every year to answer questions on subjects of concern to investors, such as development strategies and the production and business performance of the Company. Sinopec Corp. established a department responsible for communicating with investors. In compliance with regulatory provisions, Sinopec Corp. enhanced communication with investors by holding meetings with institutional investors, setting up an investor hotline and communicating through internet platform.

c. During the reporting period, separate resolution was proposed for each substantially separate issue at the general meeting. All resolutions were voted by poll to ensure the interests of all shareholders. Notices of the general meeting were dispatched to shareholders 45 days (excluding the date of the general meeting) in advance.

d. The Chairman of the Board hosted the annual general meeting for the year 2016. Some members of the Board and senior Management attended the meeting and communicated with the investors extensively.

e. According to relevant rules of Sinopec Corp., the Board Secretary is responsible for establishing an effective communication channel between Sinopec Corp. and its shareholders, for setting up special departments to communicate with the shareholders and for passing the opinions and proposals of the shareholders to the Board and Management in a timely manner. Contact details of Sinopec Corp. can be found on the Investor Center page on Sinopec Corp's website.

F Company Secretary

a. The Hong Kong Stock Exchange recognized the Secretary to the Board as having the relevant qualifications as company Secretary. Nominated by the Chairman of the Board and appointed by the Board, the Secretary to the Board is a Senior Management Officer of Sinopec Corp. and responsible for the Company and the Board. The Secretary gives opinions on corporate governance to the Board and arranges orientation training and professional development for the Directors.

b. During the reporting period, the Secretary to the Board actively participated in career development training with more than 15 training hours.

G Shareholders' rights

a. Shareholders who individually or collectively hold 10% of the total voting shares of Sinopec Corp. may request the Board in writing to convene the general meeting of shareholders. If the Board fails to grant the request to convene the meeting according to the Rules of Procedure for Meetings of Boards of Directors, the shareholders may convene and hold the meeting at their discretion according to applicable laws, and reasonable expenses incurred will be borne by Sinopec Corp. These provisions are subject to the following conditions: the proposals at the general meeting of shareholders must fall within the responsibilities of the general meeting of shareholders, with specific proposals and resolutions and in compliance with relevant laws, administrative regulations and the Articles of Association.

b. When Sinopec Corp. holds the general meeting of shareholders, shareholders who individually or collectively hold 3% of the total voting shares of Sinopec Corp. may propose a supplementary proposal 10 days before the date of the general meeting.

c. The eligibility for attending the general meeting, the rights of shareholders, the proposals at the meeting and the voting procedures are clearly stated in the notice of the general meeting of Sinopec Corp. dispatched to the shareholders.

(2) Auditors

The appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as Sinopec Corp.'s external auditors for 2017 and the authorisation of the Board to determine their remuneration were approved at Sinopec Corp.'s annual general meeting for the year 2016 on 28 June 2017. The audit fee for 2017 is RMB 51.58 million (including audit fee of internal control), which was approved at the 17th meeting of the sixth session of the Board. The annual financial statements have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers. The Chinese certified accountants signing the report are Zhao Jianrong and Gao Peng from PricewaterhouseCoopers Zhong Tian LLP.

During the reporting period, neither PricewaterhouseCoopers Zhong Tian LLP nor PricewaterhouseCoopers provided any non-audit service to the Company.

(3) Other information about Sinopec Corp.'s corporate governance

Except for their working relationships with Sinopec Corp., none of the Directors, Supervisors or other Senior Management has any financial, business or family relationship or any relationship in other material aspects with one another. For information about changes in share capital and shareholdings of substantial shareholders, please refer to page 6 to page 7; for information about meetings of the Board, please refer to page 51; for information about equity interests of Directors, Supervisors and other senior Management, please refer to page 43; for information about the biographies and annual remuneration of Directors, Supervisors and other senior Management, please refer to page 62 to page 74.

The Board is pleased to present the directors' report for the year ended 31 December 2017 for shareholders' review.

1 MEETINGS OF THE BOARD

During this reporting period, Sinopec Corp. held five(5) Board meetings. The details are as follows:

(1) The 11th meeting of the six session of the Board was held by written resolution on 16 February 2017, whereby the proposals in relation to the acquisition of the downstream assets of Chevron South Africa and Botswana and provide shareholder performance guarantee were approved in the meeting.

(2) The 12th meeting of the six session of the Board was held by on site meeting and via video conference on 24 March 2017, whereby the proposals in relation to the following matters were approved: (i) 2016 Work Report of the Board, (ii) Business performance of 2016 and work plan of 2017, (iii) Financial results and business performance of the Company for the year 2016, (iv) 2016 Communication on Progress for Sustainable Development Report of Sinopec Corp., (v) Financial Statements of Sinopec Corp. for the year 2016, (vi) Annual Report and form 20F of the Company for the year 2016, (vii) Internal control assessment report of Sinopec Corp. for the year 2016, (viii) Re-appointment of external auditors of Sinopec Corp. for the year of 2017 and to authorise the Board to determine their remunerations, (ix) Resolution on proposed election of supervisor of Sinopec Corp. at the General meeting; (x) Authorising the Board to determine the interim profit distribution plan of Sinopec Corp. for the year 2017, (xi) Authorising the Board to determine the proposed plan for issuance of debt financing instrument(s) (xii) Granting to the Board a general mandate to issue new domestic shares and/or overseas-listed foreign shares of Sinopec Corp., (xiii) Convening the annual general meeting of Sinopec Corp. for the year 2016 and to dispatch the notice of the annual general meeting.

(3) The 13th meeting of the six session of the Board was held by written resolution on 27 April 2017, whereby the proposals in relation to the following matters were approved: (i)first quarterly results of the Company for the three months ended 31 March 2017. (ii) The acquisition of equity interest in Shanghai SECCO by Gaoqiao Petrochemical (iii) Adjusting parameters for appraisal of project returns of Sinopec Corp. (iv) Proposed election of director of Sinopec Corp. at the general meeting; (v) Proposed amendments to the Articles of Association and the Rules of the Procedures of Board Meeting. (vi) The Overseas listing plan of Sinopec Marketing Co. Ltd.

(4) The 14th meeting of the sixth session of the Board was held by on site meeting on 25 August 2017, whereby the proposals in relation to the following matters were approved: (i) Business performance of the first half year of 2017 and work plan of the latter half year of 2017, (ii) Financial results and business performance of the Company for the first half of 2017, (iii) The interim financial statements for the first half of 2017 (vi) The interim report for the first half of 2017, (v) Three years rolling development plan of Sinopec Corp. (2017 to 2019).

(5) The 15th meeting of the six session of the Board was held by written resolution on 30 October 2017, whereby the proposals in relation to the following matters were approved: (i) the third quarterly results of the Company for the nine months ended 30 September 2017. (ii) Optimisation adjustment to the 2017 investment plan.

For details of each meeting, please refer to the announcements published in China Securities Journal, Shanghai Securities News and Securities Times on the next working day after each meeting and on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and Sinopec Corp.

2 IMPLEMENTATION OF RESOLUTIONS APPROVED AT THE GENERAL MEETINGS OF SHAREHOLDERS BY THE BOARD

During this reporting period, in accordance with relevant laws and regulations as well as the Articles of Association, all members of the Board diligently implemented the resolutions approved at the general meetings of Sinopec Corp., and have completed all the tasks delegated to them at the general meetings.

3 DIRECTORS' ATTENDANCE TO THE SIXTH SESSION OF THE BOARD MEETINGS AND THE INDEPENDENT DIRECTOR 'S ATTENDANCE TO THE GENERAL MEETINGS.

(1) ATTENDANCE TO THE BOARD MEETINGS

Director Titles	Names	No. of meeting held	Actual Attendance	Board Meetings Attended By communication	Attended by proxy	Absent
Vice Chairman	Dai Houliang	5	2	3	0	0
Director	Li Yunpeng	2	1	1	0	0
Director	Wang Zhigang	5	2	3	0	0
Director	Zhang Haichao	5	2	3	0	0
Director	Jiao Fangzheng	5	2	3	0	0
Director	Ma Yongsheng	5	2	3	0	0
Independent Director	Jiang Xiaoming	5	2	3	0	0
Independent Director	Andrew Y. Yan	5	2	3	0	0
Independent Director	Tang Min	5	2	3	0	0
Independent Director	Fan Gang	5	2	3	0	0

Director Titles	Names	No. of meeting held	Actual Attendance	Board Meetings*1 Attended By communication	Attended by proxy	Absent
Former Chairman	Wang Yupu	4	0	2	2	0

1. No directors were absent from two consecutive Board meetings.
2. Mr Wang Zhigang,Mr Zhang Haichao resigned as directors of the Board on 29 January 2018.
3. Mr. Wang Yupu resigned as chairman and the director of the Board on 22 September 2017.
4. Pursuant to Hong Kong Listing Rules, attended by proxy was not counted as attendance by the director himself.

(2) Independent Non-executive Directors' attendance to the General Meetings.

During the reporting period, Mr. Tang Min, the Independent Non-executive directors of the Company attended the 2016 annual general meeting, 2017 first A shareholders class meeting and 2017 first H shareholder class meeting. No other Independent Non-executive Directors had attended the general meetings in person.

4 MEETINGS HELD BY THE BOARD COMMITTEES

During the reporting period, the Audit Committee held four (4) meetings. Strategy Committee held two (2) meetings, and each of the Remuneration Committee and the Social Responsibility Management Committee held one (1) meeting. All members of each committee had attended the relevant meetings. Details of those meetings are as follows:

(1) The 7th meeting of the sixth session of the Audit Committee was held by written resolutions on 22 March 2017, whereby the proposals in relation to the following matters were approved in the meeting: (i) 2016 Annual Report; (ii) 20F of 2016; (iii) Financial results and business performance of the Company for the year 2016; (iv) Internal control assessment report of the Company for the year 2016 and the internal control manual (2017); (v) Work report on the internal auditing work for the year 2016; (vi) Reports on the auditing of the financial statements for the year 2016 prepared by the domestic and overseas auditors.

(2) The 8th meeting of the sixth session of Audit Committee was held by written resolution on 27 April 2017, whereby the first quarterly report for three months ended 31 March 2017 was approved in the meeting.

(3) The 9th meeting of the sixth session of the Audit Committee was held by on site meeting on 23 August 2017, whereby (i) Interim report for the first half of 2017; (ii) Financial statements for the first half year of 2017; (iii) Business performance and financial results of the first half year of 2017; (iv) Reports on internal auditing work for the first half of 2017 were approved in the meeting.

(4) The 10th meeting of the sixth session of the Audit Committee was held by written resolution on 30 October 2017, whereby the third quarterly report for three months ended 30 September 2017 was approved in the meeting.

(5) The 3rd meeting of the sixth session of the Strategy Committee was held by written resolution on 22 March 2017, whereby the proposal in relation to the 2017 investments plan was approved in the meeting.

(6) The 4th meeting of the sixth session of the Strategy Committee was held by written resolution on 23 August 2017, whereby the three years rolling development plan of Sinopec corp. (2017-2019) was approved in the meeting.

(7) The 2nd meeting of the sixth session of the Remuneration Committee was held by written resolution on 22 March 2017 whereby the proposal in relation to implementation of the remuneration rules for directors, supervisors and other senior management for 2016 was reviewed and approved.

(8) The 2nd meeting of the sixth session of the Social Responsibility Management Committee was held by written resolution on 22 March 2017, whereby the 2016 Communication on Progress for the Sustainable Development Report of Sinopec Corp. was approved in the meeting.

5 BOARD COMMITTEES HAVE ISSUED REVIEW OPINIONS WITHOUT ANY OBJECTION TO THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORT PERIOD.

6 BUSINESS PERFORMANCE

The financial results of the Company for the year ended 31 December 2017, which is prepared in accordance with IFRS and the financial position as at that date and the accompanying analysis are set out from page149 to page 205 in this annual report. The Company's business review, a discussions and analysis on business performance using financial key performance indicators and the material factors underlying our results and financial position during the reporting period, particulars of significant events affecting the Company and the outlook of the Company's business are disclosed in this annual report under the relevant chapters of Chairman's Statement, Business Review and Prospects, Management's Discussion and Analysis and Significant Events. All the sections above constitute parts of this Report of the Board of Directors.

7 DIVIDEND

The profit distribution policy of Sinopec Corp. maintains consistency and steadiness, and gives further consideration to the long-term interests of the Company, overall interests of all the shareholders and the sustainable development of the Company. Sinopec Corp. gives priority to adopting cash dividends for profit distribution, and is able to deliver an interim profit distribution. When the net profits and retained earnings of the Company are positive in current year, and in the event that the cash flow of Sinopec Corp. can satisfy the normal operation and sustainable development, Sinopec Corp. should adopt cash dividends, and the distribution profits in cash every year are no less than 30% of the net profits of the Company in current year.

The profit distribution plan of Sinopec Corp. for the current year will be carried out in accordance with the policy and procedures stipulated in the Articles of Association, with the advice of minority shareholders being heard and considered, meanwhile, the independent directors will issue independent opinions.

Proposals for dividend distribution

At the 17th meeting of the sixth session of the Board, the Board approved the proposal to distribute a final cash dividend of RMB 0.40 (tax inclusive) per share, combining with an interim distributed dividend of RMB 0.10 (tax inclusive) per share, the total dividend for the whole year is RMB 0.50 (tax included) per share.

The final cash dividend will be distributed on or before 14 June 2018 (Thursday) to all shareholders whose names appear on the register of members of Sinopec Corp. on the record date of 4 June 2018 (Monday). In order to qualify for the final dividend for H shares, the holders of H shares must lodge all share certificates accompanied by the transfer documents with Hong Kong Registrars Limited located at 1712-1716 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai Hong Kong before 4:30 p.m. on 28 May 2018 (Monday) for registration. The H shares register of members of Sinopec Corp. will be closed from 29 May 2018 (Tuesday) to 4 June 2018 (Monday) (both dates are inclusive).

The dividend will be denominated and declared in RMB, and distributed to the domestic shareholders and investors participating in the Shanghai-Hong Kong Stock Connect Program in RMB and to the overseas shareholders in Hong Kong Dollar. The exchange rate for the dividend calculation in Hong Kong Dollar is based on the average benchmark exchange rate of RMB against Hong Kong Dollar as published by the People's Bank of China one week preceding the date of the declaration of such dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China which came into effect on 1 January 2008 and its implementation regulations, Sinopec Corp. is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H Shares of Sinopec Corp. when distributing cash dividends or issuing bonus shares by way of capitalisation from retained earnings. Any H Shares of the Sinopec Corp. which is not registered under the name of an individual shareholder, including those registered under HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, shall be deemed as shares held by non-resident enterprise shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such shareholders. If holders of H Shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. Sinopec Corp. will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax on behalf of the relevant shareholders based on the registration of members for H shares of Sinopec Corp. as at the record date.

If the individual holders of the H shares who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends or bonus shares by way of capitalisation from retained earnings with China under the relevant tax agreement, Sinopec Corp. should withhold and pay individual income tax on behalf of the relevant shareholders at a rate of 10%. Should the individual holders of the H Shares are residents of the countries which had an agreed tax rate of less than 10% with China under the relevant tax agreement, Sinopec Corp. shall withhold and pay individual income tax on behalf of the relevant shareholders at a rate of 10%. In that case, if the relevant individual holders of the H Shares wish to reclaim the extra amount withheld (Extra Amount) due to the application of 10% tax rate, Sinopec Corp. would apply for the relevant agreed preferential tax treatment provided that the relevant shareholders submit the evidence required by the notice of the tax agreement to the share register of Sinopec Corp. in a timely manner. Sinopec Corp. will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of the H Shares are residents of the countries which had an agreed tax rate of over 10% but less than 20% with China under the tax agreement, Sinopec Corp. shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of the H Shares are residents of the countries which had an agreed tax rate of 20% with China, or which has not entered into any tax agreement with China, or otherwise, Sinopec Corp. shall withhold and pay the individual income tax at a rate of 20%.

Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Caishui [2014] No. 81):

For domestic investors investing in the H Shares of Sinopec Corp. through Shanghai-Hong Kong Stock Connect Program, the company shall withhold and pay income tax at the rate of 20% on behalf of individual investors and securities investment funds. The company will not withhold or pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax by themselves.

For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of Sinopec Corp. through Shanghai-Hong Kong Stock Connect Program, the Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors who are tax residents of other countries, whose country of domicile is a country having entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, the enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the amount paid in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

The dividend distribution and bonus shares declared by Sinopec Corp. in the past three years are as follows:

	2017	2016	2015
Cash dividends (RMB/Share, tax inclusive)	0.50	0.249	0.15
Total amount of cash dividends (RMB billion, tax inclusive)	60.54	30.15	18.16
Net profits attributed to the shareholders of the listed company shown in the consolidated statement for the dividend year (RMB billion)	51.12	46.42	32.28
Ratio between the dividends and the net profit attributed to the shareholders of the listed company in the consolidated statement (%)	118.42	64.95	56.26

Note: The final cash dividend for 2017 is subject to the approval at the 2017 annual general meeting.

The aggregate cash dividend declared by Sinopec Corp. during three years from 2015 to 2017 is RMB 0.899 per share, and the total dividend payment from 2015 to 2017 as a percentage of average net profit in the three years is 251.27%.

8 RESPONSIBILITIES FOR THE COMPANY'S INTERNAL CONTROL

The Board is fully responsible for establishing and maintaining the internal control system related to the financial statements as well as ensuring its effective implementation. In 2017, the Board assessed and evaluated the internal control of Sinopec Corp. according to the Basic Standard for Enterprise Internal Control, Application Guidelines for Enterprise Internal Control and Assessment Guidelines for Enterprise Internal Control. There were no material defects in relation to the internal control system as of 31 December 2017. The internal control system of Sinopec Corp. related to the financial statements is sound and effective. 2017 Annual Internal Control Assessment Report of Sinopec Corp. was reviewed and approved on the 17th meeting of the sixth Session of the Board on 23 March 2018, and all members of the Board warrant that the contents of the report are true, accurate and complete, and there are no false representations, misleading statements or material omissions contained in the report.

9 DURING THIS REPORTING PERIOD, THE COMPANY DID NOT VIOLATE ENVIRONMENTAL POLICIES

Details with regard to the Company's performance in relation to environmental and social-related policies and performances are provided in the Board Statement and Business Review and Prospects in this annual report as well as the 2017 Communication on Progress for the Sustainable Development Report of Sinopec Corp. Those disclosures in regard to the environmental policies constitute part of the Report of the Board of Directors.

10 DURING THIS REPORTING PERIOD, THE COMPANY DID NOT VIOLATE LAWS OR REGULATIONS WHICH HAVE A MATERIAL IMPACT ON THE COMPANY

11 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total value of the purchasing from the top five crude oil suppliers of the Company accounted for 48.8% of the total value of the crude oil purchasing by the Company, of which the total value of the purchasing from the largest supplier accounted for 15.5% of the total value of the crude oil purchasing by the Company.

The total sales value to the five largest customers of the Company in 2017 was RMB 159,918 million and accounted for 6.8% of the total sales value of the Company, of which the sales value to the connected party (Sinopec group) among the five largest customers was RMB 87,349 million and accounted for 3.7% of the total sales value for the year.

During the reporting period, other than disclosed above, all the top five crude oil suppliers and the other four largest customers of the Company were independent third parties. There were no supplier, customer, employee or others that have a significant impact on the Company and on which the Company's success depends.

12 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as of 31 December 2017 are set out in Note 29 to the financial statements prepared in accordance with IFRS in this annual report.

13 FIXED ASSETS

During this reporting period, changes to the fixed assets of the Company are set out in Note 16 to the financial statements prepared in accordance with IFRS in this annual report.

14 RESERVES

During this reporting period, the changes to the reserves of the Company are set out in the consolidated statement of changes in shareholders' equity in the financial statements prepared in accordance with IFRS in this annual report.

15 DONATIONS

During this reporting period, the amount of charity donations made by the Company amounted to RMB 152 million.

16 PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the shareholders of Sinopec Corp. are not entitled to any pre-emptive rights. Therefore the existing shareholders cannot request Sinopec Corp. for the right of first refusal in proportion to their shareholdings.

17 REPURCHASE, SALES AND REDEMPTION OF SHARES

During this reporting period, neither Sinopec Corp. nor any of its subsidiaries repurchased, sold or redeemed any listed shares of Sinopec Corp. or its subsidiaries.

18 DIRECTORS' INTERESTS IN COMPETING BUSINESS

For details for the positions held by the directors of Sinopec Corp. in the Sinopec Group, during the reporting period please refer to the chapter Directors, Supervisors, Senior Management and Employees of this annual report.

19 DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which Sinopec Corp. or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the reporting period.

20 MANAGEMENT CONTRACTS

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period.

21 PERMITTED INDEMNITY PROVISIONS

During the reporting period, Sinopec Corp. has purchased liability insurance for all directors to minimise their risks arising from the performance of their duties. The permitted indemnity provisions are stipulated in such directors liability insurance in respect of the liabilities and costs associated with the potential legal proceedings that may be brought against such directors.

22 EQUITY-LINKED AGREEMENTS

As of 31 December 2017, the Company has not entered into any equity-linked agreement.

23 OIL & GAS RESERVE APPRAISAL PRINCIPLES

We manage our reserves estimation through a two-tier management system. Our Oil and Natural Gas Reserves Management Committee, or RMC, at the headquarters level oversees the overall reserves estimation process and reviews the reserves estimation of our company. Each of our branches has a reserves management committee that manages the reserves estimation process and reviews the reserve estimation report at the branch level.

Our RMC is led by a couple of senior vice presidents, as well as experts and directors general of Sinopec's exploration and production segment. Mr. Jiao Fangzheng, the chairman of RMC holds a Ph.D. in petroleum and natural gas engineering and has over 30 years of experience in the oil and gas industry. Our RMC also includes other members who are senior managers in charge of exploration and development activities at the production bureau level. A majority of our RMC members hold Ph.D. or master's degrees, and our members have an average of 20 years of technical experience in relevant professional fields, such as geology, engineering and economics.

Our reserves estimates are guided by procedural manuals and technical guidance formulated by the company. A number of working divisions at the production bureau level, including the exploration, development, financial and legal divisions, are responsible for initial collection and compilation of information about reserves. Exploration and development division prepares the initial report on the reserves estimate. Together with technical experts, reserves management committees at the subsidiary level then review the report to ensure qualitative and quantitative compliance with technical guidance and the accuracy and reasonableness of the reserves estimation. At corporate level, the RMC is primarily responsible for the management and coordination of the reserves estimation process, review and approval the annual changes and results in the reserves estimate, and disclose of our proved reserves. We also engage outside consultants to assist in our compliance with the rules and regulations of the U.S. Securities and Exchange Commission. Our reserves estimation process is further facilitated by a specialised reserves database, which is improved and updated periodically.

24 CORE COMPETITIVENESS ANALYSIS

The Company is a large scale integrated energy and petrochemical company with upstream, mid-stream and downstream operations. The Company is a large scaled oil and gas producer in China; in respect of refining capacity, it ranks first in China; equipped with a well-developed refined oil products sales network, the Company is the largest supplier of refined oil products in China; and in terms of ethylene production capacity, the Company takes the first position in China, and has a well-established marketing network for chemical products.

The integrated business structure of the Company carries strong advantages in synergy among its various business segments, enabling the Company to continuously tap onto potentials in attaining an efficient and comprehensive utilisation of its resources, and endowed the Company with strong resistance against risks, as well as remarkable capabilities in sustaining profitability.

The Company enjoys a favourable positioning with its operations located close to the consumer markets. Along with the steady growth in the Chinese economy, sales volume of both oil products and chemical products of the Company has been increasing steadily over the years; through continuous and specialised marketing efforts, the Company's capability in international operations and market expansion has been further enhanced.

The Company owns a team of professionals and expertise engaged in the production of oil and gas, operation of refineries and chemical plants, as well as marketing activities. The Company applies outstanding fine management measures with its remarkable capabilities in management of operations, and enjoys a favourable operational cost advantage in its downstream businesses.

The Company has formulated a well-established technology system and mechanism, and owns competent teams specialised in R&D covering a wide range of subjects; the four platforms for technology advancement is taking shape, which includes exploration and development of oil and gas, refining, petrochemicals and strategic emerging technology. With its overall technologies reaching state of the art level in the global arena, and some of them taking the lead globally, the Company enjoys a strong technical.

The Company always attaches great importance to fulfilling social responsibilities, and carries out the green and low carbon development strategy to pursue a sustainable development. Moreover, the Company enjoys an outstanding "Sinopec" brand name, plays an important role in the national economy and is a renowned and reputable company in China.

25 RISK FACTORS

In the course of its production and operations, the Company will actively take various measures to circumvent operational risks. However, in practice, it may not be possible to prevent the occurrence of all risks and uncertainties described below.

Risks with regard to the variations from macroeconomic situation: The business results of the Company are closely related to China's and global economic situation. The development of Chinese economy has entered New Normal. Although various countries have adopted different kinds of macroeconomic policies to eliminate negative effects caused by lower growth of global economy, the turnaround of economic recovery still remains uncertain. The Company's business could also be adversely affected by other factors such as the impact on export due to trade protectionism from certain countries, impact on import which is likely caused by regional trade agreements, and negative impact on the investment of overseas oil and gas exploration and development and refining and chemical storage projects which results from the uncertainty of international crude oil price and etc.

Risks with regard to the cyclical effects from the industry: The majority of the Company's operating income comes from the sales of refined oil products and petrochemical products, and part of those businesses and their related products are cyclic and are sensitive to macro-economy, cyclic changes of regional and global economy, the changes of the production capacity and output, demand of consumers, prices and supply of the raw materials, as well as prices and supply of the alternative products etc. Although the Company is an integrated company with upstream, midstream and downstream operations, it can only counteract the adverse influences of industry cycle to some extent.

Risks from the macroeconomic policies and government regulation: Although the Chinese government is gradually liberalizing the market entry regulations on petroleum and petrochemicals sector, the petroleum and petrochemical industries in China are still subject to entry regulations to a certain degree, which include: issuing licenses in relation to exploration and development of crude oil and natural gas, issuing business licenses for trading crude oil and refined oil, setting caps for retail prices of gasoline, diesel and other oil products, the imposing of the special oil income levy, formulation of import and export quotas and procedures, formulation of safety, quality and environmental protection standards and formulation of energy conservation policies. In addition, the changes which have occurred or might occur in macroeconomic and industry policies such as the opening up of crude oil import licenses, and further improvement in pricing mechanism of refined oil products, reforming and improvement in pricing mechanism of natural gas, cost supervision of gas pipeline and access to third party, and reforming in resource tax and environmental tax, will cause effects on our business operations. Such changes might further intensify market competition and have certain effect on the operations and profitability of the Company.

Risks with regard to the changes from environmental legislation requirements: Our production activities generate waste liquids, gases and solids. The Company has built up the supporting effluent treatment systems to prevent and reduce the pollution to the environment. However, the relevant government authorities may issue and implement much stricter environmental protection laws and regulations, adopt much stricter environment protection standards. Under such situations, the Company may increase expenses in relation to the environment protection accordingly.

Risks from the uncertainties of obtaining additional oil and gas resources: The future sustainable development of the Company is partly dependent to a certain extent on our abilities in continuously discovering or acquiring additional oil and natural gas resources. To obtain additional oil and natural gas resources, the Company faces some inherent risks associated with exploration and development and/or with acquisition activities, and the Company has to invest a large amount of money with no guarantee of certainty. If the Company fails to acquire additional resources through further exploration, development and acquisition to increase the reserves of crude oil and natural gas, the oil and natural gas reserves and production of the Company may decline overtime which may adversely affect the Company's financial situation and operation performance.

Risks with regard to the external purchase of crude oil: A significant amount of crude oil as needed by the Company is satisfied through external purchases. In recent years, especially influenced by the mismatch between supply and demand of crude oil, geopolitics, global economic growth and other factors, the prices of crude oil fell sharply. Additionally, the supply of crude oil may even be interrupted due to some extreme major incidents in certain regions. Although the Company has taken flexible counter measures, it may not fully avoid risks associated with any significant fluctuation of international crude oil prices and sudden disruption of supply of crude oil from certain regions.

Risks with regard to the operation and natural disasters: The process of petroleum chemical production is exposed to the risks of inflammation, explosion and environmental pollution and is vulnerable to natural disasters. Such contingencies may cause serious impacts to the society, major financial losses to the Company and grievous injuries to people. The Company has always been paying great emphasis on the safety production, and has implemented a strict HSE management system as an effort to avoid such risks as far as possible. Meanwhile, the main assets and inventories of the Company as well as the possibility of damage to a third party have been insured. However, such measures may not shield the Company from financial losses or adverse impact resulting from such contingencies.

Investment risks: Petroleum and chemical sector is a capital intensive industry. Although the Company adopted a prudent investment strategy, and as required by the new procedure and management of investment decision-making issued in 2017, conducted rigorous feasibility study on each investment project, which consists of special verifications in raw material market, technical scheme, profitability, safety and environmental protection, legal compliance, etc., certain investment risks will still exist and expected returns may not be achieved due to major changes in factors such as market environment, prices of equipment and raw materials, and construction period during the implementation of the projects.

Risks with regard to overseas business development and management: The Company engages in oil and gas exploration, refining and chemical, warehouse logistics and international trading businesses in some regions outside China. The Company's overseas businesses and assets are subject to the jurisdiction of the host country's laws and regulations. In light of the complicated factors such as imbalance of global economy, competitiveness of industry and trade structure, exclusiveness of regional trading blocs, polarisation of benefits distribution trade, and politicisation of economic and trade issues, including sanctions, barriers to entry, instability in the financial and taxation policies, contract defaults, tax dispute, the Company's risks with regard to overseas business development and management could be increased.

Currency risks: At present, China implements an administered floating exchange rate regime based on market supply and demand which is regulated with reference to a basket of currencies in terms of the exchange rate of Renminbi. As the Company purchases a significant portion of crude oil in foreign currency which is based on US dollar-denominated prices, fluctuations in the exchange rate of Renminbi against US dollars and certain other foreign currencies may affect the Company's purchasing costs of crude oil. Meanwhile, according to domestic pricing mechanism of refined oil products, the prices of domestic refined oil products fluctuate with Renminbi exchange rate, and the prices of other domestic refined and chemical products would also be influenced by import price.

Cyber-security risks: the Company devotes significant resources to protecting our digital infrastructure and data against cyber-attacks, if our systems against cyber-security risk prove to be ineffective, we could be adversely affected by, among other things, disruptions to our business operations, and loss of proprietary information, including intellectual property, financial information and employer and customer data, injury to people, property, environment and reputation. As cyber-security attacks continue to evolve, we may be required to expend additional resources to enhance our protective measures against cyber-security breaches.

By order of the Board
Dai Houliang
Vice Chairman & President

Beijing, China, 23 March 2018

Dear Shareholders:

In 2017, the Board of Supervisors and each supervisor of Sinopec Corp. diligently performed their supervision responsibilities, actively participated in the supervision process of decision making, carefully reviewed and effectively supervised the major decisions of the Company, and endeavored to safeguard the interests of shareholders and the Company in accordance with the PRC Company Law and the Articles of Association of Sinopec Corp.

During this reporting period, the Board of Supervisors held five (5) meetings in total, and mainly reviewed and approved the proposals in relation to the Company's periodic report, financial statements, communication on progress report for sustainable development, internal control assessment report, working report of the board of supervisors and share acquisition etc.

On 24 March 2017, the 8th meeting of the sixth session of the Board of Supervisors was held, and the proposals in relation to the Financial Statements of Sinopec Corp. for 2016, Annual Report of Sinopec Corp. for 2016, 2016 Communication on Progress for Sustainable Development Report of Sinopec Corp., Internal Control Assessment Report of Sinopec Corp. for 2016, Report on the Work of Board of Supervisors of Sinopec Corp. for 2016 were reviewed and approved at the meeting.

On 27 April 2017, the 9th meeting of the sixth session of the Board of Supervisors was held, and the proposals in relation to the First Quarterly Report of Sinopec Corp. for 2017, the acquisition of equity interest in Shanghai SECCO Petrochemical Company Limited by Sinopec Shanghai Gaoqiao Petroleum and Chemical Limited., the adjusting parameters for appraisal of project returns of Sinopec Corp. and the Overseas Listing Plan of Sinopec Marketing Co., Ltd. were approved at the meeting.

On 28 June 2017, the 10th meeting of the sixth session of the Board of Supervisors was held, and Mr. Zhao Dong was elected as Chairman of the Board of Supervisors of Sinopec Corp.

On 25 August 2017, the 11th meeting of the sixth session of the Board of Supervisors was held, and the Interim Financial Statements of Sinopec Corp. for 2017 as well as Interim Report of Sinopec Corp. for 2017 were reviewed and approved at the meeting.

On 30 October 2017, the 12th meeting of the sixth session of the Board of Supervisors was held, and the Third Quarterly Report of Sinopec Corp. for 2017 was approved at the meeting.

In addition, the supervisors attended the general meetings of shareholders and presented at meetings of the Board. The Board of Supervisors also organised supervisors to attend the trainings for directors and supervisors of listed companies organised by Beijing Securities Supervisory Bureau under CSRC, which have further improved their capabilities in performing supervisory duties.

Through supervision and inspection on the production and operation management as well as financial management conditions, the Board of Supervisors and all the supervisors conclude that under the severe operating environment of excessive supply of refined oil products in domestic market and fluctuation of international crude oil prices at low level in 2017, the Company focused on transformation of its growth mode, improve asset quality, increase asset efficiency and upgrade the asset structure, with an aim to optimise resource and structure adjustment; made every effort to expand the market, optimise structure, reduce costs, and control risks, all contributing to a hard-won business result. The Board of Supervisors had no objection to the supervised issues during this reporting period.

Firstly, the Board and the management of Sinopec Corp. performed their responsibilities pursuant to relevant laws and regulations, and implemented efficient management. The Board diligently fulfilled its obligations and exercised its rights under the PRC Company Law and the Articles of Association, and made informed decisions on major issues concerning change in growth mode, structure adjustment, as well as development and profitability. The senior management diligently implemented the resolutions approved by the Board, continued to deepen the reform, focus on innovations, regulate operations, intensified strict management and strived to tap potentials and enhance efficiency, optimise business structures, committed to achieving the aim of sustaining profit and growth set by the Board. During the reporting period, the Board of Supervisors did not discover any behaviour of any director or senior management which violated laws, regulations, or the Articles of Association, or was detrimental to the interests of Sinopec Corp. or its shareholders.

Secondly, the reports and financial statements prepared by Sinopec Corp. in 2017 complied with the relevant regulation of domestic and overseas securities regulators, the disclosed information truly, accurately, completely and fairly reflected Sinopec Corp.'s financial reasults and operation performance. The dividend distribution plan was made after comprehensively consideration of the long-term interests of Sinopec Corp. and the interest of the shareholder. No violation of confidential provisions of persons who prepared and reviewed the report was found.

Thirdly, Sinopec Corp.'s internal control system is robust and effective, no material defects of internal control were found. In the meantime, Sinopec Corp. actively fulfilled its social responsibilities and promoted the sustainable development of social economy. Information disclosed in the sustainable development report was in compliance with requirements made by Shanghai Stock Exchange and Hong Kong Stock Exchange for listed companies with regard to the publication of social responsibility report.

Fourthly, the consideration for the share acquisition made by Sinopec Corp. was fair and reasonable, neither insider trading, damage to shareholders' interest nor losses of corporate assets was discovered.

Fifthly, all connected transactions between the Company and Sinopec Group were in compliance with the relevant rules and regulations of domestic and overseas listing places. The pricing of all the connected transaction was fair and reasonable. No insider trading or asset loss which is detrimental to the interests of Sinopec Corp. or its shareholders was discoverd.

In 2018, the Board of Supervisors and each supervisor will continue to follow the principle of due diligence and integrity, earnestly perform the duties of supervision as delegated by the shareholders, strictly review the significant decisions, strengthen the process control and supervision, increase the strength of inspection and supervision on subsidiaries and protect Sinopec Corp.'s benefit and its shareholders' interests.

Zhao Dong
Chairman of the Board of Supervisors

Beijing, China, 23 March 2018

Dai Houliang

Li Yunpeng

1 INTRODUCTION OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

(1) Directors

Dai Houliang, aged 54, Vice Chairman of the Board and the President of Sinopec Corp. Mr. Dai is a professor level senior engineer with a Ph.D. degree and an academician of the Chinese Academy of Engineering. Mr. Dai is the alternate member of the nineteenth Central Committee of the Communist Party of China. In December 1997, he was appointed as Vice President of Yangzi Petrochemical Corporation; in April 1998, he served as Director and Vice President of Yangzi Petrochemical Co., Ltd.; in July 2002, he served as Vice Chairman of Board of Directors, President of Yangzi Petrochemical Co., Ltd. and Director of Yangzi Petrochemical Corporation; in December 2003, he served as Chairman of Board of Directors and President of Yangzi Petrochemical Co., Ltd. and concurrently as Chairman of Board of Directors of Yangzi Petrochemical Corporation; in December 2004, he served concurrently as Chairman of Board of Directors of BASF-YPC Company Limited; in September 2005, he was appointed as Deputy CFO of Sinopec Corp.; in November 2005, he was appointed as Vice President of Sinopec Corp.; in May 2006, he served as Director, Senior Vice President and CFO of Sinopec Corp.; in June 2008, he served as a member of the Leading Party Member Group of China Petrochemical Corporation; in August 2012, he was appointed concurrently as Chairman of Sinopec Great Wall Energy & Chemical Co., Ltd.; in March 2013, he was appointed concurrently as Chairman of Sinopec Catalyst Co., Ltd.; and in May 2009, he was elected as Director and appointed as Senior Vice President of Sinopec Corp. in May 2016, he was appointed as the President and Deputy Secretary of the Leading Party Member Group of China Petrochemical Corporation and since August 2016, he was elected as the Vice Chairman of the Board and appointed as President of Sinopec Corp.

Li Yunpeng, aged 58, Director of Sinopec Corp. Mr. Li is a senior administration engineer with a master degree in engineering. In January 1998, he was appointed as deputy General Manager of Executive Division of China Ocean Shipping (Group) Company ("COSCO"); in September 1998, he served as Deputy Secretary of Discipline Inspection Committee, Director of Supervision Office and concurrently served as General Manager of Supervision Division of COSCO; in November 1999, he was appointed as General Manager of Human Resource Division of COSCO; and in September 2000, he served as Head of Organisation Department of COSCO; in December 2000, he was appointed as Secretary of Communist Youth League Committee of COSCO; in April 2003, he was appointed as Assistant President of COSCO; in April 2004, he served as a member of the Leading Party Member Group and Team Leader of the Discipline Inspection Group of CPC Leading Group of COSCO; in December 2011, he was appointed as Executive Vice President and a member of the Leading Party Member Group of COSCO; in June 2013, he served as President and a member of the Leading Party Member Group of COSCO; in July 2013, he served as Director of COSCO; and in February 2017, Mr. Li was appointed as Deputy Secretary of the Leading Party Member Group and Vice President of China Petrochemical Corporation. In June 2017, he was elected as Director of Sinopec Corp.

Wang Zhigang

Zhang Haichao

Wang Zhigang, aged 60, former Director and Senior Vice President of Sinopec Corp. Mr. Wang is a professor level senior engineer with a Ph.D. Degree. In February 2000, he was appointed as Vice President of Sinopec Shengli Oilfield Co., Ltd.; in June 2000, he served as Board Director and President of Shengli Oilfield Co., Ltd.; in November 2001, he was appointed temporarily as Deputy Director General and Deputy Secretary of Leading Party Member Group of Economic and Trade Commission, Ningxia Hui Autonomous Region; in April 2003, he was appointed as Vice President of Sinopec Corp.; in June 2003, he was appointed concurrently as Director General of Exploration and Production Department of Sinopec Corp.; in Feb 2005, he was appointed as Member of the Leading Party Member Group of China Petrochemical Corporation; in March 2005, he was appointed as Senior Vice President of Sinopec Corp.; in January 2007, he was appointed concurrently as Vice Chairman of Sinopec International Petroleum Exploration and Production Corporation; in September 2014, he was appointed concurrently as Chairman of Board of Directors of Sinopec International Petroleum Exploration and Production Corporation; and in May 2006, he was elected as Director and appointed as Senior Vice President of Sinopec Corp. In January 2018, he resigned as an executive director, a member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp.

Zhang Haichao, aged 60, former Director and Senior Vice President of Sinopec Corp. Mr. Zhang is a professor level senior economist with a master degree. In March 1998, he was appointed as Vice President of Zhejiang Petroleum Corporation; in September 1999, he was appointed as President of Zhejiang Petroleum Corporation; in February 2000, he was appointed as President of Sinopec Zhejiang Petroleum Co., Ltd.; in April 2003, he was elected as Employee's Representative Supervisor of Sinopec Corp.; in April 2004, he served as Chairman of Board of Directors of Sinopec-BP Zhejiang Petroleum Sales Co., Ltd.; in October 2004, he served as Secretary of CPC Committee, Vice Chairman of Board of Directors, and Vice President of Sinopec Sales Co., Ltd.; in November 2005 he served as Vice President of Sinopec Corp., Secretary of the Leading Party Member Group, Chairman of Board of Directors, and President of Sinopec Sales Co., Ltd.; in June 2006, he served as Chairman of Board of Directors, and President of Sinopec Sales Co., Ltd.; in July 2014, he was appointed as Member of the Leading Party Member Group and Vice President of China Petrochemical Corporation; and in May 2015, he was elected as Board Director and appointed as Senior Vice President of Sinopec Corp. In January 2018, he resigned as an executive director, a member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp.

Jiao Fangzheng

Ma Yongsheng

Jiao Fangzheng, aged 55, Director and Senior Vice President of Sinopec Corp. Mr. Jiao is a professor level senior engineer with a Ph.D. degree. In January 1999, he was appointed as Chief Geologist in Zhongyuan Petroleum Exploration Bureau of China Petrochemical Corporation; in February 2000, he was appointed as Vice President and Chief Geologist of Sinopec Zhongyuan Oilfield Company; in July 2000, he was appointed as Deputy Director General of Sinopec Petroleum Exploration & Development Research Institute; in March 2001, he was appointed as Deputy Director General of Sinopec Exploration & Production Department; in June 2004, he was appointed as President of Sinopec Northwest Oilfield Company; in October 2006, he was appointed as Vice President of Sinopec Corp. in July 2010, he was appointed as the Director General of Sinopec Exploration & Production Department; in July 2014, he was appointed as Member of the Leading Party Member Group and Vice President of China Petrochemical Corporation; in September 2014, he was elected concurrently as Chairman of Board of Directors of Sinopec Oilfield Service Corporation and Vice Chairman of Board of Directors of Sinopec International Petroleum Exploration and Production Corporation; and in May 2015, he was elected as Director and appointed as Senior Vice President of Sinopec Corp.

Ma Yongsheng, aged 56, Director and Senior Vice President of Sinopec Corp. Mr. Ma is a professor level senior engineer with a Ph.D. degree and an academician of the Chinese Academy of Engineering. Mr. Ma is the member of the thirteenth national committee of CPPCC. In April 2002, he was appointed as Chief Geologist of Sinopec Southern Exploration and Production Company; in April 2006, he was appointed as Executive Deputy Manager (in charge of overall management), Chief Geologist of Sinopec Southern Exploration and Production Company; in January 2007, he was appointed as Manager and Party Secretary of CPC Committee of Sinopec Southern Exploration and Production Company; in March 2007, he served as General Manager and Deputy Party Secretary of CPC Committee of Sinopec Exploration Company; in May 2007, he was appointed as Deputy Commander of Sichuan-East China Gas Transmission Construction Project Headquarter of Sinopec Corp., General Manager and Deputy Secretary of CPC Committee of Sinopec Exploration Company; in May 2008, he was appointed as Deputy Director General of Exploration and Production Department of Sinopec Corp. (Director General Level) and Deputy Commander of Sichuan-East China Gas Transmission Construction Project Headquarter; in July 2010, he served as Deputy Chief Geologist of Sinopec Corp.; in August 2013, he was appointed as Chief Geologist of Sinopec Corp.; in December 2015, he served as Vice President of China Petrochemical Corporation and appointed as Senior Vice President of Sinopec Corp.; in January 2017, he was appointed as Member of the Leading Party Member Group of China Petrochemical Corporation. In February 2016, he was elected as Director of Sinopec Corp.

Jiang Xiaoming

Andrew Y. Yan

Jiang Xiaoming, aged 64, Independent Director of Sinopec Corp. Mr. Jiang has a Ph.D. in economics. Presently, he acts as the member of the United Nations Board of Investment, Chairman of the Board of Directors of Hong Kong Saibo International Co. Ltd., Independent Director of COSCO International, Senior Fellow of the University of Cambridge Business School, and trustee of University of Cambridge China Development Fund. Between 1992 and 1998, he acted as the Vice President of United Nations Staff Retirement Fund; between 1999 and 2003, he acted as the Chairman of the Board of Directors of Frasers Property (China) Co., Ltd.; and he has previously acted as the member of the Eleventh and Twelfth national committee of CPPCC, the Board Director of JSW Energy Ltd., member of the Advisory Committee of American Capital Group and Rothschild, the British Investment Bank, and Independent Director of China Oilfield Services Limited. From May 2012 to the present, he has acted as Independent Director of Sinopec Corp.

Andrew Y. Yan, aged 60, Independent Director of Sinopec Corp. Mr. Yan is the founding Managing Partner of SAIF Partners. He studied in Nanjing University of Aeronautics and Astronautics, Peking University and Princeton University and earned a master degree from Princeton University. Presently, he acts as the Independent Non-executive Director of China Resources Land Limited, the Non-executive Director of China Huiyuan Juice Group Limited, Feng Deli Holdings Limited and Guodian Technology & Environment Group Corporation Limited; the Independent Director of Beijing BlueFocus Brand Management Consulting Co., Ltd and TCL Group; and the Director of ATA Co., Ltd and Ata Online(Beijing)Education Technology Co.,Ltd.. From 1989 to 1994, he acted as Economist of the World Bank headquarters in Washington, research Fellow of Hudson Institute, an American famous research think tank, and acted as the director of APAC Strategic Planning & Business Development of Sprint International Corporation; between 1994 and 2001, he acted as the Managing Director of Emerging Markets Partnership and Director of Hong Kong Office of AIG Asia Infrastructural Investment Fund. From May 2012 to the present, he has acted as Independent Director of Sinopec Corp.

Tang Min

Fan Gang

Tang Min, aged 64, Independent Director of Sinopec Corp. Mr. Tang has a Ph.D. in economics. He presently acts as a Counsellor of the State Council of the PRC and the Executive Vice Chairman of YouChange China Social Entrepreneur Foundation, Independent Director of Minmetals Development Co., Ltd, Origin Agritech Limited and Baoshang Bank Co., Ltd. He has served as economist and senior economist at the Economic Research Centre of the Asian Development Bank between 1989 and 2000; chief economist at the Representative office of the Asian Development Bank in China between 2000 and 2004; deputy representative at the Representative Office of the Asian Development Bank in China between 2004 and 2007 and the deputy secretary-general of the China Development Research Foundation between 2007 and 2010. From May 2015 to the present, he has acted as Independent Director of Sinopec Corp.

Fan Gang, aged 64, Independent Director of Sinopec Corp. Mr. Fan has a Ph.D. in economics. He presently acts as Vice President of China Society of Economic Reform, Head of the National Economic Research Institution of China Reform Foundation, President of China Development Institute (Shenzhen) and an economics professor at Peking University. He began to work for Chinese Academy of Social Sciences in 1988, and subsequently served as Director of Editorial Department for the Economic Research Journal between 1992 and 1993 and as Deputy Head of the Institute of Economics of Chinese Academy of Social Sciences between 1994 and 1995. In 1996, he was redesignated to work for China Society of Economic Reform, and subsequently founded the National Economic Research Institution. From 2006 to 2010, and from 2015 to the present, he has served as a member of the Monetary Policy Committee of People's Bank of China. Mr. Fan is recognised as one of the National Young and Middle-Aged Experts with Outstanding Contributions. From May 2015 to the present, he has acted as Independent Director of Sinopec Corp.

List of Members of the Board

Name	Gender	Age	Position in Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as at 31 December) 2017	2016
Dai Houliang	Male	54	Vice Chairman, President	2009.05-2018.05	843.8	No	0	0
Li Yunpeng	Male	58	Director	2017.06-2018.05	—	Yes	0	0
Wang Zhigang	Male	60	Former Board Director, Senior Vice President	2006.05-2018.01	769.9	No	0	0
Zhang Haichao	Male	60	Former Board Director, Senior Vice President	2015.05-2018.01	—	Yes	0	0
Jiao Fangzheng	Male	55	Board Director, Senior Vice President	2015.05-2018.05	—	Yes	0	0
Ma Yongsheng	Male	56	Board Director, Senior Vice President	2016.02-2018.05	—	Yes	0	0
Jiang Xiaoming	Male	64	Independent Director	2012.05-2018.05	300.0	No	0	0
Andrew Y. Yan	Male	60	Independent Director	2012.05-2018.05	300.0	No	0	0
Tang Min	Male	64	Independent Director	2015.05-2018.05	300.0	No	0	0
Fan Gang	Male	64	Independent Director	2015.05-2018.05	300.0	No	0	0

Name	Gender	Age	Position in Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as at 31 December) 2017	2016
Wang Yupu	Male	61	Former Chairman	2015.05-2017.09	—	Yes	0	0

Note 1: Mr Wang Zhigang resigned as a director, a member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp. in January 2018.
2: Mr Zhang Haichao resigned as a director, a member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp. in January 2018.

Zhao Dong

Liu Zhongyun

(2) Supervisors

Zhao Dong, aged 47, Chairman of Board of Supervisors of Sinopec Corp. Mr. Zhao is a professor-level senior accountant with a doctor's degree. In July 2002, he was appointed as chief accountant and manager of financial assets department of CNPC International (Nile) Ltd.; in January 2005, he was appointed as deputy chief accountant and executive deputy director of financial and capital operation department of China National Oil and Gas Exploration and Development Corporation; in April 2005, he was appointed as deputy chief accountant and manager of financial and capital operation department of China National Oil and Gas Exploration and Development Corporation; in June 2008, he was appointed as chief accountant of China National Oil and Gas Exploration and Development Corporation; in October 2009, he was appointed as chief accountant of China National Oil and Gas Exploration and Development Corporation and chief financial officer of PetroChina International Investment Company Limited; in September 2012, he was appointed as vice general manager of CNPC Nile Company and in August 2013, he was appointed as general manager of CNPC Nile Company; in November 2015, he was appointed as chief financial officer of PetroChina Company Limited. He has been a member of the Leading Party Member Group and chief accountant of China Petrochemical Corporation since November 2016; in June 2017, he was elected as Chairman of Board of Supervisors of Sinopec Corp.

Liu Zhongyun, aged 54, former Supervisor of Sinopec Corp. Mr. Liu is a professor level senior engineer with a Ph.D. in engineering. In December 2002, he was appointed as a standing committee member of CPC Committee and Director of Organisation Department of Shengli Petroleum Administration Bureau; in November 2004, he was appointed as Deputy Secretary of CPC Committee of Shengli Petroleum Administration Bureau; in December 2005, he was appointed as Manager of Sinopec Shengli Oilfield Branch; in December 2008, he was appointed as Secretary of CPC Committee of Sinopec International Petroleum Exploration and Production Corporation; in July 2010, he was appointed as General Manager of Sinopec Northwest Oilfield Company, Director General of Northwest Petroleum Bureau under China Petrochemical Corporation. Since August 2014, Mr. Liu has acted as Assistant to President and Director General of HR Department of China Petrochemical Corporation, and in May 2015, he was elected as Supervisor of Sinopec Corp.; in March 2017, he was appointed as Vice President of China Petrochemical Corporation; in February 2018, he resigned as Supervisor of Sinopec Corp.; in February 2018, he was appointed as Senior Vice President of Sinopec Corp.

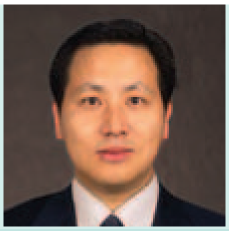
Zhou Hengyou

Zou Huiping

Zhou Hengyou, aged 54, Supervisor of Sinopec Corp. Mr. Zhou is a professor level senior administration engineer and with a master degree. In December 1998, Mr. Zhou was appointed as a standing committee member of CPC Committee and Deputy Labour Union Chairman of Jiangsu Petroleum Exploration Bureau; in February 1999, he was appointed as a standing committee member of CPC Committee and Labour Union Chairman of Jiangsu Petroleum Exploration Bureau of China Petrochemical Corporation; in December 2002, he was appointed as Deputy Secretary of CPC Committee and Labour Union Chairman of Jiangsu Petroleum Exploration Bureau; in June 2004, he was appointed as Deputy Secretary of CPC Committee and Secretary of CPC Disciplinary Inspection Committee of Jiangsu Petroleum Exploration Bureau; in August 2005, he was appointed as Secretary of CPC Committee of Jiangsu Petroleum Exploration Bureau; in March 2011,he was appointed as Director General and Secretary of CPC Committee of China Petrochemical News. In March 2015, he was appointed as Director General of the General Office of China Petrochemical Corporation, Director General of Policy Research Department of the General Office and Director General of President's office of Sinopec Corp. In August 2015, he was appointed as Director General of Board of Directors Office under China Petrochemical Corporation; and in May 2015, he was elected as Supervisor of Sinopec Corp.

Zou Huiping, aged 57, Supervisor of Sinopec Corp. Mr. Zou is a professor level senior accountant with a university diploma. In November 1998, he was appointed as Chief Accountant in Guangzhou Petrochemical General Plant of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Finance & Assets Department of China Petrochemical Corporation; in December 2001, he was appointed as Deputy Director General of Finance & Planning Department of China Petrochemical Corporation; in March 2006, he was appointed as Director General of Finance & Assets Department of Assets Management Co., Ltd. of China Petrochemical Corporation; in March 2006, he was appointed as Director General of Auditing Department of Sinopec Corp.; and in May 2006, he was elected as Supervisor of Sinopec Corp.

Directors, Supervisors, Senior Management and Employees



Jiang Zhenying

Yu Renming

Yu Xizhi

Jiang Zhenying, aged 53, Employee's Representative Supervisor of Sinopec Corp. Mr. Jiang is a professor level senior economist with a doctor degree. In December 1998, he was appointed as the Vice President of the China Petrochemical Supplies & Equipment Co., Ltd.; in February 2000, he was appointed as the Deputy Director General of Sinopec Procurement Management Department; in December 2001, he was appointed as the Director General of Sinopec Procurement Management Department and in November 2005 he concurrently held the positions of Chairman of Board of Directors, President and Secretary of CPC Committee of China Petrochemical International Co., Ltd.; in March 2006, he was appointed as the Director General (General Manager), Executive Director and Secretary of the CPC Committee of Sinopec Procurement Management Department (Sinopec International Co. Ltd.); in April 2010, he was appointed as the Director General (General Manager), Executive Director and Deputy Secretary of the CPC Committee of Sinopec Procurement Management Department (Sinopec International Co. Ltd); in November 2014, he was appointed as Director General of Safety Supervisory Department of Sinopec Corp.; in May 2017, he was appointed as Deputy Director of the Leading Group Office of Party Inspection Work of China Petrochemical Corporation and the leader of overseas enterprises inspection group; and since December 2010, he was elected as the Employee's Representative Supervisor of Sinopec Corp.

Yu Renming, aged 54, Employee's Representative Supervisor of Sinopec Corp. Mr. Yu is a professor level senior engineer with a university diploma. In June 2000, he was appointed as the Deputy General Manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in June 2003, he was appointed as the Board Director and Deputy General Manager of Sinopec Zhenhai Refining & Chemical Co., Ltd.; in September 2006, he was appointed as the Vice President of Sinopec Zhenhai Refining & Chemical Company; in September 2007, he was appointed as the President and the Vice Secretary of CPC committee of Sinopec Zhenhai Refining & Chemical Company; in January 2008, he was appointed as the Director General of Sinopec Production Management Department; in December 2017, he was appointed as the Director General of Refining Department of Sinopec Corp.; and in December 2010, he was elected as Employee's Representative Supervisor of Sinopec Corp.

Yu Xizhi, aged 55, Employee's Representative Supervisor of Sinopec Corp. Mr Yu is a professor-level senior engineer with a Ph.D. in engineering. In August 1997, he was appointed as Deputy Manager of Anqing Petrochemical Complex and Manager of Fertiliser Plant; in September 1999, he became a member of the CPC Standing Committee of Anqing Petrochemical Complex; in February 2000, he was appointed as Deputy Manager of Sinopec Anqing Company and in September 2000, he was appointed as Manager of Sinopec Anqing Company. In January 2005, he was appointed as Manager of Anqing Petrochemical Complex and from May 2009 to July 2010, he served a temporary position at the Standing Committee of the CPC Anqing Municipal Committee. In July 2010, he became General Manager and Deputy Secretary of the CPC Committee of Maoming Petrochemical Company and General Manager of Sinopec Maoming Company; in July 2016, Mr. Yu was appointed as head of Maoming-Zhanjiang Integration Leading Group; in December 2016, he became Executive Director, General Manager and Deputy Secretary of the CPC Committee of Zhongke (Guangdong) Refining and Petrochemical Co., Ltd. Since April 2017, Mr. Yu has been Director General of Human Resources Department of China Petrochemical Corporation and Sinopec Corp. In June 2017, he was elected as Employee's Representative Supervisor of Sinopec Corp.

List of Members of the Board of Supervisors

Name	Gender	Age	Position in Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as of 31 December)	
							2017	2016
Zhao Dong	Male	47	Chairman of the Board of Supervisors	2017.06-2018.05	—	Yes	0	0
Liu Zhongyun	Male	54	Former Supervisor	2015.05-2018.02	—	Yes	0	0
Zhou Hengyou	Male	54	Supervisor	2015.05-2018.05	—	Yes	0	0
Zou Huiping	Male	57	Supervisor	2006.05-2018.05	758.2	No	0	0
Jiang Zhenying	Male	53	Employee's Representative Supervisor	2010.12-2018.05	758.2	No	0	0
Yu Renming	Male	54	Employee's Representative Supervisor	2010.12 -2018.05	758.2	No	0	0
Yu Xizhi	Male	55	Employee's Representative Supervisor	2017.06-2018.05	265.9	No	0	0

Name	Gender	Age	Position in Sinopec Corp.	Tenure	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as of 31 December)	
							2017	2016
Liu Yun	Male	61	Former Chairman of the Board of Supervisors	2015.05-2017.03	—	Yes	0	0
Wang Yajun	Male	61	Former Employee's Representative Supervisor	2015.05-2017.06	417.3	No	0	0

Note: Mr. Liu Zhongyun resigned as Supervisor of Sinopec Corp. in February 2018.

Wang Dehua

Ling Yiqun

Huang Wensheng

(3) Other Members of Senior Management

Wang Dehua, aged 51, Chief Financial Officer of Sinopec Corp. Mr.Wang is a senior accountant with university diploma. In January 2001, he was appointed as Deputy Director General of Finance Department of Sinopec Corp.; in May 2014, he was appointed as Acting Director General of Finance Department of Sinopec Corp.; in October 2015, he was promoted to Director General of Finance Department of Sinopec Corp.; in November 2015, he was appointed as Director General of Finance Department of China Petrochemical Corporation; in August 2016, he was appointed as Director General of Finance Department of Sinopec Corp.. Mr. Wang now concurrently acts as Vice Chairman of Sinopec Finance CO., Ltd. and Taiping & Sinopec Financial Leasing Co., in September 2016, he was appointed as Chief Financial Officer of Sinopec Corp.

Ling Yiqun, aged 55, former Vice President of Sinopec Corp. Mr. Ling is a professor level senior engineer with a Ph.D. degree. From 1983, he worked in the refinery of Beijing Yanshan Petrochemical Company and the Refining Department of Beijing Yanshan Petrochemical Company Ltd. In February 2000, he was appointed as the Deputy Director General of Refining Department of Sinopec Corp.; in June 2003, he was appointed as the Director General of Refining Department of Sinopec Corp.; in July 2010, he was appointed as Vice President of Sinopec Corp; in May 2012, he was appointed as Executive Director, President and Secretary of CPC Committee of Sinopec Refinery Product Sales Company Limited; in August 2013, he was appointed as the President of Sinopec Qilu Company; in December 2016, he was elected concurrently as Chairman of Board of Directors of Sinopec Engineering(Group) Co. Ltd.; in March 2017, he was appointed as Vice President of China Petrochemical Corporation and in February 2018, he was appointed as Senior Vice President of Sinopec Corp.

Huang Wensheng, aged 51, Vice President of Sinopec Corp., Secretary to the Board of Directors. Mr. Huang is a professor level senior economist with a university diploma. In March 2003, he was appointed as Deputy Director General of the Board Secretariat of Sinopec Corp.; in May 2006, he was appointed as Representative on Securities Matters of Sinopec Corp.; since August 2009, He has served as the Deputy Director General of President's office of Sinopec Corp. In September 2009, he was appointed as Director General of the Board Secretariat of Sinopec Corp.; in May 2012, he was appointed as Secretary to the Board of Directors of Sinopec Corp.; and in May 2014, he was appointed as Vice President of Sinopec Corp.

Chang Zhenyong

Lei Dianwu

Chang Zhenyong, aged 59, Vice President of Sinopec Corp. Mr. Chang is a professor level senior engineer with a master's degree. In September 1997, he was appointed as Vice President of Tianjin Petrochemical Company; in February 2000, he was appointed as Vice President of Sinopec Tianjin Company; and in September 2000, he was promoted to President of Sinopec Tianjin Company; from February 2004, he was appointed temporarily as member of Standing Committee of CPC Committee of Beihai, Guangxi; in March 2004, he was appointed temporarily as deputy mayor of Beihai, Guangxi; in November 2005, he was appointed as Director General of Production and Operation Management Department of Sinopec Corp.; in December 2007, he was appointed as President of Qilu Petrochemical Company and President of Sinopec Qilu Company; in April 2010, he was appointed as Employee's Representative Supervisor of Sinopec Corp.; in July 2010, he was appointed as Deputy Chief Engineer and concurrently as Director General of Chemicals Department of Sinopec Corp.; in August 2012, he was appointed concurrently as Vice Chairman of Board of Directors of Sinopec Great Wall Energy & Chemical Co., Ltd.; in November 2014, he was appointed as Executive Director and President of Sinopec Chemical Products Sales Co. Ltd and concurrently as Chairman of Board of Directors of Sinopec Chemical Products Sales (Hong Kong) Co. Ltd.; and in May 2014, he was appointed as Vice President of Sinopec Corp.

Lei Dianwu, aged 55, Vice President of Sinopec Corp. Mr. Lei is a Professor level Senior Engineer with a university diploma. In October 1995, he was appointed as Vice President of Yangzi Petrochemical Corporation; in December 1997, he was appointed as Director General of Planning & Development Department in China Eastern United Petrochemical (Group) Co., Ltd.; in May 1998, he was appointed as Vice President of Yangzi Petrochemical Corporation; in August 1998 he was appointed as Vice President of Yangzi Petrochemical Co., Ltd.; in March 1999, he was appointed temporarily as Deputy Director General of Development & Planning Department of China Petrochemical Corporation; in February 2000, he was appointed as Deputy Director General of Development & Planning Department of Sinopec Corp.; in March 2001, he was appointed as Director General of Development & Planning Department of Sinopec Corp.; in March 2009, he was appointed as Assistant to President of China Petrochemical Corporation; in August 2013, he was appointed as the Chief Economist of China Petrochemical Corporation; in October 2015, he was appointed as Secretary to the Board of Directors of China Petrochemical Corporation; and in May 2009, he was appointed as Vice President of Sinopec Corp.

List of Members of the Senior Management

Name	Gender	Age	Position in Sinopec Corp.	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as of 31 December) 2017	2016
Wang Dehua	Male	51	CFO	866.3	No	0	0
Ling Yiqun	Male	55	Former Vice President	—	Yes	13,000	13,000
Huang Wensheng	Male	51	Vice President, Board Secretary	892.9	No	0	0
Chang Zhenyong	Male	59	Vice President	892.9	No	0	0
Lei Dianwu	Male	55	Vice President	892.9	No	0	0

Name	Gender	Age	Position in Sinopec Corp.	Remuneration paid by Sinopec Corp. in 2017 (RMB 1,000, before tax)	Whether paid by the holding Company	Equity interests in Sinopec Corp. (as of 31 December) 2017	2016
Jiang Zhenghong	Male	56	Former Vice President	755.4	No	0	0

Note 1: Mr. Lin Yiqun was appointed as Senior Vice President of Sinopec Corp. in February 2018
2: The members of senior management are in order of the number of strokes of their surname in Chinese.

2 INFORMATION ON APPOINTMENT OR TERMINATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 16 March 2017, Mr. Liu Yun resigned as the Chairman of the Board of Supervisors and supervisor of Sinopec Corp. due to his age.

On 28 June 2017, Mr. Li Yunpeng was elected as director of the Sixth Session of the Board of Sinopec Corp.

On 28 June 2017, Mr. Zhao Dong was elected as Chairman of the Board of Supervisors of Sinopec Corp.

On 28 June 2017, Mr. Yu Xizhi was elected as employee representative supervisor of the Sixth Session of the Board of Supervisors.

On 28 June 2017, Mr. Wang Yajun resigned as the supervisor of Sinopec Corp. due to his age.

On 12 September 2017, Mr. Jiang Zhenghong resigned as Vice President of Sinopec Corp. due to change of working arrangement.

On 22 September 2017, Mr. Wang Yupu resigned as Chairman of the Board, Director and Chairmen of Strategy Committee and Social Responsibility Management Committee of the Board of Sinopec Corp. due to change of working arrangement.

On 29 January 2018, Mr. Wang Zhigang resigned as director, member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp. due to his age.

On 29 January 2018, Mr. Zhang Haichao resigned as director, member of Strategy Committee of the Board and the Senior Vice President of Sinopec Corp. due to his age.

On 7 February 2018, Mr. Liu Zhongyun resigned as the supervisor of Sinopec Corp. due to change of working arrangement.

On 8 February 2018, Mr. Lin Yiqun was appointed as Senior Vice President of Sinopec Corp.

On 8 February 2018, Mr. Liu Zhongyun was appointed as Senior Vice President of Sinopec Corp.

On 8 February 2018, Mr. Zhao Rifeng was appointed as Vice President of Sinopec Corp.

For details, please refer to the announcements, published in China Securities Journal, Shanghai Securities News and Securities Times after the meetings and on websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and Sinopec Corp.

3 CHANGE OF SHAREHOLDING OF DIRECTORS, SUPERVISORS, AND THE SENIOR MANAGEMENT

There is no change in shareholdings of the Company by Directors, Supervisors and other senior managements during the reporting period.

4 CONTRACTRAL INTERESTS OF DIRECTORS AND SUPERVISORS

As of 31 December 2017 or any time during the reporting period, there is no Director or Supervisor of the Company entered into any agreement with any of Sinopec Corp., its controlling shareholder, any subsidiary or related subsidiary which shall significantly benefit such Director or Supervisor.

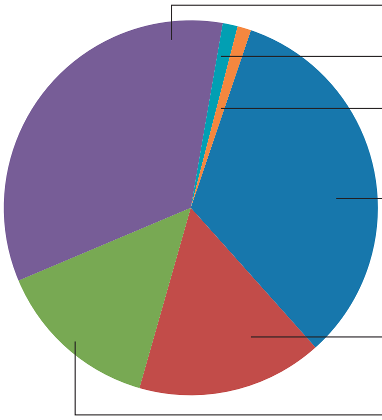
5 REMUNERATION OF DIRECTORS, SUPERVISORS, AND THE SENIOR MANAGEMENT

During this reporting period, there is a total of 16 directors, supervisors and other senior management received remuneration from Sinopec Corp. with a total amount of RMB 10.0385 million.

6 THE COMPANY'S EMPLOYEES

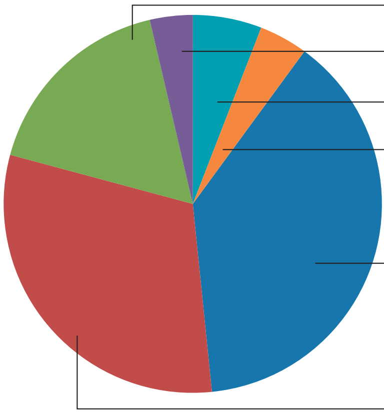
As at 31 December 2017, the Company has a total of 446,225 employees. There are a total of 197,083 retired employees to be reimbursed by Sinopec Corp. Sinopec Marketing Co. Limited and Shanghai Petro, both principal subsidiaries of Sinopec Corp., have 153,804 employees and 10,226 employees respectively.

THE BREAKDOWN ACCORDING TO THE MEMBERS OF EACH OPERATION SEGMENT AS FOLLOWS



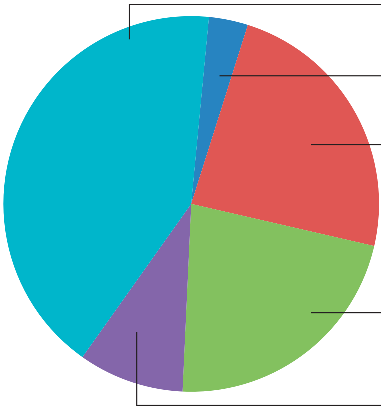
Marketing and Distribution	153,804	34.5%
R&D	5,819	1.3%
Other Segments	5,353	1.2%
Exploration and Production	148,069	33.2%
Refining	70,128	15.7%
Chemicals	63,052	14.1%

EMPLOYEES' PROFESSIONAL STRUCTURE AS FOLLOWS:



Technology	83,816	18.8%
Finance	10,951	2.4%
Administration	35,698	8%
Others	9,617	2.2%
Production	163,319	36.6%
Sales	142,824	32%

EDUCATIONAL BACKGROUND STRUCTURE FOR EMPLOYEES AS FOLLOWS:



Senior high school and technical school degrees or below	181,989	40.8%
Master's degree or above	15,707	3.5%
Undergraduate	109,274	24.5%
Junior college	98,983	22.2%
Technical secondary school	40,272	9%

7 CHANGES OF CORE TECHNICAL TEAM OR KEY TECHNICIANS

During the reporting period, there are no significant changes of core technical team or key technicians.

8 EMPLOYEE BENEFITS SCHEME

Details of the Company's employee benefits scheme are set out in Note37 of the financial statements prepared under IFRS of this annual report. As at 31 December 2017, the Company has a total of 197,083 retired employees. All of them participated in the basic pension schemes administered by provincial (autonomous region or municipalities) governments. Government-administered pension schemes are responsible for the payments of basic pensions.

9 REMUNERATION POLICY

Based on a relatively united basic remuneration system, Sinopec Corp. has established its remuneration distribution system based on the value of positions, performance & contribution, with an aim to improve employee capabilities, and constantly improve employee performance evaluation and incentive & discipline mechanisms.

10 TRAINNING PROGRAMS

Centring on enterprise development strategy and key work of the year, the Company organised training programs at headquarters level which were attended by 4,292 high-level personnel. With an aim to enhance the professional capability, the Company launched a series of training programs for new management personnel, and organised seminars with topics such as Innovation & Development for 1,822 employees. The Company strengthened the training of young and middle-aged reserve managers, and organised trainings for 100 employees. With an aim to solve key problems related to scientific research and production, the Company organised workshops for leading experts in the field of oil & gas exploration and refining technology for 1,205 high-level professional and technical personnel. With roles of craftsmanship spirit and heritage of skills as the focus, the Company launched the first chief technician training classes and training programs for 10 types of work such as oil and gas gathering and transferring, catalytic cracking for top skilled talents covering 245 people. To enhance the management of transnational operation and risk prevention, the company organised a series of training programs covering 920 overseas project managers. The branch companies and subsidiaries adopted various ways to carry out different kinds of personnel training according to their conditions, and organised off-job training for a total of 328,000 employees, as well as basic training for a total of 386,000 employees.

On 31 December, 2017, details of the principal wholly-owned and controlled subsidiaries of the Company were as follows:

Name of Company	Registered Capital RMB million	Percentage of shares held by Sinopec Corp. (%)	Total Assets RMB million	Net Assets RMB million	Net Profit/ (Net Loss) RMB million	Principal Activities
Sinopec International Petroleum Exploration and Production Limited	8,000	100	54,324	18,683	1,075	Investment in exploration, production and sale of petroleum and natural gas
Sinopec Great Wall Energy & Chemical Company Limited	22,761	100	35,303	16,549	(4,821)	Coal chemical industry investment management, production and sale of coal chemical products
Sinopec Yangzi Petrochemical Company Limited	13,203	100	28,786	17,748	2,277	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Pipeline Storage & Transportation Company Limited	12,000	100	38,752	21,642	2,724	Pipeline storage and transportation of crude oil
Sinopec Yizheng Chemical Fibre Limited Liability Company	4,000	100	8,303	5,264	6	Production and sale of polyester chips and polyester fibres
Sinopec Lubricant Company Limited	3,374	100	8,552	3,725	595	Production and sale of refined petroleum products, lubricant base oil, and petrochemical materials
Sinopec Qingdao Petrochemical Company Limited	1,595	100	3,918	486	183	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Chemical Sales Company Limited	1,000	100	20,037	2,758	1,383	Marketing and distribution of petrochemical products
China International United Petroleum and Chemical Company Limited	3,000	100	173,035	31,994	3,853	Trading of crude oil and petrochemical products
Sinopec Overseas Investment Holding Limited	USD 1,638 million	100	24,173	11,916	1,082	Overseas investment holding
Sinopec Catalyst Company Limited	1,500	100	8,652	4,141	607	Production and sale of catalyst products
China Petrochemical International Company Limited	1,400	100	13,947	3,604	317	Trading of petrochemical products
Sinopec Beihai Refining and Chemical Limited Liability Company	5,294	98.98	16,811	9,601	2,649	Import and processing of crude oil, production, storage and sale of petroleum products and petrochemical products
Sinopec Qingdao Refining and Chemical Company Limited	5,000	85	18,522	10,181	3,780	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhanjiang Dongxing Petrochemical Company Limited	4,397	75	7,974	5,188	2,161	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Hainan Refining and Chemical Company Limited	3,986	75	12,176	8,613	1,627	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Marketing Co. Limited	28,403	70.42	409,949	195,555	27,517	Marketing and distribution of refined petroleum products
Sinopec Shanghai SECCO Petrochemical Company Limited	7,801	67.60	24,399	18,485	726	Production and sale of petrochemical products
Sinopec-SK(Wuhan) Petrochemical Company Limited	6,270	65	15,234	11,259	2,733	Production, sale, research and development of ethylene and downstream by-products
Sinopec Kantons Holdings Limited	HKD 248 million	60.34	14,285	9,504	1,046	Trading of crude oil and petroleum products
Sinopec Shanghai Gaoqiao Petroleum and Chemical Limited	10,000	55	25,434	12,000	2,642	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	10,814	50.49	39,609	28,541	6,152	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited	6,898	50	10,917	9,860	2,757	Manufacturing of plastics, intermediate petrochemical products and petroleum products

Note 1: All above subsidiaries except Fujian Petrochemical Company Limited are audited by PricewaterhouseCoopers Zhong Tian LLP or PricewaterhouseCoopers in 2017. KPMG Huazhen LLP served the exception.

2: The above indicated total assets and net profit has been prepared in accordance with ASBE. Except for Sinopec Kantons Holdings Limited and Sinopec Overseas Investment Holdings Ltd, which are incorporated in Bermuda and Hong Kong SAR, respectively, all of the above wholly-owned and non-wholly-owned subsidiaries are incorporated in the PRC. All of the above wholly-owned and controlling subsidiaries are limited liability companies except for Sinopec Shanghai Petrochemical Company Limited and Sinopec Kantons Holdings Limited. The Board of Directors considered that it would be redundant to disclose the particulars of all subsidiaries and, therefore, only those which have material impact on the results or assets of Sinopec Corp. are set out above.

普华永道

PwC ZT Shen Zi (2018) No. 10001

To the Shareholders of China Petroleum & Chemical Corporation,

OPINION

What we have audited

We have audited the accompanying financial statements of China Petroleum & Chemical Corporation (hereinafter "Sinopec Corp."), which comprise the consolidated and company balance sheets as at 31 December 2017, the consolidated and company income statements for the year then ended, the consolidated and company cash flow statements for the year then ended, the consolidated and company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Sinopec Corp. as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Sinopec Corp. in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Zhongtian LLP
11/F PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
Tel: +86 (21) 2323 8888, Fax: +86 (21) 2323 8800, www.pwccn.com

The key audit matter identified in our audit is "Recoverability of the carrying amount of fixed assets related to oil and gas producing activities".

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amount of fixed assets related to oil and gas producing activities Refer to note 14 "FIXED ASSETS", note 44 "IMPAIRMENT LOSSES", and note 55 "PRINCIPAL ACCOOUNTING ESTIMATES AND JUDGEMENTS" to the consolidated financial statements. Low crude oil prices gave rise to possible indication that the carrying amount of fixed assets related to oil and gas producing activities as at 31 December 2017 might be impaired. The Group has adopted discounted future cash flow as the respective recoverable amounts of fixed assets related to oil and gas producing activities, which involved key estimations or assumptions including: – Future crude oil prices; – Future production profiles; – Future cost profiles; and – Discount rates. Because of the significance of the carrying amount of fixed assets related to oil and gas producing activities as at 31 December 2017, together with the use of significant estimations or assumptions in determining their respective discounted cash flow, we had placed our audit emphasis on this matter.	In auditing the respective discounted cash flow of fixed assets related to oil and gas producing activities, we have performed the following key procedures on the relevant discounted cash flow projections prepared by management: • Evaluated and tested the key controls, relating to the preparation of the discounted cash flow projections of fixed assets related to oil and gas producing activities. • Compared estimates of future crude oil prices adopted by the Group against a range of reputable published crude oil price forecasts. • Compared the future production profiles against the oil and gas reserve estimation report approved by the management. Evaluated the competence, capability and objectivity of the management's experts engaged in estimating the oil and gas reserves. Assessed key estimations or assumptions used in the reserve estimation, by reference to historical data, management plans and/or reputable external data. • Compared the future cost profiles against historical costs or relevant budgets of the Group. • Independently estimated a range of discount rates, and found that the discount rates adopted by management were within the range. • Tested selected other key data inputs, such as natural gas prices and production profiles in the projections by reference to historical data and/or relevant budgets of the Group. • Assessed the methodology adopted in, and tested mathematical accuracy of the discounted cash flow projections. • Evaluated the sensitivity analyses prepared by the Group, and assessed the potential impacts of a range of possible outcomes. Based on our work, we found the key assumptions and input data adopted were supported by the evidence we gathered and consistent with our expectations.

OTHER INFORMATION

Management of Sinopec Corp. is responsible for the other information. The other information comprises all of the information included in 2017 annual report of Sinopec Corp. other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management of Sinopec Corp. is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Sinopec Corp.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Sinopec Corp. or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Sinopec Corp.'s financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Sinopec Corp.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Sinopec Corp. to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Sinopec Corp. to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

23 March 2018

Signing CPA **Zhao Jianrong**
(Engagement Partner)

Signing CPA **Gao Peng**

CONSOLIDATED BALANCE SHEET

as at 31 December 2017

	Note	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Assets			
Current assets			
Cash at bank and on hand	5	165,004	142,497
Financial assets at fair value through profit and loss	6	51,196	—
Bills receivable	7	16,207	13,197
Accounts receivable	8	68,494	50,289
Other receivables	9	16,467	25,596
Prepayments	10	4,901	3,749
Inventories	11	186,693	156,511
Other current assets		20,087	20,422
Total current assets		**529,049**	**412,261**
Non-current assets			
Available-for-sale financial assets	12	1,676	11,408
Long-term equity investments	13	131,087	116,812
Fixed assets	14	650,774	690,594
Construction in progress	15	118,645	129,581
Intangible assets	16	97,126	85,023
Goodwill	17	8,634	6,353
Long-term deferred expenses	18	14,720	13,537
Deferred tax assets	19	15,131	7,214
Other non-current assets	20	28,662	25,826
Total non-current assets		**1,066,455**	**1,086,348**
Total assets		**1,595,504**	**1,498,609**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	22	54,701	30,374
Bills payable	23	6,462	5,828
Accounts payable	24	200,073	174,301
Advances from customers	25	120,734	95,928
Employee benefits payable	26	7,162	1,618
Taxes payable	27	71,940	52,886
Dividends payable		6,843	2,006
Other payables	28	84,850	77,630
Short-term debentures payable	31	—	6,000
Non-current liabilities due within one year	29	26,681	38,972
Total current liabilities		**579,446**	**485,543**
Non-current liabilities			
Long-term loans	30	67,754	62,461
Debentures payable	31	31,370	54,985
Provisions	32	39,958	39,298
Deferred tax liabilities	19	6,466	7,661
Other non-current liabilities	33	16,440	16,136
Total non-current liabilities		**161,988**	**180,541**
Total liabilities		**741,434**	**666,084**
Shareholders' equity			
Share capital	34	121,071	121,071
Capital reserve	35	119,557	119,525
Other comprehensive income	36	(4,413)	(932)
Specific reserve	37	888	765
Surplus reserves	38	199,682	196,640
Retained earnings		290,459	275,163
Total equity attributable to shareholders of the Company		**727,244**	**712,232**
Minority interests		**126,826**	**120,293**
Total shareholders' equity		**854,070**	**832,525**
Total liabilities and shareholders' equity		**1,595,504**	**1,498,609**

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Assets			
Current assets			
Cash at bank and on hand		92,545	98,250
Financial assets at fair value through profit and loss		48,179	—
Bills receivable		157	471
Accounts receivable	8	37,609	38,332
Other receivables	9	47,493	40,189
Dividends receivable		16,327	5,454
Prepayments	10	4,429	3,454
Inventories		44,933	46,942
Other current assets		27,189	32,743
Total current assets		**318,861**	**265,835**
Non-current assets			
Available-for-sale financial assets		395	297
Long-term equity investments	13	275,557	268,451
Fixed assets	14	329,814	373,020
Construction in progress	15	50,046	49,277
Intangible assets		8,340	7,913
Long-term deferred expenses		1,958	1,980
Deferred tax assets		6,834	—
Other non-current assets		10,690	10,952
Total non-current assets		**683,634**	**711,890**
Total assets		**1,002,495**	**977,725**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		17,330	9,256
Bills payable		3,155	2,761
Accounts payable		83,449	75,787
Advances from customers		3,413	2,360
Employee benefits payable		4,854	312
Taxes payable		42,549	32,423
Other payables		143,274	113,841
Short-term debentures payable		—	6,000
Non-current liabilities due within one year		19,539	38,082
Total current liabilities		**317,563**	**280,822**
Non-current liabilities			
Long-term loans		63,667	58,448
Debentures payable		20,000	36,000
Provisions		31,405	29,767
Deferred tax liabilities		—	505
Other non-current liabilities		2,591	2,607
Total non-current liabilities		**117,663**	**127,327**
Total liabilities		**435,226**	**408,149**
Shareholders' equity			
Share capital		121,071	121,071
Capital reserve		68,789	68,769
Other comprehensive income		196	263
Specific reserve		482	393
Surplus reserves		199,682	196,640
Retained earnings		177,049	182,440
Total shareholders' equity		**567,269**	**569,576**
Total liabilities and shareholders' equity		**1,002,495**	**977,725**

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	**2017 RMB million**	2016 RMB million
Operating income	39	2,360,193	1,930,911
Less: Operating costs	39/42	1,890,398	1,492,165
Taxes and surcharges	40	235,292	232,006
Selling and distribution expenses	42	56,055	49,550
General and administrative expenses	42	78,928	74,155
Financial expenses	41	1,560	6,611
Exploration expenses, including dry holes	42/43	11,089	11,035
Impairment losses	44	21,791	17,076
Add: Loss from changes in fair value	45	(13)	(216)
Investment income	46	19,060	30,779
Asset disposal income		(1,518)	(1,487)
Other income	47	4,356	—
Operating profit		**86,965**	**77,389**
Add: Non-operating income	48	1,317	4,706
Less: Non-operating expenses	49	1,709	2,218
Profit before taxation		**86,573**	**79,877**
Less: Income tax expense	50	16,279	20,707
Net profit		**70,294**	**59,170**
Including: net profit of acquiree before the consolidation under common control		—	86
Classification by going concern:			
Continuous operating net profit		70,294	59,170
Termination of net profit.		—	—
Classification by ownership:			
Equity shareholders of the Company		51,119	46,416
Minority interests		19,175	12,754
Basic earnings per share	62	**0.422**	**0.383**
Diluted earnings per share	62	**0.422**	**0.383**
Net profit		**70,294**	**59,170**
Other comprehensive income	36		
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		(1,580)	2,014
Changes in fair value of available-for-sale financial assets		(57)	(24)
Share of other comprehensive income of associates and joint ventures		1,053	45
Foreign currency translation differences		(3,792)	4,298
Total other comprehensive income		**(4,376)**	**6,333**
Total comprehensive income		**65,918**	**65,503**
Attributable to:			
Equity shareholders of the Company		47,638	53,468
Minority interests		18,280	12,035

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

INCOME STATEMENT

for the year ended 31 December 2017

	Note	**2017 RMB million**	2016 RMB million
Operating income	39	857,478	726,178
Less: Operating costs	39	633,114	513,514
Taxes and surcharges		158,480	158,373
Selling and distribution expenses		2,670	2,365
General and administrative expenses		44,982	41,724
Financial expenses		2,642	3,851
Exploration expenses, including dry holes		10,614	11,012
Impairment losses		14,372	14,044
Add: Gain from changes in fair value		179	33
Investment income	46	38,058	43,519
Asset disposal income		(887)	(413)
Other income		1,784	—
Operating profit		**29,738**	**24,434**
Add: Non-operating income		474	2,812
Less: Non-operating expenses		725	1,117
Profit before taxation		**29,487**	**26,129**
Less: Income tax expense		(928)	2,539
Net profit		**30,415**	**23,590**
Classification by going concern:			
Continuous operating net profit		**30,415**	**23,590**
Termination of net profit		—	—
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		53	557
Share of other comprehensive loss of associates		(120)	(149)
Total other comprehensive income		**(67)**	**408**
Total comprehensive income		**30,348**	**23,998**

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	2017 RMB million	2016 RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,644,126	2,163,695
Refund of taxes and levies		2,158	2,434
Other cash received relating to operating activities		57,287	77,436
Sub-total of cash inflows		**2,703,571**	**2,243,565**
Cash paid for goods and services		(2,041,977)	(1,547,868)
Cash paid to and for employees		(68,260)	(62,602)
Payments of taxes and levies		(328,304)	(316,062)
Other cash paid relating to operating activities		(74,095)	(102,490)
Sub-total of cash outflows		**(2,512,636)**	**(2,029,022)**
Net cash flow from operating activities	52(a)	**190,935**	**214,543**
Cash flows from investing activities:			
Cash received from disposal of investments		4,729	31,489
Cash received from returns on investments		8,506	4,028
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,313	440
Other cash received relating to investing activities		52,304	2,914
Net cash received from disposal of subsidiaries and other business entities		80	2,027
Sub-total of cash inflows		**66,932**	**40,898**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(70,948)	(72,847)
Cash paid for acquisition of investments		(57,627)	(16,389)
Other cash paid relating to investing activities		(82,392)	(17,879)
Net cash paid for the acquisition of subsidiaries and other business entities		(1,288)	—
Sub-total of cash outflows		**(212,255)**	**(107,115)**
Net cash flow from investing activities		**(145,323)**	**(66,217)**
Cash flows from financing activities:			
Cash received from capital contributions		946	343
Including: Cash received from minority shareholders' capital contributions to subsidiaries		946	343
Cash received from borrowings		524,843	506,097
Sub-total of cash inflows		**525,789**	**506,440**
Cash repayments of borrowings		(536,380)	(569,091)
Cash paid for dividends, profits distribution or interest		(45,763)	(30,396)
Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders		(7,539)	(6,553)
Other cash paid relating to financing activities		(155)	—
Sub-total of cash outflows		**(582,298)**	**(599,487)**
Net cash flow from financing activities		**(56,509)**	**(93,047)**
Effects of changes in foreign exchange rate		**(353)**	**256**
Net (decrease)/increase in cash and cash equivalents	52(b)	**(11,250)**	**55,535**

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Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	2017 RMB million	2016 RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		1,000,467	831,578
Refund of taxes and levies		1,304	1,323
Other cash received relating to operating activities		42,913	85,932
Sub-total of cash inflows		**1,044,684**	**918,833**
Cash paid for goods and services		(653,412)	(504,152)
Cash paid to and for employees		(37,054)	(35,190)
Payments of taxes and levies		(200,995)	(189,557)
Other cash paid relating to operating activities		(35,502)	(50,638)
Sub-total of cash outflows		**(926,963)**	**(779,537)**
Net cash flow from operating activities		**117,721**	**139,296**
Cash flows from investing activities:			
Cash received from disposal of investments		18,919	29,002
Cash received from returns on investments		23,842	22,233
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		252	1,885
Other cash received relating to investing activities		23,270	1,488
Net cash received from disposal of subsidiaries and other business entities		1	2,027
Sub-total of cash inflows		**66,284**	**56,635**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(37,139)	(43,765)
Cash paid for acquisition of investments		(66,913)	(39,505)
Other cash paid relating to investing activities		(30,116)	(10,130)
Sub-total of cash outflows		**(134,168)**	**(93,400)**
Net cash flow from investing activities		**(67,884)**	**(36,765)**
Cash flows from financing activities:			
Cash received from borrowings		106,407	153,790
Sub-total of cash inflows		**106,407**	**153,790**
Cash repayments of borrowings		(133,663)	(192,828)
Cash paid for dividends or interest		(38,392)	(21,826)
Sub-total of cash outflows		**(172,055)**	**(214,654)**
Net cash flow from financing activities		**(65,648)**	**(60,864)**
Net (decrease)/increase in cash and cash equivalents		**(15,811)**	**41,667**

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Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Share capital RMB million	Capital reserve RMB million	Other comprehensive income RMB million	Specific reserve RMB million	Surplus reserves RMB million	Retained earnings RMB million	Total shareholders' equity attributable to equity shareholders of the Company RMB million	Minority interests RMB million	Total shareholders' equity RMB million
Balance at 1 January 2016	121,071	121,576	(7,984)	612	196,640	245,623	677,538	112,027	789,565
Change for the period									
1. Net profit	—	—	—	—	—	46,416	46,416	12,754	59,170
2. Other comprehensive income (Note 36)	—	—	7,052	—	—	—	7,052	(719)	6,333
Total comprehensive income	—	—	7,052	—	—	46,416	53,468	12,035	65,503
Transactions with owners, recorded directly in shareholders' equity:									
3. Appropriations of profits:									
– Appropriation for surplus reserves	—	—	—	—	—	—	—	—	—
– Distributions to shareholders (Note 51)	—	—	—	—	—	(16,829)	(16,829)	—	(16,829)
4. Transaction with minority interests	—	(30)	—	—	—	—	(30)	263	233
5. Distributions to the original shareholders in the combination of entities under common control	—	—	—	—	—	(47)	(47)	(39)	(86)
6. Distributions to minority interests	—	—	—	—	—	—	—	(6,146)	(6,146)
7. Adjustment for the combination of entities under common control (Note 53)	—	(2,137)	—	—	—	—	(2,137)	2,137	—
Total transactions with owners, recorded directly in shareholders' equity	—	(2,167)	—	—	—	(16,876)	(19,043)	(3,785)	(22,828)
8. Net increase in specific reserve for the year	—	—	—	153	—	—	153	7	160
9. Others	—	116	—	—	—	—	116	9	125
Balance at 31 December 2016	**121,071**	**119,525**	**(932)**	**765**	**196,640**	**275,163**	**712,232**	**120,293**	**832,525**
Balance at 1 January 2017	121,071	119,525	(932)	765	196,640	275,163	712,232	120,293	832,525
Change for the year									
1. Net profit	—	—	—	—	—	51,119	51,119	19,175	70,294
2. Other comprehensive income (Note 36)	—	—	(3,481)	—	—	—	(3,481)	(895)	(4,376)
Total comprehensive income	—	—	(3,481)	—	—	51,119	47,638	18,280	65,918
Transactions with owners, recorded directly in shareholders' equity:									
3. Appropriations of profits:									
– Appropriation for surplus reserves (Note 38)	—	—	—	—	3,042	(3,042)	—	—	—
– Distributions to shareholders(Note 51)	—	—	—	—	—	(32,689)	(32,689)	—	(32,689)
4. Transaction with minority interests	—	(13)	—	—	—	—	(13)	724	711
5. Distributions to minority interests	—	—	—	—	—	—	—	(12,501)	(12,501)
Total transactions with owners, recorded directly in shareholders' equity	—	(13)	—	—	3,042	(35,731)	(32,702)	(11,777)	(44,479)
6. Net increase in specific reserve for the year	—	—	—	123	—	—	123	3	126
7. Others	—	45	—	—	—	(92)	(47)	27	(20)
Balance at 31 December 2017	**121,071**	**119,557**	**(4,413)**	**888**	**199,682**	**290,459**	**727,244**	**126,826**	**854,070**

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Share capital RMB million	Capital reserve RMB million	Other comprehensive income RMB million	Specific reserve RMB million	Surplus reserves RMB million	Retained earnings RMB million	Total shareholders' equity RMB million
Balance at 1 January 2016	121,071	68,716	(145)	313	196,640	175,679	562,274
Change for the year							
1. Net profit	—	—	—	—	—	23,590	23,590
2. Other comprehensive income	—	—	408	—	—	—	408
Total comprehensive income	—	—	408	—	—	23,590	23,998
Transactions with owners, recorded directly in shareholders' equity:							
3. Appropriations of profits:							
– Appropriation for surplus reserves	—	—	—	—	—	—	—
– Distributions to shareholders (Note 49)	—	—	—	—	—	(16,829)	(16,829)
Total transactions with owners, recorded directly in shareholders' equity	—	—	—	—	—	(16,829)	(16,829)
4. Net increase in specific reserve for the year	—	—	—	80	—	—	80
5. Others	—	53	—	—	—	—	53
Balance at 31 December 2016	**121,071**	**68,769**	**263**	**393**	**196,640**	**182,440**	**569,576**
Balance at 1 January 2017	121,071	68,769	263	393	196,640	182,440	569,576
Change for the year							
1. Net profit	—	—	—	—	—	30,415	30,415
2. Other comprehensive income	—	—	(67)	—	—	—	(67)
Total comprehensive income	—	—	(67)	—	—	30,415	30,348
Transactions with owners, recorded directly in shareholders' equity:							
3. Appropriations of profits:							
– Appropriation for surplus reserves	—	—	—	—	3,042	(3,042)	—
– Distributions to shareholders (Note 49)	—	—	—	—	—	(32,689)	(32,689)
Total transactions with owners, recorded directly in shareholders' equity	—	—	—	—	3,042	(35,731)	(32,689)
4. Net increase in specific reserve for the year	—	—	—	89	—	—	89
5. Others	—	20	—	—	—	(75)	(55)
Balance at 31 December 2017	**121,071**	**68,789**	**196**	**482**	**199,682**	**177,049**	**567,269**

These financial statements have been approved by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

1 STATUS OF THE COMPANY

China Petroleum & Chemical Corporation (the "Company") was established on 25 February 2000 as a joint stock limited company. The company is registered in Beijing, the People's Republic of China, and the headquarter is located in Beijing, the People's Republic of China. The approval date of the financial report is 23 March 2018.

According to the State Council's approval to the "Preliminary Plan for the Reorganisation of China Petrochemical Corporation" (the "Reorganisation"), the Company was established by China Petrochemical Corporation ("Sinopec Group Company"), which transferred its core businesses together with the related assets and liabilities at 30 September 1999 to the Company. Such assets and liabilities had been valued jointly by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation. The net asset value was determined at RMB 98,249,084,000. The valuation was reviewed and approved by the Ministry of Finance (the "MOF") (Cai Ping Zi [2000] No. 20 "Comments on the Review of the Valuation Regarding the Formation of a Joint Stock Limited Company by China Petrochemical Corporation").

In addition, pursuant to the notice Cai Guan Zi [2000] No. 34 "Reply to the Issue Regarding Management of State-Owned Equity by China Petroleum and Chemical Corporation" issued by the MOF, 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each were issued to Sinopec Group Company, the amount of which is equivalent to 70% of the above net asset value transferred from Sinopec Group Company to the Company in connection with the Reorganisation.

Pursuant to the notice Guo Jing Mao Qi Gai [2000] No. 154 "Reply on the Formation of China Petroleum and Chemical Corporation", the Company obtained the approval from the State Economic and Trade Commission on 21 February 2000 for the formation of a joint stock limited company.

The Company took over the exploration, development and production of crude oil and natural gas, refining, chemicals and related sales and marketing business of Sinopec Group Company after the establishment of the Company.

The Company and its subsidiaries (the "Group") engage in the oil and gas and chemical operations and businesses, including:

(1) the exploration, development and production of crude oil and natural gas;

(2) the refining, transportation, storage and marketing of crude oil and petroleum product; and

(3) the production and sale of chemical.

Details of the Company's principal subsidiaries are set out in Note 56.

2 BASIS OF PREPARATION

(1) Statement of compliance of China Accounting Standards for Business Enterprises ("ASBE")

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises – Basic Standards, specific standards and relevant regulations (hereafter referred as ASBE collectively) issued by the MOF on or after 15 February 2006. These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No.15: General Requirements for Financial Reports" issued by the China Securities Regulatory Commission ("CSRC"). These financial statements present truly and completely the consolidated and company financial position as at 31 December 2017, and the consolidated and company financial performance and the consolidated and company cash flows for the year then ended.

These financial statements are prepared on a basis of going concern.

(2) Accounting period

The accounting year of the Group is from 1 January to 31 December.

(3) Measurement basis

The financial statements of the Group have been prepared under the historical cost convention, except for the assets and liabilities set out below:

— Financial asset and financial liability with change in fair value recognised through profit or loss (see Note 3(10))

— Available-for-sale financial assets (see Note 3(10))

— Derivative financial instruments (see Note 3(10))

(4) Functional currency and presentation currency

The functional currency of the Company's and most of its subsidiaries are Renminbi. The Group's consolidated financial statements are presented in Renminbi. The Company and its subsidiaries determine their functional currency according to the main economic environment in where they operate. Some of subsidiaries use other currency as the functional currency. The Company translates the financial statements of subsidiaries from their respective functional currencies into Renminbi (see Note 3(2)) if the subsidiaries' functional currencies are not Renminbi.

3 SIGNIFICANT ACCOUNTING POLICIES

The Group determines specific accounting policies and accounting estimates based on the characteristics of production and operational activities, mainly reflected in the accounting for allowance for accounts receivable (Note 3(11)), valuation of inventories (Note 3(4)), depreciation of fixed assets and depletion of oil and gas properties (Note 3(6), (7)), measurement of provisions (Note 3(15)), ect.

Principal accounting estimates and judgements of the Group are set out in Note 55.

(1) Accounting treatment of business combination involving entities under common control and not under common control

(a) Business combination involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the carrying amount of the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in the share premium of capital reserve, or the retained earnings in case of any shortfall in the share premium of capital reserve. Any costs directly attributable to the combination shall be recognised in profit or loss for the current period when occurred. The expense incurred for equity securities and debt securities issued as the consideration of the combination is recognised in the initial cost of the securities. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

(b) Business combination involving entities not under common control

A business combination involving entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. Difference between the consideration paid by the Group as the acquirer, comprises of the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree, and the Group's interest in the fair value of the identifiable net assets of the acquiree, is recognised as goodwill (Note 3(9)) if it is an excess, otherwise in the profit or loss. The expense incurred for equity securities and debt securities issued as the consideration of the combination is recognised in the initial cost of the securities. Any other expense directly attributable to the business combination is recognised in the profit or loss for the year. The difference between the fair value and the book value of the assets given is recognised in profit or loss. The acquiree's identifiable assets, liabilities and contingent liabilities, if satisfying the recognition criteria, are recognised by the Group at their fair value at the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

(c) Method for preparation of consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control means an entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts in the subsidiary's financial statements, from the date that common control was established.

Where the Company acquires a subsidiary during the reporting year through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Where the Company acquired a minority interest from a subsidiary's minority shareholders, the difference between the investment cost and the newly acquired interest into the subsidiary's identifiable net assets at the acquisition date is adjusted to the capital reserve (capital surplus) in the consolidated balance sheet. Where the Company partially disposed an investment of a subsidiary that do not result in a loss of control, the difference between the proceeds and the corresponding share of the interest into the subsidiary is adjusted to the capital reserve (capital surplus) in the consolidated balance sheet. If the credit balance of capital reserve (capital surplus) is insufficient, any excess is adjusted to retained profits.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(1) Accounting treatment of business combination involving entities under common control and not under common control *(Continued)*

(c) Method for preparation of consolidated financial statements *(Continued)*

In a business combination involving entities not under common control achieved in stages, the Group remeasures its previously held equity interest in the acquiree on the acquisition date. The difference between the fair value and the net book value is recognised as investment income for the year. If other comprehensive income was recognised regarding the equity interest previously held in the acquiree before the acquisition date, the relevant other comprehensive income is transferred to investment income in the period in which the acquisition occurs.

Where control of a subsidiary is lost due to partial disposal of the equity investment held in a subsidiary, or any other reasons, the Group derecognises assets, liabilities, minority interests and other equity items related to the subsidiary. The remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the fair value of the Group's previous share of the subsidiary's identifiable net assets recorded from the acquisition date, is recognised in investment income in the period in which control is lost. Other comprehensive income related to the previous equity investment in the subsidiary, is transferred to investment income when control is lost. Other comprehensive income related to the equity investment of the orginal subsidiary shall be converted into the current investment income in the event of loss of control.

Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

The excess of the loss attributable to the minority interests during the period over the minority interests' share of the equity at the beginning of the reporting period is deducted from minority interests.

Where the accounting policies and accounting period adopted by the subsidiaries are different from those adopted by the Company, adjustments are made to the subsidiaries' financial statements according to the Company's accounting policies and accounting period. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The unrealised profit or loss arising from the sale of assets by the Company to its subsidiaries is eliminated in full against the net profit attributed to shareholders; the unrealised profit or loss from the sale of assets by subsidiaries to the Company is eliminated according to the distribution ratio between shareholders of the parent company and minority interests. For sale of assets that occurred between subsidiaries, the unrealised gains and losses is eliminated according to the distribution ratio for its subsidiaries seller between net profit attributable to shareholders of the parent company and minority interests.

(2) Transactions in foreign currencies and translation of financial statements in foreign currencies

Foreign currency transactions are, on initial recognition, translated into Renminbi at the spot exchange rates quoted by the People's Bank of China ("PBOC rates") at the transaction dates.

Foreign currency monetary items are translated at the PBOC rates at the balance sheet date. Exchange differences, except for those directly related to the acquisition, construction or production of qualified assets, are recognised as income or expenses in the income statement. Non-monetary items denominated in foreign currency measured at historical cost are not translated. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. The difference between the translated amount and the original currency amount is recognised as other comprehensive income, if it is classified as available-for-sale financial assets; or charged to the income statement if it is measured at fair value through profit or loss.

The assets and liabilities of foreign operation are translated into Renminbi at the spot exchange rates at the balance sheet date. The equity items, excluding "Retained earnings", are translated into Renminbi at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated into Renminbi at the spot exchange rates or an exchange rate that approximates the spot exchange rates on the transaction dates. The resulting exchange differences are separately presented as other comprehensive income in the balance sheet within equity. Upon disposal of a foreign operation, the cumulative amount of the exchange differences recognised in which relate to that foreign operation is transferred to profit or loss in the year in which the disposal occurs.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Inventories

Inventories are initially measured at cost. Cost includes the cost of purchase and processing, and other expenditures incurred in bringing the inventories to their present location and condition. The cost of inventories is calculated using the weighted average method. In addition to the cost of purchase of raw material, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing overhead costs.

At the balance sheet date, inventories are stated at the lower of cost and net realisable value.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value of materials held for use in the production is measured based on the net realisable value of the finished goods in which they will be incorporated. The net realisable value of the quantity of inventory held to satisfy sales or service contracts is measured based on the contract price. If the quantities held by the Group are more than the quantities of inventories specified in sales contracts, the net realisable value of the excess portion of inventories is measured based on general selling prices.

Inventories include raw materials, work in progress, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets. Reusable materials are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

Inventories are recorded by perpetual method.

(5) Long-term equity investments

(a) Investment in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method. Except for cash dividends or profits distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income irrespective of whether these represent the net profit realised by the investee before or after the investment. Investments in subsidiaries are stated at cost less impairment losses (see Note 3(11)) in the balance sheet. At initial recognition, such investments are measured as follows:

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the carrying amount of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost comprises the aggregate of the fair values of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. For a long-term equity investment obtained through a business combination not involving enterprises under common control, if it is achieved in stages, the initial cost comprises the carrying value of previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual purchase cost if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by investors.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Long-term equity investments *(Continued)*

(b) Investment in joint ventures and associates

A joint venture is an incorporated entity over which the Group, based on legal form, contractual terms and other facts and circumstances, has joint control with the other parties to the joint venture and rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the Group and the parties sharing control.

An associate is the investee that the Group has significant influence on their financial and operating policies. Significant influence represents the right to participate in the financial and operating policy decisions of the investee but is not control or joint control over the establishment of these policies. The Group generally considers the following circumstances in determining whether it can exercise significant influence over the investee: whether there is representative appointed to the board of directors or equivalent governing body of the investee; whether to participate in the investee's policy-making process; whether there are significant transactions with the investees; whether there is management personnel sent to the investee; whether to provide critical technical information to the investee.

An investment in a joint ventures or an associate is accounted for using the equity method, unless the investment is classified as held for sale.

The initial cost of investment in joint ventures and associates is stated at the consideration paid except for cash dividends or profits distributions declared but unpaid at the time of acquisition and therefore included in the consideration paid should be deducted if the investment is made in cash. Under the circumstances that the long-term investment is obtained through non-monetary asset exchange, the initial cost of the investment is stated at the fair value of the assets exchanged if the transaction has commercial substance, the difference between the fair value of the assets exchanged and its carrying amount is charged to profit or loss; or stated at the carrying amount of the assets exchanged if the transaction lacks commercial substance.

The Group's accounting treatments when adopting the equity method include:

Where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

After the acquisition of the investment, the Group recognises its share of the investee's net profits or losses and other comprehensive income as investment income or losses and other comprehensive income, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Group.

The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair values of the investee's net identifiable assets at the time of acquisition. Under the equity accounting method, unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are fully recognised in the event that there is an evidence of impairment.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that is in substance forms part of the Group's net investment in the associate or the joint ventures is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. However, if the Group has incurred obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standard on contingencies, the Group continues recognising the investment losses and the provision. Where net profits are subsequently made by the associate or joint venture, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The Group adjusts the carrying amount of the long-term equity investment for changes in owners' equity of the investee other than those arising from net profits or losses and other comprehensive income, and recognises the corresponding adjustment in capital reserve.

(c) The impairment assessment method and provision accrual on investment

The impairment assessment and provision accrual on investments in subsidiaries, associates and joint ventures are stated in Note 3(11).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(6) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services and for operation and administrative purposes with useful life over one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(11)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(11)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(18)), and any other costs directly attributable to bringing the asset to working condition for its intended use. According to legal or contractual obligations, costs of dismantling and removing the items and restoring the site on which the related assets located are included in the initial cost.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

The Group terminates the recognition of an item of fixed asset when it is in a state of disposal or it is estimated that it is unable to generate any economic benefits through use or disposal. Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Other than oil and gas properties, the cost of fixed assets less residual value and accumulated impairment losses is depreciated using the straight-line method over their estimated useful lives, unless the fixed asset is classified as held for sale. The estimated useful lives and the estimated rate of residual values adopted for respective classes of fixed assets are as follows:

	Estimated useful life	Estimated rate of residual value
Plants and buildings	12-50 years	3%
Equipment, machinery and others	4-30 years	3%

Useful lives, residual values and depreciation methods are reviewed at least each year end.

(7) Oil and gas properties

Oil and gas properties include the mineral interests in properties, wells and related support equipment arising from oil and gas exploration and production activities.

The acquisition cost of mineral interest is capitalised as oil and gas properties. Costs of development wells and related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. Exploratory well costs are charged to expenses upon the determination that the well has not found proved reserves. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, are charged to profit or loss in the year as incurred.

The Group estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices. These estimated future dismantlement costs are discounted at credit-adjusted risk-free rate and are capitalised as oil and gas properties, which are subsequently amortised as part of the costs of the oil and gas properties.

Capitalised costs of proved oil and gas properties are amortised on a unit-of-production method based on volumes produced and reserves.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(8) Intangible assets

Intangible assets, where the estimated useful life is finite, are stated in the balance sheet at cost less accumulated amortisation and provision for impairment losses (see Note 3(11)). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised on a straight-line basis over the expected useful lives, unless the intangible assets are classified as held for sale.

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the year over which the asset is expected to generate economic benefits for the Group.

Useful lives and amortisation methods are reviewed at least each year end.

(9) Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control.

Goodwill is not amortised and is stated at cost less accumulated impairment losses (see Note 3(11)). On disposal of an asset group or a set of asset groups, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

(10) Financial Instruments

Financial instruments of the Group include cash and cash equivalents, bond investments, equity securities other than long-term equity investments, receivables, derivative financial instruments, payables, loans, bonds payable, and share capital, financial asset with change in fair value recognised through profit or loss, etc.

(a) Classification, recognition and measurement of financial instruments

The Group recognises a financial asset or a financial liability on its balance sheet when the Group enters into and becomes a party to the underlining contract of the financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets and assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are initially recognised at fair value. For financial asset or financial liability of which the change in its fair value is recognised in profit or loss, the relevant transaction cost is recognised in profit or loss. The transaction costs for other financial assets or financial liabilities are included in the initially recognised amount. Subsequent to initial recognition financial assets and liabilities are measured as follows:

— Financial asset or financial liability with change in fair value recognised through profit or loss

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is a derivative, unless the derivative is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured. These financial instruments are initially measured at fair value with subsequently changes in fair value recognised in profit or loss. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

— Loans and Receivables

Loans and Receivables are non-derivative financial assets with fixed or determinable recoverable amount and with no quoted price in active market. After the initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method.

— Held-to-maturity investment

Held-to-maturity investment includes non-derivative financial assets with fixed or determinable recoverable amount and fixed maturity that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

(a) Classification, recognition and measurement of financial instruments *(Continued)*

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available for sales and other financial assets which do not fall into any of the above categories.

Available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other than the above equity instrument investments whose fair values cannot be measured reliably, other available-for-sale financial assets are initially stated at fair values. The gains or losses arising from changes in the fair value are directly recognised in equity, except for the impairment losses and exchange differences from monetary financial assets denominated in foreign currencies, which are recognised in profit or loss. The cumulative gains and losses previously recognised in equity are transferred to profit or loss when the available-for-sale financial assets are derecognised. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale debt instrument investments calculated using the effective interest rate method is recognised in profit or loss (see Note 3(16) (c)).

— Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities include the liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Group issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingencies (see Note 3(15)).

Except for the other financial liabilities described above, subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(b) Disclosure of financial assets and financial liabilities

In the balance sheet, financial assets and liabilities are not offset unless all the following conditions are met:

— the Group has a legally enforceable right to set off financial assets against financial liabilities; and

— the Group intends to settle the financial assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously.

(c) Determination of fair value

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using arm's length market transactions between knowledge, and willing parties; reference to the current fair value of other instrument that is substantially the same; discounted cash flows and option pricing model. The Group calibrates the valuation technique and tests it for validity periodically.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

(d) Hedge accounting

Hedge accounting is a method which recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item in the same accounting period(s).

Hedged items are the items that expose the Group to risks of changes in fair value or future cash flows and that are designated as being hedged. The Group's hedged items include fixed-rate borrowings that expose the Group to risk of changes in fair values, floating rate borrowings that expose the Group to risk of variability in cash flows, and a forecast transaction that is settled with a fixed amount of foreign currency and expose the Group to foreign currency risk, and a forecast transaction that is settled with an undetermined future market price and exposes the Group to risk of variability in cash flows, etc.

A hedging instrument is a designated derivative whose changes in fair value or cash flows are expected to offset changes in the fair value or cash flows of the hedged item.

The hedge is assessed by the Group for effectiveness on an ongoing basis and determined to have been highly effective throughout the accounting periods for which the hedging relationship was designated. The Group uses a ratio analysis to assess the subsequent effectiveness of a cash flow hedge, and uses a regression analysis to assess the subsequent effectiveness of a fair value hedge.

— Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity as a separate component. That effective portion is adjusted to the lesser of the following (in absolute amounts):

— the cumulative gain or loss on the hedging instrument from inception of the hedge;

— the cumulative change in present value of the expected future cash flows on the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an ineffective hedge is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gain or loss is removed from shareholders' equity, included in the initial cost of the non-financial asset, and recognised in profit or loss in the same year during which the non-financial asset affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period during which the financial asset or financial liability affects profit or loss. However, if the Group expects that all or a portion of a net loss recognised directly in shareholders' equity will not be recovered in future accounting periods, it reclassifies the amount that is not expected to be recovered into profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from shareholders' equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the Group will discontinue the hedge accounting treatments prospectively. In this case, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall not be reclassified into profit or loss and is recognised in accordance with the above policy when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the gain or loss on the hedging instrument that remains recognised directly in shareholders' equity from the period when the hedge was effective shall be reclassified into profit or loss immediately.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

(d) Hedge accounting *(Continued)*

— Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment.

The gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, the Group discontinues prospectively the hedge accounting treatments. If the hedged item is a financial instrument measured at amortised cost, any adjustment to the carrying amount of the hedged item is amortised to profit or loss from the adjustment date to the maturity date using the recalculated effective interest rate at the adjustment date.

— Hedge of net investment in foreign operation

A hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognised directly in equity as a separate component until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in profit or loss. The ineffective portion is recognised immediately in profit or loss.

(e) Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual right to receive cash flows from the financial asset expires, or where the Group transfers substantially all risks and rewards of ownership of the financial asset, or where the Group neither transfers nor retains substantially all risks and rewards of ownership of the financial asset but the Group gives up the control of a financial asset.

On derecognition of a financial asset, the difference between the following amounts is recognised in profit or loss:

— the carrying amounts; and

— the sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity.

Where the obligations for financial liabilities are completely or partially discharged, the entire or parts of financial liabilities are derecognised.

(11) Impairment of financial assets and non-financial long-term assets

(a) Impairment of financial assets

The carrying amount of financial assets (except those financial assets stated at fair value with changes in the fair values charged to profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

Objective evidences of impairment include but not limited to:

(i) significant financial difficulty of the debtor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

(iv) due to the significant financial difficulty of the debtor, financial assets is unable to be traded in active market;

(v) significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and the cost of investment may not be recoverable;and

(vi) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Impairment of financial assets and non-financial long-term assets *(Continued)*

(a) Impairment of financial assets *(Continued)*

— Receivables and held-to-maturity investments

Receivables are assessed for impairment on the combination of an individual basis and the aging analysis.

Held-to-maturity investments are assessed for impairment on an individual basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Impairment loss on receivables and held-to-maturity investments is reversed in profit or loss if evidence suggests that the financial assets' carrying amounts have increased and the reason for the increase is objectively as a result of an event occurred after the recognition of the impairment loss. The reversed carrying amount shall not exceed the amortised cost if the financial assets had no impairment recognised.

— Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis. Objective evidence of impairment for equity instruments classified as available-for-sale includes information about significant but not temporary decline in the fair value of the equity investment instrument below its cost. The Group assesses equity instruments classified as available-for-sale separately at the end of each reporting period, it will be considered as impaired if the fair value of the equity instrument at reporting date is less than its initial investment cost over 50% (including 50%) or the duration of the fair value below its initial investment cost is more than one (including one) year, if the fair value of the equity instrument at reporting date is less than its initial investment cost over 20% (including 20%) but below 50%, other related factors such as price volatility will be taken into consideration to assess if it is impaired.

When available-for-sale financial assets measured at fair value are impaired, despite not being derecognised, the cumulative losses resulted from the decrease in fair value which had previously been recognised directly in shareholders' equity, are reversed and charged to profit or loss.

When available-for-sale financial assets measured at cost are impaired, the differences between the book value and the discounted present value with the market return of similar financial assets are charged to profit or loss.

Impairment loss of available-for-sale debt instrument is reversed, if the reason for the subsequent increase in fair value is objectively as a result of an event occurred after the recognition of the impairment loss. Impairment loss for available-for-sale equity instrument is not reversed through profit or loss. Impairment loss for available-for-sale financial assets measured by the cost cannot be reversed in the following period.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Impairment of financial assets and non-financial long-term assets *(Continued)*

(b) Impairment of other non-financial long-term assets

Internal and external sources of information are reviewed at each balance sheet date for indications that the following assets, including fixed assets, construction in progress, goodwill, intangible assets and investments in subsidiaries, associates and joint ventures may be impaired.

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The recoverable amounts of goodwill and intangible assets with uncertain useful lives are estimated annually no matter there are any indications of impairment. Goodwill is tested for impairment together with related asset units or groups of asset units.

An asset unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets. An asset unit comprises related assets that generate associated cash inflows. In identifying an asset unit, the Group primarily considers whether the asset unit is able to generate cash inflows independently as well as the management style of production and operational activities, and the decision for the use or disposal of asset.

The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows generated by the asset (or asset unit, set of asset units).

Fair value less costs to sell of an asset is based on its selling price in an arm's length transaction less any direct costs attributable to the disposal. Present value of expected future cash flows is the estimation of future cash flows to be generated from the use of and upon disposal of the asset, discounted at an appropriate pre-tax discount rate over the asset's remaining useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is recognised as an impairment loss in profit or loss. A provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset unit or a set of asset units first reduce the carrying amount of any goodwill allocated to the asset unit or set of asset units, and then reduce the carrying amount of the other assets in the asset unit or set of asset units on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

Impairment losses for assets are not reversed.

(12) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods.

(13) Employee benefits

Employee benefits are all forms of considerations and compensation given in exchange for services rendered by employees, including short term compensation, post-employment benefits, termination benefits and other long term employee benefits.

(a) Short term compensation

Short term compensation includes salaries, bonuses, allowances and subsidies, employee benefits, medical insurance premiums, work-related injury insurance premium, maternity insurance premium, contributions to housing fund, unions and education fund and short-term absence with payment etc. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the short term compensation actually incurred as a liability and charge to the cost of an asset or to profit or loss in the same period, and non-monetary benefits are valued with the fair value.

(b) Post-employment benefits

The Group classifies post-employment benefits into either Defined Contribution Plan (DC plan) or Defined Benefit Plan (DB plan). DC plan means the Group only contributes a fixed amount to an independent fund and no longer bears other payment obligation; DB plan is post-employment benefits other than DC plan. In this reporting period, the post-employment benefits of the Group primarily comprise basic pension insurance and unemployment insurance and both of them are DC plans.

Basic pension insurance

Employees of the Group participate in the social insurance system established and managed by local labor and social security department. The Group makes basic pension insurance to the local social insurance agencies every month, at the applicable benchmarks and rates stipulated by the government for the benefits of its employees. After the employees retire, the local labor and social security department has obligations to pay them the basic pension. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the accrued amount according to the above social security provisions as a liability and charge to the cost of an asset or to profit or loss in the same period.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognised in profit or loss under the conditions of both the Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly; and the Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(14) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to business combinations and items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are recognised based on deductible temporary differences and taxable temporary differences respectively. Temporary difference is the difference between the carrying amounts of assets and liabilities and their tax bases. Unused tax losses and unused tax credits able to be utilised in subsequent years are treated as temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available to offset the deductible temporary differences.

Temporary differences arise in a transaction, which is not a business combination, and at the time of transaction, does not affect accounting profit or taxable profit (or unused tax losses), will not result in deferred tax. Temporary differences arising from the initial recognition of goodwill will not result in deferred tax.

At the balance sheet date, the amounts of deferred tax recognised is measured based on the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled in accordance with tax laws.

The carrying amount of deferred tax assets is reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of deferred tax asset, the carrying amount of the deferred tax assets is written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

— the taxable entity has a legally enforceable right to offset current tax assets and current tax liabilities; and

— they relate to income taxes levied by the same tax authority on either:

  — the same taxable entity; or

  — different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(15) Provisions

Provisions are recognised when the Group has a present obligation as a result of a contingent event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

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

(16) Revenue recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's normal activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following respective conditions are met.

(a) Revenues from sales of goods

Revenue from the sales of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

— the significant risks and rewards of ownership and title have been transferred to buyers; and

— the Group does not retain the management rights, which is normally associated with owner, on goods sold and has no control over the goods sold.

Revenue from the sales of goods is measured at fair value of the considerations received or receivable under the sales contract or agreement.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(16) Revenue recognition *(Continued)*

(b) Revenues from rendering services

The Group determines the revenue from the rendering of services according to the fair value of the received or to-be received price of the party that receives the services as stipulated in the contract or agreement.

At the balance sheet date, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the proportion of services performed to date to the total services to be performed.

When the outcome of rendering the services cannot be estimated reliably, revenues are recognised only to the extent that the costs incurred are expected to be recoverable. If the costs of rendering of services are not expected to be recoverable, the costs are recognised in profit or loss when incurred, and revenues are not recognised.

(c) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(17) Government grants

Government grants are the gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on the amount received or receivable, whereas non-monetary assets are measured at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in profit or loss over the assets' useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

(18) Borrowing costs

Borrowing costs incurred on borrowings for the acquisition, construction or production of qualified assets are capitalised into the cost of the related assets.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(19) Repairs and maintenance expenses

Repairs and maintenance (including overhauling expenses) expenses are recognised in profit or loss when incurred.

(20) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations is expensed as incurred. Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reliably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

(21) Research and development costs

Research costs and development costs that cannot meet the capitalisation crateria are recognised in profit or loss when incurred.

(22) Operating leases

Operating lease payments are charged as expenses on a straight-line basis over the period of the respective leases.

(23) Dividends

Dividends and distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements. Dividends are recognised as a liability in the period in which they are declared.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(24) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Where enterprises are subject to state control but are otherwise unrelated, they are not related parties. Related parties of the Group and the Company include, but not limited to:

(a) the holding company of the Company;

(b) the subsidiaries of the Company;

(c) the parties that are subject to common control with the Company;

(d) investors that have joint control or exercise significant influence over the Group;

(e) enterprises or individuals if a party has control, joint control over both the enterprises or individuals and the Group;

(f) joint ventures of the Group, including subsidiaries of the joint ventures;

(g) associates of the Group, including subsidiaries of the associates;

(h) principle individual investors of the Group and close family members of such individuals;

(i) key management personnel of the Group, and close family members of such individuals;

(j) key management personnel of the Company's holding company;

(k) close family members of key management personnel of the Company's holding company; and

(l) an entity which is under control, joint control of principle individual investor, key management personnel or close family members of such individuals.

(25) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that meets the following respective conditions:

— engage in business activities from which it may earn revenues and incur expenses;

— whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance; and

— for which financial information regarding financial position, results of operations and cash flows are available.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(26) Changes in significant accounting policies

MOF issued "No.42 Accounting Standards for Business Enterprises – non-current assets held for sale, disposition and discontinuing operation", revised "No.16 Accounting Standards for Business Enterprises-government grants" and Cai Kuai [2017] No. 30 "Announcement of the revision of general enterprise financial statements format." The group has adopted the above guidelines to prepare financial statements of 2017. The impact to the group's financial statements is presented as below:

The reason of change	Subject	Amount (RMB million) year of 2016
The profits and losses of 2017 of disposing of fixed assets and intangible assets are included in the asset disposal income project. The comparative financial statements of 2016 have been adjusted accordingly.	Asset disposal income Non-operating income Non-operating expenses	1,487 Less 258 Less 1,745

4 TAXATION

Major types of tax applicable to the Group are income tax, consumption tax, resources tax, value added tax, city construction tax, education surcharge and local education surcharge.

Consumption tax was levied based on sales quantities of taxable products, tax rate of products is presented as below:

Products	Effective from 13 January 2015 (RMB/Ton)
Gasoline	2,109.76
Diesel	1,411.20
Naphtha	2,105.20
Solvent oil	1,948.64
Lubricant oil	1,711.52
Fuel oil	1,218.00
Jet fuel oil	1,495.20

Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'(Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from modern service of the subsidiaries of the Group, are subject to VAT from 1 May 2016, and the applicable tax rate is 6%. Before 1 May 2016, revenue from modern service of the subsidiaries of the Group, are subject to the business tax with a tax rate of 3% to 5%.

5 CASH AT BANK AND ON HAND

The Group

	At 31 December 2017			At 31 December 2016		
	Original currency million	Exchange rates	RMB million	Original currency million	Exchange rates	RMB million
Cash on hand						
Renminbi			14			10
Cash at bank						
Renminbi			92,711			91,855
US Dollars	3,760	6.5342	24,561	1,499	6.9370	10,406
Hong Kong Dollars	98	0.8359	82	87	0.8945	78
Others			122			75
			117,490			**102,424**
Deposits at related parities						
Renminbi			32,117			21,843
US Dollars	2,336	6.5342	15,256	2,619	6.9370	18,181
EUR	16	7.8023	126	5	7.3068	34
Others			15			15
			47,514			**40,073**
Total			**165,004**			**142,497**

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited. Deposits interest is calculated based on market rate.

At 31 December 2017, time deposits with financial institutions of the Group amounted to RMB 51,786 million (2016: RMB 18,029 million).

At 31 December 2017, structured deposits included in cash at bank and on hand with financial institutions of the Group amounted to RMB 65,250 million (2016: RMB 75,000 million).

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Current assets		
Structural deposits	51,196	—
Total	**51,196**	—

The financial assets are the structured deposit with financial institutions and cannot be readily convertible to known amounts of cash, which are presented as current assets since they are expected to be expired within 12 months from the end of the reporting period.

The changes in the financial assets at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB 196 million (2016:nil), which has been recorded in gain from changes in fair value.

7 BILLS RECEIVABLE

Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

At 31 December 2017, the Group's outstanding endorsed or discounted bills (with recourse) amounted to RMB 10,441 million (2016: RMB 7,523 million).

8 ACCOUNTS RECEIVABLE

	The Group		The Company	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Amounts due from subsidiaries	—	—	30,905	33,142
Amounts due from Sinopec Group Company and fellow subsidiaries	7,941	6,398	1,417	1,662
Amounts due from associates and joint ventures	4,962	4,580	2,051	2,036
Amounts due from others	56,203	39,994	3,383	1,720
	69,106	**50,972**	**37,756**	**38,560**
Less: Allowance for doubtful accounts	612	683	147	228
Total	**68,494**	**50,289**	**37,609**	**38,332**

Ageing analysis on accounts receivable is as follows:

	The Group							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total accounts receivable %**	**Allowance RMB million**	**Percentage of allowance to accounts receivable balance %**	Amount RMB million	Percentage to total accounts receivable %	Allowance RMB million	Percentage of allowance to accounts receivable balance %
Within one year	67,777	98.1	—	—	49,854	97.8	—	—
Between one and two years	715	1.0	142	19.9	464	0.9	231	49.8
Between two and three years	87	0.1	44	50.6	225	0.4	48	21.3
Over three years	527	0.8	426	80.8	429	0.9	404	94.2
Total	**69,106**	**100.0**	**612**		**50,972**	**100.0**	**683**	

	The Company							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total accounts receivable %**	**Allowance RMB million**	**Percentage of allowance to accounts receivable balance %**	Amount RMB million	Percentage to total accounts receivable %	Allowance RMB million	Percentage of allowance to accounts receivable balance %
Within one year	37,331	98.8	—	—	38,023	98.7	—	—
Between one and two years	134	0.4	17	12.7	357	0.9	114	31.9
Between two and three years	154	0.4	29	18.8	49	0.1	10	20.4
Over three years	137	0.4	101	73.7	131	0.3	104	79.4
Total	**37,756**	**100.0**	**147**		**38,560**	**100.0**	**228**	

At 31 December 2017 and 2016, the total amounts of the top five accounts receivable of the Group are set out below:

	At 31 December 2017	At 31 December 2016
Total amount (RMB million)	17,920	14,967
Percentage to the total balance of accounts receivable	25.9%	29.4%
Allowance for doubtful accounts	—	—

During the year ended 31 December 2017 and 2016, the Group and the Company had no individually significant accounts receivable been fully or substantially provided allowance for doubtful accounts.

During the year ended 31 December 2017 and 2016, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

9 OTHER RECEIVABLES

	The Group		The Company	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Amounts due from subsidiaries	—	—	46,900	35,370
Amounts due from Sinopec Group Company and fellow subsidiaries	4,985	8,019	147	164
Amounts due from associates and joint ventures	459	4,841	—	3,986
Amounts due from others	12,509	14,085	1,608	1,793
	17,953	**26,945**	**48,655**	**41,313**
Less: Allowance for doubtful accounts	1,486	1,349	1,162	1,124
Total	**16,467**	**25,596**	**47,493**	**40,189**

Ageing analysis of other receivables is as follows:

	The Group							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total other receivables %**	**Allowance RMB million**	**Percentage of allowance to other receivables balance %**	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %
Within one year	15,191	84.7	—	—	24,316	90.2	57	0.2
Between one and two years	509	2.8	82	16.1	515	2.0	32	6.2
Between two and three years	433	2.4	44	10.2	254	0.9	13	5.1
Over three years	1,820	10.1	1,360	74.7	1,860	6.9	1,247	67.0
Total	**17,953**	**100.0**	**1,486**		**26,945**	**100.0**	**1,349**	

	The Company							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total other receivables %**	**Allowance RMB million**	**Percentage of allowance to other receivables balance %**	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %
Within one year	23,946	49.2	—	—	28,763	69.6	—	—
Between one and two years	12,920	26.6	1	—	2,740	6.6	1	—
Between two and three years	2,570	5.3	2	0.1	5,237	12.7	1	—
Over three years	9,219	18.9	1,159	12.6	4,573	11.1	1,122	24.5
Total	**48,655**	**100.0**	**1,162**		**41,313**	**100.0**	**1,124**	

At 31 December 2017 and 2016, the total amounts of the top five other receivables of the Group are set out below:

	At 31 December 2017	At 31 December 2016
Total amount (RMB million)	7,672	11,226
Ageing	Within one year	Within one year
Percentage to the total balance of other receivables	42.7%	41.7%
Allowance for doubtful accounts	—	—

During the year ended 31 December 2017 and 2016, the Group and the Company had no individually significant other receivables been fully or substantially provided allowance for doubtful accounts.

During the year ended 31 December 2017 and 2016, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

10 PREPAYMENTS

	The Group		The Company	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Amounts to subsidiaries	—	—	3,766	3,043
Amounts to Sinopec Group Company and fellow subsidiaries	126	206	99	58
Amounts to associates and joint ventures	63	24	—	—
Amounts to others	4,737	3,550	568	364
	4,926	**3,780**	**4,433**	**3,465**
Less: Allowance for doubtful accounts	25	31	4	11
Total	**4,901**	**3,749**	**4,429**	**3,454**

Ageing analysis of prepayments is as follows:

	The Group							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total prepayments %**	**Allowance RMB million**	**Percentage of allowance to prepayments balance %**	Amount RMB million	Percentage to total prepayments %	Allowance RMB million	Percentage of allowance to prepayments balance %
Within one year	4,605	93.5	—	—	3,465	91.7	—	—
Between one and two years	173	3.5	14	8.1	211	5.6	12	5.7
Between two and three years	85	1.7	4	4.7	72	1.9	1	1.4
Over three years	63	1.3	7	11.1	32	0.8	18	56.3
Total	**4,926**	**100.0**	**25**		**3,780**	**100.0**	**31**	

	The Company							
	At 31 December 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total prepayments %**	**Allowance RMB million**	**Percentage of allowance to prepayments balance %**	Amount RMB million	Percentage to total prepayments %	Allowance RMB million	Percentage of allowance to prepayments balance %
Within one year	4,227	95.3	—	—	3,306	95.4	—	—
Between one and two years	101	2.3	1	1.0	62	1.8	—	—
Between two and three years	25	0.6	—	—	13	0.4	—	—
Over three years	80	1.8	3	3.8	84	2.4	11	13.1
Total	**4,433**	**100.0**	**4**		**3,465**	**100.0**	**11**	

At 31 December 2017 and 2016, the total amounts of the top five prepayments of the Group are set out below:

	At 31 December 2017	At 31 December 2016
Total amount (RMB million)	1,472	1,354
Percentage to the total balance of prepayments	29.9%	35.8%

11 INVENTORIES

The Group

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Raw materials	85,975	75,680
Work in progress	14,774	14,141
Finished goods	84,448	65,772
Spare parts and consumables	2,651	1,838
	187,848	**157,431**
Less: Provision for diminution in value of inventories	1,155	920
Total	**186,693**	**156,511**

Provision for diminution in value of inventories is mainly against spare parts and consumables. For the year ended 31 December 2017, the provision for diminution in value of inventories of the Group was primarily due to the costs of spare parts and consumables of the refining segment and chemical segment were higher than their net realisable value.

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Equity securities, listed and at quoted market price	178	262
Other investment, unlisted and at cost	1,544	11,175
	1,722	**11,437**
Less: Impairment loss for investments	46	29
Total	**1,676**	**11,408**

Other investment, unlisted and at cost, represents the Group's interests in privately owned enterprises which are mainly engaged in oil and natural gas activities and chemical production.

The impairment losses relating to investments for the year ended 31 December 2017 amounted to 17 million (2016: nil).

13 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in joint ventures RMB million	Investments in associates RMB million	Provision for impairment losses RMB million	Total RMB million
Balance at 1 January 2017	50,696	66,838	(722)	116,812
Additions for the year	2,437	11,129	—	13,566
Share of profits less losses under the equity method	10,615	5,910	—	16,525
Change of other comprehensive income under the equity method	798	255	—	1,053
Other equity movement under the equity method	(6)	6	—	—
Dividends declared	(5,199)	(2,755)	—	(7,954)
Disposals for the year	—	(607)	—	(607)
Reclassification	(902)	(387)	—	(1,289)
Investments transferred to subsidiaries	(6,195)	—	—	(6,195)
Other movements	28	40	—	68
Movement of provision for impairment	—	—	(892)	(892)
Balance at 31 December 2017	**52,272**	**80,429**	**(1,614)**	**131,087**

The Company

	Investments in subsidiaries RMB million	Investments in joint ventures RMB million	Investments in associates RMB million	Provision for impairment losses RMB million	Total RMB million
Balance at 1 January 2017	245,921	15,496	14,691	(7,657)	268,451
Additions for the year	3,743	434	183	—	4,360
Share of profits less losses under the equity method	—	4,804	970	—	5,774
Change of other comprehensive loss under the equity method	—	—	(120)	—	(120)
Dividends declared	—	(2,190)	(145)	—	(2,335)
Disposals for the year	(375)	—	—	—	(375)
Investments transferred to subsidiaries	3,722	(3,722)	—	—	—
Movement of provision for impairment	—	—	—	(198)	(198)
Balance at 31 December 2017	**253,011**	**14,822**	**15,579**	**(7,855)**	**275,557**

For the year 2017, the Group and the Company had no individually significant long-term investment impairment.

Details of the Company's principal subsidiaries are set out in Note 56.

13 LONG-TERM EQUITY INVESTMENTS *(Continued)*

Principal joint ventures and associates of the Group are as fllows:

(a) Principal joint ventures and associates

Name of investees	Principal place of business	Register location	Legal representative	Principal activities	Registered Capital RMB million	Percentage of equity/voting right directly or indirectly held by the Company
1.Joint ventures						
Fujian Refining & Petrochemical Company Limited ("FREP")	PRC	PRC	Gu Yuefeng	Manufacturing refining oil products	14,758	50.00%
BASF-YPC Company Limited ("BASF-YPC")	PRC	PRC	Wang Jingyi	Manufacturing and distribution of petrochemical products	12,547	40.00%
Taihu Limited ("Taihu")	Russia	Cyprus	NA	Crude oil and natural gas extraction	25,000 USD	49.00%
Yanbu Aramco Sinopec Refining Company Ltd. ("YASREF")	Saudi Arabia	Saudi Arabia	NA	Petroleum refining and processing	1,560 million USD	37.50%
Sinopec SABIC Tianjin Petrochemical Company Limited ("Sinopec SABIC Tianjin")	PRC	PRC	UWAIDH AL-HARETHI	Manufacturing and distribution of petrochemical products	9,796	50.00%
2.Associates						
Sinopec Sichuan to East China Gas Pipeline Co., Ltd. ("Pipeline Ltd")	PRC	PRC	Quan Kai	Operation of natural gas pipelines and auxiliary facilities	200	50.00%
Sinopec Finance Company Limited ("Sinopec Finance")	PRC	PRC	Zhao Dong	Provision of non-banking financial services	18,000	49.00%
PAO SIBUR Holding ("SIBUR")	Russia	Russia	NA	Proccessing natural gas and manufacturing petrochemical products	21,784 million RUB	10.00%
Zhongtian Synergetic Energy Company Limited ("Zhongtian Synergetic Energy")	PRC	PRC	Peng Yi	Mining coal and manufacturing of coal-chemical products	17,516	38.75%
Caspian Investments Resources Ltd. ("CIR")	The Republic of Kazakhstan	British Virgin Islands	NA	Crude oil and natural gas extraction	10,000 USD	50.00%

Except that SIBUR is a public joint stock company, other joint ventures and associates above are limited companies.

13 LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(b) Major financial information of principal joint ventures

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

	FREP		BASF-YPC		Taihu		YASREF		Sinopec SABIC Tianjin	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Current assets										
Cash and cash equivalents	5,772	8,172	1,800	1,394	2,352	1,165	4,916	1,259	6,524	3,634
Other current assets	11,013	10,269	5,335	4,852	2,462	1,616	10,816	6,826	2,709	1,886
Total current assets	**16,785**	**18,441**	**7,135**	**6,246**	**4,814**	**2,781**	**15,732**	**8,085**	**9,233**	**5,520**
Non-current assets	**19,740**	**21,903**	**12,075**	**13,530**	**7,978**	**8,279**	**51,553**	**57,054**	**13,248**	**14,003**
Current liabilities										
Current financial liabilities (i)	(1,135)	(1,781)	(233)	(783)	(20)	(334)	(5,407)	(1,187)	(1,236)	—
Other current liabilities	(5,049)	(4,643)	(1,982)	(2,107)	(1,914)	(1,616)	(11,864)	(6,466)	(4,546)	(2,657)
Total current liabilities	**(6,184)**	**(6,424)**	**(2,215)**	**(2,890)**	**(1,934)**	**(1,950)**	**(17,271)**	**(7,653)**	**(5,782)**	**(2,657)**
Non-current liabilities										
Non-current financial liabilities(ii)	(13,654)	(19,985)	(955)	(1,492)	(72)	(49)	(35,619)	(43,028)	(4,101)	(5,337)
Other non-current liabilities	(236)	(252)	(19)	(10)	(2,686)	(2,130)	(890)	(1,004)	(41)	(32)
Total non-current liabilities	**(13,890)**	**(20,237)**	**(974)**	**(1,502)**	**(2,758)**	**(2,179)**	**(36,509)**	**(44,032)**	**(4,142)**	**(5,369)**
Net assets	**16,451**	**13,683**	**16,021**	**15,384**	**8,100**	**6,931**	**13,505**	**13,454**	**12,557**	**11,497**
Net assets attributable to owners of the company	16,451	13,683	16,021	15,384	7,818	6,690	13,505	13,454	12,557	11,497
Net assets attributable to minority interests	—	—	—	—	282	241	—	—	—	—
Share of net assets from joint ventures	8,226	6,842	6,409	6,154	3,831	3,278	5,064	5,045	6,279	5,749
Others (iii)	—	—	—	—	—	743	—	—	—	—
Carrying Amounts	**8,226**	**6,842**	**6,409**	**6,154**	**3,831**	**4,021**	**5,064**	**5,045**	**6,279**	**5,749**

Summarised income statement

Year ended 31 December	FREP		BASF-YPC		Taihu		YASREF		Sinopec SABIC Tianjin	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	49,356	41,764	21,020	17,323	12,520	9,658	61,587	41,286	22,286	16,337
Interest income	208	130	36	19	142	40	45	33	104	30
Interest expense	(857)	(929)	(71)	(173)	(142)	(113)	(1,382)	(1,216)	(223)	(245)
Profit before taxation	6,977	6,476	4,565	2,606	1,697	2,411	548	28	5,113	3,184
Tax expense	(1,699)	(1,574)	(1,151)	(648)	(553)	(518)	57	56	(1,279)	(783)
Profit for the year	5,278	4,902	3,414	1,958	1,144	1,893	605	84	3,834	2,401
Other comprehensive income/(loss)	—	—	—	—	25	1,851	(554)	647	—	—
Total comprehensive income	**5,278**	**4,902**	**3,414**	**1,958**	**1,169**	**3,744**	**51**	**731**	**3,834**	**2,401**
Dividends from joint ventures	1,250	—	1,109	155	—	—	—	—	1,375	300
Share of net profit from joint ventures	2,639	2,451	1,366	783	541	895	227	31	1,917	1,201
Share of other comprehensive income/(loss) from joint ventures (iv)	—	—	—	—	12	875	(208)	243	—	—

The share of profit and other comprehensive income for the year ended 31 December 2017 in all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 3,925 million (2016: RMB 2,061 million) and RMB 994 million (2016: other comprehensive loss RMB 934 million) respectively. As at 31 December 2017, the carrying amount of all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 21,552 million (2016: RMB 22,885 million).

Note:

(i) Excluding accounts payable, other payables.

(ii) Excluding provisions.

(iii) Other reflects the excess of fair value of the consideration transferred over the Group's share of net fair value of the investee's identifiable assets acquired and liabilities as of the transaction date.

13 LONG-TERM EQUITY INVESTMENTS *(Continued)*

(c) Major financial information of principal associates

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

	Pipeline Ltd		Sinopec Finance		SIBUR (v)	Zhongtian Synergetic Energy		CIR	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Current assets	11,317	11,835	161,187	149,457	20,719	8,232	7,292	5,612	5,120
Non-current assets	40,972	42,124	17,782	16,478	158,938	51,553	50,301	1,673	3,842
Current liabilities	(933)	(5,009)	(154,212)	(142,386)	(20,554)	(10,668)	(8,078)	(908)	(928)
Non-current liabilities	(3,176)	(3,350)	(6)	(88)	(61,771)	(31,494)	(32,137)	(170)	(883)
Net assets	**48,180**	**45,600**	**24,751**	**23,461**	**97,332**	**17,623**	**17,378**	**6,207**	**7,151**
Net assets attributable to owners of the Company	48,180	45,600	24,751	23,461	96,761	17,623	17,378	6,207	7,151
Net assets attributable to minority interests	—	—	—	—	571	—	—	—	—
Share of net assets from associates	24,090	22,800	12,128	11,496	9,676	6,829	6,734	3,104	3,576
Carrying Amounts	**24,090**	**22,800**	**12,128**	**11,496**	**9,676**	**6,829**	**6,734**	**3,104**	**3,576**

Summarised income statement

	Pipeline Ltd (vi)		Sinopec Finance		SIBUR (v)	Zhongtian Synergetic Energy		CIR	
Year ended 31 December	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	5,644	191	3,542	2,442	52,496	3,569	—	2,563	2,205
Profit/(loss) for the year	2,543	51	1,536	1,526	9,601	123	—	(610)	(3,518)
Other comprehensive (loss)/income	—	—	(246)	(175)	(260)	—	—	(334)	662
Total comprehensive income/(loss)	**2,543**	**51**	**1,290**	**1,351**	**9,341**	**123**	**—**	**(944)**	**(2,856)**
Dividends declared by associates	—	23	—	—	221	—	—	—	—
Share of profit/(loss) from associates	1,272	26	753	748	960	48	—	(305)	(1,759)
Share of other comprehensive (loss)/income from associates (iv)	—	—	(121)	(86)	(26)	—	—	(167)	331

The share of profit and other comprehensive income for the year ended 31 December 2017 in all individually immaterial associates accounted for using equity method in aggregate was RMB 3,182 million (2016: RMB 2,869 million) and RMB 569 million (2016: other comprehensive loss RMB 384 million) respectively. As at 31 December 2017, the carrying amount of all individually immaterial associates for using equity method in aggregate was RMB 23,899 million (2016: RMB 21,510 million).

Note:

(iv) Including foreign currency translation differences.

(v) Sinopec is able to exercise significant influence in SIBUR since Sinopec has a member in SIBUR's Board of Director and has a member in SIBUR's Management Board.

(vi) The summarised income statement for the year 2016 of Pipeline Ltd presents the operating results from the date when the Group lost control to 31 December 2016.

14 FIXED ASSETS

The Group

	Plants and buildings RMB million	Oil and gas properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2017	114,920	650,685	892,936	1,658,541
Additions for the year	854	1,627	11,983	14,464
Transferred from construction in progress	6,789	19,881	54,605	81,275
Reclassifications	(673)	(50)	723	—
Decreases for the year	(1,737)	(1,913)	(19,736)	(23,386)
Exchange adjustments	(140)	(2,573)	(199)	(2,912)
Balance at 31 December 2017	**120,013**	**667,657**	**940,312**	**1,727,982**
Accumulated depreciation:				
Balance at 1 January 2017	45,243	404,919	463,023	913,185
Additions for the year	4,075	55,057	46,585	105,717
Reclassifications	(122)	(77)	199	—
Decreases for the year	(771)	(1,488)	(11,466)	(13,725)
Exchange adjustments	(57)	(1,952)	(95)	(2,104)
Balance at 31 December 2017	**48,368**	**456,459**	**498,246**	**1,003,073**
Provision for impairment losses:				
Balance at 1 January 2017	3,329	30,642	20,791	54,762
Additions for the year	554	8,832	10,450	19,836
Reclassifications	—	—	—	—
Decreases for the year	(51)	(12)	(295)	(358)
Exchange adjustments	—	(104)	(1)	(105)
Balance at 31 December 2017	**3,832**	**39,358**	**30,945**	**74,135**
Net book value:				
Balance at 31 December 2017	**67,813**	**171,840**	**411,121**	**650,774**
Balance at 31 December 2016	**66,348**	**215,124**	**409,122**	**690,594**

The company

	Plants and buildings RMB million	Oil and gas properties RMB million	Equipment machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2017	47,586	540,499	443,485	1,031,570
Additions for the year	46	982	400	1,428
Transferred from construction in progress	2,260	15,609	19,636	37,505
Reclassifications	206	(46)	(160)	—
Transferred from subsidiaries	58	—	809	867
Transferred to subsidiaries	(652)	—	(503)	(1,155)
Decreases for the year	(482)	(1,911)	(6,728)	(9,121)
Balance at 31 December 2017	**49,022**	**555,133**	**456,939**	**1,061,094**
Accumulated depreciation:				
Balance at 1 January 2017	21,401	337,394	255,451	614,246
Additions for the year	1,618	43,305	21,397	66,320
Reclassifications	52	(75)	23	—
Transferred from subsidiaries	31	—	688	719
Transferred to subsidiaries	(470)	—	(282)	(752)
Decreases for the year	(230)	(1,487)	(5,428)	(7,145)
Balance at 31 December 2017	**22,402**	**379,137**	**271,849**	**673,388**
Provision for impairment losses:				
Balance at 1 January 2017	1,623	26,727	15,954	44,304
Additions for the year	361	7,556	6,042	13,959
Reclassifications	—	—	—	—
Transferred from subsidiaries	16	—	19	35
Transferred to subsidiaries	(165)	—	(27)	(192)
Decreases for the year	(38)	(12)	(164)	(214)
Balance at 31 December 2017	**1,797**	**34,271**	**21,824**	**57,892**
Net book value:				
Balance at 31 December 2017	**24,823**	**141,725**	**163,266**	**329,814**
Balance at 31 December 2016	**24,562**	**176,378**	**172,080**	**373,020**

14 FIXED ASSETS *(Continued)*

The additions to oil and gas properties of the Group and the Company for the year ended 31 December 2017 included RMB 1,627 million (2016: RMB 3,420 million) (Note 32) and RMB 982 million (2016: RMB 2,939 million), respectively of the estimated dismantlement costs for site restoration.

Impairment losses on fixed assets for the year ended 31 December 2017 primarily represent impairment losses recognised in the exploration and production ("E&P") segment of RMB 12,611 million (2016: RMB 10,594 million) on fixed assets, for the chemicals segment of RMB 4,779 million (2016: RMB 2,840 million) of fixed assets and for the refining segment of RMB 1,836 million (2016: RMB 1,245 million) of fixed assets. The primary factors resulting in the E&P segment impairment loss were downward revision of oil and gas reserve due to price change and high operating and development cost for certain oil fields.The carrying values of these E&P properties were written down to recoverable amounts which were determined based on the present values of the expected future cash flows of the assets using a pre-tax discount rate 10.47% (2016: 10.47%). Further future downward revisions to the Group's oil price outlook would lead to further impairments which, in aggregate, are likely to be material. It is estimated that a general decrease of 5% in oil price, with all other variables held constant, would result in additional impairment loss in Group's fixed assets relating to oil and gas producing activities by approximately RMB 3,145 million. It is estimated that a general increase of 5% in operating cost, with all other variables held constant, would result in additional impairment in Group's fixed assets relating to oil and gas producing activities by approximately RMB 2,659 million. It is estimated that a general increase of 5% in discount rate, with all other variables held constant, would result in additional impairment loss in Group's fixed assets relating to oil and gas producing activities by approximately RMB 461 million. The assets in the refining segment were written down due to the suspension of operations of certain production facilities, while the assets in the chemical segment were written down because of evidence indicates the economic performance of certain production facilities are worse than expected and due to the suspension of operations of certain production facilities.

At 31 December 2017 and 2016, the Group and the Company had no individually significant fixed assets which were pledged.

At 31 December 2017 and 2016, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2017 and 2016, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

15 CONSTRUCTION IN PROGRESS

	The Group RMB million	The Company RMB million
Cost:		
Balance at 1 January 2017	131,274	49,689
Additions for the year	85,552	45,701
Disposals for the year	(376)	—
Dry hole costs written off	(6,876)	(6,567)
Transferred to fixed assets	(81,275)	(37,505)
Reclassification to other assets	(7,773)	(859)
Exchange adjustments	(101)	—
Balance at 31 December 2017	**120,425**	**50,459**
Provision for impairment losses:		
Balance at 1 January 2017	1,693	412
Additions for the year	252	47
Decreases for the year	(165)	(46)
Balance at 31 December 2017	**1,780**	**413**
Net book value:		
Balance at 31 December 2017	**118,645**	**50,046**
Balance at 31 December 2016	**129,581**	**49,277**

At 31 December 2017, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB million	Balance at 1 January 2017 RMB million	Net change for the year RMB million	**Balance at 31 December 2017 RMB million**	**Percentage of Completion**	Source of funding	**Accumulated interest capitalised at 31 December 2017 RMB million**
Zhongke Refine Integration Project	34,667	3,274	3,716	6,990	20%	Bank loans & self-financing	25
Guangxi LNG Project	15,475	4,903	(2,538)	2,365	68%	Bank loans & self-financing	670
Wen 23 gas storage project (first-stage)	13,865	124	1,205	1,329	10%	Bank loans & self-financing	1
Tianjin LNG Project	13,639	8,213	(5,059)	3,154	78%	Bank loans & self-financing	148
Xinjiang coal-based substitute natural gas (SNG) export pipeline construction project (first-stage)	11,589	651	1,041	1,692	15%	Bank loans & self-financing	—

16 INTANGIBLE ASSETS

The Group

	Land use rights RMB million	Patents RMB million	Non-patent technology RMB million	Operation rights RMB million	Others RMB million	Total RMB million
Cost:						
Balance at 1 January 2017	68,467	4,378	4,134	36,908	4,013	117,900
Additions for the year	10,752	1,075	190	11,837	898	24,752
Decreases for the year	(3,491)	(293)	(479)	(132)	(249)	(4,644)
Balance at 31 December 2017	**75,728**	**5,160**	**3,845**	**48,613**	**4,662**	**138,008**
Accumulated amortisation:						
Balance at 1 January 2017	14,015	3,261	2,259	9,892	2,596	32,023
Additions for the year	4,082	162	515	4,338	448	9,545
Decreases for the year	(1,119)	(255)	—	(24)	(174)	(1,572)
Balance at 31 December 2017	**16,978**	**3,168**	**2,774**	**14,206**	**2,870**	**39,996**
Provision for impairment losses:						
Balance at 1 January 2017	211	483	24	120	16	854
Additions for the year	21	—	—	23	1	45
Decreases for the year	(8)	(1)	—	(4)	—	(13)
Balance at 31 December 2017	**224**	**482**	**24**	**139**	**17**	**886**
Net book value:						
Balance at 31 December 2017	**58,526**	**1,510**	**1,047**	**34,268**	**1,775**	**97,126**
Balance at 31 December 2016	**54,241**	**634**	**1,851**	**26,896**	**1,401**	**85,023**

Amortisation of the intangible assets of the Group charged for the year ended 31 December 2017 is RMB 4,468 million (2016: RMB 4,299 million).

17 GOODWILL

Goodwill is allocated to the following Group's cash-generating units:

Name of investees	Principal activities	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Sinopec Beijing Yanshan Petrochemical Branch ("Sinopec Yanshan")	Manufacturing of intermediate petrochemical products and petroleum products	1,004	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	Manufacturing of intermediate petrochemical products and petroleum products	4,043	4,043
Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO") (Note 53)	Production and sale of petrochemical products	2,541	—
Sinopec (Hong Kong) Limited	Trading of petrochemical products	879	941
Other units without individual significant goodwill		167	212
Total		**8,634**	**6,353**

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 10.8% to 11.4% (2016: 10.4% to 11.0%). Cash flows beyond the one-year period are maintained constant. Based on the estimated recoverable amount, no major impairment loss was recognised.

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

18 LONG-TERM DEFERRED EXPENSES

Long-term deferred expenses primarily represent prepaid rental expenses over one year and catalysts expenditures.

19 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities before the consolidated elimination adjustments are as follows:

	Deferred tax assets		Deferred tax liabilities	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Receivables and inventories	381	87	—	—
Accruals	1,925	391	—	—
Cash flow hedges	165	27	(50)	(242)
Fixed assets	14,150	11,264	(9,928)	(14,615)
Tax value of losses carried forward	2,325	2,477	—	—
Available-for-sale securities	117	—	—	—
Intangible assets	227	260	(563)	—
Others	180	133	(264)	(229)
Deferred tax assets/(liabilities)	**19,470**	**14,639**	**(10,805)**	**(15,086)**

The consolidated elimination amount between deferred tax assets and liabilities are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Deferred tax assets	4,339	7,425
Deferred tax liabilities	4,339	7,425

Deferred tax assets and liabilities after the consolidated elimination adjustments are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Deferred tax assets	15,131	7,214
Deferred tax liabilities	6,466	7,661

At 31 December 2017, certain subsidiaries of the Company did not recognise deferred tax of deductible loss carried forward of RMB 20,821 million (2016: RMB 19,194 million), of which RMB 5,938 million (2016: RMB 3,833 million) was incurred for the year ended 31 December 2017, because it was not probable that the related tax benefit will be realised. These deductible losses carried forward of RMB 2,508 million, RMB 4,462 million, RMB 4,080 million, RMB 3,833 million and RMB 5,938 million will expire in 2018, 2019, 2020, 2021, 2022 and after, respectively.

Periodically, management performed assessment on the probability that future taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have sufficient future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. During the year ended 31 December 2017, write-down of deferred tax assets amounted to RMB 26 million (2016: RMB 811 million) (Note 50).

20 OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent prepayments for construction projects and purchases of equipment.

21 DETAILS OF IMPAIRMENT LOSSES

At 31 December 2017, impairment losses of the Group are analysed as follows:

	Note	Balance at 1 January 2017 RMB million	Provision for the year RMB million	Written back for the year RMB million	Written off for the year RMB million	Other increase/ (decrease) RMB million	**Balance at 31 December 2017 RMB million**
Allowance for doubtful accounts							
Included: Accounts receivable	8	683	49	(100)	(21)	1	612
Other receivables	9	1,349	233	(74)	(18)	(4)	1,486
Prepayments	10	31	2	—	—	(8)	25
		2,063	**284**	**(174)**	**(39)**	**(11)**	**2,123**
Inventories	11	920	436	(13)	(190)	2	1,155
Long-term equity investments	13	722	936	—	(2)	(42)	1,614
Fixed assets	14	54,762	19,836	—	(372)	(91)	74,135
Construction in progress	15	1,693	252	—	(60)	(105)	1,780
Intangible assets	16	854	19	—	(1)	14	886
Goodwill	17	7,663	198	—	—	—	7,861
Others		43	17	—	—	(11)	49
Total		**68,720**	**21,978**	**(187)**	**(664)**	**(244)**	**89,603**

The reasons for recognising impairment losses are set out in the respective notes of respective assets.

22 SHORT-TERM LOANS

The Group's short-term loans represent:

	At 31 December 2017			At 31 December 2016		
	Original currency million	**Exchange rates**	**RMB million**	Original currency million	Exchange rates	RMB million
Short-term bank loans			31,105			11,944
–Renminbi loans			23,685			10,931
–US Dollar loans	1,136	6.5342	7,420	146	6.9370	1,013
Short-term other loans			299			—
–Renminbi loans			299			—
Short-term loans from Sinopec Group Company and fellow subsidiaries			23,297			18,430
–Renminbi loans			1,706			2,858
–US Dollar loans	3,010	6.5342	19,668	1,957	6.9370	13,577
–HK Dollar loans	2,277	0.8359	1,903	2,202	0.8945	1,969
–Euro loans	—	7.8023	—	1	7.3068	5
–Singapore Dollar loans	4	4.8831	20	4	4.7995	21
Total			**54,701**			**30,374**

At 31 December 2017, the Group's interest rates on short-term loans were from interest 0.70% to 6.09% (2016: from interest 0.68% to 6.19%). The majority of the above loans are by credit.

At 31 December 2017 and 2016, the Group had no significant overdue short-term loan.

23 BILLS PAYABLE

Bills payable primarily represented bank accepted bills for the purchase of material, goods and products. Bills payable were due within one year.

At 31 December 2017 and 2016, the Group had no overdue unpaid bills.

24 ACCOUNTS PAYABLE

At 31 December 2017 and 2016, the Group had no individually significant accounts payable aged over one year.

25 ADVANCES FROM CUSTOMERS

At 31 December 2017 and 2016, the Group had no individually significant advances from customers aged over one year.

26 EMPLOYEE BENEFITS PAYABLE

At 31 December 2017 and 2016, the Group's employee benefits payable primarily represented wages payable and social insurance payables.

27 TAXES PAYABLE

The Group

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Value-added tax payable	8,899	8,668
Consumption tax	39,623	29,682
Income tax	13,015	6,051
Mineral resources compensation fee	175	196
Other taxes	10,228	8,289
Total	**71,940**	**52,886**

28 OTHER PAYABLES

At 31 December 2017 and 2016, the Group's other payables primarily represented payables for constructions.

At 31 December 2017 and 2016, the Group had no individually significant other payables aged over three years.

29 NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

The Group's non-current liabilities due within one year represent:

	At 31 December 2017			At 31 December 2016		
	Original currency million	Exchange rates	RMB million	Original currency million	Exchange rates	RMB million
Long-term bank loans						
– Renminbi loans			1,379			8,753
– US Dollar loans	4	6.5342	23	6	6.9370	42
			1,402			**8,795**
Long-term loans from Sinopec Group Company and fellow subsidiaries						
– Renminbi loans			2,014			150
			2,014			**150**
Long-term loans due within one year			**3,416**			**8,945**
Debentures payable due within one year						
– Renminbi debentures			16,000			29,500
– US Dollar debentures	1,000	6.5342	6,532	—	6.9370	—
			22,532			**29,500**
Others			**733**			**527**
Non-current liabilities due within one year			**26,681**			**38,972**

At 31 December 2017 and 2016, the Group had no significant overdue long-term loan.

30 LONG-TERM LOANS

The Group's long-term loans represent:

	Interest rate and final maturity	At 31 December 2017 Original currency million	At 31 December 2017 Exchange rates	At 31 December 2017 RMB million	At 31 December 2016 Original currency million	At 31 December 2016 Exchange rates	At 31 December 2016 RMB million
Long-term bank loans							
– Renminbi loans	Interest rates ranging from interest 1.08% to 4.66% per annum at 31 December 2017 with maturities through 2030			25,644			26,058
– US Dollar loans	Interest rates ranging from interest 1.55% to 4.29% per annum at 31 December 2017 with maturities through 2031	29	6.5342	192	61	6.9370	426
Less: Current portion				(1,402)			(8,795)
Long-term bank loans				**24,434**			**17,689**
Long-term loans from Sinopec Group Company and fellow subsidiaries							
– Renminbi loans	Interest rates ranging from interest free to 4.99% per annum at 31 December 2017 with maturities through 2022			45,334			44,922
Less: Current portion				(2,014)			(150)
Long-term loans from Sinopec Group Company and fellow subsidiaries				**43,320**			**44,772**
Total				**67,754**			**62,461**

The maturity analysis of the Group's long-term loans is as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Between one and two years	16,822	3,957
Between two and five years	48,238	56,725
After five years	2,694	1,779
Total	**67,754**	**62,461**

Long-term loans are primarily unsecured, and carried at amortised costs.

31 DEBENTURES PAYABLE

The Group

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Short-term corporate bonds (i)	—	6,000
Debentures payable:		
– Corporate Bonds (ii)	53,902	84,485
Less: Current portion	(22,532)	(29,500)
Total	**31,370**	**54,985**

Note:

(i) The company issued 182-day corporate bonds of face value RMB 6 billion to corporate investors in the PRC debenture market on 12 September 2016 at par value of RMB 100. The effective cost of the 182-day corporate bonds is 2.54% per annum. The short-term bonds were due on 14 March 2017 and have been fully paid by the Group at maturity.

(ii) These corporate bonds are carried at amortised cost, including USD denominated corporate bonds of RMB 17,902 million, and RMB denominated corporate bonds of RMB 36,000 million (2016: USD denominated corporate bonds of RMB 18,985 million, and RMB denominated corporate bonds of RMB 65,500 million). At 31 December 2017, corporate bonds of RMB 17,902 million (2016: RMB 18,985 million) are guaranteed by Sinopec Group Company.

32 PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has established certain standardised measures for the dismantlement of its retired oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. Movement of provision of the Group's obligations for the dismantlement of its retired oil and gas properties is as follows:

	The Group RMB million
Balance at 1 January 2017	36,918
Provision for the year	1,627
Accretion expenses	1,501
Utilised for the year	(467)
Exchange adjustments	(172)
Balance at 31 December 2017	**39,407**

33 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities primarily represent long-term payables, special payables and deferred income.

34 SHARE CAPITAL

The Group

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Registered, issued and fully paid:		
95,557,771,046 domestic listed A shares (2016: 95,557,771,046) of RMB 1.00 each	95,558	95,558
25,513,438,600 overseas listed H shares (2016: 25,513,438,600) of RMB 1.00 each	25,513	25,513
Total	**121,071**	**121,071**

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

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

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

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

During the year ended 31 December 2010, the Company issued 88,774 listed A shares with a par value of RMB 1.00 each, as a result of exercise of 188,292 warrants entitled to the Bonds with Warrants.

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

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

On 14 February 2013, the Company issued 2,845,234,000 listed H shares ("the Placing") with a par value of RMB 1.00 each at the Placing Price of HKD 8.45 per share. The aggregate gross proceeds from the Placing amounted to approximately HKD 24,042,227,300.00 and the aggregate net proceeds (after deduction of the commissions and estimated expenses) amounted to approximately HKD 23,970,100,618.00.

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

During the year ended 31 December 2013, the Company issued 114,076 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2014, the Company issued 1,715,081,853 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2015, the Company issued 2,790,814,006 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

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

Capital management

Management optimises the structure of the Group's capital, which comprises of equity and debts and bonds. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans and bonds. Management monitors capital on the basis of the debt-to-capital ratio, which is calculated by dividing long-term loans (excluding current portion) and debentures payable, by the total of equity attributable to owners of the Company and long-term loans (excluding current portion) and debentures payable, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio of the Group at a range considered reasonable. As at 31 December 2017, the debt-to-capital ratio and the liability-to-asset ratio of the Group were 12.0% (2016: 14.2%) and 46.5% (2016: 44.5%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 30 and 57, respectively.

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

35 CAPITAL RESERVE

The movements in capital reserve of the Group are as follows:

	RMB million
Balance at 1 January 2017	119,525
Transaction with minority interests	(13)
Others	45
Balance at 31 December 2017	**119,557**

Capital reserve represents mainly: (a) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation; (b) share premiums derived from issuances of H shares and A shares by the Company and excess of cash paid by investors over their proportionate shares in share capital, the proportionate shares of unexercised portion of the Bond with Warrants at the expiration date, and the amount transferred from the proportionate liability component and the derivative component of the converted portion of the 2011 Convertible Bonds; (c) difference between consideration paid for the combination of entities under common control and the transactions with minority interests over the carrying amount of the net assets acquired.

36 OTHER COMPREHENSIVE INCOME

The Group

(a) Each item of other comprehensive income and the influence of the income tax and the process of change to profit or loss

	2017		
	Before-tax amount RMB million	**Tax effect RMB million**	**Net-of-tax amount RMB million**
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the year	(1,314)	240	(1,074)
Less/(Add): Adjustments of amounts transferred to initial carrying amount of hedged items	4	(1)	3
Total amounts transferred to profit or loss from other comprehensive income during the year	575	(72)	503
Subtotal	**(1,893)**	**313**	**(1,580)**
Changes in fair value of available-for-sale financial assets recongnised during the year	(57)	—	(57)
Less: Total amounts transferred to profit or loss from other comprehensive income during the year	—	—	—
Subtotal	**(57)**	**—**	**(57)**
Share of other comprehensive income in associates and joint ventures	1,053	—	1,053
Subtotal	**1,053**	**—**	**1,053**
Translation difference in foreign currency statements	(3,792)	—	(3,792)
Subtotal	**(3,792)**	**—**	**(3,792)**
Other comprehensive income	**(4,689)**	**313**	**(4,376)**

	2016		
	Before-tax amount RMB million	Tax effect RMB million	Net-of-tax amount RMB million
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the year	(3,813)	652	(3,161)
(Add)/Less: Adjustments of amounts transferred to initial carrying amount of hedged items	(13)	2	(11)
Total amounts transferred to profit or loss from other comprehensive income during the year	(6,279)	1,115	(5,164)
Subtotal	**2,479**	**(465)**	**2,014**
Changes in fair value of available-for-sale financial assets recongnised during the year	(17)	(7)	(24)
Less: Total amounts transferred to profit or loss from other comprehensive income during the year	—	—	—
Subtotal	**(17)**	**(7)**	**(24)**
Share of other comprehensive loss in associates and joint ventures	45	—	45
Subtotal	**45**	**—**	**45**
Translation difference in foreign currency statements	4,298	—	4,298
Subtotal	**4,298**	**—**	**4,298**
Other comprehensive income	**6,805**	**(472)**	**6,333**

36 OTHER COMPREHENSIVE INCOME *(Continued)*

The Group *(Continued)*

(b) Reconciliation of other comprehensive income

	Equity Attributable to shareholders of the company					Minority interests	Total other comprehensive income
	The share of other comprehensive income which being reclassified to profit and loss in the future under equity method RMB Million	Changes in fair value of available-for-sale financial assets RMB Million	Cash flow hedges RMB Million	Translation difference in foreign currency statements RMB Million	Subtotal RMB Million	RMB Million	RMB Million
31 December 2015	(6,557)	114	(838)	(703)	(7,984)	(1,169)	(9,153)
Changes in 2016	2,396	(17)	1,970	2,703	7,052	(719)	6,333
31 December 2016	(4,161)	97	1,132	2,000	(932)	(1,888)	(2,820)
Changes in 2017	680	(40)	(1,642)	(2,479)	(3,481)	(895)	(4,376)
31 December 2017	(3,481)	57	(510)	(479)	(4,413)	(2,783)	(7,196)

37 SPECIFIC RESERVE

According to relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemicals products or based on the production volume of crude oil and natural gas. The movements of specific reserve are as follows:

	The Group RMB million
Balance at 1 January 2017	765
Provision for the year	3,280
Utilisation for the year	(3,157)
Balance at 31 December 2017	**888**

38 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group		
	Statutory surplus reserve RMB million	Discretionary surplus reserves RMB million	Total RMB million
Balance at 1 January 2017	79,640	117,000	196,640
Appropriation	3,042	—	3,042
Balance at 31 December 2017	**82,682**	**117,000**	**199,682**

The PRC Company Law and Articles of Association of the Company have set out the following profit appropriation plans:

(a) 10% of the net profit is transferred to the statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is needed;

(b) After the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the shareholders' meeting.

39 OPERATING INCOME AND OPERATING COSTS

	The Group		The Company	
	2017	2016	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million
Income from principal operations	2,300,470	1,880,190	824,100	696,211
Income from other operations	59,723	50,721	33,378	29,967
Total	**2,360,193**	**1,930,911**	**857,478**	**726,178**
Operating costs	**1,890,398**	**1,492,165**	**633,114**	**513,514**

The income from principal operations mainly represents revenue from sales of crude oil, natural gas,refined petroleum products and chemical products. The income from other operations mainly represents revenue from sale of materials, service, rental income and others. Operating costs primarily represent the products cost related to the principal operations. The Group's segmental information is set out in Note 59.

40 TAXES AND SURCHARGES

The Group

	2017	2016
	RMB million	RMB million
Consumption tax	192,907	193,836
City construction tax	18,274	18,155
Education surcharge	13,811	13,695
Resources tax	4,841	3,871
Other taxes	5,459	2,449
Total	**235,292**	**232,006**

The applicable tax rate of the taxes and surcharges are set out in Note 4.

41 FINANCIAL EXPENSES

The Group

	2017	2016
	RMB million	RMB million
Interest expenses incurred	6,368	9,021
Less: Capitalised interest expenses	723	859
Net interest expenses	**5,645**	**8,162**
Accretion expenses (Note 32)	1,501	1,057
Interest income	(5,254)	(3,218)
Net foreign exchange (gain)/loss	(332)	610
Total	**1,560**	**6,611**

The interest rates per annum at which borrowing costs were capitalised during the year ended 31 December 2017 by the Group ranged from 2.37% to 4.41% (2016: 2.65% to 4.82%).

42 CLASSIFICATION OF EXPENSES BY NATURE

The operation costs, selling and distribution expenses, general and administrative expenses and exploration expenses (including dry holes) in consolidated income statement classified by nature are as follows:

	2017	2016
	RMB million	RMB million
Purchased crude oil, products and operating supplies and expenses	1,770,651	1,379,691
Personnel expenses	74,854	63,887
Depreciation, depletion and amortization	115,310	108,425
Exploration expenses (including dry holes)	11,089	11,035
Other expenses	64,566	63,867
Total	**2,036,470**	**1,626,905**

43 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and written-off of unsuccessful dry hole costs.

44 IMPAIRMENT LOSSES

The Group

	2017 RMB million	2016 RMB million
Receivables (Note 8,9,10)	110	231
Inventories (Note 11)	423	420
Long-term equity investment (Note 13)	936	1
Fixed assets (Note 14)	19,836	14,921
Construction in Progress (Note 15)	252	1,486
Intangible assets (Note 16)	19	11
Others	215	6
Total	**21,791**	**17,076**

45 GAIN FROM CHANGES IN FAIR VALUE

The Group

	2017 RMB million	2016 RMB million
Changes in fair value of financial assets and financial liabilities at fair value through loss, net	(157)	(160)
Unrealised gains from ineffective portion cash flow hedges, net	103	11
Others	41	(67)
Total	**(13)**	**(216)**

46 INVESTMENT INCOME

	The Group		The Company	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million
Income from investment of subsidiaries accounted for under cost method	—	—	31,118	17,769
Income from investment accounted for under equity method	16,525	9,306	5,774	3,749
Investment (loss)/income from disposal of long-term equity investments	(26)	11	(21)	(6)
Investment income from holding/disposal of available-for-sale financial assets	199	173	13	4
Investment income from holding/disposal of financial assets and liabilities and derivative financial instruments at fair value through profit or loss	(752)	355	—	—
(Losses)/gains from ineffective portion of cash flow hedge	(916)	293	(88)	(135)
Investment income on loss of control and remeasuring interests in the Pipeline Ltd (Note 13(vi))	—	20,562	—	20,562
Gain on remeasurement of interests in Shanghai SECCO (Note53)	3,941	—	—	—
Others	89	79	1,262	1,576
Total	**19,060**	**30,779**	**38,058**	**43,519**

47 OTHER INCOME

Other income are mainly the government grants related to the business activities.

48 NON-OPERATING INCOME

The Group

	2017 RMB million	2016 RMB million
Government grants	427	3,987
Others	890	719
Total	**1,317**	**4,706**

49 NON-OPERATING EXPENSES

The Group

	2017 RMB million	2016 RMB million
Fines, penalties and compensation	89	152
Donations	152	133
Others	1,468	1,933
Total	**1,709**	**2,218**

50 INCOME TAX EXPENSE

The Group

	2017 RMB million	2016 RMB million
Provision for income tax for the year	26,668	21,313
Deferred taxation	(10,317)	(834)
Under-provision for income tax in respect of preceding year	(72)	228
Total	**16,279**	**20,707**

Reconciliation between actual income tax expense and accounting profit at applicable tax rates is as follows:

	2017 RMB million	2016 RMB million
Profit before taxation	86,573	79,877
Expected income tax expense at a tax rate of 25%	21,643	19,969
Tax effect of non-deductible expenses	1,936	1,569
Tax effect of non-taxable income	(5,939)	(2,757)
Tax effect of preferential tax rate (i)	(793)	83
Effect of income taxes at foreign operations (ii)	(1,394)	299
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(613)	(453)
Tax effect of tax losses not recognised	1,485	958
Write-down of deferred tax assets	26	811
Adjustment for under provision for income tax in respect of preceding years	(72)	228
Actual income tax expense	**16,279**	**20,707**

Note:

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

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

51 DIVIDENDS

(a) Dividends of ordinary shares declared after the balance sheet date

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 23 March 2018, the directors authorised to declare the final dividends during the year ended 31 December 2017 of RMB 0.40 per share totaling RMB 48,428 million. Dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

(b) Dividends of ordinary shares declared during the year

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 25 August 2017, the directors authorised to declare the interim dividends for the year ended 31 December 2017 of RMB 0.10 per share totaling RMB 12,107 million.

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2017, a final dividend of RMB 0.17 per share totaling RMB 20,582 million of the year ended 31 December 2016 was declared.

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 26 August 2016, the directors authorised to declare the interim dividends for the year ended 31 December 2016 of RMB 0.079 per share totaling RMB 9,565 million.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2016, a final dividend of RMB 0.06 per share totaling RMB 7,264 million of the year ended 31 December 2015 was declared.

52 SUPPLEMENTAL INFORMATION TO THE CASH FLOW STATEMENT

The Group

(a) Reconciliation of net profit to cash flows from operating activities:

	2017 RMB million	2016 RMB million
Net profit	70,294	59,170
Add: Impairment losses on assets	21,791	17,076
Depreciation of fixed assets	106,149	99,592
Amortisation of intangible assets and long-term deferred expenses	9,161	8,833
Dry hole costs written off	6,876	7,467
Net loss on disposal of non-current assets	1,518	1,528
Fair value loss	13	216
Financial expenses	676	4,336
Investment income	(19,060)	(30,779)
(Increase)/decrease in deferred tax assets	(4,707)	1,719
Decrease in deferred tax liabilities	(5,610)	(2,553)
Increase in inventories	(28,903)	(11,364)
Safety fund reserve	126	160
Increase in operating receivables	(31,151)	(22,549)
Increase in operating payables	63,762	81,691
Net cash flow from operating activities	**190,935**	**214,543**

(b) Net change in cash:

	2017 RMB million	2016 RMB million
Cash balance at the end of the year	113,218	124,468
Less: Cash at the beginning of the year	124,468	68,933
Net (decrease)/increase of cash	**(11,250)**	**55,535**

(c) The analysis of cash held by the Group is as follows:

	2017 RMB million	2016 RMB million
Cash at bank and on hand		
– Cash on hand	14	10
– Demand deposits	113,204	124,458
Cash at the end of the year	**113,218**	**124,468**

53 BUSINESS COMBAINATION

(a) Business combination involving entities not under common control

Business combination under different control in this year

On 26 October 2017, a subsidiary of the Company, Gaoqiao Petrochemical Co., Ltd., purchased 50% equity interest in Shanghai SECCO from BP Chemicals East China Investment Limited with a cash consideration of RMB 10,135 million ("the Transaction"). Before the Transaction, the Company and one of its subsidiaries held 30% and 20% equity interest in Shanghai SECCO, respectively. After the Transaction, the Company, together with its subsidiaries, hold 100% equity interest of Shanghai SECCO, which became a subsidiary of the Company.

Shanghai SECCO is principally engaged in the production and sale of petrochemical products including acrylonitrile, polystyrene, polyethylene, etc.

Acquiree	Time of acquisition	Cost of acquisition	Share of acquired equity	Acquisition method	Acquisition date	Basis of determination on the acquisition date	Income of the acquiree from the acquisition date to end of year	Net profits of the acquiree from the acquisition date to end of year	Operating cash flow of the acquiree from the acquisition date to end of year	Net cash flow of the acquiree from the acquisition date to end of year
Shanghai SECCO	26/10/2017	RMB 10,135 million	50%	Cash	26/10/2017	Acquirer gaining actual control over acquiree	RMB 5,222 million	RMB 726 million	RMB 1,639 million	RMB 7,205 million

Details of combination cost and goodwill are as follows:

	Shanghai SECCO RMB million
Purchase consideration	
– Cash consideration for the purchase of 50% equity interest acquired	10,135
– Acquisition-date fair value of the 50% equity interest held before the acquisition	10,135
Total purchase consideration	20,270
Less: Net assets acquired	17,729
Goodwill (Note 17)	**2,541**

Details of the net assets acquired are as follows:

	Fair value at the Acquisition Date	Book value at the Acquisition Date	Book value At December 31 2016
Cash and cash equivalents	5,653	5,653	2,343
Bills receivable	641	641	621
Accounts and other receivables	558	558	251
Inventories	1,702	1,558	1,643
Prepayments	1,349	1,349	354
Other current assets	761	791	386
Total current assets	**10,664**	**10,550**	**5,598**
Fixed assets	9,587	4,860	5,665
Construction in progress	231	229	117
Intangible assets	2,937	662	613
Long-term deferred expenses	117	117	168
Deferred tax assets	11	12	19
Other non-current assets	—	7	—
Total non-current assets	**12,883**	**5,887**	**6,582**
Total assets	**23,547**	**16,437**	**12,180**
Accounts and other payables	(2,115)	(2,115)	(936)
Bills payable	—	—	(35)
Advances from customers	(383)	(383)	(376)
Employee benefits payable	(96)	(96)	(99)
Taxes payable	(1,438)	(1,438)	(538)
Total current liabilities	**(4,032)**	**(4,032)**	**(1,984)**
Deferred tax liabilities	(1,786)	—	—
Net assets acquired	17,729	12,405	10,196

The goodwill is attributable to the high profitability of the acquired business and synergy to be achieved post the Transaction among Shanghai SECCO and the Group's existing petrochemical operations located in eastern China.

As of Acquisition Date, a gain of RMB 3,941 million was recognised as a result of remeasuring the 50% equity interest held before the Transaction to its fair value, which is included in investment income (Note 46) in the Group's consolidated income statement for the year ended 31 December 2017.

53 BUSINESS COMBAINATION *(Continued)*

(b) Business combination involving entities under common control

Pursuant to the resolution passed at the Directors' meeting on 29 October 2015, the Company entered into the JV Agreement with Sinopec Assets Management Corporation ("SAMC") in relation to the formation of the Gaoqiao Petrochemical Co., Ltd. According to the JV Agreement, the Company and SAMC jointly set up Gaoqiao Petrochemical Co., Ltd. for RMB 100 million in cash in 2016. Subsequently, the Company subscribed capital contribution with the net assets of Gaoqiao Branch of the Company and SAMC subscribed capital contribution with the net assets of Gaoqiao Branch of SAMC. The capital contribution was completed on 1 June 2016, after which the Company held 55% of Gaoqiao Petrochemical Co., Ltd.'s voting rights and became the parent company of Gaoqiao Petrochemical Co., Ltd.

As Sinopec Group Company controls both the Group and SAMC, the non–cash transaction described above between Sinopec and SAMC has been accounted as business combination under common. Accordingly, the assets and liabilities of Gaoqiao Branch of SAMC have been accounted for at historical cost, and the consolidated financial statements of the Group prior to these acquisitions have been restated to include the results of operation and the assets and liabilities of Gaoqiao Branch of SAMC on a combined basis.

54 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties having the ability to exercise control over the Group

The name of the company	:	China Petrochemical Corporation
Unified social credit identifier	:	9111000010169286X1
Registered address	:	No. 22, Chaoyangmen North Street, Chaoyang District, Beijing
Principal activities	:	Exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipments; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; import & export of goods and technology.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Wang Yupu
Registered capital	:	RMB 274,867 million

Sinopec Group Company is an enterprise controlled by the PRC government. Sinopec Group Company directly and indirectly holds 71.32% shareholding of the Company.

(2) Related parties not having the ability to exercise control over the Group

Related parties under common control of a parent company with the Company:
Sinopec Finance (Note)
Sinopec Shengli Petroleum Administration Bureau
Sinopec Zhongyuan Petroleum Exploration Bureau
Sinopec Assets Management Corporation
Sinopec Engineering Incorporation
Sinopec Century Bright Capital Investment Limited
Sinopec Petroleum Storage and Reserve Limited

Associates of the Group:
Pipeline Ltd
Sinopec Finance
SIBUR
Zhongtian Synergetic Energy
CIR

Joint ventures of the Group:
FREP
BASF-YPC
Taihu
YASREF
Sinopec SABIC Tianjin

Note: Sinopec Finance is under common control of a parent company with the Company and is also the associate of the Group.

54 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

	Note	The Group 2017 RMB million	2016 RMB million
Sales of goods	(i)	244,211	194,179
Purchases	(ii)	165,993	118,242
Transportation and storage	(iii)	7,716	1,333
Exploration and development services	(iv)	21,210	27,201
Production related services	(v)	20,824	10,816
Ancillary and social services	(vi)	6,653	6,584
Operating lease charges for land	(vii)	8,015	10,474
Operating lease charges for buildings	(vii)	510	449
Other operating lease charges	(vii)	626	456
Agency commission income	(viii)	127	129
Interest income	(ix)	807	209
Interest expense	(x)	554	996
Net deposits placed with related parties	(ix)	(7,441)	(21,770)
Net loans obtained from/(repaid to) related parties	(xi)	5,279	(24,877)

The amounts set out in the table above in respect of the year ended 31 December 2017 and 2016 represent the relevant costs and income as determined by the corresponding contracts with the related parties.

Included in the transactions disclosed above, for the year ended 31 December 2017 are: a) purchases by the Group from Sinopec Group Company and fellow subsidiaries amounting to RMB 128,350 million (2016: RMB 114,526 million) comprising purchases of products and services (i.e. procurement, transportation and storage, exploration and development services and production related services) of RMB 112,619 million (2016: RMB 96,023 million), ancillary and social services provided by Sinopec Group Company and fellow subsidiaries of RMB 6,652 million (2016: RMB 6,584 million), operating lease charges for land and buildings paid by the Group of RMB 8,015 million and 510 million (2016: RMB 10,474 million and RMB 449 million), respectively and interest expenses of RMB 554 million (2016: RMB 996 million); and b) sales by the Group to Sinopec Group Company and fellow subsidiaries amounting to RMB 60,045 million (2016: RMB 56,251 million), comprising RMB 59,213 million (2016: RMB 56,010 million) for sales of goods, RMB 807 million (2016: RMB 209 million) for interest income and RMB 25 million (2016: RMB 32 million) for agency commission income.

As at 31 December 2017 and 2016, there was no guarantee given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, except for the disclosure set out in Note 58(b). Guarantees given to banks by the Group in respect of banking facilities to associates and joint ventures are disclosed in Note 58(b).

Note:

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

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

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

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

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

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

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

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

(ix) Interest income represents interest received from deposits placed with Sinopec Finance and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.

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

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

54 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the year ended 31 December 2017. The terms of these agreements are summarised as follows:

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

- the government-prescribed price;
- where there is no government-prescribed price, the government-guidance price;
- where there is neither a government-prescribed price nor a government-guidance price, the market price; or
- where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

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

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

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

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

54 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(4) Balances with Sinopec Group Company and fellow subsidiaries, associates and joint ventures

The balances with the Group's related parties at 31 December 2017 and 2016 are as follows:

	The ultimate holding company		Other related companies	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Cash and cash equivalents	—	—	47,514	40,073
Accounts receivable	19	25	12,884	10,953
Other receivables	33	33	5,411	12,827
Prepayments and other current assets	—	—	189	570
Other non-current assets	—	—	20,726	20,385
Accounts payable	43	3	22,806	19,416
Advances from customers	12	13	2,763	1,969
Other payables	104	178	18,111	19,430
Other non-current liabilities	—	—	10,165	9,998
Short-term loans	—	—	23,297	18,430
Long-term loans (including current portion) (Note)	—	—	45,334	44,922

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

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 22 and Note 30.

As at and for the year ended 31 December 2017 and 2016, no individually significant impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and joint ventures.

(5) Key management personnel emoluments

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

	2017 RMB thousand	2016 RMB thousand
Short-term employee benefits	5,344	5,648
Retirement scheme contributions	424	499
Total	**5,768**	**6,147**

55 PRINCIPAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Oil and gas properties and reserves

The accounting for the exploration and production segment's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. The Group has used the successful efforts method to account for oil and gas business activities. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense. These costs primarily include dry hole costs, seismic costs and other exploratory costs.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates. Oil and gas reserves have a direct impact on the assessment of the recoverability of the carrying amounts of oil and gas properties reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by changes in depreciation expense or an immediate write-down of the property's carrying amount.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Capitalised costs of proved oil and gas properties are amortised on a unit-of-production method based on volumes produced and reserves.

(b) Impairment for assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "ASBE 8 – Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows. It is difficult to precisely estimate the fair value because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value of expected future cash flows, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to sales volume, selling price, amount of operating costs and discount rate. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price, amount of operating costs and discount rate.

(c) Depreciation

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

(d) Allowances for doubtful accounts

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

(e) Allowance for diminution in value of inventories

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

56 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries have been consolidated into the Group's financial statements for the year ended 31 December 2017. The following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group:

Full name of enterprise	Principal activities	Registered capital/paid-up capital million	Actual investment at 31 December 2017 million	Percentage of equity interest/ voting right held by the Group %	Minority Interests at 31 December 2017 RMB million
(a) Subsidiaries acquired through group restructuring:					
China Petrochemical International Company Limited	Trading of petrochemical products	RMB 1,400	RMB 1,856	100.00	27
China International United Petroleum and Chemical Company Limited	Trading of crude oil and petrochemical products	RMB 3,000	RMB 4,585	100.00	4,072
Sinopec Catalyst Company Limited	Production and sale of catalyst products	RMB 1,500	RMB 1,562	100.00	225
Sinopec Yangzi Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 13,203	RMB 15,651	100.00	—
Sinopec Pipeline Storage & Transportation Company Limited	Pipeline storage and transportation of crude oil	RMB 12,000	RMB 12,000	100.00	—
Sinopec Lubricant Company Limited	Production and sale of refined petroleum products, lubricant base oil, and petrochemical materials	RMB 3,374	RMB 3,374	100.00	56
Sinopec Yizheng Chemical Fibre Limited Liability Company	Production and sale of polyester chips and polyester fibres	RMB 4,000	RMB 6,713	100.00	—
Sinopec Marketing Company Limited ("Marketing Company")	Marketing and distribution of refined petroleum products	RMB 28,403	RMB 20,000	70.42	63,006
Sinopec Kantons Holdings Limited ("Sinopec Kantons")	Trading of crude oil and petroleum products	HKD 248	HKD 3,952	60.34	3,788
Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical")	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products	RMB 10,814	RMB 5,820	50.49	14,275
Fujian Petrochemical Company Limited ("Fujian Petrochemical") (i)	Manufacturing of plastics, intermediate petrochemical products and petroleum products	RMB 6,898	RMB 3,737	50.00	4,930
(b) Subsidiaries established by the Group:					
Sinopec International Petroleum Exploration and Production Limited ("SIPL")	Investment in exploration, production and sale of petroleum and natural gas	RMB 8,000	RMB 8,000	100.00	15,215
Sinopec Overseas Investment Holding Limited ("SOIH")	Investment holding	USD 1,638	USD 1,638	100.00	54
Sinopec Chemical Sales Company Limited	Marketing and distribution of petrochemical products	RMB 1,000	RMB 1,165	100.00	68
Sinopec Great Wall Energy & Chemical Company Limited	Coal chemical industry investment management, production and sale of coal chemical products	RMB 22,761	RMB 22,759	100.00	49
Sinopec Beihai Refining and Chemical Limited Liability Company	Import and processing of crude oil, production, storage and sale of petroleum products and petrochemical products	RMB 5,294	RMB 5,240	98.98	98
Sinopec Qingdao Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 5,000	RMB 4,250	85.00	1,527
Sinopec-SK(Wuhan) Petrochemical Company Limited ("Zhonghan Wuhan")	Production, sale, research and development of ethylene and downstream byproducts	RMB 6,270	RMB 4,076	65.00	3,941
(c) Subsidiaries acquired through business combination under common control:					
Sinopec Hainan Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 3,986	RMB 2,990	75.00	2,153
Sinopec Qingdao Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 1,595	RMB 7,233	100.00	—
Gaoqiao Petrochemical Company Limited (Note 53)	Manufacturing of intermediate petrochemical products and petroleum products	RMB 10,000	RMB 4,804	55.00	5,400
(d) Subsidiaries acquired through business combination not under common control:					
Sinopec Zhanjiang Dongxing Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 4,397	RMB 3,225	75.00	1,297
Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO") (Note 53)	Production and sale of petrochemical products	RMB 7,801	RMB 7,801	67.60	5,989

* The minority interests of subsidiaries which the Group holds 100% of equity interests at the end of the year are the minority interests of their subsidiaries.

Except for Sinopec Kantons and SOIH, which are incorporated in Bermuda and Hong Kong, respectively, all of the above principal subsidiaries are incorporated and operate their businesses principally in the PRC.

Note:

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

56 PRINCIPAL SUBSIDIARIES *(Continued)*

Summarised financial information on subsidiaries with material minority interests

Set out below are the summarised financial information which the amount before inter-company eliminations for each subsidiary that has minority interests that are material to the Group.

Summarised consolidated balance sheet

	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Shanghai SECCO	Zhonghan Wuhan	
	At 31 December 2017 RMB million	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million	**At 31 December 2017 RMB million**	**At 31 December 2017 RMB million**	At 31 December 2016 RMB million
Current assets	156,494	121,260	19,555	18,116	19,866	14,876	992	926	1,196	1,352	11,602	1,636	1,489
Current liabilities	(212,620)	(168,366)	(7,118)	(824)	(10,922)	(8,942)	(376)	(812)	(2,351)	(2,891)	(4,174)	(3,975)	(7,521)
Net current (liabilities)/assets	**(56,126)**	**(47,106)**	**12,437**	**17,292**	**8,944**	**5,934**	**616**	**114**	**(1,155)**	**(1,539)**	**7,428**	**(2,339)**	**(6,032)**
Non-current assets	253,455	246,514	34,769	40,067	19,743	19,248	9,925	7,845	13,089	13,228	12,797	13,598	14,686
Non-current liabilities	(1,774)	(1,460)	(28,523)	(39,322)	(146)	(150)	(681)	(721)	(2,430)	(3,101)	(1,740)	—	—
Net non-current assets	**215,681**	**245,054**	**6,246**	**745**	**19,597**	**19,098**	**9,244**	**7,124**	**10,659**	**10,127**	**11,057**	**13,598**	**14,686**

Summarised consolidated statement of comprehensive income and cash flow

Year ended 31 December	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Shanghai SECCO(ii)	Zhonghan Wuhan	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	**2017 RMB million**	2016 RMB million
Turnover	1,221,530	1,050,294	6,136	4,016	92,014	77,894	6,068	4,968	1,498	1,512	5,222	16,139	11,703
Profit/(loss) for the year	27,517	26,461	1,075	(4,604)	6,152	5,969	2,757	2,513	1,046	860	726	2,733	1,558
Total comprehensive income/(loss)	**26,983**	**27,385**	**396**	**(2,481)**	**6,152**	**5,988**	**2,757**	**2,513**	**1,146**	**879**	**726**	**2,733**	**1,558**
Comprehensive income/(loss) attributable to minority interests	9,033	9,028	(38)	(3,279)	3,081	2,966	1,378	1,256	433	349	235	957	545
Dividends paid to minority interests	9,544	4,932	—	—	1,344	563	625	—	70	51	—	—	—
Net cash generated from/(used in) operating activities	**51,038**	**50,840**	**2,758**	**2,576**	**7,078**	**7,211**	**(558)**	**617**	**968**	**505**	**1,639**	**2,976**	**3,636**

Note:

(ii) The summarised consolidated statement of comprehensive income and cash flow of Shanghai SECCO presents the results from the acquisition date to 31 December 2017.

57 COMMITMENTS

Operating lease commitments

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

At 31 December 2017 and 2016, the future minimum lease payments of the Group under operating leases are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Within one year	11,114	14,917
Between one and two years	11,492	14,228
Between two and three years	10,730	13,966
Between three and four years	10,552	13,217
Between four and five years	10,428	12,980
After five years	202,806	275,570
Total	**257,122**	**344,878**

Capital commitments

At 31 December 2017 and 2016, the capital commitments of the Group are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Authorised and contracted for (i)	120,386	116,379
Authorised but not contracted for	57,997	31,720
Total	**178,383**	**148,099**

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

Note:

(i) The investment commitments of the Group is RMB 3,364 million (2016: RMB 4,173 million).

Commitments to joint ventures

Pursuant to certain of the joint venture agreements entered into by the Group, the Group is obliged to purchase products from the joint ventures based on market prices.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of the production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually and recognised in profit and loss. Payments incurred were approximately RMB 308 million for the year ended 31 December 2017 (2016: RMB 333 million).

Estimated future annual payments of the Group are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Within one year	205	263
Between one and two years	83	123
Between two and three years	32	25
Between three and four years	28	24
Between four and five years	28	25
After five years	882	867
Total	**1,258**	**1,327**

The implementation of commitments in previous year and the Group's commitments did not have material discrepancy.

58 CONTINGENT LIABILITIES

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.

(b) At 31 December 2017 and 2016, guarantees by the Group in respect of facilities granted to the parties below are as follows:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Joint ventures	940	658
Associates (i)	13,520	11,545
Others	9,732	10,669
Total	**24,192**	**22,872**

(i) The group provided a guarantee in respect to standby credit facilities granted to Zhongtian Synergetic Energy by banks amount to RMB 17,050 million. As at 31 December 2017, the amount withdrawn by Zhongtian Synergetic Energy from banks and guaranteed by the group was RMB 13,520 million.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss will occur, and recognises any such losses under guarantees when those losses are reliably estimable. At 31 December 2017 and 2016, it was not probable that the Group will be required to make payments under the guarantees. Thus no liabilities have been accrued for a loss related to the Group's obligation under these guarantee arrangements.

Environmental contingencies

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

The Group paid normal routine pollutant discharge fees of approximately RMB 7,851 million for the year ended 31 December 2017 (2016: RMB 6,358 million).

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

59 SEGMENT REPORTING

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

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

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

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

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

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

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

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

59 SEGMENT REPORTING *(Continued)*

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

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

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash at bank and on hand, long-term equity investments, deferred tax assets and other unallocated assets. Segment liabilities exclude short-term loans, short-term debentures payable, non-current liabilities due within one year, long-term loans, debentures payable, deferred tax liabilities, other non-current liabilities and other unallocated liabilities.

Reportable information on the Group's operating segments is as follows:

	2017 RMB million	2016 RMB million
Income from principal operations		
Exploration and production		
External sales	69,168	47,443
Inter-segment sales	77,804	58,954
	146,972	**106,397**
Refining		
External sales	132,478	102,983
Inter-segment sales	874,271	747,317
	1,006,749	**850,300**
Marketing and distribution		
External sales	1,191,902	1,027,373
Inter-segment sales	3,962	3,480
	1,195,864	**1,030,853**
Chemicals		
External sales	373,814	284,289
Inter-segment sales	49,615	38,614
	423,429	**322,903**
Corporate and others		
External sales	533,108	418,102
Inter-segment sales	440,303	320,367
	973,411	**738,469**
Elimination of inter-segment sales	(1,445,955)	(1,168,732)
Consolidated income from principal operations	**2,300,470**	**1,880,190**
Income from other operations		
Exploration and production	10,533	9,542
Refining	5,104	5,486
Marketing and distribution	28,333	22,004
Chemicals	14,314	12,211
Corporate and others	1,439	1,478
Consolidated income from other operations	**59,723**	**50,721**
Consolidated operating income	**2,360,193**	**1,930,911**

59 SEGMENT REPORTING *(Continued)*

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

	2017 RMB million	2016 RMB million
Operating (loss)/profit		
By segment		
Exploration and production	(47,399)	(58,531)
Refining	64,047	55,808
Marketing and distribution	32,011	32,385
Chemicals	22,796	20,769
Corporate and others	(3,160)	2,912
Elimination	(1,655)	1,581
Total segment operating profit	**66,640**	**54,924**
Investment income		
Exploration and production	1,401	19,248
Refining	1,017	1,071
Marketing and distribution	2,951	2,928
Chemicals	13,648	5,815
Corporate and others	43	1,717
Total segment investment income	**19,060**	**30,779**
Financial expenses	(1,560)	(6,611)
Loss from changes in fair value	(13)	(216)
Asset disposal income	(1,518)	(1,487)
Other income	4,356	—
Operating profit	**86,965**	**77,389**
Add: Non-operating income	1,317	4,706
Less: Non-operating expenses	1,709	2,218
Profit before taxation	**86,573**	**79,877**

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Assets		
Segment assets		
Exploration and production	343,404	402,476
Refining	273,123	260,903
Marketing and distribution	309,727	292,328
Chemicals	158,472	144,371
Corporate and others	170,045	95,263
Total segment assets	**1,254,771**	**1,195,341**
Cash at bank and on hand	165,004	142,497
Long-term equity investments	131,087	116,812
Deferred tax assets	15,131	7,214
Other unallocated assets	29,511	36,745
Total assets	**1,595,504**	**1,498,609**
Liabilities		
Segment liabilities		
Exploration and production	99,367	95,883
Refining	101,429	82,170
Marketing and distribution	163,680	132,922
Chemicals	35,207	31,989
Corporate and others	117,756	97,078
Total segment liabilities	**517,439**	**440,042**
Short-term loans	54,701	30,374
Non-current liabilities due within one year	26,681	38,972
Long-term loans	67,754	62,461
Debentures payable	31,370	54,985
Deferred tax liabilities	6,466	7,661
Other non-current liabilities	16,440	16,136
Other unallocated liabilities	20,583	15,453
Total liabilities	**741,434**	**666,084**

59 SEGMENT REPORTING *(Continued)*

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

	2017 RMB million	2016 RMB million
Capital expenditure		
Exploration and production	31,344	32,187
Refining	21,075	14,347
Marketing and distribution	21,539	18,493
Chemicals	23,028	8,849
Corporate and others	2,398	2,580
	99,384	**76,456**
Depreciation, depletion and amortisation		
Exploration and production	66,843	61,929
Refining	18,408	17,209
Marketing and distribution	15,463	14,540
Chemicals	12,873	12,654
Corporate and others	1,723	2,093
	115,310	**108,425**
Impairment losses on long-lived assets		
Exploration and production	13,556	11,605
Refining	1,894	1,655
Marketing and distribution	675	267
Chemicals	4,922	2,898
Corporate and others	211	—
	21,258	**16,425**

(2) Geographical information

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

	2017 RMB million	2016 RMB million
External sales		
Mainland China	1,758,365	1,488,117
Singapore	269,349	152,068
Others	332,479	290,726
	2,360,193	**1,930,911**

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Non-current assets		
Mainland China	979,329	1,000,209
Others	48,572	45,887
	1,027,901	**1,046,096**

60 FINANCIAL INSTRUMENTS

Overview

Financial assets of the Group include cash at bank, financial assets at fair value through profit and loss, equity investments other than long-term equity investment, accounts receivable, bills receivable, available-for-sale financial assets, derivative financial instruments and other receivables. Financial liabilities of the Group include short-term and long-term loans, accounts payable, bills payable, debentures payable, employee benefits payable, derivative financial instruments and other payables.

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

- credit risk;
- liquidity risk;
- market risk;

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions (including structured deposit) and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC with acceptable credit ratings. The majority of the Group's accounts receivable relates to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. No single customer accounted for greater than 10% of total accounts receivable at 31 December 2017, except for the amounts due from Sinopec Group Company and fellow subsidiaries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

The carrying amounts of cash at bank, trade accounts and bills receivables, derivative financial instruments, financial assets at fair value through profit or loss and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

Liquidity risk

Liquidity risk is the risk that the Group encounters short fall of capital when meeting its obligation of financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed capital conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 31 December 2017, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 361,852 million (2016: RMB 256,375 million) on an unsecured basis, at a weighted average interest rate of 3.40% (2016: 3.57%). At 31 December 2017, the Group's outstanding borrowings under these facilities were RMB 56,567 million (2016: RMB 36,933 million) and were included in loans.

60 FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

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

	At 31 December 2017					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within one year or on demand RMB million	More than one year but less than two years RMB million	More than two years but less than five years RMB million	More than five years RMB million
Short-term loans	54,701	55,451	55,451	—	—	—
Non-current liabilities due within one year	26,681	27,261	27,261	—	—	—
Long-term loans	67,754	70,613	1,003	17,666	49,038	2,906
Debentures payable	31,370	39,122	1,250	1,250	22,285	14,337
Bills payable	6,462	6,462	6,462	—	—	—
Accounts payable	200,073	200,073	200,073	—	—	—
Dividends payable	6,843	6,843	6,843	—	—	—
Other payables and employee benefits payable	92,012	92,012	92,012	—	—	—
Total	**485,896**	**497,837**	**390,355**	**18,916**	**71,323**	**17,243**

	At 31 December 2016					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within one year or on demand RMB million	More than one year but less than two years RMB million	More than two years but less than five years RMB million	More than five years RMB million
Short-term loans	30,374	30,708	30,708	—	—	—
Non-current liabilities due within one year	38,972	39,934	39,934	—	—	—
Short-term debentures payable	6,000	6,030	6,030	—	—	—
Long-term loans	62,461	64,566	900	4,652	57,262	1,752
Debentures payable	54,985	65,503	1,932	24,717	16,069	22,785
Bills payable	5,828	5,828	5,828	—	—	—
Accounts payable	174,301	174,301	174,301	—	—	—
Dividends payable	2,006	2,006	2,006	—	—	—
Other payables and employee benefits payable	79,248	79,248	79,248	—	—	—
Total	**454,175**	**468,124**	**340,887**	**29,369**	**73,331**	**24,537**

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's short-term and long-term capital requirements.

Market risk

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

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US Dollars and the Group enters into foreign exchange contracts to manage currency risk exposure.

Included in short-term and long-term debts are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

The Group

	At 31 December 2017 million	At 31 December 2016 million
Gross exposure arising from loans and borrowings		
US Dollars	USD 204	USD 126

A 5 percent strengthening/weakening of Renminbi against the following currencies at 31 December 2017 and 2016 would have increased/decreased net profit for the year of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

60 FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

(a) Currency risk *(Continued)*

The Group

	At 31 December 2017 million	At 31 December 2016 million
US Dollars	50	33

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

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term loans. Loans carrying interest at variable interest rates and at fixed interest rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short-term and long-term loans of the Group are disclosed in Note 22 and Note 30, respectively.

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the year by approximately RMB 450 million (2016: decrease/increase RMB 327 million). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's loans outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2016.

(c) Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil, refined oil products and chemical products. The fluctuations in prices of crude oil, refined oil products and chemical products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of such risk.

At 31 December 2017, the Group had certain commodity contracts of crude oil, refined oil products and chemical products designated as qualified cash flow hedges and economic hedges. At 31 December 2017, the net fair value of such derivative hedging financial instruments is derivative financial assets of RMB 515 million (2016: RMB 312 million) recognised in other receivables and derivative financial liabilities of RMB 2,624 million (2016: RMB 4,336 million) recognised in other payables.

At 31 December 2017, it is estimated that a general increase/decrease of USD 10 per barrel in basic price of derivative financial instruments, with all other variables held constant, would impact the fair value of derivative financial instruments which would decrease/increase the Group's profit for the year by approximately RMB 4,049 million (2016: decrease/increase RMB 634 million), and decrease/increase the Group's other comprehensive income by approximately RMB 701 million (2016: decrease/increase RMB 4,007 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2016.

60 FINANCIAL INSTRUMENTS *(Continued)*

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy. With the fair value of each financial instrument categorised in its entirely based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 December 2017

The Group

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Financial assets at fair value through profit and loss				
– Structural deposits	—	—	51,196	51,196
Available-for-sale financial assets:				
– Listed	178	—	—	178
Derivative financial instruments:				
– Derivative financial assets	343	183	—	526
	521	**183**	**51,196**	**51,900**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	1,277	1,388	—	2,665
	1,277	**1,388**	**—**	**2,665**

At 31 December 2016

The Group

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	262	—	—	262
Derivative financial instruments:				
– Derivative financial assets	29	733	—	762
	291	**733**	**—**	**1,024**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	2,586	1,886	—	4,472
	2,586	**1,886**	**—**	**4,472**

During the years ended 31 December 2017 and 2016, there was no transfer among instruments in Level 1, Level 2, Level 3.

Management of the uses discounted cash flow model with inputted interest rate and commodity index, which were influenced by historical fluctuation and the probability of market fluctuation, to evaluate the fair value of the structural deposits classified as Level 3 financial assets.

Financial Statements (PRC)

60 FINANCIAL INSTRUMENTS *(Continued)*

Fair values *(Continued)*

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

The fair values of the Group's financial instruments carried at other than fair value (other than long-term indebtedness and investments in unquoted equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristic and maturities range from 1.79% to 4.90% (2016: 1.06% to 4.90%). The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2017 and 2016:

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Carrying amount	79,738	110,969
Fair value	78,040	109,308

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

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

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values at 31 December 2017 and 2016.

61 EXTRAORDINARY GAINS AND LOSSES

Pursuant to "Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public· Extraordinary Gain and Loss" (2008), the extraordinary gains and losses of the Group are as follows:

	2017 RMB million	2016 RMB million
Extraordinary (gains)/losses for the year:		
Net loss on disposal of non-current assets	1,518	1,489
Donations	152	133
Government grants	(4,783)	(3,987)
Gain on holding and disposal of various investments	(148)	(518)
Investment income on loss of control and remeasuring interests in the Pipeline Ltd (Note 13(vi))	—	(20,562)
Gain on remeasurement of interests in the Shanghai SECCO (Note 53(a))	(3,941)	—
Other non-operating loss, net	690	1,367
Net gains of combination under common control from 1 January 2017 to the consolidation date	—	(86)
	(6,512)	**(22,164)**
Tax effect	976	5,578
Total	**(5,536)**	**(16,586)**
Attributable to:		
Equity shareholders of the Company	(5,537)	(16,703)
Minority interests	1	117

62 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by the net profit attributable to equity shareholders of the Company and the weighted average number of outstanding ordinary shares of the Company:

	2017	2016
Net profit attributable to equity shareholders of the Company (RMB million)	51,119	46,416
Weighted average number of outstanding ordinary shares of the Company (million)	121,071	121,071
Basic earnings per share (RMB/share)	**0.422**	**0.383**

The calculation of the weighted average number of ordinary shares is as follows:

	2017	2016
Weighted average number of outstanding ordinary shares of the Company at 1 January (million)	121,071	121,071
Weighted average number of outstanding ordinary shares of the Company at 31 December (million)	**121,071**	**121,071**

(ii) Diluted earnings per share

Diluted earnings per share is calculated by the net profit attributable to equity shareholders of the Company (diluted) and the weighted average number of ordinary shares of the Company (diluted):

	2017	2016
Net profit attributable to equity shareholders of the Company (diluted) (RMB million)	51,117	46,413
Weighted average number of outstanding ordinary shares of the Company (diluted) (million)	121,071	121,071
Diluted earnings per share (RMB/share)	**0.422**	**0.383**

The calculation of the weighted average number of ordinary shares (diluted) is as follows:

	2017	2016
Weighted average number of the ordinary shares issued at 31 December (million)	121,071	121,071
Weighted average number of the ordinary shares issued at 31 December (diluted) (million)	**121,071**	**121,071**

63 RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) issued by the CSRC and relevant accounting standards, the Group's return on net assets and earnings per share are calculated as follows:

	2017			2016		
	Weighted average return on net assets (%)	**Basic earnings per share (RMB/Share)**	**Diluted earnings per share (RMB/Share)**	Weighted average return on net assets (%)	Basic earnings per share (RMB/Share)	Diluted earnings per share (RMB/Share)
Net profit attributable to the Company's ordinary equity shareholders	7.14	0.422	0.422	6.68	0.383	0.383
Net profit deducted extraordinary gains and losses attributable to the Company's ordinary equity shareholders	6.37	0.376	0.376	4.33	0.245	0.245

羅兵咸永道

Independent Auditor's Report
To the Shareholders of China Petroleum & Chemical Corporation
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Petroleum & Chemical Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 152 to 205, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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The key audit matter identified in our audit is "Recoverability of the carrying amount of property, plant and equipment related to oil and gas producing activities".

Key Audit Matter

Recoverability of the carrying amount of property, plant and equipment related to oil and gas producing activities

Refer to note 8 "OTHER OPERATING (EXPENSE)/INCOME, NET", note 16 "PROPERTY, PLANT AND EQUIPMENT", and note 41 "ACCOUNTING ESTIMATES AND JUDGEMENTS" to the consolidated financial statements.

Low crude oil prices gave rise to possible indication that the carrying amount of property, plant and equipment related to oil and gas producing activities as at 31 December 2017 might be impaired. The Group has adopted values in use as the respective recoverable amounts of property, plant and equipment related to oil and gas producing activities, which involved key estimations or assumptions including:

– Future crude oil prices;
– Future production profiles;
– Future cost profiles; and
– Discount rates.

Because of the significance of the carrying amount of property, plant and equipment related to oil and gas producing activities as at 31 December 2017, together with the use of significant estimations or assumptions in determining their respective values in use, we had placed our audit emphasis on this matter.

How our audit addressed the Key Audit Matter

In auditing the respective values in use calculations of property, plant and equipment related to oil and gas producing activities, we have performed the following key procedures on the relevant discounted cash flow projections prepared by management:

- Evaluated and tested the key controls, relating to the preparation of the discounted cash flow projections of property, plant and equipment related to oil and gas producing activities.
- Compared estimates of future crude oil prices adopted by the Group against a range of reputable published crude oil price forecasts.
- Compared the future production profiles against the oil and gas reserve estimation report approved by the management. Evaluated the competence, capability and objectivity of the management's experts engaged in estimating the oil and gas reserves. Assessed key estimations or assumptions used in the reserve estimation, by reference to historical data, management plans and/or reputable external data.
- Compared the future cost profiles against historical costs or relevant budgets of the Group.
- Independently estimated a range of discount rates, and found that the discount rates adopted by management were within the range.
- Tested selected other key data inputs, such as natural gas prices and production profiles in the projections by reference to historical data and/or relevant budgets of the Group.
- Assessed the methodology adopted in, and tested mathematical accuracy of, the discounted cash flow projections.
- Evaluated the sensitivity analyses prepared by the Group, and assessed the potential impacts of a range of possible outcomes.

Based on our work, we found the key assumptions and input data adopted were supported by the evidence we gathered and consistent with our expectations.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is HON CHONG HENG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017
(Amounts in million, except per share data)

	Note	Year ended 31 December 2017 RMB	2016 RMB
Turnover and other operating revenues			
Turnover	3	2,300,470	1,880,190
Other operating revenues	4	59,723	50,721
		2,360,193	**1,930,911**
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(1,770,651)	(1,379,691)
Selling, general and administrative expenses	5	(64,973)	(64,360)
Depreciation, depletion and amortisation		(115,310)	(108,425)
Exploration expenses, including dry holes		(11,089)	(11,035)
Personnel expenses	6	(74,854)	(63,887)
Taxes other than income tax	7	(235,292)	(232,006)
Other operating (expense)/income, net	8	(16,554)	5,686
Total operating expenses		**(2,288,723)**	**(1,853,718)**
Operating profit		**71,470**	**77,193**
Finance costs			
Interest expense	9	(7,146)	(9,219)
Interest income		5,254	3,218
Foreign currency exchange gains/(losses), net		332	(610)
Net finance costs		**(1,560)**	**(6,611)**
Investment income		262	263
Share of profits less losses from associates and joint ventures	19, 20	16,525	9,306
Profit before taxation		**86,697**	**80,151**
Tax expense	10	(16,279)	(20,707)
Profit for the year		**70,418**	**59,444**
Attributable to:			
Shareholders of the Company		51,244	46,672
Non-controlling interests		19,174	12,772
Profit for the year		**70,418**	**59,444**
Earnings per share:	15		
Basic		**0.423**	**0.385**
Diluted		**0.423**	**0.385**

The notes on pages 159 to 205 form part of these consolidated financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in Note 13.

(Amounts in million)

	Note	Year ended 31 December 2017 RMB	2016 RMB
Profit for the year		**70,418**	**59,444**
Other comprehensive income:	14		
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		(1,580)	2,014
Available-for-sale securities		(57)	(24)
Share of other comprehensive income of associates and joint ventures		1,053	45
Foreign currency translation differences		(3,792)	4,298
Total items that may be reclassified subsequently to profit or loss		**(4,376)**	**6,333**
Total other comprehensive income		**(4,376)**	**6,333**
Total comprehensive income for the year		**66,042**	**65,777**
Attributable to:			
Shareholders of the Company		47,763	53,724
Non-controlling interests		18,279	12,053
Total comprehensive income for the year		**66,042**	**65,777**

The notes on pages 159 to 205 form part of these consolidated financial statements.

(Amounts in million)

	Note	31 December 2017 RMB	31 December 2016 RMB
Non–current assets			
Property, plant and equipment, net	16	650,774	690,594
Construction in progress	17	118,645	129,581
Goodwill	18	8,634	6,353
Interest in associates	19	79,726	66,116
Interest in joint ventures	20	51,361	50,696
Available-for-sale financial assets	21	1,676	11,408
Deferred tax assets	28	15,131	7,214
Lease prepayments	22	58,526	54,241
Long-term prepayments and other assets	23	81,982	70,145
Total non-current assets		**1,066,455**	**1,086,348**
Current assets			
Cash and cash equivalents		113,218	124,468
Time deposits with financial institutions		51,786	18,029
Financial assets at fair value through profit or loss	24	51,196	—
Trade accounts receivable	25	68,494	50,289
Bills receivable	25	16,207	13,197
Inventories	26	186,693	156,511
Prepaid expenses and other current assets	27	41,455	49,767
Total current assets		**529,049**	**412,261**
Current liabilities			
Short-term debts	29	55,338	56,239
Loans from Sinopec Group Company and fellow subsidiaries	29	25,311	18,580
Trade accounts payable	30	200,073	174,301
Bills payable	30	6,462	5,828
Accrued expenses and other payables	31	279,247	224,544
Income tax payable		13,015	6,051
Total current liabilities		**579,446**	**485,543**
Net current liabilities		**50,397**	**73,282**
Total assets less current liabilities		**1,016,058**	**1,013,066**
Non-current liabilities			
Long-term debts	29	55,804	72,674
Loans from Sinopec Group Company and fellow subsidiaries	29	43,320	44,772
Deferred tax liabilities	28	6,466	7,661
Provisions	32	39,958	39,298
Other long-term liabilities		17,620	17,426
Total non-current liabilities		**163,168**	**181,831**
		852,890	**831,235**
Equity			
Share capital	33	121,071	121,071
Reserves		605,049	589,923
Total equity attributable to shareholders of the Company		**726,120**	**710,994**
Non-controlling interests		**126,770**	**120,241**
Total equity		**852,890**	**831,235**

Approved and authorised for issue by the board of directors on 23 March 2018.

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The notes on pages 159 to 205 form part of these consolidated financial statements.

(Amounts in million)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 January 2016	121,071	28,341	55,850	79,640	117,000	(6,781)	281,076	676,197	111,964	788,161
Profit for the year	—	—	—	—	—	—	46,672	46,672	12,772	59,444
Other comprehensive income (Note 14)	—	—	—	—	—	7,052	—	7,052	(719)	6,333
Total comprehensive income for the year	—	—	—	—	—	7,052	46,672	53,724	12,053	65,777
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2015 (Note 13)	—	—	—	—	—	—	(7,264)	(7,264)	—	(7,264)
Interim dividend for 2016 (Note 13)	—	—	—	—	—	—	(9,565)	(9,565)	—	(9,565)
Appropriation (Note (a))	—	—	—	—	—	—	—	—	—	—
Distributions to non–controlling interests	—	—	—	—	—	—	—	—	(6,146)	(6,146)
Profit distribution to SAMC (Note 35)	—	—	—	—	—	—	(47)	(47)	(39)	(86)
Distribution to SAMC in the Acquisition of Gaoqiao Branch of SAMC (Note 35)	—	(2,137)	—	—	—	—	—	(2,137)	2,137	—
Total contributions by and distributions to owners	—	(2,137)	—	—	—	—	(16,876)	(19,013)	(4,048)	(23,061)
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Transaction with non-controlling interests	—	(30)	—	—	—	—	—	(30)	263	233
Total changes in ownership interests in subsidiaries that do not result in a loss of control	—	(30)	—	—	—	—	—	(30)	263	233
Total transactions with owners	—	(2,167)	—	—	—	—	(16,876)	(19,043)	(3,785)	(22,828)
Others	—	116	—	—	—	153	(153)	116	9	125
Balance at 31 December 2016	**121,071**	**26,290**	**55,850**	**79,640**	**117,000**	**424**	**310,719**	**710,994**	**120,241**	**831,235**

The notes on pages 159 to 205 form part of these consolidated financial statements.

(Amounts in million)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 January 2017	121,071	26,290	55,850	79,640	117,000	424	310,719	710,994	120,241	831,235
Profit for the year	—	—	—	—	—	—	51,244	51,244	19,174	70,418
Other comprehensive income (Note 14)	—	—	—	—	—	(3,481)	—	(3,481)	(895)	(4,376)
Total comprehensive income for the year	—	—	—	—	—	(3,481)	51,244	47,763	18,279	66,042
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2016 (Note 13)	—	—	—	—	—	—	(20,582)	(20,582)	—	(20,582)
Interim dividend for 2017 (Note 13)	—	—	—	—	—	—	(12,107)	(12,107)	—	(12,107)
Appropriation (Note (a))	—	—	—	3,042	—	—	(3,042)	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(12,501)	(12,501)
Total contributions by and distributions to owners	—	—	—	3,042	—	—	(35,731)	(32,689)	(12,501)	(45,190)
Changes in ownership interests in subsidiaries that do not result in a loss of control:										
Transaction with non-controlling interests	—	(13)	—	—	—	—	—	(13)	724	711
Total changes in ownership interests in subsidiaries that do not result in a loss of control	—	(13)	—	—	—	—	—	(13)	724	711
Total transactions with owners	—	(13)	—	3,042	—	—	(35,731)	(32,702)	(11,777)	(44,479)
Others	—	49	—	—	—	123	(107)	65	27	92
Balance at 31 December 2017	**121,071**	**26,326**	**55,850**	**82,682**	**117,000**	**(2,934)**	**326,125**	**726,120**	**126,770**	**852,890**

Note:

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

During the year ended 31 December 2017, the Company transferred RMB 3,042 million (2016:nil) to the statutory surplus reserve, being 10% of the current year's net profit determined in accordance with the accounting policies complying with ASBE to this reserve.

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

(c) As at 31 December 2017, the amount of retained earnings available for distribution was RMB 177,049 million (2016: RMB 182,440 million), being the amount determined in accordance with ASBE. According to the Articles of Association of the Company, the amount of retained earnings available for distribution to shareholders of the Company is lower of the amount determined in accordance with the accounting policies complying with ASBE and the amount determined in accordance with the accounting policies complying with International Financial Reporting Standards ("IFRS").

(d) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation (Note1); and (ii) the difference between the considerations paid over or received the amount of the net assets of entities and related operations acquired from or sold to Sinopec Group Company and non–controlling interests.

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

The notes on pages 159 to 205 form part of these consolidated financial statements.

(Amounts in million)

	Note	Year ended 31 December 2017 RMB	2016 RMB
Net cash generated from operating activities	(a)	**190,935**	**214,543**
Investing activities			
Capital expenditure		(63,541)	(65,467)
Exploratory wells expenditure		(7,407)	(7,380)
Purchase of investments, investments in associates and investments in joint ventures		(57,627)	(16,389)
Payment for acquisition of subsidiary, net of cash acquired		(1,288)	—
Proceeds from disposal of investments and investments in associates		4,809	33,516
Proceeds from disposal of property, plant, equipment and other non-current assets		1,313	440
Increase in time deposits with maturities over three months		(82,577)	(17,896)
Decrease in time deposits with maturities over three months		48,820	600
Interest received		3,669	2,331
Investment and dividend income received		8,506	4,028
Net cash used in investing activities		**(145,323)**	**(66,217)**
Financing activities			
Proceeds from bank and other loans		524,843	506,097
Repayments of bank and other loans		(536,380)	(569,091)
Contributions to subsidiaries from non–controlling interests		946	343
Dividends paid by the Company		(32,689)	(16,876)
Distributions by subsidiaries to non–controlling interests		(7,539)	(6,553)
Interest paid		(5,535)	(6,967)
Finance lease payment		(155)	—
Net cash used in financing activities		**(56,509)**	**(93,047)**
Net (decrease)/increase in cash and cash equivalents		**(10,897)**	**55,279**
Cash and cash equivalents at 1 January		**124,468**	**68,933**
Effect of foreign currency exchange rate changes		**(353)**	**256**
Cash and cash equivalents at 31 December		**113,218**	**124,468**

The notes on pages 159 to 205 form part of these consolidated financial statements.

Financial Statements (International)

(Amounts in million)

(a) Reconciliation from profit before taxation to net cash generated from operating activities

	Year ended 31 December 2017 RMB	Year ended 31 December 2016 RMB
Operating activities		
Profit before taxation	86,697	80,151
Adjustments for:		
Depreciation, depletion and amortisation	115,310	108,425
Dry hole costs written off	6,876	7,467
Share of profits from associates and joint ventures	(16,525)	(9,306)
Investment income	(262)	(263)
Gain on dilution and remeasurement of interests in the Pipeline Ltd	—	(20,562)
Gain on remeasurement of interests in the Shanghai SECCO (Note 35)	(3,941)	—
Interest income	(5,254)	(3,218)
Interest expense	7,146	9,219
(Gain)/loss on foreign currency exchange rate changes and derivative financial instruments	(1,547)	86
Loss on disposal of property, plant, equipment and other non-currents assets, net	1,518	1,528
Impairment losses on assets	21,791	17,076
	211,809	**190,603**
Net charges from:		
Accounts receivable and other current assets	(31,151)	(22,549)
Inventories	(28,903)	(11,364)
Accounts payable and other current liabilities	59,210	81,089
	210,965	**237,779**
Income tax paid	(20,030)	(23,236)
Net cash generated from operating activities	**190,935**	**214,543**

The notes on pages 159 to 205 form part of these consolidated financial statements.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

Principal activities

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

Organisation

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

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

Basis of preparation

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

(a) New and amended standards and interpretations adopted by the Group

The following relevant IFRS, amendments to exisiting IFRS and interpretation of IFRS have been published and are mandatory for the year beginning on 1 January 2017 and have been adopted by the Group in current accounting period:

Amendments to IAS 7, 'Statement of cash flows', the IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Amendments to IAS 7 are effective for annual periods beginning on 1 January 2017.

Amendments to IAS 12, 'Income taxes', the IASB has issued amendments to IAS 12, 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. Amendments to IAS 12 are effective for annual periods beginning on 1 January 2017.

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

The Group has not early adopted any new standard or interpretation that is not yet effective for the current accounting period.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION *(Continued)*

Basis of preparation *(Continued)*

(b) New and amended standards and interpretations not yet adopted by the Group

The following relevant IFRS, amendments to existing IFRS and interpretation of IFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2018 or later periods and have not been early adopted by the Group. Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that, except for IFRS 16, the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the whole of IAS 39. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39. IFRS 9 is effective for annual periods beginning on 1 January 2018. Earlier application is permitted.

IFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 replaces the previous revenue standards: IAS 18 'Revenue' and IAS 11 'Construction Contracts' and the related Interpretations on revenue recognition: IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue–Barter Transactions Involving Advertising Services'. IFRS 15 is effective for annual reporting periods beginning on 1 January 2018. Earlier application is permitted.

IFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right–of–use–asset' for almost all lease contracts, with an exemption for certain short–term leases and leases of low–value assets. The lessors accounting stays almost the same as under IAS 17 'Leases'. IFRS 16 is effective for annual reporting periods beginning on 1 January 2019. Earlier application is permitted if IFRS 15 is also applied.

Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture. The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

The accompanying consolidated financial statements are prepared on the historical cost basis except for the remeasurement of available–for–sale securities (Note 2(k)), securities held for trading (Note 2(k)) and derivative financial instruments (Note 2(l) and (n)) to their fair values.

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

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

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the consolidated financial statements and the major sources of estimation uncertainty are disclosed in Note 41.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(i) Subsidiaries and non–controlling interests

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

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

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

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

If a business combination involving entities not under common control is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated income statement.

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (Note 2(o)).

The particulars of the Group's principal subsidiaries are set out in Note 39.

(ii) Associates and joint ventures

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

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

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

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

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

(iii) Transactions eliminated on consolidation

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination. The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra–group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation. Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(b) Translation of foreign currencies

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

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

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

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

(c) Cash and cash equivalents

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

(d) Trade, bills and other receivables

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

(e) Inventories

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

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

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

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

	Estimated usage period	Estimated residuals rate
Buildings	12 to 50 years	3%
Equipment, machinery and others	4 to 30 years	3%

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

(g) Oil and gas properties

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

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

(h) Lease prepayments

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

(i) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Goodwill

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

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

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

(k) Available-for-sale financial assets

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

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

(l) Derivative financial instruments

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

(m) Offsetting financial instruments

Financial assets and liabilities are presented respectively in the consolidated balance sheet, without any offset. However, they are offset and reported in the balance sheet when satisfied the following: (i) There is a legally enforceable right to offset the recognised amounts. (ii) There is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(n) Hedging

(i) Cash flow hedges

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

If a hedge of a forecast transaction subsequently results in the recognition of a non–financial asset, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non–financial asset.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Hedging *(Continued)*

(ii) Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment.

The gain or loss from remeasuring the hedging instrument at fair value is recognised in the consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, the Group discontinues prospectively the hedge accounting treatments. If the hedged item is a financial instrument measured at amortised cost, any adjustment to the carrying amount of the hedged item is amortised to profit or loss from the adjustment date to the maturity date using the recalculated effective interest rate at the adjustment date.

(iii)Hedge of net investments in foreign operations

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

(o) Impairment of assets

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Trade, bills and other payables

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

(q) Interest–bearing borrowings

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

(r) Provisions and contingent liability

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

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

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

(s) Revenue recognition

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

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

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

(t) Borrowing costs

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

(u) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(v) Environmental expenditures

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

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

(w) Research and development expense

Research and development expenditures that cannot be capitalised are expensed in the period in which they are incurred. Research and development expense amounted to RMB 6,423 million for the year ended 31 December 2017 (2016: RMB 5,941 million).

(x) Operating leases

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

(y) Employee benefits

The contributions payable under the Group's retirement plans are recognised as an expense in the consolidated income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 37.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax

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

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

(aa) Dividends

Dividends and distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the balance sheet date, are not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements. Dividends are recognised as a liability in the period in which they are declared.

(bb) Segment reporting

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

3 TURNOVER

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

4 OTHER OPERATING REVENUES

	2017 RMB million	2016 RMB million
Sale of materials, service and others	58,930	49,812
Rental income	793	909
	59,723	**50,721**

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	2017 RMB million	2016 RMB million
Operating lease charges	12,104	14,410
Auditor's remuneration:		
– audit services	72	73
– others	5	2
Impairment losses:		
– trade accounts receivable	(51)	230
– other receivables	159	(12)
– accounts prepayments	2	13

6 PERSONNEL EXPENSES

	2017 RMB million	2016 RMB million
Salaries, wages and other benefits	65,873	55,502
Contributions to retirement schemes (Note 37)	8,981	8,385
	74,854	**63,887**

7 TAXES OTHER THAN INCOME TAX

	2017 RMB million	2016 RMB million
Consumption tax (i)	192,907	193,836
City construction tax (ii)	18,274	18,155
Education surcharge	13,811	13,695
Resources tax	4,841	3,871
Other	5,459	2,449
	235,292	**232,006**

Note:

(i) Consumption tax was levied based on sales quantities of taxable products, tax rate of products is presented as below:

Products	Effective from 13 January 2015 RMB/Ton
Gasoline	2,109.76
Diesel	1,411.20
Naphtha	2,105.20
Solvent oil	1,948.64
Lubricant oil	1,711.52
Fuel oil	1,218.00
Jet fuel oil	1,495.20

(ii) City construction tax is levied on an entity based on its total paid amount of value–added tax, consumption tax and business tax. Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'(Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from modern service of the subsidiaries of the Group, are subject to VAT from 1 May 2016, and the applicable tax rate is 6%. Before May 1, 2016, revenue from modern service of the subsidiaries of the Group, are subject to the business tax with a tax rate of 3% to 5%.

8 OTHER OPERATING (EXPENSE)/INCOME, NET

	2017 RMB million	2016 RMB million
Government grant (i)	4,893	4,101
Gain on remeasurement of interests in the Shanghai SECCO (Note 35)	3,941	—
Gain on dilution and remeasurement of interests in the Pipeline Ltd	—	20,562
Impairment losses on long-lived assets (ii)	(21,258)	(16,425)
Loss on disposal of property, plant, equipment and other non-currents assets, net	(1,518)	(1,489)
Net realised and unrealised gain on derivative financial instruments not qualified as hedging	(909)	195
Ineffective portion of change in fair value of cash flow hedges	(813)	304
Donations	(152)	(133)
Fines, penalties and compensations	(89)	(152)
Others	(649)	(1,277)
	(16,554)	**5,686**

Note:

(i) Government grants for the years ended 31 December 2017 and 2016 primarily represent financial appropriation income and non–income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

(ii) Impairment losses on long-lived assets for the year ended 31 December 2017 primarily represent impairment losses recognised in the exploration and production ("E&P") segment of RMB 13,556 million (2016: RMB 11,605 million), the chemicals segment of RMB 4,922 million (2016: RMB 2,898 million) and for the refining segment of RMB 1,894 million (2016: RMB 1,655 million) (Note 38), most of which are impairment losses on property, plant and equipment (Note 16). The primary factors resulting in the E&P segment impairment loss were downward revision of oil and gas reserve due to price change and high operating and development cost for certain oil fields. The carrying values of these E&P properties were written down to recoverable amounts which were determined based on the present values of the expected future cash flows of the assets using a pre-tax discount rate 10.47% (2016: 10.47%). Further future downward revisions to the Group's oil price outlook would lead to further impairments which, in aggregate, are likely to be material. It is estimated that a general decrease of 5% in oil price, with all other variables held constant, would result in additional impairment loss on the Group's properties, plant and equipment relating to oil and gas producing activities by approximately RMB 3,145 million. It is estimated that a general increase of 5% in operating cost, with all other variables held constant, would result in additional impairment loss on the Group's properties, plant and equipment relating to oil and gas producing activities by approximately RMB 2,659 million. It is estimated that a general increase of 5% in discount rate, with all other variables held constant, would result in additional impairment loss on the Group's properties, plant and equipment relating to oil and gas producing activities by approximately RMB 461 million. The assets in the refining segment were written down due to the suspension of operations of certain production facilities, while the assets in the chemical segment were written down because of evidence indicates the economic performance of certain production facilities are worse than expected and due to the suspension of operations of certain production facilities.

9 INTEREST EXPENSE

	2017 RMB million	2016 RMB million
Interest expense incurred	6,368	9,021
Less: Interest expense capitalised*	(723)	(859)
	5,645	**8,162**
Accretion expenses (Note 32)	1,501	1,057
Interest expense	**7,146**	**9,219**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**2.37% to 4.41%**	**2.65% to 4.82%**

10 TAX EXPENSE

Tax expense in the consolidated income statement represents:

	2017 RMB million	2016 RMB million
Current tax		
– Provision for the year	26,668	21,313
– Adjustment of prior years	(72)	228
Deferred taxation (Note 28)	(10,317)	(834)
	16,279	**20,707**

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

	2017 RMB million	2016 RMB million
Profit before taxation	**86,697**	**80,151**
Expected PRC income tax expense at a statutory tax rate of 25%	21,674	20,038
Tax effect of non–deductible expenses	1,905	1,529
Tax effect of non–taxable income	(5,939)	(2,786)
Tax effect of preferential tax rate (i)	(793)	83
Effect of income taxes at foreign operations (ii)	(1,394)	299
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(613)	(453)
Tax effect of tax losses not recognised	1,485	958
Write–down of deferred tax assets	26	811
Adjustment of prior years	(72)	228
Actual income tax expense	**16,279**	**20,707**

Note:

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

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

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' and supervisors' emoluments

The emoluments of every director and supervisor is set out below:

	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking			Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking	
			2017		
Name	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Directors'/ Supervisors' fee RMB'000	Total RMB'000
Directors					
Wang Yupu (i)	—	—	—	—	—
Dai Houliang	227	537	76	—	840
Li Yunpeng	—	—	—	—	—
Wang Zhigang	207	487	76	—	770
Zhang Haichao	—	—	—	—	—
Jiao Fangzheng	—	—	—	—	—
Ma Yongsheng	—	—	—	—	—
Independent non-executive directors					
Jiang Xiaoming	—	—	—	300	300
Andrew Y. Yan	—	—	—	300	300
Tang Min	—	—	—	300	300
Fan Gang	—	—	—	300	300
Supervisors					
Zhao Dong	—	—	—	—	—
Liu Zhongyun	—	—	—	—	—
Zhou Hengyou	—	—	—	—	—
Zou Huiping	207	480	71	—	758
Jiang Zhenying	207	480	71	—	758
Yu Renming	207	480	71	—	758
Yu Xizhi (ii)	122	103	42	—	267
Liu Yun (iii)	—	—	—	—	—
Wang Yajun (ii)	51	349	17	—	417
Total	**1,228**	**2,916**	**424**	**1,200**	**5,768**

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

The emoluments of every director and supervisor is set out below: *(Continued)*

	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking			Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking	
			2016		
Name	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Directors'/ Supervisors' fee RMB'000	Total RMB'000
Directors					
Wang Yupu	—	—	—	—	—
Dai Houliang	214	459	72	—	745
Wang Zhigang	196	431	72	—	699
Zhang Haichao	—	—	—	—	—
Jiao Fangzheng	—	—	—	—	—
Ma Yongsheng(iv)	—	—	—	—	—
Li Chunguang(iv)	130	379	47	—	556
Zhang Jianhua(iv)	114	365	41	—	520
Independent non-executive directors					
Jiang Xiaoming	—	—	—	300	300
Andrew Y. Yan	—	—	—	300	300
Tang Min	—	—	—	300	300
Fan Gang	—	—	—	300	300
Supervisors					
Liu Yun	—	—	—	—	—
Liu Zhongyun	—	—	—	—	—
Zhou Hengyou	—	—	—	—	—
Zou Huiping	218	334	67	—	619
Jiang Zhenying	218	334	67	—	619
Yu Renming	218	309	67	—	594
Wang Yajun	204	325	66	—	595
Total	**1,512**	**2,936**	**499**	**1,200**	**6,147**

Notes:

(i) Mr. Wang Yupu ceased being chairman and independent director from 22 September 2017.

(ii) Mr Yu Xizhi were elected to be supervisor from 28 June 2017; Mr Wang Yajun ceased being supervisor from 28 June 2017.

(iii) Mr Liu Yun ceased being supervisor and chairman of board of supervisor from 16 March 2017.

(iv) Mr. Zhang Jianhua ceased being director from 13 July 2016; Mr. Li Chunguang ceased being director from 26 August 2016; Mr. Ma Yongsheng was elected as director from 25 February 2016.

12 SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31 December 2017, the five highest paid individuals in the Company included one director and four senior management. The emolument paid to each of one director and four senior management was below RMB 1,000 thousand. The total salaries, wages and other benefits was RMB 3,996 thousand, and the total amount of their retirement scheme contributions was RMB 360 thousand. For the year ended 31 December 2016, the five highest paid individuals in the Company included one director and four senior management.

13 DIVIDENDS

Dividends payable to shareholders of the Company attributable to the year represent:

	2017 RMB million	2016 RMB million
Dividends declared and paid during the year of RMB 0.10 per share (2016: RMB 0.079 per share)	12,107	9,565
Dividends declared after the balance sheet date of RMB 0.40 per share (2016: RMB 0.17 per share)	48,428	20,582
	60,535	**30,147**

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 25 August 2017, the directors authorised to declare the interim dividends for the year ending 31 December 2017 of RMB 0.10 (2016: RMB 0.079) per share totaling RMB 12,107 million (2016: RMB 9,565 million). Dividends were paid on 20 September 2017.

Pursuant to a resolution passed at the director's meeting on 23 March 2018, final dividends in respect of the year ended 31 December 2017 of RMB 0.40 (2016: RMB 0.17) per share totaling RMB 48,428 million (2016: RMB 20,582 million) were proposed for shareholders' approval at the Annual General Meeting. Final cash dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2017 RMB million	2016 RMB million
Final cash dividends in respect of the previous financial year, approved and paid during the year of RMB 0.17 per share (2016: RMB 0.06 per share)	**20,582**	**7,264**

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2017, a final dividend of RMB 0.17 per share totaling RMB 20,582 million according to total shares of 18 July 2017 was approved. All dividends have been paid in the year ended 31 December 2017.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2016, a final dividend of RMB 0.06 per share totaling RMB 7,264 million according to total shares of 23 June 2016 was approved. All dividends have been paid in the year ended 31 December 2016.

14 OTHER COMPREHENSIVE INCOME

	2017			2016		
	Before tax amount RMB million	**Tax effect RMB million**	**Net of tax amount RMB million**	Before tax amount RMB million	Tax effect RMB million	Net of tax amount RMB million
Cash flow hedges:						
Effective portion of changes in fair value of hedging instruments recognised during the year	(1,314)	240	(1,074)	(3,813)	652	(3,161)
Amounts transferred to initial carrying amount of hedged items	(4)	1	(3)	13	(2)	11
Reclassification adjustments for amounts transferred to the consolidated income statement	(575)	72	(503)	6,279	(1,115)	5,164
Net movement during the year recognised in other comprehensive income	**(1,893)**	**313**	**(1,580)**	**2,479**	**(465)**	**2,014**
Available–for–sale securities:						
Changes in fair value recognised during the year	(57)	—	(57)	(17)	(7)	(24)
Net movement during the year recognised in other comprehensive income	**(57)**	**—**	**(57)**	**(17)**	**(7)**	**(24)**
Share of other comprehensive profit of associates and joint ventures	1,053	—	1,053	45	—	45
Foreign currency translation differences	(3,792)	—	(3,792)	4,298	—	4,298
Other comprehensive income	**(4,689)**	**313**	**(4,376)**	**6,805**	**(472)**	**6,333**

15 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit attributable to ordinary shareholders of the Company of RMB 51,244 million (2016: RMB 46,672 million) and the weighted average number of shares of 121,071,209,646 (2016: 121,071,209,646) during the year.

The calculation of diluted earnings per share for the year ended 31 December 2017 is based on the profit attributable to ordinary shareholders of the Company (diluted) of RMB 51,242 million (2016: RMB 46,669 million) and the weighted average number of shares of 121,071,209,646 (2016: 121,071,209,646) calculated as follows:

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

	2017 RMB million	2016 RMB million
Profit attributable to ordinary shareholders of the Company	51,244	46,672
After tax effect of employee share option scheme of Shanghai Petrochemical	(2)	(3)
Profit attributable to ordinary shareholders of the Company (diluted)	**51,242**	**46,669**

(ii) Weighted average number of shares (diluted)

	2017 Number of shares	2016 Number of shares
Weighted average number of shares at 31 December	121,071,209,646	121,071,209,646
Weighted average number of shares (diluted) at 31 December	**121,071,209,646**	**121,071,209,646**

16 PROPERTY, PLANT AND EQUIPMENT

	Plants and buildings RMB million	Oil and gas, properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2016	107,873	613,134	880,711	1,601,718
Additions	277	3,420	626	4,323
Transferred from construction in progress	5,901	31,473	50,025	87,399
Reclassifications	1,426	(115)	(1,311)	—
Reclassification to lease prepayments and other long–term assets	(130)	—	(2,202)	(2,332)
Disposals	(509)	(27)	(35,100)	(35,636)
Exchange adjustments	82	2,800	187	3,069
Balance at 31 December 2016	**114,920**	**650,685**	**892,936**	**1,658,541**
Balance at 1 January 2017	114,920	650,685	892,936	1,658,541
Additions	854	1,627	11,983	14,464
Transferred from construction in progress	6,789	19,881	54,605	81,275
Reclassifications	(673)	(50)	723	—
Reclassification to lease prepayments and other long–term assets	(859)	(1,702)	(8,751)	(11,312)
Disposals	(878)	(211)	(10,985)	(12,074)
Exchange adjustments	(140)	(2,573)	(199)	(2,912)
Balance at 31 December 2017	**120,013**	**667,657**	**940,312**	**1,727,982**
Accumulated depreciation:				
Balance at 1 January 2016	44,469	374,191	449,609	868,269
Depreciation for the year	3,815	49,005	47,914	100,734
Impairment losses for the year	440	10,580	3,901	14,921
Reclassifications	369	(58)	(311)	—
Reclassification to lease prepayments and other long–term assets	(14)	—	(316)	(330)
Written back on disposals	(534)	(22)	(17,067)	(17,623)
Exchange adjustments	27	1,865	84	1,976
Balance at 31 December 2016	**48,572**	**435,561**	**483,814**	**967,947**
Balance at 1 January 2017	48,572	435,561	483,814	967,947
Depreciation for the year	4,075	55,057	46,585	105,717
Impairment losses for the year	554	8,832	10,450	19,836
Reclassifications	(122)	(77)	199	—
Reclassification to lease prepayments and other long–term assets	(238)	(1,305)	(2,682)	(4,225)
Written back on disposals	(584)	(195)	(9,079)	(9,858)
Exchange adjustments	(57)	(2,056)	(96)	(2,209)
Balance at 31 December 2017	**52,200**	**495,817**	**529,191**	**1,077,208**
Net book value:				
Balance at 1 January 2016	63,404	238,943	431,102	733,449
Balance at 31 December 2016	**66,348**	**215,124**	**409,122**	**690,594**
Balance at 31 December 2017	**67,813**	**171,840**	**411,121**	**650,774**

The additions to oil and gas properties of the Group for the year ended 31 December 2017 included RMB 1,627 million (2016: RMB 3,420 million) of estimated dismantlement costs for site restoration (Note 32).

17 CONSTRUCTION IN PROGRESS

	2017 RMB million	2016 RMB million
Balance at 1 January	129,581	152,325
Additions	85,552	81,837
Dry hole costs written off	(6,876)	(7,467)
Transferred to property, plant and equipment	(81,229)	(87,399)
Reclassification to lease prepayments and other long–term assets	(7,773)	(6,900)
Impairment losses for the year	(252)	(1,486)
Disposals	(315)	(1,445)
Exchange adjustments	(43)	116
Balance at 31 December	**118,645**	**129,581**

As at 31 December 2017, the amount of capitalised cost of exploratory wells included in construction in progress related to the exploration and production segment was RMB 9,737 million (2016: RMB 12,192 million). The geological and geophysical costs paid during the year ended 31 December 2017 were RMB 3,710 million (2016: RMB 2,899 million).

18 GOODWILL

	31 December 2017 RMB million	31 December 2016 RMB million
Cost	16,495	14,016
Less: Accumulated impairment losses	(7,861)	(7,663)
	8,634	**6,353**

Impairment tests for cash–generating units containing goodwill

Goodwill is allocated to the following Group's cash-generating units:

	Principal activities	31 December 2017 RMB million	31 December 2016 RMB million
Sinopec Beijing Yanshan Petrochemical Branch ("Sinopec Yanshan")	Manufacturing of intermediate petrochemical products and petroleum products	1,004	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	Manufacturing of intermediate petrochemical products and petroleum products	4,043	4,043
Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO") (Note 35)	Production and sale of petrochemical products	2,541	—
Sinopec (Hong Kong) Limited	Trading of petrochemical products	879	941
Other units without individually significant goodwill		167	212
		8,634	**6,353**

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 10.8% to 11.4% (2016: 10.4% to 11.0%). Cash flows beyond the one-year period are maintained constant. Based on the estimated recoverable amount, no major impairment loss was recognised.

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

19 INTEREST IN ASSOCIATES

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

The Group's principal associates are as follows:

Name of company	% of ownership interests	Principal activities	Measurement method	Country of incorporation	Principal place of business
Sinopec Sichuan To East China Gas Pipeline Co., Ltd. ("Pipeline Ltd")	50.00	Operation of natural gas pipelines and auxiliary facilities	Equity method	PRC	PRC
Sinopec Finance Company Limited ("Sinopec Finance")	49.00	Provision of non–banking financial services	Equity method	PRC	PRC
PAO SIBUR Holding ("SIBUR")	10.00	Proccessing natural gas and manufacturing petrochemical products	Equity method	Russia	Russia
Zhongtian Synergetic Energy Company Limited ("Zhongtian Synergetic Energy")	38.75	Mining coal and manufacturing of coal–chemical products	Equity method	PRC	PRC
Caspian Investments Resources Ltd. ("CIR")	50.00	Crude oil and natural gas extraction	Equity method	British Virgin Islands	The Republic of Kazakhstan

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

	Pipeline Ltd		Sinopec Finance		SIBUR (i)	Zhongtian Synergetic Energy		CIR	
	31 December 2017 RMB million	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million
Current assets	11,317	11,835	161,187	149,457	20,719	8,232	7,292	5,612	5,120
Non–current assets	40,972	42,124	17,782	16,478	158,938	51,553	50,301	1,673	3,842
Current liabilities	(933)	(5,009)	(154,212)	(142,386)	(20,554)	(10,668)	(8,078)	(908)	(928)
Non–current liabilities	(3,176)	(3,350)	(6)	(88)	(61,771)	(31,494)	(32,137)	(170)	(883)
Net assets	**48,180**	**45,600**	**24,751**	**23,461**	**97,332**	**17,623**	**17,378**	**6,207**	**7,151**
Net assets attributable to owners of the Company	48,180	45,600	24,751	23,461	96,761	17,623	17,378	6,207	7,151
Net assets attributable to non-controlling interests	—	—	—	—	571	—	—	—	—
Share of net assets from associates	24,090	22,800	12,128	11,496	9,676	6,829	6,734	3,104	3,576
Carrying Amounts	**24,090**	**22,800**	**12,128**	**11,496**	**9,676**	**6,829**	**6,734**	**3,104**	**3,576**

Summarised statement of comprehensive income

Year ended 31 December	Pipeline Ltd (ii)		Sinopec Finance		SIBUR(i)	Zhongtian Synergetic Energy		CIR	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	5,644	191	3,542	2,442	52,496	3,569	—	2,563	2,205
Profit/(loss) for the year	2,543	51	1,536	1,526	9,601	123	—	(610)	(3,518)
Other comprehensive (loss)/income	—	—	(246)	(175)	(260)	—	—	(334)	662
Total comprehensive income/(loss)	**2,543**	**51**	**1,290**	**1,351**	**9,341**	**123**	**—**	**(944)**	**(2,856)**
Dividends declared by associates	—	23	—	—	221	—	—	—	—
Share of profit/(loss) from associates	1,272	26	753	748	960	48	—	(305)	(1,759)
Share of other comprehensive (loss)/income from associates (iii)	—	—	(121)	(86)	(26)	—	—	(167)	331

The share of profit and other comprehensive income for the year ended 31 December 2017 in all individually immaterial associates accounted for using equity method in aggregate was RMB 3,182 million (2016: RMB 2,869 million) and RMB 569 million (2016: other comprehensive loss RMB 384 million) respectively. As at 31 December 2017, the carrying amount of all individually immaterial associates accounted for using equity method in aggregate was RMB 23,899 million (2016: RMB 21,510 million).

Note:

(i) Sinopec is able to exercise significant influence in SIBUR since Sinopec has a member in SIBUR's Board of Director and has a member in SIBUR's Management Board.

(ii) The summarised income statement for the year 2016 of Pipeline Ltd presents the operating results from the date when the Group lost control to 31 December 2016.

(iii) Including foreign currency translation differences.

20 INTEREST IN JOINT VENTURES

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

Name of entity	% of ownership interests	Principal activities	Measurement method	Country of incorporation	Principal place of business
Fujian Refining & Petrochemical Company Limited ("FREP")	50.00	Manufacturing refining oil products	Equity method	PRC	PRC
BASF–YPC Company Limited ("BASF–YPC")	40.00	Manufacturing and distribution of petrochemical products	Equity method	PRC	PRC
Taihu Limited ("Taihu")	49.00	Crude oil and natural gas extraction	Equity method	Cyprus	Russia
Yanbu Aramco Sinopec Refining Company Ltd. ("YASREF")	37.50	Petroleum refining and processing business	Equity method	Saudi Arabia	Saudi Arabia
Sinopec SABIC Tianjin Petrochemical Company Limited ("Sinopec SABIC Tianjin")	50.00	Manufacturing and distribution of petrochemical products	Equity method	PRC	PRC

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

	FREP		BASF–YPC		Taihu		YASREF		Sinopec SABIC Tianjin	
	31 December 2017 RMB million	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million
Current assets										
Cash and cash equivalents	5,772	8,172	1,800	1,394	2,352	1,165	4,916	1,259	6,524	3,634
Other current assets	11,013	10,269	5,335	4,852	2,462	1,616	10,816	6,826	2,709	1,886
Total current assets	**16,785**	**18,441**	**7,135**	**6,246**	**4,814**	**2,781**	**15,732**	**8,085**	**9,233**	**5,520**
Non-current assets	**19,740**	**21,903**	**12,075**	**13,530**	**7,978**	**8,279**	**51,553**	**57,054**	**13,248**	**14,003**
Current liabilities										
Current financial liabilities (i)	(1,135)	(1,781)	(233)	(783)	(20)	(334)	(5,407)	(1,187)	(1,236)	—
Other current liabilities	(5,049)	(4,643)	(1,982)	(2,107)	(1,914)	(1,616)	(11,864)	(6,466)	(4,546)	(2,657)
Total current liabilities	**(6,184)**	**(6,424)**	**(2,215)**	**(2,890)**	**(1,934)**	**(1,950)**	**(17,271)**	**(7,653)**	**(5,782)**	**(2,657)**
Non-current liabilities										
Non-current financial liabilities (ii)	(13,654)	(19,985)	(955)	(1,492)	(72)	(49)	(35,619)	(43,028)	(4,101)	(5,337)
Other non-current liabilities	(236)	(252)	(19)	(10)	(2,686)	(2,130)	(890)	(1,004)	(41)	(32)
Total non-current liabilities	**(13,890)**	**(20,237)**	**(974)**	**(1,502)**	**(2,758)**	**(2,179)**	**(36,509)**	**(44,032)**	**(4,142)**	**(5,369)**
Net assets	**16,451**	**13,683**	**16,021**	**15,384**	**8,100**	**6,931**	**13,505**	**13,454**	**12,557**	**11,497**
Net assets attributable to owners of the Company	16,451	13,683	16,021	15,384	7,818	6,690	13,505	13,454	12,557	11,497
Net assets attributable to non-controlling interests	—	—	—	—	282	241	—	—	—	—
Share of net assets from joint ventures	8,226	6,842	6,409	6,154	3,831	3,278	5,064	5,045	6,279	5,749
Other (iii)	—	—	—	—	—	743	—	—	—	—
Carrying Amounts	**8,226**	**6,842**	**6,409**	**6,154**	**3,831**	**4,021**	**5,064**	**5,045**	**6,279**	**5,749**

20 INTEREST IN JOINT VENTURES *(Continued)*

Summarised statement of comprehensive income

Year ended 31 December	FREP		BASF–YPC		Taihu		YASREF		Sinopec SABIC Tianjin	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million
Turnover	49,356	41,764	21,020	17,323	12,520	9,658	61,587	41,286	22,286	16,337
Depreciation, depletion and amortisation	(16)	(52)	(1,793)	(2,275)	(715)	(1,043)	(2,763)	(2,754)	(36)	(33)
Interest income	208	130	36	19	142	40	45	33	104	30
Interest expense	(857)	(929)	(71)	(173)	(142)	(113)	(1,382)	(1,216)	(223)	(245)
Profit/(loss) before taxation	6,977	6,476	4,565	2,606	1,697	2,411	548	28	5,113	3,184
Tax expense	(1,699)	(1,574)	(1,151)	(648)	(553)	(518)	57	56	(1,279)	(783)
Profit/(loss) for the year	5,278	4,902	3,414	1,958	1,144	1,893	605	84	3,834	2,401
Other comprehensive income/(loss)	—	—	—	—	25	1,851	(554)	647	—	—
Total comprehensive income/(loss)	**5,278**	**4,902**	**3,414**	**1,958**	**1,169**	**3,744**	**51**	**731**	**3,834**	**2,401**
Dividends declared by joint ventures	1,250	—	1,109	155	—	—	—	—	1,375	300
Share of net profit/(loss) from joint ventures	2,639	2,451	1,366	783	541	895	227	31	1,917	1,201
Share of other comprehensive income/(loss) from joint ventures (iv)	—	—	—	—	12	875	(208)	243	—	—

The share of profit and other comprehensive income for the year ended 31 December 2017 in all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 3,925 million (2016: RMB 2,061 million) and RMB 994 million (2016: other comprehensive loss RMB 934 million) respectively. As at 31 December 2017, the carrying amount of all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 21,552 million (2016: RMB 22,885 million).

Note:

(i) Excluding trade accounts payable and other payables.

(ii) Excluding provisions.

(iii) Other reflects the excess of fair value of the consideration transferred over the Group's share of the fair value of the investee's identifiable assets and liabilities as of the transaction date.

(iv) Including foreign currency translation differences.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017 RMB million	31 December 2016 RMB million
Equity securities, listed and at quoted market price	178	262
Other investment, unlisted and at cost	1,544	11,175
	1,722	**11,437**
Less: Impairment loss for investments	46	29
	1,676	**11,408**

Other investment, unlisted and at cost, represents the Group's interests in privately owned enterprises which are mainly engaged in oil and natural gas activities and chemical production.

The impairment losses relating to investments for the year ended 31 December 2017 amounted to RMB 17 million (2016: nil).

22 LEASE PREPAYMENTS

	2017 RMB million	2016 RMB million
Cost:		
Balance at 1 January	68,467	63,324
Additions	2,614	300
Transferred from construction in progress	4,151	4,279
Transferred from other long–term assets	3,987	994
Reclassification to other assets	(2,603)	(229)
Disposals	(531)	(422)
Exchange adjustments	(357)	221
Balance at 31 December	**75,728**	**68,467**
Accumulated amortisation:		
Balance at 1 January	14,226	12,275
Amortisation charge for the year	2,076	1,840
Transferred from other long–term assets	2,027	132
Reclassification to other assets	(770)	(12)
Written back on disposals	(266)	(83)
Exchange adjustments	(91)	74
Balance at 31 December	**17,202**	**14,226**
Net book value:	**58,526**	**54,241**

23 LONG-TERM PREPAYMENTS AND OTHER ASSETS

	31 December 2017 RMB million	31 December 2016 RMB million
Operating rights of service stations	34,268	26,896
Long-term receivables from and prepayment to Sinopec Group Company and fellow subsidiaries	20,726	20,385
Prepayments for construction projects to third parties	4,999	2,234
Others (i)	21,989	20,630
Balance at 31 December	**81,982**	**70,145**

Note:

(i) Others mainly comprise prepaid operating lease charges over one year and catalyst expenditures.

The cost of operating rights of service stations is charged to expense on a straight–line basis over the respective periods of the rights. The movement of operating rights of service stations is as follows:

	2017 RMB million	2016 RMB million
Operating rights of service stations		
Cost:		
Balance at 1 January	36,908	34,407
Additions	11,837	2,670
Decreases	(132)	(169)
Balance at 31 December	**48,613**	**36,908**
Accumulated amortisation:		
Balance at 1 January	10,012	8,310
Additions	4,361	1,777
Decreases	(28)	(75)
Balance at 31 December	**14,345**	**10,012**
Net book value at 31 December	**34,268**	**26,896**

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017 RMB million	31 December 2016 RMB million
Current assets		
Structured deposit	51,196	—
	51,196	**—**

The financial assets are the structured deposit with financial institutions and cannot be readily convertible to known amounts of cash, which are presented as current assets since they are expected to be expired within 12 months from the end of the reporting period.

The changes in the financial assets at fair value through profit or loss for the year ended 31 December 2017 amounted to RMB 196 million (2016:nil), which has been recorded in other operating (expense)/income, net.

25 TRADE ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

	31 December 2017 RMB million	31 December 2016 RMB million
Amounts due from third parties	56,203	39,994
Amounts due from Sinopec Group Company and fellow subsidiaries	7,941	6,398
Amounts due from associates and joint ventures	4,962	4,580
	69,106	**50,972**
Less: Impairment losses for bad and doubtful debts	(612)	(683)
Trade accounts receivable, net	**68,494**	**50,289**
Bills receivable	16,207	13,197
	84,701	**63,486**

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

	31 December 2017 RMB million	31 December 2016 RMB million
Within one year	83,984	63,051
Between one and two years	573	233
Between two and three years	43	177
Over three years	101	25
	84,701	**63,486**

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

	2017 RMB million	2016 RMB million
Balance at 1 January	683	525
Provision for the year	49	238
Written back for the year	(100)	(8)
Written off for the year	(21)	(72)
Others	1	—
Balance at 31 December	**612**	**683**

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

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

26 INVENTORIES

	31 December 2017 RMB million	31 December 2016 RMB million
Crude oil and other raw materials	85,975	75,680
Work in progress	14,774	14,141
Finished goods	84,448	65,772
Spare parts and consumables	2,651	1,838
	187,848	**157,431**
Less: Allowance for diminution in value of inventories	(1,155)	(920)
	186,693	**156,511**

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 1,854,629 million for the year ended 31 December 2017 (2016: RMB 1,461,285 million). It includes the write-down of inventories of RMB 436 million (2016: RMB 430 million) and the reversal of write-down of inventories made in prior years of RMB 13 million (2016: RMB 10 million), which were recorded in purchased crude oil, products and operating supplies and expenses in the consolidated income statement. The write-down of inventories of RMB 190 million for the year ended 31 December 2017 (2016: RMB 4,021 million) was realised primarily with the sales of inventories. The write-down of inventories is mainly related to the spare parts and consumables in refining segment and chemical segment.

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2017 RMB million	31 December 2016 RMB million
Other receivables	17,704	26,056
Advances to suppliers	4,901	3,749
Value-added input tax to be deducted	17,926	18,055
Prepaid income tax	398	1,145
Derivative financial instruments	526	762
	41,455	**49,767**

28 DEFERRED TAX ASSETS AND LIABILITIES

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

	Deferred tax assets		Deferred tax liabilities	
	31 December 2017 RMB million	31 December 2016 RMB million	31 December 2017 RMB million	31 December 2016 RMB million
Receivables and inventories	381	87	—	—
Accruals	1,925	391	—	—
Cash flow hedges	165	27	(50)	(242)
Property, plant and equipment	14,150	11,264	(9,928)	(14,615)
Tax losses carried forward	2,325	2,477	—	—
Available-for-sale securities	117	—	—	—
Intangible assets	227	260	(563)	—
Others	180	133	(264)	(229)
Deferred tax assets/(liabilities)	**19,470**	**14,639**	**(10,805)**	**(15,086)**

At 31 December 2017, certain subsidiaries of the Company did not recognise deferred tax of deductible loss carried forward of RMB 20,821 million (2016: RMB 19,194 million), of which RMB 5,938 million (2016: RMB 3,833 million) was incurred for the year ended 31 December 2017, because it was not probable that the future taxable profits will be realised. These deductible losses carried forward of RMB 2,508 million, RMB 4,462 million, RMB 4,080 million, RMB 3,833 million and RMB 5,938 million will expire in 2018, 2019, 2020, 2021, 2022 and after, respectively.

Periodically, management performed assessment on the probability that future taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have sufficient future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. During the year ended 31 December 2017, write–down of deferred tax assets amounted to RMB 26 million (2016: RMB 811 million) (Note 10).

28 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

	Balance at 01 January 2016 RMB million	Recognised in consolidated income statement RMB million	Recognised in other comprehensive income RMB million	Others RMB million	Balance at 31 December 2016 RMB million
Receivables and inventories	1,552	(1,505)	6	34	87
Accruals	413	(22)	—	—	391
Cash flow hedges	250	—	(465)	—	(215)
Property, plant and equipment	(9,131)	6,063	(392)	109	(3,351)
Tax losses carried forward	5,883	(3,426)	20	—	2,477
Available-for-sale securities	—	(139)	(7)	146	—
Intangible assets	203	(1)	—	58	260
Others	40	(136)	—	—	(96)
Net deferred tax (liabilities)/assets	**(790)**	**834**	**(838)**	**347**	**(447)**

	Balance at 1 January 2017 RMB million	**Recognised in consolidated income statement** RMB million	**Recognised in other comprehensive income** RMB million	**Others** RMB million	**Acquisition of Shanghai SECCO** RMB million	**Balance at 31 December 2017** RMB million
Receivables and inventories	87	300	(5)	(1)	—	381
Accruals	391	1,534	—	—	—	1,925
Cash flow hedges	(215)	9	313	8	—	115
Property, plant and equipment	(3,351)	8,475	287	(8)	(1,181)	4,222
Tax losses carried forward	2,477	(135)	(17)	—	—	2,325
Available-for-sale securities	—	117	—	—	—	117
Intangible assets	260	(27)	—	—	(569)	(336)
Others	(96)	44	4	—	(36)	(84)
Net deferred tax (liabilities)/assets	**(447)**	**10,317**	**582**	**(1)**	**(1,786)**	**8,665**

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

Short-term debts represent:

	31 December 2017 RMB million	31 December 2016 RMB million
Third parties' debts		
Short-term bank loans	**31,105**	**11,944**
RMB denominated	23,685	10,931
US Dollar ("USD") denominated	7,420	1,013
Short-term other loans	**299**	**—**
RMB denominated	299	—
Current portion of long-term bank loans	**1,402**	**8,795**
RMB denominated	1,379	8,753
USD denominated	23	42
Current portion of long-term corporate bonds	**22,532**	**29,500**
RMB denominated	16,000	29,500
USD denominated	6,532	—
	23,934	**38,295**
Corporate bonds(i)	**—**	**6,000**
	55,338	**56,239**
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	**23,297**	**18,430**
RMB denominated	1,706	2,858
USD denominated	19,668	13,577
Hong Kong Dollar ("HKD") denominated	1,903	1,969
EUR denominated	—	5
Singapore Dollar ("SGD") denominated	20	21
Current portion of long-term loans	**2,014**	**150**
RMB denominated	2,014	150
	25,311	**18,580**
	80,649	**74,819**

The Group's weighted average interest rates on short-term loans were 2.72% (2016: 2.42 %) at 31 December 2017. The above borrowings are unsecured.

29 SHORT–TERM AND LONG–TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES *(Continued)*

Long–term debts represent:

	Interest rate and final maturity	31 December 2017 RMB million	31 December 2016 RMB million
Third parties' debts			
Long-term bank loans			
RMB denominated	Interest rates ranging from 1.08% to 4.66% per annum at 31 December 2017 with maturities through 2030	25,644	26,058
USD denominated	Interest rates ranging from 1.55% to 4.29% per annum at 31 December 2017 with maturities through 2031	192	426
		25,836	**26,484**
Corporate bonds (ii)			
RMB denominated	Fixed interest rates ranging from 3.30% to 5.68% per annum at 31 December 2017 with maturity through 2022	36,000	65,500
USD denominated	Fixed interest rates ranging from 1.88% to 4.25% per annum at 31 December 2017 with maturities through 2043	17,902	18,985
		53,902	**84,485**
Total third parties' long-term debts		**79,738**	**110,969**
Less: Current portion		(23,934)	(38,295)
		55,804	**72,674**
Long-term loans from Sinopec Group Company and fellow subsidiaries			
RMB denominated	Interest rates ranging from interest free to 4.99% per annum at 31 December 2017 with maturities through 2022	45,334	44,922
Less: Current portion		(2,014)	(150)
		43,320	**44,772**
		99,124	**117,446**

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

Note:

(i) The Company issued 182-day corporate bonds of face value RMB 6 billion to corporate investors in the PRC debenture market on 12 September 2016 at par value of RMB 100. The effective cost of the 182-day corporate bonds is 2.54% per annum. The short-term bonds were due on 14 March 2017 and have been fully paid by the Group at maturity.

(ii) These corporate bonds are carried at amotised cost. At 31 December 2017, RMB 17,902 million (USD denominated corporate bonds) are guaranteed by Sinopec Group Company.

30 TRADE ACCOUNTS AND BILLS PAYABLES

	31 December 2017 RMB million	31 December 2016 RMB million
Amounts due to third parties	177,224	154,882
Amounts due to Sinopec Group Company and fellow subsidiaries	13,350	13,168
Amounts due to associates and joint ventures	9,499	6,251
	200,073	**174,301**
Bills payable	6,462	5,828
Trade accounts and bills payables measured at amortised cost	**206,535**	**180,129**

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

	31 December 2017 RMB million	31 December 2016 RMB million
Within 1 month or on demand	195,189	159,953
Between 1 month and 6 months	8,076	12,693
Over 6 months	3,270	7,483
	206,535	**180,129**

31 ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2017 RMB million	31 December 2016 RMB million
Salaries and welfare payable	7,162	1,618
Interest payable	723	1,396
Payables for constructions	60,010	52,827
Other payables	29,022	21,468
Financial liabilities carried at amortised costs	**96,917**	**77,309**
Taxes other than income tax	58,925	46,835
Receipts in advance	120,734	95,928
Derivative financial instruments	2,671	4,472
	279,247	**224,544**

32 PROVISIONS

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

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

	2017 RMB million	2016 RMB million
Balance at 1 January	36,918	33,115
Provision for the year	1,627	3,420
Accretion expenses	1,501	1,057
Utilised for the year	(467)	(843)
Exchange adjustments	(172)	169
Balance at 31 December	**39,407**	**36,918**

33 SHARE CAPITAL

	31 December 2017 RMB million	31 December 2016 RMB million
Registered, issued and fully paid		
95,557,771,046 listed A shares (2016: 95,557,771,046) of RMB 1.00 each	95,558	95,558
25,513,438,600 listed H shares (2016: 25,513,438,600) of RMB 1.00 each	25,513	25,513
	121,071	**121,071**

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

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

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

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

During the year ended 31 December 2010, the Company issued 88,774 listed A shares with a par value of RMB 1.00 each, as a result of exercise of 188,292 warrants entitled to the Bonds with Warrants.

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

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

On 14 February 2013, the Company issued 2,845,234,000 listed H shares ("the Placing") with a par value of RMB 1.00 each at the Placing Price of HKD 8.45 per share. The aggregate gross proceeds from the Placing amounted to approximately HKD 24,042,227,300.00 and the aggregate net proceeds (after deduction of the commissions and estimated expenses) amounted to approximately HKD 23,970,100,618.00.

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

During the year ended 31 December 2013, the Company issued 114,076 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2014, the Company issued 1,715,081,853 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2015, the Company issued 2,790,814,006 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

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

33 SHARE CAPITAL *(Continued)*

Capital management

Management optimises the structure of the Group's capital, which comprises of equity and debts. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of the debt-to-capital ratio, which is calculated by dividing long-term loans (excluding current portion), including long-term debts and loans from Sinopec Group Company and fellow subsidiaries, by the total of equity attributable to shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio of the Group at a range considered reasonable. As at 31 December 2017, the debt-to-capital ratio and the liability-to-asset ratio of the Group were 12.0% (2016: 14.2 %) and 46.5% (2016: 44.5 %), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 29 and 34, respectively.

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

34 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

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

At 31 December 2017 and 2016, the future minimum lease payments under operating leases are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
Within one year	11,114	14,917
Between one and two years	11,492	14,228
Between two and three years	10,730	13,966
Between three and four years	10,552	13,217
Between four and five years	10,428	12,980
Thereafter	202,806	275,570
	257,122	**344,878**

Capital commitments

At 31 December 2017 and 2016, capital commitments are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
Authorised and contracted for (i)	120,386	116,379
Authorised but not contracted for	57,997	31,720
	178,383	**148,099**

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

Note:

(i) The investment commitments of the Group is RMB 3,364 million (2016: RMB 4,173 million).

Commitments to joint ventures

Pursuant to certain of the joint venture agreements entered into by the Group, the Group is obliged to purchase products from the joint ventures based on market prices.

34 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two–year term. The Group is obligated to make progressive annual exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed. Payments incurred were approximately RMB 308 million for the year ended 31 December 2017 (2016: RMB 333 million).

Estimated future annual payments are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
Within one year	205	263
Between one and two years	83	123
Between two and three years	32	25
Between three and four years	28	24
Between four and five years	28	25
Thereafter	882	867
	1,258	**1,327**

Contingent liabilities

At 31 December 2017 and 2016, guarantees by the group in respect of facilities granted to the parties below are as follows:

	31 December 2017 RMB million	31 December 2016 RMB million
Joint ventures	940	658
Associates(ii)	13,520	11,545
Others	9,732	10,669
	24,192	**22,872**

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss will occurr, and recognises any such losses under guarantees when those losses are estimable. At 31 December 2017 and 2016, it was not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

Note:

(ii) The Group provided a guarantee in respect to standby credit facilities granted to Zhongtian Synergetic Energy by banks amount to RMB 17,050 million. As at 31 December 2017, the amount withdrawn by Zhongtian Synergetic Energy and guaranteed by the Group was RMB 13,520 million.

Environmental contingencies

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

The Group paid normal routine pollutant discharge fees of approximately RMB 7,851 million in the consolidated financial statements for the year ended 31 December 2017 (2016: RMB 6,358 million).

Legal contingencies

The Group is defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

35 BUSINESS COMBINATION

(a) Acquisition of Shanghai SECCO

On 26 October 2017, a subsidiary of the Company, Gaoqiao Petrochemical Co., Ltd., purchased 50% equity interest in Shanghai SECCO from BP Chemicals East China Investment Limited with a cash consideration of RMB 10,135 million ("the Transaction"). Before the Transaction, the Company and one of its subsidiaries held 30% and 20% equity interest in Shanghai SECCO, respectively. After the Transaction, the Company, together with its subsidiaries, hold 100% equity interest of Shanghai SECCO, which became a subsidiary of the Company.

Shanghai SECCO is principally engaged in the production and sale of petrochemical products including acrylonitrile, polystyrene, polyethylene, etc.

Based on the purchase price allocation performed, details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB million
Purchase consideration：	
Acquisition Date (26 October 2017)	
– Cash consideration for the purchase of 50% equity interest acquired	10,135
– Acquisition-date fair value of the 50% equity interest held before the acquisition	10,135
Total purchase consideration	**20,270**

	Fair value RMB million
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash and cash equivalents	5,653
Bills receivable	641
Inventories	1,702
Trade and other receivables	558
Prepayments	1,349
Other current assets	761
Total current assets	**10,664**
Property, plant and equipment, net	9,587
Lease prepayments	1,920
Intangible assets	1,017
Construction in progress	231
Long-term prepaid expenses	117
Deferred tax assets	11
Total non-current assets	**12,883**
Total assets	**23,547**
Trade and other payables	(2,115)
Advances received	(383)
Employee benefits payable	(96)
Tax payable	(1,438)
Total current liabilities	**(4,032)**
Deferred tax liabilities (Note 28)	(1,786)
Net assets acquired	17,729
Goodwill	2,541

The goodwill is attributable to the high profitability of the acquired business and synergy to be achieved post the Transaction among Shanghai SECCO and the Group's existing petrochemical operations located in eastern China.

As of Acquisition Date, a gain of RMB 3,941 million was recognised as a result of remeasuring the 50% equity interest held before the Transaction to its fair value, which is included in other operating (expense)/income in the Group's consolidated income statement for the year ended 31 December 2017.

Shanghai SECCO contributed revenue of RMB 5,222 million and net profit of RMB 726 million to the Group for the period from the Acquisition Date to 31 December 2017.

If the acquisition had occurred on 1 January 2017, consolidated pro-forma revenue and profit for the year ended 31 December 2017 would have been RMB 2,365,632 million and RMB 74,930 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2017, together with the consequential tax effects.

35 BUSINESS COMBINATION *(Continued)*

(b) Acquisition of Gaoqiao Branch of SAMC

Pursuant to the resolution passed at the Directors' meeting on 29 October 2015, the Company entered into the JV Agreement with Sinopec Assets Management Corporation ("SAMC") in relation to the formation of the Gaoqiao Petrochemical Co., Ltd. According to the JV Agreement, the Company and SAMC jointly set up Gaoqiao Petrochemical Co., Ltd. for RMB 100 million in cash in 2016. Subsequently, the Company subscribed capital contribution with the net assets of Gaoqiao Branch of the Company and SAMC subscribed capital contribution with the net assets of Gaoqiao Branch of SAMC. The capital contribution was completed on 1 June 2016, after which the Company held 55% of Gaoqiao Petrochemical Co., Ltd.'s voting rights and became the parent company of Gaoqiao Petrochemical Co., Ltd.

As Sinopec Group Company controls both the Group and SAMC, the non-cash transaction described above between Sinopec and SAMC has been accounted as business combination under the common control and it has been reflected in the accompanying consolidated financial statements as combination of entities under common control in a manner of predecessor value accounting. Accordingly, the assets and liabilities of Gaoqiao Branch of SAMC have been accounted for at historical cost, and the consolidated financial statements of the Group prior to these acquisitions have been restated to include the results of operation and the assets and liabilities of Gaoqiao Branch of SAMC on a combined basis.

At the completion date, the non-controlling interests amount to RMB 2,137 million was recognized in relation to SAMC's 45% interest in Gaoqiao Branch of the Company.

36 RELATED PARTY TRANSACTIONS

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

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

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

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

	Note	**2017 RMB million**	2016 RMB million
Sales of goods	(i)	244,211	194,179
Purchases	(ii)	165,993	118,242
Transportation and storage	(iii)	7,716	1,333
Exploration and development services	(iv)	21,210	27,201
Production related services	(v)	20,824	10,816
Ancillary and social services	(vi)	6,653	6,584
Operating lease charges for land	(vii)	8,015	10,474
Operating lease charges for buildings	(vii)	510	449
Other operating lease charges	(vii)	626	456
Agency commission income	(viii)	127	129
Interest income	(ix)	807	209
Interest expense	(x)	554	996
Net deposits placed with from related parties	(ix)	(7,441)	(21,770)
Net loans obtained from/(repaid to) related parties	(xi)	5,279	(24,877)

The amounts set out in the table above in respect of the year ended 31 December 2017 and 2016 represent the relevant costs and income as determined by the corresponding contracts with the related parties.

36 RELATED PARTY TRANSACTIONS *(Continued)*

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

Included in the transactions disclosed above, for the year ended 31 December 2017 are: a) purchases by the Group from Sinopec Group Company and fellow subsidiaries amounting to RMB 128,350 million (2016: RMB 114,526 million) comprising purchases of products and services (i.e. procurement, transportation and storage, exploration and development services and production related services) of RMB 112,619 million (2016: RMB 96,023 million), ancillary and social services provided by Sinopec Group Company and fellow subsidiaries of RMB 6,652 million (2016: RMB 6,584 million), operating lease charges for land and buildings paid by the Group of RMB 8,015 million and RMB 510 million (2016: RMB 10,474 million and RMB 449 million), respectively and interest expenses of RMB 554 million (2016: RMB 996 million); and b) sales by the Group to Sinopec Group Company and fellow subsidiaries amounting to RMB 60,045 million (2016: RMB 56,251 million), comprising RMB 59,213 million (2016: RMB 56,010 million) for sales of goods, RMB 807 million (2016: RMB 209 million) for interest income and RMB 25 million (2016: RMB 32 million) for agency commission income.

At 31 December 2017 and 2016, there was no guarantee given to banks by the Group in respect of banking facilities to related parties, except for the guarantees disclosed in Note 34.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non–executive directors.

Note:

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

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

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

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

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

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

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

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

(ix) Interest income represents interest received from deposits placed with Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2017 was RMB 47,514 million (2016: RMB 40,073 million).

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

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

36 RELATED PARTY TRANSACTIONS *(Continued)*

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

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the year ended 31 December 2017. The terms of these agreements are summarised as follows:

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

  (1) the government-prescribed price;

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

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

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

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

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

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

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

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

	31 December 2017 RMB million	31 December 2016 RMB million
Trade accounts receivable	12,903	10,978
Other receivables	5,444	12,860
Prepaid expenses and other current assets	189	570
Long-term prepayments and other assets	20,726	20,385
Total	**39,262**	**44,793**
Trade accounts payable	22,849	19,419
Accrued expenses and other payables	20,990	21,590
Other long–term liabilities	10,165	9,998
Short–term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	25,311	18,580
Long–term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	43,320	44,772
Total	**122,635**	**114,359**

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 29.

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

As at and for the year ended 31 December 2017, and as at and for the year ended 31 December 2016, no individually significant impairment losses for bad and doubtful debts were recognised in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and joint ventures.

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management personnel emoluments

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

	2017 RMB'000	2016 RMB'000
Short–term employee benefits	5,344	5,648
Retirement scheme contributions	424	499
	5,768	**6,147**

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 37. As at 31 December 2017 and 2016, the accrual for the contribution to post–employment benefit plans was not material.

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

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

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

- sales and purchases of goods and ancillary materials;
- rendering and receiving services;
- lease of assets;
- depositing and borrowing money; and
- uses of public utilities.

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

37 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 15.0% to 20.0% of the salaries, bonuses and certain allowances of its staff. In addition, the Group provides a supplementary retirement plan for its staff at rates not exceeding 5% of the salaries. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2017 were RMB 8,981 million (2016: RMB 8,385 million).

38 SEGMENT REPORTING

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

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

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

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

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

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

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

38 SEGMENT REPORTING *(Continued)*

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

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

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

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

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

	2017 RMB million	2016 RMB million
Turnover		
Exploration and production		
External sales	69,168	47,443
Inter–segment sales	77,804	58,954
	146,972	**106,397**
Refining		
External sales	132,478	102,983
Inter–segment sales	874,271	747,317
	1,006,749	**850,300**
Marketing and distribution		
External sales	1,191,902	1,027,373
Inter–segment sales	3,962	3,480
	1,195,864	**1,030,853**
Chemicals		
External sales	373,814	284,289
Inter–segment sales	49,615	38,614
	423,429	**322,903**
Corporate and others		
External sales	533,108	418,102
Inter–segment sales	440,303	320,367
	973,411	**738,469**
Elimination of inter–segment sales	(1,445,955)	(1,168,732)
Turnover	**2,300,470**	**1,880,190**
Other operating revenues		
Exploration and production	10,533	9,542
Refining	5,104	5,486
Marketing and distribution	28,333	22,004
Chemicals	14,314	12,211
Corporate and others	1,439	1,478
Other operating revenues	**59,723**	**50,721**
Turnover and other operating revenues	**2,360,193**	**1,930,911**

38 SEGMENT REPORTING *(Continued)*

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

	2017 RMB million	2016 RMB million
Result		
Operating (loss)/profit		
By segment		
– Exploration and production	(45,944)	(36,641)
– Refining	65,007	56,265
– Marketing and distribution	31,569	32,153
– Chemicals	26,977	20,623
– Corporate and others	(4,484)	3,212
– Elimination	(1,655)	1,581
Total segment operating profit	**71,470**	**77,193**
Share of profits/(losses) from associates and joint ventures		
– Exploration and production	1,449	(1,203)
– Refining	989	1,075
– Marketing and distribution	2,945	2,362
– Chemicals	9,621	5,696
– Corporate and others	1,521	1,376
Aggregate share of profits from associates and joint ventures	**16,525**	**9,306**
Investment income/(losses)		
– Exploration and production	40	24
– Refining	28	(4)
– Marketing and distribution	90	90
– Chemicals	86	119
– Corporate and others	18	34
Aggregate investment income	**262**	**263**
Net finance costs	**(1,560)**	**(6,611)**
Profit before taxation	**86,697**	**80,151**

	At 31 December 2017 RMB million	At 31 December 2016 RMB million
Assets		
Segment assets		
– Exploration and production	343,404	402,476
– Refining	273,123	260,903
– Marketing and distribution	309,727	292,328
– Chemicals	158,472	144,371
– Corporate and others	170,045	95,263
Total segment assets	**1,254,771**	**1,195,341**
Interest in associates and joint ventures	131,087	116,812
Available-for-sale financial assets	1,676	11,408
Deferred tax assets	15,131	7,214
Cash and cash equivalents and time deposits with financial institutions	165,004	142,497
Other unallocated assets	27,835	25,337
Total assets	**1,595,504**	**1,498,609**
Liabilities		
Segment liabilities		
– Exploration and production	99,568	95,944
– Refining	101,429	82,170
– Marketing and distribution	164,101	133,303
– Chemicals	35,293	32,072
– Corporate and others	117,781	97,080
Total segment liabilities	**518,172**	**440,569**
Short-term debts	55,338	56,239
Income tax payable	13,015	6,051
Long-term debts	55,804	72,674
Loans from Sinopec Group Company and fellow subsidiaries	68,631	63,352
Deferred tax liabilities	6,466	7,661
Other unallocated liabilities	25,188	20,828
Total liabilities	**742,614**	**667,374**

38 SEGMENT REPORTING *(Continued)*

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

	2017 RMB million	2016 RMB million
Capital expenditure		
Exploration and production	31,344	32,187
Refining	21,075	14,347
Marketing and distribution	21,539	18,493
Chemicals	23,028	8,849
Corporate and others	2,398	2,580
	99,384	**76,456**
Depreciation, depletion and amortisation		
Exploration and production	66,843	61,929
Refining	18,408	17,209
Marketing and distribution	15,463	14,540
Chemicals	12,873	12,654
Corporate and others	1,723	2,093
	115,310	**108,425**
Impairment losses on long-lived assets		
Exploration and production	13,556	11,605
Refining	1,894	1,655
Marketing and distribution	675	267
Chemicals	4,922	2,898
Corporate and others	211	—
	21,258	**16,425**

(2) Geographical information

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

	2017 RMB million	2016 RMB million
External sales		
Mainland China	1,758,365	1,488,117
Singapore	269,349	152,068
Others	332,479	290,726
	2,360,193	**1,930,911**

	31 December 2017 RMB million	31 December 2016 RMB million
Non-current assets		
Mainland China	979,329	1,000,209
Others	48,572	45,887
	1,027,901	**1,046,096**

39 PRINCIPAL SUBSIDIARIES

At 31 December 2017, the following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Particulars of issued capital (million)	Interests held by the Company %	Interests held by non-controlling interests %	Principal activities
Sinopec Great Wall Energy & Chemical Company Limited	RMB 22,761	100.00	—	Coal chemical industry investment management, production and sale of coal chemical products
Sinopec Yangzi Petrochemical Company Limited	RMB 13,203	100.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Pipeline Storage & Transportation Company Limited	RMB 12,000	100.00	—	Pipeline storage and transportation of crude oil
Sinopec Overseas Investment Holding Limited ("SOIH")	USD 1,638	100.00	—	Investment holding
Sinopec International Petroleum Exploration and Production Limited ("SIPL")	RMB 8,000	100.00	—	Investment in exploration, production and sale of petroleum and natural gas
Sinopec Yizheng Chemical Fibre Limited Liability Company	RMB 4,000	100.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Lubricant Company Limited	RMB 3,374	100.00	—	Production and sale of refined petroleum products, lubricant base oil, and petrochemical materials
China International United Petroleum and Chemical Company Limited	RMB 3,000	100.00	—	Trading of crude oil and petrochemical products
Sinopec Qingdao Petrochemical Company Limited	RMB 1,595	100.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Catalyst Company Limited	RMB 1,500	100.00	—	Production and sale of catalyst products
China Petrochemical International Company Limited	RMB 1,400	100.00	—	Trading of petrochemical products
Sinopec Chemical Sales Company Limited	RMB 1,000	100.00	—	Marketing and distribution of petrochemical products
Sinopec Beihai Refining and Chemical Limited Liability Company	RMB 5,294	98.98	1.02	Import and processing of crude oil, production, storage and sale of petroleum products and petrochemical products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 5,000	85.00	15.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhanjiang Dongxing Petrochemical Company Limited	RMB 4,397	75.00	25.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	75.00	25.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Marketing Company Limited ("Marketing Company")	RMB 28,403	70.42	29.58	Marketing and distribution of refined petroleum products
Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO") (Note 35)	RMB 7,801	67.60	32.40	Production and sale of petrochemical products
Sinopec-SK(Wuhan) Petrochemical Company Limited ("Zhonghan Wuhan")	RMB 6,270	65.00	35.00	Production, sale, research and development of ethylene and downstream byproducts
Sinopec Kantons Holdings Limited ("Sinopec Kantons")	HKD 248	60.34	39.66	Trading of crude oil and petroleum products
Gaoqiao Petrochemical Company Limited (Note 35)	RMB 10,000	55.00	45.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited (“Shanghai Petrochemical”)	RMB 10,814	50.49	49.51	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited (“Fujian Petrochemical”) (i)	RMB 6,898	50.00	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

39 PRINCIPAL SUBSIDIARIES *(Continued)*

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

Note:

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

Summarised financial information on subsidiaries with material non-controlling interests

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

Summarised consolidated balance sheet

	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Shanghai SECCO	Zhonghan Wuhan	
	At 31 December 2017	At 31 December 2016	**At 31 December 2017**	At 31 December 2016	**At 31 December 2017**	At 31 December 2016	**At 31 December 2017**	At 31 December 2016	**At 31 December 2017**	At 31 December 2016	**At 31 December 2017**	**At 31 December 2017**	At 31 December 2016
	RMB million	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	**RMB million**	RMB million
Current assets	156,494	121,260	19,555	18,116	19,866	14,876	992	926	1,196	1,352	11,602	1,636	1,489
Current liabilities	(212,620)	(168,366)	(7,118)	(824)	(10,922)	(8,942)	(376)	(812)	(2,351)	(2,891)	(4,174)	(3,975)	(7,521)
Net current (liabilities)/assets	(56,126)	(47,106)	12,437	17,292	8,944	5,934	616	114	(1,155)	(1,539)	7,428	(2,339)	(6,032)
Non–current assets	253,455	246,514	34,769	40,067	19,577	19,070	9,925	7,845	13,089	13,228	12,797	13,598	14,686
Non–current liabilities	(1,774)	(1,460)	(28,523)	(39,322)	(6)	—	(681)	(721)	(2,430)	(3,101)	(1,740)	—	—
Net non–current assets	251,681	245,054	6,246	745	19,571	19,070	9,244	7,124	10,659	10,127	11,057	13,598	14,686
Net assets	195,555	197,948	18,683	18,037	28,515	25,004	9,860	7,238	9,504	8,588	18,485	11,259	8,654
Attributable to owners of the Company	132,549	134,393	3,468	2,784	14,253	12,500	4,930	3,619	5,716	5,162	12,496	7,318	5,625
Attributable to non-controlling interests	63,006	63,555	15,215	15,253	14,262	12,504	4,930	3,619	3,788	3,426	5,989	3,941	3,029

Summarised consolidated statement of comprehensive income

Year ended 31 December	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Shanghai SECCO(ii)	Zhonghan Wuhan	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	**RMB million**	RMB million
Turnover	1,221,530	1,050,294	6,136	4,016	91,962	77,843	6,068	4,968	1,498	1,512	5,222	16,139	11,703
Profit/(loss) for the year	27,520	26,461	1,075	(4,604)	6,154	5,981	2,726	2,513	1,046	860	726	2,730	1,558
Total comprehensive income/(loss)	26,986	27,385	396	(2,481)	6,153	6,000	2,726	2,513	1,146	879	726	2,730	1,558
Comprehensive income/(loss) attributable to non-controlling interests	9,033	9,028	(38)	(3,279)	3,052	2,964	1,363	1,256	433	349	235	956	545
Dividends paid to non–controlling interests	9,544	4,932	—	—	1,344	563	625	—	70	51	—	—	—

39 PRINCIPAL SUBSIDIARIES *(Continued)*

Summarised statement of cash flows

Year ended 31 December	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Shanghai SECCO(ii)	Zhonghan Wuhan	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	RMB million	**RMB million**	**RMB million**	RMB million
Net cash generated from/ (used in) operating activities	51,038	50,840	2,758	2,576	7,061	7,182	(558)	617	968	505	1,639	2,976	3,636
Net cash (used in)/generated from investing activities	(35,738)	(31,573)	(2,211)	2,729	(2,401)	(190)	225	54	193	261	5,567	(2,415)	(3,080)
Net cash (used in)/generated from financing activities	(16,499)	(20,424)	243	(4,414)	(2,590)	(2,637)	(158)	(55)	(1,093)	(1,338)	–	(631)	(682)
Net (decrease)/increase in cash and cash equivalents	(1,199)	(1,157)	790	891	2,070	4,355	(491)	616	68	(572)	7,206	(70)	(126)
Cash and cash equivalents at 1 January	14,373	14,914	3,045	2,042	5,441	1,077	717	101	289	886	–	134	260
Effect of foreign currency exchange rate changes	(253)	616	(230)	112	(7)	9	–	–	(14)	(25)	(1)	–	–
Cash and cash equivalents at 31 December	12,921	14,373	3,605	3,045	7,504	5,441	226	717	343	289	7,205	64	134

(ii) The summarized consolidated statement of comprehensive income and the summarized statement of cash flow of Shanghai SECCO present the results from the acquisition date to 31 December 2017.

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Overview

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

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

- credit risk;
- liquidity risk;
- market risk.

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions (including structured deposit) and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. No single customer accounted for greater than 10% of total accounts receivable at 31 December 2017, except the amounts due from Sinopec Group Company and fellow subsidiaries. Management performs ongoing credit evaluations of the Group's customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

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

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Liquidity risk

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

At 31 December 2017, the Group has standby credit facilities with several PRC financial institutions which provide borrowings up to RMB 361,852 million (2016: RMB 256,375 million) on an unsecured basis, at a weighted average interest rate of 3.40% per annum (2016: 3.57%). At 31 December 2017, the Group's outstanding borrowings under these facilities were RMB 56,567 million (2016: RMB 36,933 million) and were included in debts.

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

	31 December 2017					
	Carrying amount RMB million	**Total contractual undiscounted cash flow RMB million**	**Within 1 year or on demand RMB million**	**More than 1 year but less than 2 years RMB million**	**More than 2 years but less than 5 years RMB million**	**More than 5 years RMB million**
Short-term debts	55,338	56,562	56,562	—	—	—
Long-term debts	55,804	66,202	2,166	14,477	32,316	17,243
Loans from Sinopec Group Company and fellow subsidiaries	68,631	68,950	25,504	4,439	39,007	—
Trade accounts payable	200,073	200,073	200,073	—	—	—
Bills payable	6,462	6,462	6,462	—	—	—
Accrued expenses and other payables	99,588	99,588	99,588	—	—	—
	485,896	**497,837**	**390,355**	**18,916**	**71,323**	**17,243**

	31 December 2016					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Short-term debts	56,239	57,515	57,515	—	—	—
Long-term debts	72,674	85,021	2,672	27,277	30,535	24,537
Loans from Sinopec Group Company and fellow subsidiaries	63,352	63,678	18,790	2,092	42,796	—
Trade accounts payable	174,301	174,301	174,301	—	—	—
Bills payable	5,828	5,828	5,828	—	—	—
Accrued expenses and other payables	81,781	81,781	81,781	—	—	—
	454,175	**468,124**	**340,887**	**29,369**	**73,331**	**24,537**

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's short-term and long-term capital requirements.

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Market risk

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

Currency risk

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

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

	31 December 2017 million	31 December 2016 million
Gross exposure arising from loans		
USD	USD 204	USD 126

A 5 percent strengthening/weakening of RMB against the following currencies at 31 December 2017 and 2016 would have increased/decreased net profit for the year of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	31 December 2017 million	31 December 2016 million
USD	50	33

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

Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term debts. Debts bearing interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates of short–term and long–term debts, and loans from Sinopec Group Company and fellow subsidiaries of the Group are disclosed in Note 29.

As at 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the year by approximately RMB 450 million (2016: decrease/increase by approximately RMB 327 million). This sensitivity analysis has been determined assuming that the change of interest rates was applied to the Group's debts outstanding at the balance sheet date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2016.

Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil, refined oil products and chemical products. The fluctuations in prices of crude oil, refined oil products and chemical products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As at 31 December 2017, the Group had certain commodity contracts of crude oil, refined oil products and chemical products designated as qualified cash flow hedges and economic hedges. The fair values of these derivative financial instruments as at 31 December 2017 are set out in Notes 27 and 31.

As at 31 December 2017, it is estimated that a general increase/decrease of USD 10 per barrel in basic price of derivative financial instruments, with all other variables held constant, would impact the fair value of derivative financial instruments, which would decrease/increase the Group's profit for the period by approximately RMB 4,049 million (2016: decrease/increase RMB 634 million), and decrease/increase the Group's other reserves by approximately RMB 701 million (2016: decrease/increase RMB 4,007 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2016.

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Fair values

(i) Financial instruments carried at fair value

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 December 2017

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Financial assets at fair value through profit and loss:				
– Structured deposit	—	—	51,196	51,196
Available-for-sale financial assets:				
– Listed	178	—	—	178
Derivative financial instruments:				
– Derivative financial assets	343	183	—	526
	521	**183**	**51,196**	**51,900**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	1,277	1,388	—	2,665
	1,277	**1,388**	**—**	**2,665**

At 31 December 2016

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	262	—	—	262
Derivative financial instruments:				
– Derivative financial assets	29	733	—	762
	291	**733**	**—**	**1,024**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	2,586	1,886	—	4,472
	2,586	**1,886**	**—**	**4,472**

During the years ended 31 December 2017 and 2016, there was no transfer among instruments in Level 1, Level 2, Level 3.

Management of the Group evaluates the fair value of Level 3 financial assets using discounted cash flow model based on the interest rate and commodity index which were influenced by historical fluctuation and the probability of market fluctuation as input value for evaluating the fair value of the structural deposits.

40 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Fair values *(Continued)*

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

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

The fair values of the Group's financial instruments carried at other than fair value (other than long-term indebtedness and investments in unquoted equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group that range from 1.79% to 4.90% (2016: 1.06% to 4.90%). The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2017 and 2016:

	31 December 2017 RMB million	31 December 2016 RMB million
Carrying amount	79,738	110,969
Fair value	78,040	109,308

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

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

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values at 31 December 2017 and 2016.

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

41 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Oil and gas properties and reserves

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

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in relation to depreciation rates. Oil and gas reserves have a direct impact on the assessment of the recoverability of the carrying amounts of oil and gas properties reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by changes in depreciation expense or an immediate write-down of the property's carrying amount.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Capitalised costs of proved oil and gas properties are amortised on a unit–of–production method based on volumes produced and reserves.

Impairment for long–lived assets

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

Depreciation

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

41 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

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

42 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 31 December 2017 is Sinopec Group Company, a state–owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY (Amounts in million)	Note	31 December 2017 RMB	31 December 2016 RMB
Non–current assets			
Property, plant and equipment, net		329,814	373,020
Construction in progress		50,046	49,277
Investment in subsidiaries		245,156	238,264
Interest in associates		15,579	14,691
Interest in joint ventures		14,822	15,496
Available-for-sale financial assets		395	297
Deferred tax assets		6,834	—
Lease prepayments		6,916	6,114
Long-term prepayments and other assets		14,072	14,731
Total non–current assets		**683,634**	**711,890**
Current assets			
Cash and cash equivalents		72,309	88,120
Time deposits with financial institutions		20,236	10,130
Financial assets at fair value through profit or loss		48,179	—
Trade accounts receivable		37,609	38,332
Bills receivable		157	471
Dividends receivable		16,327	5,454
Inventories		44,933	46,942
Prepaid expenses and other current assets		79,111	76,386
Total current assets		**318,861**	**265,835**
Current liabilities			
Short-term debts		33,454	50,574
Loans from Sinopec Group Company and fellow subsidiaries		3,214	2,703
Trade accounts payable		83,449	75,787
Bills payable		3,155	2,761
Accrued expenses and other payables		194,291	148,997
Total current liabilities		**317,563**	**280,822**
Net current assets/(liabilities)		**1,298**	**(14,987)**
Total assets less current liabilities		**684,932**	**696,903**
Non–current liabilities			
Long-term debts		40,442	49,676
Loans from Sinopec Group Company and fellow subsidiaries		43,225	44,772
Deferred tax liabilities		—	505
Provisions		31,405	29,767
Other long-term liabilities		3,613	3,688
Total non-current liabilities		**118,685**	**128,408**
		566,247	**568,495**
Equity			
Share capital		121,071	121,071
Reserves	(a)	445,176	447,424
Total equity		**566,247**	**568,495**

43 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) RESERVES MOVEMENT OF THE COMPANY

The reconciliation between the opening and closing balances of each component of the Group's consolidated reserves is set out in the consolidated statement of changes in equity. Details of the change in the Company's individual component of reserves between the beginning and the end of the year are as follows:

	The Company	
	2017	2016
	RMB million	RMB million
Capital reserve		
Balance at 1 January	9,175	9,122
Others	20	53
Balance at 31 December	**9,195**	**9,175**
Share premium		
Balance at 1 January	55,850	55,850
Balance at 31 December	**55,850**	**55,850**
Statutory surplus reserve		
Balance at 1 January	79,640	79,640
Appropriation	3,042	—
Balance at 31 December	**82,682**	**79,640**
Discretionary surplus reserve		
Balance at 1 January	117,000	117,000
Balance at 31 December	**117,000**	**117,000**
Other reserves		
Balance at 1 January	2,438	1,950
Share of other comprehensive loss of associates and joint ventures, net of deferred tax	(120)	(149)
Cash flow hedges, net of deferred tax	53	557
Others	89	80
Balance at 31 December	**2,460**	**2,438**
Retained earnings		
Balance at 1 January	183,321	176,497
Profit for the year	30,488	23,733
Distribution to owners (Note 13)	(32,689)	(16,829)
Appropriation	(3,042)	—
Others	(89)	(80)
Balance at 31 December	**177,989**	**183,321**
	445,176	**447,424**

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

(I) GOVERNMENT GRANTS

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

(II) SAFETY PRODUCTION FUND

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

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

	Note	**31 December 2017 RMB million**	31 December 2016 RMB million
Shareholders' equity under ASBE		854,070	832,525
Adjustments:			
Government grants	(i)	(1,180)	(1,290)
Total equity under IFRS*		**852,890**	**831,235**

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

	Note	**2017 RMB million**	2016 RMB million
Net profit under ASBE		70,294	59,170
Adjustments:			
Government grants	(i)	110	114
Safety production fund	(ii)	126	160
Others		(112)	—
Profit for the year under IFRS*		**70,418**	**59,444**

* The figures are extracted from the consolidated financial statements prepared in accordance with the accounting policies complying with IFRS during the year ended 31 December 2016 and 2017 which have been audited by PricewaterhouseCoopers.

In accordance with the Accounting Standards Update 2010–03, "Extractive Activities – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures" ("ASU 2010–03"), issued by the Financial Accounting Standards Board of the United States, and in accordance with "Industrial Information Disclosure Guidelines for Public Company – No.8 Oil and Gas Exploitation", issued by Shanghai Stock Exchange, this section provides supplemental information on oil and gas exploration and producing activities of the Group and its equity method investments at 31 December 2017 and 2016, and for the years then ended in the following six separate tables. Tables I through III provide historical cost information under IFRS pertaining to capitalised costs related to oil and gas producing activities; costs incurred in oil and gas exploration and development; and results of operation related to oil and gas producing activities. Tables IV through VI present information on the Group's and its equity method investments' estimated net proved reserve quantities; standardised measure of discounted future net cash flows; and changes in the standardised measure of discounted cash flows.

Tables I to VI of supplemental information on oil and gas producing activities set out below represent information of the Company and its consolidated subsidiaries and equity method investments.

Table I: Capitalised costs related to oil and gas producing activities

			2017 RMB million			2016 RMB million
	Total	**China**	**Other countries**	Total	China	Other countries
The Group						
Property cost, wells and related equipments and facilities	667,657	625,621	42,036	650,686	606,493	44,193
Supporting equipments and facilities	210,711	210,694	17	192,877	192,855	22
Uncompleted wells, equipments and facilities	41,397	41,389	8	52,935	52,931	4
Total capitalised costs	**919,765**	**877,704**	**42,061**	**896,498**	**852,279**	**44,219**
Accumulated depreciation, depletion, amortisation and impairment losses	(601,318)	(565,651)	(35,667)	(528,636)	(495,538)	(33,098)
Net capitalised costs	**318,447**	**312,053**	**6,394**	**367,862**	**356,741**	**11,121**
Equity method investments						
Share of net capitalised costs of associates and joint ventures	**6,357**	**—**	**6,357**	**9,337**	**—**	**9,337**
Total of the Group's and its equity method investments' net capitalised costs	**324,804**	**312,053**	**12,751**	**377,199**	**356,741**	**20,458**

Table II: Costs incurred in oil and gas exploration and development

			2017 RMB million			2016 RMB million
	Total	**China**	**Other countries**	Total	China	Other countries
The Group						
Exploration	11,589	11,589	—	10,942	10,942	—
Development	30,844	30,710	134	32,280	31,918	362
Total costs incurred	**42,433**	**42,299**	**134**	**43,222**	**42,860**	**362**
Equity method investments						
Share of costs of exploration and development of associates and joint ventures	**724**	**—**	**724**	**719**	**—**	**719**
Total of the Group's and its equity method investments' exploration and development costs	**43,157**	**42,299**	**858**	**43,941**	**42,860**	**1,081**

Table III: Results of operations related to oil and gas producing activities

	2017 RMB million Total	2017 RMB million China	2017 RMB million Other countries	2016 RMB million Total	2016 RMB million China	2016 RMB million Other countries
The Group						
Revenues						
Sales	43,644	43,644	—	36,720	36,720	—
Transfers	73,447	67,311	6,136	58,571	54,555	4,016
	117,091	**110,955**	**6,136**	**95,291**	**91,275**	**4,016**
Production costs excluding taxes	(46,311)	(44,977)	(1,334)	(44,077)	(42,652)	(1,425)
Exploration expenses	(11,089)	(11,089)	—	(11,035)	(11,035)	—
Depreciation, depletion, amortisation and impairment losses	(80,399)	(74,856)	(5,543)	(73,534)	(68,594)	(4,940)
Taxes other than income tax	(8,726)	(8,726)	—	(4,576)	(4,576)	—
Profit before taxation	**(29,434)**	**(28,693)**	**(741)**	**(37,931)**	**(35,582)**	**(2,349)**
Income tax expense	1,188	—	1,188	(798)	—	(798)
Results of operation from producing activities	**(28,246)**	**(28,693)**	**447**	**(38,729)**	**(35,582)**	**(3,147)**
Equity method investments						
Revenues						
Sales	8,080	—	8,080	6,352	—	6,352
	8,080	**—**	**8,080**	**6,352**	**—**	**6,352**
Production costs excluding taxes	(2,748)	—	(2,748)	(2,205)	—	(2,205)
Exploration expenses	—	—	—	—	—	—
Depreciation, depletion, amortisation and impairment losses	(1,243)	—	(1,243)	(2,752)	—	(2,752)
Taxes other than income tax	(3,628)	—	(3,628)	(2,570)	—	(2,570)
Profit before taxation	**461**	**—**	**461**	**(1,175)**	**—**	**(1,175)**
Income tax expense	(347)	—	(347)	(195)	—	(195)
Share of profit for producing activities of associates and joint ventures	**114**	**—**	**114**	**(1,370)**	**—**	**(1,370)**
Total of the Group's and its equity method investments' results of operations for producing activities	**(28,132)**	**(28,693)**	**561**	**(40,099)**	**(35,582)**	**(4,517)**

The results of operations for producing activities for the years ended 31 December 2017 and 2016 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third–party sales prices) to other segments of the Group. Income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's and its equity method investments' estimated net proved underground oil and gas reserves and changes thereto for the years ended 31 December 2017 and 2016 are shown in the following table.

Proved oil and gas reserves are those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well.

"Net" reserves exclude royalties and interests owned by others and reflect contractual arrangements and obligation of rental fee in effect at the time of the estimate.

Table IV: Reserve quantities information *(Continued)*

	2017			2016		
	Total	**China**	**Other countries**	Total	China	Other countries
The Group						
Proved developed and undeveloped reserves (oil) (million barrels)						
Beginning of year	1,256	1,216	40	1,957	1,902	55
Revisions of previous estimates	151	148	3	(505)	(509)	4
Improved recovery	90	86	4	35	35	—
Extensions and discoveries	60	60	—	41	41	—
Production	(264)	(249)	(15)	(272)	(253)	(19)
End of year	**1,293**	**1,261**	**32**	**1,256**	**1,216**	**40**
Non–controlling interest in proved developed and undeveloped reserves at the end of year	**14**	**—**	**14**	**18**	**—**	**18**
Proved developed reserves						
Beginning of year	1,120	1,080	40	1,753	1,701	52
End of year	**1,156**	**1,124**	**32**	**1,120**	**1,080**	**40**
Proved undeveloped reserves						
Beginning of year	136	136	—	204	201	3
End of year	**137**	**137**	**—**	**136**	**136**	**—**
Proved developed and undeveloped reserves (gas) (billion cubic feet)						
Beginning of year	7,160	7,160	—	7,551	7,551	—
Revisions of previous estimates	(107)	(107)	—	(170)	(170)	—
Improved recovery	72	72	—	66	66	—
Extensions and discoveries	769	769	—	475	475	—
Production	(909)	(909)	—	(762)	(762)	—
End of year	**6,985**	**6,985**	**—**	**7,160**	**7,160**	**—**
Proved developed reserves						
Beginning of year	6,436	6,436	—	6,439	6,439	—
End of year	**6,000**	**6,000**	**—**	**6,436**	**6,436**	**—**
Proved undeveloped reserves						
Beginning of year	724	724	—	1,112	1,112	—
End of year	**985**	**985**	**—**	**724**	**724**	**—**

Table IV: Reserve quantities information *(Continued)*

	2017			2016		
	Total	**China**	**Other countries**	Total	China	Other countries
Equity method investments						
Proved developed and undeveloped reserves of associates and joint ventures (oil) (million barrels)						
Beginning of year	296	—	296	286	—	286
Revisions of previous estimates	12	—	12	(2)	—	(2)
Improved recovery	8	—	8	3	—	3
Extensions and discoveries	20	—	20	41	—	41
Production	(30)	—	(30)	(32)	—	(32)
End of year	**306**	**—**	**306**	**296**	**—**	**296**
Proved developed reserves						
Beginning of year	273	—	273	260	—	260
End of year	**273**	**—**	**273**	**273**	**—**	**273**
Proved undeveloped reserves						
Beginning of year	23	—	23	26	—	26
End of year	**33**	**—**	**33**	**23**	**—**	**23**
Proved developed and undeveloped reserves of associates and joint ventures (gas) (billion cubic feet)						
Beginning of year	18	—	18	19	—	19
Revisions of previous estimates	(2)	—	(2)	3	—	3
Improved recovery	—	—	—	—	—	—
Extensions and discoveries	—	—	—	—	—	—
Production	(4)	—	(4)	(4)	—	(4)
End of year	**12**	**—**	**12**	**18**	**—**	**18**
Proved developed reserves						
Beginning of year	18	—	18	18	—	18
End of year	**12**	**—**	**12**	**18**	**—**	**18**
Proved undeveloped reserves						
Beginning of year	—	—	—	1	—	1
End of year	**—**	**—**	**—**	**—**	**—**	**—**
Total of the Group and its equity method investments						
Proved developed and undeveloped reserves (oil) (million barrels)						
Beginning of year	1,552	1,216	336	2,243	1,902	341
End of year	**1,599**	**1,261**	**338**	**1,552**	**1,216**	**336**
Proved developed and undeveloped reserves (gas) (billion cubic feet)						
Beginning of year	7,178	7,160	18	7,570	7,551	19
End of year	**6,997**	**6,985**	**12**	**7,178**	**7,160**	**18**

Table V: Standardised measure of discounted future net cash flows

The standardised measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of ASU 2010–03 and "Industrial Information Disclosure Guidelines for Public Company – No.8 Oil and Gas Exploitation". Estimated future cash inflows from production are computed by applying the average, first-day-of-the-month price for oil and gas during the twelve–month period before the ending date of the period covered by the report to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's and its equity method investments' expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended 31 December 2017 and 2016 and should not be relied upon as an indication of the Group's and its equity method investments' future cash flows or value of its oil and gas reserves.

			2017 RMB million			2016 RMB million
	Total	**China**	**Other countries**	Total	China	Other countries
The Group						
Future cash flows	639,336	628,187	11,149	603,785	592,389	11,396
Future production costs	(292,789)	(287,914)	(4,875)	(271,650)	(266,549)	(5,101)
Future development costs	(24,999)	(20,314)	(4,685)	(20,241)	(15,615)	(4,626)
Future income tax expenses	(1,374)	—	(1,374)	(1,405)	—	(1,405)
Undiscounted future net cash flows	**320,174**	**319,959**	**215**	**310,489**	**310,225**	**264**
10% annual discount for estimated timing of cash flows	(97,082)	(97,115)	33	(102,342)	(102,332)	(10)
Standardised measure of discounted future net cash flows	**223,092**	**222,844**	**248**	**208,147**	**207,893**	**254**
Discounted future net cash flows attributable to non–controlling interests	**112**	**—**	**112**	**114**	**—**	**114**
Equity method investments						
Future cash flows	43,587	—	43,587	35,690	—	35,690
Future production costs	(12,131)	—	(12,131)	(10,783)	—	(10,783)
Future development costs	(4,692)	—	(4,692)	(3,444)	—	(3,444)
Future income tax expenses	(4,406)	—	(4,406)	(3,303)	—	(3,303)
Undiscounted future net cash flows	**22,358**	**—**	**22,358**	**18,160**	**—**	**18,160**
10% annual discount for estimated timing of cash flows	(9,803)	—	(9,803)	(7,969)	—	(7,969)
Standardised measure of discounted future net cash flows	**12,555**	**—**	**12,555**	**10,191**	**—**	**10,191**
Total of the Group's and its equity method investments' results of standardised measure of discounted future net cash flows	**235,647**	**222,844**	**12,803**	**218,338**	**207,893**	**10,445**

Table VI: Changes in the standardised measure of discounted cash flows

	2017 RMB million	2016 RMB million
The Group		
Sales and transfers of oil and gas produced, net of production costs	(62,054)	(46,637)
Net changes in prices and production costs	7,487	(53,715)
Net changes in estimated future development cost	(7,320)	6,073
Net changes due to extensions, discoveries and improved recoveries	29,799	15,113
Revisions of previous quantity estimates	20,608	(48,479)
Previously estimated development costs incurred during the year	5,747	9,370
Accretion of discount	20,909	30,340
Net changes in income taxes	(231)	6,363
Net changes for the year	**14,945**	**(81,572)**
Equity method investments		
Sales and transfers of oil and gas produced, net of production costs	(1,704)	(1,577)
Net changes in prices and production costs	2,479	(3,952)
Net changes in estimated future development cost	(856)	(534)
Net changes due to extensions, discoveries and improved recoveries	1,205	1,887
Revisions of previous quantity estimates	688	(92)
Previously estimated development costs incurred during the year	206	322
Accretion of discount	967	1,308
Net changes in income taxes	(621)	464
Net changes for the year	**2,364**	**(2,174)**
Total of the Group's and its equity method investments' results of net changes for the year	**17,309**	**(83,746)**

STATUTORY NAME
中国石油化工股份有限公司

ENGLISH NAME
China Petroleum & Chemical Corporation

CHINESE ABBREVIATION
中国石化

ENGLISH ABBREVIATION
Sinopec Corp.

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Stock name : SINOPEC CORP
Stock code : 600028

H Shares:
Hong Kong Stock Exchange
Stock code : 00386

ADRs:
New York Stock Exchange
Stock code : SNP

London Stock Exchange
Stock code : SNP

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The following documents will be available for inspection during normal business hours after 23 March 2018 at the registered address of Sinopec Corp. upon requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association and the laws and regulations of PRC:

a) The original copies of the 2017 annual report signed by Mr. Dai Houliang, the Vice Chairman and President;

b) The original copies of financial statements and consolidated financial statements as of 31 December 2017 prepared under IFRS and ABSE, signed by Mr. Dai Houliang, Vice Chairman and President, Mr. Wang Dehua, the Chief Financial Officer and head of the financial department of Sinopec Corp.;

c) The original auditors' report signed by the auditors; and

d) Copies of the documents and announcements that Sinopec Corp. has published in the newspapers stipulated by the CSRC during the reporting period.

By Order of the Board
Dai Houliang
Vice Chairman and President

Beijing, PRC, 23 March 2018

If there is any inconsistency between the Chinese and English versions of this annual report, the Chinese version shall prevail.

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